

Current Regulatory Tendencies at EU Level

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Internal Market & Services DG



Topics

- FSAP
 - Objectives
 - Better regulation
 - Supervisory convergence
- Threats
 - Financial turmoil
 - Inconsistent implementation/enforcement
- Opportunities
 - Global dimension



EU FSAP objectives

- To create an integrated Europe-wide single market through a framework of legislation, co-operation and practice within which financial services can operate across borders and make the free movement of capital and services a practical reality.
- To strengthen cross border competition and supply, strengthen financial stability, ensure high levels of consumer/investor protection, reduce the cost of capital, and strengthen international regulatory convergence.



MiFID

Directive 2004/39/EC on markets in financial instruments

- Comprehensive regulatory regime governing financial trading and intermediation in the EEA
- Principles-based approach
- High level of investor protection – suitability, appropriateness
- Limited reliance on disclosure – strong rules on inducements, conflicts, best execution
- Rules calibrated to firm, client characteristics
- Light-touch regulation of professional markets
- Limit ‘gold-plating’ to enable the passport to function well

Impact of MiFID

- A catalyst for significant market structure changes
 - Increase competition between trading venues and investment firms
 - Increase competition cross-border
 - Increase of trading volumes and financial information flows
 - Make full electronic trading more attractive
 - Create deeper, more liquid integrated capital markets
 - Lower costs for issuers and investors



Beyond FSAP

- * FSAP (1999- 2004): 42 measures to overcome the persisting fragmentation of the EU financial markets – focused on wholesale markets and supervision. The € has boosted financial market integration.
 - CRD, MAD, PD, MiFID, Accounting/Audit,...
- * New Financial Services Policy (2005-2010) – focused on retail markets

Key objectives:

- Dynamic consolidation
- Better regulation
- Targeted new initiatives
- Supervisory convergence

Dynamic Consolidation

- of regulation, at EU and national level
 - Filling the gaps in all Financial Services areas
 - Reading across to prevent ambiguities and overlaps
 - Cooperating with other policy areas (competition, consumer protection, taxation)
 - Withdrawing obsolete/unnecessary regulation
 - of supervisory structures in Europe
 - of EU financial services sector, eliminating barriers to consolidation
- to strengthen EU's position in a global context



Better Regulation

- Openness towards stakeholders:
 - Wide-ranging and thorough consultation
- Evidence-based policy making:
 - Ex-ante impact assessments
 - Ex-post evaluation
- Subsidiarity / proportionality principle
- Principle based rules
- Emphasis on implementation and enforcement of agreed measures
- Completing unfinished business – targeted new initiatives
 - Asset Management / Investment funds; Clearing & Settlement ; Retail; Solvency II; financial education...



Supervisory convergence

The problem

- Market integration, consolidation
- National supervisors/national practices – fragmentation

The objective

- Closer cooperation
- Tangible convergence of supervisory practice
- Streamlining of reporting format
- Elimination of any redundant reporting requirements



Supervisory convergence cont'd

A solution?

- Make the Lamfalussy architecture work better
- European supervisory culture
- Exchange of staff/training programs
- More effective L3 Committees
- Strengthening coordination/information sharing



Threats

- Financial Turmoil
- Fragmented EU Member States
- Inconsistent implementation/enforcement



Spring EU Summit

- Last Spring Council EU leaders concluded that while primary responsibility to deal with the issues raised by the financial turmoil remains with the private sector, authorities are to be prepared to take regulatory and supervisory actions where necessary.
Issues: weak internal valuation models, opaque securitization process, business models built upon disproportionate maturity mismatches between assets and liabilities, weak internal controls and poor disclosure standards, to name but a few.
- Work coordinated with initiatives being undertaken in other jurisdictions and international fora, notably the G-7, the Financial Stability Forum and the G-10 Basel Committee on Banking Supervision.



EU Key Areas of Work

Four areas of actions were identified for the months to come:

- enhancing transparency for investors, markets and regulators, in particular on exposures to structured products and off-balance sheet vehicles;
- improving valuation standards, in particular for illiquid assets;
- improving the market's functioning and its incentive structure, including the role played by credit rating agencies;
- strengthening the EU's prudential framework, e.g. with respect to the treatment of large exposures, banks' exposures to securitisation as well as liquidity risk management (targeted revision of the Capital Requirements Directive).



Opportunities

- Global regulatory convergence
- Ensure greater consistency of EU rules
- Strengthening supervisory convergence



International dimension

Why ?

- Globalisation: trade, investment and capital movement are booming
- Technological developments
- More efficient global allocation of capital
- Avoid spillover effects of legislations
- Promote EU regulatory model
- Support global expansion of EU FS industry
- Convergence towards international standards
- Have an offensive position in multilateral or bilateral negotiations



International dimension cont'd

How?

- Informal regulatory dialogues : Commissioner and DG level
- With Min Fin, Central Banks and regulatory agencies
- US: Started in 2003 with SEC, FED and Treasury
- SOX, deregistration, reinsurance collateral
- Mutual recognition in securities markets
- Basel II, audit et accounting
- Japan and China: started in 2005
- Russia and India: started in 2006



International dimension cont'd

Results

- US: Deregistration, accounting, Basel II, audit oversight equivalence, mutual recognition in securities
- China : retail banking market opening, accounting convergence
- Japan: convergence between Japanese GAAP and IFRS
- Russia : approximation of EU legislation, preferential access for EU companies
- India : exchange of information, follow-up of FS liberalisation



Thank you

