Financial services: building a framework for action. Vienna Council, December 1998

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PURPOSE : This Commission Communication entitled 'Financial services : Building a Framework for Action' focuses on two main aspects of the completion of the Single Market in Financial services, whose potential is enhanced by the Euro. The first relates to deep and liquid European capital markets which serve both issuers and investors better, and the second to the removal of remaining barriers to cross-border provision of retail financial services in order to ensure consumer choice while maintaining consumer confidence and a high level of consumer protection. CONTENT : The Communication highlights a range of issues which need to be addressed to equip the EU with financial markets capable of sustaining competitiveness and weathering financial instability. There is a need for a leaner, more modern regulatory apparatus in the fast moving environment of financial services. The Commission calls on the Council and the Parliament to explore ways of delivering a more streamlined, flexible and faster legislative approach. Mechanisms are also required to reinforce collective discipline in the implementation and enforcement of EU legislation in the financial services sector. With the advent of the Euro, a market-driven modernisation of EU wholesale markets is being spurred on. A coherent programme of action to smooth out remaining legislative, administrative and fiscal barriers to cross-border flotations and investment-related activities can deliver significant economic dividends. The Commission urges Member States to finalise and implement a set of priority actions to promote the efficient integration of wholesale financial markets as a matter of urgency. As for retail financial market, despite great progress in the completion of the single market, the cross-border sale of traditional financial products to individual consumers remains the exception. The Commission intends to promote a clear and common understanding of the distinction between professional and non-professional users of financial services. In keeping with relevant provisions on international private and EU law, efforts will be made to limit additional host country requirements to consumers acting in a non-professional capacity. The Commission will identify and catalogue substantive differences between Member States· ·general good· rules so as to improve transparency and allow verification that host country rules are proportionate to their stated objective. The Commission is to continue to promote the convergence of national practices towards a high level of consumer protection where this is a necessary and proportionate response to consumer concerns. The Commission points out that as the regulatory framework for a single financial market crystallises, fault lines at the level of supervision become more prominent. The Commission considers that structured co-operation between national supervisory bodies · rather than the creation of new EU level arrangements · can be sufficient to ensure financial stability. At present, this co-operation is organised on an ad hoc basis and will need to be upgraded. In the area of securities markets supervision, in particular, present arrangements are unable to keep pace with thesudden acceleration in market integration. The Commission and Member States must actively contribute in the promulgation of an international base line of fundamental prudential requirements and assist in the widest possible dissemination of best supervisory practice. Creating the general conditions for a fully integrated EU financial market requires action in the following areas : In order to provide for an integrated infrastructure, interaction between national securities and payments systems needs to be improved, as well as the development of appropriate mechanisms to combat fraud and money laundering. To ensure a level playing field for financial operators, financial market integration will need to be enhanced by strict application of the Treaty rules on competition and state aids. With the disappearance of exchange risks as a deterrent to real pan-European investment strategies, disparities in tax treatment are already emerging as a significant distortion of the allocation of resources. Political agreement has been reached to address the most pressing distortions (to the allocation of savings and harmful tax competition between financial centres). Work will also need to be done in respect of key financial products such as life insurance and pension funds, where tax treatment prevents cross-border marketing. The Commission invites the Parliament and the Council to work with it in taking forward the debate. The Commission proposes that personal representatives of the Finance Ministers should be

nominated and meet in a Financial Services Policy Group, chaired by the Commission. The Group would identify and prioritise a set of actions by June 1999 to be presented to the Council, and, prior to June 1999, it would define a number of immediate priorities to guarantee momentum to the process. It would also assist the Commission in collective monitoring of implementation and enforcement of financial services legislation. The Commission will also establish a High Level consultation mechanism to ensure that both market practitioners and users of financial services are able to make a full contribution to the formulation of policy in this area.