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Building an EU Integrated Market in a Globalised World

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

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Introduction

Ladies and Gentlemen,

Thank you for inviting me to speak at your World Congress of Financial Executives and to share with you my views on the European Financial Services Integration in an ever more globalised world. After this morning's very dense agenda, I have the privilege to be the last barrier between you and lunch. You can trust me, I will treat it as an obstacle impeding the single market in financial services: it will take a little time but I will succeed in removing it!

Before giving you an overview of the work we have done, I want to stress that although there are plenty of good internal reasons to promote an integrated European financial services market, globalisation is an additional powerful stimulus.

Take 2040, a generation from now, the world in which our children will live. China is likely to be the world's largest economy. Futurologists predict that Germany, now the largest European economy, will rank number 8 behind Brazil, Russia and Mexico. For our industry, many of the opportunities of tomorrow, be they in retail banking products, long-term savings funds or insurance policies, are clearly to be found in those countries.

Will a European bank, strong only in one national market, be able to tap these enormous potential markets? If European banks struggle to meet across the Alps, could they repeat the astounding achievements of Marco Polo and becoming a key player in China? The stakes are already high. Take the flotation of ICBC scheduled for this month. This puts a price tag of 170 billions dollars making ICBC the world's fourth largest bank by market value.

And globalisation is here to stay. If we put our head in the ground, the storm will not abate, it will wipe us away. We have no choice, we must embrace globalisation. Lead it. Not lag. Shape. Not be shaped. And in this context, financial services are such an important and cornerstone industry that we must integrate our European markets as quickly as we can.

Financial integration – The method

Here in Berlin, the enlargement of the European Union to the east started. Here in Germany, the rules that would create, sustain and defend the Euro were born. When the euro was successfully launched in 1999, Member States, European Union institutions and most financial services stakeholders then realized they had no choice: if they wanted to reap the full benefits of the single currency, European financial services had to integrate quickly and efficiently not only on wholesale activities but also across the board - retail financial services, supervision, accounting and corporate governance.

And we have been very successful. With the very strong support of Member States and the European Parliament, we have put into place in a short timeframe a comprehensive reform of the European Union financial services regulatory framework. The Financial Services Actions Plan launched in 1999 was very ambitious and many doubted we could achieve it on time. But we did it.

We succeeded because we tried hard to avoid overregulation and red tape. We have chosen to act on an EU-wide basis only if national regulations had failed or were clearly impracticable. We have preferred, where feasible, equivalency and mutual recognition agreements over a reshaping of entire sets of regulatory measures. We favoured supervisory cooperation and information sharing over centralised agencies. We put into place every comma of the Lamfalussy process. It works.

We succeeded because we were ambitious. A vision to create in Europe a top class, dynamic financial market, a market where competition fosters innovation, a market with unified structures to provide the lowest cost of financing to small businesses, corporate borrowers or national Treasuries, a market where multiple reporting requirements are progressively phased out.

A market where market participants can reap the benefits of single, deep, liquid financial markets.

A market where investor protection is sound and systemic financial risk contained.

A market where the capital allocation is very efficient.

A market where investment funds can be distributed freely and cost effectively all across Europe.

An EU financial market that will enhance structural reform and economic growth. There is no doubt that as our financial markets deepen this will flow through to the real economy – with greater than proportionate benefit.

We believe strongly in transparency and predictability in our decision making process. We believe that consultation brings continuous improvement.

Lets us look at the work accomplished. We have removed some important barriers for cross-border investments. After a late and rather slow start, mergers and acquisitions in the banking industry are increasing, with strong pan European banks being created. We have equipped our industries with state of the art prudential rules by being an early adopter of Basel II with our Capital Requirement Directive and by driving forward the Solvency II process. We have a huge and well functioning Eurobond market. Interest rates have converged on many markets lowering the cost of financing. UCITS investment funds authorized in one Member state can be distributed freely in all the others with our passport system. A few facts. UCITS is a 5 trillion euro capitalized industry today (circa 50% of EU GDP), growing by around 20% per year. What is more it is the gold standard internationally.

69% of Hong Kong's investment funds are UCITS. Issuers can now publish a single prospectus and raise capital throughout the European Union. With one set of accounting rules.

And you have responded to these challenges: banking profits are strong and are growing fast. Stock exchange consolidation may be underway. The number of funds in Europe is now over 30000.

Financial Integration – Priorities

But we can do even better. We will deepen the reform along the guidelines set out in our White Paper on Financial Services Policy for 2005-2010. Our motto is "dynamic consolidation." Not a new FSAP with numerous new regulations, but much more focused on implementation and enforcement of existing EU legislation. Plus removing the remaining barriers for truly integrated and cost-efficient financial markets and industries.

First, we must not let the benefits of unified regulations and enhanced competition be impaired by transposition delays. I will be monitoring closely to ensure that all measures are implemented correctly and on time by Member states. In the transposition processes, we must be especially careful to avoid overregulation. "Goldplating" is for jewellers, not EU regulators.

Another key issue is supervisory convergence. We need to build a true European supervisory culture with mutual trust and confidence. I do not think that we need to change present structures for the moment – after all, the supervisory Committees established by the Lamfalussy process are still young, and they should have sufficient time to demonstrate that they can deliver. But they do need to deliver.

I want to see practical cooperative solutions to alleviate duplicative or excessive regulatory burdens. Better cooperation among regulators could remove many inefficiencies that segmentation of regulation throw up. One goal is to see a streamlining of reporting formats by 2008. I want to see enhanced cooperation, so supervision in all the Member States is done to top class standards. We will help the supervisory committees wherever we can, but the main task of making the system work will be with them. I won't hesitate to suggest reforming the system if I see that it doesn't do the job.

