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Speech by Commissioner McCreevy at the European Parliament's Economic and Monetary Committee (ECON)

EP ECON Committee

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Madam Chair, Honourable Members,

Introduction

I would like to use my last meeting with you before the Christmas break, to focus on four issues that have been high on our agenda for quite some time now. I wish to inform you of the latest developments related to EU/US relations, retail financial services and SEPA. I will also touch up the recent financial turmoil.

1. EU-US regulatory dialogue

TEC

The first meeting of the Transatlantic Economic Council (TEC) in November, was a good beginning. Legislators, stakeholders – business and consumers – have been brought in more effectively than in the past. Your Committee is well represented by both Jonathan Evans and Peter Skinner. Transatlantic legislators support will be crucial for the sustainability of the process.

On financial markets, the Transatlantic Economic Council helped to make progress on accounting standards ahead of the SEC decision on IFRS; it assisted with the launch of an investment dialogue, and gave support towards EU-US recognition in the field of securities. Successful cooperation in these areas will greatly contribute to promoting capital investment and the efficient allocation of global capital.

Regarding priorities for the next year, clearly financial markets will remain high on the agenda, accounting equivalence, and securities especially.

A further candidate for discussion should be the removal of collateral requirements for EU re-insurers. Our dialogue with US regulators is made difficult in the area of insurance due to the regulatory framework in the US. Putting the issue on the agenda of the Transatlantic Economic Council should help to move it forward and make progress. It is about time.

Accounting

On November 15, the US Securities and Exchange Commission took the major decision to allow foreign issuers to file accounts under IFRS without reconciliation to US standards. We have always wanted this. All EU companies listed in the US will benefit. One estimate puts the savings at €2.5bn - and this just for EU companies. This is clear evidence of the benefits of international regulatory dialogues!

We must continually make sure that new standards reflect the real needs of stakeholders. We need to continue to press for improvements in the IASB standard setting process. To avoid unwanted or even unexpected consequences. That means more transparency. Better consultations. Impact analysis at an early stage. Thorough field-testing of any new standards. And rigorous management. We need standards only when they are necessary.

We also need to strengthen further the public accountability of the IASB. That is why last month we issued a statement together with the US SEC, the Japanese Financial Services Authority and IOSCO on key issues where action is needed.

Next year it will be the EU's turn to take the decision to accept US GAAP - and other well developed third country GAAPs. We are working hard together with European securities regulators to determine whether those GAAPs are equivalent to IFRS. We will make a serious and balanced decision - taking into account the competitiveness and attractiveness of our capital markets. As regulators we must help financial markets to function as friction-free as possible.

Mutual recognition in the field of securities

Earlier this year, the SEC signalled that under the right circumstances it might be prepared to allow foreign firms and exchanges to be active in US markets without the need for full SEC registration. In other words, the US SEC might be prepared for the first time, to trust foreign regulators and foreign rulebooks. A fundamental change in their approach. This is not unconnected with growing international competition in capital markets, led by the EU. I support whole-heartedly this idea of 'mutual recognition'. Here again, if we can get the conditions right, the rewards could be immense. And not just in the transatlantic space but with third countries as well.

We have already talked to the SEC on this subject. They intend to issue a statement shortly. We are getting ready to respond at EU level. In recent weeks, we have been taking soundings with the Member States and stakeholders on a set of principles. These are:

1) A gradual approach

EU-US mutual recognition in securities should be a gradual process, with successive steps carefully prepared on the basis of political understanding, working with regulators on both sides.

2) Partnership between the EU and US through a multilateral, not a unilateral process

Only a genuine, mutually agreed EU-US co-operative approach will deliver the desired results, without fragmenting or distorting the single market.

3) Equality of criteria for assessment

The same assessment criteria should be used by the US and the EU when determining whether to grant access to firms and markets established in the other jurisdiction. The IOSCO principles and standards for securities markets regulation could be a basic reference. CESR will play a key role here.

4) Consistent application

All EU jurisdictions that wish to avail themselves of this opportunity should be given equivalent treatment.

5) No extraterritoriality

Business conducted within the territory of the EU should only be subject to the laws of the EU and the Member States.

The window of opportunity is in 2008. We need strong political will and courage. We count on your support and will keep you fully updated of forthcoming developments.

I have spoken about our relations with the US on many occasions before this Committee. I know that opinions on this subject in this Committee are divided. But it is an undeniable fact that significant progress has been made with our US counterparts with the approach we have pursued to date. The benefits are clear and we should continue on this path.

2. Financial Turmoil

Our financial and regulatory dialogues should also be seen against the background of how we respond to turbulence on the financial markets.

A lot has been said and written about the recent turmoil on the financial markets. As consensus is developing on the reasons behind the current turmoil, and as the transmission mechanism of risks and losses reveals a number of weaknesses in markets that rapidly became illiquid, we are focusing on how to respond to problems and how to prevent them from occurring again.

