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***Annex II to the***

**White Paper on  
Financial Services Policy (2005 – 2010)**

**IMPACT ASSESSMENT**

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## COMMISSION STAFF WORKING DOCUMENT

### Annex II to the White Paper Financial Services Policy (2005 – 2010) Impact assessment

#### 1. INTRODUCTION: THE STATE OF INTEGRATION OF THE INTERNAL MARKET FOR FINANCIAL SERVICES

As the Financial Services Action Plan (FSAP)<sup>1</sup>, adopted in 1999, is reaching its final deadline, with nearly all its measures adopted on time, a chapter of the financial services policy of the European Commission is closing. Time is now ripe to look ahead and define what should be the appropriate policy follow-up of the FSAP, keeping in mind the core policy objectives that underpinned this unprecedented effort of implementing the FSAP.

The financial sector plays a key role in the economy by efficiently allocating financial resources and thereby enabling the whole economy to expand and develop optimally. To the extent that the financial sector is constrained in the performance of its functions, there is a consequent cost in terms of sub-optimal economic performance and welfare loss.

In the last six years we have seen major progress towards an integrated European capital and financial services market. Economic and market evidence suggests that European financial integration is underway in the wholesale markets, in the capital markets and in financial markets infrastructure<sup>2</sup>. This has improved the conditions for all users of financial services.

The integration of EU financial markets is not an end in itself. It is a key factor in the development and modernisation of the financial system and thus the economy as a whole, leading to greater productivity and competitiveness and ultimately increasing the potential for economic growth. Several economic studies have calculated the economic benefits of EU financial integration, estimating an increase in terms of GDP in the range of 0.5% to 1.1% over time<sup>3</sup>. Quantifying the costs and benefits of financial integration is difficult and subject to significant data, statistical and model uncertainty. Accordingly, the results of scientific studies can be considered only as an indication of the potential benefits of European financial integration.

After 2 years of consultation with all stakeholders, the Commission presents its financial services policy for the 2005-2010 horizon. This paper presents the parameters that influenced the choice of the policy options announced in the White Paper on Financial Services Policy (2005-2010).

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<sup>1</sup> The full text of the Financial Services Action Plan can be downloaded at:  
[http://europa.eu.int/comm/internal\\_market/finances/docs/actionplan/index/action\\_en.pdf](http://europa.eu.int/comm/internal_market/finances/docs/actionplan/index/action_en.pdf)

<sup>2</sup> See the *Financial Integration Monitor* reports, available on the Commission website:  
[http://europa.eu.int/comm/internal\\_market/finances/cross-sector/index\\_en.htm#monitor](http://europa.eu.int/comm/internal_market/finances/cross-sector/index_en.htm#monitor)

<sup>3</sup> A complete overview of the expected benefits of financial integration is provided in section 2 of this document, with detailed references for the economic studies mentioned.

## 2. THE PROBLEM IDENTIFIED

The motivations for making further progress towards integrated European financial markets remain valid. Many economic studies have demonstrated the potential benefits of financial integration (2.1). However, a real Internal Market for financial services is not yet fully in place, and thus there is a potential for additional benefits. To achieve this, some inefficiencies are still to be removed and gaps to be filled. More specifically:

- Integration can further progress in some market segments (2.2.1);
- Even when measures have been adopted at EU level, there might remain risks of legal uncertainty and continued fragmentation resulting from diversity in transposition (2.2.2);
- The new regulatory and supervisory framework can still be improved to accompany changes occurring in the marketplace, notably to address risks of inconsistency and overregulation (2.2.3).

The real issue is not about efficiency at a national level. Efficient domestic structures have been developed over time. The real problem is to ensure that those structures are also efficient on a pan-European scale, and reap the full benefit of scale and scope economies, liquidity pooling and risk diversification at the EU level. Therefore, there are strong arguments for examining the problem at EU level (2.3).

In short, the problem identified, which the White Paper intends to address, is the following: *Whilst the motivations for further pan-European financial integration remain valid and substantial benefits are yet to be delivered, there are still, in the Internal Market for Financial Services, some inefficiencies to be removed and gaps to be filled.*

The White Paper aims to solve this problem by proposing policy actions designed to foster further financial integration.

### 2.1. The motivations for financial integration remain valid

The contribution to growth, competitiveness and jobs of the financial services sector is determinant, as was emphasised in the report from the High Level Group chaired by Wim Kok, published in November 2004<sup>4</sup>:

*“Dynamic and highly competitive financial markets are not only desirable in themselves — they are an essential driver of growth in all other sectors of the economy and must be a cornerstone of efforts to boost the EU’s economic performance.”*

The expected benefits of further integration of the financial sector have been the subject of a number of economic studies. The rest of this section presents what are

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<sup>4</sup> The full report can be downloaded at:  
<http://europa.eu.int/growthandjobs/pdf/2004-1866-EN-complet.pdf>

those expected benefits. Ultimately, future policy actions implemented to fulfil the policy objectives will have to be assessed against those long-term results.

### *2.1.1. Benefits for international trade and cross-border investments*

Financial flows are consubstantial to international trade. As a result from financial integration, further integrated European financial markets will support the development of cross-border trade, both intra-European and international. European markets may become more attractive for domestic capital and foreign capital inflows, attracting inward investments. Conversely, building liquid capital markets may provide EU companies easier pan-European access and provide them with the home base needed to expand across the European Union and overseas.

### *2.1.2. Benefits for competition in the internal market*

One of the goals of further integration of the EU Internal Market for financial services is to ensure a level playing field across the different markets, as well as to foster competition between services providers, to the benefits of end-users in terms of lower prices, improved quality and increased product variety.

### *2.1.3. Benefits for firms in terms of investment, operating costs, products and services*

Further integration of the EU financial markets would allow companies of the EU financial sector to benefit from the economies of scale and scope created by the Internal Market, leading to improved and more innovative products and services at a lower price.

The Cecchini report (1988)<sup>5</sup> estimated that the integration of the financial markets of 8 Member States would increase the value-added of their financial services by 0.7% of GDP<sup>6</sup>.

In addition, in the non-financial sector, small and medium sized entities (vital for EU job-creation and economic growth) can access a wider availability of risk capital and more innovative and lower cost finance to fuel their growth, while larger companies profit from an overall reduction in the cost of capital and a wider range of financial products.

The London Economics study (2002)<sup>7</sup> focused on the benefits from integration by calculating the static efficiency gains from deeper and more liquid equity and bond markets in EU15. The study concluded that fully integrated markets would lower the cost of capital for companies by 0.5% in absolute terms, and relatively increase the GDP-level over time by 1.1%.

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<sup>5</sup> Cecchini, Paolo (1988), "The European Challenge 1992. The Benefits of a Single Market".

<sup>6</sup> This estimate was based on first round effects only and did not take dynamic effects into account, which were expected to have generated a higher figure.

