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COVER NOTE

from : Secretary-General of the European Commission,
signed by Mrs Patricia BUGNOT, Director

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to : Mr Javier SOLANA, Secretary-General/High Representative

Subject: Eighth interim report on the implementation of the Financial Services Action
Plan
- Nine months left to deliver the FSAP

Delegations will find attached Commission document SEC(2003) 655.

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COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION STAFF WORKING PAPER

Financial Services

Nine months left to deliver the FSAP



Financial Services

Nine months left to deliver the FSAP



Brussels, 3 June 2003

Eighth Report



I INTRODUCTION

European financial markets are going through a difficult period, reflecting the uncertain macro-economic situation. These difficulties have been compounded by a number of factors: the severe correction in stock market valuations since 2000; increased risk-aversion by investors triggered by a series of corporate governance scandals; and the war in Iraq. There has been a sharp reduction in new equity issuance and merger and acquisition activity in the EU. The reduced level of overall economic activity may reduce consumer and business demand for credit, and increase the proportion of bad debts on banks' balance sheets.

In the light of these developments, Finance Ministers reviewed conditions in the EU's financial system at their informal Council in Athens on 4/5 April. This review concluded that the system has withstood the pressures. Furthermore, they noted that the banking sector remains well-capitalised. Market participants in the different financial sectors - including (re-)insurance - have implemented measures to counteract the difficult operating environment.

The overall outlook strengthens the political case further for the completion of the Financial Services Action Plan (FSAP) for the following reasons:

1. The FSAP will reinforce the safeguards for financial stability and market integrity. With respect to that, the FSAP aims to establish an effective framework for policing market abuse. Furthermore, the FSAP tries to ensure the disclosure of objective, accurate and comparable financial information throughout the EU.
2. The stepping-up of pan-European regulatory cooperation - as pioneered in the field of securities - offers the best guarantee of reaping the benefits of an integrated financial market. The FSAP is paving the way for the emergence of a framework for the implementation and enforcement of common EU financial legislation. This framework is based on intensive and continuous cooperation between supervisory authorities, which is underpinned by binding obligations to ensure even-handed enforcement



throughout the EU, and which is intensified by Multilateral Memoranda of Understanding between different supervisory authorities;

3. Enlargement of the single financial market is coming sharply into focus. The geographic extension of the single financial market will amplify its economic benefits. This will be particularly true during the high-growth catch-up phase, when these new Member States will have high financing needs to fund investment. It is in all our interests to ensure that these new additional markets will be absorbed smoothly into the EU regulatory system. Clear and effective ground-rules, accompanied by practical arrangements for ensuring effective implementation and enforcement of these rules, will be critical in this regard.
4. The expectation that significant economic benefits will flow from the FSAP remains valid. The benefits of financial integration will be felt right across the economy and right across Europe; both for businesses and customers. Studies reported in the 7th Progress Report¹ highlighted some of these benefits in the form of higher overall growth potential, employment expansion and a smoother absorption of volatility². Implementing the FSAP is not a short-term palliative for current economic woes – it is essential to ensure that Europe is capable of supporting the highest levels of investment and growth over the medium to long-term.

There is strong political need to implement the FSAP effectively by 2005, because it forms a crucial part of the Lisbon European economic reform agenda. In order to meet this deadline, Heads of State and Government during the Brussels European Council (20 and 21 March 2003) have fixed the final cut-off date for the adoption of legislative proposals as April 2004. This is needed to allow 18 months for Member States to implement these measures. Furthermore, the present European Parliament will complete its final session in

1 See: http://europa.eu.int/comm/internal_market/en/finances/actionplan/index.htm

2 Although financial services represent 'only' about 6% of EU GDP and 2.45% of EU employment, London Economics (2002) estimate that integrated equity and corporate bond markets could reduce trading costs and thereby boost overall EU GDP by 1,1% and employment by 0,5%. See http://europa.eu.int/comm/internal_market/en/finances/mobil/overview.htm



April 2004. Legislation which is uncompleted by then, risks being significantly delayed. This would in turn have a domino effect on all subsequent steps towards the EU internal market. Time is running short – there are no more than 9 months left to complete the remaining legislative proposals.

