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COMMUNICATION FROM THE COMMISSION

IMPLEMENTING THE FRAMEWORK FOR FINANCIAL MARKETS: ACTION PLAN

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I: INTRODUCTION:

A single market for financial services has been under construction since 1973. Important strides have been made towards providing a secure prudential environment in which financial institutions can trade in other Member States. Yet, the Union's financial markets remain segmented and business and consumers continue to be deprived of direct access to cross-border financial institutions. Now, the tempo has changed. With the introduction of the euro, there is a unique window of opportunity to equip the EU with a modern financial apparatus in which the cost of capital and financial intermediation are kept to a minimum. Corporate and household users of financial services will benefit significantly, and investment and employment across the Union will be stimulated. The structural changes triggered by the euro also herald new challenges for financial regulators and supervisors which call for effective answers, with a view to ensuring the balanced regional distribution of the benefits of competitive and integrated financial services markets.

In recognition of this changing financial landscape, the Cardiff European Council in June 1998 invited the "Commission to table a framework for action... to improve the single market in financial services"[1]. In response to this mandate, the Commission published a Communication[2] which identified a range of issues calling for urgent action to secure the full benefits of the single currency and an optimally functioning European financial market. Five imperatives for action were highlighted:

- the EU should be endowed with a legislative apparatus capable of responding to new regulatory challenges;
- any remaining capital market fragmentation should be eliminated, thereby reducing the cost of capital raised on EU markets;
- users and suppliers of financial services should be able to exploit freely the commercial opportunities offered by a single financial market, while benefiting from a high level of consumer protection;
- closer co-ordination of supervisory authorities should be encouraged; and
- an integrated EU infrastructure should be developed to underpin retail and wholesale financial transactions.

The Vienna European Council, in December 1998, considered it vital to translate the clear consensus on the challenges and opportunities that confront EU financial markets into a concrete and urgent work programme[3] - stressing the importance of the financial services sector as a motor for growth and job-creation and the need to confront the new challenges posed by the introduction of the single currency. A group of personal representatives of ECOFIN Ministers and the European Central Bank, meeting under the Chairmanship of the Commission, was thus entrusted with the task of assisting the Commission in selecting priorities for action for consideration by the May 25 ECOFIN Council.

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1 Pt. 17, Presidency Conclusions from Cardiff European Council (15/16 June 1998).

2 COM (1998) 625. 28.10.98: "Financial Services: building a framework for action".

3 Pt. 51, Presidency conclusions from Vienna European Council (11/12 December 1998).

The Financial Services Policy Group (FSPG) met on three occasions. Its deliberations, together with the broad consultation undertaken earlier for the Framework for Action and the Resolution of the European Parliament[4], have greatly assisted the Commission in developing a fresh perspective to its work. The Commission now presents this Communication which, although not a report from the FSPG, is based on its work and reflects the broad discussions in the Group. The Commission tables this Communication as a possible basis for a future work programme in this area, building on agreed Commission policy as developed in discussions with the FSPG and in the European Parliament. The Communication seeks to:

- confirm the objectives which could guide the financial services policy over the coming years;
- assign a relative order of priorities and an indicative time-scale for their achievement; and
- identify a number of mechanisms which may contribute to their realisation.

The annexed Framework for Action is an aspirational programme for rapid progress towards a single financial market. . It is an illustrative plan which may be pursued by the next Commission, which will of course need to decide conditions under which the different actions will be initiated. The indicative timeframe reflects the priorities as suggested by discussions in the FSPG and the European Parliament. The European Parliament and the Council, for their part, are invited to confirm the content and urgency of the Action Plan. To the extent that political support at the highest level is forthcoming, the European Parliament and the Council are invited to make every effort to ensure rapid agreement and implementation of the individual measures.

II. TACKLING URGENT ON-GOING BUSINESS:

Several proposals of immediate and significant relevance to the functioning of EU financial markets have fallen victim to protracted political deadlock. Their resolution would constitute an immediate and tangible contribution to the functioning of the single financial market and a clear signal of the political commitment to make progress as urgently as possible. In February, ECOFIN Ministers agreed to intensify efforts to reach agreement on four key legislative initiatives (the two proposals on the winding-up and liquidation of credit institutions and of insurance companies; the proposal for a 13th Company Law Directive (Take-over bids) and the European Company Statute).[5] No definitive break-through has yet been recorded, but progress has been made.

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4 Ref. PE 229.721 fin, EP. 15.04.99.

5 The ***Proposal for a Directive on the winding-up and liquidation for credit institutions*** will help to clarify and contain counter-party risk. As such, it is an important firebreak against systemic risk and an indispensable component of a blue-print for sound and stable financial markets. The ***Proposal for a Directive on the winding up and liquidation for insurance for insurance*** would offer insurance companies, their policy-holders, employees and creditors the legal security and confidence needed to take advantage of a single financial market. The ***European Company Statute (proposals for a Directive and Regulation)*** will contribute to increased transparency regarding management and ownership structures, as well as a rationalised legal template for pan-European operations. This will be a useful contribution to an integrated primary market and will also serve as an important step towards (market-driven) emergence of corporate governance patterns in the EU. The ***proposal for take-over bids (13th Company Law) Directive*** will facilitate the restructuring of the financial industry – a process which is gathering pace – and mark an important milestone in the emergence of an open market in EU corporate ownership.

The Council is invited to confirm the fundamental importance of these initiatives for an effective single financial market and to seek to resolve the outstanding difficulties as urgently as possible.

Further initiatives were singled out as being a high priority for adoption before the next century. In the annexed framework for action plan, both sets of these initiatives are clearly identified as urgent. They include:

- the two proposals for Directives relating to Undertakings for Collective Investments in Transferable Securities (UCITS);
- the proposal for a directive on the distance selling of financial services;
- the proposal for a directive on electronic-money

The Council and the European Parliament are invited **to take all necessary steps to secure political agreement on these important proposals before 31.12.99.**

III. FRESH PRIORITIES FOR A SINGLE FINANCIAL MARKET:

The wide consultations undertaken over the past 12 months, the Resolution of the European Parliament and the work of the FSPG have confirmed that a fresh impetus is called for to harvest the undeniable opportunities offered by the single financial market and the single European currency. The present action plan consolidates the issues which have emerged from the Commission communication, as fleshed out by the FSPG discussions. In respect of most of the following actions, he Commission has already the occasion to confirm or announce its intention to proceed with initiatives as they have emerged from these discussions. Essentially action is envisaged under three headings: wholesale markets; retail markets, and sound supervisory structures. The Framework plan (annexed) provides the detailed basis for this work, which should build on efforts undertaken in other formal or informal bodies where appropriate. Some of the issues relating to flanking policies signalled in the Commission communication of October 1998 are dealt with in the last chapter of this paper.

