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## **The integration of the European financial markets and its importance for growth and economic development in Europe**

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Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort

"Association suédoise pour la promotion de l'investissement en actions"

**Stockholm, 22 January 2001**

Ladies and gentlemen,

I am delighted to accept this invitation to address you today. It is especially important to be here in Stockholm, when for the first time Sweden has the responsibility of holding the Presidency of the European Union. As many of you will experience, this is a demanding but also a highly rewarding challenge. The expectations for the Swedish Presidency are high. And rightly so. I know that the administration is well prepared and looking forward to these next six months.

It is also an honour for me to be here for the presentation of the 'Great Share Prize'. As I shall state later on, we shall never be able to achieve integrated financial markets without the participation of businesses and citizens throughout the European Union. Therefore, I strongly encourage initiatives like the one today, which increase the knowledge of, and interest in, financial markets.

My theme today is to explore "the integration of the European financial markets and its importance for growth and economic development in Europe". I want to look at the importance of financial markets for the EU's strategic goals, set out where we are today and finally give my view on the way forward, particularly over the next six months.

### **Why are financial markets important for the EU's citizens?**

Let me be frank about why we in the Commission see financial market integration as such a high priority.

A thriving European economy based on an integrated Single Market is in the interest of all EU's citizens because it means higher pensions, better investment fund returns and more successful companies, which in turn mean more jobs and less pressure on the public purse.

It was the reason why Heads of State and Government called last year, in Lisbon, for the Union to become "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion". They set a date, 2005, for full financial market integration.

It is also the reason why the Commission gives financial market integration such importance, critical to competitiveness and employment, and one of the top priorities of the Swedish presidency. Financial markets are the catalyst between the supply and demand sides of the economy, indeed the transmission mechanism for the whole economy.

On one side, we have entrepreneurs with innovative ideas, companies wanting to carry out research, develop new technology, expand into new markets. People with a vision of where they want to go, looking for capital on as cheap and efficient terms as possible.

On the other, we have people looking to invest their savings in the most effective and profitable way possible. The very people that an organisation such as the Aktieförbundet is actively encouraging.

And in the middle, we have financial markets, connecting them, putting people looking for money in touch with people looking for investment. In essence, there are three vital functions of the financial sector : allocation of capital, dealing with risk and the transfer of payments.

If financial markets work properly, capital will flow to its most efficient use and lower the cost of access to capital for companies. This will support entrepreneurs and help promote new technologies and innovation. Risks will be more effectively matched and spread, increasing financial stability.

And payments will flow easily. The bigger and more integrated financial markets we build, the more effectively risk will be pooled, the lower the costs and the higher the economic growth.

This isn't just a European Commissioner saying it. It is also one of the initial findings of the Committee of Wise Men chaired by Mr Lamfalussy and set up last July by the Ecofin - the Council of Finance ministers of the EU - to look at European Securities regulation. The Commission services are now carrying out a major study to estimate the size of those benefits, but all indications are that they are massive.

If the EU can get on top of two of its biggest challenges – developing the information society and integrating its financial markets – it will have taken a massive step forward, creating a sustainably strong European economy.

### **Where are we now?**

The Commission has been pushing for financial integration in Europe for a long time. And it has made, together with the Council and the Parliament, significant progress, providing financial institutions with passports, giving them the right to compete cross-border, creating common standards for the protection of investors across Europe, setting the conditions for a level playing field between European businesses.

To a large extent, businesses have responded to these opportunities and there has been an increasing number of cross-border mergers and takeovers within the Union, benefiting investors and consumers alike.

Look at the Stockholm Stock Exchange. As an exchange of a fairly modest size it has had a dramatic increase in trading volume over the last years. And it attracts comparably large volumes of cross-border trade. According to recent figures it is number six in the world when it comes to trading in foreign shares. In the EU it is outnumbered only by London and Frankfurt. I believe we all followed with great interest the OM Group's bid for the London Stock Exchange last summer. Maybe it would have been just too much for the British. What with the Swedes coaching not only their national football team but also their Stock Exchange ? This would have been too much after the invasion of the Vikings, Abba, Björn Borg...Sweden must be reasonable !

Technological innovation, market innovation and the Euro have created new opportunities for European businesses and investors. Whatever the pundits may have said about the weakness of the Euro the reality on the ground has been different.

The evidence from the markets has been that the Euro has radically changed the landscape by acting as the catalyst for change. It has enhanced the price transparency of all European markets. The Internet is driving in the same direction. Even in those Member States not yet part of the Eurozone, such as Sweden, many exchanges and investment service providers have moved to pricing in Euro. Today I am told that just over one percent of transactions in the EU are carried out in Euro.

In a year's time it will be one hundred percent in the Eurozone.

But these changes have also made it painfully clear that we are not yet where we want to be.

In spite of our efforts, the European financial markets remain fragmented. Prices differ widely for the same financial products depending on where they are offered. Supplementary pension funds cannot operate on a cross-border level. There is not yet a single set of accounting standards which can be used in each member state.

Issuers raising capital have to provide different prospectuses for different member states in different languages.

This forms altogether a cocktail of unnecessary, useless and costly complexity – Kafka plus the Tower of Babel, shaken and stirred. Consumers do not dare or do not have the knowledge to benefit from cross border services. And this means that Europe's innovators are often stifled through lack of cheap access to capital. The level of venture capital in Europe is still only one fifth of that in the US. That Europe's best companies often find it more profitable to list on American exchanges than to accept the costs and legal uncertainties of listing in several Member States is a story in itself.

