EUROPE'S SINGLE CAPITAL MARKET

Tuesday, 26th November 2002, Bibliothèque Solvay, Brussels

CONFERENCE REPORT

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CONFERENCE PROGRAMME

Keynote Address :	**Pedro Solbes**, European Commissioner for Economic and Monetary Affairs
09.00 – 09.15	

Session 1 :	**European Financial Market Reform – Reality or Myth?**
09.15 – 10.15	

The EU's Action Plan and the Lamfalussy Report have accelerated the creation of a single European financial market – but is this enough? Financial markets integration is expected to yield significant improvements in competitiveness and innovation and the euro has added fresh impetus for change. Easier and cheaper access to capital is also the key benefit that business needs from integrated financial markets - If it is achieved, new company start-ups and job creation will be boosted. Do we have the right agenda, and the right culture in Europe, for dealing with the obstacles to a deep and liquid European capital market? And do we have the right infrastructure to make it work? Do EU Member States – present and future - have the political will to make the necessary changes? Will they genuinely allow market-led solutions, both in supplier organizations and markets? How far has financial market integration already gone, and at what point can we declare a genuinely integrated market place?

Moderator :	**André Villeneuve**	Chairman of Instinet Global Services
Speakers :	**Mark Garvin**	Chief Operating Officer Europe, JP Morgan Chase
	Alexandre Lamfalussy	Chairman of Lamfalussy Committee of Wise Men
	Olivier Lefebvre	Executive Vice President and Member of the Managing Board of Euronext
	Theresa Villiers	MEP, Committee on Economic and Monetary Affairs
	Martin Wheatley	Deputy Chief Executive, London Stock Exchange
	Sir Nigel Wicks	Deputy Chairman of Euroclear
	David Wright	Director Financial Markets, European Commission, Directorate General for the Internal Market

10 .15 – 10.30 Coffee break

Session 2 :	**Towards an Integrated Capital Market in Europe & The Eurofi 2000 Report & Press Conference**
10.30 – 11.45	

Looking ahead to the next phase of EU work on integration of financial markets, do we have the tools and structures available to us to make the necessary progress? With the EU embarked on coordinated rule-making and supervision of financial markets, to what extent will Lamfalussy II reinforce the move towards a European system of regulation and supervision? How can overall European supervisory coordination be improved across markets/sectors? What message should be sent to the Convention on the future of Europe as it plans for revision of EU Treaties? What conclusions can be drawn from the wide-ranging survey of financial leaders carried out by Eurofi.

Moderator :	**Jacques de Larosière**	Honorary Governor of Banque de France, Advisor to the Chairman of BNP Paribas
Speakers :	**Edmond Alphandery**	President of Euro 50 Group, Chairman of the Supervisory board of CNP Assurances and former French Economy Minister
	Claude Bébéar	Chairman of the Supervisory Board of AXA
	Antonio Borges	Managing Director and Vice Chairman of Goldman Sachs International
	Philippe de Buck	Secretary General, Union of Industrial and Employers' Confederations of Europe (UNICE)
	Robert Goebbels	MEP, Committee on Economic and Monetary Affairs
	Daniel Lebègue	Chief Executive Officer, Caisse des Dépôts et Consignations
	Rainer Masera	Chairman of Sanpaolo IMI

11:45 – 12.00 Coffee break

Session 3 :	**Regulation, Supervision and Investor Protection Is there a "European Model" in sight ?**
12.00 – 13.15	

Will a future European model be market-based or regulation-based, or something else? What is the American influence and what transatlantic lessons can be drawn? Is Europe in good shape to realize its competitiveness agenda? Can we identify likely developments in markets over the next period, and therefore plan for the regulatory and legislative framework alongside them? Europe is building its own model for a single financial marketplace, and can thus learn from the mistakes of others. What are the implications of enlargement for the European structures and legislative processes of the future? What is the role of market practitioners in the process?

Moderator :	**Antonio Borges**	Managing Director and Vice Chairman of Goldman Sachs International
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	Hervé Carré	Director, European Commission, Directorate General for Economic and Financial Affairs
	Giorgos Katiforis	MEP, Committee on Economic and Monetary Affairs and Member of the Convention's Præsidium
	Sir David Walker	Chairman of the London Investment Banking Association
	Eberhard Zinn	Member of the Board of Management, Bayerische Landesbank

13.15 End of conference and Lunch

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KEYNOTE ADRESS: PEDRO SOLBES, EUROPEAN COMMISSIONER FOR ECONOMIC AND MONETARY AFFAIRS

Let me start by thanking Eurofi and the Euro 50 Group for inviting me to speak at this high-level conference. I note that there are three themes on the agenda. First, what has been achieved so far in terms of reform and integration of EU financial markets; second, what financial professionals think will be necessary to do to complete the process; and, third, the right European model for regulation, supervision and investor protection. These are very stimulating and relevant themes for policy makers.

I will begin my brief remarks on the first theme and try to answer the question:

1) Is the European financial reform - Reality or myth?

What can we say about the EU financial reform so far? Let's start from a simple observation: in recent years there has been a visible acceleration in the development and integration of EU financial markets. European money and securities markets look very different compared to even few years ago. The unsecured money market is fully integrated in the euro area. Cross-border activity has generally increased in all markets. Consolidation has taken place and is still taking place in market infrastructures and among financial intermediaries. Investors are more and more looking at Europe as a single investment area. They are ignoring the country dimension and adopting a sectoral approach.

In my view, there are three main factors behind such developments:

1. **The first factor is globalisation:** the liberalisation of international capital movements, financial deregulation and advances in technology.
2. **The second factor is the adoption of the euro by twelve Member States.** The euro has removed the most important remaining non-tariff barrier to cross-border investment and exchange of financial services.
3. **The third factor are the advances in creating a common regulatory framework across the EU,** as part of the effort to complete the Internal Market in financial services. This effort at the EU level has been accompanied by important financial reforms in Member States.

These three factors are interrelated. Before January 1999, the need to operate in many national currencies was the major obstacle to financial integration in the Union. The presence of a sizeable exchange risk limited the attractiveness of cross-border investment and reduced the incentive to proceed with regulatory harmonisation at the EU level. Furthermore, it dampened competitive pressures on Member States' home markets. The euro has greatly reduced exchange risk. At the same time, it has highlighted the opportunity costs of the remaining sources of fragmentation in the system. The recognition of these costs has resulted in a strong impetus to financial reform.

But let me be a bit more explicit about these opportunity costs. About a year ago, the Commission contracted out two studies on the impact of financial market integration on economic performance. The intention was to have two complementary studies adopting two different methodological approaches.

The results of the first study were made public already a couple of weeks ago, and you might have read about them in the financial press. Examining the potential benefits arising from the integration of EU securities markets, the researchers concluded that fully integrated markets would lower the cost of capital for EU companies by about 0.5 percentage points. This would raise the level of EU GDP by about 1 percent in the medium term.

The results of the second study are now also available. In this study, the analysis was based on the relationship between integration, financial development and growth. The study simulates a scenario in which EU manufacturing companies would have the same access to finance as US companies. Such an improved access to finance could lift the annual growth rate of manufacturing output by around 0.8 percentage points.

In short, these studies confirm what has been well understood for quite some time: financial reform can significantly raise potential output. Efficiency gains in the financial system are bound to improve economic performance via an increase in capital accumulation and a higher productivity of capital.

Noting that financial integration has been an EU objective already since the 1970s, and was also a prominent part of the Single Market Programme in the 1980s, one would conclude that these potential benefits are recognised by policy makers.

2) But why, then, in almost three decades we achieved only partial progress towards this objective? Why does resistance to reform and integration remain so strong ?

The main reason is probably that national financial systems in the EU and their regulatory systems have developed independently from each other, assuming very different configurations. These regulatory systems reflect historical "accidents" or policy initiatives. Even more often, they are related to the intrinsic features of each country, first and foremost their legal systems and traditions.

By and large, national financial systems are efficient from Member States' domestic perspective. However, the need to operate across so many different national-based structures creates major inefficiencies for the pan-European investor and consumer. As a result, cross-border financial activity in the EU is constrained and important gains in financial efficiency are foregone. Inevitably, the existence of long-established national financial structures creates a host of vested interests, which make it difficult to agree on EU-wide reforms to remove barriers to integration. National governments, market operators, regulators, supervisors, all have an incentive to promote their own model. This is partly done out of 'philosophical' conviction, partly out of natural resistance to change, but also partly out of fear of losing the competitive position gained within that specific model.

Against this background, the indisputable acceleration in financial reform in recent years is all the more remarkable. Thirty out of the original forty-two measures of the Financial Services Action Plan have been adopted. Work on the others is proceeding rapidly. Five more measures have been added to the list recently.

As you well know, the adoption of several important items on the list has been, and remains, a very difficult process. It is enough to mention the directives on take-overs, market abuse, prospectuses. The new Investment Services Directive and the Capital Adequacy Directive are other complex pieces of legislation which will certainly be the object of long discussions in the competent institutions. In other cases, agreement has been easier to reach, although admittedly under the psychological impact of a situation of crisis. The best example is perhaps the regulation on the accounting standards.