A significant distance has been travelled since the adoption of the FSAP in 1999. Progress in adopting the legislative measures to timetable has been impressive. All institutions have continuously shown their willingness to implement the complete plan on time. Up to now 34 of the 42 original measures have been finalised – a huge collective investment of effort by market participants, national authorities and EU institutions. We are close to creating a comprehensive legislative framework which enshrines effective single market freedoms and common regulatory objectives in principles– based rules – rules that are capable of responding to evolving market conditions and structures within a more efficient decision–making structure.

A final sustained effort is required to conclude a number of key issues and to close outstanding discussions. On Market Abuse, Pensions, Prospectuses, and the 4th and 7th Company Law Directives tangible political progress has been made. The Greek Presidency has pressed forward with preparatory work on the outstanding proposals, clearing the path as much as possible for the successive Italian and Irish presidencies to conclude outstanding measures by April 2004.

II STATE OF PLAY ON REMAINING FSAP MEASURES

Since the last Progress Report, agreement has been reached on the following:

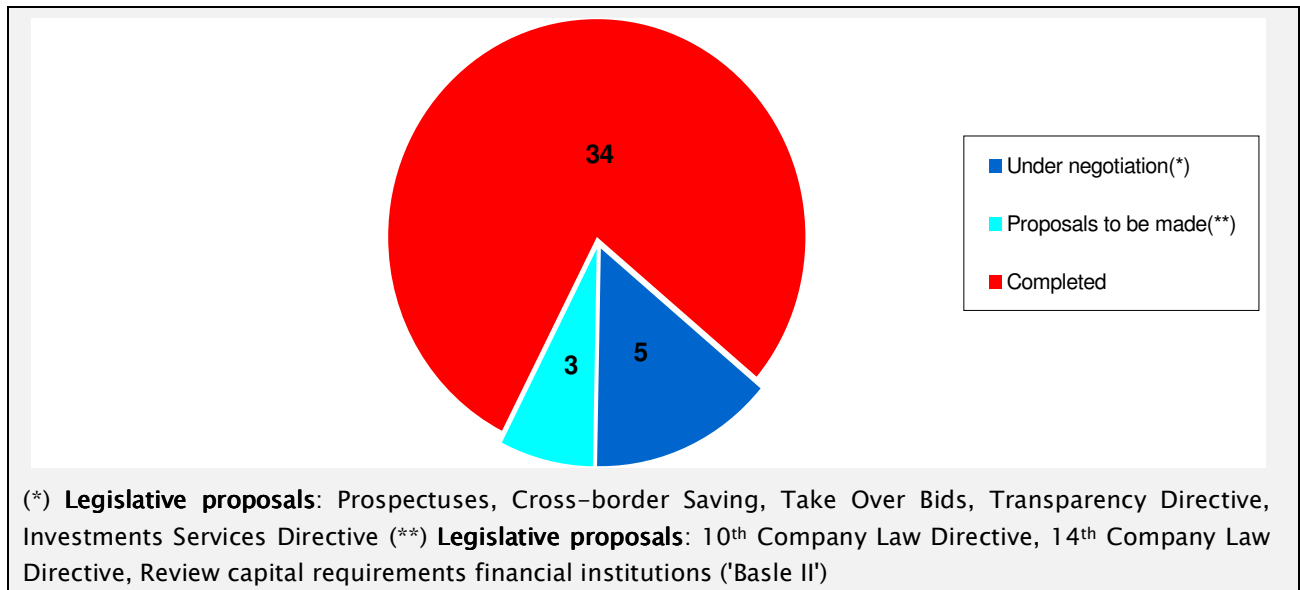
- the Directive on Insider Dealing and Market Manipulation (Market Abuse) was adopted on 28 January 2003³;
- the Directive on Pension Funds was adopted on 13 May 2003⁴.
- the 4th and the 7th Company Law Directives were adopted on 6 May 2003, further to the European Parliament's 2nd reading report⁵.

3 Directive 2003/6/EC of 28 January 2003

4 P5_TA (2003) 0086



FIGURE 1 : Situation of individual original measures of the FSAP⁶



The Commission's legislative work-programme in the period to April 2004 is outlined in Box 1 and Box 2. These calendars envisage the adoption of three key proposals by European Parliament and Council later this year:

- A common position on the Prospectus Directive was reached in the Council on 24 March 2003⁷. The plenary vote in the European Parliament on the proposed amendments (Second Reading) will take place on 3 July. Adoption is foreseen in July 2003 at the earliest;
- On 21 January 2003 political agreement was reached on the Directive on Taxation of Savings Income⁸ (as part of a broader tax-package including

5 PE-CONS 3611 /03, amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC, and 91/647/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings

6 The following measures or non legislative proposals are not included in the "proposals to be made" or "under negotiation": Follow-up High Level Group of Company Law Experts, EU Legal Framework for Payments, Report on implementation Settlement Finality Directive, Follow-up FIN-NET, Follow-up Action Plan to prevent fraud and counterfeiting in payment systems, Implementation of Code of conduct on business taxation, Taxation of cross-border occupational pensions.

