

Financial services policy 2005-2010. White Paper

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The Committee on Economic and Monetary Affairs adopted, by a large majority, the initiative report drafted by Ieke **VAN DEN BURG** (PES, NL) in response to the White Paper on financial services policy (2005-2010).

In doing so, it 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.

Market concentration: noting a high market consolidation in the top segment of financial services provided to large listed companies. The committee 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. The committee strongly reiterates 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.

Highlighting the increasing influence of proxy voting intermediaries and financial intermediaries holding consumers' tangible assets through indirect holding systems, the committee asks the Commission to assess the potential risks of market dominance, market abuse and conflicts of interest by such intermediaries and to closely monitor the effects of the prospective directive on the exercise of voting rights by shareholders of companies. It expresses its disquiet at the high proportion of financial service companies in the new Member States that are wholly or partly foreign owned, given, first, that this makes it difficult for the supervisory authorities in those countries to exercise effective supervision

and control and, in addition, that the interests and needs of the new Member States' economies often play only a minor role in the strategies pursued by parent companies' foreign-based head offices.

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 Commission is also urged to cooperate with US regulators to check whether the necessary safeguards, such as internal codes of conduct and 'Chinese walls' are adequate to achieve an appropriate level of corporate governance and market transparency and to manage conflicts of interest. 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 committee 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: the report states that cross-border integration of EU retail financial markets is less developed than in the wholesale area. MEPs take the view that national consumer protection traditions must not be interpreted in such a way that new competitors are hindered on the domestic market. They note the importance of intermediaries in order to bring competition to Member States' domestic markets and stress the benefits of open and pluralistic structures in the European banking market to meet the different and evolving needs of consumers. They prefer a more focused approach directed at the concrete barriers which impact on mobile cross-border users and encourage the financial industry to develop pilot pan-European financial products such as pensions, mortgages, insurance products or consumer credit. The Commission is invited to undertake the preparation of an appropriate and feasible framework of regulation and supervision, in terms of contractual law, taxation, 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.

Amongst other recommendations, the Commission is invited to: consider whether the European Union might be able to set up its own banking card system; reactivate the initiative aimed at providing mutual societies with a European statute; conduct a study into the accessibility of services such as bank accounts, cash machines, payment cards, and loans at low cost; promote best practices and experiences developed by financial institutions to provide such basic services.

The report endorses Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision as the specific regulatory framework for pension funds. In this context, the Commission is urged to explore the possibility, within the framework of better regulation, in order to promote supervisory convergence across the European Union and to prevent unequal treatment of market players and distortions of competition, to supplement that Directive with a harmonised solvency framework for pension funds in line with the Solvency II approach.

Financial literacy and users' input in policymaking: the committee members underline 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: the committee takes the view that consultations with stakeholders – in particular, as far as financial services are concerned, the IIMG – 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. It notes that under the agreement on better law-making, any new Commission proposal should give rise to an impact assessment on the important issues. It regrets that up to now that commitment has not been fulfilled in a satisfactory manner and stresses that impact assessments should nevertheless not bring law-making to a standstill. The committee is committed to fast-track legislative procedures where possible, if they have proved their worth in practice, but warns that aiming for first reading agreements should not hamper the quality of decision-making or impinge on the democratic process.

Architecture of regulation and supervision: the committee warns that the current fragmented supervisory framework may not be able to keep up pace with the dynamics of the financial markets,

particularly in overseeing complex new products and their interactions and effects at macro level. While the present system can be considered to be able to secure efficient conduct of business supervision in the context of national traditions and practices of supervision on the spot, the report makes the case for a system of supervision based on the existing domestic structures and traditions of supervision and enforcement, that includes also a well equipped European level executive level with a mandate for prudential and systemic risk supervision of the large cross border and cross sector financial conglomerates. The report underlines the importance of an integrated European system of cooperating national and sectoral supervisors, capable of securing the efficient supervision of both big financial players and local entities rooted in national traditions.

MEPs welcome the decision of the Economic and Financial Affairs Council to set up a Financial Services Committee subgroup on long-term supervisory issues, which is due to report in October 2007. They expect that group to give a fair assessment of the present situation. It together with the final report of the Inter-institutional Monitoring Group (IIMG) that is also expected in autumn 2007, the report of the European Parliament and the expected follow-up report of the European Commission, may create momentum for an assessment of the remaining challenges to the integration and effectiveness of the financial regulation and supervision architecture, and provide commitment for possible recommendations for further steps. The committee suggests the creation of training programmes for financial market supervisors to this effect and calls on the Commission to consider to what extent EU-wide standards could be laid down for the training of national supervisors in keeping with, and to promote, a common European supervision culture.

Global impact: the committee 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; urges the Commission 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.