<sup>7</sup> London Economics (2002), "Quantification of the Macroeconomic Impact of Integration of EU Financial Markets", available on the Commission website at:

[http://europa.eu.int/comm/internal\\_market/securities/docs/studies/report-londonecon\\_en.zip](http://europa.eu.int/comm/internal_market/securities/docs/studies/report-londonecon_en.zip)

#### *2.1.4. Benefits for firms, especially SMEs, in terms of administrative burden*

Aligning national regulatory approaches to a common European regulatory system is challenging: although it may entail considerable “ex-ante” adjustment costs for national enforcement agencies and market participants, over time, successful harmonisation can considerably reduce the administrative burden for pan-European businesses, by replacing 25 sets of sometimes diverging rules by a single set of rules. The transitional problems may pose a challenge in themselves – particularly when they are mainly concentrated over a short period (e.g., the 2005-2007 period for the FSAP). However, concerns about these transitional costs should not obscure the broader economic benefits, as well as the consequent reduction of administrative burden over time, when assessing the policy options at disposal.

#### *2.1.5. Benefits for consumers*

The impact of further integration on consumers is twofold. First, there is a direct effect: by fostering increased competition between EU service providers, integration is expected to result in increased product variety and improved quality, at a lower price. Past experience, for instance in the goods area, has clearly demonstrated the enormous potential benefits that can be reaped by removing barriers to intra-EU trade, as long as competition is fair and consumer protection is ensured.

In the area of financial services, there is also an indirect positive impact on consumers resulting from integration. Indeed, through pooling of liquidity and risks across the EU financial markets and improved capital allocation efficiency, consumers have access to wider investment opportunities, benefit from improved returns over a longer period, and from reduced financing costs.

#### *2.1.6. Benefits for relations with third countries*

Regulatory spillover effects in the area of financial integration are becoming increasingly important in the globalised economy. Recent examples have shown that those spillovers can attract high political attention, at the highest levels. Therefore, those aspects, as well as the potential improvement for multi-national companies, need to be taken into account when defining the policy choices (first to reduce any unintended adverse consequences, second to reduce the existing barriers).

#### *2.1.7. Overall macroeconomic impact*

Given its growth potential, its share of GDP and its role in financing other sectors of the economy, the financial services sector has a direct and decisive impact on the aggregate competitiveness of modern economies.

With integration, financial stability can improve. The public sector can meet its financing needs at lower cost. Integration supports society in financing the major structural economic challenge Europe faces – namely its long run pension deficit – by introducing more efficient pan-European markets for long-term savings products.

The CEPR study (2002)<sup>8</sup> looked at the relationship between financial integration and growth. The study concludes that, in a scenario in which manufacturing companies would have the same access to finance as the US companies, value-added growth in European manufacturing is estimated to increase by 0.75-0.94% on a durable basis.

## **2.2. The challenges ahead**

### *2.2.1. Remaining lack of integration in some areas*

In the last six years there has been remarkable progress in integrating the EU wholesale, capital and interbank markets as well as capital market-related activities. However, a comparable state of integration has not been reached in some segments of the financial services sector (such as post-trade activities or retail financial markets).

In clearing and settlement for instance, apart from the entities dealing with Eurobonds, securities clearing and settlement systems in the EU have developed nationally, as cross-border trading activity has, in the past, been very limited. Each national or "quasi-national" system inevitably developed differently. In addition, the systems in the various Member States have taken different forms with different business practices. These differences have resulted in cross-border arrangements being inefficient due to a lack of global technical standards, differing business practices and differences between the fiscal, legal and regulatory situations between Member States. The outcome has been that cross-border clearing and settlement in the EU is still much more costly and complex and, potentially, less safe than at purely domestic level. All entities and studies agree with this analysis, however, figures on the extent of additional cross-border cost vary substantially (from €2 to €5 billion p.a.). These excess cost reduce liquidity on EU financial markets and therefore depresses growth by a multiple of the original number."

As regards retail financial services, only in very few areas, integration has progressed somewhat, whilst other retail segments remain fragmented. But there are certain factors and trends indicating the need to consider encouraging the integration of retail financial services markets, notably:

- The introduction of the euro and the single monetary policy, which resulted in more price transparency and exchange rate stability;
- Technical innovations such as the Internet, providing new opportunities to sell financial services at a distance and hence cross-border;
- The increased consumer mobility of European citizens, driving demand for efficient cross-border financial services.

Those factors and trends are analysed in details in a recent Commission working paper<sup>9</sup> on the state of integration in the EU retail financial market. In particular, it

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<sup>8</sup> Giannetti M., L.Guiso, T. Jappelli, M. Padula and M. Pagano (2002), "Financial market Integration, Corporate Financing and Growth", DG ECFIN Economic Paper N° 179. available at: [http://europa.eu.int/comm/economy\\_finance/publications/economic\\_papers/economicpapers179\\_en.htm](http://europa.eu.int/comm/economy_finance/publications/economic_papers/economicpapers179_en.htm)

<sup>9</sup> *Financial Integration Monitor*, 2005 (see footnote 2)

indicates that European citizens' demand to obtain cross border financial services (e.g. bank accounts, credit cards and car insurances) is likely to grow in the coming years. The traditional integrating channels for retail products have been local establishments or intermediaries. In the meantime, however, new distribution channels (particularly on-line facilities) are making consumers gradually less dependent on the traditional channels and may eventually facilitate the integration of the parts of retail financial markets where there is a business case for more cross-border activities.

There is also a growing need for more efficient long term financial services products to complement state welfare provision, while channelling capital to the most productive investments. The UCITS<sup>10</sup> Directives have created EU-wide investment vehicles, accounting for over 70% of the €5 trillion managed by the European fund industry. However, there is a general perception that the efficiency of the sector could be further improved by an adaptation of the legislative framework, with huge expected benefits in light of the current socio-economic challenges. On 14 July 2005, the Commission presented its proposals to improve the European market for investment funds in a separate Green Paper<sup>11</sup>. Therefore, investment funds are not covered in the White Paper (and in this document).

### 2.2.2. *Risks of legal uncertainty and continued fragmentation resulting from diversity in transposition*

As of end 2005, almost all measures of the FSAP have been completed on time. It has put in place necessary policy initiatives of legislative and non-legislative character.

The FSAP-Directives are being transposed by Member States into national legislation at different pace, or even with considerable delays. This causes problems of continued fragmentation and legal uncertainty. The optimum policy value of the FSAP will only come into effect if those measures are effectively and consistently transposed in all EU Member States within the agreed time period.

Stakeholders have voiced concerns on costly differences in national legislation when doing cross border business. One part of these differences stems from diverse national transposition or even *gold-plating* of EC directives, another part stems from differences in the practical application of equal financial services rules by national supervisory authorities. These factors brought about at Member States' level add high and unnecessary costs to the industry and hamper the effectiveness of an integrated market.