7 CONS 5390/03 - 24 March 2003

8 COM (2001) 400 Final - 25 October 2001



the Code of Conduct for business taxation and the Directive on Interest and Royalties⁹). Formal adoption is expected later this year;

- In October 2002 the Commission presented a new proposal for a Directive on Take Over Bids¹⁰, taking into account the recommendations of the High Level Group of Company Law Experts. It addressed the three principal concerns of the European Parliament: the issue of the “level playing field”; a definition of an “equitable price”; and the possibility for a majority shareholder to buy out a minority shareholder (“squeeze-out”). Together with the European Parliament and the Council, the Commission has shown its willingness to work towards an acceptable compromise on this crucial file. This compromise must be adopted later this year.

Box 1

Legislative work-programme 2nd half 2003 + 1st quarter 2004

Proposals scheduled for adoption by EP/Council

- Prospectuses Directive
- Directive on Taxation of Savings Income
- Take Over Bids Directive
- Transparency Directive
- Revision of the Investment Services Directive

Box 2

Work-programme 2nd half 2003 + 1st quarter 2004

9 COM (1998)67 4 March 1998

10 COM (2002)534 – 2 October 2002



Expected Commission Proposals

- Follow-up Action Plan on Company Law and corporate governance
- Modernisation of 8th Company Law Directive (statutory audit)
- 10th Company law Directive
- 14th Company law Directive
- Endorsement of the International Accounting Standards
- Commission Communication on Clearing and Settlement
- Third Money Laundering Directive;
- Review capital requirements financial institutions
- Insurance Solvency II
- Reinsurance Supervision
- EU Legal Framework for Payments in the Internal Market

In the Brussels European Council¹¹, Heads of State and Government called on the European Parliament and Council to ensure the adoption of two particularly important proposals before the deadline of April 2004:

- Following two rounds of consultation, the Commission presented a final proposal for a Transparency Directive on 26 March¹². The Directive will increase the frequency and content of interim reporting (in particular quarterly reporting) by listed companies, without imposing excessive administrative burdens. Greater transparency will increase investors' confidence and will encourage a more rational and efficient allocation of resources;
- The Commission presented its proposal for an upgrade of the Investment Services Directive on 19 November 2002¹³ after an intensive two year consultation process. The proposal constitutes the core of a securities rule-book for the EU, governing the main types of investment services and the activities of exchanges. Given its centrality for investor protection and the effective integration of European financial markets, it

11 Brussels European Council of 21 and 22 March 2003

12 COM (2003) 138 Final

13 COM (2002) 625 Final



is important that common ground be found on this text before April 2004. Council and Parliament must sustain their current intensive efforts to secure the earliest possible agreement on this text, and engage constructively in the search for sound compromise on the outstanding issues (e.g. pre-trade transparency rules for investment firms).

Elsewhere, the Commission continues to focus its efforts on presenting the remaining key FSAP measures¹⁴:

- To facilitate a market-driven improvement in the efficiency of clearing and settlement of cross-border securities transactions, the Commission will come forward with a Communication later this summer. The Communication will outline the direction for future work in this field. It is based on the outcome of open consultation, the European Parliament's opinion and the work of the Giovannini Group;
- Following the events of 11 September 2001, the legal framework to combat money laundering and terrorist financing will need further strengthening by a third Money Laundering Directive;
- An ambitious timetable underpins the implementation of a revised capital framework for banks and investment firms by 2006/2007, following discussions in the G10-Basle Committee. It will allow banks and investments firms to base their supervisory capital requirements more on their internal risk models. This will improve the efficiency of asset allocation and increase the competitiveness of European's industry. The Commission has started a dialogue with stakeholders and intends to present its proposal for a Directive beginning 2004¹⁵;
- Following a period of background studies and general analysis, Member States have broadly endorsed the Commission's proposals for the general direction of future Insurance Solvency II work¹⁶. The intention is

14 Detailed information about progress on all FSAP measures remains available through a regularly updated overview on the Commission's website.

