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The Commission's Financial Services Policy 2005-2010

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

Exchange of Views on Financial Services Policy 2005-2010

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Introduction

Ladies and Gentlemen,

Welcome to this Conference. I am delighted by the very strong attendance today to discuss our future European financial services policy. These subjects, as we all know, involve crucial policy decisions that will have a powerful influence on Europe's economic future. On growth. On jobs. So we need your input. We want it. We want to get the future policy direction right. Both within the European Union. And to strengthen our global competitiveness and influence. I strongly believe in an open, transparent, building block policy process – likewise consultation is at the core. Today is part of it.

Europe is going through a difficult and challenging period. Many European countries continue to grow too slowly; citizens are frustrated. We are facing pension crises at home and increased competition from abroad. Economic insecurity combined with the lack of clarity about where Europe is going has undermined belief in the EU. The failed referenda demonstrated this. But let me remind you that there is a very clear correlation between European economic well being and belief in European integration.

So what European citizens really want are economic policies that deliver: jobs, more growth, safe pensions and a higher standard of living.

This is why today's event is of such importance. There will be no reinvigoration of the European economy without further opening and integrating Europe's financial markets. Financial markets, financial services lie at the heart of our economies. Where capital is intermediated and allocated. Where the prices of mortgages, credits and everyday financial products are determined. Where insurance products are offered to allow companies and consumers to engage in economic activity otherwise not possible. Where investment opportunities are made available to investors to increase the returns on savings and pension products. And where a growing number of jobs can be created. And please let us remember that financial services is not, I am happy to say, a declining sector. On the contrary – it is an area with huge growth potential. Let us ask ourselves – how many countries among the 25 Member States have developed and mature capital markets. The answer is simple. Few.

In my talk today I would like to outline my priorities for the coming years. There are two key concepts for me: dynamic consolidation and better regulation. But we must also continue to open up borders and bring down regulatory barriers that hinder trade and integration: not just within the EU but also between the EU and its partners worldwide.

Consolidation

Let me start with consolidation. The framework of the FSAP is now largely in place. The five years of the FSAP have been a time of intense regulatory activity. Of course, adapting to such a large number of rules has been very demanding. But we are already beginning to see the pay-outs of these investments. Higher integration of the markets, more openness and transparency for business and investors, higher liquidity and increased competition. The profits of the industry are also extremely robust at the moment – across all sectors. So we have a good base to build capital.

True, there are a number of loose ends which still have to be tied: the capital requirements directive, the solvency II framework, payments and possibly clearing and settlement. Major projects all of them. But transposition is key.

First of all that means ensuring effective transposition of EU-directives into national regulation. I am not very happy about the rate of transposition as it stands. In fact, the situation is lamentable. That is why we have now started to regularly publish a transposition scoreboard on-line. In the near future we will also link this to the actual legal texts that have been transposed. At the moment the worst offenders have a transposition rate of just about 50%. That is simply not good enough. European industry will only be able to make full use of the new, level playing field if directives are implemented in all member states and on time. I will spare naming the laggards today. But you can rest assured – we will be deploying all the means at our disposal, and if necessary the Court of Justice, to get these texts implemented and working. Anything else would be a shameful dereliction of duty. For this we need the help of all market participants. We cannot always instantly detect faults in every Member State. So alert us to any shortcomings in the transposition process at your national level.

We also have to avoid that unnecessary provisions are added to EU-directives during implementation. Better regulation at the European level becomes a futile exercise when it is foiled by excessive regulation at the national level. The goldplaters should be put on immediate rehabilitation: lesson 1 – simplification exercises; lesson 2 – distinguish principles from rules. Also, national provisions should be coherent and create no new frictions between Member States. The Commission will therefore continue to support good transposition by organising transposition workshops - providing explanations and guidance to avoid differences in transposition right from the start.

Finally, we also need the help of the European Supervisors. When rules have been transposed at the national level it is up to the supervisors to enforce them day-to-day. Growing European integration poses a great challenge for supervisory cooperation. Business has developed a European reflex, supervisors need to do the same. I believe that an evolutionary approach is the right way forward at the moment. We should make full use of the level 3 Lamfalussy bodies CESR, CEBS and CEIOPS to enhance cross-border cooperation between supervisors. For financial conglomerates we also need mechanisms that help us to deal with cross-sectoral issues.

There are additional means of supervisory cooperation which should be fully used: mediation mechanisms, common training and exchanges of personnel among supervisors, exchange of information and expertise, setting up common reporting formats and one-stop shops for reporting, delegation between supervisors and so on.

But there is one issue that needs immediate attention. Following the referenda in France and the Netherlands the Constitutional Treaty will not be adopted in the foreseeable future. This has potentially difficult consequences for comitology and the Lamfalussy process, because the Constitution would have given the European Parliament “*call back*” powers – placing the Parliament on an equal footing with the Council. The Commission has always strongly supported this policy.

It is absolutely vital that we keep the Lamfalussy process going. It has made the legislative process at the EU level more flexible, has brought supervisors together and has been essential for legislators to keep-up with developments in the markets. This is why I believe that Member States, the Commission and the European Parliament should start working together now to find a solution. This is urgent.

Better regulation

Let me turn to my second priority: better regulation.

There is no doubt that, particularly in financial markets, regulation has a crucial role to play. Without legal certainty, without reliable information, without clear framework rules markets cannot work for long. The working of financial markets to a large extent is based on trust. When trust is undermined by the actions of individual players, everyone suffers. So a stable, reliable and transparent regulatory environment is essential.