WHOLESALE MARKETS:

The euro is the catalyst for a market-driven modernisation of EU securities and derivatives markets. Profound changes in the organisation of the EU financial marketplaces are already visible, notably in the relationship between different exchanges and in the consolidation of payment and securities settlement systems. These hold out the prospect of cheaper and more flexible financing arrangements for corporate borrowers, including innovative start-up companies. Similarly the present mass of legal and administrative barriers need to be stripped away lest the emergence of better integrated securities trading systems driven by market forces is frustrated and the benefits of access to EU-wide capital markets denied. Broadly, action is needed under five chapters:

1. Common rules for integrated securities and derivatives markets.

The Investment Services Directive (ISD) is in urgent need of upgrading if it is to serve as the cornerstone of an integrated securities market. We must pave the way for effective cross-border provision of investment services. Even though the ISD requires Member States to take into account the extent to which the client/investor is sophisticated enough to assume full

responsibility for determining which rules should apply, obstacles to cross-border business persist. Despite this provision, host country authorities are unwavering in applying their conduct of business rules. However, there may ultimately be a need to reconsider the extent to which host country application of business conduct rules - which is the basic premise of ISD – is in keeping with the needs of an integrated securities market.

A communication summarising the common interpretation between national supervisory authorities could be an important first step in clarifying the boundary between the sophisticated investor (where the choice of "conduct of business" regime can be left to the two contracting parties) and the less professional "household" investor (where local rules could continue to be applied).

New regulatory issues: New developments and technologies also pose a major new challenge. A modern legal framework for competitive secondary markets requires a common understanding on:

- the definitions of markets and exchanges (to ensure that responsibility for authorisation and supervision is clearly allocated);
- the conditions under which brokers and dealers qualify automatically for remote membership of all regulated markets and the elimination of any other restrictions on exercise of related activities;
- a common approach to the authorisation and supervision of "alternative trading systems";
- Stringent safeguards to counter market manipulation.

Consultations will be undertaken with all interested parties (exchanges, regulated markets, supervisors, intermediaries, issuers) on the basis on a Commission Green Paper. In addition, possible adaptation of the ISD itself will be considered. The utility of proposals for specific legislation to counter market manipulation will also be given full consideration.

2. *Raising capital on an EU-wide basis.*

Producing multiple sets of official documentation before issuers can offer securities in other Member States is costly and undoubtedly inhibits pan-EU activity. The application of additional national requirements has thwarted the mutual recognition of prospectuses which the 1989 Public-Offer Prospectus Directive aimed to achieve.

The Commission communication entitled "risk-capital: a key for job-creation in the EU"[6], endorsed by the European Council at Cardiff, has underlined the missed opportunities for Europe in terms of investment and job-creation stemming from the underdeveloped nature of risk-capital markets. A number of impediments to the emergence of effective risk-capital provision relate to fragmented approaches to the regulation of securities business. These discrepancies prevent risk-capital markets from acquiring sufficient critical-mass to represent a viable alternative to more costly and inflexible forms of financing for innovative start-up companies. Actions identified in the risk-capital paper, coupled with the possible measures presented in this document, will stimulate the emergence of deeper and more liquid markets at

[6] SEC (1998) 552 final, April 98.

EU level. Closer collaboration at the level of securities supervisors will also serve this objective. These actions have now been integrated within the Framework Action Plan. and thus the pressure for change will be maintained..

To secure practical improvements in the operation of the Public-Offer Prospectus Directive, collaboration between the Commission and FESCO[7] will be intensified. Building on this work, the Directives on prospectuses may be upgraded. These adjustments could reinforce the practical implementation of mutual recognition of prospectuses and provide for new streamlined procedures for raising subsequent instalments of capital (in particular, laying down the basis for common acceptance of shelf-registration techniques).

In order to sustain the political momentum in respect of risk-capital markets, an interim report on progress of Member States in the implementation of the risk-capital action plan, endorsed by the European Council at Cardiff, will be published in the coming months. This report will highlight the steps taken by Member States to harness the potential contribution of vibrant and dynamic risk-capital markets to job-creation.

3. Financial reporting.

Comparable, transparent and reliable financial information is fundamental for an efficient and integrated capital market. Lack of comparability will discourage cross-border investment because of uncertainty as regards the credibility of financial statements. FSPG discussions pinpointed the urgent need for solutions which give companies the option of raising capital throughout the EU using financial statements prepared on the basis of a single set of financial reporting requirements. Capital-raising does not stop at the Union's frontiers: our companies may also need to raise finance on international capital markets. Solutions to enhance comparability within the EU market must mirror developments in internationally accepted best practice. At the present juncture, International Accounting Standards (IAS) seem the most appropriate bench-mark for a single set of financial reporting requirements which will enable companies (which wish to do so) to raise capital on international markets. In the same way. International Standards on Auditing appear to be the minimum which should be satisfied in order to give credibility to published financial statements.

Discussions in the FSPG have triggered an important debate on how the twin objectives of comparable financial reporting and alignment on international best practice can be simultaneously achieved. Consideration is currently being given to a possible solution which would provide companies with an option (as the sole alternative to preparing financial statements in accordance with national laws transposing EU accounting Directives) to publish financial statements on the basis of IAS standards. The objective of comparability in financial reporting will be secured by excluding national deviations from IAS for companies exercising this option. A screening mechanism will be required in order to ensure that IAS output conforms with EU rules and corresponds fully with EU public policy concerns. Securities markets supervisors could be associated to this task. These issues will be amplified in a Commission Communication to be published by the end of 1999, which will prefigure amendments of the 4th and 7th Company Law Directives. Auditing issues will be addressed in a separate Commission Recommendation.

4. A single market framework for supplementary pensions funds.

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7 The Forum of European Securities Commissions

It is the competence of the Member States to organise pension provisions in the light of national circumstances and requirements. However, where they exist supplementary pension funds (employment related) should be able to operate in a coherent single market framework. The establishment of such a framework was regarded as such a priority by FSPG members that it warranted a specific debate. This debate centred on the extent to which an appropriate prudential framework for such financial services can enable fund managers to improve fund performance without in any way compromising the protection of fund members. With the introduction of the euro, the use of currency matching rules and stringent asset-category rules can increasingly - though not exclusively- be replaced by qualitative prudential rules. In this way pension funds can be permitted to select assets that better match the real, long term nature of their liabilities and thus reduce risk. In order to facilitate the development of funded pension schemes, a rigorous prudential framework is needed in order to ensure the security of pension fund beneficiaries. Providing for a high of level of protection and improve fund performance to the benefit of their members, will not only stimulate employment creation by lowering non-wage labour costs but also alleviate the growing burden of financing old age pensions due to demographic change. In developing new thinking, great care has been taken to ensure the maintenance of a level-playing field on a For all providers of occupational pension schemes.

