

THE EUROPEAN FINANCIAL MARKET: THE POINT OF VIEW OF COMPANIES
UNICE POSITION

UNICE welcomes the recent contributions to the debate on a single market in financial services in Europe by the Eurofi and Wicks papers. Based on these two papers, UNICE wishes to add a corporate view to the debate.

What is industry's goal for European financial markets?

A strong and efficient European financial services sector is crucial for the competitiveness of European industry. Companies as important users of financial services benefit strongly from financial market integration, as increased competition and economies of scale lead to

- reduced cost of raising capital through deeper and more liquid financial markets,
- lower trading costs for investors which in turn will translate into lower financing costs,
- increased rates of return on capital,
- wider provision of financial services and products for issuers and investors,
- increased stability of the financial system and a better adjustment to external shocks,
- greater prosperity, more growth and employment for the European society.

As recent independent studies have highlighted, the level of EU-wide GDP can be raised by 1.1 percent compared with 2002 in the long run, total employment would rise by 0.5 percent and total business investment would be increased by almost 6 percent if the cost of equity, bond and bank finance can be reduced through an end to the current fragmentation of Europe's financial markets. Differences in financial integration can explain annual growth differences among countries of 0.5 to 0.7 percent. An integrated financial market in Europe will also ease access for SMEs to capital and finance.

UNICE is in favour of a European capital market which is a globally competitive market that will be able to attract capital from other parts of the world. It should be a key goal for European policymakers to ensure that Europe's markets remain attractive to European and international issuers to ensure economies of scale, with lower costs for companies and wider choice for investors.

How can this goal best be achieved?

1. Let market forces work

Markets themselves are created and developed by market participants, who should retain the greatest possible freedom to devise and implement solutions, and meet customer needs. Legislation, even if it is well drafted and transposed speedily and accurately into national legislation cannot by itself guarantee the functioning of a single market. It is therefore vital for regulators to take into account the experience and the needs of market participants when shaping the regulatory and supervisory framework.

2. Regulation should adapt to market developments and not markets to regulation

Regulatory initiatives have to promote the development of financial markets and protect markets and market participants from inherent risks due to information asymmetries and other market inefficiencies. Such initiatives should, however, only be undertaken after a proper cost / benefit analysis.

Regulation of market participants' conduct must help build fair and honest markets, while not thwarting their innovation and development. It must not try to anticipate future commercial developments or determine market structure. Regulators must therefore be able to adjust their instruments to new regulatory challenges that arise from the continuous and fast-paced evolution of financial markets.

According to these principles UNICE supports the framework set up by the Lamfalussy procedure as it provides a sound and flexible basis to meet future challenges in financial markets.

3. General principles of regulation

- a) Regulation must, above all, strive for transparency and security of the markets. It should therefore be characterised by
 - the production of rules which are understandable and applicable for all – including small - market participants,
 - appropriate investor protection while considering the different nature of risks that different types of market participants face, and allowing for the different experience and awareness of investors,
 - fair competition between the same types of market participants,
 - macro and micro prudential stability.
- b) Enforcement of existing rules and regulations must be assured by proper surveillance and implementation at both the national and the European level.
- c) When new regulation is necessary for the financial markets, different kinds of regulatory instruments in addition to legislation must be considered, such as guidelines and common standards at Level 3 for securities markets under the Lamfalussy procedure. In this context UNICE believes that this is consistent with the principles set out in the Commission White Paper on European governance aiming at improved policy-making and working methods in the European Union.

4. Legitimacy

In order to ensure democratic legitimacy of regulation, Article 202 of the EU Treaty should be amended in the next Intergovernmental Conference in order to give the European Parliament the effective right to revoke and veto suggested legislation for implementing measures drawn up by the Lamfalussy Committees.

5. Consultation

- a) Consultation with market participants is required at all stages and in a timely manner. Proper representation of companies as users of financial services in the advisory bodies must be assured.
- b) Representatives of market practitioners should provide regular reports to the European institutions on progress achieved towards creating a fully functioning single market. These reports should assess, on the one hand, the efficiency of regulation procedures and, on the other hand, the quality of regulation against the goals of reduced cost, increased rates of return and wider provision of financial services and products.
- c) To this end UNICE wants to increase its participation in the current and future debate - which is integrated in the existing political structures - on the approach and philosophy for the creation of a single financial market. UNICE welcomes the involvement of industry representatives in the Consultative Working Groups assisting CESR's expert groups. Issuers should, however, also have a voice in the Level 2 Market Participants Advisory Committee. The representation of issuers' needs should not be left only to the providers of financial services as members of the committee.

* * *