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European Commissioner for Internal Market and Services

**Charlie McCREEVY speaks to the
European Parliament ECON Committee**

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

European Parliament ECON Committee (Committee on Economic
and Monetary Affairs)

Brussels, 21 November 2006

Madame la Présidente, Honourable Members,

The European financial sector is performing well and is becoming one of the engines driving the long hoped-for growth we are now seeing in the economy at large. Our regulatory process is a good one. The EU has managed to avoid regulatory overreaction following the financial scandals a couple of years ago— and this is now paying off. While other jurisdictions are questioning their capital market competitiveness, European capital markets are moving forward. Let's keep it like that. Let's be inventive. Let's use a flexible toolbox that's fit for this purpose. Working with the grain of the market and encouraging innovation.

Let me focus today on three initiatives that, in their respective fields, will shape things to come for years: the Directive on payment services, the White Paper on investment funds and the code of conduct in clearing and settlement.

Directive on Payment Services

Let me start with thanking Mr Gauzès, the shadow rapporteurs and the whole Committee for the constructive and speedy work they have undertaken on this issue.

Progress in Council has been slower than hoped. Good intentions and commitments unanimously expressed by ECOFIN Ministers in October need to be converted into tangible agreements. We all need to move, and move rapidly right now. The market, through the innovations made by the operators, is moving ahead quickly. Legislators are falling behind. Member States need to move beyond national preoccupations.

Everyone realises that this project is too important to let slip. Here is an issue where real efficiency gains can be made in a key sector of our economy. Efficiency gains which are huge. Industry has worked hard for four years to get 7000 banks to agree on harmonising payment services. Industry needs the certainty of a finalised Directive before it can commit further to the significant IT investments. The SEPA process must stay on track.

With the help of the Directive, we also introduce more competition into the payments markets. Yes, there is the need to reinforce the prudential requirements for payment providers. But first of all we have to give them the chance to really compete in the payments market. Title 2 of the proposed directive is therefore an essential part.

I find it difficult to understand that in a 21st century economy where financial data is continuously exchanged in fractions of nanoseconds, why payments move at the speed of a horse-drawn carriage. D+1 is feasible – technically and economically. It is what users and markets want. And what a benefit this would be for smaller companies and users. More secure and quicker cross border payments.

As I said, we need this Directive urgently so that the markets can keep up the momentum to develop a better payment infrastructure. But we also need a Directive that makes sense. That fosters competition. I count on the continued support of this Committee to reach these objectives.

The White Paper on enhancing the Single Market Framework for Investment Funds

Investment funds are another important pillar of the European financial system. UCITS are capitalized at 5.5 trillion Euros. This business has grown four-fold over the last decade. Its importance is set to grow as many European investors use them to save for retirement. They are a key investment tool for institutional investors such as pension funds. The market is increasingly organised on a pan-European basis. The UCITS model is considered as a 'gold-standard' inside but also outside the EU.

But we can do better. We have a regulatory framework devised 20 years ago to provide a basic, low-risk framework for bond and equity funds. Although it has provided a good basic template for the development of the European fund industry, this framework is struggling to cope with the dynamism and diversity of modern fund markets. Let me mention some of the challenges.

- Procedures for cross-border marketing are too long, too costly and subject to too much supervisory interference. Let's wise up: it's about time our regulators trusted each other. Otherwise – let's put them on the Isle of Iona until they do.
- The UCITS Directive does not facilitate the much-needed consolidation and rationalisation of the fund landscape. 54% of European funds manage less than 50million€ of assets. The cost of running and selling these micro-funds is too high.
- The fund industry needs to be able to get products to the investor more cheaply.
- UCITS current rules on portfolio construction cannot cope with financial innovation.
- UCITS currently prevents the industry from reaping full advantage of functional and geographic specialisation.
- The fund industry is coming under pressure from other types of investment products.

So, what do we intend to do to help the fund industry to rise to these challenges? I do not believe that product regulation and UCITS legislation in particular has passed its sell-by-date. But we must make sensible and targeted incremental improvements to modernise the UCITS Directive.

The White Paper we presented on 15 November commits the Commission to come forward with proposals for targeted legislative amendments in autumn 2007. These will simplify existing pass-porting mechanisms and expand the range of single market opportunities available to fund managers and investors. And give investors better tools to make informed decisions.

To achieve this, we target our work at six areas:

- 1) We will simplify procedures for pass-porting UCITS funds.
- 2) We will seek to create the appropriate legal and regulatory conditions for cross-border mergers to the benefit of funds and investors.
- 3) We will pave the way for master-feeder funds and other forms of pooling of assets.
- 4) To make the management company passport effective, we propose to allow managers to manage corporate and contractual funds in other Member States.
- 5) We will try to salvage the Simplified Prospectus through better specification of its rationale and core principles. By foreseeing detailed implementing legislation to avoid "gold-plating" at national level.
- 6) We will strengthen provisions for supervisory cooperation across borders.

Our impact assessment reveals no case to amend the scope or architecture of the UCITS Directive at this stage. However, we will continually review non-harmonised investment funds and the costs and benefits of possible EU-level action in the future. Our on-going review will culminate in a report to the Council and European Parliament in 2008.

The Code of Conduct in Clearing and Settlement

Following my announcement to you here in July I was happy to accept from the industry on 7 November a Code of Conduct laying down economic and competition rules for the clearing and settlement sector. The industry shares the objectives and ambitions the Commission had set out earlier in the year. This is a real example of Better Regulation in action. The industry has committed to price transparency, unbundling, accounting separation, access and interoperability modalities. A good result.

The self-regulation path is of course not without risks; proper and timely implementation of the Code is now of paramount importance. This will be an important test for the Commission's and industry's better regulation efforts. The Commission will therefore closely monitor how the industry delivers on its commitments in practice.

Other players, including users, will be involved in the monitoring process as well.

And, this is just a first step, albeit an important one. A lot of effort is now needed to achieve the results the market is entitled to expect. But for the first time everyone has agreed on the implementation of basic economic and competition principles in this sector. In time, the scope will be widened from cash equities to endorse bonds and derivatives.

This Code has the potential to make a real difference to competition, transparency and the freedom of choice in the post-trading area. I hope we will see quick market responses to drive down cross-border costs.

Work needs to continue on other outstanding issues in this sector.

The elimination of the remaining Giovannini barriers is one of the main priorities and I want to, once again, congratulate the ECB on their Target 2 Proposals. Member States need to step up their efforts to eliminate the legal and fiscal compliance barriers.

It is also very important that prudential issues are properly addressed. It is the Commission's belief that the adoption of the ESCB-CESR standards has a role to play. The standards would help provide the necessary regulatory and supervisory framework for the integration of the post-trading market and insure proper mitigation of risks.

The standards are supported by a great majority of Member States. I hope that it should be possible to move forward and agree them in a relatively short period of time – of course with proper accountability to the Council and the European Parliament.

Conclusion

Ladies and Gentleman, this Commission is taking a more variable, more modern approach to regulation. Strict adherence to better regulation principles. Wide consultation. Full impact assessments to ensure that initiatives are fully thought through. Legislation only where clear benefits are apparent.

This is bearing fruit. Strengthening our markets. Providing focus to European financial integration.

In the fields I have talked about today as well as in others the European economy still has lots of potential for growth, for more employment, for better services for consumers. I am confident that the measured and well-targeted initiatives which have been brought on the way will contribute to fulfilling this potential and that they will become models for the regulation of the global economy.

Thank you for your attention.