Therefore, while the delivery of the FSAP can be considered as successful, its final success in delivering the policy objectives underpinning its adoption will largely depend on its implementation and enforcement at the level of market participants.

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<sup>10</sup> Undertakings for Collective Investment in Transferable Securities

<sup>11</sup> The Green Paper can be downloaded on the Commission website at:

[http://europa.eu.int/comm/internal\\_market/securities/ucits/index\\_en.htm#greenpaper](http://europa.eu.int/comm/internal_market/securities/ucits/index_en.htm#greenpaper)

### 2.2.3. *Risks of inconsistency and overregulation in the new regulatory framework*

The FSAP has been instrumental in revamping the regulatory framework for the EU financial markets. Ensuring coherence and consistency is crucial to reap the full benefits of this framework. It might be that an unnecessary cost burden for the financial industry can be found in overregulation. In this case, the existing legal framework may offer room for simplification, consolidation and, when appropriate, also codification.

The efficiency of the Internal Market for financial services heavily depends on efficient and effective supervision and the enforceability of rules. The increasing cross-border penetration of financial services and capital markets poses a challenge for the EC supervisory systems. Larger financial industry firms have shifted from country-based structures to pan-European business models with centralized management functions. Such institutions ask for more streamlined and less costly cross-border and cross-sector supervisory arrangements. To adequately address their new risk profile, effective supervisory cooperation will be essential. To avoid market uncertainty, more consistency between regulation and supervision is needed. By the end of 2005, effective cooperation within EC supervisory authorities is only at its beginning, following the Lamfalussy-structures being completed at the beginning of this year. An additional area of concern in this context is the lack of equivalent powers and tools attributed to the European supervisors in exercising their functions.

In a fully integrated marketplace, market-driven consolidation between service providers should be able to deliver increased benefits, in terms of economies of scale and scope. Although it should be kept in mind that cross-border consolidation is just one channel of integration (among others such as direct cross-border provision of services, joint-ventures, etc.), the low degree of cross-border consolidation in the EU financial sector should deserve particular attention<sup>12</sup>. Potential barriers to cross-border transactions need to be carefully assessed, to see whether they constitute significant unjustified economic impediments to the free flow of capital and financial services, which would undermine the achievement of the policy objectives.

Due to the global character of financial services, the regulatory framework also needs to be assessed in terms of international competitiveness of the European financial markets. Its global impact needs to be addressed specifically and properly taken into account. Calibrating the EC legislative framework within an intensified international financial services regulatory dialogue will continue to be a major task for EC regulators.

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A Commission Staff Working Document (SEC(2005) 1398) shows that, between 1999 and 2004, cross-border mergers and acquisitions (M&As) accounted for around 20% of the total value of M&As in the financial sector, whereas cross-border deals represented 45% of M&As in other sectors over the same period.

### 2.3. Why do we need policy action at EU level?

The Single Market in the area of financial services is far from being reality. The legal mandate to create a genuine European market enshrined in the Treaties encourages the Commission to consistently work towards a well functioning and efficient EU financial services market.

As evidenced by the example of clearing and settlement, the real issue is not efficiency at a national level. Indeed, efficient structures have been developed over time on a domestic basis. However, when connected one to another, those market structures are often sub-optimal at EU level, which limits the exploitation of benefits on a pan-European basis such as economies of scale, liquidity pooling or enhanced risk diversification. This sub-optimality problem clearly needs to be addressed at EU level, even though some of the necessary remedies might need to be addressed at national level (meaning that each concrete policy action will have to pass an individual subsidiarity test).

Furthermore, financial institutions and markets are increasingly organised on a pan-European basis<sup>13</sup>. An efficient supervisory system for such institutions, both in terms of financial stability and cost-efficiency, needs an appropriate regulatory framework as well as close co-operation between national supervisory authorities, to ensure a smooth and not overly costly functioning. This was first demonstrated in the securities sector by the Group of Wise Men on Securities Market Regulation, chaired by Alexandre Lamfalussy<sup>14</sup>, and led the EU to implement the so-called 'Lamfalussy architecture' in the area of securities, and then banking, insurance and investment funds<sup>15</sup>.

At the same time, past actions at EU level have proven to have a positive impact on the problems mentioned earlier, which justifies the need for considering additional action at this level. Indeed, the FSAP experience has shown that political impetus at EU level can have a decisive role in fostering further integration of the EU financial sector, to the benefit of the whole EU economy in terms of competitiveness and welfare creation. Since 1999, tremendous progress has been made, especially when compared to the pre-1999 period. Obviously, many other factors, among which the introduction of the euro and technological developments, have contributed to progress in such short time, but there is broad consensus that EU-policy measures did play an important role.

Finally, the rapid pace of globalisation of financial markets reinforces the case for initiatives at EU level. Indeed, in relation to other major players on the global stage, a critical size needs to be reached to be able to influence the political and technical debate in international fora setting the global standards.

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<sup>13</sup> For a complete analysis of recent trends, see the *Financial Integration Monitor* reports 2004 and 2005 (see footnote 2)

<sup>14</sup> Final report available on the Commission website at:  
[http://europa.eu.int/comm/internal\\_market/securities/lamfalussy/index\\_en.htm](http://europa.eu.int/comm/internal_market/securities/lamfalussy/index_en.htm)

<sup>15</sup> More information is available on the Commission website:  
[http://europa.eu.int/comm/internal\\_market/finances/committees/index\\_en.htm](http://europa.eu.int/comm/internal_market/finances/committees/index_en.htm)

### 3. POLICY OBJECTIVES

The overall objective of the Commission's financial services policy for the next 5 years is:

- (1) to consolidate dynamically towards an integrated, open, inclusive, competitive, and economically efficient EU financial market;
- (2) to remove the remaining economically significant barriers so financial services can be provided and capital can circulate freely throughout the EU at the lowest possible cost – with effective levels of prudential and conduct of business regulation, resulting in high levels of financial stability, consumer benefits and consumer protection;
- (3) to implement, enforce and evaluate continuously the existing legislation and to apply rigorously the better regulation agenda to future initiatives; and
- (4) to enhance supervisory cooperation and convergence, deepen relations with other global financial marketplaces and strengthen European influence globally.

Therefore, the policy objectives are structured along 4 main directions:

- Pursuing the **integration** of the EU Internal Market for financial services, to further deliver the positive benefits described in the previous section;
- Ensuring proper **market functioning**, through fair and effective competition, while preserving financial stability and market integrity and ensuring a high level of consumer protection. In particular, this addresses the potential risks of legal uncertainty and inconsistency mentioned in the previous section;
- Keeping the **administrative burden** on companies under control, notably adjustment and operating costs induced by regulation, in accordance with the overarching 'Better Regulation' objectives and principles. This notably includes the need to watch for continued fragmentation resulting from diversity in transposition as well as overregulation as factors potentially adding to the administrative burden of companies;
- Taking into account the **global effectiveness** of EC initiatives, to avoid unintended spillover effects and the resulting negative impact on relations with third countries, but also to remove potential inefficiencies in international financial markets and to influence the regulatory parameters on the global stage. This is also relevant for addressing the risks of domestic overregulation, as standards developed within international fora might prove in some cases sufficient, or even more efficient, compared to domestic standards to ensure the objectives pursued while improving the global competitiveness of EU markets and institutions.

