SPEECH/05/247

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The integration of Europe’s financial markets and international cooperation

Concluding Remarks, Euro Conference

New York, 20 April 2005

Ladies and Gentlemen,

Thank you for inviting me to conclude this conference on this, my first visit to the US as EU Commissioner for Internal Market and Services. I must say I am impressed by the optimistic and cooperative spirit I have found.

The world economy faces some significant challenges. Those faced by Europe and the United States are in many respects very different. But some of the solutions are complimentary.

Despite intermittent setbacks, the United States has been growing at a cracking pace over many years. Europe, I am afraid, has been travelling in the slow lane. And the significant divergences in the performance of the world's most powerful economies have now created potentially dangerous imbalances. We need to work more closely together to address them. If we don't we will face much heightened risks of abrupt adjustments and sharp exchange rate movements which could undermine global investment and growth . Faster growth in Europe could make a real contribution to a more balanced world economy and financial market integration has a major role to play in securing that objective. US and European companies invest more in each other's economies than they do in the entire rest of the world. Total two-way investment between the US and Europe employs, directly or indirectly, over 12 million people on both sides of the Atlantic. That's why what is good for Europe is good for the global- and U.S. economy and vice versa. The enlarged Europe now offers a market of nearly 500 million people to sell to and invest in.

The challenges facing us are clear. In Europe, we must find ways to deal with our ageing population and the significant strains that this will put on our pension and health systems. This requires a substantial increase in resources that can and will only be found from the generation of much higher economic growth levels. But to generate that growth we must significantly increase our competitiveness. That demands of us that we become more innovative and more entrepreneurial against the background of a massive increase in global competition – from China, India and many other emerging markets. If we can move Europe onto a higher growth trajectory as we are determined to do, some of the problems faced by the US economy - its trade deficit in particular- should be more easily resolvable.

It seems to me that the time has never been more opportune for real progress in EU-US financial relations and for the tackling of potentially destabilising imbalances in the global economy.

We have a new European Commission which has set out a clear and ambitious agenda

We have too a freshly re-elected US administration. And President Bush's recent visit to Europe has, I believe, created a new opening to renewed trust and cooperation.

To address our economic challenges, a strong and dynamic financial sector is key. Deep, liquid and innovative capital markets provide companies with the means to invest and grow. They offer the funds that can turn new ideas into successful products and business models. Efficient markets drive higher returns on funds. That in turn makes a very direct contribution to solving the pension problem. I don't need to tell this audience that healthy competition across national borders is good for companies and the consumer: Competition spurs innovation; creativity; competitiveness; reduces the cost of capital and delivers wider choice and better service to the consumer.

Europe was late in integrating its financial markets. For a long time the focus of our attention was on opening the borders for trade in goods. In the 1990s of course the major European political effort was to build and cement the single currency, the euro – which has made so successful an entry to global capital markets. There is no doubt that the progress on establishing the euro, the European Central Bank and the Treaty rules for the single currency began to swing attention back at the end of the 1990's to financial market integration. Work did not begin at the end of the 1990's from zero. Some basic rules existed in banking and insurance . But there was little that worked on securities.

In 1999 the Commission started the Financial Services Action Plan to harness the benefits of integrated deep, liquid financial markets. We have come a long way since .

Take a look at our wholesale markets, our stock exchanges, and our financial markets infrastructure. The wholesale markets have already become more liquid, capital is being allocated more rationally, and the infrastructure is becoming more integrated. There is a trend towards greater scale - delivering lower cost and more efficiency.

The introduction of the euro has also sparked convergence of many market segments : the 3 month money market interest rate has fully converged and integration of the government bond markets is also quite advanced. The overall result is a lower cost of capital and more liquidity.

International bonds denominated in euro are also increasing their share in domestic markets. European cross border inter-bank loans are also gaining in importance, and cross border equity investment has risen.

We are also witnessing an interesting kabuki concerning the future of the major European stock exchanges which of course has important repercussions for future securities trading and post-trade efficiencies. The very fact that these commercial discussions are underway is in part because a European dimension to capital markets is emerging.

Markets are becoming more European in scope and in reflex. And we have reorganized our regulatory structures – with the Lamfalussy process involving intensive consultation with market participants on regulation at both the conception and implementation stages.

For a Europe that faces tough economic challenges all of this is good news

It hasn't been easy and has involved much time and effort in bringing together the views of all market participants and getting the agreement of Member States. But going forward I am optimistic.

Most of the measures needed for financial market integration have been completed or are now well advanced. So the watchword now is consolidation. We have to make every effort to ensure that the European rules we have passed with so much sweat will be effectively implemented into national law. Our supervisory authorities must rigorously and consistently enforce these rules. We will continuously monitor their application and evaluate their economic impact.

At the same time we must complete the unfinished business. Completing our efforts on Clearing and Settlement, Capital Requirements, Reinsurance, Solvency II, and the Legal Framework for Payments. Driving forward sensible and well supported measures on corporate governance, company law, accounting and auditing - agendas so widely supported by European industry.