Moreover, the effectiveness of the new legislative framework put in place following the indications of the Lamfalussy Committee of Wise Men will be soon put to test. The framework represents a dramatic innovation in the way we regulate. Expectations are high on the greater adaptability and consistency that it should bring to the adoption and implementation of regulation.

To conclude on this first item: it seems to me that while much progress has been made, further progress is needed to close the gap between the broad political commitment to financial reform and integration expressed by the European Council, and the pace of progress at the lower level at which individual measures have to be adopted. Closing this gap will be crucial for the speedy achievement of the objectives set up in the Financial Services Action Plan. The reward will be significant economic benefits from more efficient, safe and integrated financial markets.

3) A European model for financial regulation, supervision and investor protection?

Let me now turn to the European model for regulation and supervision. It is my view that the ongoing re-regulation of the EU financial system not only will foster integration and efficiency but will also promote investor protection and systemic stability. Investor protection will be improved by more modern norms, which will be applied more consistently across the EU. Financial stability should be enhanced in an integrated and larger market, as this will be better able to withstand external shocks.
However, ever since the euro has been in sight, concerns have been expressed about the appropriateness of the existing, nation-based, framework for regulation and prudential supervision. In particular, there are concerns about whether in an increasingly pan-European financial area, a supervisory structure based on national supervisory authorities and cross-border co-operation can effectively prevent financial crises, and properly manage them whenever they happen. Subsequent work, notably by the Brower Group of the EFC, has been reassuring in this respect. So has the experience so far.

However, we must also admit that the current system has not been put to a proper test. First, there are still very few pan-European financial institutions, though cross-border links have certainly increased. Secondly, until last year we have been in an expansionary phase of the cycle: we all know that the real strains usually appear during protracted economic downturns.

To strengthen the institutional structure, the Economic and Financial Committee has recently issued a report on financial regulation, supervision and stability. The report has been endorsed by the Ecofin Council. In essence, the Committee recommends the extension to all financial sectors of the four-level "Lamfalussy framework" already implemented for securities. The existing banking and insurance committees would be reorganised into level 2 and level 3 committees. Four level 2 committees – for banking, insurance and pensions, securities and financial conglomerates - would act as regulatory committees and provide advice to the Commission. Level 3 committees would have several tasks. First, to provide advice to the European Commission in particular in preparation of its level 2 regulatory issues. Second, to promote a consistent implementation of EU directives and supervisory convergence. And , third, to provide a network to enhance day-to-day supervision and exchange of supervisory information.

While falling short of a centralisation of regulatory and supervisory activities at European level, the proposal represents a considerable rationalisation of the current structure. It has been generally well received by industry. However, it will have to be seen how the European Parliament will react to the prospect of an extension of the Lamfalussy procedure.

4) Conclusion :

To sum up, I think that much progress has undeniably been made in reforming and integrating EU financial markets. Clearly, much still remains to be done, and agreement on specific measures is often difficult to reach. I am nevertheless confident that the economic case for financial integration is so compelling that Member States will strive to complete in time and in the best possible way the Financial Services Action Plan, and the other measures to which they have committed.

Thank you for your attention.

SESSION 1 : EUROPEAN FINANCIAL MARKET REFORM – REALITY OR MYTH ?

Introduction :

The EU's Action Plan and the Lamfalussy Report have accelerated the creation of a single European financial market – but is this enough? Financial markets integration is expected to yield significant improvements in competitiveness and innovation and the euro has added fresh impetus for change. Easier and cheaper access to capital is also the key benefit that business needs from integrated financial markets - If it is achieved, new company start-ups and job creation will be boosted. Do we have the right agenda, and the right culture in Europe, for dealing with the obstacles to a deep and liquid European capital market? And do we have the right infrastructure to make it work? Do EU Member States – present and future - have the political will to make the necessary changes? Will they genuinely allow market-led solutions, both in supplier organizations and markets? How far has financial market integration already gone, and at what point can we declare a genuinely integrated market place?

MODERATOR : ANDRE VILLENEUVE, CHAIRMAN OF INSTINET GLOBAL SERVICES

First, I would like to thank Eurofi 2000 Association and all the partners, the Euro 50 Group, the European Commission, Houston Consulting Europe and Instinet Global Services, for having reminded us how necessary is the integration of European financial markets, and what remains to be done for achieving it, going back to the basics. A lot has been realised, and I think we can all agree that a lot more needs to be achieved.

The 7 speakers of the first session will concentrate on 3 particular questions :

1) Do we have the right agenda ? i.e. what are the priority obstacles to remove in order to achieve an integrated market in Europe ?
2) Do we have the right infrastructure and processes to deliver progress ?
3) How can we measure the progress that has been made towards integration ? What benchmarks should we use ?

MARC GARVIN, CHIEF OPERATING OFFICER, JP MORGAN CHASE

Some figures from the European Central Bank about the US and EU bond markets underline the enormous potential for growth in Europe if we get it right in achieving a single financial market

- In 2001 87% of all corporate borrowing in Europe was made in the form of loans from banks, compared with 50% in the US.
- Equalizing that gap – without even allowing for growth – would lead to 1 trillion Euros in new bond issuance in the Euro area

These figures prompt me to make three observations about how that gap might be closed:

1. It is clear that - of all the work underway to integrate, develop and energise European markets - one of the fundamental drivers to this is **Pension reform**. This will lead to the creation of greater long-term liabilities, more issuance and, as a result, grow the capital markets

2. EU capital markets are considerably less mature in the way they analyse credit and the way they invest. EU investors have less of an appetite for a weaker range of credits – for example, in the US Triple B credit is popular with investors, whereas a similar type of investor in Europe tends not to be happy with anything less than A rated credit. This is particularly relevant for new entrants into markets and for innovation by firms who are not long established.

3. and following from the above - **there is no return without risk**. A well-regulated market can and should never eliminate all risk from the system – unless you want lower returns for everyone. And this philosophy is integral to real growth in the capital markets. (It goes without saying, of course, that this doesn't mean doing away with sensible and proportionate protection and regulation for investors)

From a practitioners point of view, we have an interest in achieving this integrated single market because it means business opportunities, but it also represents a real win-win for everyone – investors, issuers and intermediaries.

So how well is Europe doing so far in its journey towards these goals?

It is clear that we are still some way off but I don't want to suggest somehow that the comparison with the US markets means that their model of a single financial market is appropriate for Europe. The story of the hare and the tortoise comes to mind in characterising the two markets:

And whilst it's too early to judge the overall success of the Financial Services Action Plan, there is evidence of solid progress :

- The agreement of the **Lamfalussy Process**, which was a sensible, creative response to the complexity of creating legislation for securities markets
- Agreeing a **Directive on Collateral** which should sort out the plumbing and legal infrastructure required for an integrated capital market
- And a revision of **the Investment Services Directive**. Under the existing ISD, a firm doing business in 15 EU Member States would need to meet 15 different standards. The ISD revision should create a sensible common standard across the EU allowing us to do business more quickly and with less cost.

The ISD had been high on my list of the good news about Europe's progress so far. A model consultation process had been followed, and, although there were some issues, we had high hopes that the Directive would be that excellent example of legislation that really brings the market together, reduces cost and increases competition. The last-minute changes, concerning **pre-trade transparency** which have been made to the proposal and the way in which we understand they took place is very disappointing - particularly coming at the end of such an encouraging consultation process.

Another example of the same problem lies in the **Prospectus Directive.** The initial draft would have done nothing to advance the cause of an integrated single market in Europe - in fact we believe it would have had a negative effect. The final outcome, after political compromise, looks likely to be much better than it could have been, after a huge amount of effort, but the remaining limits on choice of competent authority for issuers still risk disrupting markets that are currently working well.

We should ask ourselves whether it was really worth the trouble and if we have really made it cheaper and easier for companies to raise money across Europe?

However much more needs to be done though it is clear that there are two myths that we can do with out – especially at a time of economic uncertainty and lack of confidence – That either the US or EU has all the answers for creating and sustaining efficient capital markets ; Or that Europe can achieve a European scale financial market by letting so-called "reform" measures be used to reverse existing liberalisation and flexibility to develop market-led solutions.

We should also remind ourselves that procedural, institutional improvements do not of themselves deliver a single market and that these debates, important as they are, should not distract us the from real work of creating a single market. **One area of debate which really would be a significant distraction at the moment is that of the single European regulator.** With so many different models and practices of regulation across the EU, it seems extraordinary to even contemplate imposing a single regulatory super-structure on the top without a convergence of market practices.

The effort and expense imposed on market practitioners by the creation of the FSA in the UK was clearly worth it in hindsight, now that we have a comprehensive and well-functioning regulator in the UK. But if there is no compelling argument for having a European wide-regulator, and certainly not before the single financial market is even completed, then – as someone who was involved in the 4-year UK process - I would not recommend to anyone that they submerge themselves in the mire of creating and converging institutions across 15 or even 25 countries. This is surely a debate for another day.

So how we will know when we have got a single market ? Some recent work in London came up with 8 different **criteria for a real single financial market**. Highlighting just two, for example:

- The freedom of market participants to operate in the systems of all member states
- End users to be able to invest or raise funds wherever they choose

demonstrates again just how much still needs to be done.

