



# Procedure file

Basic information		
INI - Own-initiative procedure	<a href="#">2006/2270(INI)</a>	Procedure completed
Financial services policy 2005-2010. White Paper		
Subject 2.50.03 Securities and financial markets, stock exchange, CIUTS, investments 2.50.04 Banks and credit 4.60.06 Consumers' economic and legal interests		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	<b>ECON</b> Economic and Monetary Affairs		13/12/2005
		PSE <a href="#">VAN DEN BURG Ieke</a>	
	Committee for opinion	Rapporteur for opinion	Appointed
	<b>JURI</b> Legal Affairs		24/10/2006
		PPE-DE <a href="#">GAUZÈS Jean-Paul</a>	
Council of the European Union	Council configuration	Meeting	Date
	<a href="#">Economic and Financial Affairs ECOFIN</a>	<a href="#">2798</a>	08/05/2007
European Commission	Commission DG	Commissioner	
	<a href="#">Financial Stability, Financial Services and Capital Markets Union</a>	MCCREEVY Charlie	

Key events			
01/12/2005	Non-legislative basic document published	<a href="#">COM(2005)0629</a>	Summary
29/11/2006	Committee referral announced in Parliament		
08/05/2007	Debate in Council	<a href="#">2798</a>	Summary
18/06/2007	Vote in committee		Summary
28/06/2007	Committee report tabled for plenary	<a href="#">A6-0248/2007</a>	
10/07/2007	Debate in Parliament		
11/07/2007	Results of vote in Parliament		
11/07/2007	Decision by Parliament	<a href="#">T6-0338/2007</a>	Summary
11/07/2007	End of procedure in Parliament		

Technical information	
Procedure reference	2006/2270(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 54
Stage reached in procedure	Procedure completed
Committee dossier	ECON/6/32908

Documentation gateway					
Non-legislative basic document		<a href="#">COM(2005)0629</a>	01/12/2005	EC	Summary
Committee draft report		<a href="#">PE384.621</a>	12/03/2007	EP	
Committee opinion	JURI	<a href="#">PE386.283</a>	11/04/2007	EP	
Amendments tabled in committee		<a href="#">PE388.328</a>	13/04/2007	EP	
Committee report tabled for plenary, single reading		<a href="#">A6-0248/2007</a>	28/06/2007	EP	
Text adopted by Parliament, single reading		<a href="#">T6-0338/2007</a>	11/07/2007	EP	Summary
Commission response to text adopted in plenary		<a href="#">SP(2007)4170</a>	29/08/2007	EC	
Commission response to text adopted in plenary		SP(2007)4733/2	24/09/2007	EC	

## Financial services policy 2005-2010. White Paper

**PURPOSE:**to present the EU's financial services policy from 2005 to 2010 (White Paper).

**CONTENT:** the purpose of this White Paper is to present the Commission's financial services policy priorities up to 2010. As a leitmotiv it relies on the term 'dynamic consolidation' to describe an approach that is practical, ambitious and a reflection of stakeholder's interest in financial services.

The Commission has set itself four main objectives over the next five years. They are:

- To consolidate an integrated, open, inclusive, competitive and economically efficient financial market for the EU.
- To remove any of the remaining economic barriers that affect financial services in order to allow the free circulation and movement of financial services ? at the lowest possible cost. To ensure high levels of financial stability, consumer benefits and consumer protection. The free market for financial services is to be backed up with effective levels of business regulation.
- To implement, enforce and continuously evaluate existing legislation in the field of financial services and to apply the 'better regulation' initiative to further proposals.
- To enhance both co-operation and the convergence of EU provisions, to strengthen relations with other global financial marketplaces and to strengthen European influence globally.

European financial market integration has been driven forward by the Financial Services Action Plan (1999-2005) or the FSAP. Its central philosophy has proven sound: financial industry's performance has improved; there is higher liquidity, increased competition, sound profitability and stronger financial stability. Benefits from this policy are expected to increase. However, efforts have to continue and the EU financial services industry has strong, untapped economic and employment growth potential. A further boost in the efficiency of pan-European markets for long-term saving products is urgently needed. Further, the EU's major structural economic challenge ? its huge pensions deficit ? also needs to be financed. The retail internal market is a long way from completion. A better functioning risk capital market is also needed to promote new and innovative firms and to raise economic growth. Based on this assessment the White Paper states that consolidating progress; completing unfinished business; enhancing supervisory co-operation/convergence; and removing the remaining economically significant barriers are the key axes of Commission policy for the next five years.

