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Globalisation and Financial Services

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Good morning Ladies and Gentlemen,

Thank you for inviting me to open the 4th INFINITI Conference. I am delighted to see that third-level research funding is being channelled to something as close to my heart as international integration. I am also extremely impressed with the quality of the academics, business and political leaders you have gathered for this conference on international finance. I am sure that many of the issues addressed here this week will be discussed in the EU and beyond in the years ahead.

Protectionism

As the European Commissioner responsible for the Internal Market, this might give the impression of being inward-looking in European policy making. But I can assure you that nothing could be further from the truth. Particularly in financial services, the policies we develop at EU level are both affected by, and have an influence on, policies and legislation elsewhere in the world. Financial services are the backbone of any economy. In today's global markets, financial services are taking on an even bigger role.

Negative attitudes towards globalisation can, and has, led to defensiveness, hostility and political cowardice. Over the last couple of months, we have seen a surge in protectionist rhetoric from certain quarters – in Europe, but also elsewhere in the world. Examples are to be found in the energy markets in several European member states, in the controversy that surrounded the take-over of a ports operator in the US, and of course in the banking sector.

Those who condemn globalisation should not forget that European countries, and thus businesses and consumers in Europe, greatly benefit from globalisation and international trade. The economies of scale, for example in marketing, research and development, technology and supply chain management that global reach can bring are not to be underestimated. Just look at the origin of the profits of the largest European companies. And, closer to home, look at the level of employment generated in Ireland by non-domestic companies.

Anyone who has followed the debate will know that I stand firm on the issue of protectionism – I will not accept it in any form within the EU. Where Member States insist on throwing up barriers to integration, I will not hesitate to open infringement proceedings against them and, if necessary, go all the way to the European Court.

Openness of EU market

In contrast to the protectionist approach espoused by some European political figures, my goal is to make the EU the most open and dynamic financial marketplace in the world. After all, today's competition is global. Investors in search of higher returns channel their money towards the safest, most efficient, most well regulated markets. Issuers looking for easier and cheaper access to finance raise money where they can find liquidity and transparency. Some may snigger when we in "Brussels" talk about the EU being a world-leader in the economic domain, but when it comes to financial services, I genuinely believe that we are on the right path and our global position is strengthening. The evidence? Growing markets! Strong profits! Innovation! Transatlantic mergers, for example the proposals for stock exchange consolidation.

The EU is the most open market in the world. The introduction of the euro and the Lamfalussy process spurred us on to create a real culture of openness and transparency. A huge amount has been achieved since the launch of the Financial Services Action Plan in 1999 – not least the "passporting" system applied throughout the Union. For instance, issuers can publish a single prospectus and then raise capital throughout the EU, and investment funds authorised in one member state can be sold in all of the others – 70,000 are so sold, by the way. This does not just benefit European companies and financial institutions – consumers and investors benefit too, and external participants wishing to enter the EU market now only have to comply with one basic set of rules rather than 25.

This was no accident - the EU has made a resolute choice to be a fully open market. Far from being a weakness, our openness is reinforcing the strength of the European financial marketplace and attracting capital flows and foreign financial services providers.

Adherence to global standards

The EU's openness is exemplified in our decision to adhere to high quality global standards. To give just two examples, since the 1st of January 2005, listed companies throughout the EU have been obliged to prepare their financial statements in compliance with IFRS. And next year, the Capital Requirements Directive, which implements the Basel II regime, will enter into force. Being an early mover to such highly regarded international standards can provide a decisive competitive edge in attracting economic activity, as well as in facilitating the expansion of EU companies abroad. And incidentally, the rest of the world is basically following our lead, and adopting IAS or IAS-type standards.

Given our commitment to these stringent global standards, it is only right that the EU, through the European Commission, should continue to play a leading role in international rule-making and standard-setting bodies, in order to ensure that the best interests of European businesses and citizens, who abide by these rules, are rigorously defended.

Regulatory dialogues

Another key element contributing to the EU's openness on financial services is the fact that we are in regular dialogue with our regulatory colleagues from around the world. Of course, as our main trading partners, the US and Japan feature high on the list of interlocutors, but discussions are also advancing with emerging countries such as China, India and Russia.

The aim of these regulatory dialogues is to identify, upstream, potential spill-over effects of legislation in each other's jurisdictions, and to work in an informal and non-confrontational manner to find mutually acceptable solutions, while taking into account the differences in our respective legal and regulatory structures and backgrounds.

Since 2004, the European Commission has been engaged in the highly productive and co-operative Financial Markets Regulatory Dialogue with legislators and supervisors in the US. The open and informal nature of our dialogue means that concrete issues can be brought to the table without a danger of being overwhelmed by political sensitivities, even in times of crisis. And this is delivering tangible results. For instance, we are working closely with our counterparts in the US to allow EU companies who are no longer listed on a US market to terminate their registration with the SEC.

