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Governance and Accountability in Financial Services

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

Economic and Monetary Affairs Committee of European
Parliament

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Introduction, principles and work programme

Madame la Présidente, Honourable Members,

I am delighted to meet you all again for the first time since my confirmation hearing last year. Although in office for only 2 months, I have been very impressed by the work done by your committee. I look forward to building a close and co-operative working relationship with you. This is of immense importance to me. Constructive co-operation between our institutions is critical to make real progress towards our mutual goal; the integration of European financial markets, to strengthen the European economy and to capture the major benefits for businesses and for our consumers.

The evidence suggests that European markets are integrating, particularly in the wholesale market. Markets are restructuring, rationalizing in anticipation of a pan-European market. European strategies are developing. There is a growing presence of financial institutions in partner country markets. A wider range of products is becoming available to consumers. However, we are not there yet.

Today I would like to give you my first insight on the outline of the future strategy in the area of financial services for the next 5 years. I also want to touch upon an issue which a number of you have raised with me directly, namely the accountability of rule setters.

Future Strategy

First, I recognize there is real regulatory fatigue. The last few years have been intense. That is not bad. Let me be clear. If we want a competitive, open, dynamic capital market we need some rules – that will allow financial services and capital to circulate freely.

Not too many.

Not too few.

Not too vague.

Not over-harmonized.

We need balance – and a good dose of common sense.

There is a considerable degree of convergence between the Commission's thinking and the thinking emerging in the European Parliament and Council. Many of the main themes included in the report presented by Mrs. van den Burg are reflected in the Commission's own thinking. Although we might differ on details, we address similar priorities.

Let me sketch some of the key themes:

The **first theme** centres around the words: consolidation, completion and implementation..... of both the existing regulatory framework and already programmed measures. This agenda is already substantial, demanding and ambitious. We have to complete, for example, Capital Requirements, Statutory Audit and Money Laundering. I hope that these Directives can be adopted over the coming 6 months.

Secondly, the issue of supervisory convergence. The key issue here is to be sure that the supervisory structures we have in the EU are able to deliver and implement the requirements of the Directives to achieve integration. Before thinking of alternative future structures, we should first analyse whether the EU regulatory networks are working to their maximum efficiency. Whether there are any gaps and – if so – how these can be filled most effectively. So we must move step-by-step in an open discussion, bringing all Member States and of course the European Parliament and market participants along in the process. Rushing this debate would be counter-productive.

Level 3 of the Lamfalussy process should evolve in a carefully modulated, open and transparent environment that fully respects institutional boundaries and democratic accountability. Standards developed at Level 3 must be fully compatible with binding EU legislation at Levels 1 and 2. The key point is that the Level 3 standards must not prejudice the political process.

I know that this is an issue of great importance to the Parliament - particularly in the light of the recent CESR-ECB standards issued on clearing and settlement. I very much agree with you that there needs to be more reflection on this issue. So please join the debate and bring forward your ideas.

Thirdly, we should look into the need for new initiatives in a limited number of targeted areas - where there are specific market failures and regulatory gaps - possibly asset management and retail financial services. Any new initiatives, and I underline any, will be strongly evidence-based, sustained by open consultation processes and strong economic underpinning. I believe financial services policy in this respect is a model for other sectors.

I plan to present, this spring, the Commission's proposed strategy in the form of a Green Paper, that will be the basis for public consultation over the summer and form the input for a Communication on our final policy programme, planned for the autumn.

To summarise. There will be a regulatory slowdown. I will apply a necessity test for all legislative proposals. Unless there will be an economic benefit far outweighing the regulatory burden, I will not make a legislative proposal. We must avoid, at all costs, damaging, burdensome, costly overregulation.

Democratic governance and political accountability of rule setters

Let me turn now to an issue which is currently high on the agenda; democratic governance and political accountability international standard setters. For instance the political accountability of various standard setting bodies, e.g. the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB).

The governance, financing, participation in and the accountability of international standard setters, in particular the International Accounting Standards Board, is becoming a subject of heated public debate.

Let me make three points:

Firstly, five years ago, the European Union opted for international and not for European accounting standards. About 8000 listed European companies are starting now to prepare their financial statements using IAS for their 2005 accounts.