15 See: http://europa.eu.int/comm/internal_market/en/finances/capitaladequacy/index.htm

16 Directives 2002/12/EC and 2002/13/EC – 5 March 2002



to create a consistent risk-based insurance solvency system that is compatible with international developments in supervision and financial reporting. The first legislative action would be the presentation of a framework directive by early 2005;

- The Commission will present a proposal for a directive on Reinsurance Supervision by the end of this year. The directive will harmonise methods for reinsurance supervision in the EU as well as abolish some remaining trade barriers for cross-border reinsurance activities;
- The Commission will come forward with a Communication on the EU Legal Framework for Payments in the Internal Market in the coming months, taking account of extensive consultations that have taken place during recent months. The Commission will come forward with a proposal for legislation before the end of this year.

III COMPANY LAW, CORPORATE GOVERNANCE AND STATUTORY AUDIT

The last three years have provided many hard lessons on the need for greater emphasis on fair and timely financial disclosure. The collapse of Enron in 2001 unfortunately was not a single, isolated, event. Other corporate scandals followed, caused by variations of improper corporate behaviour, lack of transparency, accounting manipulation and, it appears, fraud. The checks and balances that have been relied upon in European and US financial markets – in terms of audit of company accounts, corporate governance – have been found wanting.

The Commission is determined to play an active role in the necessary restoration of public confidence in financial markets, acting after careful reflection and in full respect of the subsidiarity and proportionality principles of the Treaty. Recent experiences have revealed problems that have required an amplification of original FSAP ambitions. The Commission is taking an integrated approach to these issues by promoting a co-ordinated package of measures and actions on financial reporting, corporate governance, auditing and international issues. This strategic approach is reflected, in particular, in



the adoption of a separate Action Plan on Company Law and Corporate Governance and a more far-reaching review of EU rules on Statutory Audit. Some of these initiatives represent an "extension" of the original FSAP which will be impossible to complete within the initial deadlines. The following elements outline the key strands in these related areas.

Financial reporting

The implementation of International Accounting Standards (IAS) for listed companies by 2005¹⁷ will bring about transparency and greater comparability in the field of financial reporting through high quality standards. The IAS regulation entered into force in September 2002. The extended dialogue which the IAS Board has instigated with the EU's banking industry on IAS 32 and 39 on financial instruments must deliver a sound workable solution for the accounting of derivatives. The Commission will formulate a proposal for an endorsement decision that will be submitted to the Accounting Regulatory Committee. All existing IAS except IAS 32 and 39 will be submitted for endorsement as soon as possible (around July 2003). The revised IAS 32 and 39 will be submitted as soon as available. This should still leave enough time for listed companies to prepare for the change-over to the IAS. However, it is important that these companies begin their preparation immediately.

Corporate governance

The EU-level response to concerns regarding corporate governance will draw on the recommendations of the High Level Group of Company Law Experts, chaired by Professor Jaap Winter. In the light of the Experts' Final Report of 4 November 2002¹⁸, the Commission published its Communication on Company Law and Corporate Governance on 21 May¹⁹. It includes an Action Plan comprising an appropriate mix of legislative and non legislative proposals, and proposing a chronological prioritisation of the envisaged measures. It fully respects the

17 Regulation (EC)1606/2002 – 19 July 2002.

18 http://europa.eu.int/comm/internal_market/en/company/company/news/index.htm

19 COM (2003) 284 Final



subsidiarity and proportionality principles of the Treaty, is flexible in application, but firm on the principles. After endorsement of its broad orientations²⁰, and after having given adequate consideration to the comments received during the consultation period, the Commission may be in a position to launch some initiatives by late 2003.

The Communication covers key issues such as the disclosure by companies of their governance structures and practices; the reinforcement of shareholder rights; the role of non-executives or supervisory directors; the quality of corporate reporting; and the coordination of Member States' efforts in the area of corporate governance. The main differences between Member States are found in differing company law and securities regulations. The Commission recognises some of these differences as the real priorities that need to be tackled if we are to truly have a single capital market. Therefore, the Commission will continue to discuss these issues further with Member States, bearing in mind the need to respect the Brussels European Council's conclusions.