Other current themes being addressed in this dialogue are the one-year time lag between the implementation of Basel II in the EU and the US, the continuing need for European reinsurers to post high levels of collateral for their business in the US, the general theme of foreign takeovers, co-operation on auditing supervision, and of course the big issue of accounting standards convergence, which is also high on the agenda in our dialogues with partners in Japan. The repercussions of transatlantic stock exchange mergers are setting us new challenges in the securities area.

In the last couple of years, the benefits of these regular exchanges of views have become evident, and we are entering into dialogues with new partners all the time. I was in China last month to build on an increasingly important relationship with regulators, supervisors and business leaders there. And this week, my services are meeting with contacts in the Russian and Indian authorities. We will continue to work with and encourage our emerging partners to build safe, modern regulation and supervisory systems, drawing inspiration from the European model.

Containment of financial risk

Of course, it is not all sweetness and light. The corporate scandals of recent years and the fallout that they created underlined how interdependent our economies really are. It is our job as regulators to come up with frameworks that, to the extent possible, bring about financial stability and reduce the risk of contagion of financial crises, while avoiding knee-jerk reactions to market events.

A large part of this will be down to making sure that we contribute to strong and robust global rule making, as I mentioned earlier.

Our own legislation, too, can play a significant role. Take the Capital Requirements Directive and work on the forthcoming Insurance Solvency 2 proposal for example – both of these policies are explicitly designed to ensure that there is adequate, but not excessive, coverage for the true risks to which a financial provider is exposed. These policies represent a step-change in risk management, maximising the effectiveness of the rules in ensuring continuing financial stability, maintaining confidence in financial institutions and protecting consumers.

Our reaction to the Parmalat scandal was not a Sarbanes-Oxley Act but a set of measured requirements that mean that if listed companies have 300 Special Purpose Vehicles offshore, they explain precisely to their shareholders why. And in the same breath tell them which corporate governance code they follow. Sensible principles, not box-ticking. Not excessive, unnecessary, costly bureaucracy.

Supervisory co-operation

Another weapon in Europe's arsenal against systemic and financial risk is its supervisory structure. As you may know, in 2001, the 4-level "Lamfalussy" process was introduced in securities market legislation, and has since then been extended to the banking, insurance and asset management sectors. The Lamfalussy structure brings national financial market supervisors across Europe much closer to the EU lawmaking process, and creates the framework for them to interact closely with one another, ensuring consistent implementation and enforcement of EU legislation in the Member States and limiting and controlling contagion. The structure is still young, and there are definite improvements to be made.

Co-operation between national supervisors needs to be strengthened, common interpretations of EU law need to be developed and greater efficiencies must be brought to reporting, supervisory delegation and mediation mechanisms. However, we are on the right path, and are confident that this "hub and spokes" system can work effectively.

Management of systemic risk

Higher levels of integration and concentration are increasing the number of cross-border financial institutions, which raises challenges in controlling and managing systemic risk. Financial stability was traditionally a national responsibility , but these new market structures mean that there is a need for greater international co-operation, information exchange and, where appropriate, formal arrangements. The key question here is always: who will pay the bill in the event of a cross-border financial crisis?

Significant progress is already being made. The new European supervisory structure I mentioned earlier is already providing the framework for attention to be focused on these issues. In addition, a series of Memoranda of Understanding have been signed between EU central banks, supervisory authorities and finance ministries on domestic and cross-border information exchange.

New legislation is also helping. For instance, under the Conglomerates Directive, a co-ordinating supervisor will take the lead in crisis situations, and in the Capital Requirements Directive, consolidated supervisors will take a designated role in the crisis management of banking groups, notably in informing supervisors in other countries where the groups have significant subsidiaries.

Will these changes be sufficient to handle a major cross-border crisis? It is clear that it will not be possible to strengthen the role of the consolidated supervisor further without changing home-host arrangements between authorities. Networks of supervisors and finance ministries from the EU member states are investigating whether further legislative changes will be needed to ensure a safe crisis management structure.

Conclusion

To conclude, ladies and gentlemen, we are utilising the resources available to us on various fronts, and the relationships we have built up with colleagues around the globe, to mitigate risk and to prepare for crises. We cannot simply put our heads in the sand and pretend that globalisation is not having any impact on financial services and financial trade. We have to embrace the challenges and opportunities that globalisation brings, while ensuring that our citizens and businesses enjoy the highest possible level of protection.

Think of the globalisation of financial services and financial trade as a huge ocean liner carving through the waves. The protectionists are sitting in their dinghies, bobbing uncomfortably in the rough wake of the ship. By taking all possible steps to encourage innovation and development in global financial services, while minimising systemic and financial risk, we are ensuring that our ship steers a safe and steady course.

At the bridge, in control. Not floundering, flapping uselessly on the waves, as economic forces wash over us. That is where I want to see the EU. In the lead. Thank you.