By providing a ready source of long-term capital, pension funds will also stimulate the flow of funds available for private sector investment (thus promoting job-creation and growth). This approach can serve as one of a range of measures to help to reduce the burden of financing old age pensions caused by demographic change. The general lack of a Community framework also discourages labour mobility in that it is both difficult to transfer employee rights from one Member State to another and impossible for residents of one Member State to join a pension scheme in another.

The contours of a prudential framework for supplementary pension funds have been discussed with the FSPG and the Insurance Committee. A Communication which consolidates recent consultations and discussions is envisaged. This Communication could serve as the basis for a proposal for a Directive on the prudential supervision of pension funds. The envisaged prudential framework would take into account the diversity of pension funds currently operating in the EU and will cover: authorisation, reporting, fit and proper criteria, rules on liabilities and investments with a combination of qualitative and quantitative rules. Co-ordination of the tax arrangements governing supplementary pensions and the removal of the obstacles to labour mobility would also be explored.

5. Collateral.

Work on the implementation of the Settlement and Finality Directive shows the importance of common rules for collateral pledged to payment and securities systems. Priority should be given to further progress in the field of collateral beyond this field. The mutual acceptance and enforceability of cross-border collateral is indispensable for the stability of the EU financial system and for a cost-effective and integrated securities settlement structure. At present, these conditions are not fulfilled: there is a higher risk of invalidation of cross-border collateral arrangements and uncertainty as regards enforceability should the collateral provider become insolvent. If such difficulties are not resolved, cross-border securities transactions will be subject to higher costs and risks.

In close cooperation with the financial services sector and national authorities, the Commission will begin work on proposals for legislative action on collateral.

6. A secure and transparent environment for cross-border restructuring.

The EU is currently in the throes of widespread industrial restructuring. The financial sector is to the forefront of this development. Early adoption of the Take-Over Bids Directive and the European Company Statute will provide much-needed legal underpinning for protection of minority shareholdings and a more rationalised organisation of corporate legal structures in the single market. Early progress on the European Company Statute will also pave the way for the Commission to come forward with long overdue and important proposals for Directives on cross-border mergers of public limited companies, and on the transfer of company seat

Ensuring a secure and transparent environment for restructuring is of particular importance when it involves the financial services industry. Prudential considerations must of course be fully taken into account. At the same time, arriving at configurations that bring about greater efficiency is crucial given the key role that financial services play in ensuring an efficient allocation of resources throughout the EU economy. Therefore, the supervisory authorities, while taking prudential considerations fully into account when dealing with the restructuring process (mergers, acquisitions, take-over bids etc.), should do so in full respect of the principles of transparency and non-discrimination. In order to avoid that prudential considerations – left unspecified – could result in unjustified actual or potential obstacles to restructuring operations, it would be appropriate that any required authorisation process be based on a set of objective and publicly disclosed criteria, stable over time. Such an approach has been set out by the Commission in its Communication on certain legal aspects concerning intra-EU investments[8] in particular to ensure free movement of capital and freedom of investment.

RETAIL MARKETS:

Fundamental change in the EU financial markets is clearly being driven by wholesale services. However, the retail sector is itself in the process of considerable adaptation. Action at EU level for retail markets and for the protection of consumers thus remains a high priority.

The policy for the single market in financial services has already introduced a legal framework that allows financial institutions to offer their services throughout the Union and established a bulwark against institutional failure and systemic risk. Depositors, insurance policy holders and are already well-protected against the financial trauma of default. Yet many hurdles to cross-border provision of services remain. In particular the conditions under which financial products are sold (e.g. marketing rules) should be addressed. Member States continue to apply national rules as a defence against unfair trading practices and to ensure the soundness and integrity of financial services and their providers. This situation prevents consumers and suppliers from reaping the single market benefits of increased choice and competitive terms. Cross-frontier trading will only flourish if consumers are confident about the integrity of the service being provided and the selling methods used by suppliers; the credentials of the supplier, the availability and efficacy of redress procedures in the event of a dispute. Similar factors may also deter suppliers from supplying services to consumers resident in another Member State because of the increased costs and/or risks that such transactions entail for the supplier. Rather than attempting harmonisation of financial products, mutual recognition of essential requirements should be pursued.

Regulatory and structural problems which prevent financial service suppliers and consumers from mutually benefiting in a climate of trust and legal security must be tackled head on.

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8 OJ C 220, 19.07.97.

Appropriate and progressive harmonisation of marketing and information rules throughout the Union together with a pragmatic search for non-legislative solutions offers the prospect of a truly integrated retail market fully respecting the interests of consumers and suppliers. The Commission has identified six key areas for action.

1. *Information and transparency*

Clear and understandable information for consumers is vital when they are investing significant savings in another country. Consumers need information to assess the characteristics of the contract, the service provider, and the proposed investment. Industry must do everything possible to meet such needs. Clear understanding of what information is required will also be of benefit to service providers in facilitating effective action to partner country markets. The Commission will encourage a constructive dialogue between suppliers and users whilst itself remaining fully prepared to respond to citizens' concerns, if necessary by legislative action.

The Commission will pursue the policy of Dialogue between financial services providers and consumers, initially by issuing a Recommendation to follow-up on a code of good practice on information provision in the area of mortgage credit. It will also seek to develop an over-arching policy in this area. This will be reflected in a Communication to be published which will examine possible guiding principles for the full range of cross-border financial services, taking account of provisions laid down in existing EU and national provisions.

2. *Redress procedures*

Amongst the most significant stumbling-blocks to the single financial market is the consumer's uncertainty about the possibilities of redress in the eventuality of cross-border contractual dispute. We need to find an efficient and effective judicial and extra-judicial settlement of disputes to provide the necessary confidence in cross-border activity.

On the basis of the Commission's policy of administrative cooperation within the Single Market, the Commission could consider the development of a Union-wide complaints network (including the use of an ombudsman for financial services). In the field of consumer disputes, the Commission will base its action on its Recommendation on the principles applicable to the bodies responsible for out-of-court settlements of consumer disputes[9] and will follow the methodology foreseen in that text. Thus, in order to promote co-operation between these extra-judicial bodies in charge of consumer disputes, the European Commission will encourage networking between these bodies with a view to resolving cross-border disputes. Ultimately, consumers should be able to refer cross-border disputes to the extra-judicial body which is competent and which respects the criteria of the Recommendation in the foreign country via the corresponding extra-judicial body in their own country. It goes without saying that recourse to extra-judicial bodies can never preclude the right of consumers to bring their action before judicial courts. In addition, the Commission policies of Dialogue with Citizens and with Business could also be developed to provide advice and help on complaints procedures throughout the Union.

3. *A balanced application of consumer protection rules:*

9 Recommendation 98/257 of 30.03.98.

If all Member States have the same basic level of protection in place, national authorities should be more ready to allow financial services providers authorised in other Member States to deal with their clients without setting additional requirements on those providers.

