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From Quantity to Quality: The Future of Internal Market Regulation

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

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I am very pleased to be with you at the EPC this morning to talk about improving the regulatory framework governing the Internal Market. This is a topic on which I think we see very much eye to eye. I would also like to say a few words about the internal market in a wider context, notably that of my forthcoming visit to the US later this month.

But first I would like to say that it is with regret that I heard that Mr. Bruce Ballantine is not with us anymore. As the director for the EPC's Better Regulation programme Bruce Ballantine was a key driver behind much of the EPC's better regulation work over the past few years.

I am certain that he would have been pleased to see this Commission's commitment, with my enthusiastic support, to improving the legislative environment in the EU.

Improving the regulatory environment is a precondition for a better functioning Internal Market

The better regulation agenda is intimately connected to the Lisbon economic reform strategy which was relaunched at the Spring European Council at the end of March.

A fully functioning Internal Market is a prerequisite for growth and jobs which are at the heart of the Lisbon Strategy. Making the Internal Market function fully is a common responsibility which must be shared by all EU institutions and Member States.

As the Commissioner responsible for the Internal Market I want to ensure that Internal Market legislation is targeted at opening up markets that have been sheltered from effective competition. We should move away from ideological debates. Every society needs rules. If we want goods, services, people and capital to circulate freely among 25 Member States with their different legal and cultural traditions we have to have basic Internal Market rules.

Let us look at the facts. The Internal Market programme is by far the greatest better regulation exercise in recent history.

Compare doing business in the Internal Market today to what it was like only a decade ago. The lorries queuing up at borders ... the very high costs of telephone calls ... the lack of choice between airlines ...

In many areas there is now only a single EU rule that business needs to comply with, not 25, which makes life much simpler for all.

Equally important is the fact that the bulk of rules that businesses have to comply with, have their origins in the Member States. The UK Chamber of Commerce says that 62% of rules are home made. Similar studies show the corresponding numbers are 84% in the Netherlands and 92% in Sweden.

The better regulation agenda is about assessing whether legislation is necessary and where it is, ensuring that only good high quality rules are adopted.

The better regulation declarations that have been agreed in Commission Communications and Council Conclusions must be translated into actions that can yield positive benefits for European business – at EU and Member State level.

Good rules help businesses and citizens by removing obstacles, tackling distortions in competition and/or addressing market failures, bad rules are a drain on Europe's competitiveness and its job creation potential.

Improving the quality of existing legislation

No doubt some of the 141 directives and 24 regulations for which I am directly responsible contain provisions that are causing problems to businesses operating in the Internal Market. This is why a comprehensive multi-annual programme has been established to carry out regular monitoring and evaluation of existing Internal Market rules.

There are no sacred cows in this exercise. Where an evaluation shows that rules do not meet the quality criteria, I stand ready to do what is necessary to put them right.

Obviously this is an area where I will also need to hear from business and other stakeholders about problems they may have identified when complying with Internal Market rules. Perhaps from some of you who are present here this morning? I would be interested to learn about your experiences; what are the problems and what can be done to tackle these?

Work to simplify and codify existing regulation is already in progress. The Commission has more than 20 proposals with simplification implications pending now before the Parliament and Council. Unfortunately for business adoption of these proposals is held up by EU bureaucracy and procedures.

I want to explore possible ways to accelerate the adoption of simplification proposals. I have, therefore, volunteered a recent Internal Market simplification proposal on company law as a candidate for a fast track pilot project in the Parliament and Council.

Improving the quality of new legislation

While we have come a long way in completing the Internal Market there are still some gaps that need to be attended to. But make no mistake. I only intend to intervene and propose legislative measures when I am absolutely certain that this will be the best way to achieve the policy objectives. I will only adopt new proposals if they are targeted and proportionate.

Hearing the views and suggestions from stakeholders, and in particular businesses, is an essential part of preparing new policies and legislation. I will continue to ensure that stakeholders are consulted widely and that their opinions are considered. Proposals must be screened for unnecessary administrative burdens and bureaucracy.

Every single new proposal for legislation will be subject to a rigorous impact assessment before being forwarded to the Parliament and the Council.

Council and the Parliament need to prepare their own impact assessments when introducing significant amendments to Commission proposals. How often have we seen a well prepared and duly justified Commission proposal being turned into something completely different by the Council and/or the Parliament without any indication of the implied costs and benefits?

