

**Summary of remarks made by Alexandre Lamfalussy, Chairman of the Committee of Wise Men on the Regulation of European Securities Markets, to the Press concerning the Committee's initial report published on 9 November 2000**

1. If the EU is to capture the major benefits of an integrated financial services and capital market a significant programme of reform is required. Now. These reforms are urgent. **The most important is regulatory reform, within the scope of the present Treaty.**

*Mr Lamfalussy said "...The European Union has a great opportunity to strengthen its economy, improve its long-run competitiveness and investor returns for all citizens, if it can create a single financial market in the next few years. But this can only happen if the European regulatory system is made more efficient and decisions are taken in a timely way, at the right level. We can no longer afford the luxury of regulatory inefficiency in the instantaneous Internet age. Financial markets are changing by the week – and European regulation is simply not up to speed.*

*We there have a clear choice –*

*either to dawdle aimlessly along in our slowcoach, in the slow lane – with the international financial business going elsewhere and the world passing us by, or to change and capture the benefits.*

*The stakes are so high, because the benefits are so important. Its high time we complement the euro with a deep, liquid integrated European capital market. And its high time to gather the political will to move forward..."*

2. **Our preliminary proposal on the regulatory system is as follows:**

Priority should be given to making improvements in the European legislative process which can be implemented quickly – in practice this means within the confines of the present Treaty. We see a 4 stage approach:

- (i) **LEVEL 1** - Broad framework principles enacted in accordance with traditional EU legislative procedures.
- (ii) **LEVEL 2** – Implementation of these principles and changes to them in response to market developments, delegated to a new EU Securities Committee,

supported by a Committee of EU Regulators, in line with the European Union's existing procedures. This system should function from the beginning of 2002.

- (iii) **LEVEL 3** - The Member States having the responsibility to implement Community law within the framework of strengthened cooperation and networking between national regulators.
- (iv) **LEVEL 4** - The European commission considerably strengthening its work and ensuring that there is open and fair competition in European financial markets.

There are three additional points to be made:

**First**, this approach should be fully accountable to the European Parliament.

**Second**, that a continuous (half-yearly) monitoring process will be necessary to evaluate how it is working. A full review should be made around 2004, or earlier, if the monitoring reveals that it is failing to deliver the necessary progress.

**Third**, the Committee believes that, at this stage, there are good reasons for not considering the establishment of a single regulatory agency.

- The basic harmonized rules necessary for the appropriate functioning of an integrated market are not yet in place.
- Speedy action is needed to correct the identified shortcomings of the present regulatory framework and speed requires acting within the confines of the present Treaty.
- Some time will be needed to judge whether any such reforms deliver results. If they do not, then it might be appropriate to consider a Treaty change, including the creation of a Single European Regulatory Authority for Financial Services generally in the Community.

### 3. **Why do we need to change now? Why is it so urgent?**

There are 3 main reasons:

- (i) To capture the benefits of an integrated European financial markets for all parts of the European economy : **for consumers** [e.g. higher pension returns], for **SMEs** [more venture capital and diversified capital sources], **for larger companies** [a lower cost of capital] plus capturing the benefits of more competition and innovation, ensuring, of course, high levels of consumer protection and systemic stability.

In a nutshell, financial market integration will lead to an increase of what economists call “*total factor productivity*” – i.e. the productivity of both capital and labour. It will do so by steering savings towards the most productive investment opportunities, by encouraging competition and therefore innovation, by increasing liquidity and by reducing transaction costs. This will enable the economy to grow faster and to create more jobs (over the past ten years the US, whose financial markets are much more efficient than in Europe, has seen a sharp increase in productivity **and** substantial job creation).

Higher productivity of capital and labour will, in turn, enable the European economy to grow faster and to create more jobs (I note that over the past ten years the US, where financial markets are undoubtedly more efficient than in Europe, have registered a sharp increase in productivity **and** substantial job creation).

**(ii) We need a corpus of appropriate, up to date European rules to deal with the accelerating pace of change in European financial markets:**

- We were struck by the pace of change in financial markets, such as:
  - The growing interest of European citizens to invest an increasing part of their large financial savings in equities, directly or through investment funds.
  - The rapid emergence of new financial products and operating techniques.
  - The growing interest of exchanges and new trading systems in serving retail investors directly – and their technical ability to do so.
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  - Changing structures : growing competition between national exchanges as well as between organized exchanges and new trading systems; alliances or outright mergers – including with partners from third countries.
  - Pressure on clearing and settlement systems to consolidate where three are significant economies to make (some have estimated as high as 1 billion euros annually).
  - More recently a substantial increase in the volatility of equity prices.

All those developments – and others yet to emerge – create considerable challenges for regulators to keep pace with market developments. Not to try to pre-empt them, but to follow them closely.

The European Commission's Financial Services Action Plan contains the key measures that need to be agreed. But we have to speed up. Delivery in 2005 is too late – we should aim for 2004 – and for some measures even earlier. The report indicates our priorities.

**(iii) The current system of European regulation is simply unable to respond to this major challenge. It is:**

- Too slow
- Too rigid
- Contains too much ambiguity and inconsistent implementation

The report gives examples.

We have come unanimously to these preliminary views after an intense consultation process involving 25 hearings with leading market experts, analyzing some 69 responses on our on-line questionnaire and having heard the views of the Member States and the European Parliament's Economic and Monetary Affairs Committee. We hope this initial report will trigger a wide public debate and welcome all views, preferably using our Internet address. Our final report will be release in mid-February 2001 in time for the European Council in Stockholm in March.