Keynote address

Alexander Schaub

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"Financial integration in EU25 – Lessons learnt and prospects for the future"

Ladies and Gentlemen:

I am very happy to be able to discuss with you today our achievements and our future goals in integrating the financial markets in Europe.

The introduction of the Euro more than five years ago was a decisive step on the way to an integrated European financial market. On the one hand, it became very clear that, even with a single currency, there were still too many regulatory obstacles that stood in the way of more cross-border activity. On the other hand, the introduction of a single currency for 12 Member States of the EU created just the necessary momentum on our way to more financial integration, not only for those 12 Member States but for the EU as a whole.

1. THE RATIONALE FOR FINANCIAL INTEGRATION

Financial integration is a key element of the EU's efforts to boost long-term growth and competitiveness in Europe. Indeed, a vibrant and growing economy needs to be supported by a sound and efficient financial marketplace. The Euro has established itself as a robust currency, recognized and trusted all around the world. But the currency alone is not sufficient. It is crucial that businesses have an easy and cheap access to finance. Investors must be able to channel their money towards the most profitable opportunities. Consumers should enjoy, in their daily life, innovative products and services at lower prices.

For these reasons, the integration of financial markets lies at the very heart of the so called “Lisbon Strategy”. This ambitious 10-year roadmap launched in 2000 by Heads of State and Government aims at boosting the competitiveness of the EU economy, in order to increase significantly the EU growth potential and employment. The mid-term review of the Lisbon Strategy, led by the former Dutch Prime Minister Wim Kok, has underlined the even more urgent necessity of completing the Lisbon roadmap today. Indeed, the growth gap with North America and the most dynamic parts of Asia has widened, while Europe must meet the combined challenges of low population growth and ageing.

The new President of the European Commission, Mr Barroso, renewed the commitment of the Commission to boost the EU economy. He has made it very clear that the focus will be on growth, competitiveness and new jobs. Dynamic and highly competitive financial markets are not only desirable in themselves. They are an essential driver of growth in all other sectors of the economy and must be a cornerstone of efforts to boost the EU’s economic performance. Therefore the vision that has guided our efforts in the financial field in the past is and will remain valid also for the Barroso Commission: deep, liquid and integrated markets are a goal worth striving for.

In short, Europe cannot achieve its economic agenda without modern, competitive and integrated financial markets.

2. LESSONS LEARNT FROM THE PAST 5 YEARS

For the last five years, we have been working very hard to get closer to that goal. And, although some disappointment has been voiced on the overall delivery of the Lisbon strategy so far, there is a shared consensus that a lot has been achieved in the area of financial services. How have we done that?

In 1999 we started the Financial Services Action Plan, an ambitious legislative programme to bring the financial markets in Europe closer together. It has now been almost completed. We have been working closely together with the member states of the EU, with the European Parliament and with industry. Together we have been able to agree on wide range of issues. Let me give you a few examples:

- We have established a harmonised financial disclosure regime for issuers of listed securities, based on common accounting standards from January 2005;

- We have built a regulatory framework for the trading of financial instruments and defined rules on policing market abuse;

- We have set rules for the supervision of financial conglomerates.

Of course many of the measures still have to be transposed into the national law of the member states and still have to take effect. But already Europe has moved considerably closer to our vision of an integrated financial market. A European reflex has developed among investors and businesses.

Not only the legislative framework has profoundly evolved, but it now encompasses 10 new Member States. The enlargement that took place on 1 May 2004 was the most impressive one in the EU history. Our internal market now serves 450 million consumers and represents a GDP equivalent to that of the United States. Thanks to intensive preparation based on the full implementation of the 'acquis', the integration process went smoothly. And the EU financial sector is now ready to exploit the huge potential for future growth those new markets represent.

We are looking closely at the markets and how they develop. What we see is that in the wholesale sector there have been remarkable moves towards integration – integration that is leading to bigger markets, that is creating economies of scale and that is bringing down prices. The contribution of the Euro is indisputable. This is particularly true for the money market where the removal of foreign exchange risk has boosted liquidity and has thereby considerably reduced the cost of financing for credit institutions and corporate borrowers. It is also true for the bond and stock markets, but to a lesser extent. In these markets, infrastructures and legislation need some time to evolve, but significant progress has been made towards integration over the past 5 years. There have been a number of mergers and takeovers between European stock exchanges. In all exchanges, the share of EU participation is on the rise.