In summary I suggest 5 priorities:

1. Grasp the opportunity for major Pension reform – a key to future success of EU capital markets
2. Focus on implementation of Financial Services Action Plan against its objectives and see that it is well executed not rushed or compromised
3. Recognise that a collective effort is needed to break-through the obstacles to a single market, but that Member States are crucial to its success and should give vocal and practical commitment to this task.
4. Avoid last minute retractions, negative political compromise, short-term protectionist and anti-competitive defences that are unnecessary and contrary to a well-functioning market
5. Do not allow institutional debates to distract us from achieving the goal of a truly integrated financial market

ALEXANDRE LAMFALUSSY, CHAIRMAN OF LAMFALUSSY COMMITTEE OF WISE MEN

Let me say a few words about how I see the implementation of the four-level approach to securities markets. Perhaps judgement should be suspended for at least a year, because the techniques are not easy to use and also bad habits die hard

The heart of the challenge is consultation. Consultation is a very difficult exercise, because it is not simply about asking questions. It is a process of dialogue. It is also a process that is time consuming and very labour intensive. It always raises the question of arbitrage between good end results and speed. We need both. We need time in order to get the right balance.

The major concern about consultation is that the result or the input of consultation into the quality of the regulation depends on both those who consult and those who are consulted. Those who consult are basically the Commission and CESR, who do a good job and well assume a heavy burden. At the same time, we also need the contribution of those who are consulted. And one problem that we do have is that the responses by those who are consulted are not well distributed.

There is absolutely no problem with the responses given by the major market players. They respond quickly, direct to the point...But there is a lack of answers on behalf of those who are not really visible, mainly retail investor, who are poorly organized, not respond well , or respond too late. This is unbalanced, and we need a deeper involvement of everybody interested, to guarantee the quality of the regulation.

The second remark I would make is about the extension of our 4 level approach to banking and insurance. This is a serious enterprise, which is needed for many practical reasons. The most practical reason – I'm taking the banking example – is that there's just no way of implementing Basel II in Europe without having a distinction between level 1 and level 2. It's practically impossible to do it within the current regulatory process.

At the same time, the problems raised with the extension of the process to banking are very different from those raised by securities markets regulators. The focus of securities market regulators is not on prudential issues. They want to establish a level playing field, a well functioning orderly fair, transparent market… That's not basically prudential. On the other hand, the core mandate of regulators for banking are on the fill of prudential issues. We have a very long experience in prudential supervision of banks, and cooperation among supervisors. That goes back for the last thirty years, and had been done with the help of the Bank for International Settlements. That raises very delicate issue which is under discussion, concerning the participation of central banks in this process. I think we have to leave the kind of situation which we have in Europe, in which some of the central banks are regulators or supervisors of banks and others are not. All of them carry a responsibility for macro prudential supervision, for ensuring the fundamental stability of the system.

To reconcile these organizations and differences will take some time, and I hope that the decisions which will be taken by the ministers after the period of consultation will be the right ones.

Just one word on the question : Do we have the right infrastructure and processes to deliver progress ? I have very serious concerns and worries about the post-trading and trading infrastructures. I think the development in the trading part has been rude, we do have major problems and those you can see basically are the relatively high costs of cross-border post-trading operation (costs comparisons : multiples go from two to ten between operations inside Europe and on the American markets). To have such differences, there must be barriers that have to be overcome, and there may be lack of competition.

OLIVIER LEFEBVRE, MEMBER OF THE MANAGING BOARD OF EURONEXT

1) Do we have the right agenda ?

Yes, I believe we have the right agenda. But, as we have seen in the discussion around the ISD, we are sometimes distracted from the key debates by other debates which are probably not the top priorities. If we look for example at the equity trading in Europe, we would agree generally that all national markets taken separately are reasonably efficient. The key priority there is to make the cross-border trading of equities as efficient as the national trading. And when we look at the discussions around the ISD, we did not concentrate that much on this issue, but rather on the possibility - the pros and cons and the risks -, of another type of fragmentation of the equity trading in Europe through the competition between the various trading venues.

2) Do we have the right infrastructure and processes to deliver progress ?

Let me differentiate between the rule-making process and the supervision organization. Concerning the rule-making process, with the so-called Lamfalussy process, we have a tool that should deliver speed, proper consultation and quality regulation. It is still too early to judge if indeed we reach these objectives because we have not yet a full experience of regulation through the process. However, the first signs are positive and encouraging. One advantage of the consultation is that, for example around the ISD, all market participants are forced to talk to each other, which helps understanding the various backgrounds and models that are in place in the various national markets.

3) Do we have the appropriate supervision system, or in other words do we need a European SEC ?

I would tend to answer in a very balanced way. First of all, there is a growing gap between the institutional reality and the business reality. But at the same time we are probably not ready to gp to European SEC.
Euronext is a cross-border market operator and we can operate markets on a cross-border basis thanks to the willingness of the national regulators to cooperate. This works now because we operate in 5 jurisdictions. We would face much more difficulty if we would operate in 15 jurisdictions, or even in 25. So we can see the tension between the objective and the type of institutional arrangement which is in place today.

I think that we are not able today to define a European SEC, and it would probably be a mistake to distract the debate in that direction. We should probably look at a process similar to the process we adopted for the monetary union, properly defining what the organization of a European system of supervisors should be. If we want to have central institutions, their tasks should be described as well as the conditions under which they should operate.

4) How should we measure progresses ?

It is not an easy task to measure integration, and integration is not the end objective per se. The end objective is to benefit from integration, and in particular to improve growth in Europe, notably by reducing the cost of capital for the issuers and European companies. Maybe we should look at the evolution of the cost of capital. In this respect the situation today is probably a source of concern for if we look at the relative cost of capital, for example of large blue chips versus small and mid caps in Europe, we have seen a relative deterioration of the position of small and mid caps over the last years, for example in terms of reduction of coverage by analysts.

THERESA VILLIERS, MEP, COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Do we Have the right agenda ?

On the first question – do we have the right agenda - I think the answer is yes. Much of the work has been done by European hstitutions is the appropriate way to reach an integrated market of financial services.

But I do have reservations about that. There is still too much concentration by some, in part in European Parliament but also in some departments of the Commission, who seem to be convinced that it is possible to remove all risk for consumers and investors. And what we heard this morning is this is simply not possible, and regulation that seeks to try to remove all risk for retail investors simply won't work.

There's also a lack of political willingness of member states to achieve this. I think there is still protectionist behaviours from some of the EU member states. That is preventing us from really focusing on the real priority for creating an integrated capital market.

Another priority, which is not much discussed for the moment within EU institutions, is to enhance the dialogue with the USA, both in order to assist supervision of companies operating in the EU who have connections with companies in the US, and in order to facilitate access of EU firms to US.

I think it would be a very good move across Europe if we had more organizations made small investors, small shareholders, and small businesses, to give that particular perspective on a single capital market. I think the ISD consultation was a good start, and the original draft Commission directive was a good one. But the Commission conducted a consultation, and then effectively tore up the results at the last minute by a pre-trade transparency requirement.

Other priority for legislation is to deal with the characteristics of the different markets. For example we need a prospectus directive which does take into account that bond markets operate differently from equities markets. We need an ISD that takes into account the fact that the derivatives markets operate differently from the equities and the bond markets.

Do we have the right infrastructure ?

I think that we have a start, that the increased concentration is positive. I think that increased and more formalized regulatory cooperation between national institutions is very positive, and that the Lamfalussy process facilitates creating and updating technical measures, and needs to be extended to banking and insurance sectors.

I don't think we need a single regulator. The concentration of regulation in a pan-European regulator would be positively frightening. We need a regulator which is close to the market and understand the markets. The current differences on national markets would make the job of the pan-European regulator impossible, and the SEC is not a model for us to follow for the moment.

Lastly, on benchmarks, I think the benchmark should be simply how much cross-border retail trade is there. At the moment that's very little. If we succeed in creating a single capital market that should be much more. How much trade is done in the internet between the different EU countries, how consistent are regulatory practices, and interpretations of EU rules ? Do funds still have to deal with 15 different sets of rules ? And have all directives been properly and consistently enforced across different EU member states ?

When we have positive answers to all these questions, we will have succeeded in creating an integrated market.

MARTIN WHEATLEY, DEPUTY CHIEF EXECUTIVE, LONDON STOCK EXCHANGE

1) Financial Services Action Plan - do we have the right agenda and in particular what should the priorities be?

The agenda as it is set out at the highest level in FSAP is the correct one - but we are increasingly finding poor articulation of the agenda through the legislation.

The Prospectus Directive provides a good example of an admirable goal - the creation of a passport for issuers that allows the offer of securities across the whole EU on the basis of a single prospectus.

However, the directive that is now on the table means that, should a company wish to IPO on a market other than its home market it will have to appoint two sets of advisers, one to handle the approval of the prospectus and ongoing relationship with regulator and one to handle the company's relationship with the market that it wishes to IPO on. It should be noted that, as advisers fees represent the most significant cost to gaining a public quotation, this will mean that only the very largest companies will be able to choose which market to list on.

