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Recent Developments in the Internal Market for Financial Services and Financial Reporting

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

Association of Corporate Treasurers in Belgium

Brussels, 8 December 2005

Ladies and Gentlemen: Good Evening,

Thank you for the invitation. It is a pleasure to be with you for your Annual Cocktail. I don't want to detain you from your festivities for too long. I will limit myself to the issues which are currently the hot topics on my agenda. In particular, I would like to present to you briefly our new financial services policy – the White Paper for the years 2006-2009 which was published just three days ago. Then, I will outline what we are doing in the area of payments, asset management and capital requirements. I will finish by touching on financial reporting, a subject which, as corporate treasurers, must surely be close to your hearts.

Financial Services Policy

The five years of the Financial Services Action Plan have been a time of concentrated legislative change. Today it is clear that there is no appetite – or need – for many new regulatory initiatives. There is therefore wide support for the Commission's suggestion to consolidate progress and complete unfinished business in a dynamic way. These are the priorities of our financial services policy for the next five years, set out in the White Paper published on December 5th. Many of the key elements of the White Paper are of a practical nature – in line with the Better Regulation approach, which you referred to in your introduction. We now need to bed down all the changes, get the rules to work and cement consistent interpretation.

Any future initiative in the area of financial services will be evidence based. Moreover, no new initiatives will be launched unless their economic value is clearly proven. In my press comment I said earlier this week that this programme will be "...practical, economics driven and citizen focused..."

The new strategy has a strong focus on implementation, enforcement and evaluation. We will work intensively with Member States so they transpose our directives in national legislation in a timely and correct manner. We will be also checking if the laws are enforced.

Another pillar of our new policy is strengthening the EU global position. Our financial market dialogue with the United States will be increasingly important in the coming years. So it will be with Japan, China and India. The White Paper also highlights the need to ensure strong EU representation in international bodies.

While the FSAP focused mainly on the wholesale market, retail integration will now come more to the fore. This is where we have some business to finish – and some to start. The White Paper refers to ongoing legislative activities, such as mortgage credit or payments. Only a few, targeted new initiatives are proposed: investment funds, bank accounts and credit intermediaries.

On-going projects

Let me turn to some of our on-going projects.

Payments

In the area of payments we have just set a milestone. The proposal for a Directive setting-up a new legal framework for payments was adopted by the Commission on the 1st December. It is the biggest step toward the creation of a Single Payments Market since 2001, when a Regulation on cross-border transfers was adopted.

Looking at the European payments market I am not pleased with what I see. The situation of fragmentation and inefficiency leads to high costs for payments. There are huge differences between the most and the least efficient payments' markets. The price of basic payment services related to a bank account is eight times higher in the most expensive Member State as compared to the least expensive one. Our estimates show that the savings potential of the creation of a Single Payments Market could be up to 100 billion Euros per year for the whole EU.

The Commission proposal establishes a set of prudential rules for new providers in order to allow them to distribute their products in all Member States. It also provides a simplified and fully harmonised set of rules with regard to the information requirements and the rights and obligations linked to the provision and use of payment services.

Asset Management

Similar efficiency gains can be reaped in the asset management industry. The European investment funds currently manage over 5 trillion euro of assets. It is a vital link between financial markets and the real economy and household investors. Our Green Paper, a consultation document, on Asset Management was published in July 2005. The results of the consultation as well as work underway will provide the elements for us to decide on future work.

There seems to be a growing consensus around the types of improvement that need to be made to the single market framework. Examples include simplifying notification procedures; delivering a real simplified prospectus; opening up distribution systems; facilitating fund mergers and pooling; allowing management company passports; and tackling regulatory arbitrage from substitute products.

How do we deliver these priority improvements? That is the question which we will be grappling with over the next few months. The best contribution that we can make is through well-conceived and properly tested adjustments that avoid imposing unnecessary upheaval on business and markets.

Capital Requirements Directive

A third project I would like to tackle is the Directive on Capital Requirements for banks. It is important for all of you as users of the services of financial institutions and markets. I saw that there was a section on Basel II on the Association's website, so what I say is not news for you.

The Directive will put in place a more risk-sensitive framework for capital requirements for banks and investment firms, leading to a more stable financial system. The studies produced for the Commission show that introduction of these rules will - overall - be good for the EU economy.

What impact will the new rules have on corporates? There will be winners and losers, in comparison to the current situation. This is what you would expect from a system where capital requirements for financial institutions are more closely linked to the risks to which a particular transaction exposes the institution. And I'm sure you will agree that narrowing the gap between the supervisory rules and economic reality is a good thing.

Financial Reporting

Before closing, I would like to update you on our work in the area of financial reporting.

As you all know, 1st January this year was an important landmark: all EU listed companies must now use IFRS for their consolidated financial statements. Common accounting standards increase transparency and comparability for investors. This should lead to a more efficient capital market, much more transparency and greater cross-border investment, thereby promoting growth and employment in Europe.

As we are coming to the first year end of IFRS implementation, I know from my daily contacts with companies that the process has not been easy. I know the huge efforts that have been put into this and that some are wondering whether the gain is worth the pain. I think it should be in the medium term. I am determined to make sure that bedding down a stable IFRS platform must be our number one priority for accounting in the EU. We still have work to do and one area where we must do our homework to gain the full potential of IFRS is consistent application and enforcement of IFRS.

Consistent application of IFRS in the EU

This will be a major challenge over the next couple of years due to the different traditions and accounting approaches in Member States.

There are several parties that have a part to play in consistent application. CESR - the Committee of European Securities Regulators - plays a primary role in relation to enforcement and indeed this is recognised in the IAS Regulation. CESR has created several working groups in order to coordinate enforcement decisions in different jurisdictions. In the interest of transparency, there will also be a public database of such decisions taken in EU jurisdictions.

Other parties include auditors and preparers, as they can help to improve consistent application, particularly on a cross-border and industry basis, by communicating with each other about issues that come up. One option the Commission is considering is whether a useful role could be played by an informal "Roundtable" where such issues can be discussed. However, what is absolutely clear is that we do not want any EU body, formal or informal, providing EU interpretations and guidance. Where interpretations need to be done, this must be the job of the responsible body of the IASB, namely IFRIC.

Equivalence between third country GAAP and IFRS

Making IFRS work in the EU puts us in a position to be able to claim an even bigger prize: greater access of EU companies to global capital markets. This should include removal of the reconciliation requirement to US GAAP for companies which list in the US. The US SEC agreed to a Road-map in April 2003 with the aim of working towards this at the earliest in 2007 and at the latest in 2009. In the EU we are, of course, also looking into the use of third country GAAP in order to establish whether these might be considered equivalent with IFRS.

For the moment, my view is that the best way to proceed is for the EU to defer an equivalence decision and prolong the status quo, rather than taking any decision now. This option would align the EU's equivalence agenda with the US Roadmap for dropping the reconciliation requirement for foreign issuers in the US. It would mean we could work in parallel towards common agreed objectives.

Conclusion

I know that industry – and not only in the financial services sector - is looking forward to a well deserved regulatory pause after the rash of regulatory initiatives in financial services of the past years. That is now in sight. The lion's share of the new measures we have identified for the coming years are measures that should help businesses take advantage of the benefits of a true single market. I give you that promise now and it is a promise I intend to stick to.

Thank you for your attention. I'm afraid I can't stay with you for long, but as I make my way out if anyone has any burning questions, please feel free to approach me, or my staff and we will do our best to answer them.