BUSINESSEUROPE

NOTE

SUBJECT : **Joint IMF-Bruegel Conference on 21 February**
Outline for presentation by Philippe de Buck, Secretary General
Working Session 3 *Europe`s Financial Players and the Political Economy of Financial Reform*

1. INTRODUCTORY STATEMENT

- It is an honour for me to have been invited by the IMF and the Bruegel Centre to discuss these eminent contributions to a debate that is of great interest to the corporate sector.

- Efficient European capital markets are crucial for the competitiveness of Europe`s companies. As issuers of securities and users of financial services, companies benefit strongly from financial market integration. Increased competition and economies of scale in financial services lead to reduced costs of raising capital, lower trading costs, and a wider choice of these services and products for issuers and investors. This will translate into more growth and employment and help achieve the Lisbon targets.

- To this end, there are three important steps:
    - Timely and consistent national transposition of EU law
    - Strict and efficient enforcement of EU law
    - An adequate institutional framework for ensuring consistent application and enforcement.

- **Transposition** of the relevant EU legislation for securities markets is well under way.[1] However, this is not the case for all areas of financial services legislation – in particular, there are a number of directives which leave ample room to member states for national fine-tuning and "goldplating." We need to remind member states on a regular basis of the negative effects this has on market participants: the lack of legal certainty for actors having to invest in their adjustments to a new regulatory framework, the restrictions on cross-border competition, and the distortion of the level playing field for companies arising from "goldplating."

- The national transposition process and the application of rules by regulators must be transparent for those being regulated and for the users of financial markets; new legal initiatives must minimise margins for discretion granted to member states to the level required from an economic point of view by structural differences between national markets and regulatory frameworks.

[1] For background: Transposition deadlines for the Markets in Financial Instruments Directive and for the Transparency Directive passed end-January 2007; for the Prospectus Directive in July 2005; for the Market Abuse Directive in October 2004.

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- Stringent **enforcement** of financial services legislation are key for the further integration of EU markets for goods, services, and financial services, to the benefit of Europe`s companies, consumers and investors. In particular, mutual recognition of regulatory decisions concerning the approval of non-harmonised products and services for distribution, must be ensured. Only then can the expected benefits of EU financial markets integration for the whole economy be delivered.

- Regarding the **institutional framework**, we need to ask ourselves whether our regulators and supervisors have the necessary tools to ensure consistent implementation and enforcement, or whether we will have to establish new structures at European level. I will come back to this point.

2. REMARKS ON THE PRESENTATION BY PROF. POSEN

- Prof. Posen juxtaposes different financial models - the Anglo-Saxon, the Alpine and the Etatist model, as he calls them. He describes important differences between the relative bargaining power, and, hence, their share of returns on financial markets, of shareholders, managers and banks. While this distinction held in the past, over the last 10-15 years there has been an important convergence between these financial models. So I wonder, whether this classification is still a valid description of the status quo upon which to base our regulatory approaches.

- For example, in Germany banks are not only – although to a decreasing extent - important shareholders in the corporate sector, but they are also represented on the supervisory boards of companies. Hence, they have an important influence on a company`s strategy. These observations would seem to run counter to Prof. Posen`s description of a dominant role of managers compared to banks in the Alpine model.

- In fact, the bargaining power of the respective actors is not a fixed variable. It varies greatly depending on the economic cycle, the demand of corporates for financing, the various means of financing preferred, and the domestic and cross-border competition in the banking sector. While it may be true that corporate borrowers have a better bargaining position when the product requested is commoditised and competition between financial intermediaries is high, this is not the case for the increasingly more sophisticated forms of finance requested by companies and provided in many cases by only few specialised banks.

- The assumption that, outside the Anglo-Saxon world, managers and banks exploit each other at the expense of the investor seems less valid if one considers that in recent years there has been a marked trend, partly brought about by EU legislation, towards increased transparency of corporate management`s dealings and banks` conduct of business, to the benefit of the investor.

- And, if the Anglo-Saxon model has become the dominant form of financial markets organisation, can we assume, from the characteristics of this system described by Pro. Posen, that it is not the most advantageous one for companies?

3. REMARKS ON MR. WRIGHT`S PRESENTATION

- Mr Wright makes a clear case for regulatory convergence. From a business point of view, I can only welcome this, for the reasons outlined in my introduction.

- I agree that a regulatory harmonisation based on rules is not a good way forward for further integration financial markets in the EU. The current approach to financial regulation in the EU, whereby member states restrict themselves to agreeing principles, to be complemented by more detailed provisions in a comitology procedure (so-called Lamfalussy procedure) seems to us to carry great benefits in this regard. It allows those more detailed provisions – or “rules” if you like – to be adjusted speedily to market developments. Markets are thus in the lead, and do not simply have to respond to legal requirements that may no longer match realities.

- There is broad consensus on this approach to regulation. What becomes increasingly important now is the way in which the resulting regulation is applied and enforced. There seems to be agreement that close collaboration between national regulators and supervisors is important to ensure consistent application and enforcement. Mr Wright advocates the lead supervisor regime. While my organisation would support this model since it is likely to create supervisory arrangements that are more in step with banks` business strategies than current arrangements, we need to ensure that this model will not create costs which are then borne by the users of the financial markets. Also, a “home-country” based lead supervisor who can make important decisions regarding prudential requirements and liquidity, is likely to be viewed critically in the new member states, where a majority of the assets of financial institutions is in the hands of foreign owners. An interim step would be a sort of “coordinating” supervisor, which would allow supervision to stay closer to the ground than in the lead supervisor model.

- However, for all these options national authorities need to scrutinise whether the instruments available for applying and enforcing EU financial services law are sufficient to deliver consistent EU-wide application and enforcement. We may have to consider establishing additional instruments at EU level.

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