A further clause means that once a company has admitted to trading on a particular exchange - other exchanges are outlawed from trading that companies shares for 18 months - a completely unnecessary restriction of competition that will serve to entrench the position of national exchanges even further.

For the London Stock Exchange which has to compete globally including with the NYSE, this means we have to direct our IPO marketing towards Australia, Israel, India, Hong Kong… anywhere in fact other than the EU, where we are not allowed to compete. This strikes me as being a rather perverse outcome from a directive aimed at integrating European markets.

The Investment Services Directive is another example: the goal is to create a genuine single market in financial services promoting the competition between trading venues and market participants that would reduce transaction costs paid by investors, these costs are far more significant for retail investors than dealing spreads.

However, the Commission's proposals include a requirement on any firm who trades for own account to display quotes in retail size. This means that a firm like BNP Arbitrage who's business is pure proprietary trading, and which in London is done exclusively through the central order book will be affected by this measure. A firm which currently provides massive amounts to liquidity to the market and contributes to the ever tightening spreads we enjoy in London, will now have to start market making to retail brokers - a business which I don't think anyone would suggest they should be forced to take on.

Requirements such as these, will make it more difficult for those banks who do want to service this business to trade away from national exchanges and for exchanges to compete for one another's order flow, reinforcing the domination of a single exchange in each jurisdiction.

It is the Exchange's belief that instead of attempting this type of top down approach, which is running into the difficulties described, the priorities for market reform should be to identify what the actual barriers to a single market are, and removing them. To this end we think that the priorities should be:

The ability to trade shares in any European company across border - the Investment Services Directive must facilitate this, rather than hinder it.

The ability to clear and settle trades cross border as cheaply as within national markets - the current market distortions must be addressed; and
Genuine competition between markets – The European Parliament can achieve this through the 2nd reading of the Prospectus Directive.

2) Do we have the right infrastructure to deliver?

Time will tell, but we have good reason to believe that the framework put into place by Lamfalussy has been extremely useful. We are particularly pleased to respond to any consultations, whether they are by the Commission, CESR or EMAC expert advice.

We feel that the consultation process on the ISD was a healthy one which should have led to a directive that accurately reflected market consensus. We will work with the European Parliament to ensure that the ISD breaks down as many barrier as possible.

In terms of the infrastructure applying to regulation, I'll restrict my comments to the area I know best – regulation & monitoring of the securities markets. This must be close to the market and efficient and is best achieved through a network of regulators such as CESR, rather than any central body. This was recognised by Michel Prada, who probably knows more about the supervision of European markets than most. (FT 28/10) In a recent interview he stated the impossibility of regulating different systems, cultures and languages from a central point - citing the example of IFAs in the UK - they simply don't exist in France so how are you going to regulate both territories from Brussels?

We think the approach enshrined in the Directive on Financial Conglomerates and the Investment Services Directive, of cooperation between national regulators with home regulator assuming a lead role represents the long-term model for financial supervision in the European Union. This structure is rightly based on mutual recognition and minimum standards and not total harmonisation which is far more difficult to achieve in practice

Conclusion - yes we have the right infrastructure, from what we have seen so far CESR is turning into an effective body.

3) How will we know when we get there? - what economic measures or benchmarks would we use? How do we judge success?

At a micro level, we will know when we have reached our goal when an Italian biotechnology company, decides which market contains the advisers and analysts that best understands its business, choosing London, for example, for its IPO on the basis of its adviser and analyst community, and then has its shares traded by investors in all member states based on either their access to London brokers or local brokers membership to the LSE.

At a macro level we will know when we have succeed when the size of the European equity market as a percentage of GDP is greater than of the US.

SIR NIGEL WICKS, DEPUTY CHAIRMAN OF EUROCLEAR

What are the priorities in delivering reform?

Integrating the European Union's financial markets involves complexities of a much greater order than the move to Economic and Monetary Union. It involves fifteen member states with financial markets at very different stages of development – with different values, conventions, structures, ways of doing business and cultures, all developed over many years. We should be wary of those who seek to persuade us that out of this diversity, the single market can be created by the stroke of the legislative wand. Financial markets are not like that. So the first priority is to recognise that rules and regulations do not create financial markets. Market participants create them.

What needs to be done?…

I will focus on what Alberto Giovannini, in his Report's excellent analysis on cross border clearing and settlement, called, "…the most primitive and … most important barrier to integrated financial markets in Europe". He was referring to inefficiencies in clearing and settlement.

Infrastructure…

A Single European Market for Financial Services needs infrastructure – to transfer title and ownership in exchange for value and to provide for the safekeeping of securities and for the support for such transactions. There is already some such infrastructure. It includes many competing firms, including Central Securities Depositories, International Central Securities Depositories and agent banks. They compete to provide settlement services. This role includes quite legitimately, help for firms active in the securities markets deal with the fifteen barriers to efficient settlement identified in the Giovannini Report. Even so, the settlement of cross-border security trades in Europe is high cost. So cost has to be taken out of the system. That involves dismantling the fifteen barriers to efficient settlement identified in the Giovannini Report. Inevitably, that will affect the revenues of all those competing firms that I referred to a moment ago. But that will be to the benefit of their customers. Market practitioners in the settlement business are already making progress to meet the challenges facing their industry. The number of CSDs in the fifteen member states is down from over thirty before the launch of the single currency to about twenty today.

The role of government…

That has happened without governmental intervention. But the European Authorities and regulators do have a role in identifying and removing those barriers, identified in the Giovannini Report, that are of a legal, regulatory or fiscal nature. This should be done in the fullest consultation with the industry. Furthermore, the authorities should apply their policies, practices and laws on settlement consistently and uniformly to all providers of settlement services, be they CSDs, ICSDs or agent banks. Action should not be targeted on any individual category of service provider.

Euroclear…

My company, Euroclear, wants investors across Europe to be able to settle trades in European securities for no more than the price that they are paying to settle their trades in domestic securities. Following the merger with CrestCo, our plan is to create for securities settlement a single domestic market for Europe by 2005 for over sixty per cent of European equities and over fifty per cent of fixed income transactions in Europe. This will be a massive blow to the primitive and most important barrier to integrated financial markets in Europe, to which Alberto Giovannini referred.

When will we know whether reform has been successful?…

The final question on our Chairman's exam paper is: "When will we know whether reform has been successful?" Well, I will give you one test. It will be when those primitive barriers to settlement to which Alberto Giovannini referred are no more. And that will be when investors can settle trades in all European securities for no more than the price, which they are paying for settling trades in domestic securities.

Thank you.

DAVID WRIGHT, DIRECTOR FINANCIAL MARKETS, EUROPEAN COMMISSION, DIRECTORATE GENERAL FOR INTERNAL MARKET

Do we have the right agenda ?

Yes, we have a good agenda. We have an agenda that is supported by all the Heads of State governments. We have a date to carry out this work. We are making good progress, which is sometimes better recognized in US than it is here in Europe. We came, within the last year, very closely to deals on market abuse, prospectus, accounting rules, collateral, pension funds, insurance intermediaries, financial conglomerates... and we set up the Lamfalussy process in its entirety in one year. We have also shown everybody, and very importantly, the economic benefits, and these economic benefits will now be captured unless the Financial Services Action Plan is carried out.

If we change course now, it would be disastrous**,** and we would set ourselves back for many years. What we have to do now is to ensure competitive outcomes, proper investor protection, and remain sensitive to market concerns. And this means that we have now to begin to concentrate on all the enforcement process. Enforcement is a prime responsibility of the Commission, a major responsibility of CESR, and it is also a responsibility of the private sector to help, and in the past I have to say that they did not help enough.

The agenda is changing, with 3 new issues coming to prominence :

1) develop regulatory dialogue with the US,
2) Corporate governance questions, which are the heart of the G7 process and also discussed in the Ecofin
3) Clearing and settlement (cf. N. Wicks)

What are the primary obstacles ?

Mr Wheatley spoke about cross-border barriers. There are many of them, and of many different types ; there can also be different definitions of the public good ; and of course there are tax difference/barriers.

Given the current reality, what we try to do is get rid of them. The existing prospectus rules don't work, we did not have any market abuses rules until very recently and we have a rainbow of accounting rules. So unless we deal with the barriers, the benefits that I referred to will be captured.

Do we have the right political infrastructure and processes ?

I believe that the primary decision making process of the EU (Council of Ministers, European Parliament) is extremely conducive to making deals at this particular time. Market abuse is one example, the prospectus directive the other day in the Council of Ministers an other one... All the ingredients were there for a blockage but ministers have made a big effort to find the deal.

The Lamfalussy process will allow to speed up decision making, but confidence is required between all the participants, and the participants are the market participants themselves, the Commission, the Council of Member States, the European Parliament, and CESR. And the big test comes in the first half of next year when the first implementing measures come from CESR to the Commission.

I fully agree with A. Lamfalussy who attributes much importance to the new consultation process. In the last year the Commission has carried out something like 10 open consultations. CESR is working well, structures are converging inside CESR, regulators are working well together with a budget that is less than 0,5% of the US SEC, a budget by the way which is destined to increase at the beginning of next year.