At the same time integration in the retail sector is lagging behind. It is difficult and it does take a long time to bring together 25 economies with 25 different legal systems and 25 different sets of consumer protection rules. Markets addressing the individual customer, such as bank lending and life insurance markets, have kept their local character. This is one of the fields where there is still need for targeted legislative action to address the shortcomings. For instance, the introduction of a single currency alone has not been sufficient to create a single payment area for all European citizens and businesses. For the end-consumer, it is incomprehensible that even with a single currency, cross-border payments or credit transfers are not as simple and as cheap as domestic operations. To end this situation, the Commission adopted in 2001 a regulation to align the prices of domestic and cross-border operations within the EU. As some difficulties remain, we are going to introduce a new legal framework for payments that will create a real single payment area, coherent with the existing single currency area.

The basis of the swift progress which we have made over the last five has been a fundamental change to the way how we prepare new rules and regulations. Transparent, open and evidence-based policy making together with thorough and wide consultation has become a crucial part of the preparatory phase of Commission proposals. Even more importantly, to keep up with the dynamic development in the financial markets, we have redesigned our way of producing legislation. In this so called “Lamfalussy Architecture”, the legislation lays down the core principles and objectives to be achieved. In a second stage, more detailed and technical implementing measures are adopted, on the basis of advice given by committees of national supervisors in the fields of securities, banking and insurance. Additionally, the committee structure provides a framework for increased cooperation between supervisors, and should ensure further supervisory convergence among Member States.

3. PROSPECTS FOR THE FUTURE

Where do we go from here? There are three main challenges we face: (1) implementation in all 25 member states, (2) consolidation of the internal market for financial services and (3) global cooperation. Let me say a few words on each of them.

(1) One of the immediate and overarching priorities is the effective implementation and enforcement of all agreed measures and rules in all Member States. As I have pointed out to you already, the measures that have been passed at a European level have not all become law in our member states. Even if they have been transposed into national law already, that does not necessarily mean they have been fully implemented yet. For the next few years, the Commission will look closely at what is going on at Member States' level and, if necessary, take action to ensure a level playing field in the whole of the EU.

(2) The second priority is to consolidate the internal market for financial services. A number of initiatives have been taken by the Commission, and we should complete them on time. Let me mention the implementation of the new Basel Accord through a new Capital Adequacy Directive. We also launched the Solvency II project, which aims at establishing a more risk-based insurance solvency system. In the area of market infrastructures and corporate governance, the ongoing work will continue. More broadly, we need to keep a legislative framework in line with market developments. We cannot just simply rule out the

possibility of other corporate scandals that would need a swift and adequate reaction, as we did when Parmalat or Ahold occurred.

(3) At the same time it is no longer enough for regulators to confine their attention to their home-country or continent. The financial industry organises itself more and more on a global scale. Spill-overs become more frequent and tend to have a much stronger effect. Therefore regulators and supervisors need to work together more closely. We cannot afford to be complacent and wait for problems to arise, but have to detect and solve them “upstream”. For this reason, the Commission has started regular dialogues with the US and Japan, and has intensified contacts with China. Accounting standards and auditing standards are just two of the issues that we discuss at the moment. There are real gains to be made from more convergence and the mutual recognition of standards in these fields: markets become more open, costs for business decrease and prices go down.

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Europe has made decisive steps from fragmented national markets to a Single Financial Market. One of the most important of these steps was of course the introduction of the Euro. The final success will now largely depend on the capability of all institutions, authorities and market participants to consolidate the legislative framework and work towards removing any residual barriers during the next five years.

We have been successful in establishing a single currency for 12 of our Member States, and the Euro area will expand to new Member States. If we have achieved such an ambitious goal, there is no reason we should not succeed in establishing a single and truly integrated financial market for all the countries of the EU.

Thank you for your attention.

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Contact: Sven Gentner, F1, tel: 53751