In order to push this policy forward the following issues have been analysed in the White Paper:

**Better Regulation:** The Commission will deploy the most open, transparent, evidence-based policy making based on a dual commitment to open consultation and impact assessments. The Commission will seek to ensure that sound rules are drawn up that add value to the EU's

financial services sector as well as to consumers. Under this policy heading attention will be given to: open and transparent consultation; impact assessments; implementation and enforcement; ex-post evaluation; simplification, codification and clarification; offering user input, education and redress; and finally to reinforce the interaction of financial services with other policy areas.

Ensuring the right EC Regulatory and supervisory structures: Although some retail businesses will remain local many firms are increasingly seeking pan-EU economies of scale. Regulatory and supervisory structures in the EU, therefore must adapt whilst reducing costs reduces where ever possible. The central policy of the Commission is to keep faith with the four level Lamfalussy process, which is widely supported and seen to be successful. Future key regulatory issues include reform of the comitology procedures; improving transparency vis-à-vis the European Parliament and Council; developing cross-sectoral regulatory co-operation and ensuring full respect for the Lamfalussy process. In other areas, the Commission calls for greater clarity in the division of responsibility between home/host supervisors; a possible delegation of tasks and responsibilities between supervisors as well as offering some practical steps to improve the efficiency of supervision.

On-going and future legislative activities (2005-2010): This heading examines a number of on-going subjects including retail banking; Solvency II; Review qualifying shareholdings; and Clearing & Settlement. The Commission has identified and examined potential barriers to cross-border investment and economic rationalisation within Europe. Follow-up action is expected in the following areas: the e-Money Directive; Insurance Guarantee Schemes; the Hague Securities Convention; and Optional Instruments. The main areas where no new legislation is planned include: rating agencies; financial analysts; the Takeover Bids Directive; and Capital requirements for regulated markets. As far as future initiatives are concerned, the Commission has identified two areas where carefully targeted initiatives may bring benefits to the EU economy. They are: investment funds and retail financial services. Work in this field will be bottom-up and be based on extensive consultations that take account of interaction between existing legislation and new initiatives.

The external dimension: Standards and best practices are frequently set and defined at global level ? especially in the field of accounting, auditing and banking capital requirements. The EU must have a leading role in standard setting at an international level. Further the EU needs to be represented in international bodies where it can speak with one voice. Co-ordination in international fora such as the Basel Committee, IAIS, IOSCO, and UNIDROIT needs to be shored up. The Commission will also seek participation in the Financial Stability Forum, from which it is presently excluded for no good reason.

To conclude, the Commission will prepare an annual progress Report in which developments are outlined and analysed.

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The Council took note of an interim report on application of the Lamfalussy regulatory process for financial services, presented by the chairman of an inter-institutional monitoring group (see Council doc. 6171/07). The Council held a brief exchange of views on the priorities to be established for a forthcoming final report on a review of the Lamfalussy process.

Review of the process is scheduled for the second half of this year, on the basis of a final report from the monitoring group and assessments by the Commission and the financial services committee.

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## Financial services policy 2005-2010. White Paper

The Committee on Economic and Monetary Affairs adopted, by a large majority, the initiative report drafted by Ieke VAN DEN BURG (PES, NL) in response to the White Paper on financial services policy (2005-2010).

In doing so, it congratulates the Commission on the contribution of the FSAP towards the creation of a European capital market that is leading in the world not least because of the quality and solidity of its financial regulation and approves the economic priorities set out in the Commission White Paper, namely to consolidate the European financial market, remove barriers to the free movement of capital and improve the supervision of financial services. Member States are urged to ensure the timely and consistent implementation of the FSAP and the Commission is called on to monitor its enforcement, and on the Level 3 committees continuously to improve the consistency of its application.

Market concentration: noting a high market consolidation in the top segment of financial services provided to large listed companies. The committee urges the Commission and national competition authorities carefully to apply the Community competition rules to those market players, to be vigilant to any risk of unlawful market concentration in the provision of services to large listed companies. It underlines the need to remove barriers for new entrants as well as the need to remove legislation favouring incumbents and current market structures where competition is limited.