Concerning the extension of the Lamfalussy process, everybody is aware of the European Parliament position. It's a political position that the Commission supports. It is now the responsibility of the member states to decide how to move forward.

How do we measure integration ?

There are many different empirical and economic techniques to do that, and some of the suggestions that have been made this morning are useful contribution to that. What we need is to be inspired by this magnificent art nouveau building especially the Spanish translation of art nouveau, which is modernism. We need to modernize – not revolutionize. Keep going. Credibility will come from steady progress, competitive outcomes, sensitive to market forces and ensuring proper levels of investor protection.

SESSION 2 : TOWARDS AN INTEGRATED CAPITAL MARKET IN EUROPE & THE EUROFI 2000 SURVEY

Introduction :

Looking ahead to the next phase of EU work on integration of financial markets, do we have the tools and structures available to us to make the necessary progress? With the EU embarked on coordinated rule-making and supervision of financial markets, to what extent will Lamfalussy II reinforce the move towards a European system of regulation and supervision? How can overall European supervisory coordination be improved across markets/sectors? What message should be sent to the Convention on the future of Europe as it plans for revision of EU Treaties? What conclusions can be drawn from the wide-ranging survey of financial leaders carried out by Eurofi.

MODERATOR: JACQUES DE LAROSIÈRE, ADVISOR TO THE CHAIRMAN OF BNP PARIBAS

As co-chairman of Eurofi, with D. Lebègue, I would like to give you a very short presentation of what we have been trying to do.

Methodology :

We sent very precise questions to some 180 institutions and individual authorities. We got 55 answers, we carried out 61 interviews, and this was synthesised in the report that has been distributed, after the work of the steering committee which features eminent personalities throughout Europe. This preliminary report will be worked on further, and the final report will probably be ready for the spring of 2003.

The principles are very simple. What we really want to achieve is an open integrated market, based on market forces, leaving chances to innovation, and where you have the ability to sell and buy financial products in all countries. The name of the game is competition, to enhance cross-border transactions at the lowest possible cost for the investors.

The objective is to achieve a common level playing field and this implies that in a number of cases we'll have to remove existing regulatory obstacles in order to ensure a common framework, common principles, which requires in itself a certain degree of harmonisation. Not total harmonization, but a degree of harmonization. So we follow the way of practical and pragmatic integration, and not revolution.

Substance :

I can sum up the substance basically in two ways. There are some priorities that those who responded to the questionnaires have highlighted. The directives of the FSAP are very numerous, they cover the entirety of the financial integration subjects, with 42 or 43 pieces of legislation. What is interesting in the report is that we have asked people to focus on what they think is the most important. I give you a few examples :

- European company law and takeover bids harmonization,
- some common accounting standards,
- convergence between IAS and US Gaap but not systematic alignment on US rules,
- a degree of harmonization in taxation for those elements of taxes which have distortive effects, and this is specially true for some forms of indirect taxation,
- investor and consumer protection, with a precise definition of core rules, adequate harmonization and transparency, ensuring that the investors and consumers know what are the costs and risks...
- reversal of the onus of proof : the country who is not happy with the selling of foreign financial products would have to turn to the home country of the institution that wants to sell the products and make a case that this institution is not complying with that minimum core of standards and rules.

Framework :

We consider that the Lamfalussy process is the basis. That is the way we have to go towards what I call pragmatic integration. Of course, we think that it should be extended to banks and insurance, and we think a few things should be added to the process : strengthening the consultations of professionals (cf. panels of professionals used by the FSA), strengthening of the secretariats of the Lamfalussy Committees. For systemic issues, there should also be a group of people in the private sector who quietly would look at these matters, with the monitory authorities of the countries.

If this process works – and it is not an easy task to co-ordinate daily these complex issues – well we'll have an integrated market. All these things being in evolution, it may well be that, if cross-border transactions do become more important, if the market requires so, we will have to move from this practical integration to something that would look more like a European system of regulation and supervision, which is not necessarily a centralized set of institutions. You'll see in the annex how this can be dealt with in the Treaty itself through an "enabling clause". I think the most important now is to get politicians interested in all this. Because we need a strong political force at all levels.

DANIEL LEBÈGUE, CHIEF EXECUTIVE OFFICER, CAISSE DES DÉPÔTS ET CONSIGNATIONS

We all know that the integration of European capital markets will bring substantial benefits to businesses, investors and consumers, in terms of growth, productivity and employment. The integration of capital markets will improve the access for companies to finance, will offer greater choice of investment and portfolio allocation for investors and savers, will increase innovation in capital market activities, and will probably offer greater weight to the euro at the international level.

In the view of Eurofi members and European institutions and companies which responded to the Eurofi survey, we urgently need a strong impetus for accelerating the pass to the EU financial markets and services integration.

We are supporting without any reserve the FSAP led by the European Commission, and are expecting the swift adoption of the directives on prospectus, pension funds, etc., presently in discussion, that constitutes a decisive step in the good direction.
The market participants also consider that the Lamfalussy process is a positive step towards better financial regulation and supervision in Europe.

But the opinion of the great majority of market participants is also that we have to go further as soon as possible. In this respect, the priorities for action are the following ones :

1) European user need clear and straightforward rules and standards offering equivalent guarantees for users operating everywhere in the EU. This means that we have to implement an effective European passport for all financial products, common corporate and accounting standards, harmonisation of company laws, especially for Mergers & Acquisitions and bankruptcy rules

2) The Lamfalussy process should be extended to banking and insurance sectors

3) The European decision process has to be improved : the European directives should focus on essential principles, and the professionals have to be fully associated to the legislative process. A large majority of the Eurofi steering Committee members consider that, in the long term and on the basis of the Lamfalussy process experience, we will probably have to establish a proper European Financial Regulation and Supervision System. This is probably not an issue for the immediate agenda, but is clearly an objective for the next five to ten years to come.

CLAUDE BÉBÉAR, CHAIRMAN OF THE SUPERVISORY BOARD OF AXA

Let me start by saying that the most important things for us are supervision and regulation. This is necessary to have common regulation of the market and to avoid some specific problems in different markets. For instance in France, in order to be a little different..., the French regulators add specific rules as «Provisions pour Exigibilité », which is a burden for companies, put in bad competitive position. It is very important to have something really in common and to avoid that in each market you have different regulations. I know that the problem exists in US too (different national legislations and regulation), but it is a mess. The organization is bad, because if a company is created in one state, it can be far better that in an other state, which is unfair.

The second point that is very important for us is the accounting rules. With regard to IAS, we are a bit concerned, because we think it necessary to try to define common rules in Europe, but not stupid rules. When we talk about « fair value », we have to define exactly what it means... Nobody is against « fair value », and it is easy to define « unfair value ». But to know what is « Fair value » in a long term business like insurance, the problem is to be sure that there is a matching between assets and liabilities and the mark to market is totally stupid for our business. Suppose that I stop my company today, it will take 5, 6 or 7 years to liquidate the company, and my stocks for instance will be kept for 5, 6 or 7 years. The current market system means nothing, it is not an economic system, it is totally disconnected with the reality of the companies. So we definitely have to work hard, and be sure that those accounting rules will not create big problems for us.

At the same time, we have to try to go in the same way than the USA : we have to look at the IAS on one side and to the US Gaap on the other side. But we don't have to move from IAS to American accounting system, that is far for being perfect.

As to taxation, the biggest problem is to have the same basis across countries. It is not necessary to have the same taxes exactly, but at the same time, when the differences are too high, it is a real problem. For instance, when Germany decided to not tax the capital gains, they created a big advantage for Allianz and other small companies in Germany. The competition is unfair when differences are too high.

Something that is also very important is the access to capital markets. Today it is easier to go to New York to raise capital than to go to Milano or Paris... So we need to simplify that, to have a cheaper money, and to have an access that is easier than it is today.

We want to be able to build European products. We need to be able to have products in which we can put assets from all euro area. This is impossible today when you look at pension funds, life insurances...

We want to offer shares to our personnel, and we do that, but it is very difficult because the rules are not the same in the different member states.

We want to be able to sell products everywhere in Europe, regardless of the factory's country of origin, which means that we need something like a European statute for companies.

ANTONIO BORGES, MANAGING DIRECTOR AND VICE CHAIRMAN OF GOLDMAN SACHS INTERNATIONAL

We were asked for comment on what conclusions could be drawn from the Eurofi survey carried over on the last few months. The survey started with a very ambitious effort to define a long term vision for an integrated financial Europe. Then we went on into a very helpful process of consultation and debate on the practical issues that are on the table today. And indeed, at the end of this process, perhaps the defined vision is still very far away from us, but it is quite remarkable that we did reach an amazing degree of consensus on most of the current problems, not only on the objective but also on the processes getting there and on the traps we have to avoid... The overall goal is to move forward in building an integrated and efficient capital market in Europe, and there is a wide spread consensus across market participants that this is now a fundamental and high priority goal.

