



COMMISSION
OF THE EUROPEAN
COMMUNITIES

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BACKGROUND REPORT

1992 - FINANCIAL SERVICES AND CAPITAL MOVEMENTS

Background

Financial service form an important element in the economy of all Community countries as a source of employment and of net exports. They represent about 7% of GDP and provide something like 3 million jobs.

The general approach on financial services is very closely limited to the programme of liberalization of capital movements, as a result of which residents of any Member State will have access to the financial systems of other Member States and all the financial products which are available there. Equally there will be no restrictions on capital transfers and no discrimination in the form of, for example, fiscal measures.

Specific action to remedy problem

The programme in the financial services sector aim to break down national regulatory barriers which obstruct freedom of establishment and free trade in services which could continue even after exchange controls are fully removed. Common rules for the supervision of financial operators are being drawn up to ensure that business does not migrate to centres where supervision is most lax. Finally, broadly equivalent standards for investor protection are being drawn up. The aim is to bring about by 1992:

- a single banking market in which a bank can establish branches anywhere in the community and offer its services throughout the Community.
- an insurance market where insurance can be bought on the most competitive terms and provide Community-wide cover.
- a securities and capital market with enough capacity to meet European industry's financing needs and capable of attracting investor from all over the world.

As in the other sectors covered in the 1985 White Paper, the general method of achieving full freedom of establishment and free trade in financial services is explicitly based on a move away from the highly detailed harmonisation efforts which occupied the 1960s and 1970s to a three-step approach:

- the **harmonisation** of essential standards for prudential supervision of financial institutions and for the protection of investors, depositors, and consumers.
- **mutual recognition** of the competence of the supervisory bodies and standards of each Member State.
- based on the first two points, **home country control** and supervision of financial institutions which wish to operate in another Member State.

The progress made so far give good ground for optimism that the three aims mentioned above will be achieved.

The completion of the Internal Market in financial services will provide equal access for all participants. Business will then be free to make the best use of the resulting opportunities.

SUMMARY OF THE COMMISSION'S PROPOSALS ON FINANCIAL SERVICES

1) Banking:

At the heart of these proposals is the **single banking licence**; this will enable banks licensed in one country to establish branches and provide cross frontier services throughout the Community. Licenses for banks based outside the Community, will be based on the principle of **reciprocity**. The non-Community bank will have similar rights within the Community to those enjoyed by Community-based banks operating in that non-member country.

- Proposal on **Credit institution excluded from coordinating legislation**: adopted by the Council on October 27, 1986 (Dir 86/524-OJL 309/86). It came into force on December 31, 1986.

- Proposal for a second Council directive on **Taking-up and pursuit of banking activities**. COM (87) 715 - OJC 84/88. Is still being discuss in Council.

- Proposal on **Annual accounts of banks** adopted by the Council on December 8, 1986 (Dir 86/653 - OJL 372/86).
Deadline for implementing Member State legislation: 31/12/90.

- Proposal on **Annual accounts of foreign branches of banks**. COM (88)664 - OJC 321/88. Parliament has given a second reading.

- Proposal on **reorganisation and winding up of credit institutions**. COM (85)778 - OJC 356/85. Amended proposal COM (88)4. Still to be adopted by Council.

- Proposal on **own funds of credit institutions**. COM (86)169 - OJC 243/86. Amended proposal COM (88)15 - OJC 32/88. The Council has reached a common position on December 12, 1988.

- Recommendation on the introduction of **deposit guarantee schemes** in the Community adopted by the Council on December 22, 1986. Recom 87/63 - OJL 33/87.

- Recommendation on monitoring and controlling **large exposures** of credit institutions. Adopted by the Council on December 22, 1986. Recom 87/62 - OJL 33/87

- Proposal on the freedom of establishment and the free supply of services in the field of **mortgage credit**. COM (84)730 - OJC 42/85. Amended proposal COM (87)255 - -OJC 161/87. Still to be adopted by the Council.