#### 4. POLICY OPTIONS

Unlike its predecessor (FSAP), the purpose of the White Paper is not to lay down a series of policy actions to be implemented over a given timeframe. Rather, it intends to define general orientations and policy approaches for the different areas. Those orientations will have to be followed up through policy actions with their own timeframe, taking into account the ‘Better Regulation’ principles. In particular, when implementing these actions, the different policy options available, including the ‘no action’ one, will have to be considered. The proposed measures will also have to be subject to proper impact assessment and consultation with stakeholders.

Therefore, the main policy options to be considered can be only defined in fairly generic terms. It should be stressed already now that given the wide scope and the variety of sectors covered by the financial services policy, no single option would be appropriate across the board. The objective is rather to reach an optimal mix of the different options, with a general trend.

- **Option 1: Take no further action at EU level**

The first option considered, which can also be called the ‘no action’ option, is to take no further action at EU level, other than those already adopted (notably the FSAP measures), those already subject to a formal proposal or those legally required (such as implementing measures of directives adopted within the Lamfalussy architecture).

This option would obviously not be followed by any policy action.

- **Option 2: Repeal existing pieces of EC legislation or proposals**

Going further than the first option, the second option consists in repealing existing EC legislation (or legislation subject to a formal proposal), which proves inefficient, unnecessary or even penalising in view of the policy objectives.

This option would result in legislative proposals aiming to repeal existing legislation.

- **Option 3: Ensure follow-up of past policy actions (or ‘limited follow-up’)**

The third option is motivated by the fact that, as underlined previously, the framework put in place by the FSAP is being progressively implemented and enforced. Some Directives adopted in the past few years need now to be complemented by implementing measures (‘level 2’ measures in the Lamfalussy architecture), others to be transposed and implemented in every Member State.

Given the volume of new legislation to be enforced, but also the principles-based approach for Level 1 texts, a more pro-active enforcement policy, going further than the simple check of transposition measures transmitted by Member States, is an option to ensure that the new framework is optimised and streamlined to the maximum. Among other possible tools are close monitoring of implementation through scoreboards, transposition workshops, read-across exercises to ensure consistency, etc.

As such, one would not expect from this option to result in new legislation.

- **Option 4: Consolidate dynamically the framework set in place by the FSAP (or ‘extensive follow-up’)**

The fourth option is a variant of the previous one, with a stronger focus on the analysis of the resulting framework. This analysis might reveal some limited inadequacies, inconsistencies or gaps. Similarly, some potential “quick-wins” could appear in the new framework, i.e. some inefficiencies that could be easily removed, possibly also by non-regulatory intervention.

This option could result in future policy actions, including using the legislative tool but not exclusively, most probably with a very targeted and calibrated (‘surgical’) approach in order to consolidate the framework in place without fundamentally changing it.

- **Option 5: New initiatives**

This option is closer to the FSAP approach of possibly using wide-ranging legislative measures to achieve the policy objectives. However, contrary to the FSAP, this option would not identify concrete measures already at this stage but scope an area that would require special attention.

In line with Commission’s practices for open and transparent policymaking, this option would result in the preparation of thematic Green Paper(s), forum groups and possibly White Paper(s) in the area(s) identified.

## 5. POTENTIAL IMPACT OF THE DIFFERENT POLICY OPTIONS

At this stage, it is not possible to assess the quantitative impact of each policy options. Indeed, the purposes of the White Paper (defining the general orientations without defining the precise content of policy actions) and the resulting generic nature of the policy options do not allow this. Detailed (and when appropriate quantitative) impact assessment is for the next stage, i.e. when precisely defined and calibrated policy actions are implemented.

Nevertheless, it is possible to imagine the potential *qualitative* impact of the generic policy options on the 4 components of the policy objectives described in section 3, that is to say integration, market functioning, administrative burden on companies and global effectiveness. It should be stressed that only the *potential* impact can be evaluated at this stage, since the final impact will necessarily depend on the final policy decision (for instance, all options include the possibility of ultimately doing nothing, even for the option 5). Furthermore, in considering the potential impact, one has to rely on a ‘*best case*’ hypothesis, i.e. assuming that the final policy action is optimised.

In the following sections, the qualitative potential impact is synthesised using three levels of intensity as regards positive impacts (from +: ‘positive but limited’ to +++: ‘very positive’), two levels of intensity as regards negative impact (from -: ‘negative but limited’ to --: ‘potentially substantial negative impact’). The reference situation is indicated by = (this qualification usually applies to option 1, in the absence of

significant unrelated changes such as Member State legislation, or economic changes).

## 5.1. Progress towards integration

The options presented in the previous section correspond to different degrees of intervention at EU level. This gradation roughly corresponds to the potential impact on progress towards integration. For instance, the FSAP experience has shown that legislative initiatives<sup>16</sup> can have a decisive impact on market integration, either by accompanying structural changes or even by fostering such changes. On the contrary, the situation previous to 1999 illustrates that an absence of EU-wide initiatives is likely to maintain the *status quo*.

Option	Expected impact
1. No action	=
2. Repealing existing legislation	-
3. Follow-up of past actions	+
4. Dynamic consolidation	++
5. New initiatives	+++

## 5.2. Market functioning: competition, stability, integrity, consumer protection

The objective of ensuring optimal market functioning encompasses many aspects. Broadly speaking, there are two complementary sides.

The first relates to the efficiency and the competitiveness of the market. This includes impact on the consumer. There, the objective is a framework that allows an efficient allocation of capital, offering scale and scope economies. Fair competition on a level playing field ensures that the end-consumer benefit from the overall increased efficiency.

The second aspect of market functioning, which is more specific to the financial sector, relates to the stability and the integrity of the financial markets. It corresponds to a macro perspective, with a view of avoiding any disruption in the markets that could adversely affect the whole economy.

Repealing existing legislation (option 2) might slightly improve efficiency if it consists in removing provisions that are not useful or used, provided it does not impact the level of consumer protection. The effect might be slightly more negative as regards market stability, as an indirect and unintended consequence of removing pieces of legislation might be the weakening of the regulatory framework.

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<sup>16</sup> Considerations in this paragraph do not prejudice of the different ways of promoting integration, such as harmonisation, mutual recognition mechanisms, etc.

A pro-active enforcement policy such as option 3 can have a positive impact on all aspects of market functioning. For instance, consistent and converging transposition across the EU not only alleviates the administrative burden on companies, but also has the potential to make cross-sectoral and cross-border supervision easier and seamless. However, the total impact is necessarily limited, as the limits are set by the existing legislation.