We are now at the beginning of a new area in Europe in which financial integration can indeed move forward rapidly. This is not a minor or marginal objective. The type of economic growth that we observe today across the world, and certainly in North America, is very much dependent of the efficiency of resources allocation, the ability to deal with risks and to stimulate and compensate entrepreneurial behaviours. We cannot reach this type of growth without efficient capital markets. Without good capital markets, there will never be appropriate risk management which is today the main factor behind the ability to innovate.

We also need a capital market to support companies strategies, and we have to provide them strong returns for successful entrepreneurs. It is very difficult, whatever the rules, to have adequate investor protection, and give investors the possibility to operate everywhere in Europe, whenever they want.
In this area, Europe has a quite important handicap, and it is very sad to see European companies competing on the world stage with such a serious handicap behind them, and having to rely on the US market capital to be able to achieve their goals.

The US model have to be studied and analysed in depth before we decide in what direction we'll move. It is an integrated efficient and deepen market with light regulation favouring competition, with strong reliance on market mechanisms, with a crucial role for the market specialists. We are very far from any of this. We certainly don't have to copy the US markets. But there is a degree of humility that is necessary in understanding what are the best practices, from North American or French, that we should apply in Europe.

We do have favourable conditions today in Europe to make progress on a financial integration. The arrival of the euro and the convergence process that made it possible created an environment of monetary stability, and the no exchange risk, or low exchanges for the currencies outside the euro, makes possible a degree of progress in financial integration, yet remarkable. If we have a demand driven process, in which it is the end-user that pushes the things in the right direction, as we see that investors search for the best opportunities to invest and companies adopt European-wide strategies, then indeed, an integrated financial market becomes an immediate necessity. We have to allow the appropriate specialists to operate at European level, and above all, we have to rely on competition to eliminate the obstacles that exist today.

We have to remove the many barriers to an integrated market : there is no question that regulatory barriers are still significant, limit competition and choice. Many of the obstacles that exist today are artificial, with no reasonable justification. Tax distortions, bureaucratic requirements, protection of local markets, of local operators, sometimes simply of local traditions... We need a level playing field above all to facilitate comparative behaviours.

To prepare the regulatory and supervisory for this more integrated market, the Lamfalussy process is the most efficient way to go. It relies on consultation of all the parties concerned and particularly the specialists. It favours coordination of national regulators and supervisors, and respects the principle of subsidiary. It should help to move towards commonly agreed principles at the European level, which could then be applied locally. It is the most appropriate process for the current stage.

An immediate priority – and a good test for the European financial integration process - is systemic risk, which have to be managed at the European level. We are now so integrated in many areas that we have to look at systemic risk in a European-wide perspective. We are not protected from a major problem, a major bankruptcy, a major difficulty with a significant market player that could not be treated at the national level. If such event arrives, an immediate ability to react is fundamental. And dealing with such a problem is not a minor challenge. This requires not only the competence and authority to intervene rapidly, but also the means and resources to solves the problems, which would inevitably involve central banks.

A final point have to be highlighted : there are plenty of references in the Eurofi report about monetary union, and what can be learned from that process to move towards an integrated financial market. We are very far from the convergence that made possible the monetary union, in what concerns financial and regulatory convergence. But there is an interesting element of the monetary union process that have to be highlighted. When we began to develop the blueprint for the new monetary Europe and the statute of the European Central Bank, we were all convinced that we should look all around Europe and follow the most efficient model, the central bank with the highest reputation and

credibility, and adopt that model. Maybe this is the principle that we might want to use as we converge towards more common regulatory and supervisory system across Europe. Let's have the humility to begin for looking at the best practices and try to generalize that to the rest of the continent.

ROBERT GOEBBELS, MEP, COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Sir Nigel Wicks said that rules and regulation don't create a capital market, that only market participants create a financial market, and he is perfectly right. But a market without proper regulation and supervision, ensuring transparency and fair competition turns rapidly into jungle. We cannot escape from regulation and supervision if we want to achieve an efficient integrated market. We need integrated legislation and regulation, with minimum but adequate rules.

In European Union we have a peculiar system, with a Commission with right of initiative, and the 2 co-legislators (Council of Ministers, European Parliament). That system is a big snail, and the proposals of the Lamfalussy group are welcome, even within the EP, after many fights between the 3 competing institutions. Finally, an arrangement was found, at the time of market abuse directive adoption, with regulations that the EP would be given a period of three months to allow it to examine the directives and give its opinion. Without the EP agreement, the Commission should re-examine the draft directive.

But obviously, this current system is not sufficient. Today, we are discussing the extension of the Lamfalussy process to conglomerates, banks, insurance companies... But the Lamfalussy process is a temporary process. There is a necessity to come to a proper solution. What we need is a hierarchy of norms within EU. We need a legislative framework, with a so called secondary legislation that is subject to the democratic scrutiny of the Parliament. We need to explain the problem to the Convention and change some articles of the Treaty, in order to guarantee the democratic scrutiny of the whole process.

PHILIPPE DE BUCK, SECRETARY GENERAL, UNION OF INDUSTRIAL AND EMPLOYER'S CONFEDERATIONS OF EUROPE (UNICE)

I will try to raise the voice here of the business community at large, and the 16 million companies UNICE represents in Europe. Of course we are in favour of a strong and efficient European financial services sector, and we consider that as a crucial requirement for the competitiveness of the European companies. But we want to be more pro-active in the system, and to be better taken into account. I take the example of the market participants advisory committee established as part of the Lamfalussy consultation process, and in which most of the financial services providers have been very well represented, what is quite normal, because the position of the companies, of the issuers... have to be heard.

What do we want ? We want easier raising of capital, increased rates of return for the investors and the savers, a wider range of financial services and products. And if it's true that with the FSAP we will have 1,1 points more growth in Europe, somebody has to achieve that, and this will be of course the whole business community together.

Do we have the tools necessary to achieve the integrated market ? A lot has been done**. I will just put stress on 3 elements.**

1) The European Company, "Societas Europea" : it has been decided it will be possible from 2004 and we have to promote this. It is an important political decision, and we have to ask, with all the business community, how we can implement it, is it a way to be part of a more integrated European market, is it a way for companies to have important cross-border mergers and have it organized well in a proper way, think on the accountability issue, think on the corporate governance elements...But of course, all the conditions are not fulfil to have that European Company as a success. We have touched on the tax issue for cross-border activities, and I think that's a pre-condition to make the European Company a success.

2) The common accounting rules : of course we welcome for 2005 the fact that listed companies will have to prepare their consolidate accounts in accordance with the IAS. 3 elements are to be underlined. First, it's 2005, and that's tomorrow. Is that enough to be prepared ? Secondly, when you look how the decisions are taken, we, as business community, must be hurt, because it's finally the companies who will have to have their accounts in a proper way. And thirdly, when decisions are taken, the tax consequences are not always taken into account and that is of course an important element also for the profitability, for the way to draw the accounts...

3) of course the Lamfalussy procedure is an important step in the right direction. But we have to consider it as the first step, as a developing process, and we have to ask how we can improve the system.

And lastly, the Convention is an important element. I think we have had a bad discussion in the work group on the economic governance, we have now to work it again in a plenary session, we have to put in the Convention the principles when they becomes values, we have to fight of course for an integrated market, for integrating the financial services. And last but not least, the systemic risk is an important element, and perhaps on the occasion of the Convention discussion, this can be taken into account.

RAINER MASERA, CHAIRMAN OF SANPAOLO IMI SPA AND FORMER PRESIDENT OF THE EUROPEAN MONETARY INSTITUTE

The current critical phase of financial markets worldwide highlights some priorities. The faith of investors and other market participants has been deeply shaken, doubts concerning the quality of the information have severely affected the possibility of measuring and controlling risks in financial institutions and a situation of widespread uncertainty has emerged. There is a distinct possibility of a negative feed-back from financial to real developments (investments and consumption). These issues need to be addressed carefully, thoughtfully and realistically. Far from leading to greater uncertainty and rigidity, they should encourage positive and common efforts. The Eurofi initiative goes in this direction and I regard its contribution, stemming from a European basis, as important and urgently needed.

The problems linked to the current difficult environment go well beyond a single country or group of countries, they are present worldwide. The new legislative initiatives in the US and the harmonisation efforts conducted within Europe ought to lead to the definition of a consistent set of standards on a worldwide basis, in order to eliminate significant discrepancies still existing, which contribute to the current phase of confusion and lack of trust.

The need for well-defined European rules, accepted and shared by market participants, is widely recognised with a view to ensuring accounting integrity, reporting transparency and the resolution of conflicts of interests. The Eurofi report stresses the importance for investors to be 'properly protected by Europe-wide' rules. The proposal of the new Directive on Investment Services, which envisages a 'common passport' for investment companies and requires higher standards of investors protection, represents an important step forward. Greater cooperation is also needed, because isolated initiatives would place single actors in a disadvantaged position vis-à-vis the rest of the market and because they could result in even higher discrepancies. The system must not rely upon individual initiative, rather it should react in a coordinated way, by promoting integrated and consistent efforts.

In line with that reasoning, I regard it as vital that accounting standards move towards a consistent worldwide definition. Within Europe the harmonisation process is well ahead and has produced important results, as the planned adoption of common reporting standards testifies, the pragmatic coordination and convergence of these actions with the US and Japan still remains to be addressed. Europe has a lead which should be properly exploited.