We will also further develop the European supervisory system. European financial integration has created new challenges for this system which is based on a large number of cooperating national supervisors in European supervisory networks. So consistency, more attention to cross-border risk and financial stability become more important. Companies rightfully demand clearer, more reliable and less costly supervisory structures. They want simplicity – not the Tower of Babel- for reporting, and for resolving disputes. They want one transaction reporting form, not 25. Cooperation between national supervisors is continuing to improve in practical ways.

The focus of integration in the last few years was on the wholesale markets. This was where the fruits of integration were hanging lowest. That's why we picked them first, and why retail financial services are lagging behind the wholesale sector in integration.

But in the long run I want the European consumer to see real, tangible benefits from integrating markets: cheaper mortgages, better services in cross border payments, wider choice in pension products and lower investment costs throughout Europe.

We will tackle this field in several ways. My colleague Neelie Kroes, Commissioner responsible for Competition in the EU, has just announced powerful competition enquiries in the areas of retail financial services and insurance. Shining the light in some areas… flushing out what is going on.

We will also look at obstacles to cross-border consolidation . Companies have to be able to fully exploit the economies of scale and scope an integrated European market offers. To reduce costs. Streamline their commercial platforms; and to make our economies more competitive.

Based on the outcomes of these exercises, after consultation I will decide, where to act, if at all. Improving economic efficiency is at the forefront of my thinking here. We have been active already on consumer credit and we are also looking at the mortgage field.

Whatever initiatives we take, the cost of regulation has to be reduced. As Finance Minister in Ireland I saw what great entrepreneurial energies that a "light touch" regulatory system can unleash. 25 years ago we were the sick man of Europe. Today we are among the richest countries in Europe. Ireland is indeed testimony to the fact that you don't need to be rich in natural resources to generate real wealth. If that were so Russia- with its massive resources of oil, diamonds, gold, and platinum -would be close to the top of the world league instead of nearer the bottom. The Irish growth story is a story of well targeted investment in education and intellectual capital, the advance of technology, and a human, fiscal and physical infrastructure that has proved attractive to inward investment. Economic freedom through low taxes, open borders, good corporate governance, and light touch regulation have been absolutely indispensable to the scale of the success we have seen.

I know there is a feeling in the US that in Europe it is law and regulation that comes first. And that markets have to follow.

But the Internal Market programme is by far the greatest better regulation and *deregulation* exercise in recent history. The Europe of little more than a decade ago was one of inefficient state monopolies from telecommunication to energy, trucks queuing at borders, and different product requirements in every country. The single market programme has changed this fundamentally. It has been a major success story in the areas where it has been implemented. And I am determined to build on this success across all economic and financial activities.

Of course there is resistance in some Member States. Of course there are fears and concerns. But that's why we need to -and we will- get the message across that while reform may not be a nice option for everyone in the short term, the absence of reform poses a real threat to everyone's living standard in Europe in the longer term . And not just to the prosperity of the people of Europe – but to the United States too which relies on Europe for markets, investment, and jobs. Reform is an imperative if the social model that we want to protect in Europe is to survive.

We have no problem in getting the message about free markets across in new member States. Their peoples know all about the poverty, despair, hopelessness, and lack of opportunity that collectivism, protectionism, isolationism and State ownership produced. With the dead weight of State socialism cast off, today freedom is the idea that captures the minds of the citizens of Warsaw, of Prague, of Tallin, of Budapest, and behind the ruins of the Berlin Wall. They are champing at the bit to see us release the forces of economic freedom across Europe. They know that they are the basis of economic prosperity and personal liberty. The quicker and more radical our programme of economic reform is, the sooner the benefits will become apparent. And the bigger those benefits will be. Like medicine, it tastes nasty at first but persistence is going to deliver the cure.

As Commissioner for the Internal Market I intend to ensure that the regulation I bring forward is regulation that is focused primarily on creating a framework that enables markets to work more freely and more effectively within and across borders. It will also be regulation that underpins the confidence in level playing fields that is the basis of investor trust.

Regulation is not a panacea. On the contrary.

While it is the role of government to create the conditions for success, it is the flair, enthusiasm, energy and initiative of the people that generate the success itself.

Initiative belongs with the individual. It is individuals acting on their own initiative that grow markets. People are the market. And as with people, so with markets: It can take years to build a reputation, seconds - just one bad deed- to destroy it.

That's why we need regulation. But we must ensure that we get the balance right, that the solution doesn't become the problem; that our regulatory environment is one which nurtures competition, good governance, and fair play but doesn't smother innovation, enterprise or growth.

A sound, balanced regulatory framework is vital for financial and other markets. Think of the 5 Trillion Euros invested in investment funds in Europe - and more in the United States. These are the savings of millions of our citizens. The stock market downfall a few years ago wiped 40% off the value of those assets. Fraudulent accounting and corporate malpractice on both sides of the Atlantic played a major part in bringing this about.

These corporate scandals have I believe taught us all some basic lessons. One is that money spent on good corporate governance is money well spent.

And it has taught us too that the effects of what we do in Brussels or the US-regulators do here in New York or Washington do not stop at national borders or continental shores any longer.

International cooperation in a globalised world is imperative if we are to create level playing fields; if we are to avoid unnecessary, burdensome and costly duplication, and if we are to deliver higher and consistent standards that build confidence in capital markets.

