

# Financial services policy 2005-2010. White Paper

2006/2270(INI) - 11/07/2007 - Text adopted by Parliament, single reading

The European Parliament adopted the initiative report drafted by Ieke **VAN DEN BURG** (PES, NL) in response to the White Paper on financial services policy (2005-2010).

The Parliament congratulates the Commission on the contribution of the FSAP towards the creation of a European capital market that is leading in the world not least because of the quality and solidity of its financial regulation and approves the economic priorities set out in the Commission White Paper, namely to consolidate the European financial market, remove barriers to the free movement of capital and improve the supervision of financial services. Member States are urged to ensure the timely and consistent implementation of the FSAP and the Commission is called on to monitor its enforcement, and on the Level 3 committees continuously to improve the consistency of its application.

The main elements of the report are as follows:

**Market concentration:** noting a high market consolidation in the top segment of financial services provided to large listed companies, the report urges the Commission and national competition authorities carefully to apply the Community competition rules to those market players, to be vigilant to any risk of unlawful market concentration in the provision of services to large listed companies. It underlines the need to remove barriers for new entrants as well as the need to remove legislation favouring incumbents and current market structures where competition is limited. The Commission is urged to continue its action towards the removal of the obstacles to cross-border mergers and acquisition. European stakeholders are called upon to consider whether they should encourage the emergence of a specifically European player in the credit rating agencies sector. MEPs strongly reiterate the need to improve the post-trading infrastructure both with a view to price transparency and competition as to the public interest of clearing and settlement security. The report invites the Commission to assess facts about the functioning of the top level of the market of large merger and acquisition transactions and private equity deals and the accompanying underwriting and lending activities. The importance of ensuring the independence of financial analysts and financial market data providers through transparent funding structures is underlined.

**Alternative investment vehicles:** fully aware of the rapid rise of alternative investment vehicles (hedge funds and private equity), the Parliament recognises that they provide liquidity and diversification in the market and create an opportunity to improve efficiency of corporate management, but also shares the concerns of some central banks and supervisors that they may give rise to systemic risk and to high levels of exposure of other financial institutions. The Commission is invited to launch a debate on hedge funds so as to be prepared for international and European discussions and to review the differences in Member States' regimes for retail access to alternative investments, and in particular to determine the appropriate qualifications for distributors of such products to retail investors.

**Access to finance in the retail segment:** MEPs prefers a more focused approach directed at the de facto barriers which impact on mobile cross-border users. They encourage the financial industry to develop pilot pan-European financial products such as pensions, mortgages, insurance products or consumer credit, and invite the Commission to undertake the preparation of an appropriate and feasible framework of regulation and supervision, in terms of contractual law, consumer credit and consumer protection so that such products are portable and mutually recognised within the European Union, in order to foster favourable conditions for cross-border labour mobility in an integrated single market.

The Parliament notes that too many EU citizens are excluded from basic financial services and it concludes that well-functioning basic financial services should remain available and affordable to every

EU citizen. The Commission is asked to conduct a study on the accessibility of services such as bank accounts, cash machines, payment cards, and low-cost loans, and to promote best practices and experiences developed by financial institutions in providing such basic services. The Commission is urged to draw up an action plan for microfinancing, to coordinate the different policy measures, and to make optimal use of best practices in and outside the European Union.

**Financial culture:** the Parliament underlines that financial literacy should be more actively promoted than hitherto and that access to proper information and unbiased investment advice is essential. They believe that principles such as ensuring best execution and carrying out suitability tests when providing investment services should form the basis for regulation of service providers in this field. They call on industry to play its part in consumer protection by producing readily comprehensible and usable products and succinct consumer-friendly information.

**Better regulation:** according to the MEPs, consultations with stakeholders should continue to play a key role and stresses that such consultations should be held sufficiently upstream of the decision-making process so that opinions can genuinely be taken into account. The report notes that under the agreement on better law-making, any new Commission proposal should give rise to an impact assessment on the important issues.

**Systemic risks:** the report takes note of a range of new developments which present both potential strengths and possible concerns, including innovative risk mitigation techniques, the substantial growth of credit derivatives markets, the increased systemic importance of large pan-European financial groups, and the growing role of non-bank financial institutions such as hedge funds and private equity.

It points out that those market changes also affect the nature, source and transfer of systemic risk, and thus the effectiveness of existing ex-ante risk mitigation tools and calls, therefore, for evidence-based identification and evaluation of the sources of systemic risks and the underlying dynamics of financial crises in this context.

The Parliament is concerned that the current nationally and sectorally based supervisory framework may potentially fail to keep pace with the financial market dynamics and stresses that it must be sufficiently well resourced, coordinated and legally entitled to give adequate and quick responses in cases of major systemic crises that affect more than one Member State.

**Architecture of regulation and supervision:** the Parliament welcomes the work performed by the European committees of regulators (the CESR, the Committee of European Banking Supervisors (CEBS), and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) in consulting the markets and above all in progressing with convergence of regulatory and supervisory practices. It calls for improvement in cross-sectoral consistency in prudential regulation and group supervision rules for large financial groups dealing with the same or similar products, and, following stakeholder consultation and due procedure give advice to the legislators as to where it is necessary to review the rules. It also urges them to ensure that all financial institutions are equally supervised on a functional basis in all Member States. MEPs emphasise the importance of an integrated European system of cooperation between national and sectoral supervisors, capable of securing the efficient supervision of both big financial players and local entities rooted in national traditions. They consider that all supervisors must take due account of those traditions in the way they execute their conduct of on-the-spot business supervision. The Commission is requested to continue its action towards the removal of obstacles to cross-border mergers and acquisitions. Member States should be encouraged to converge the powers of national supervisors, especially where penalties are concerned. The Parliament considers that greater convergence among supervisors should facilitate the business of companies now subject to more than one regulator.

**Global impact:** the Parliament believes that a greater counterbalance by the European Union to US leadership could reinforce the influence of the European Union and Member States globally as regards the

authority of the US Securities and Exchange Commission. It believes that the transatlantic partnership should be developed and strengthened by enhancing regulatory coordination. It is aware that Community regulation has an impact on relations with third countries. The Commission is urged to maintain intense dialogue and technical cooperation between the European Union and developing countries for ensuring efficiency and quality of global legal and regulatory financial services frameworks. Lastly, MEPs believe that the European Union should take a constructive, open-minded attitude to the economic rise of south-east Asia, and especially of India, China, and South Korea, and refrain from imposing any protectionist measures at Community or national level. They support initiatives to devise common global standards for financial services.