The Commission is urged to continue its action towards the removal of the obstacles to cross-border mergers and acquisition. European stakeholders are called upon to consider whether they should encourage the emergence of a specifically European player in the credit rating agencies sector. The committee strongly reiterates the need to improve the post-trading infrastructure both with a view to price transparency and competition as to the public interest of clearing and settlement security.

Highlighting the increasing influence of proxy voting intermediaries and financial intermediaries holding consumers' tangible assets through indirect holding systems, the committee asks the Commission to assess the potential risks of market dominance, market abuse and conflicts of interest by such intermediaries and to closely monitor the effects of the prospective directive on the exercise of voting rights by shareholders of companies. It expresses its disquiet at the high proportion of financial service companies in the new Member States that are wholly or partly foreign owned, given, first, that this makes it difficult for the supervisory authorities in those countries to exercise effective supervision

and control and, in addition, that the interests and needs of the new Member States? economies often play only a minor role in the strategies pursued by parent companies? foreign-based head offices.

The report invites the Commission to assess facts about the functioning of the top level of the market of large merger and acquisition transactions and private equity deals and the accompanying underwriting and lending activities. The Commission is also urged to cooperate with US regulators to check whether the necessary safeguards, such as internal codes of conduct and 'Chinese walls' are adequate to achieve an appropriate level of corporate governance and market transparency and to manage conflicts of interest. The importance of ensuring the independence of financial analysts and financial market data providers through transparent funding structures is underlined.

Alternative investment vehicles: fully aware of the rapid rise of alternative investment vehicles (hedge funds and private equity); the committee recognises that they provide liquidity and diversification in the market and create an opportunity to improve efficiency of corporate management, but also shares the concerns of some central banks and supervisors that they may give rise to systemic risk and to high levels of exposure of other financial institutions. The Commission is invited to launch a debate on hedge funds so as to be prepared for international and European discussions and to review the differences in Member States' regimes for retail access to alternative investments, and in particular to determine the appropriate qualifications for distributors of such products to retail investors.

Access to finance in the retail segment: the report states that cross-border integration of EU retail financial markets is less developed than in the wholesale area. MEPs take the view that national consumer protection traditions must not be interpreted in such a way that new competitors are hindered on the domestic market. They note the importance of intermediaries in order to bring competition to Member States' domestic markets and stress the benefits of open and pluralistic structures in the European banking market to meet the different and evolving needs of consumers. They prefer a more focused approach directed at the concrete barriers which impact on mobile cross-border users and encourage the financial industry to develop pilot pan-European financial products such as pensions, mortgages, insurance products or consumer credit. The Commission is invited to undertake the preparation of an appropriate and feasible framework of regulation and supervision, in terms of contractual law, taxation, consumer credit and consumer protection so that such products are portable and mutually recognised within the European Union, in order to foster favourable conditions for cross-border labour mobility in an integrated single market.

Amongst other recommendations, the Commission is invited to: consider whether the European Union might be able to set up its own banking card system; reactivate the initiative aimed at providing mutual societies with a European statute; conduct a study into the accessibility of services such as bank accounts, cash machines, payment cards, and loans at low cost; promote best practices and experiences developed by financial institutions to provide such basic services.

The report endorses Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision as the specific regulatory framework for pension funds. In this context, the Commission is urged to explore the possibility, within the framework of better regulation, in order to promote supervisory convergence across the European Union and to prevent unequal treatment of market players and distortions of competition, to supplement that Directive with a harmonised solvency framework for pension funds in line with the Solvency II approach.

Financial literacy and users' input in policymaking: the committee members underline that financial literacy should be more actively promoted than hitherto and that access to proper information and unbiased investment advice is essential. They believe that principles such as ensuring best execution and carrying out suitability tests when providing investment services should form the basis for regulation of service providers in this field. They call on industry to play its part in consumer protection by producing readily comprehensible and usable products and succinct consumer-friendly information.

Better regulation: the committee takes the view that consultations with stakeholders – in particular, as far as financial services are concerned, the IIMG – should continue to play a key role and stresses that such consultations should be held sufficiently upstream of the decision-making process so that opinions can genuinely be taken into account. It notes that under the agreement on better law-making, any new Commission proposal should give rise to an impact assessment on the important issues. It regrets that up to now that commitment has not been fulfilled in a satisfactory manner and stresses that impact assessments should nevertheless not bring law-making to a standstill. The committee is committed to fast-track legislative procedures where possible, if they have proved their worth in practice, but warns that aiming for first reading agreements should not hamper the quality of decision-making or impinge on the democratic process.