Auditing

Recent financial reporting scandals have called the quality of statutory audit into question; as to whether self-regulatory oversight is sufficient to ensure the high levels of rigour and diligence in the performance of audit functions. Since 1998, the Commission has continuously worked on improvement of audit quality via the Committee on Auditing. The Commission has issued Recommendations on quality assurance and auditor independence. The time has come to reinforce these initiatives. Accordingly, the Commission has issued a Communication setting out priorities on statutory audit on 21 May 2003²¹. Important short term priorities will be the modernisation of EU legislation on auditing (the 8th Company Law Directive) including the incorporation of the principles on auditor independence in the Directive, adequate public oversight

20 The Brussels European Council has called for the endorsement of the Action Plan by the end of 2003.

21 COM (2003) 286 Final



of the audit profession through EU coordination, and the use in the EU of International Standards on Auditing (ISA) from 2005 onwards.

International issues

US scandals prompted a swift legal reaction by US Congress in the form of the Sarbanes–Oxley Act. The Act is a landmark reform of US corporate and capital market laws, underlining the importance of effective public oversight in this area. However, the provisions of the Act have been drafted in such a way as potentially to bring EU licensed auditors within its scope. It also imposes obligations on a large number of EU issuers with US listing which run counter to established European governance and regulatory conventions. Whilst supporting the broad aims of the Act, all EU Finance Ministers expressed their serious concern about the draft US Public Company Accounting Oversight Board (PCAOB) proposal to require all EU auditors to register with the PCAOB. Foreign registration is unnecessary, burdensome and disproportionate. There are already equivalent systems in place in the EU that deal with registration, oversight and external quality assurance of auditors; systems which are continuously improved at EU and national level.

The Commission fully shares the goal of having effective audit systems in place in order to prevent accounting irregularities and to restore investor confidence. The Communication on Statutory Audit should therefore constitute the basis for recognition by the US authorities of the equivalence of the EU regulation of the audit profession in relation to the Act. The best way forward would be a moratorium of the registration of EU audit firms so that effective international solutions can be agreed.

IV BEYOND THE LEGISLATIVE PHASE: TOWARDS EFFECTIVE IMPLEMENTATION AND ENFORCEMENT.

With only 9 months until the deadline for final adoption, it is time to begin to look beyond the phase of intensive legislative drafting, negotiation and adoption. The Mid-term Review of the FSAP, in February 2002, provided some valuable pointers on the way forward. In particular, these high-level exchanges with all key constituencies concluded that the focus should be on timely



completion of the agreed FSAP measures, and rigorous monitoring of the implementation and application of existing and future measures. Beyond that, the Commission should further intensify its work on auditing and corporate governance; financial stability; the development of an EU retail financial sector; and an effective competition policy. These conclusions remain valid. The emphasis must remain firmly on delivery of agreed measures and their common and effective implementation. Therefore, the Commission will not come forward with a complete new programme of measures in this area in the short term.

Three broad policy goals are identified as areas where over the coming year more work is needed and where all parties involved should focus their efforts:

A. Common Implementation and Enforcement

The huge investment in FSAP legislation has endowed Europe with a coherent and market-responsive regulatory framework. This must now be turned to our full advantage through effective implementation and enforcement. The FSAP embodies a strong commitment to the overarching public policy goals of investor protection, financial stability and market integrity. Effective realisation of single market freedoms and implementation of these safeguards is the surest contribution that authorities can make to restoring stability and confidence in Europe's financial markets, especially in view of the EU's pending enlargement.

On 11 December 2002 the Commission adopted a Communication on the better application and enforcement of Community law. The Communication foresees more than 10 preventive measures for correct transposition that will be implemented in the course of this year. This strategy foresees that the Commission services bring together Member States shortly after the adoption of directives in order to facilitate a consistent transposition of measures into Member States' laws. The recently agreed Internal Market Strategy (2003–2006) has tabled some additional proposals for promoting effective and even-handed enforcement of EU legislation throughout the single market.



To improve common implementation and enforcement in practice across Member States, a novel and alternative mechanism for solving individual cases of misapplication of Community law has been established ("SOLVIT"). The Commission will now give particular attention to how mechanisms such as these can be put to work to optimise the impact of the FSAP. Market participants must also play their role – by bringing to the attention of the European Commission dubious transposition, faulty enforcement or infringements.