I share the view that the structure of financial services supervision should support the aim of creating a single market for financial services in the EU. I therefore favour the convergence, in the future, of the current supervision framework - based on minimum harmonisation, home country control and mutual recognition - towards a harmonised system of supervisory control. Even when favouring a European System of Financial Supervision on financial conglomerates as a medium-term objective, I also recognise that differences in Europe are still considerable and a 'one-fits-all' approach may still be premature. I therefore regard as the most urgent issue the need to foster the co-ordination of the various regulatory authorities: we need to aim at an integrated approach that enables those authorities to achieve practical and profitable co-operation. This was strongly underlined by Alexander Lamfalussy. Let me add that coordinated rule making and supervision of the European financial system (markets intermediaries) should be complemented by self-regulation. As the Basle II exercise shows, EC authorities should in anyway consult and take appropriate note of market participants views and indications.

On tax issues, I would only mention the report's conclusions on the need to abolish 'financial product taxes with distorting effects' and to encourage the definition of harmonised tax bases. The biased effects of different tax rates on companies' profitability are widely recognised in the market, but the difficulties in creating a common playing field are also clear.

I have referred to a few priorities linked to the current phase of difficulties experienced by financial markets. Realistically, I think we should take a further step back and consider the current state of European economy. The latest estimates for GDP growth in 2002, which are now below 1% for the Euro area, clearly testify that the European economy is going through a complex phase. Cautious indications of a gradual recovery next year are accompanied by non-marginal risks of further deterioration in the cycle. In this context, a wide debate has developed on the adequacy and effectiveness of the instruments of economic policy available to the European authorities to foster recovery, both from a cyclical and from a structural point of view. The debate was also aroused by concrete fears that the traditional economic policies, namely monetary and fiscal policies, seem unable to give a positive support to demand and growth

An effective European economic policy is needed and the role of the ECB is of paramount importance. The conjunctural crisis and the problems of the European economy have shown limits in the anti-inflationary objectives and tools, which the ECB is pursuing. There is an increasing perception that they do not take into proper account the need to foster an appropriate growth in production and productivity, which would have a positive impact on disinflation. The Fed model, its reactivity and quick responses to deteriorating economic and market conditions, while maintaining price stability, cannot be ignored.

Further to that, fiscal policy is severely constrained, in Europe, by the Stability Pact. I think, bearing in mind the undisputable objectives achieved in terms of convergence, that fiscal policy should be allowed sufficient flexibility as an instrument of stabilisation. I'm specifically referring to the necessity to check whether, in respect of the objectives of the Pact, there may not be room for interpretation to allow, with appropriate caution and within certain limits, the exclusion of major infrastructure investments from the calculation

of the deficit in particular for countries which embark on structural adjustments – notably pension reform (which has an obvious crucial impact on the European financial system). The risk that rigid adherence to the Stability Pact might provoke destabilisation phenomena should not be ignored.

In summary, integrated and simultaneous actions regarding economic policies and financial markets should be considered and implemented.

Thank you.

MICHEL RENAULT, CHAIRMAN OF GROUPE CARTES BANCAIRES

At the margin of the central objective of the conference, I would like to insist on the strong requirements for payment systems. First, in an integrated European market, an open and competitive market where users are free to buy financial services and products from anyone and anywhere they want in the EU, then a single market requires European payment systems with efficient, secure and low cost instruments of payment. To answer to the needs of both consumers and markets in economic and industrial stakes, priority should be given to a truly European payment system.

Electronic instruments like cards, transfers, etc., are privileged means of payment in the single market place. Remember that today, in terms of number of transactions, cards transactions represent 80% of cross border total transactions. National payment has strong control rules that technocratic initiatives will not be able to harmonize.

The single payment area therefore needs:

- a competition framework for these banks free to select the services and infrastructures they want,
- a comprehensive legal framework covering banks account in value, dates, security of payment means (smart cards, digital signatures),
- alternative dispute resolution mechanisms,
- anti-fraud measures at the European level. I mean common obligations of security set out by national central banks. (Ex : the level of fraud between France and Belgium to the cards system is 20 times more than in each one of those two domestic markets, which is a problem in an integrated financial market). This means that anti-fraud measures must be based on close coordination between national police and judiciaries, and coordination between European banks and different payment systems.

- Unified competition conditions so as to avoid lacks of security in payment systems. Central banks, Member States and the Commission should equip themselves with the resources necessary to guarantee a satisfactory and uniform level of security in payment systems across EU. This equipment should be based on monitoring and relevant facts figures (ex: harmonization of implementation of EMV, certified transactions at distance...) and on the establishment of similar obligations of security for all central banks.

In these conditions, I think we'll have efficient integrated financial markets.

EDMOND ALPHANDÉRY, PRESIDENT OF EURO 50 GROUP, CHAIRMAN OF THE SUPERVISORY BOARD OF CNP ASSURANCES (CAISSE NATIONALE DE PRÉVOYANCE) AND FORMER FRENCH ECONOMY MINISTER

When we look at the US experience, we can see the many links existing between a common currency and an integrated financial market. From both sides. The euro opens the way to a fully integrated market. A financial markets integration at the European level will enhance the role of the euro, and increase its international credibility. We see the crucial impact on capital productivity in the US of an efficient and well managed capital market.

We cannot under-estimate the benefits we should draw from such acceleration of the integration of financial markets in Europe. We can all agree easily on such an objective. Where we can have different views is how to do it, but we can all share the view that market driven integration is certainly the best method.

In the present situation in Europe, there are many legal, regulatory, fiscal... obstacles which hinder the working of the market forces at the European level. We are then forced to take some steps to remove these obstacles, and even if the FSAP is a very positive way to do it, it is far from an easy task to adopt all the necessary steps in due time for many reasons (political national obstacles, European decision process that is very slow...).

All market participants, and above all those who will get benefits from this financial integration, should call for some kind of political catalyst to give the necessary forms the necessary impetus.

Today, there is a chance to do it. which is the suggestion by the Convention on the Future of Europe to write down a Constitution for Europe. This should help demand driven forces to create an integrated financial system in Europe.

In this perspective, the proposal of Eurofi (report annex 4) is composed of 3 simple provisions that could be included in the Constitution or the Treaty.

- First of all, the European Community must ensure the full integration of European capital markets. After all, this proposal is nothing else than extending to "financial products and services " the principle of the single market Act for goods and services.
- Secondly, this integration has to be effective no later than 2005. This deadline is absolutely crucial. We should remind that the euro has been created under the pressure of such a deadline.
- And the third provision, even if it remains the more controversial and even if we have been very carefully in its redaction, is the creation of a European regulatory and supervisory system.
- With the development of cross-border activities, such a system will be unavoidable sooner or later. There is no intention whatsoever to weaken the present system which has the merit of existing, there is no intention either to create a new bureaucracy. On the contrary, at the beginning, a light coordinating structure would satisfy these needs. All the market participants, and more generally all the people of EU have to feel secure in the financial environment while market integration will carry more and more risk.

The European Convention is a useful channel to promote financial reforms that have to be made in a free market perspective.

Session 2 : Questions & Answers

Question: P. Norman, Financial Times :

Why is it necessary at this stage to include a regulatory system in the Treaty to achieve market integration? There seems to be a contradiction between the inclusion in the Treaty (which may seem to prejudge the outcome) and the wish for market driven integration.

Answer: E. Alphandery :

The growing of cross-border activities implies increased risks in European financial markets. The European Treaty or Constitution would say in a very general way : « we should promote a more integrated and more efficient supervisory and regulatory system ». This would go in the right direction.

Answer : D. Lebègue :

A good Constitution is something for long term (for the 10 or 20 years to come). The consolidation of regulation is a long term process and should be an issue for the immediate agenda for the Commission and the European Parliament, but it could be an issue for the next few years.

Answer : J. de Larosière :

There is no contradiction : in the report of Eurofi, we really support a market driven and pragmatic integration process and we consider the Lamfalussy method to be an essential element to achieve this integration. But there is still a lot of work to be completed. And the Convention is a unique opportunity to make progress in that sense. If indeed a need appears in terms of market evolution, then you have to step further and create a new regulation framework.

In the event of need for such a system, it is preferable to have at least an enabling provision in the Treaty. Things are moving very quickly, and lead to a situation of high uncertainty : we might have to deal with systemic implications at the European scale, and a common system of supervision may in the event have to be activated.

SESSION 3 : REGULATION, SUPERVISION AND INVESTOR PROTECTION – IS THERE A "EUROPEAN MODEL" IN SIGHT ?

Introduction :

Will a future European model be market-based or regulation-based, or something else? What is the American influence and what transatlantic lessons can be drawn? Is Europe in good shape to realize its competitiveness agenda? Can we identify likely developments in markets over the next period, and therefore plan for the regulatory and legislative framework alongside them? Europe is building its own model for a single financial marketplace, and can thus learn from the mistakes of others. What are the implications of enlargement for the European structures and legislative processes of the future? What is the role of market practitioners in the process?

