

Financial services policy 2005-2010. White Paper

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PURPOSE: to present the EU's financial services policy from 2005 to 2010 (White Paper).

CONTENT: the purpose of this White Paper is to present the Commission's financial services policy priorities up to 2010. As a leitmotiv it relies on the term "dynamic consolidation" to describe an approach that is practical, ambitious and a reflection of stakeholder's interest in financial services.

The Commission has set itself four main objectives over the next five years. They are:

- To consolidate an integrated, open, inclusive, competitive and economically efficient financial market for the EU.
- To remove any of the remaining economic barriers that affect financial services in order to allow the free circulation and movement of financial services – at the lowest possible cost. To ensure high levels of financial stability, consumer benefits and consumer protection. The free market for financial services is to be backed up with effective levels of business regulation.
- To implement, enforce and continuously evaluate existing legislation in the field of financial services and to apply the "better regulation" initiative to further proposals.
- To enhance both co-operation and the convergence of EU provisions, to strengthen relations with other global financial marketplaces and to strengthen European influence globally.

European financial market integration has been driven forward by the Financial Services Action Plan (1999-2005) or the FSAP. Its central philosophy has proven sound: financial industry's performance has improved; there is higher liquidity, increased competition, sound profitability and stronger financial stability. Benefits from this policy are expected to increase. However, efforts have to continue and the EU financial services industry has strong, untapped economic and employment growth potential. A further boost in the efficiency of pan-European markets for long-term saving products is urgently needed. Further, the EU's major structural economic challenge – its huge pensions deficit – also needs to be financed. The retail internal market is a long way from completion. A better functioning risk capital market is also needed to promote new and innovative firms and to raise economic growth. Based on this assessment the White Paper states that consolidating progress; completing unfinished business; enhancing supervisory co-operation/convergence; and removing the remaining economically significant barriers are the key axes of Commission policy for the next five years.

In order to push this policy forward the following issues have been analysed in the White Paper:

Better Regulation: The Commission will deploy the most open, transparent, evidence-based policy making based on a dual commitment to open consultation and impact assessments. The Commission will seek to ensure that sound rules are drawn up that add value to the EU's financial services sector as well as to consumers. Under this policy heading attention will be given to: open and transparent consultation; impact assessments; implementation and enforcement; *ex-post* evaluation; simplification, codification and clarification; offering user input, education and redress; and finally to reinforce the interaction of financial services with other policy areas.

Ensuring the right EC Regulatory and supervisory structures: Although some retail businesses will remain local many firms are increasingly seeking pan-EU economies of scale. Regulatory and supervisory

structures in the EU, therefore must adapt whilst reducing costs reduces where ever possible. The central policy of the Commission is to keep faith with the four level Lamfalussy process, which is widely supported and seen to be successful. Future key regulatory issues include reform of the comitology procedures; improving transparency vis-à-vis the European Parliament and Council; developing cross-sectoral regulatory co-operation and ensuring full respect for the Lamfalussy process. In other areas, the Commission calls for greater clarity in the division of responsibility between home/host supervisors; a possible delegation of tasks and responsibilities between supervisors as well as offering some practical steps to improve the efficiency of supervision.

On-going and future legislative activities (2005-2010): This heading examines a number of on-going subjects including retail banking; Solvency II; Review qualifying shareholdings; and Clearing & Settlement. The Commission has identified and examined potential barriers to cross-border investment and economic rationalisation within Europe. Follow-up action is expected in the following areas: the e-Money Directive; Insurance Guarantee Schemes; the Hague Securities Convention; and Optional Instruments. The main areas where no new legislation is planned include: rating agencies; financial analysts; the Takeover Bids Directive; and Capital requirements for regulated markets. As far as future initiatives are concerned, the Commission has identified two areas where carefully targeted initiatives may bring benefits to the EU economy. They are: investment funds and retail financial services. Work in this field will be bottom-up and be based on extensive consultations that take account of interaction between existing legislation and new initiatives.

The external dimension: Standards and best practices are frequently set and defined at global level – especially in the field of accounting, auditing and banking capital requirements. The EU must have a leading role in standard setting at an international level. Further the EU needs to be represented in international bodies where it can speak with one voice. Co-ordination in international fora such as the Basel Committee, IAIS, IOSCO, and UNIDROIT needs to be shored up. The Commission will also seek participation in the Financial Stability Forum, from which it is presently excluded for no good reason.

To conclude, the Commission will prepare an annual progress Report in which developments are outlined and analysed.