Financial services: action plan. Progress report

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PURPOSE : to table a framework for action in order to improve the single market in financial services. CONTENT : this action plan, presented at the request of the Vienna European Council 1998, consolidates the issues which have emerged from the Commission's communication, as fleshed out by the Financial Services Policy Group (FSPG). Essentially, action is envisaged under three headings : wholesale markets; retail markets, and sound supervisory structures. 1) Wholesale markets : the euro is the catalyst for the market-driven modernisation of EU securities and derivatives markets. Profound changes in the organisation of the EU financial marketplaces are already visible, notably in the relationship between different exchanges and in the consolidation of payment and securities settlement systems. These hold out the prospect of cheaper and more flexible financing arrangements for corporate borrowers, including innovative start-up companies. Similarly, the present mass of legal and administrative barriers needs to be stripped away lest the emergence of better-integrated securities trading systems driven by market forces is frustrated and the benefits of access to EU-wide capital markets denied. Broadly, action is needed under 6 chapters : a) common rules for integrated securities and derivatives markets : the Commission must pave the way for effective cross-border provision of investment services. A communication summarising the common interpretation between national supervisory authorities could be an important first step in clarifying the boundary between the sophisticated investor (where the choice of 'conduct of business' regime can be left to the two contracting parties) and the less professional 'household investor' (where local rules could continue to be applied) ; b) raising capital on an EU-wide basis : producing multiple sets of official documentation before issuers can offer securities in other Member States is costly and undoubtedly inhibits pan-EU activity. In addition, to secure practical improvements in the operation of the Public-Offer Prospectus Directive, collaboration between the Commission and the Forum of European Securities Commissions (FESCO) will be intensified ; c) financial reporting : comparable, transparent and reliable financial information is fundamental for an efficient and integrated capital market. FSPG discussions pinpointed the urgent need for solutions which give companies the option of raising capital throughout the EU using financial statements prepared on the basis of a single set of financial reporting requirements. Solutions to enhance comparability within the EU market must mirror developments in internationally accepted best practice. At the present juncture, International Accounting Standards (IAS) seem the most appropriate bench-mark for a single set of financial reporting requirements which will enable companies to raise capital on international markets. A screening mechanism will be required in order to ensure that IAS output conforms with EU rules and corresponds fully with EU public policy concerns. These issues will be amplified in a Commission communication to be published by the end of 1999, which will prefigure amendments of the 4th and 7th Company Law Directives. Auditing issues will be addressed in a separate Commission Recommendation ; d) a single market framework for supplementary pension funds: the supplementary pension funds (employment-related) should be able to cooperate in a coherent single market framework. A communication could serve as the basis for a proposal for a Directive on the prudential supervision of pension funds. The envisaged prudential framework would take into account the diversity of pension funds currently operating in the EU and will examine questions such as the coordinationof the tax arrangements governing supplementary pensions and the removal of the obstacles to labour mobility would also be explored ; e) collateral : the mutual acceptance and enforceability of cross-border collateral is indispensable for the stability of the EU financial system and for a cost-effective and integrated securities settlement structure. In close cooperation with the financial services sector and national authorities, the Commission will begin work on proposals for legislative action on collateral; f) a secure and transparent environment for cross-border restructuring : the early adoption of the Take-Over Bids Directive and the European Company Statute will provide much-needed legal underpinning for protection of minority shareholdings and a more rationalised organisation of corporate legal structures in the single market. It will also pave the way for the Commission to come forward with long overdue and important proposals for Directives on cross-border mergers of public limited companies, and on the transfer of company seat. Prudential considerations must,of course, be fully

taken into account. 2) Retail markets : regulatory and structural problems which prevent financial service suppliers and consumers from mutually benefiting in a climate of trust and legal security must be tackled head on. Appropriate and progressive harmonisation of marketing and information rules throughout the Union together with a pragmatic search for non-legislative solutions offers the prospect of a truly integrated retail market fully respecting the interests of consumers and suppliers. In this respect, the Commission has identified 6 key areas : a) information and transparency : clear and understandable information for consumers is vital when they are investing significant savings in another country. The Commission will continue the policy of dialogue between financial service providers and consumers, initially by issuing a Recommendation to follow-up on a code of good practice on information provision in the area of mortgage credit. Furthermore, a communication will be published which will examine possible guiding principles for the full range of cross-border financial services, taking account of provisions laid down in existing EU and national provisions ; b) redress procedures: it is necessary to find an efficient and effective judicial and extra-judicial settlement of disputes to provide the necessary confidence in cross-border activity. The Commission could consider the development of a Union-wide complaints network (including the use of an ombudsman for financial services) by basing its action on its recommendation on the principles applicable to the bodies responsible for out-of-court settlements ; c) a balanced application of consumer protection rules: for a number of specific financial products, the Commission could analyse national consumer protection rules. Detailed work could be undertaken to establish possible equivalence between clearly similar rules. This work could culminate in detailed report to the Council and the European Parliament on the basis of which conclusions for the future policy will be drawn. In addition, the Commission has already announced its intention to issue a communication on the application of the general good in the insurance sector ; d) electronic commerce : proposal for E-Commerce and Distance selling Directives are on the table, which will facilitate the emergence of these activities. Furthermore, the Commission envisages publishing a Green Paper to establish whether the provisions of existing financial legislation contain coherent provisions on prudential procedures provide a propitious legal environment in which e-commerce based financial service business can thrive, while ensuring that consumers' interests are fully safeguarded; e) insurance intermediaries : the Commission is working towards tabling a Directive to update the 1976 Directive on insurance intermediaries and tostrengthen consumer protection by establishing common requirements on inter alia registration, financial security and information disclosure to the consumer ; f) cross-border retail payments: there is a clear need for integrated retail payments systems, which provide for secure and competitive small-value cross-border transfers comparable with the service provided within domestic payment systems, to be put in place before the end of the euro transition period. Thus, there is need for a concerted effort involving the ESCB, EU institutions and the private sector. As regards regulation, the Union should strive to maintain the highest standards of prudential regulation for its financial institutions. Therefore, it intends to present proposals to maintain high standards of banking, insurance and securities prudential legislation. To this end, the work of the existing bodies will be taken into account as much as possible (Basle Committee, FESCO, etc). Appropriate and efficient arrangements will be put into place to increase cross-sectoral discussion and co-operation between authorities on issues of common concern. The differences in corporate governance arrangements in different Member States could give rise to legal or administrative barriers which might frustrate the development of an EU financial market. A review of existing national codes of corporate governance will be launched with a view identifying any legal or administrative barriers which may appear. In addition, the Council is invited to adopt the 1998 proposal for a Directive to ensure a minimum effective taxation of cross-border savings income. The Commission will continue its efforts to tackle tax barriers to a fully functioning single market for financial services. The Commission will present proposals, in light of the Taxation Policy Group discussions, as regards pension funds and insurance. Lasty, the communication proposes to put in place mechanisms to identify future challenges and to frame priorities in a broad context (e.g., the creation of a forum to forge consensus on emerging challenges between national ministries involved in financial services regulation; adoption of appropriate arrangements to allow policy orientations to be discussed informally with EP representatives at an early stage; the creation of a high level forum).