For a number of specific financial products, the Commission could analyse national consumer protection rules (including general provisions that affect other Member States' products/suppliers). Detailed work could be undertaken to establish possible equivalence between clearly similar rules. This work could culminate in detailed report to the Council and EP on the basis of which conclusions for future policy will be drawn. The Commission has already announced its intention to issue a communication on the application of the general good in the insurance sector.

4. *Paving the way for e-commerce based retail financial business*

E-commerce is already revolutionising retailing and distribution of many financial services. Suppliers - EU and non-EU - will be able to make contact with potential users across national boundaries at minimal distribution cost. Users will benefit from a wider range of innovative products. The overall impact will be to reinforce and cement market integration. Proposals for E-Commerce and Distance Selling Directives are on the table, which will facilitate the emergence of these activities. However, discussions in the FSPG highlighted the need for clarification and coherence in certain areas (e.g. existing differences in prudential procedures and notification arrangements). Many of the issues, already identified for cross-border sales in retail financial markets, will be thrown into even sharper relief.

The Commission envisages publishing a Green Paper to establish whether the provisions of existing financial legislation contain coherent provisions on prudential procedures provide a propitious legal environment in which e-commerce based financial services business can thrive, while ensuring that consumers' interests are fully safeguarded.

5. *Insurance intermediaries*

Member States have developed consumer protection safeguards in relation to insurance intermediaries, but varying national legislation has been drawn up along very different lines which acts to hamper the free provision of services. Given their key importance in enhancing the functioning of the single insurance market, there is a need to provide a clear and common approach to regulation of insurance intermediaries, thus facilitating the free provision of services while strengthening consumer protection at a high level.

The Commission is working towards tabling a Directive:
1) to update the 1976 Directive on insurance intermediaries and
2) to strengthen consumer protection by establishing common requirements on inter alia registration, financial security and information disclosure to the consumer.

6. *Cross-border retail payments*

Without impetus at the highest political level, there is a danger that the individual customer of financial services will be deprived of some of the tangible benefits of a single currency.

In particular, low value credit transfers between euro-zone countries will continue to attract high charges until such time as a modern payments infrastructure which is capable of supporting

efficient, secure and low-cost cross-border payments is put in place. The current relatively low-volumes of cross-border credit transfers combined with a range of structural and administrative factors stand in the way of "state-of-the-art" linkages. However, citizens are unwilling - and rightly so - to tolerate a situation where cross-border payments incur charges which far exceed those charged by domestic transfer systems. If charges could be reduced to a level comparable to domestic credit transfers, savings of several billion euro could be made. Remedying the infrastructural gaps requires a concerted strategy, supported at the highest political level and including the EU institutions, the ESCB and the private sector to surmount the technical and commercial hurdles.

Likewise, charges for cross-border card-payments are higher (and often more opaque) than fees for domestic card payments – although the differences are less marked than for credit transfers. In this area, the Commission believes that a combination of efforts to increase transparency, reduce fraud and reinforce competition disciplines erode such differentials.

There is a clear need for integrated retail payments systems, which provide for secure and competitive small-value cross-border transfers comparable with the service provided within domestic payment systems, to be put in place before the end of the euro transitional period. A concerted effort involving the ESCB, EU institutions and the private sector should be launched to deliver a technically secure and operational solution as a matter of utmost urgency . The Council and the European Parliament are invited to endorse this as a foremost political objective in the financial services field and to play their full part in supporting the implementation of a solution which will serve the needs of citizens. The Commission intends to publish a Communication mapping out a strategy for ensuring progress towards this objective.

SOUND SUPERVISORY STRUCTURES:

The EU's supervisory and regulatory regime has provided a sound basis for the emergence of a true single financial market which goes hand in hand with prudential soundness and financial stability. Steady EU-led convergence in regulatory requirements, has been underpinned by a comprehensive system of informal bilateral memoranda of understanding between financial supervisors. This system has provided common ground-rules and pragmatic means of implementing and applying the EU Directives for a single market for financial services. However, the future will bring fresh challenges. The heightened tempo of consolidation in the industry, and the intensification of links between financial markets because of the euro call for careful consideration of structures for containing and supervising institutional and systemic risk. In an environment characterised by strong and immediate transmission effects between EU banking and securities markets, there are reasons to believe that the status quo may not tenable over the longer-term. There is now a greater need and a willingness to engage in an open discussion on the structures that will be needed to ensure appropriate regulation and supervision of a single financial market.

As regards regulation, the Union should strive to maintain the highest standards of prudential regulation for its financial institutions. These standards must be kept up-to-date with market developments and capital requirements must accurately reflect the risks run by banks, insurance undertakings and securities firms in the Union. Combined financial operations may also create new prudential risks or exacerbate existing ones. Capital requirements must be adequate and proportionate to meet the risks undertaken in financial groups that straddle traditional sectoral boundaries. The Commission will continue to exercise its right of initiative in promulgating proposals to address new regulatory issues. It would however, draw great benefit from cross-sectoral strategic input of the type which could be delivered by the mechanism presented in section IV.1 of this paper. This perspective would be valuable in defining broad

orientations for appropriate regulatory approaches in areas such as conglomerates The EU must also assume a key role in ensuring that its voice is clearly heard in international financial regulatory fora to ensure that sound and coherent regulations are promulgated that guarantee level-playing fields. The global dimension to regulation of financial services is set to acquire increasing importance as international liberalisation gathers pace under the aegis of the WTO[10]

In the area of supervision, closer market integration has pushed the issue of reinforced EU collaboration to the forefront. The continuing process of internationalisation, disintermediation, and globalisation of financial services challenges the way in which we have structured the present means of co-operation and co-ordination between authorities. The following practical steps, which build on existing arrangements, could take account of the greater cross-border and cross-sectoral dimension to ensuring financial stability.

1. Increasing cross sectoral complexities underline the need for clarity in supervisory roles. Many themes that are discussed within a banking, insurance, or securities perspective in reality cut across all financial sectors. There is therefore a pressing need for increased collaboration, monitoring and better understanding of experiences and risks in all sectors, including those that would normally go beyond individual banking, insurance or securities supervisory perspective. At present, there is no focal point for forging common approaches across sectors to the day-to-day application of prudential rules to individual cases. The Commission would see great merit in developing "ad hoc" and streamlined arrangements for close coordination between front-line authorities. Such an arrangement could draw from the membership of existing structures. In this way, it would avoid duplication and proliferation of structures.[11] Although the Commission's vocation in the financial services field is regulatory, it stands ready to assist Member States in developing these ideas.