We are carefully monitoring developments in financial markets. It is not my style to jump to conclusions on the need for possible regulatory or supervisory responses, but we have identified key issues to be further analysed and addressed.

It is important to bear in mind that the problems have occurred in the regulated markets. An overriding theme in the recent turbulence has, however, been a lack of information in terms of transparency in markets.

I have asked my services to look at how we can enhance and assure transparancy and how assets should be valued. At the ECOFIN Council on 9 October we also agreed on common principles for enhancing the effectiveness of financial stability and the ability of authorities to respond jointly in case of serious disturbances. This comes on top of the review of the Lamfalussy procedures which we presented earlier in the month. This review should allow for identifying further steps for letting the EU supervisory framework evolve in line with market developments. We should also not forget that with the actual entry into force of the Capital Requirements Directive transparency will be improved and greater discipline will be instilled in the transfer of risk. Finally I already told you on earlier occasions that we are looking into the incentive structure and possible conflicts of interest faced by credit originators, rating agencies and other market participants.

While markets may still take some time to regain stability and confidence, I am confident that the measures I just outlined demonstrate that in the Commission we are responding in an adequate manner. Our response should be measured but determined and should focus on the real issues, rather than knee jerk reactions.

3. Single Market Review & Retail Financial Services

While the transatlantic - and global - markets are vital for us, we must of course first and foremost ensure that our policies deliver for our own consumers and companies

The Commission review on the Single Market for 21st Century Europe, adopted on 20 November, is consumer focused. Retail Financial Services are a major feature.

Today, as first concrete steps, the Commission adopted a White Paper on the Integration of EU Mortgage Markets and a Communication on Financial Education.

White paper on mortgage credit

The White Paper seeks to provide a framework for improving the competitiveness and efficiency of mortgage markets by facilitating the cross-border supply and funding of mortgage credit and by increasing the diversity of products available. We must combine this with confident and empowered consumers.

The White Paper looks at a number of mortgage related subjects. For issues such as land registration, property valuation and forced sales procedures, we may present a Recommendation. We also intend to publish regularly updated 'scoreboards' on the cost and duration of land registration and foreclosure procedures in all Member States to encourage Member States to improve the efficiency of their procedures.

On mortgage funding, the Commission plans to continue its analysis of the nature, the causes and the magnitude of the problems identified by both the Mortgage Funding Expert Group and the European Financial Markets Lawyers Group's Working Group on Securitisation.[1] We will of course take into account recent developments in sub-prime markets, the complexity and the horizontal dimension of the obstacles identified, as well as the wide-ranging implications for all stakeholders.

Communication on financial education

Flanked by robust consumer protection rules and clear consumer information, financial education can play a key role to empower consumers to make appropriate financial decisions.

Our communication states that financial education should be delivered as close as possible to the citizens that need it, namely through Member States, national and regional authorities, consumer organisation, non-governmental agencies and the financial services sector. The Communication sets out the economic, societal and personal benefits of increased financial literacy and gives an overview of the provision of financial education in the EU. It sets out some basic principles to guide providers of financial education, based on best practice. It also announces some future initiatives in this area. From the publication of an online database of financial education programmes and research to an enhancement of the existing Dolceta online education tool.

4. SEPA

To conclude I would like to say a few words about the Single European Payments Area which is entering a critical phase.

SEPA is complex. Challenging. And hugely important. The estimated potential benefits to the market are enormous – over 120 billion euros for payments and a further 240 billion if SEPA is used as a platform for electronic e-invoicing.

In 2008 we will move from theory to practice. From preparation to the actual launch of new SEPA payment products by banks. Europe's retail payment systems are experiencing a fundamental overhaul. Everyday, we see the payments landscape evolving in anticipation of SEPA. We see consolidation and we see new players coming onto the market.

The Commission is a fervent supporter of SEPA. Council and Parliament have delivered a strong contribution to its design by securing, early this year, the adoption of the payment services directive.

But this project needs more support. It needs your full support. While the benefits are great, the project is largely based on self-regulation and is market-driven. We still need more support within the banking industry. And we need public support in all counties.

A timid take-up of SEPA products would generate a loss for the market as a whole. Users, as well as banks, would not attain the operational cost savings, and competition would suffer. Europe must move forward together here – all for one, and one for all. This means strong political support. Leadership. SEPA merits the same attention and support as the change-over to the Euro.

[1] *Legal Obstacles to cross-border securitisation in the EU*, European Financial Markets Lawyers Group, Working Group on Securitisation, 7.5.2007.

I end with the evident logic.

- One money.
- One payment area.
- An integrated European capital market, fit for purpose and a global leader. Based on good regulatory method.

But let us keep our shoulders to the wheel and make sure all parts are delivered. I count on the European Parliament to also make its voice heard loudly.