The regulatory culture in the Commission is changing. I welcome this renewed focus on quality. To accomplish the objective and improve the regulatory framework all institutions will need to pull in the same direction.

This is also the case for Member States' national administrations. When measures have been formally adopted these need to be implemented correctly and on time.

Currently the transposition deficit stands at 3,2 %. When Member States fail to implement in time they are not only breaching their legal obligation they also deprive their businesses and citizens of their Internal Market rights.

I hope that you will support us in our efforts.

Internal Market: the international dimension

When economies grow together legislators have to do the same. Regulatory spill-over cannot be avoided in a globalised world. We should try to minimise unwanted effects on other jurisdictions and work together to reap the great benefits that are inherent in cooperation. This is better regulation in action on an international scale.

The Commission is committed to deepening the dialogue we have started with the US. Since we started in 2002 what has come to be known as the Financial Markets Regulatory Dialogue has already come a long way. We have been able to defuse many of the problems associated with the Sarbanes-Oxley Act and also the Financial Conglomerates Directive. However, on the basis of a commitment to “agree-to-agree” we can further reduce the burdens for business.

Let me turn to four issues which are at the centre of our attention at the moment in the capital markets/financial services area and where I hope to make progress in my forthcoming visit to the US in April: convergence of accounting standards, deregistration of European companies from US stock markets, reinsurance collateral requirements in the US and governance of international standard setters.

Firstly, the crucial issues of **accounting standards**:

Since the beginning of this year, two major sets of standards are being applied globally: the US Generally Accepted Accounting Principles (US GAAP) and the International Financial Reporting Standards (IFRS), which are being applied by listed European companies since the beginning of this year. We have to find a way to free businesses which are active on both sides of the Atlantic from the costly requirement to publish their accounts according to both sets of rules. Up to now, US companies listed in Europe were able to publish their accounts in US GAAP. Under our new Prospectus and Transparency Directives, we must come to a decision about the equivalence of US GAAP to IFRS to allow them to continue to publish their accounts in US GAAP. The Commission will base its decision on a technical report by the Committee of European Securities Regulators (CESR) due in the summer.

But this is not a one-way street – it is only reasonable for European companies to expect that US regulators will make similar efforts to judge the equivalence of IFRS with US GAAP, and once this is true, to release companies reporting in IFRS from the burdens of converting standards (so-called reconciliation to US GAAP, which is very costly). We intend to work closely with the Securities and Exchange Commission (SEC) and standard setters to find a mutually acceptable road map through this problem. I hope to make further progress during my visit. It is about time the SEC set out a framework and a timetable.

Similarly, European industry has expressed growing concern about the **de-listing and deregistration** requirements in the US. Companies get the impression that entering the American capital market is like entering the famous Hotel California: “you can check in any time you like, but you can never leave”. To be fair, SEC is picking up on this issue now.

They have realised that rules like this, together with rising compliance costs mainly caused by the Sarbanes-Oxley Act, are very bad news for the competitiveness of the US capital market, discouraging companies from entering the US capital market in the first place.

The SEC has indicated that the rules on deregistration will be changed sometime in the near future. However, we are committed to working hard with them to ensure that these changes tackle the problem effectively.

A third issue for my visit is making a new start on the vexed issue of the requirements of European **reinsurers** looking to operate on the US market to post **collateral**. The current situation is unacceptable and does not even benefit the US market. Whatever the difficulties of the current structure of regulation in the US, I am convinced that progress is possible if the political will and imagination is there.

Finally, the **governance, financing, participation in and the accountability of international standard setters**, in particular the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB), is becoming a subject of heated public debate.

The Commission is working hard to influence the reform process underway within the International Accounting Standards Board (IASB). We are also looking very carefully at the arrangements proposed for the International Accounting and Assurance Standards Board (IAASB) which will elaborate International Standards on Auditing.

The governance of international standard setters is high on our agenda and will remain there in the coming months. During my visit to the US I intend to talk to Paul Volcker, the Chairman of the Board of the IASB Trustees to see how we can best do this. We will also raise these issues in our talks with the other American counterparts.

Thank you very much for your attention. I look forward to answering your questions on these and other internal market issues.