Options 4 and 5, as they include the possibility of adapting the regulatory environment, offer the best potential for improving significantly the overall efficiency and competitiveness, while preserving an adequate level of consumer protection. Impact of option 5 on stability and market integrity has however to be slightly nuanced, as the risk of overregulation described in section 2.2.3 is a possibility.

Option	Expected impact	
	Efficiency, competition, consumer protection	Stability, integrity
1. No action	=	=
2. Repealing existing legislation	+	-
3. Follow-up of past actions	+	+
4. Dynamic consolidation	++	++
5. New initiatives	++	+

### 5.3. Administrative burden: adjustment and operating costs for companies

In terms of administrative burden, a distinction should be made between adjustment costs needed to adapt to new legislation and operating costs resulting from the regulatory environment. Whereas adjustment costs are usually one-off investments in new systems and/or structures at the beginning of the implementation phase, operating costs occur on a permanent basis once the companies have made the necessary adjustments.

There is clearly a correlation between the scope of the policy action and the resulting adjustment costs. By definition, taking no action will not require any adjustment. Repealing existing legislation or proposals for new legislation (option 2) is not expected to induce significant adjustment costs. On contrary, new wide-ranging measures (option 5) will most probably induce the largest investments. Options 3 and 4 are precisely policy options designed to limit the transitional costs, even though such costs are inevitable (for instance, measures in securities and banking directives have a direct influence on optimal choice of IT systems).

As regards long term impact on operating costs, the correlation is likely to be inverted. Indeed, the more profound the changes, the more the regulatory framework can be streamlined and cost-optimised. Some features of the existing environment may be dictated by legal provisions that cannot be changed through simple enforcement (option 3). Options 4 and 5 are therefore more likely to have a greater

impact on the operating costs. Repealing existing EC legislation can also have a positive impact on operating costs, e.g. by removing unnecessary or duplicative requirements.

Option	Expected impact	
	Short term	Long term
1. No action	=	=
2. Repealing existing legislation	=	+
3. Follow-up of past actions	-	+
4. Dynamic consolidation	-	++
5. New initiatives	--	++

#### 5.4. Global effectiveness, impact on relations with third countries

As explained before, one of the risks associated with new regulations is the one of unintended regulatory spillover, which may have adverse consequences on relations with trade partners and hinder international capital flows. Indeed, experience has shown that the increasing globalisation of capital markets make it very difficult to adopt wide-ranging legislation without impacting other jurisdictions. In some cases, intense dialogue and explanation are necessary to fully assess and solve the problems.

For that reason, the *a priori* impact of option 5 on the international dimension has to be considered as potentially negative, in the absence of significant international changes. On the contrary, repealing exiting legislation (option 3) may ease the adoption and enforcement of global standards in the EU (see in next section the cases of financial analysts and credit rating agencies) and open up further EU markets for institutions and investors based in third countries. Similarly, option 4 may fix, through surgical change in legislation, incompatibilities or inconsistencies with global standards to reinforce the attractiveness and the competitiveness of the EU financial marketplace.

Follow-up of past action is not expected to have a significant impact on the global dimension, as any action along this line is constrained by the legislation.

Option	Expected impact
1. No action	=
2. Repealing existing legislation	+
3. Follow-up of past actions	=
4. Dynamic consolidation	+
5. New initiatives	-*

\* *In the absence of significant international changes*

## 6. CHOOSING THE OPTIMAL POLICY MIX

Given the number of areas, no single option among the ones presented in section 4 can be applied uniformly. The key issue is to find the right differentiated policy mix, even though a general orientation can be nevertheless distinguished.

### 6.1. General policy orientation: Dynamic consolidation

The completion of FSAP on time has led to the adoption of a significant number of measures (42, of which 27 legislative, complemented by other initiatives such as the Corporate Governance Action Plan to name just one) in just 5 years. Such a course of action was a response to the remaining lack of integration of the EU financial services sector, while profound structural changes were taking place (especially the introduction of the euro in 1999).

As shown in section 2, integration is far from being complete in some market segments. There are a lot of potential benefits to extract from further integration, especially for the end-consumer at the end of the value chain. Furthermore, on the international stage, the EC regulatory and supervisory framework still needs for further recognition for its role in creating an open, competitive, efficient and safe marketplace. That is why option 1 (*no action*) would not generally be optimal in achieving the overall policy objectives of achieving further integration, by enhancing market functioning and controlling the administrative burden while taking into account the global dimension.

Even though markets are not yet fully integrated, substantial progress has been accomplished since 1999. Therefore the case for another wide-ranging and intensive legislative programme – in other words, an FSAP II – is not as clear as it was in 1999. The benefits in terms of integration of such an approach would most surely be offset by the downsides of ‘regulatory fatigue’. Industry is still striving to adjust to the revamped regulatory framework, which implies significant investments (e.g. in IT systems). Adding another layer on legislation that has just been adopted, and that in some cases will not be enforced until a year or two, would raise the risks of inconsistency or overregulation, possibly to the detriment of the overall integrity of markets. For that reason, option 5 (*new initiatives*) is not the overall optimal policy orientation for the financial services policy 2005-2010.

The above considerations relating to the need for a stabilised regulatory framework, so that companies can make the necessary adjustments to the benefit of consumers and the economy at large, also plead against option 2 (*repealing of existing legislation or proposals*). The whole ambition of FSAP was precisely to replace obsolete legislation or fill in the most obvious gaps in the regulatory framework. In view of all the political and financial efforts accomplished over the last 5 years, it would be inconsistent to now adopt a general orientation of repealing measures that have just been adopted and enforced. If a piece of legislation proves to be ineffective, it would undoubtedly be wise to consider its repealing. But one has first to assess its full impact, which necessarily demands some time.

Therefore, the two remaining possible choices are option 3 (*follow-up of past actions*) and option 4 (*dynamic consolidation*). The divide between the two is thin. It is clear that, under all hypotheses, implementation and enforcement of agreed measures must be the political priority. However, the goal is to define the financial services policy for the next 5 years. Already now, there are some areas where it is clear that implementation and enforcement of existing measures will not be sufficient in making the most of an integrated market for financial services.

For instance, in the area of supervisory convergence, the skeleton has been put in place by the Lamfalussy structure. But there is a clear need for further convergence of supervisory rules and practices, to alleviate the administrative burden on companies (also for the benefits of consumers through increased competition) and to ensure market integrity. All the necessary tools are probably not there yet. Some legislative changes might have to be progressively implemented to foster and accompany further integration.

There are also some areas (such as retail and asset management, see below) where more targeted initiatives are needed.

Hence, the optimal overall stance is the one of **dynamic consolidation (option 4)**.

## **6.2. A differentiated policy mix to better address the challenges ahead**

### *6.2.1. Implementation of agreed measures*

Implementation of the FSAP has led to the adoption of a quite substantial volume of new EC legislation. Some adopted texts require substantial investments and adjustment efforts at the industry level. Such significant structural investments, which are spread over several years and have a decisive middle to long term impact on the businesses, need to be complemented by a legal framework as stable as possible.