We are also going to launch new initiatives in a few targeted areas. Retail financial services are clearly our priority. I would like Europe's consumers to see practical consequences of the progress seen in the wholesale arena. In this respect, we have launched three initiatives.

There is the Single European Payment Area. I want to see the first products available by 2008 and a fully integrated single payments area a reality by 2010. All citizens should be able to make payments within the EU for the same low prices, high quality and rapidity. We support this work by creating the adequate regulatory framework – the Payment Services Directive - but the markets, the payment industry will need to deliver.

Furthermore, we will publish next year a white paper on mortgage credit, outlining the steps needed for an integrated EU mortgage markets. We also aspire to remove any undue barriers to mobility and competition in retail banking - to this end, we have started to examine the issues very closely, together with a working group on customer mobility.

The last of the initiatives which will deliver real benefits to consumers concerns asset management. Before the end of the year, we will publish a White Paper on this. We will then decide our policy orientation to address the present bottleneck in fund management and distribution, with legislative proposals next year, after further consultation.

But rest assured: in pursuing these policy objectives, I will stay faithful to my credo: No overregulation, efficient and cost-effective supervisory process, savings passed on to consumers, enhanced competition and innovation, state of the art prudential and accounting rules.

Financial integration and Globalisation

Today borders are becoming more and more fuzzy and permeable. Companies are increasingly global. Travel costs have plummeted. The Internet has created instant access to information and boosted competition. In my role at the Commission, the lines between internal and external markets are blurring. Regulations in one jurisdiction have a clear impact on others.

Take Sarbanes-Oxley for instance or accounting rules. It is increasingly clear that the path to better regulation lies not only with transparency and consultation with domestic stakeholders but also with an open ear and a flexible mind with our external markets. Pressure to move to global convergence is beginning.

In the financial services area, we in Europe now have a wonderful window of opportunity. With your help, we are on the way to building a top class, best of breed modern legislative and regulatory framework.

There is no doubt, economically, this is of critical importance for the development of financial markets.

Why? Because we have chosen to apply international standards. Because we have decided from the start to have completely open markets. Because we have preferred a flexible regulatory approach, equivalence whenever possible and regulation only when necessary. Because we have carefully listened to stakeholders. And worked hard to build consensus.

A key pillar of this ambitious strategy is our active involvement in international fora. Such as in the Basel II process or IASB in accounting. We have increased our influence because we have been early adopters of these standards. I do not want to belittle the burden for you in complying with these rules, but I am sure this early adherence to global standards will give our companies a decisive advantage abroad. And incentives for foreign companies to invest in Europe.

Another cornerstone is the informal regulatory dialogues that I have started with key players in the Financial Services arena. The US and Japan of course, but also with China, India and Russia. To build a long lasting partnership, it is wise to start slowly, to let confidence in the process build, to build relationships and to open the channels of communication.

With the US we have a well functioning financial market regulatory dialogue. Informality and upstream working methods mean that we can bring on the table important issues and deliver tangible results. For instance, we are working with the SEC to ensure that EU companies no longer listed on US market can terminate their registration with the SEC.

We are addressing the one-year time lag between the implementation of Basel II in the EU and the US. We are cooperating closely with US insurance regulators to work towards a rule that will eliminate the need of European re-insurers to post high-level of collateral for their US business. We are making unprecedented progress on accounting equivalence and convergence and hope to remove reconciliation requirements into the US for our IAS issues by 2009. We are addressing the issues that arise from auditing supervision in each other's jurisdiction. We are analysing the new challenges and opportunities created by the proposed transatlantic exchange mergers.

With Japan, our dialogue has accelerated in recent years. It has already brought two very fruitful results. First, there is an accelerated convergence between Japan accounting standards and IFRS. Then we have a common approach in term of securities markets regulation where our new directive MiFID and the new securities market law in Japan follow the same vein.

I was in China last May. The challenges and opportunities are enormous. I have been impressed by the remarkable dynamism of the Chinese economy.

That is why we need to further deepen our relationship in the area of financial services. And we are making good progress on that front. The spring meeting of the EU-China dialogue dealt with major regulatory issues in the banking, insurance and securities sectors.

We will deepen it by addressing the implementation of global standards such as IFRS or Basel II. I am also strongly encouraging our Chinese partners to pursue reforms of the financial sector, in particular as regards market access for foreign companies.

With Russia and India, we are in the discovery phase and have embarked on an exchange of information. The first meetings have taken place in June. But I can already feel we are going in the right direction, because we have created the desire to engage dialogue and there is a strong interest from the Russian and Indian sides to deepen it.

Conclusions

Our vision of the financial market integration in a globalised word is clearly to create a win-win situation. There will be rapid market growth. Sustained by the tremendous economic development of the emerging countries. Amplified by increased flows of trade. Stimulated by growing competition. International regulatory and supervisory bodies must accompany, not impede, market participants. They must foster innovation and reward flexibility and efficiency and maintain high levels of investor and consumer protection. We believe the optimal approach is to work towards and implement best-of-breed international standards and to be early adopters of them.

We believe in incorporating the global dimension into Europe's regulatory process in an integrated way. The dialogues we have started with the regulators of the world's most important financial markets is clearly aimed at building more consistent regulations around the world.

If we can improve global regulatory standards around the globe, your industries will enjoy stronger markets, where efficiency, innovation, cost-effectiveness and sound business models are rewarded.

I want the EU to be at the steering wheel, driving forwards safely, not in the back seat, shaken by humps, bumps and turns. This is my challenge. Yours is to become the largest financial services industry in the world – and spread outwards, globally, in the lead.