And as I have just set out, all this means that Europe's employment is losing out, because of fragmentation, complexity and procrastination.

I shall now turn to what the EU is doing to overcome these obstacles.

### **How does the EU achieve an integrated financial market ?**

The European Union has started to react to this situation in three ways:

- by addressing the shortage of venture capital;
- by completing the integration of Europe's financial markets;
- and by ensuring that European measures deliver real results.

The Risk Capital Action Plan launched in 1998 is already starting to address the shortage of venture capital. By making it easier for institutional investors to invest in small enterprises. By making the rules on bankruptcy and insolvency more effective in order to give entrepreneurs a second chance. And by creating tax regimes that encourage investment and enterprise. This work has already proven beneficial but still needs to be stepped up to meet the deadline for completion of 2003 set by the Lisbon European Council last March.

The Financial Services Action Plan adopted in May 1999 sets out a road map to get rid of all existing barriers to the integration of European financial markets. It contains over forty measures, both legislative and non-legislative, which cover the entire financial services field, from securities and banking to insurance, as well as from major financial institutions to retail investors.

In Lisbon last year, the Heads of State and government set an ambitious deadline of 2005 for its full implementation. But even that may not be early enough and some are pressing for work to be complete by 2004.

So far, progress has been broadly satisfactory with ten measures already agreed. But we cannot dither : 2004 and 2005 may seem a long way off but in terms of the time that it takes to adopt EU law, they are too close for comfort. We have yet to see the quantum leap needed to meet the target date.

The Swedish Presidency comes at a crucial stage for the implementation of the action plan. The Commission is now bringing forward a number of key measures which your Presidency must address.

One of them is the proposal for new legislation on pensions funds, which was adopted last October by the Commission. The central aim is to ensure that pension funds have sufficient freedom to decide on how their assets should be managed, on the one hand, and that future pensioners get a high level of protection, on the other.

As very long-term investors, pension funds should have the possibility to invest significantly in shares and risk-capital markets and to manage schemes on a cross-border basis : studies show that a medium sized company operating in several Member States can save around one and a half million Euro a year if it can pool its pension arrangements in a single fund. This is beneficial not only to the fund itself but also to its affiliates, who can therefore get a higher pension when they retire.

The Commission is also about to issue a proposal for a single set of accounting standards based on International Accounting Standards (IAS). This will reduce costs for businesses and vastly improve market transparency. Better transparency leads to better price discovery. That in turn reduces hidden market distortions by allowing fair and easy comparison.

Two communications on investment services have recently been issued, designed to provide the starting point for an update of the Union's securities markets legislation later this year. The Union's legislation has to reflect the profound changes in securities trading infrastructure, exchanges, clearing and settlement systems, which can only accelerate under the influence of the Euro and new technologies. The new rules will aim to protect investors, promote orderly, efficient and integrated markets, and preserve financial stability. I certainly welcome contributions to this review from all interested parties, including market players and organisations.

Work on all these will need to go forward under the Swedish Presidency. But the Commission still has a heavy agenda for the coming six months :

- It will be issuing soon a proposal for new legislation on prospectuses, aimed at making it much easier for issuers to raise capital on a cross-border level;
- It will shortly be bringing forward a proposal for legislation on market abuse, too ensure that financial markets most effectively match issuers to investors and that investors have confidence in those markets;
- It will adopt a communication on E-commerce and financial services, building on last year's E-commerce Directive, to ensure that investors of all sizes are being properly protected, but in a way that does not stifle innovation and efficiency.

These and other proposals which the Commission will be putting forward in the next six months, together with thirteen existing proposals still on the table, mean major work for the Swedish Presidency in financial services. I honestly believe that they are critical for an integrated market, and critical for jobs.

But we also need to address the underlying issue of European regulation.

I referred earlier to the initial report of the Committee of Wise Men on European securities regulation chaired by Mr Lamfalussy, when I talked about the massive potential benefits of integration. This Committee – with your distinguished countryman Bengt Ryden as one of its members – underlined in its initial report in November last year that the current system of European regulation is inefficient for three main reasons :

- First, because it is too slow : from conception to implementation, directives may take over seven years. Over thirty for the European Company Statute ! Compare that to the speed of change in the markets;
- Second, because it is too rigid and does not really allow companies and markets the flexibility to adapt;
- Third, because it contains too much ambiguity and leads to inconsistent implementation.

In short, there is no point in agreeing common standards in legislation if they are not delivering the aims of an open and integrated Single Market that they were designed for.

The Lamfalussy Committee has sketched out a number of ideas in its initial report to deal with this situation, and I am looking forward to seeing its final report due on February 15th.

The Commission will back any measures that will make European regulation more effective and efficient, provided of course that they respect the institutional balance set by the treaty. We hope that the European Council in Stockholm in March will discuss the Committee's conclusions in depth and will give the Commission a mandate to come forward with proposals, to be put in place in agreement with the European Parliament.

Ladies and Gentlemen, the next year and in particular the next six months will be busy for us all. There is a lot to do. But the reason that there is so much on the agenda is because what we are doing matters and it is urgent.

Our bottom line is a thriving EU economy creating jobs for all. And to deliver that we need efficient and integrated European financial markets.

The European Commission will do its best. But we cannot do it on our own. This is what I want you to take home with you. You will benefit from these changes greatly. But you also have to help us to get where we want. Because at the end of the day the European Union is no more than its citizens and businesses.

And once again, I am confident that the Swedish Presidency will rise to the challenge.

Thank you for your attention.