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L'intégration de l'Europe bancaire et financière : une urgente nécessité

An integrated financial market is essential for the European Union and its economic players. It is urgently needed to respond to the legitimate expectations of businessmen, consumers and savers, who increasingly operate in a Europe that is a truly domestic market without the delays and costs of technical and regulatory barriers. A single financial market will only come about through a continuous and evolutionary process. This in turn demands tenacity, pragmatism and attention to the demands of the market so as to avoid institutional dogmatism.

Launched in 1999, the **Financial Services Action Plan (FSAP) implemented by the European Commission** represents an ambitious base on which tangible progress is being made. Of the 42 measures contained in the FSAP, 37 have been or are about to be adopted. But this plan should be extended and continued beyond 2005. It is primarily for the national regulators and supervisors to ensure that these rules and standards are applied effectively and enforced homogeneously.

Public policy decision-makers have to show more interest in learning how to bring about Europe's financial market integration. The lack of clear prospects could discourage European companies and citizens to look into these issues. It is time to re-dynamize this process and to change to a higher gear.

The many regulatory and fiscal obstacles that *stand in the way* of an integrated financial market are well-known. Eurofi's work places an emphasis on the actions that are considered to be priorities for the professionals.

European company law, which would extend from the adoption of the European Company statute that would cover such diverse issues as mergers, bankruptcy, transfer of headquarters and guarantees, would facilitate the establishment of companies across the European Union.

Common accounting standards and convergent **corporate governance rules** are indispensable for facilitating mergers and acquisitions, assuring uniform information for the markets and adequate protection for investors. Eurofi therefore welcomes the progress achieved in adopting international accounting standards for listed companies (about 7,000) in the Union with effect from 2005. But this effort is not complete and the proposal adopted by the Union remains unfinished due to the lack of consensus on standards which particularly affect financial services (IAS 32 and 39 on the accounting of financial instruments, draft standards on the assets/liabilities of insurance companies). The quality and legitimacy of the process of establishing new standards also needs to be enhanced at international and European levels. *It is urgently needed* to include in the composition of IASB's Board the participation of a larger number of professionals from the eurozone as well as from the large emerging-market economies, to provide financing to the EFRAG in order to allow this group to play an expert role and liaise with the Commission. The Commission should also reflect on how better to integrate the views of investors in its consultation procedures.

A European "passport" for financial services responding to common standards (equities, bonds, UCITs, private equity funds, "hedge funds", pension funds etc.) would allow the sale of financial goods and services in all EU countries. This requires a precise enough identification of the fundamental principles for investor protection and the definition of common standards and rules in this area.

A clearing and settlement system that is suited to an efficient financial market is urgently needed. Present cross-border arrangements within the EU are complex and fragmented, with additional costs and risks on issuers, investors and intermediaries.

With respect to securities settlement, the majority of Eurofi members believe that the EU authorities must ensure through framework legislation (if the market fails to do so by itself), **separation between the notary functions of central depositories – including central bank settlements – and commercial functions that involve financial risk.** Providers of banking services and providers of settlement services play different roles.

The depositories constitute an essential infrastructure that enjoys a monopoly position and is regulated nationally. Financial intermediaries on the other hand, operate in search of profit and the creation of value (added value services). The clarification of these roles would create the conditions for a widespread and effective integration of central depositories in Europe, safeguarding financial stability and providing for fair competition among financial intermediaries..

Work on **harmonised legal framework for securities** must also be undertaken as soon as possible, because the additional costs of cross-border transactions in Europe are related not only to fragmentation in the clearing and settlement infrastructure but also to differences in the legal and fiscal treatment of securities and the transfer of ownership of securities. In any case, holders of European securities cannot be expected to be specialists in 25 different national legal systems. They must be able to know their rights in relation to the principal and financial revenues (coupon payments...) from the securities held.

At present it is appropriate **to structure a voluntary approach for the retail sector** to ensure that the consumer benefits from integration (lower charges, wider choice, improved protection etc.) and that the profession enjoys economic and commercial conditions needed to become world class. The consumer will benefit as an investor. More work is needed before we see the emergence of truly European products. To be credible, this effort needs the product by product completion of a new legal and fiscal platform. So far, the search for maximum harmonisation has proved sterile and the principle of mutual recognition has not adequately preserved fair competition between domestic and cross-border providers.

Creating a large, liquid, deep and transparent market for banking and financial services would also significantly strengthen Europe's position in the transatlantic dialogue with US regulators, would favour mutual recognition and convergence on main international rules :the endorsement of the International Accounting Standards by US authorities, remote access to trading systems with reciprocity, oversight of public auditors for Europe based, US-listed companies according to a proper degree of cooperation between US regulators and their European counterparts following the Sarbanes-Oxley Act (July 2002), oversight of financial conglomerates.

The integration process needs to be speeded up through a combination of three factors: a much stronger assertive political will in EU countries, stimulation of the integration process coming by the Commission and a more determined effort by the main private participants.

Political leaders (Members of the European Commission, Members of National and European Parliaments, finance ministers...) should get more involved to boost the necessary guidelines and should mobilise opinion by emphasising the economic and social benefits of integration. New mechanisms should be created to associate in a more structured way members of the European and National Parliaments in the building of the European single market for banking and financial services. The Lamfalussy process on its own does not seem to be enough to reach this goal.

The Commission must contribute to stimulating the integration process politically. Given the economic and political stakes of market integration in banking and financial services, the Commission needs a specific Directorate General to take charge of these issues and to play a more effective role in co-ordinating overall services. This would favour a cross-sector approach to financial questions and would encourage an efficient dialogue with European and national elected parliamentarians on these issues.

Torn between norms and worldwide operators (bank analysts, rating agencies) on the one hand and national factors (tax system, supervision authorities), financial institutions are often tempted to make do with the fragmentation of the European market place: The fact that their representation is not united makes communications between EU institutions more difficult. A professional unified banking representation would constitute a real signal for speeding-up the integration process. In addition, more pro-active and co-ordinated involvement of the European financial industry is crucial to making the transatlantic dialogue on financial services more efficient.

European market participants need to be guided by common rules. They need clear and simple principles that are easy for everyone to understand. These should give equal guarantees to each one of the participants. Within the framework of a financial market that is in the process of being integrated, the fragmentation of regulations is an obstacle to companies, as they make cross-border investments within Europe more difficult and expensive. Achievement of the Lamfalussy process is of paramount importance although in the long run the market may require an EU-wide regulatory system as well as one for financial supervision.

The Lamfalussy process covering the banking and insurance sectors appears as a determining factor in a European approach to regulation and financial supervision. The implementation of this plan requires significant effort at national and community levels. With the coming enlargement, it is essential that national regulators and supervisors should offer equivalent instruments, status, competencies, enforcement capabilities and decision making processes for the effective implementation of the principle of mutual recognition. It is also clear that a European single market into which banking and financial services are wholly integrated also requires regulating and supervisory organisations to be incorporated into this market system. Discussions on a target organisation to be set up must take place as soon as possible to facilitate the convergence of these national regulatory and supervisory authorities

The time has come to resolutely set up the European financial governance. There is an urgent need for the solidity of Europe in the banking and financial spheres to be reinforced so that it reflects its economic strength. Political will and professional determination are the keys ingredients to success.