The Commission remains fully committed to this agenda as it fosters international convergence of accounting standards, keeps our capital markets attractive for overseas issuers of securities, but also increases the opportunity for our companies to expand their activities to other economies where IAS are accepted, such as China.

Secondly, let me turn to the European endorsement process and how I see the role of the European Parliament. The IAS Regulation of 2002 opted for the comitology procedure: it requires the Commission to decide on, or to reject, the applicability of IAS adopted by the IASB.

Under this process, the European Parliament has 3 months to consider the initial Commission proposal for endorsing a new standard. Its opinion has been and will continue to be of great political importance for the Commission. I believe that the current cooperation with the Parliament works well, but I am open to your ideas on how to improve this. For example, how can we improve transparency and understanding?

While we are talking about comitology, let me briefly touch on IAS 39. We “carved out” a full fair value option in October 2004 as the European Central Bank and the Basel Committee had expressed strong concerns. The European Parliament supported this move. In recent weeks, intensive negotiations have taken place to find a solution on a revised fair value option. I have already written to the International Accounting Standards Board, the ECB and the Banking Regulators in firm terms stating that settling this issue is a matter of great urgency. I met Sir David Tweedie last week in London and impressed on him the need to move quickly and in cooperation with all those concerned.

Finally, the more general question of governance of *international* standard setters. The Commission is working hard to influence the reform process underway within the International Accounting Standards Board (IASB) and is looking very carefully at the arrangements proposed for the International Accounting and Assurance Standards Board (IAASB) which will elaborate International Standards on Auditing. In considering this issue we must not lose sight of our overall goal, namely the adoption of international standards which will make it easier for companies to list in the EU and elsewhere across the globe.

There are 3 key points:

- First, that representation within the international standard setter and within a public oversight body should correspond more appropriately to jurisdictions that directly apply the standards.
- Second, that effective oversight bodies which approve the work programme of an international standard setter should be in place. The work programme should take due account of our priorities. If the oversight is effective – management of the organization will improve and confidence will grow. We also need a more welcome approach from the IASB and more effort to find common ground. We all want decision-making that is free from undue political interference but the standards it draws up must meet the needs of users and be in touch with business reality. Broadening the geographical base of its members would help in this regard. We need to encourage top quality people to put themselves forward in this regard. We also need to strengthen then the European Financial Reporting Advisory Group (EFRAG) and define the limits between EFRAG and the IASB.

- Third, the funding system; the standard setters are currently sponsored by voluntary contributions from contributors ranging from central banks to listed companies, which raises potential issues of conflict of interest. I therefore welcome the Board of Trustees of the IASB's intention to change this.

The governance of international standard setters is high on our agenda and will remain there in the coming months. I intend to take a very good look at existing arrangements to see what can be done better. I intend to talk to Paul Volker, the Chairman of the Board of the IASB Trustees to see how we can best do this. We should allow ourselves the time to do some blue sky thinking and go back to the fundamentals to see how we can improve the credibility of these organisations and the standards they will elaborate. I would welcome your views.

With regard to the Basel committee, it has been asked why we place reliance on what is seen by some as an unaccountable, undemocratic body. However, it is important to be clear on the role of different bodies in this process. With the Capital Requirements Directive, the Commission has proposed EU legislation which is based on the work of the Basel Committee, adapted in a number of areas to reflect specific features of the EU financial sector. We feel that using the Basel Committee work as a basis is reasonable because of the extraordinary volume of consultation and discussion that has taken place with industry and other interested parties over the past five years.

But that is not to suggest that the co-decision process, with the key elements of scrutiny from Council and Parliament, should not be followed. EU legislation must have democratic legitimacy - this is clearly essential. So I look forward to working with this committee on this and other proposals in the months and years ahead.

In conclusion, the concerns that you may have on the issue of political accountability are taken very seriously by the Commission. We will work hand in hand with you to find *modus vivendi*.

Madame la Présidente, we have an exciting time ahead of us. What is critical is that we work together; understand each other; and cooperate.

What we have to do is by the force of arguments – by demonstration - by implementing and enforcing the rules – show that we will succeed.

I am sure we can succeed.