2. In the field of securities markets, closer cooperation between securities has taken a step forward following the creation of FESCO. As cross-border trading and issuance becomes a common-place, policy concerns such as market integrity will assume the properties of a common good. In time, the option of a single authority to oversee securities markets supervision may emerge as a meaningful proposition in the light of changing market reality. The EU has also been hamstrung by the absence of a committee of appropriate standing to assist the EU institutions in the developing and implementing regulation for investment services and securities markets.

3. EU legislation provides a legally binding underpinning for cross-border cooperation between banking supervisors. These rules are managed through bilateral Memoranda of Understanding between national supervisors. Recently, some have argued that these arrangements are no longer sufficiently robust to contain cross-border effects of failure of large institutions. The Commission does not subscribe to the view that present arrangements are unsuitable for the present state of the single banking market. However, it considers that there is a need for high-level political assessment, encompassing all national and EU level institutions with an interest in banking supervision, of the conditions under which a review of present arrangements for banking supervision could be required.

At present, decisions on appropriate supervisory arrangements are determined at national level, and the supervision of the banking, insurance and securities sectors is predominantly conducted at that level. Member States have developed different models for performing these

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10 Ratification of the 1997 Agreement is proceeding and attention is turning to a second round of GATS liberalisation.

11 E.g. Groupe de Contacte, FESCO and Conference of insurance supervisors and their parent committees – BAC, HLSS and IC.

tasks. Mutual confidence in the effectiveness of partner country financial supervision and regulation – whether that be undertaken by a consolidated authority for the entire sector or by separate sectoral authorities that co-operate and co-ordinate effectively – is the key ingredient for successful cross-border supervision. .

The Commission intends to present proposals to maintain high standards of banking, insurance and securities prudential legislation. To this end the work of existing bodies will be taken into account as much as possible (Basle Committee, FESCO etc). Work on the prudential supervision of financial conglomerates will be taken in hand. Appropriate and efficient arrangements will be put in place to increase cross-sectoral discussion and co-operation between authorities on issues of common concern. In the securities field, the Commission envisages the creation of a Securities Committee, in the light of any future inter-institutional decision on "comitology". It also advocates the initiation of high-level consideration of the conditions under which present supervisory arrangements in the banking sector might need to be reviewed.

GENERAL CONDITIONS FOR AN EFFICIENT EU FINANCIAL MARKET:

1. Corporate governance:

Investors in the single market may experience unnecessary uncertainty due to differences in corporate governance arrangements. Differences in corporate governance arrangements could give rise to legal or administrative barriers which might frustrate the development of an EU financial market (e.g. practical arrangements for the exercise of voting rights by shareholders in partner countries). However, the term "corporate governance" covers a wide series of issues whose ramifications for the single financial market are at present unclear. Furthermore, national arrangements spring from long-standing legal and socio-economic traditions. At the present juncture, any EU involvement in this area should be confined to identifying any barriers to the development of the EU financial market resulting from corporate governance arrangements.

A review of existing national codes of corporate governance will be launched with a view to identifying any legal or administrative barriers which could frustrate the development of a single EU financial market.

2. Taxation:

For the sake of a smoothly functioning single market for financial services, contributing to an efficient allocation of resources throughout the European Union, the further integration of financial markets must proceed broadly in parallel with an adequate process of tax co-ordination.

The liberalisation of capital movements in 1988 – a key step, inter alia, for ensuring a single market for financial services – was due to be accompanied by parallel measures in the area of savings taxation in order to eliminate or reduce the risks of distortion, tax evasion and/or tax avoidance. In fact, the Council was unable to reach agreement on the Directive proposed in 1989.

A second key step in financial liberalisation took place with the adoption of specific sectoral financial services directives, again without progress in the field of taxation. For example, barriers arising from the tax treatment of insurance premium continue to act as a serious barrier to a single insurance market.

This framework action plan is intended as the third key step towards a single market for financial services. A number of Member States, together with the Commission, consider that it would be technically unbalanced and politically difficult to implement this third stage while the process of tax co-ordination in financial markets is still less developed.

The Council is invited to adopt the 1998 proposal for a Directive to ensure a minimum effective taxation of cross-border savings income. The Commission will continue its efforts to tackle tax barriers to a fully functioning single market for financial services. The Commission will present proposals, in the light of the Taxation Policy Group discussions, as regards pension funds and insurance.

IV. DELIVERING THE FRAMEWORK ACTION PLAN:

FSPG discussions have permitted a long overdue stock-taking of our approach to legislating for financial markets. It took more than a decade to agree the Single Market financial services legislation which gave effect to the guiding philosophy of the "single passport/home-country control". We are now embarking on a qualitatively more challenging process which aims to target a broader range of policy objectives against the backdrop of a faster-changing financial world. If we are successfully to implement the regulatory blue-print set out in the annex, we will need to overhaul the way we develop financial services legislation and achieve high levels of international cooperation.

Mechanisms are required which avoid the following pitfalls:

(1) A piecemeal and reactive approach to proposing and designing actions is inadequate in a situation where financial conglomerates are common-place and the boundaries between financial services are being steadily blurred. A holistic, cross-sectoral view is required in setting regulatory priorities, in avoiding tensions between policy objectives in different segments of the financial markets and in expanding the range of policy solutions. Such considerations militate in favour of a high-level strategic input in policy-setting;

(2) Protracted decision-making processes (witness the debates on winding-up and liquidation of credit institutions and insurance companies). A more inclusive and consensual approach in shaping policies from an early stage and in advance of drafting legislation will deliver dividends when it comes to completing formal (co-decision) procedures. This inclusive approach should extend to all EU institutions, but also to representatives of market practitioners, consumers, users and employees;

(3) EU solutions must be characterised by a degree of flexibility so that they are not immediately rendered obsolete by the relentless pace of change in the markets. Overly prescriptive EU measures often only serve to ossify market structures and behaviour. This risk is exacerbated by the length of time needed formally to agree legislative solutions.

The way in which we set about implementing the new framework agenda will be critical to its achievement. The following mechanisms can be considered.

1. Updating cross-sectoral priorities:

New regulatory challenges will emerge as a potential threat to the stability of EU financial markets. To meet such challenges a fresh look at the present organisation of the Union's structures and procedures for financial services is needed.

Without prejudice to the Commission's legal right of initiative, a mechanism to identify future challenges and to frame priorities in a broad context could comprise the following elements:

- *A forum to forge consensus on emerging challenges between national ministries involved in financial services regulation. The Commission would derive great benefit from access to strategic input similar to that provided by the FSPG for the period of its short-lived mandate.*
- *Appropriate arrangements could be made to allow policy orientations to be discussed infomally with EP representatives at an early stage.*
- *A high level forum could be created to take soundings from bodies representing the principal EU interest groups which have an interest in the smooth and efficient operation of financial markets. Chief amongst these would be representatives of all segments of financial markets, exchanges, consumers and (business) users, and employees.*
- *The recently developed process of economic reform provides essential information and analysis of the functioning of product, service and capital markets. The Cardiff process will serve as a valuable input in the selection of priorities.*
- *The Commission should report regularly to the Council on the progress made in achieving the deadlines set in the Framework Action Plan and, following a high level group examination, in considering major new cross sectoral challenges (such as financial conglomerates).*

2. *Selecting the best available technical solutions:*

The Commission intends, at as early a stage as possible, to engage the other EU institutions and relevant EU-level interest groups in discussions on the broad contours of any initiative. Such consultations could include the following:

(1) Input from national authorities engaged in the regulation and supervision of markets could be integrated at an early stage when Community initiatives are being prepared;

(2) EU representative bodies could designate a short-list of experts to help the Commission in assessing the implications of more technical solutions.