- Proposal on **solvency ratios** adopted by the Commission on april 20, 1988. COM (88) 194.

2) Insurance:

A number of obstacles still remain to the freedom of an insurance company established in one Member State to cover risks situated in other Member States. The proposals will remove these remaining obstacles to the provision of insurance services across frontiers whilst maintaining appropriate levels of supervisions of protection of policy holders.

- Proposal on **annual accounts and consolidated accounts of insurance undertakings**. COM (86)764 - OJC 131/87. Still to be adopted by Council.

- Proposal on **winding up of insurance companies**. COM (86)768 - OJC 71/87. Still to be adopted by Council.

- Proposal on **insurance contracts**. OJC 190/79. Amended proposal OJC 355/81.

- Proposal on **"non life" insurance: freedom to provide services** adopted by the council on June 22, 1988 (Dir. 88/357 - OJL 172/88)

- Proposal on **legal expenses insurance** adopted by the Council on June 22, 1987 (Dir. 87/344 - OJL 185/87). Deadline for implementing member state legislation 1/1/90. Application date: 1/7/90.

- Proposal on **credit and suretyship insurance** adopted by the council on June 22, 1987 (Dir 87/343 - OJL 185/87). Deadline for implementing member state legislation 1/1/90. Application date 1/7/90.

- Proposal on **motor liability insurance: freedom to supply services** adopted by the Commission in December 1988 (COM (88)791.

- Proposal on **life insurance: freedom to provide services**. Adopted by the Commission in December 1988. COM (88)729.

3) Transactions in securities:

The Community has already made considerable progress towards a European securities market system. It has coordinated the conditions for admission of securities to official stocks exchange listing, the contents, scrutiny and method of publication of the listing particulars and the publication of information by quoted companies. However a European system requires action on further aspects of the securities markets:

- Proposal on **stock exchange listing particulars**, adopted by the Council on June 22, 1987 (Dir 87/345 - OJL 185/87). Deadline for implementing Member States legislation:

* Portugal.....	1/1/92
* Spain.....	1/1/91
* Others.....	1/1/90

- Proposal on **prospectus for public offering of securities**. COM(80)893 - OJC 355/80. Amended proposal COM (82)441 - OJC 226/82. The Council has reached a common position on December 12, 1988.

- Proposal on **information on major share holdings**. Adopted by Council (Dir 88/627 - OJL 348/88).

- Proposal on the **regulation of insider trading**. COM (87) 111 . Amended proposal COM (88)549 - OJC 227/88.

- Proposal on **Collective investment undertakings (UCITS)** adopted by the Council on December 20, 1985 (Dir 85/611 - OJL 375/85). Deadline for implementing the state legislation:

* Greece and Portugal.....	1/04/92
* Others.....	1/10/89

- Proposal on **special measures for certain investments by UCITS**: adopted by the Council on March 3, 1988 (Dir 88/220 - OJL 100/88)

- Proposal on **investment services** adopted by the Commission in December 88. COM (88) 778.

4) Capital movements:

- Proposal for the complete liberalization of capital movements adopted by the council in June 1988 (Dir 88/361: OJL 178/88).

Deadline for implementing Member State legislation:

* Spain, Portugal, Irlanda, Greece..... 31/12/92
(Portugal and Greece can benefit from a potential prolongation of the adaptation delay period of three years.)

* Others..... 01/07/90

- Proposal for the liberalization of certain capital transactions adopted by the Council on november 17,1986 (Dir 86/566 - OJL 332/860).

Deadline for implementing Member State legislation:

* Portugal..... 31/12/92

* Spain..... 31/12/90

* Others..... 28/02/87

(Derogations in the case of Greece, Ireland, Italy.)

- Proposal for the liberalization of UCITS adopted by the Council on December 20, 1985 (Dir 85/583 - OJL 372/85. Deadline for implementing Member State Legislation:

* Portugal..... 31/12/90

* Others..... 01/10/89