The development of networks of financial regulators and supervisors is another crucial stepping–stone to the effective implementation and enforcement of EU's financial legislation. Starting this year, all aspects of the 4–level regulatory approach, proposed by the Lamfalussy report²² and endorsed by EU Finance Ministers and the European Parliament, came into effect in the securities field. The new regulatory approach is speeding up the EU's current regulatory framework, making it less rigid, less complex and better adapted to the pace of global financial market change. The directives on Market Abuse, Prospectuses, Transparency and Investment Services are the first that will follow this approach.

The Inter–institutional Monitoring Group for monitoring progress in implementing the Lamfalussy recommendations issued its first half–yearly report on 8 May 2003. Although further improvements can still be made, the Group's assessment reveals there is unqualified commitment to ensuring the success of this new approach to EU rule–making. The Group is of the opinion that it will be possible to meet the deadlines set by the Brussels European Council in March 2003, provided the current pace of negotiations and degree of political willingness are maintained. It is important that there is continuous monitoring and evaluation within the different committees to ensure that progress is continued.

22 Final Report of the Committee of Wise Men on the Regulation of European Securities Markets, published in February 2001



In the meantime, the Commission was invited by the ECOFIN Council²³ to extend elements of the regulatory process applied in the securities sector to all financial sectors. The Commission has responded positively to this demand, while at the same time recognising that the active involvement of the revised networks²⁴ in contributing to the elaboration and implementation of uniform secondary legislation will have to await the adoption of new banking (capital adequacy) and insurance (solvency) legislation.

As a next step, the Commission will come forward this summer with a proposal to amend the relevant Banking, Insurance and UCITS Directives in order to install the committees of regulators. The changes to the existing committees (the Banking Advisory Committee, the Insurance Committee and the UCITS Contact Committee) will be made by amending the directives by co-decision, hence with the full agreement of the European Parliament. The committees of supervisors will be established by Commission Decisions adopted the same date as the Commission comes forward with its proposal.

B. Optimising the FSAP – identifying and resolving new challenges

Implementation of the FSAP is not taking place in a vacuum. Policy-makers and market participants must identify powerful structural changes in the financial landscape implying new configurations of risk and stronger trans-national transmission mechanisms. Therefore, they require an objective and systematic basis for monitoring the functioning of financial markets. In July 2000, the ECOFIN Council asked the Commission to set work in hand on developing such a series of financial indicators. The first results have become available²⁵. By applying indicators as a policy guidance tool, we will provide an important basis for discussion on the focus, targets and effects regarding financial markets integration. Policy makers can identify bottlenecks, prioritise further actions and pursue those with the highest growth and welfare impact.

The Commission also intends to take forward discussions on the

23 Council Conclusions 3 December 2002

24 Supervisory cooperation networks already exist in the insurance sector since 1959, and in the banking sector since 1973, but not in comitology mode

25 Forthcoming Commission Services Working Paper; "Tracking financial integration".



implementation and optimisation of the FSAP, including indicators, with the newly created Financial Services Committee (FSC). By Council decision²⁶, the Financial Services Policy Group (FSPG) was reconfigured into the FSC. Mr. Kees van Dijkhuizen, the Treasurer-General of the Dutch Finance Ministry has been appointed as Chairman and the Council Secretariat will provide FSC's secretariat. The experience of the Commission with the work of the FSPG has always been very positive. The tasks given to the FSC are quite similar: to provide political oversight and advice to the ECOFIN Council and the Commission on issues related to the regulatory framework for financial markets. The frequency of meetings will be agenda-driven. Its first meeting was held on 26 May; *inter alia* the content of this report was discussed and supported. Three other meetings are foreseen for this year. The Commission is a member of the FSC.

In monitoring structural changes in the European financial landscape, the Commission is exploring ways to involve national authorities, market participants and dedicated experts from the user perspective (FIN-Use) as much as possible. In particular, the Commission is adhering to its commitment to transparency and consultation at all stages in the policy process. These discussions could help to establish consensus where the challenges encountered might warrant a collective response or further steps to optimise the operation of the single financial market.