Globalization is a challenge for all players involved to find new ways of closer cooperation. Recognising this, understanding this is a unique chance to move towards a really barrier free transatlantic capital market.

In Europe, with 10 new member states there is huge potential for financial market growth that will present significant opportunities for EU and US companies alike.

Cooperation between legislators and supervisors urgently needs to catch up with the markets in the way they work together on a global scale. Increasing globalisation and integration have changed the business landscape for good. Hand in hand with this development, it is unavoidable that regulation in one jurisdiction spills over into others. We must therefore work together to minimize unnecessary regulatory duplication and legal friction. This is particularly important in transatlantic relations. We are still each other's most important trading partner. Almost all decisions taken by our regulators and supervisors affect the other side of the Atlantic almost as much as our own. We need to manage together these ripple effects to avoid tsunamis. Cooperate ex-ante, to avoid painful ex-post regulatory repairs.

That's why in 2002 we established the Financial Markets Regulatory Dialogue between the US-Treasury, the SEC, the Fed and the EU-Commission. And we have made good progress – although not as quickly as we may have liked. We have been able to find good solutions on implementing the Sarbanes Oxley Act and on financial conglomerates. We have established trust and a spirit of good cooperation. I pay tribute to the leadership of the US Treasury, along with the FED and SEC here. This has allowed us to agree on sensible work-sharing with the PCAOB on audit registration. We had extensive discussions with the US when drafting the proposal to our 8th Company Law Directive and are cooperating with the PCAOB on the way in which EU Member States audit supervision bodies work. A few weeks ago the SEC extended the deadline for Section 404 for foreign private issuers. This was widely welcomed by European business.

But we must go further in the transatlantic market. Markets complain about the costly and unnecessary burdens in domestic regulation. But cross-border they are even more prevalent. Differing regulatory requirements, outdated or even discriminatory treatment of foreign market participants, differing supervisory practices. I want us to take a joint fresh look at accounting, insurance, banking, securities regulation, corporate governance and company law. Duplicative regulation, costly burdens we put on business, cross-border barriers: we should make every effort to get rid of them, without endangering investor protection. Can't we move forwards by learning to trust each other's regulatory systems more?

I understand some of the difficulties and hesitation. There is a lesson I have learned from looking at the integration process in the EU. For a long time the emphasis was on full harmonisation. The idea was that only one central, unified code would be able to really integrate the European markets. A great idea in theory. But in practice it never worked. It certainly made lawyers rich because we got stuck in endless debates. And it became a quagmire- as well as a paradise for the legal nitpickers and the bureaucratic boneheads. But it was useless and wasteful economically.

The goal must be mutual recognition of equivalence. You can also call it the home-country principle. If you agree to accept each others system as equivalent then duplicative requirements disappear. You can then operate in the other country under the rules of your home country. I think we should find more areas in our transatlantic relation where we can apply this principle. In accounting, in insurance, for securities markets and in all the other financial regulation.

I am therefore very happy that SEC has signalled its sincerity in seriously considering the medium term use of IFRS in the US without reconciliation to US GAAP. This would bring down costs for issuers. Ultimately the end-investor will benefit. I will have talks with the SEC Commissioners today and tomorrow. I am looking forward to discussing accounting convergence, then equivalence and hence removing the reconciliation requirements. Progressing this would be a great signal to markets in the EU and the US alike that transatlantic progress is underway.

There are other areas where I hope we can have quick wins- wins that will benefit US and European companies alike. Easing the deregistration requirements for European issuers in the US is one example. At the moment the system is so complicated and the requirements are so high, that deregistration is made virtually impossible. Again the SEC has signalled that they are looking into this issue. Movement in this area would be very good news for the American capital market because European companies would no longer feel that entering the US market was an irreversible decision. And of course, I favour Europeans listing in New York – and Americans listing in the EU. That is what the free flow of capital is all about. A clearer and easier deregistration regime would increase the attractiveness of the American stock markets – without in any way endangering investor protection.

Ladies and gentlemen let me conclude:

Europe is on track in integrating its financial markets. We have come a good part of the way already. The FSAP has delivered tangible results, Europe's financial markets are becoming more competitive. US firms are benefiting in a big way from an expanded European market. Europe is also benefiting from US firms bringing their knowledge, capital, and innovation to it.

We are now entering a new phase in the EU where we have to consolidate progress.

Over the next 5 years I will put particular efforts into further developing international cooperation and especially transatlantic relations. I think there is a unique window of opportunity for us now, born of optimism in the overall transatlantic relation and of the necessity to stimulate growth and protect against unsustainable economic imbalances. Our aim should be a completely barrier free transatlantic capital market to unleash great economic potential -higher growth rates, more jobs, safer pensions in both the US and the EU.

In the financial field structures have been established and trust has been gained. Now we need to move forward. This is the right environment to set ambitious objectives.

And it is not optional. In reality we have no choice. If we want to capture these benefits – we have to act and agree to agree. Right now. Bill McDonough's famous phrase has never been so true. Because not to act in this way means we are prepared to settle for second best. I don't think you want that. And nor do I.