3. *Speedy implementation of agreed solutions:*

At present, the adaptation of EU prudential rules to cope with new sources of instability or to align it on state-of-the-art regulatory/supervisory practice is painstakingly slow (it is not unusual for legislative procedures to take three to four years to complete). The resolution of the European Parliament highlights the dangers inherent in these delays, whilst underlining the need to respond effectively to concerns about the democratic legitimacy of the EU's decision-making process.

All agree that we need greatly to minimise the time needed to conclude agreement on individual actions. The Commission could explore with the Parliament and the Council how best to ensure the possible acceleration of co-decision procedures provided for under Art. 251 of the Treaty (as introduced by Amsterdam Treaty) can be used.

However, a more wide-ranging rethink of the way in which policy for financial markets is processed is required. Any more radical procedural approach must provide for rigorous oversight by the EP and Council and must ensure that rules are, as far as possible, uniformly

interpreted and applied across the EU; that greater flexibility in regulatory policy is introduced so that where necessary it can be more promptly adapted (subject to political oversight) to changing circumstances.

The Commission could initiate informal discussions with the European Parliament and Member States on the way in which Article 251 can be used to accelerate the legislative process for financial services. In addition, ways of drafting legislation in order to minimise over complexity will be explored. In particular, the framing of single market legislation in this area (based on Art. 100a) could enshrine "essential requirements" which have as their basis a high level of consumer protection. The core concepts at the heart of EU legislation could be fleshed out in greater detail through the use of agreed comitology procedures, thus providing for legal certainty as regards detailed implementing provisions. Additional clarification on technical issues, to assist supervisors and other agencies in day-to-day application of framework rules, would be provided in the form of Commission communications.

The Council and EP are invited to lend their support to the implementation of this new approach to elaborating and finalising proposals for EU level action in respect of financial markets.

FINANCIAL SERVICES ACTION PLAN

Based on the extensive consultations around the Commission's Framework for Action, the following plan confirms the work that must be set in hand to reap the full benefits of the euro and ensure continued stability and competitiveness of EU financial markets. The future Commission will need to decide conditions under which different actions will be taken forward. The optimal timeframe reflects the priorities which have emerged from discussions in the FSPG, with the European Parliament and with other interested parties.

The European Parliament and the Council are invited to endorse the content and urgency of the Financial Services Action Plan. The European Parliament and the Council are also invited to make every effort to ensure rapid agreement and implementation of the individual legislative measures. Commitments are also called for to ensure the investment of political will and concentration of the necessary resources to achieve the ambitious deadlines that are set in response to the changing demands of the market, the need to safeguard consumer interests and to enhance the competitiveness of EU industry as a whole.

Three indications of priority have been set for each measure identified in the Action Plan:

Priority 1 actions:

There is broad consensus that these actions call for immediate attention. These measures are are crucial to realisation of the full benefits of the euro and to ensuring the competitiveness of the Union's financial services sector and industry whilst safeguarding consumer interests.

- Where legislative proposals are already on the table European Parliament and Council are invited to take all steps necessary to secure the maximum possible agreement before January 1, 2000.
- The Commission confirms that where an initiative is required, it will come forward with the necessary action without delay.
- Based on any necessary preparatory work by the Commission, the Council and European Parliament are invited to ensure rapid agreement within two years, or at the latest by the end of the euro-transitional period, and to expedite implementation of agreed measures without delay.

Priority 2 actions:

The Commission regards these priorities as important to the functioning of the Single Market for Financial Services - in particular, by amending existing legislation or adapting present structures to meet new challenges.

Priority 3 actions:

These actions concern important areas where a clear and general consensus exists that new work should be set in hand with a view to finalising a coherent policy by the end of the euro-transitional period.

STRATEGIC OBJECTIVE 1
A SINGLE EU WHOLESALE MARKET

(VERSION: 07-05-1999)

Speedy adoption and implementation of the following actions[1] in order to achieve this strategic objective will:

- ***enable corporate issuers to raise finance on competitive terms on an EU-wide basis;***
- ***provide investors and intermediaries with access to all markets from single point-of-entry;***
- ***allow investment service providers to offer their services on a cross-border basis without encountering unnecessary hindrances or administrative or legal barriers;***
- ***establish a sound and well integrated prudential framework within which asset managers can put funds at their disposal to their most productive use;***
- ***create a climate of legal certainty so that securities trades and settlement are safe from unnecessary counter-party risk.***

Raising capital on an EU-wide basis:

Action	*Priority*	*Objective*	*Actors*	*Optimal Timeframe*
Upgrade the Directives on Prospectuses through a possible legislative amendment	1	Overcoming obstacles to the effective mutual recognition of prospectuses, so that a prospectus or offer document approved in one Member state will be accepted in all. In addition, incorporating "shelf registration" will provide for easier access to capital markets on the basis of streamlined prospectuses, derived from annual accounts.	Commission, building upon work by FESCO[2]	For issue by mid 2000 Adoption: 2002
Update the Directive on Regular Reporting (82/121/EEC)	3	More frequent and better quality information will enhance market confidence and attract capital	Commission, following consultation with FESCO and the market	Launch consultation by mid 2000 Proposal: 2001 Adoption: 2002

Establishing a common legal framework for integrated securities and derivatives markets:

Action	*Priority*	*Objective*	*Actors*	*Optimal Timeframe*
Issue a Commission Communication on distinction between "sophisticated" investors and retail investors.	1	Summary of common interpretation of use of investor protection rules, including conduct of business rules to determine conditions under which host country business rules apply to cross-border securities transactions.	Commission, building upon work by FESCO and after consultation with MS.	Draft for issue by end 1999

[1] *The proposed actions are structured in accordance with the presentation in the introductory paper.*
[2] *Forum of European Securities Commissions*

Directive to address market manipulation.	2	Enhance market integrity by reducing the possibility for institutional investors and intermediaries to rig markets. Set common disciplines for trading floors to enhance investor confidence in an embryonic single securities market.	Commission after consultation with MS and markets.	Proposal by end 2000 Adoption: 2003
Green Paper on upgrading the ISD	2	Wide-ranging review of ISD as basis for integrated and efficient market for investment services. Tackle remaining obstacles to market access for brokers/dealers, obstacles to remote membership, and restrictions on trading in T-bonds. Address new regulatory challenges such as Alternative Trading systems.	Commission,	Publish Green Paper: mid-2000