The coming years will be decisive as many texts adopted at the EU level are being transposed and enforced at Member States' level. Inappropriate transposition or too wide diversity (notably through 'goldplating') may ruin *in fine* the effectiveness of the agreed measures, despite the huge political and financial efforts that have been put in.

This clearly pleads in favour of **option 3** for those measures that have been recently adopted or are already in the pipeline. This is especially relevant for securities sector, where a number of implementing measures ('Level 2' measures in the Lamfalussy architecture) are to be adopted, transposed and enforced.

### *6.2.2. Consistency between general consumer and sectoral legislation*

There exists a variety of information requirements resulting from European financial services regulation. In addition to the resulting unnecessary costs and excessive administrative burden, possible inconsistencies may also have adverse consequences in terms of legal certainty and therefore market integrity.

This is clearly a case where further benefits may be obtained by streamlining, simplifying and, when necessary, repealing inefficient and/or duplicative existing

provisions. There is a clear interest in carrying out a study on this issue to see what can be done. In particular, should the study highlight inconsistencies in existing EC legislation, some pieces of superfluous or contradicting legislation might be repealed (i.e. possibly **option 2** depending on the study outcome).

### 6.2.3. *Policy synergies*

The FSAP has contributed to fill many regulatory gaps in the area of financial services. In doing so, some other obstacles that cannot be addressed by Internal Market policies *stricto sensu* are now more evident as remaining barriers (e.g. some taxation issues<sup>17</sup>). In addition, there is a consensus that further coordination with competition rules enforcement could have a multiplicative effect on the overall functioning and efficiency of the regulatory framework. Conversely, new legislation should ensure a fair and competitive environment in line with the Competition policy.

There is thus a case for examining further how policy synergies can be exploited more (no option 1). It is not proven that existing EC legislation would limit the realisation of potential synergies (no option 2). The driving factor should be the efficiency, even if in some cases it implies limited adjustments to legislation, including in other areas of EU policy. For instance, one could mention the area of taxation where changes to current inter-group VAT rules, which pose a problem specific to the financial sector, might be introduced. In other words, this approach corresponds to **option 4**.

### 6.2.4. *Supervisory convergence*

Large groups operating cross-border have identified the different, or sometimes diverging, supervisory requirements and practices they are faced with as a major cost burden, reducing scale synergies opportunities within the Internal Market. This was notably evidenced by a forum group set up in 2002 by the Commission on supervisory requirements<sup>18</sup>. In addition, diverging rules and practices may pose a serious challenge in terms of robustness of the supervisory system, as activities are increasingly carried on a cross-sectoral and cross-border basis. The *status quo* is therefore not optimal from a cross-border and cross-sectoral point of view, which rules out option 1.

Recent regulatory changes (such as the Market in Financial Instruments Directive, the upcoming Capital Adequacy Directive), combined with the extension of the Lamfalussy architecture from securities to banking, insurance, pension funds and asset management have contributed to reinforce further the consistency of the supervisory framework and created new tools (such as the Level 3 committees of national supervisors). This new setting has yet to be used to the maximum, therefore it would be inappropriate to repeal these recent new tools. Option 2 has thus to be excluded.

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<sup>17</sup> Communication from the Commission to the Council and the European Parliament: *The Contribution of Taxation and Customs Policies to the Lisbon Strategy*, COM(2005) 532..

<sup>18</sup> For more information, see the Commission website:  
[http://europa.eu.int/comm/internal\\_market/finances/cross-sector/index\\_en.htm#reporting](http://europa.eu.int/comm/internal_market/finances/cross-sector/index_en.htm#reporting)

Adopting a ‘big bang’ approach would first deprive the new tools of the opportunity to prove their efficiency. Second, and more worryingly, such an approach might create substantial disruption if hastened through and would surely incur massive transitional adjustment costs not only for the industry but also for regulators. Option 5 would thus not be an optimal choice.

Even though the new framework has yet to be exploited to the full, some issues have already surfaced. For instance, the current deposit guarantee schemes are currently examined to check whether the systems in place are adequate. Other issues such as the lender of last resort are also closely looked at. Such essential issues cannot be tackled through implementation only, and might require *ad hoc* legislative changes (which excludes option 3). The most adequate policy option is therefore an evolutionary approach, in line with the **option 4** of ‘dynamic consolidation’.

#### 6.2.5. *Retail financial services*

This year’s edition of the Commission’s Financial Integration Monitor<sup>19</sup> highlights the lack of integration of retail financial markets, and the subsequent potential benefits for consumers and companies of further integration of those markets. This pleads in favour of moving away from the current situation (no option 1). In this field, there is very little EC legislation at present. Option 2 is thus not really relevant and option 3 would not be expected to deliver substantial results.

The issues to address are vast and complex. There are not yet solid foundations on which to consolidate in order to deliver the full potential of further integration. Therefore, **option 5** is preferable over option 4. It should be stressed that, although the retail financial services have been identified as a whole as requiring further initiatives (including new legislation), a ‘big bang’ approach has to be ruled out, in order to keep adjustment costs and administrative burden under control while securing the achievement of policy objectives. Rather, the chosen approach relies on the identification of a limited number of concrete projects, which need to be developed.

Following this approach, a number of major initiatives are already underway in the area of mortgage credit, consumer credit and payments. Furthermore, among the areas for future work, one could identify bank accounts and credit intermediaries. For each of these projects, ‘better regulation’ principles will be applied vigorously.

#### 6.2.6. *Solvency II*

Changes in business practices, international developments in accounting, supervision and actuarial science have made necessary a complete overhaul of the EC supervisory framework for insurance activities. Given the magnitude of changes to be introduced to implement more risk-based solvency requirements within a further harmonised supervisory framework, the Commission has already announced its intention to present a legislative proposal in mid-2007, adopting the Lamfalussy procedure. It thus corresponds to an **option 5** approach.

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<sup>19</sup> See footnote 2

Work has already started on the possible new measures, which will be subject to proper impact assessment. Furthermore, the Solvency II project will offer the opportunity of streamlining EC legislation (notably by replacing 16 directives by a single text).

#### 6.2.7. *Review qualifying shareholdings*

In September 2004, the Council of Economic and Financial Affairs, meeting informally in Scheveningen, discussed the issue of lagging cross-border consolidation in the banking area. Following this discussion, Finance Ministers asked the Commission to examine possible changes to the supervisory approval process laid down in EC legislation, i.e. article 16 of the Banking Directive and articles 15 of the Insurance Directives<sup>20</sup>.