A second level at which market participants should be involved relates to the preparation of informed, cost-effective and proportionate responses to challenges or failures in the single financial market. The Commission has already revised its working methods and culture so that open consultation and involvement of all interest parties, as advocated by Lamfalussy, is now an integral part of the process of preparing EU legislative proposals for financial services. A genuine cost-effectiveness analysis should be part and parcel of the process of developing proportionate and mature regulatory proposals. In this regard, prior consultation represents a crucial safeguard: it ensures that the need for legislative interventions is subjected to rigorous scrutiny and that the proposed provisions are critically examined from the perspective of cost-

26 Ecofin Council Conclusions 3 December 2002



effectiveness. The time invested in consultation at the start of the legislative process will therefore be gained in later stages as the quality of our collective work and its suitability for the market will improve significantly. The analysis of the expected economic impact of legislation should also become a routine part of

the EU legislative process. Important initiatives that the Commission adopts (such as Insurance Solvency II) will henceforth be accompanied by an “Extended Impact Analysis”.

C. Handling the Global Dimension

Financial services are increasingly delivered on a global scale. The regulation and supervision of financial markets can no longer ignore the reality that measures taken by any country or group of countries may have consequences on business undertaken outside that jurisdiction. Measures intended for a purely domestic context may unintentionally require compliance by market operators in other jurisdictions with only a marginal or indirect presence in that jurisdiction.

Bilateral regulatory dialogues on financial services may provide a means for managing regulatory spill-overs that may occur in highly inter-dependent financial markets; especially with the EU's major commercial partner, the US. We need to cooperate through a continuous and informal dialogue on how to enhance transatlantic integration of financial markets and how to deal with global financial issues.

This is why the EU recently entered into *the EU-US financial markets regulatory dialogue*. This dialogue with the US Treasury, the US Federal Reserve Board, and the US Securities and Exchange Commission tries to avoid the emergence of regulatory frictions in the transatlantic financial marketplace. Therefore, it has two functions: (i) *ex-ante* as an informal “upstream” dispute avoidance channel, allowing each side to signal potential difficulties with aspects of the other’s financial legislation and to avoid the need to “fix” problems after they emerge; (ii) *ex-post* resolution of concerns such as over the Sarbanes-Oxley Act and the access of exchanges to each others’ markets. This dialogue should be the



beginning of a sustained and deepening process of mutual understanding, co-operation and above all engagement on determining transatlantic regulatory equivalence.

A rolling, informal work programme is being developed. EU and US authorities have reached broad agreement on a document setting “timelines” (identifying the issues and the steps that need to be taken on each issue in 2003 and beyond). This process should be politically endorsed prior to the EU–US Summit at the end of June. The Commission is also using the opportunity to explain what we want to achieve with the FSAP. Removing the remaining internal barriers that prevented financial service operators from benefiting fully from the Internal Market will be of gain to everybody who is in any way involved in financial dealings in the EU. The single market experiment also begs the question of whether even greater benefits could be generated if we could make further progress in the effective integration of global financial markets.

V. CONCLUSIONS

The case for an integrated EU capital market remains as strong as ever. A push to implement the FSAP effectively by 2005 is still needed. All institutions have continuously shown their willingness to implement the complete FSAP on time. Now that we are in sight of the finishing line, a final sustained effort is required to close the outstanding political discussions. April 2004 is the final date for adoption of all measure – to allow 18 months for transposition. The legislative work programme is clear. It is now up to the European Parliament and the Council to reach compromise on the remaining measures.

With only 9 months until the deadline for legislative closure, we need a clear focus on the completion of the agreed FSAP legislative agenda. Looking beyond the legislative phase, three broad policy goals have been identified as areas where more work is needed:

1. common Implementation and Enforcement, particularly in view of enlargement;



2. optimising the FSAP, by identifying and resolving new challenges;
3. reinforcing the framework for corporate governance, audit and financial disclosure including effective handling of the global dimension of these policies.

These three policy goals can only be achieved by applying full transparency and thorough consultation, an area in which there has been a sea-change in Commission's practice. This will all then in turn contribute to achieving the bottom-line objective of ensuring the major benefits of European financial integration. The newly established Financial Services Committee (FSC) will be an important forum to sustain momentum along these axes.

This year's financial services' work programme will further be heavily influenced by recent developments and regulatory initiatives in the area of company law, corporate governance and statutory audit. Based on the Communications issued on 21 May, the Commission hopes to be in a position to launch some initiatives before the end of 2003. These Communications should constitute a sufficient basis for recognition by the US authorities of the equivalence of the EU regulation in relation to the requirements of the Sarbanes-Oxley Act.

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