Towards a single set of financial statements for listed companies:

Action	*Priority*	*Objective*	*Actors*	*Optimal Timeframe*
Amend the 4th and 7th Company Law Directives to allow fair value accounting	2	Enabling European companies to account for certain financial assets at fair value, in accordance with International Accounting Standards	Commission, Council, EP	Proposal autumn-99 Adoption: 2001
Commission Communication updating the EU accounting strategy	1	Map out strategy for enhancing comparability of financial reports issued by listed EU companies, based on combination of EU accounting Directives and financial statements issued in accordance with agreed international accounting standards. Strategy should prefigure mechanism for vetting international benchmark standards so that these can be used (with no national variations) by EU-listed companies.	Commission.	For issue by end-99
Modernisation of the accounting provisions of the 4th and 7th Company Law Directives	2	Bringing the 4th and 7th Directives in line with the needs of the Single market and to take into account developments in international accounting standard-setting	Commission, Council, EP	Proposal end-2000 Adoption: 2002
Commission Recommendation on EU auditing practices	2	Upgrading the quality of statutory audits in the EU by recommending specific measures in the areas of quality assurance and auditing standards.	Commission.	For issue by end-99

Containing systemic risk in securities settlement:

Action	*Priority*	*Objective*	*Actors*	*Optimal Timeframe*
Implementation of the	1	Common and coherent	Member States	Commission to

Settlement Finality Directive		application of the Directive throughout the EU is important for a smooth functioning of systems.		continue monitoring of implementation in a working Group. Commission report to Council end 2002
Directive on cross-border use of collateral.	1	Legal certainty as regards validity and enforceability of collateral provided to back cross-border securities transactions.	Commission in consultation with MS and market experts	Launch consultation autumn-99: proposal end-2000. Adoption: 2003

Towards a secure and transparent environment for cross-border restructuring:

Action	*Priority*	*Objective*	*Actors*	*Optimal Timeframe*
Political agreement of the proposed directive on Take Over Bids	1	Create EU-wide clarity and transparency in respect of legal issues to be settled in event of take-over bid. Prevent pattern of EU corporate restructuring from being distorted by arbitrary differences in governance and management cultures.	Council, EP	Mid-99 Adoption: 2000
Political agreement on the European Company Statute	1	Create optional legal structure to facilitate companies to place pan-European operations on a rationalised single legal umbrella. Within this context clarify scope for participation by employees – thereby create further common ground in respect of corporate governance practices.	Council, EP	Mid-1999 Adoption: 2000
Review of EU corporate governance practices	3	Identification of legal or administrative barriers and resulting differences in corporate governance regimes.	Commission, Member States, markets.	Launch review early 2000
Amend the 10th Company Law Directive	3	Create the possibility for companies to conduct cross-border mergers	Commission	Proposal in autumn 1999 Adoption: 2002
14th Company Law Directive	3	Allow companies to transfer their corporate seat to another Member State	Commission	Proposal in autumn 1999 Adoption: 2002

A Single Market which works for investors:

Action	*Priority*	*Objective*	*Actors*	*Optimal Timeframe*[3]
Commission Communication on Funded pension Schemes	1	Consultation on prudential framework for second-pillar pension fund schemes to protect beneficiary rights through stringent prudential safeguards and rigorous supervision.	Commission	Issue by May 1999

[3] ~~*See footnote2*~~

Political agreement on the proposed directives on UCITS	1	Proposal 1 will remove barriers to cross-border marketing of units of collective investment by widening assets in which funds can invest. Proposal 2 would provide a European passport for management companies, and widen the activities which they are allowed to undertake (also be authorised to provide individual portfolio management services).	Council, EP	End-1999 Adoption: 2000
Directive on the prudential supervision of pension funds	1	Following the policy outlined in its Communication, the Commission will propose a Directive on the prudential supervision of pension funds. It will take into account the diversity of pension funds currently operating in the EU and will cover authorisation, reporting, fit & proper criteria and rules on liabilities and investments	Commission	Proposal: Mid 2000 Adoption: 2002

STRATEGIC OBJECTIVE 2
OPEN AND SECURE RETAIL MARKETS

Concerted efforts by EU institutions and all interested parties, along the lines listed below, are needed to:

- ***Equip consumers with the necessary instruments (information) and safeguards (clear rights and effective dispute settlement) to permit their full and active participation in the single financial market:***
- ***Identify and roll back unjustified insistence on non-harmonised consumer-business rules as an obstacle to cross-border provision of services;***
- ***Promote the emergence of effective mechanisms for overcoming fault in the single retail financial market which have their origin in differences in private law:***
- ***Create legal conditions in which new distribution channels and distance technologies can be put to work on a pan-European scale;***
- ***Encourage the emergence of cost-effective and secure payment systems which enable citizens to effect small-value cross-border payments without incurring exorbitant charges.***

Action	*Priority*	*Objective*	*Actors*	*Optimal Timeframe*
Political agreement on proposal for a Directive on the Distance Selling of Financial Services	**1**	Proposal aims to bring about convergence of rules on business-to-consumer marketing and sales techniques. This will limit exposure of consumers to undesirable marketing techniques (inertia and pressure-selling) through inclusion of appropriate provisions (generous right of withdrawal rights, prohibitions). Once in place, distance selling via remote technologies should be free from this category of impediment.	Council, EP	End 99 Adoption: 2000
Commission communication codifying clear and comprehensible information for purchasers	**2**	Establish over-arching view of basic information requirements consumers need in order to assess credential of (cross-border) service suppliers, security/performance of services offered by latter (plus redress). Examine extent to which these requirements are complied for range of retail financial services.	Commission, Member States.	Review to begin end 99: Communication: mid 2000
Recommendation to support best practice in respect of information provision (mortgage credit).	**1**	Building on discussions in Consumer Dialogue, the Commission will publish a communication to endorse	Commission, bank and consumer representatives.	For issue by end-99

		understanding in respect of information to be provided in event of cross-border provision of mortgage credit services. Commission involvement in monitoring of compliance.		

