

6 March 2002

PROGRESS OF THE FINANCIAL SERVICES ACTION PLAN

UNICE POSITION

UNICE feels there has so far been insufficient dynamism in pushing legislation through the Council. There is a substantial danger that the targets for implementation will be missed due to a lack of political determination. The Financial Services Action Plan (FSAP) is an essential programme of action, and all member states have committed themselves to it.

UNICE calls upon all governments to increase their efforts in pushing FSAP measures through the political channels. Europe's economy will be hampered without greater progress.

The Financial Services Action Plan was launched in May 1999, in the aim of establishing a genuine single market for capital in the European Union. It was endorsed at the Cologne Summit in June 1999, and included as a priority in the conclusions to the Lisbon Summit in March 2000. It includes clearly stated targets to achieve the integration of capital markets by 2005, and securities markets by 2003.

When the FSAP was published, UNICE welcomed its objectives, but called for the earlier implementation target of 2003. Over two years have passed since then, and it is time to assess the progress that has been achieved.

Of the 42 original measures, some 25 have been completed; but only 9 of these completed measures are *legislative acts*. In contrast, *almost all of the 17 outstanding measures are legislative acts*. The Commission's objective of adopting 10 legislative acts in 2002 will be necessary to meet the FSAP target dates – it will also be a highly challenging work programme.

The positive economic climate that prevailed until recently appears to have dampened the urgency of seeking greater gains from a single capital market. Such complacency in policy-making has also been in evidence in other areas of structural reform.

Establish priorities

A heavy work programme remains to be completed, if the deadlines are to be met. There is a risk that the quality of legislation is compromised by the need to accelerate adoption. The obvious solution would be to focus political efforts on the most important proposals first. We therefore suggest that six proposals be accorded priority in terms of political will and resources. These are:

- Directive on the activities of Institutions for Occupational Retirement Provision (and accompanying measures on the elimination of tax obstacles to the cross-border provision of occupational pensions)
- Adoption of International Accounting Standards
- Single company prospectus
- Directive on international financial collateral arrangements
- E-commerce and financial services
- Insider dealing and market manipulation directive

These are the most important legislative proposals for the business community in the EU; they are fundamental to any serious attempt to establish a single market for capital. The target date for their implementation should really be 2003.

Furthermore, the upgrade of the ISD and the capital adequacy directive (following the Basel committee's recommendations) will require impressive work by the Commission. The Basel Committee's recommendations will effectively be global in application; it is therefore important to ensure Europe does not lag behind in implementation, which would place companies in the EU at a disadvantage.

Among the six priorities identified, the Council needs to make significant progress and adopt the directives in the activities of Institutions for Occupational Retirement Provision and on E-commerce and financial services.

In so doing, the Council should take into account the liberalising amendments the European Parliament has introduced into these proposals.

The remaining four priorities are currently before the Parliament. We welcome the Parliament's recent work in improving the proposals for the single prospectus and insider dealing & market manipulation. Many of the amendments tabled on these directives would make significant improvements to the proposals and UNICE calls upon the Council to take account of these¹.

UNICE urges the European Parliament to concentrate its effort in this area upon the achievement of a genuine single market for capital in the European Union.

The Commission faces an impressive workload if it is to meet the target dates set by the FSAP. In spite of the time pressure, the remaining legislative proposals need to be of the highest quality.

Lamfalussy

The urgency of rapid progress must not be allowed to compromise the quality of legislative proposals.

UNICE welcomes the recent compromise that paves the way for introducing the recommendations contained in the Lamfalussy report. These establish a new procedure for financial market legislation, which will accelerate the adoption of FSAP

¹ For details on individual measures to improve the proposals, see separate UNICE position papers on the IORP directive (6 March 2002), Single company prospectus (16 October, and letter from 17 January 2002), International Accounting Standards (20 March 2001), Insider dealing and market manipulation (16 October 2001 and letters from 8 March, 15 February and 17 January 2002), UNICE letter on International financial collateral arrangements (29 October 2001).

measures. The report's recommendations have the potential to ensure both quality of legislation and speed of adoption are maintained.

The Commission's monitoring of progress in adopting the measures of the Action Plan is welcome, and UNICE encourages it to continue with its efforts. This increases transparency and improves the level of discussion. In addition, monitoring in itself frequently acts as a stimulus to action at the policy level. Nevertheless, the monitoring has been quantitative, rather than focussing on the quality of legislation adopted.

It must be emphasised that **the Lamfalussy procedures will only be successful if the principles of transparency and consultation are genuinely and sincerely applied**. Inadequate consultation or transparency would seriously undermine the credibility of the procedure, as well as the legislative measures that emerge. UNICE calls upon the relevant parties to bear this caveat in mind.

Consequently, UNICE welcomes the European Parliament's proposal to establish a market participant advisory committee as part of the consultation process. In order to be representative, such a committee must include not only the providers of financial services, but also the users of these services. **As the final user of financial services, the business sector should be consulted at the earliest possible stage.**

There are costs to complacency

The costs of inadequate progress will be high. A single market for capital is about much more than simply oiling the economic system. The Lisbon agenda set a high growth target for the European Union. Greater financial market integration is an integral element of achieving this.

Greater capital market integration would make it easier to overcome and respond to the current slowdown.

A vibrant economy needs ready access to the capital markets. Increased integration of the capital markets implies a fuller exploitation of profitable opportunities and improved access to risk capital and equity-finance. This will make the financing of Europe's companies more flexible and less costly. The outcome should be a permanently higher rate of return on invested funds, and more dynamic investment patterns. Quite simply, this will increase long-run growth rates in the EU.

The impact of the FSAP will be very substantial over the longer run. The winners will be both investors and companies of all sizes in Europe. Further delay in the implementation of the FSAP means the EU continues to miss out on these gains.

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