Architecture of regulation and supervision: the committee warns that the current fragmented supervisory framework may not be able to keep up pace with the dynamics of the financial markets, particularly in overseeing complex new products and their interactions and effects at macro level. While the present system can be considered to be able to secure efficient conduct of business supervision in the context of national traditions and practices of supervision on the spot, the report makes the case for a system of supervision based on the existing domestic structures and traditions of supervision and enforcement, that includes also a well equipped European level executive level with a mandate for prudential and systemic risk supervision of the large cross border and cross sector financial conglomerates. The report underlines the importance of an integrated European system of cooperating national and sectoral supervisors, capable of securing the efficient supervision of both big financial players and local entities rooted in national traditions.

MEPs welcome the decision of the Economic and Financial Affairs Council to set up a Financial Services Committee subgroup on long-term supervisory issues, which is due to report in October 2007. They expect that group to give a fair assessment of the present situation. It together with the final report of the Inter-institutional Monitoring Group (IIMG) that is also expected in autumn 2007, the report of the European Parliament and the expected follow-up report of the European Commission, may create momentum for an assessment of the remaining challenges to the integration and effectiveness of the financial regulation and supervision architecture, and provide commitment for possible recommendations for further steps. The committee suggests the creation of training programmes for financial market supervisors to this effect and calls on the Commission to consider to what extent EU-wide standards could be laid down for the training of national supervisors in keeping with, and to promote, a common European supervision culture.

Global impact: the committee believes that a greater counterbalance by the European Union to US leadership could reinforce the influence of the European Union and Member States globally as regards the authority of the US Securities and Exchange Commission. It believes that the transatlantic partnership should be developed and strengthened by enhancing regulatory coordination. It is aware that Community regulation has an impact on relations with third countries; urges the Commission to maintain intense dialogue and technical cooperation between the European Union and developing countries for ensuring efficiency and quality of global legal and regulatory financial services frameworks.

Lastly, MEPs believe that the European Union should take a constructive, open-minded attitude to the economic rise of south-east Asia, and especially of India, China, and South Korea, and refrain from imposing any protectionist measures at Community or national level. They support initiatives to devise common global standards for financial services.

## Financial services policy 2005-2010. White Paper

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The European Parliament adopted the initiative report drafted by Ieke VAN DEN BURG (PES, NL) in response to the White Paper on financial services policy (2005-2010).

The Parliament congratulates the Commission on the contribution of the FSAP towards the creation of a European capital market that is

leading in the world not least because of the quality and solidity of its financial regulation and approves the economic priorities set out in the Commission White Paper, namely to consolidate the European financial market, remove barriers to the free movement of capital and improve the supervision of financial services. Member States are urged to ensure the timely and consistent implementation of the FSAP and the Commission is called on to monitor its enforcement, and on the Level 3 committees continuously to improve the consistency of its application.

The main elements of the report are as follows:

**Market concentration:** noting a high market consolidation in the top segment of financial services provided to large listed companies, the report urges the Commission and national competition authorities carefully to apply the Community competition rules to those market players, to be vigilant to any risk of unlawful market concentration in the provision of services to large listed companies. It underlines the need to remove barriers for new entrants as well as the need to remove legislation favouring incumbents and current market structures where competition is limited. The Commission is urged to continue its action towards the removal of the obstacles to cross-border mergers and acquisition. European stakeholders are called upon to consider whether they should encourage the emergence of a specifically European player in the credit rating agencies sector. MEPs strongly reiterate the need to improve the post-trading infrastructure both with a view to price transparency and competition as to the public interest of clearing and settlement security. The report invites the Commission to assess facts about the functioning of the top level of the market of large merger and acquisition transactions and private equity deals and the accompanying underwriting and lending activities. The importance of ensuring the independence of financial analysts and financial market data providers through transparent funding structures is underlined.

**Alternative investment vehicles:** fully aware of the rapid rise of alternative investment vehicles (hedge funds and private equity), the Parliament recognises that they provide liquidity and diversification in the market and create an opportunity to improve efficiency of corporate management, but also shares the concerns of some central banks and supervisors that they may give rise to systemic risk and to high levels of exposure of other financial institutions. The Commission is invited to launch a debate on hedge funds so as to be prepared for international and European discussions and to review the differences in Member States' regimes for retail access to alternative investments, and in particular to determine the appropriate qualifications for distributors of such products to retail investors.