Action	*Priority*	*Objective*	*Actors*	*Optimal Timeframe*
Commission report on substantive differences between national arrangements relating to consumer-business transactions.	3	The report will catalogue obstacles to cross-border business-to-consumer transactions for relevant financial services. This will provide analysis of whether, how and why host-country consumer rules apply and determine conditions under which equivalence of national rules does/does not exist. Provide objective and empirical basis for discussion with MS and EP on how to facilitate cross-border provision of retail financial services without jeopardising consumer safeguards.	Commission, Member States.	Review to begin autumn 1999: status report - mid-2000: Discussions with Council, EP to begin end-2000.
Interpretative Communication on the freedom to provide services and the general good in insurance	2	Greater legal certainty and clarity for Member States, insurance undertakings and citizens, contributing to the creation of the single market	Commission	For issue by summer 1999
Proposal for amendment of Insurance Intermediaries Directive	2	Facilitation of the free provision of services by insurance intermediaries and enhanced consumer protection by updating and introducing safeguards on professionalism and competence. By creating stringent common ground-rules for intermediaries can facilitate placing on market of insurance premia by partner country underwriters.	Commission (IC[4])	Proposal mid-2000 Adoption: 2002
Commission Communication on a single market for payments	2	Will provide a road-map for public and private agencies with a role to play in ensuring that secure and cost-effective retail payments can be effected on a cross-border basis. At present, such transactions	Commission, ESCB, markets, consumers.	For issue by summer 1999

[4] ***Insurance Committee***

		incur charges which are much higher in average than those within domestic payments systems – a situation which is untenable within a single currency zone. The Communication will focus heavily on credit transfers but will also address card payments, cheques and cash.		
Commission Action Plan to prevent fraud and counterfeiting in payment systems	2	Agree on ways to prevent fraud, e.g. in organising the exchange of data or increasing the security of technical systems	Commission, industry, users and MS	Communication for issue by: end-1999
Commission green paper on an e-commerce policy for financial services	1	A clear and coherent policy for the whole financial sector, which takes account of existing rules, wider international developments, and technological progress.	Commission	For issue by: mid-2000

STRATEGIC OBJECTIVE 3:
STATE-OF-THE-ART PRUDENTIAL RULES AND SUPERVISION

Urgent headway must be made in order to:

1. ***Eliminate any lacunae in EU prudential framework, arising from new forms of financial business or globalisation, as a matter of utmost urgency.***

- ***Set rigorous and appropriate standards so that the EU banking sector can successfully manage intensification of competitive pressures***
- ***Contribute to the developing of EU supervisory structures which can sustain stability and confidence in an era of changing market structures and globalisation:***
- ***Develop a regulatory and supervisory approach which will serve as the basis for successful enlargement;***
- ***Enable the EU to assume a key role in setting high global standards for regulation and supervision, including financial conglomerates.***

Action	*Priority*	*Objective*	*Actors*	*Timeframe*[5]
Adopt the proposed directive on the winding-up and liquidation of insurance undertakings	1	Provide a coherent legal framework for the winding-up and liquidation of insurance companies in the single market through the mutual recognition of proceedings and the principles of unity, universality, publicity and non-discrimination	Council, EP	New first reading in EP end 1999 Political agreement as soon as possible Adoption: 2001
Adopt the proposed directive on the winding-up and liquidation of banks	1	Common rules on winding-up and liquidation will establish common principles for procedures to be followed in event of bank insolvency, identify responsible authority. As such will safeguard against continued activities by insolvent institutions which could represent source of counterpart risk.	Council, EP	Common position: end-99 Adoption: 2001
Adopt the proposal for an Electronic Money directive	1	Ensure market access and adequate regulation of e-money providers: clarify the prudential rules under which institutions other than traditional credit institutions can provide e-money services. Enable provision of this activity on cross-border basis.	Council , EP	Common position: autumn 99 Adoption: 2000
Amendment of the money laundering directive	1	Combat fraud and money laundering in the financial system to widen definition of predicate offences and to extend reporting ('suspicious transactions') requirements to	Commission.	Proposal mid 1999 Adoption: 2001

[5] ~~See footnote2~~

		relevant non-financial professions.		
Commission Recommendation on disclosure of financial instruments	2	Enhanced disclosure of the activities of banks and other financial institutions to allow investors to take informed decisions, and to foster market transparency and disciple as a complement to prudential supervision	Commission.	Communication mid 1999
Amend the directives governing the capital framework for banks and investment firms	2	Work on a review of the bank capital framework to reflect market developments is running in parallel with that of the G-10 Basle Committee on Banking Supervision. This work is expected to result in a overhaul of the EU's bank and investment capital framework.	Commission (BAC, HLSS[6]) Member States, markets	Proposal for directive: spring 2000, pending developments in Basle Adoption: 2002

[6] *Banking Advisory Committee, High Level Securities Supervisors Committee*

Action	*Priority*	*Objective*	*Actors*	*Optimal Timeframe*
Amend the solvency margin requirements in the insurance directives	3	Protection of consumers in the single market by ensuring that insurance undertakings have adequate capital requirements in relation to the nature of their risks.	Commission (IC), Member States, markets.	Proposal for directive: mid 2000 Adoption: 2003
Proposal to amend the insurance directives and the ISD to permit information exchange with third countries	3	Basis for international exchange of information to underpin financial stability	Commission	Proposal autumn 1999 Adoption: 2001
Development of prudential rules for financial conglomerates following the recommendations of the 'Joint Forum'	1	Addressing loopholes in the present sectoral legislation and additional prudential risks to ensure sound supervisory arrangements.	Commission: BAC/IC/HLSS, Member States, supervisors and markets.	Proposal: end- 2000 Adoption: 2002
Creation of a Securities Committee	2	A formal regulatory committee in this field will contribute to the elaboration of EU regulation in the securities area. Requires willingness on part of EU institutions to agree an appropriate comitology procedure.	Commission, Council, EP	Proposal end 2000 Adoption: 2002

GENERAL OBJECTIVE
WIDER CONDITIONS FOR AN OPTIMAL SINGLE FINANCIAL MARKET

- ***Addressing disparities in tax treatment***
- ***An efficient and transparent legal system for corporate governance***

action	*Priority*	*Objective*	*Actors*	*Optimal Timeframe*
Adopt a Directive on Savings Tax	1	The objective of the proposal is to remove disparities in tax treatment of private savings to complement the removal of obstacles to the free movement of capital and financial services will benefit the financial sector	Council	Political agreement by November 1999 Adoption: 2000
Implementation of the December 1997 Code of Conduct on business taxation	1	Counter harmful tax competition which may significantly affect the location of business activity in the Union	Commission, Member States.	Ongoing examination in the Code of Conduct group
Review of taxation of financial service products	3	Lower costs and remove disincentives for cross-border business	Commission, Member States, markets.	Discussions in Tax Policy Group
Commission proposals for co-ordination of the tax arrangements governing supplementary pensions	2	Building on discussions in Tax Policy Group, proposal for legislative action will be prepared to address tax treatment of cross-border contributions of migrant workers to supplementary pension funds. Will serve as a contribution to labour mobility.	Commission	Proposals end 1999 Adoption: 2002
Review of EU corporate governance practices	3	Identification of legal or administrative barriers and resulting differences in corporate governance regimes.	Commission, Member States, markets.	Launch review early 2000

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