



SPEECH

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2 July 2008

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**«EUROPEAN FINANCIAL SERVICES: THE 2008/2009 AGENDA»
ORGANISERS: PARIS EUROPLACE INTERNATIONAL FINANCIAL
FORUM
PARIS, 2 & 3 JULY 2008**

ROUND TABLE 1

Please allow me first to thank you for having invited me to speak at this event which is an excellent occasion to inform you about the view points of European, business on some very topical issues regarding financial markets and financial services.

For BUSINESSEUROPE, which represents 40 national employers and business federations from 34 countries, good functioning financial markets and an efficient single market for financial services are fundamental for the overall benefit of European society and to help the EU face current challenges such as globalisation.

During the latest months we have observed turbulence in the global financial market, which illustrates the extent to which financial markets have become inextricably linked as a result of rapidly accelerating globalisation.

So now more than ever, we need a strong and efficient European financial services sector. Companies are important users of financial services and therefore they benefit directly from financial market integration considering that increased competition and economies of scale should lead to:

- reduced costs of raising capital through deeper and more liquid markets;
- lower trading costs for investors which in turn translate into lower financing costs;
- increased rates of return on capital;
- wider provision of financial services and products for issuers and investors; and
- greater prosperity and thus more growth and employment for Europe.

We need a European capital market which is globally competitive and that can attract capital from other parts of the world. It should be a key goal for European policy-makers that Europe's markets are attractive to European and international issuers to ensure economies of scale with lower costs for companies and wider choice for investors.

How to achieve this? Do we need increased regulation?

Recent turmoil in the financial markets and their cross-border spillovers have led to renewed calls by policy-makers for increased regulation.

Given the sophistication of financial instruments, the increasing number of actors and the sometimes opaque role of rating agencies, BUSINESSEUROPE fully supports the need for more transparency and better coordination of market supervision. The role of rating agencies also deserves close attention.

However, we should not forget that legislation, even if it is well drafted and implemented cannot by itself guarantee the smooth functioning of financial markets. Markets themselves are created and developed by market participants who devise and implement new solutions to best meet customer's needs.

- Regulation should protect markets and market participants from inherent risks due to information asymmetries and other market inefficiencies to build fair and honest markets;
- at the same time it should promote the development of financial markets and not thwart their innovation;
- and regulation must, above all, strive for transparency and security of markets and enforcement, ensure fair competition between the same types of market participants and aim for 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.

The European regulatory framework – Financial Services Action Plan.

We should also not forget that the European regulatory process is based on openness and transparency, better regulation, and listening and learning. Calculating costs and benefits and extensive consultation of stakeholders. Hurried solutions to a rapidly evolving financial situation would not be the right approach.

The Financial Services Action Plan is a perfect example of this approach; designed in 1999 and comprising 42 measures, it has been instrumental for the creation of a single market for financial services, and although not completely finished yet, it made the free movement of capital and services much more of a reality. We expect of course that the 2008 and 2009 agenda for financial services policy strongly emphasises implementation and consolidation of the measures of this Action Plan.

- Measures like the markets in financial services directive (MiFID), and the Single European Payments Area (SEPA) should lead to improved efficiency and wider availability of products across borders whilst increasing the level of protection for investors, businesses and consumers.

- Supervisory convergence should help resolve the problems due to the fact that at present the activities of banks and financial institutions are regulated and supervised at national level. This can cause difficulty, expense and uncertainty and therefore regulators and supervisors from each Member State should work from a similar set of rules.

Also, we should not forget that financial services are increasingly an international market so the ongoing debate must not be limited to Europe. This is a subject that concerns financial markets worldwide and the stability of the global economy. We therefore need to engage with our partners in an ambitious and positive dialogue regarding financial stability.

Investment – no protectionism!

Talking about the global perspective, a few words on the freedom of investment: Open flows of both inward and external investment are fundamental for the competitiveness of companies and while national security concerns and risks related to the behaviour of new powerful players in the international economy should by no means be underestimated, there is no doubt that Europe – as one of the main benefactors of open markets and heavily dependent on capital from foreign investors – needs to act with caution.

Restrictions on foreign investment in Europe should only be considered if risks are real and serious and if those risks cannot be addressed through existing policies such as competition, prudential or general interest rules. Unjustified shifts in the “rules of the game” could undermine confidence in the EU and send the wrong signal to third country investors. When deciding about the treatment of inward investment, legislators need to take into consideration their strategic interest to pursue an open investment, especially now when the financial turmoil obliged numerous banks to broaden their capital basis, often with the help of injections from sovereign wealth funds.

Accounting

Then a few words on an issue that is closely linked to the efficient functioning of financial markets, namely accounting: BUSINESSEUROPE fully supports developments towards convergence in accounting matters. Comparability of accounts is vital for investment and the cost savings of not having to reconcile to foreign accounting rules are immense for companies listed on foreign stock exchanges. In this context, BUSINESSEUROPE also supports efforts to improve the governance of standard setters so that more attention is paid to the practical views of market participants.

As you can see, BUSINESSEUROPE is fully committed to contributing to the current and future debate on the approach and philosophy for the creation of well-functioning financial markets, in the EU and at global level.

Thank you for your attention.

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