Towards further consolidation in the European financial services industry

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The committee adopted the own-initiative report by Joseph MUSCAT (PES, MT) on further consolidation in the financial services industry. The report looked at the general perspectives before examining the barriers to cross-border consolidation and commenting on the regulatory and supervisory system.

The committee noted that consolidation was one way, although not the only one, for the financial services sector to respond to growing competition at EU and global level. The aim should not be to reach a particular number of firms, and consolidation must be proportionate to competition. While it was likely to have a positive effect on competitiveness, merger activity often brought with it a fear of job losses, and MEPs called for companies involved to take account of their social obligations.

The report stressed that consolidation should not be a political objective as such, but should bring clear benefits to the economy by stimulating growth, encouraging innovation, ensuring competition, improving access to funding, allowing financial institutions to exploit synergies and cost efficiencies and by giving consumers a greater choice and better quality, while ensuring an adequate level of consumer protection. It said that these potential benefits should not be hampered by unjustifiable obstacles, such as those created by tax barriers and differing supervisory regimes.

Pointing out that different supervisory practices and standards and reporting requirements can be costly and time consuming for companies trading across borders, MEPs welcomed the progress made so far by the committees of national regulatory bodies (the ‘Level 3 committees’) and encouraged them to go further in convergence of different approaches.

Among tax obstacles, the committee highlighted issues regarding inter-group VAT and a lack of legal certainty regarding the VAT treatment of financial services. It also noted that tax systems often favour domestic rather than EU dividends.

As far as supervision was concerned, the report said that increasing consolidation of the industry meant that the supervisory framework would also have to evolve, with a clear definition of responsibilities between host and home country supervisors. In the event of a crisis, cooperation and mutual trust would be crucial, so MEPs encouraged the Commission and national authorities to develop joint proposals for effective crisis management. Lastly, the committee called for a committee of "wise men" to be set up to analyse in detail the issue of supervision of EU financial markets as consolidation progresses, to report back by the end of 2006.