After consultation with Member States, supervisory authorities and the industry, it appears there is a clear call for more clarity, transparency and disclosure in the supervisory approval process. Option 1 would therefore not be appropriate. Repealing the existing provisions would undoubtedly add to the identified problems, by potentially creating more divergence, which rules out option 2. As there is a need to make rather limited amendments to the existing legislation, **option 4** is more appropriate than option 3 (implementation only has proven not be sufficient) and option 5 (there is not a case for wide-ranging changes).

#### 6.2.8. *Clearing and Settlement*

In a previous Communication<sup>21</sup>, the Commission set out its strategy and priorities for clearing and settlement, following extensive consultations with the markets, regulators and other interested parties based on an initial Communication published in May 2002. It took into account various reports and initiatives, including the two Giovannini Reports on Cross-Border Clearing and Settlement, presented to the Commission in November 2001 and April 2003 respectively.

The Communication proposed the preparation of a framework Directive on Clearing and Settlement aiming to increase competition and efficiency and, as a result, to drive down costs. The approach adopted was therefore similar to **option 5**.

Since the adoption of the Communication, the Commission has set up expert groups to examine further the right forward. In parallel, a thorough impact assessment is being carried out and will be completed soon. Following the Better Regulation principles, this impact assessment will help the Commission in determining the exact content of its future proposals. It is a good example of how the option 5 presented in this document is concretely implemented.

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<sup>20</sup> Finance Ministers also asked the Commission to review all potential obstacles to cross-border consolidation. See section 6.2.9.

<sup>21</sup> Communication from the Commission to the Council and the European Parliament: *Clearing and Settlement in the European Union - The way forward*, COM(2004) 312, downloadable at: [http://europa.eu.int/comm/internal\\_market/financial-markets/clearing/index\\_en.htm](http://europa.eu.int/comm/internal_market/financial-markets/clearing/index_en.htm)

#### 6.2.9. *Elimination of unjustified barriers to cross-border consolidation*

A recent Commission Staff Working Document<sup>22</sup> highlights the hitherto low level of cross-border consolidation in the EU financial sector. It identifies a number of impediments that may prevent companies to benefit from business opportunities in the Internal Market. The *status quo* is therefore not optimal (no option 1). Those impediments do not result from EC legislation; on the contrary, initiatives such as the European Company Statute or the Cross-border Mergers Directives seem to have improved the situation (however, those recently adopted texts have yet to prove effective over the next years). Therefore option 2 is not appropriate.

Many obstacles identified are being, or could be, dealt with at EU level. This is for instance the case of supervisory convergence (cf. section 6.2.4). Overall, the obstacles are the consequences of limited gaps or inadequacies in the supervisory framework, which in some cases might need to be addressed through ‘light touch’ legislation to complement ongoing initiatives (no option 3). A complete overhaul would most probably be ineffective and costly (no option 5). Against this background, the optimal choice is **option 4**.

#### 6.2.10. *The Hague Convention*

The Commission is currently conducting a legal assessment on the proposal for signature of The Hague Convention. Depending on the result of this assessment, the Commission might decide to effectively withdraw the proposal (i.e. possibly **option 2**).

#### 6.2.11. *Financial analysts*

In the field of financial analysts, there is EC legislation already completed or in train that already addresses the issues at stake (in particular, the Market Abuse and the Markets in Financial Instruments Directives). Furthermore, standards exist at the global level, as set out by IOSCO<sup>23</sup>. Therefore, before proposing any new legislative measures the Commission would need to assess the effect of existing, recent EC legislation as well as international standards. The Commission will carefully monitor the impact of such rules. If they proved to be inefficient to address the issues at stake or if new circumstances were to arise, the Commission might reconsider its current position. The optimal solution is therefore likely to be **option 1**.

#### 6.2.12. *Rating agencies*

The rationale for choosing **option 1** in the field of financial analysts also applies to the area of rating agencies (existing provisions in the Capital Adequacy Directive, international IOSCO Code of Conduct).

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<sup>22</sup> Commission Staff Working Document: *Cross-border consolidation in the EU financial sector*, SEC(2005) 1398, downloadable at:

[http://europa.eu.int/comm/internal\\_market/finances/cross-sector/index\\_en.htm#obstacles](http://europa.eu.int/comm/internal_market/finances/cross-sector/index_en.htm#obstacles)

<sup>23</sup> International Organization of Securities Commissions, whose members are 108 securities supervisory authorities around the world

### 6.2.13. *Asset management*

An overview of the current situation of the asset management sector is available on the Commission's Green Paper on the enhancement of the EU framework for investment funds<sup>24</sup>. Despite substantial achievements, the Green Paper shows there is scope for improvement. Although there is no compelling case at this stage for fundamental legislative overhaul, the Paper identifies concrete short-term measures to ensure consistent implementation and more efficient operation of existing rules.

The Green Paper also draws attention to the unprecedented structural challenges faced by the EU fund industry in the longer term. It seeks to stimulate debate on whether an EU-level response is required and, if so, on the form of possible measures.

Therefore, the generic policy option chosen in the field of asset management is **option 5** (see the Green Paper for substantiated a discussion on the best policy approach).

### 6.2.14. *External dimension*

Recent experience (notably with the adoption of the Financial Conglomerates Directive in the EU or the enactment of the Sarbanes-Oxley Act in the US) has shown the possible, and sometimes unintended, spillover effects of regulation in increasingly global financial markets.

Regulation that does not take into account the global dimension may prove ineffective, counter-productive or damaging to the global competitiveness of the EU financial marketplace. Proper consideration should be given to global standards, when they exist and are appropriate (cf. the cases of financial analysts and credit rating agencies in sections 6.2.11 and 6.2.12).

In addition, a shared understanding and comparable regulatory responses in the main financial marketplaces are appropriate in face of some new global challenges and risks.

Against this background, although the policy options described in section 4 are not fully applicable, the most relevant option as regards the external dimension is **option 4**. Indeed, even though taking the external dimension should not result in extensive new legislative actions, there might be some cases where coordinated legislative adjustments are required, as was the case in the field of audit after the Parmalat and Enron debacles.

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<sup>24</sup> Available on the Commission website at:  
[http://europa.eu.int/comm/internal\\_market/securities/ucits/index\\_en.htm#greenpaper](http://europa.eu.int/comm/internal_market/securities/ucits/index_en.htm#greenpaper)

### 6.3. Summary of the policy orientations

	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt. 5
<b>Overall approach</b>				<b>X</b>	
Implementation of agreed measures			X		
Consistency between general consumer and sectoral legislation		X (?) *			
Policy synergies				X	
Supervisory convergence				X	
Retail financial services					X*
Solvency II					X*
Review qualifying shareholdings				X	
Clearing and Settlement					X*
Elimination of unjustified barriers to cross-border consolidation				X	
The Hague Convention		X (?) *			
Financial analysts	X				
Rating agencies	X				
Asset management					X*
External dimension				X	

\*Depending on the assessment outcome

## 7. MONITORING AND EVALUATION OF THE RESULTS

Any policy measure will only be as good as the practical effects it has on the ground. Therefore, the Commission is fully committed to the principles of monitoring and evaluation, enshrined in the ‘Better Regulation’ principles, and will implement out any future initiatives in accordance with those principles and ensure that measures already adopted will deliver the expected results. In the field of financial services, evaluation will be structured along 3 lines:

### 7.1. Continuous monitoring of the state of integration

While consistent transposition and enforcement of European legislation is key in delivering the benefits of integration via pan-European access and a level playing-field, the more fundamental question as to whether the rules actually achieve what they were meant to achieve must be addressed. Through the Financial Integration Monitor, The Commission will continue to report on an annual basis on the state of financial integration, also addressing competitive structures in Europe, the efficiency gains of integration and related financial stability issues.