**Access to finance in the retail segment:** MEPs prefer a more focused approach directed at the de facto barriers which impact on mobile cross-border users. They encourage the financial industry to develop pilot pan-European financial products such as pensions, mortgages, insurance products or consumer credit, and invite the Commission to undertake the preparation of an appropriate and feasible framework of regulation and supervision, in terms of contractual law, consumer credit and consumer protection so that such products are portable and mutually recognised within the European Union, in order to foster favourable conditions for cross-border labour mobility in an integrated single market.

The Parliament notes that too many EU citizens are excluded from basic financial services and it concludes that well-functioning basic financial services should remain available and affordable to every EU citizen. The Commission is asked to conduct a study on the accessibility of services such as bank accounts, cash machines, payment cards, and low-cost loans, and to promote best practices and experiences developed by financial institutions in providing such basic services. The Commission is urged to draw up an action plan for microfinancing, to coordinate the different policy measures, and to make optimal use of best practices in and outside the European Union.

**Financial culture:** the Parliament underlines that financial literacy should be more actively promoted than hitherto and that access to proper information and unbiased investment advice is essential. They believe that principles such as ensuring best execution and carrying out suitability tests when providing investment services should form the basis for regulation of service providers in this field. They call on industry to play its part in consumer protection by producing readily comprehensible and usable products and succinct consumer-friendly information.

**Better regulation:** according to the MEPs, consultations with stakeholders should continue to play a key role and stresses that such consultations should be held sufficiently upstream of the decision-making process so that opinions can genuinely be taken into account. The report notes that under the agreement on better law-making, any new Commission proposal should give rise to an impact assessment on the important issues.

**Systemic risks:** the report takes note of a range of new developments which present both potential strengths and possible concerns, including innovative risk mitigation techniques, the substantial growth of credit derivatives markets, the increased systemic importance of large pan-European financial groups, and the growing role of non-bank financial institutions such as hedge funds and private equity.

It points out that those market changes also affect the nature, source and transfer of systemic risk, and thus the effectiveness of existing ex-ante risk mitigation tools and calls, therefore, for evidence-based identification and evaluation of the sources of systemic risks and the underlying dynamics of financial crises in this context.

The Parliament is concerned that the current nationally and sectorally based supervisory framework may potentially fail to keep pace with the financial market dynamics and stresses that it must be sufficiently well resourced, coordinated and legally entitled to give adequate and quick responses in cases of major systemic crises that affect more than one Member State.

**Architecture of regulation and supervision:** the Parliament welcomes the work performed by the European committees of regulators (the CESR, the Committee of European Banking Supervisors (CEBS), and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) in consulting the markets and above all in progressing with convergence of regulatory and supervisory practices. It calls for improvement in cross-sectoral consistency in prudential regulation and group supervision rules for large financial groups dealing with the same or similar products, and, following stakeholder consultation and due procedure give advice to the legislators as to where it is necessary to review the rules. It also urges them to ensure that all financial institutions are equally supervised on a functional basis in all Member States. MEPs emphasise the importance of an integrated European system of cooperation between national and sectoral supervisors, capable of securing the efficient supervision of both big financial players and local entities rooted in national traditions. They consider that all supervisors must take due account of those traditions in the way they execute their conduct of on-the-spot business supervision. The Commission is requested to continue its action towards the removal of obstacles to cross-border mergers and acquisitions. Member States should be encouraged to converge the powers of national supervisors, especially where penalties are concerned. The Parliament considers that greater convergence among supervisors should facilitate the business of companies now subject to more than one regulator.

**Global impact:** the Parliament believes that a greater counterbalance by the European Union to US leadership could reinforce the influence of the European Union and Member States globally as regards the authority of the US Securities and Exchange Commission. It believes that the transatlantic partnership should be developed and strengthened by enhancing regulatory coordination. It is aware that Community regulation has an impact on relations with third countries. The Commission is urged to maintain intense dialogue and technical cooperation between the

European Union and developing countries for ensuring efficiency and quality of global legal and regulatory financial services frameworks. Lastly, MEPs believe that the European Union should take a constructive, open-minded attitude to the economic rise of south-east Asia, and especially of India, China, and South Korea, and refrain from imposing any protectionist measures at Community or national level. They support initiatives to devise common global standards for financial services.