But it is also true that “innovation always has to front-run legislation”. It is economic freedom that lets markets best play their role: to experiment and to come up with new ideas, better products and more streamlined processes. This is how new companies are founded and new jobs are created. How economies remain dynamic, competitive and open to the future. Legislation has to help, not hinder, this process – working with the ebbs and flows of markets.

This is why I have put better regulation at the core of my agenda.

To make sure that new legislation has a clear added value and addresses the needs of all market participants, we have established a culture of openness and wide consultation. Let me take the consultations we have undertaken to determine our draft financial services policy 2005-2010 as an example. In fact, work on our post-FSAP agenda already started almost two years ago.

In October 2003 we set up four expert groups in banking, insurance, asset management and securities. Their objective was to assess how far the EU framework of financial legislation has helped to integrate European financial markets. They were also asked to identify remaining barriers to integration and how they might be tackled.

Based on all this input and the public consultation that followed we then drew up the Green Paper on Financial Services Policy published on 03 May. We will take into account the comments we will receive and the results of today's event. We intend to finalise a White Paper by November. Transparency and consultation are not just slogans but everyday practice for us – and strongly supported by everyone.

The second step in our better regulation approach is to let all concrete new proposals undergo rigorous impact assessments. Every new piece of legislation that crosses my desk has to show that it provides a clear benefit to the European economy. I ask simple questions: Is there a case for action? Is it the EU that is best placed to act? Is a regulatory proposal the only possible solution or are there less intrusive, less costly alternatives that can achieve the same objectives?

Only if I get a “yes” to all these questions will new proposals get my stamp of approval.

But I want to go even further than that. There is already a large body of existing rules at the European level and I want to make sure that they are working and that they too provide clear benefits. That is why DG Internal Market and Services has launched a multi-annual evaluation programme to regularly monitor existing Internal Market rules. I will not hesitate to propose to modify or even scrap rules that do not pass the quality tests. Out they go, lock, stock and barrel.

I would like those in the market to let me have their views as well. Are there existing rules and regulations that have gone beyond their usefulness? If so, I am prepared to ditch them.

To further increase the transparency and coherence of the European legal framework we have also taken up the idea of a single “financial services rulebook” in our Green Paper. This would be a major exercise. The idea here is whether it could be a worthwhile investment to get rid of regulatory overlaps, conflicts, duplication and ambiguities. In short, we need an overall consistency check. Of course, this could not just be a Commission exercise. Since most of the legislation exists at Member State level they would have to cooperate strongly in this. Let me be clear the financial services rulebook is just an idea on which we wanted to test the waters by putting it in the Green Paper. So far, there is support on the principle but also criticism based on national experience. We will carefully look into the reactions. Do therefore not expect hasty decisions on this.

To remove one ambiguity, I do not mean by this exercise that the Commission will be aiming to harmonize all national rule books. No – only ensuring EU-wide texts work together.

International Dimension

But, to my mind, better regulation does not stop at Europe’s borders. The global economy, particularly in the financial services field, has been integrating at a breathtaking speed over the last years. In financial services modern technology has rendered the concept of distance almost irrelevant. Major transactions are done around the globe at the click of a mouse.

This has enormously increased the pressure on regulators to up their act and establish structures between them that can keep up with these market developments. Why bring down barriers within the European Union while the ones between the EU and our global partners continuously grow in importance and are left untouched? The European economy needs open borders within Europe and towards the outside.

That is why I also want to start looking with a better regulation mindset at the regulatory interplay and spill-overs between the EU and the US, Japan, China and other countries. I want to ask the same simple questions: Is it really necessary to have several sets of regulation which duplicate each other and cause conflicts in law? Do they bring more protection to consumers and more transparency to investors?

Or are they just wasteful burden and should we not work towards mutual recognition or convergence of our standards?

One example for this international better regulation agenda is the agreement on accounting equivalence we have come to with the Securities Exchange Commission in April. The SEC has stated that it intends to drop the reconciliation requirement for IFRS accounts in the US as soon as possible, but no later than 2009 – based on progress in the convergence programme and first experience with the application and enforcement of IFRS.

The Commission is analysing the issue of US-GAAP, Japanese and Canadian GAAPs as equivalent to IFRS in the European Union. We are carefully examining CESR's advice on this issue at the moment.

There are estimates that for each of the 250 or so European issuers in the US reconciliation imposes a yearly burden of between \$ 5 and 10 million. Dropping the reconciliation requirements on both sides of the Atlantic would mean great reductions in costs for business. Certainly gains in the low billions of euros per year.

I will work with the US and with other partners to achieve similar success in the areas of deregistration, insurance, corporate governance, supervisory cooperation and others.

Conclusion

Ladies and Gentleman, let me conclude. The Commission has presented a Green Paper on its future priorities in financial services. It is a dynamic programme. For anyone who doubts this look at the contents. The scope. The substance. This paper is based on open and wide consultation. We are fully committed to the better regulation agenda for new as well as for existing regulation. We need new mind sets; creative, innovative approaches to a new world – in which global financial Europe participates.

So I seek your input – and I hope support – for the main themes I have outlined.

I sense strongly the European Union has a great opportunity to build an integrated financial market of real strength that can be a model to the world. Those chances don't come along every day. Or every year. Or every decade. So let's work together to build this financial strength and the most vibrant capital markets in the world. There is no time to waste. But at least now, we are on the right path.