## **7.2. Ex-post evaluation of the FSAP**

With the FSAP having reached its closing chapter, the logical next step is to evaluate its impact on financial markets and institutions as well as on the consumers and users. Ex-post evaluation of the FSAP and of all new legislative measures will in the future be a top priority for the Commission. The Commission plans to carry out a full evaluation of the FSAP in the course of 2006-2008, when all measures are expected to be implemented and the empirical and possibly the first economic effects start to be measurable.

The Commission will also carry out a number of reviews mandated by legislation adopted under the FSAP – e.g. on large exposures, own funds, commodities dealers, regulated markets and regarding the Financial Conglomerates, Insurance Groups and E-money Directives – with a view to achieving greater coherence and more effective supervisory tools.

## **7.3. Monitoring of the Lamfalussy institutional framework**

The Inter-Institutional Monitoring Group has so far proved a useful, independent mechanism for evaluating progress on achieving the objectives of the Lamfalussy report. The European Parliament, the European Council and the European Commission have recently agreed to mandate a renewed Group to provide annual reports until the end of 2007. The mandate has been expanded, in line with the extension of the Lamfalussy process, and now covers banking, insurance, UCITS and occupational pensions as well as securities law<sup>25</sup>.

## **8. STAKEHOLDER CONSULTATION**

The publication of the White Paper was preceded by an intense consultation process, which started more than 2 years ago and was conducted in full transparency. It came alongside other consultation exercises targeted at specific issues, such as Clearing and Settlement arrangements or the Legal Framework for Payments. We only describe here the different steps of the post-FSAP consultation, bearing in mind that the final White Paper also draws on the more specific consultation exercises.

### **8.1. 1<sup>st</sup> step: The 4 high level expert groups (Oct. 03 – May 04)**

In October 2003, the Commission set up four high level expert groups covering the sectors of banking, insurance, securities and asset management. Those groups were mandated to assist the Commission in assessing progress made under the FSAP in removing regulatory/legal barriers to the provision of services, to the performance of financial transactions and to the organisation of business on a cross-border basis<sup>26</sup>.

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<sup>25</sup> For more details, see:

[http://europa.eu.int/comm/internal\\_market/finances/cross-sector/index\\_en.htm#interinstitutional](http://europa.eu.int/comm/internal_market/finances/cross-sector/index_en.htm#interinstitutional)

<sup>26</sup> The terms of reference for the different groups are available on the Commission website at: [http://europa.eu.int/comm/internal\\_market/finances/actionplan/stocktaking\\_en.htm#phase1](http://europa.eu.int/comm/internal_market/finances/actionplan/stocktaking_en.htm#phase1)

In May 2004, the expert groups published the results of their work in four reports<sup>27</sup>. Those reports reflected the consensus view of the group members and not necessarily that of the Commission, and provided a comprehensive assessment of the extent to which different types of financial business can be undertaken on a pan-European basis. They also outlined the main expectations and concerns of the different sectors regarding the implementation and enforcement of FSAP measures.

## **8.2. 2<sup>nd</sup> step: Open and wide-ranging consultation (May 04 – Sep. 04)**

On the basis of the 4 expert group reports, the Commission opened a 4-month consultation period with all stakeholders. More than 60 contributions from the industry, federations, governmental authorities, but also from consumer organisations were received<sup>28</sup>.

The Commission also organised a high-level conference on financial integration to discuss the expert group recommendations as well as what should be the future priorities<sup>29</sup>.

## **8.3. 3<sup>rd</sup> step: Publication of a Green Paper (Sep. 04 – Aug. 05)**

Taking into account the expert group recommendations and the contributions received during the consultation process, as well as other parallel initiatives such as the report on financial integration by the EU Financial Services Committee<sup>30</sup> and the report by the Economic and Monetary Affairs Committee of the European Parliament on the current state of integration of EU financial markets<sup>31</sup>, the Commission published in May 2005 a Green Paper on Financial Services Policy 2005-2010<sup>32</sup>. It presented the preliminary views of the Commission for its financial services policy priorities for the next five years.

Consultation on the Green Paper was opened for 3 months. In total, over 150 contributions have been received and published on the Commission's website. An overview of all comments received is included in a feedback document (annex III to the White Paper).

The priorities outlined in the Green Paper were also discussed in a public exchange of views, which took place in Brussels on 18 July 2005<sup>33</sup>. Overall broad support was expressed for the main lines of the Green Paper.

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<sup>27</sup> The full texts of the reports can be downloaded at:

[http://europa.eu.int/comm/internal\\_market/finances/actionplan/stocktaking\\_en.htm#phase2](http://europa.eu.int/comm/internal_market/finances/actionplan/stocktaking_en.htm#phase2)

<sup>28</sup> Contributions authorised for publications are downloadable at:

[http://forum.europa.eu.int/Public/irc/market/market\\_consultations/library?l=/financial\\_services/specialist\\_action&vm=detailed&sb=Title](http://forum.europa.eu.int/Public/irc/market/market_consultations/library?l=/financial_services/specialist_action&vm=detailed&sb=Title)

<sup>29</sup> Conference proceedings are available at:

[http://europa.eu.int/comm/internal\\_market/finances/actionplan/stocktaking\\_en.htm#conference](http://europa.eu.int/comm/internal_market/finances/actionplan/stocktaking_en.htm#conference)

<sup>30</sup> Report for consideration by EU Finance Ministers on 2<sup>nd</sup> June 2004, only in limited circulation.

<sup>31</sup> Report ref. A6-0087/2005, available on the ECON Committee website at:

[http://www.europarl.eu.int/committees/econ\\_home.htm](http://www.europarl.eu.int/committees/econ_home.htm)

<sup>32</sup> The Green Paper and its annexes is available on the Commission website at:

[http://europa.eu.int/comm/internal\\_market/finances/actionplan/index\\_en.htm#actionplan](http://europa.eu.int/comm/internal_market/finances/actionplan/index_en.htm#actionplan)

<sup>33</sup> A summary of the discussions is available at:

[http://europa.eu.int/comm/internal\\_market/finances/docs/actionplan/infosession/results\\_en.pdf](http://europa.eu.int/comm/internal_market/finances/docs/actionplan/infosession/results_en.pdf)