MODERATOR: ANTONIO BORGES, MANAGING DIRECTOR AND VICE CHAIRMAN OF GOLDMAN SACHS INTERNATIONAL

The issue is : can we began to talk about a European model ?

What is the American influence ? Should we have our own approach ?

My immediate answers is that we certainly do need a European model, and not simply copy the American one. We should have the humility to adopt whatever is a value for us in that source.
I call your attention on an area where we do need a European model : in what concerns corporate governance, we need a European approach, and simply copying or adapting the American rules and principles will not be appropriate, because European corporations are controlled in a very different way from US, and the key problems for governance are very serious...

HERVÉ CARRÉ, DIRECTOR, EUROPEAN COMMISSION, DIRECTORATE FOR ECONOMIC AND FINANCIAL AFFAIRS

Indeed, a European model needs to be developed. We have to avoid the problems of US models, as accounting rules are concerned…, as well as legal uncertainties (ex : Attorney General in NY took the case and not the SEC...). It should clearly be market based. This does not means that there is no role for public authorities, essentially for two reasons. First, there is a systemic risk, increasing with the integration of markets, which should be put under their control and calls for regulation. The second reason is the need to ensure a level playing field. We need to ensure fair competition, and this is the task of public authorities. I'm not sure we should go beyond that.

The consequences of enlargement have been absent from our thinking until now, but with 27 countries, 27 different systems of regulation and supervision, and especially of enforcement, this is a major challenge. And this is why I support the Eurofi initiative for creating an enabling clause providing for a European system of regulation and supervision. I think that in the next five to ten years, we will need to set up a federal body for supervision, a decentralized way of supervision, that has to be developed with the help of market operators and users.

Finally, there is a need for extensive consultation of market operators, users, enterprises, all these people involved in the financial industry. This need is recognized by the Commission, we are trying to develop new ways of consultation, and we need your help to succeed.

GIORGOS KATIFORIS, MEP, COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS AND MEMBER OF THE PRESIDIUM OF THE CONVENTION

Summary of Giorgos Katiforis speech:

Competitive neutrality in regulation is a reasonable aim. Regulators can not enforce systemic stability – look at the stock bubble and the role of the Fed.

There is a difficulty of principle in intervening in such circumstances – should any public authority intervene to reduce the financial wealth of any group? But if there is a tension between financial wealth and real wealth the public authorities have a legitimate interest.

We need a flexible and transparent system. This involves making Lamfalussy work, before trying to extend it.

SIR DAVID WALKER, CHAIRMAN OF THE LONDON INVESTMENT BANKING ASSOCIATION

I will just focus on the one or two areas of differences which have not be mentioned at all.

Given the likely scales of benefits expected from an integrated market, well illustrated by the European Commission (cf. P. Solbes Keynote address), it is not surprising that differences of views are related to the means rather than to the objectives.

I don't really share the optimist views here expressed, in the sense that I am more sceptical than some here about the benefits of policy initiatives, and more inclined to place weight on the creativity and the innovation of the market. We can take measures that facilitate the development of more integrated financial markets, but even the best policies cannot completely ensure the desired outcome by a certain date. I'm in very strong disagreement with Mr Alphandery in terms of expectations (determination and ambition, saying that there should be an achievement by the end of 2005...).
On the contrary, I do think that inappropriate policies could materially impede progress. In particular, in this globalised environment, enforced uniformity is a persistent danger, a recipe for stagnation, and for driving outside Europe innovation of enterprise.

Example : Direct investment flows in portfolio from Europe to USA, that is the major source of funding of the American deficit...

There is here a paradox. The desired strengthening of the European capital market will provide benefits for all, overtime. On the other hand, if this development is cramped by inappropriate policy initiatives, the result will be a flow of energy and enterprises from Europe to the USA, and this will benefits to the American economy more than to our own.

The outcome of policy initiatives will not be sufficient to achieve confidence in Europe. We have to prove that we have a superior capital market, at least equal to the US market -and I think we can do a better job.... We actually need to win on all fronts.

I will now focus on 3 substantial issues :

1) Competition policy, removal of obstacles :

In the context of the ISD discussions, there has been intense attention to the debate on the concentration of trading business, within stock-exchanges. I found surprising that no attention was given to the serious problem of monopoly in the major exchange, and also in clearing and settlement entities. At the time when most of them have moved to focus on share and value, especially given the rents of most of these major entities in Europe, which is associated with the fundamental change in trading area in the last 24 months, there may be advantage for all financial markets in Europe, in terms of economies of scale, efficiency gains and further consolidation (trading and infrastructures of the securities spectral). And I think that process should largely be driven by market forces. But a mechanism is needed to ensure that such rents are appropriately distributed to market users, and that transparency and market access are maintained at all times.

2) Acceptable scope for arbitrage and competition in tax and regulatory matters :

There are references in the successive Eurofi texts to « abusive relocation » and to « regulatory shopping ». I believe that such a language displays a bad view relating to competition and to the importance of freedom of choice.
In regulation, the formula should be mutual recognition, on the basis of application of generally agreed minimum standards. These standards should be matters for national regulatory authorities, provided that minimum standards are applied in a non-differentiated way and don't undermine the principle of the passport. If regulatory standards are relatively high, and sensitively applied, good business is more likely to be attracted on European markets. Good regulation is based on common respect among practitioners, and not on uniformity...

3) Retail activities :

Defining a European model for retail activities might offer the prospect of rapid progress towards a greater sense of a pan-European market among retail savers, and I'm strongly with those who want to be attentive to the retail market, to users and to consumers. The project might be a relatively simple and inexpensive pan-European savings product, which could be sold across the Union, without much need for marketing regulation, because the product itself would be created on a cross-border basis (bonds, equities, or combinations of the two...). One of the key requirements is a supported tax regime...

Finally, I would like to answer a few questions :

1) Will a future European market be market-based or regulator-based ?

I think the verb is wrong, it should have been « should », and I think it should be market-based.

2) What transatlantic lessons can be drawn ?

There are many transatlantic lessons, including some that are not in a sense to be drawn.

Examples :

- Corporate Governance : we have relatively little to learn from the US, and the great challenge is to identify the best practices for Europe.
- Accounting standards : comparative study between principle-based standards and detailed standards like US Gaap

3) European regulatory and supervisory structure :

Today, the Lamfalussy process and the CESR policy for co-ordination are a good and well-functioning basis. But a lot of work is to yet to be realised, and I think that an enabling provision for a federal structure may probably make sense.

The role of the market practitioners in this process could follow the Lamfalussy proposals (consultations). But the consultation process should avoid pre-directive surveys.

EBERHARD ZINN, MEMBER OF THE BOARD OF MANAGEMENT, BAYERISCHE LANDESBANK

Regulation, Supervision and Investor Protection. Is there a European model in sight?

1. What will regulation and supervision achieve in terms of investor protection?

Investor protection can not mean protection against losses due to market developments.

It should mean, however, as far as possible protection against deceit outright default, circumvention of accounting standards. This will serve as definition of investor protection in the context of my presentation.

2. Could regulation and supervision prevent developments as happened in the United States as well as in Germany during the year 2002 ?

Taking as an example the development in the U.S. regarding the well-known names of Enron and WorldCom, and in Germany the many cases of irregularities in the new market segment of the Deutsche Börse.

First we have to define in this context regulation and supervision. In this context regulation and supervision means the regulation and supervision of the financial sector (insurance companies, banks, portfolio management companies, stock exchange, etc.). It does not mean accounting standards regarding corporations and even financial institutions.

3. Given these facts what can we learn from the events in the U.S. and Germany as stated above?

In the case of Enron accounting standards were stretched to the limit, with the help of auditors of the company, financial institutions setting up the vehicles to hide obligations of the company and last but not least the imagination and directives of the management of the company itself. The final verdict is still out but in analysing all schemes it is still possible to see this as a more moral rather than criminal fault.

The situation is different with WorldCom. Here the company misstated intentionally turnover and earnings in order to inflate its reported results with the immediate effects on the stock price.

4. Could regulation and supervision of financial institutions have prevented these developments ?

The answer is clearly no. Regulation and supervision of financial institutions has as its primary aim to protect the market in terms of liquidity, create transparency in terms of liquidity, create transparency in market dealings and finally true and fair competition among the participants.

The lesson to be learned from the U.S. examples is that there should be a tightening in regulations and supervision regarding certified accountants and their obligations vis-à-vis the stakeholders in the company (labour, creditors, stockholders, etc.).

The German lesson is somewhat different. The "Neuer Markt" should have had a tighter regulation and supervision which would have protected investors more than was the case. Many stocks did not have a liquid designated sponsor who could have halted or at least slowed down the free fall of many stock prices. Of course, also in many German companies outright deceit and misrepresentation of figures was the root of the problem. But the reaction in the markets was more or less uncontrolled, therefore, a tighter regulation of the stock exchange would have helped.

In conclusion:

Regulation and supervision of financial institutions and stock markets could serve as investor protection only to a certain extent. It should prevent market manipulation like insider trading, etc., but it cannot protect the investor from losses due to fault, misrepresentation of the quoted companies, etc. Here is another regularity body required and that is the regulation and supervision of the professional accounting standards. »