SPEECH/05/389

Charlie McCREEVY

European Commissioner for Internal Market and Services

Regulatory and supervisory challenges of financial integration

Lamfalussy London Summer Dinner

London, 27 June 2005

Introduction

Chairman, Chancellor, Distinguished Guests,

Thank you for giving me the opportunity to speak at this important dinner – and particularly to Sir Callum and the FSA who are our hosts this evening. The last few weeks have been – to say the least – turbulent for the EU:

- the ratification process of the Constitution has suffered a number of serious blows,
- no decision has yet been reached on the budgetary framework of the EU from 2007-2013
- there is political uncertainty in several big Member States
- our economic growth in the EU as a whole is insufficient; too many people are unemployed, dispirited, fed up, and that is why many of them voted against the Constitution in France and the Netherlands.

But politics is often like that. Cyclical ups and downs. Out of adverse circumstances we must now find the leadership, courage and strength to build renewed common purpose. In every crisis there is an opportunity. We need to explain more; regulate less, but better; and, particularly, collectively find ways to generate more growth in an increasingly global market.

So why is this is a good opportunity to speak about "regulatory and supervisory challenges of financial integration"? Because financial services and capital market integration is one of the main roads to improved competitiveness for the EU financial sector and the European economy as a whole.

By financial market integration I mean integration that breaks down cross border barriers – allowing firms to do business as effectively as possible throughout the EU with a passport regime. I mean an open, transparent, pro-competitive integration process – making the EU attractive to third countries as well for raising finance. I mean a well regulated EU market with proper levels of prudential control. And I mean an integrated EU capital market that will benefit everyone – including all those who seek mortgages, savings products, insurance and bank accounts. Our job is to drive down safely the cost of capital for all – in order to generate GDP multipliers. This is no easy task. But it is essential. You are all at the heart of this. The alternative is simple. Higher cost; fragmentation; no benefits.

This evening, I would like to say a few words about our financial services policy for the coming years. I would like to focus in particular on the importance of supervisory cooperation and convergence for promoting financial integration.

Green Paper on Financial Services

In financial services we have made big steps forward over the last few years. The Financial Services Action Plan has put the framework in place that allows business to increase efficiency, produce more growth and create extra jobs.

At the beginning of May, the Commission presented its Green Paper on Financial Services Policy 2005-2010. This paper contains our initial policy ideas for the next 5 years. It puts the focus clearly on consolidation – encapsulating better implementation, consistent enforcement and permanent evaluation. Now, we need to make the framework which we have put in place work better.

Only if we can ensure effective transposition of European rules into national regulation and more rigorous enforcement by supervisory authorities will we be able to reap the full benefits of integration. The Commission will carefully monitor these rules in practice.

We will check their impact on the European economic sector and make the necessary adjustments where they are needed. The transposition record so far by the Member States is disappointing, bordering on the lamentable.

There is also some unfinished business. The Capital Requirements Directive, the Company Law Directives, the New Legal Framework for Payments and the Solvency II framework. They will help to modernise the prudential framework for the banking and insurance industry and make them more competitive. Improved company law and good corporate governance practices throughout the EU will enhance the "real" economy by encouraging investment. A single payment area will bring real and tangible benefits to the European consumer and help open the borders in the retail area.

We have identified asset management and retail financial services as areas where we think that further integration could be beneficial. However, there will be extensive bottom up, ex-ante consultation and thorough impact assessments before any proposals for legislation are put forward.

We must all of us try to cut back and cut down further regulation unless the case is sound from every angle. We must not squeeze out innovation and risk taking from our markets.

Supervisory cooperation and convergence – the Lamfalussy structure

It is clear that the Commission cannot realise the Green Paper's priorities of implementation and enforcement on its own. We need political will and the help of Member States for implementation and effective enforcement at the national level. Moreover, we need the help and commitment of European supervisors. Day-to-day application of rules needs to be assured in a coherent manner. Yet, supervisory powers differ strongly between Member States. As a result, there can be as many supervisory practices as there are supervisors in the Union, and presently there are 52!

No doubt this causes additional regulatory burdens for financial institutions and leaves room for regulatory arbitrage particularly as the number of systemic cross-border financial institutions is increasing. In my view, cooperation between Member States' supervisors with a view to achieving convergence is the only efficient way to address this challenge. Now that European companies increasingly demonstrate a "European reflex" in their business decisions, European supervisors also need to develop this "European reflex" and think and act in pan-European dimensions. Clearly institutional boundaries have to be respected, but there is much to do to enhance cooperation in a practical way. Evolutionary, sensible measures are what is needed.

So we need to find the most efficient working tools for achieving supervisory convergence while reducing the regulatory burden. I can imagine a number of different tools: mediation mechanisms, common training and exchanges of personnel, exchange of information and expertise, setting up common reporting formats and one-stop shops for reporting, delegation of powers between supervisors and so on.

Yes we also need to find to find the best ways of effective cross-sector cooperation between supervisors. Cooperative mechanisms are needed between the sectoral committees, as financial services become more multi product and heterogeneous. Yes, there is a need to achieve better oversight and a more effective regulatory environment for financial conglomerates. This is also necessary to establish a level playing field between institutions from different sectors often doing similar jobs.

However, there is one important issue that needs to be addressed in the short term if the Constitution is not ratified before end 2007 – and the prospects for ratification are bleak at the moment. What I refer to is the "call-back" option of the European Parliament for delegated decisions in the Lamfalussy process. The Constitution would have finally put the European co-legislators – the Council and the Parliament – on an equal footing. However, if there is to be no Constitution there will also be no call back option for the European Parliament. If this is not sorted out soon we might expect some serious difficulties from the Parliament – also regarding the continuation of delegated powers to the Commission in the Lamfalussy process.

That is why we cannot wait until 2007 when the sunset clauses kick in. In the present uncertainty we need to look for alternative solutions now, solutions that take into account the Parliament's legitimate requests. The recent report by the Inter-Institutional Monitoring Group on the Lamfalussy process shows that it has operated well. We need to build on this. I want to start a dialogue now with the Member States and the European Parliament to put in place the mechanisms necessary that will allow the Lamfalussy process to continue to play its role in facilitating and speeding up European integration.

External Dimension

Before I finish I would like to say a word about the external dimension of regulation and supervision. Financial integration does not stop at the EU borders, and EU regulation and supervision cannot either. To the benefit of our economies and the consumers business keeps on globalising and integrating world-wide. Legislators, regulators and supervisors have to keep up with this development.

The EU-US summit on 20 June has issued another declaration calling for more integration across the Atlantic and has identified a number of areas where we should move forward: accounting, insurance, deregistration rules etc. Since April this year we already have a roadmap on accounting convergence. Over the coming months, Europe must show it can deliver on effective application and enforcement of IAS. This will be one of the first tests for our supervisory structures. It is a test we cannot afford to fail. If we do we will lose the prize now within our sights of reducing costs for business through recognition of equivalence of accounting standards. In a globalised economy Europe has to act in a global way – and lead.

Conclusion

Ladies and Gentleman, Europe is in a difficult period. But I believe there is a clear and promising way forward: we have to reinvigorate the European economy by promoting its integration, by shedding unnecessary and outdated regulation and by opening up its borders to the rest of the world. This will create a new dynamism, more growth and more jobs and will help us overcome the problems we currently face. Integrating capital markets is a sine qua non in this process. That is why your work is so important. Your work is at the heart of whether we can generate an EU in which we can regenerate enthusiasm, belief, solidarity – unleashing the irrepressible dynamic forces of the EU. Thank you for your attention.