

**Angelos Pangratis – Opening Remarks at Seminar to discuss
IMF book on European Financial Market Integration, 24th
September 2007**

Ladies and Gentlemen: thank you for coming today. It is a great pleasure to welcome you here to the Delegation of the European Commission. It is not often that we have the opportunity to host a book launch event, but Barnes and Noble need not worry: their place is secure!

However, we felt that the new book edited by Jörg Decressin, Hamid Faruqee and Wim Fonteyne deserved special attention and that it is in the wider interest to discuss the issues in the book. I will introduce the discussants in a moment, but I thought that I would first say a few introductory words of my own about the book and the integration of financial markets in Europe.

A first remark is that the book is **very timely**. The Financial Services Action Plan was completed in 2005. Now that most of the directives and regulations have entered into effect, we are beginning to see the fruits of all the hard work. It is a good occasion to make a preliminary assessment, although I am reminded of the famous remark of Zhou Enlai when asked if the French Revolution had been a success. He said "It is too early to tell!" We are only at the start here. Our Markets in Financial Instruments Directive – MiFID, the core of the FSAP - enters into effect on 1st November. We have seen market developments even in anticipation of it, such as the mysteriously

named Project Turquoise and Project Boat, but we will only see the true effects from now on.

A second remark. I think that it is very useful that the book explains to a wider audience **the motives and process behind the recent drive to European financial market integration**. Frankly speaking, we were condemned to integrate and still are. Our economic performance in the late 1990s was distinctly underwhelming. We had to do better. Integration of our financial markets, together with the introduction of the Euro and other fundamental reforms, was crucial. We were paying the price for fragmented financial markets and lack of cross-border service provision. The FSAP was motivated by a desire to tackle that gap, by removing barriers to cross-border investment such as through our Pension Funds and UCITS Directives; by increasing investor information, most notably through the introduction of International Financial Reporting Standards; and by strengthening the supervision of financial markets.

A third remark. The authors make the point that **the drive to integrate financial markets is far from complete**. I agree. Maybe it will always be a work in progress. In the European Commission, we will be driven by what is best for markets, companies and investors rather than trying to tie them down to some grand masterplan and set of institutional arrangements. This has guided us in the last few years as we move towards implementation and enforcement of the FSAP rather than massive new measures. Our philosophy is to let changes bed down and to respond calmly and reflectively to new

developments and perceived shortcomings rather than rushing to action on each and every occasion. That is what drives us and I believe that this is good for investors, companies and markets.

One final remark. You cannot see the recent integration of financial markets in isolation to developments in the world economy. In recent years, markets have been globalising at a pace that is difficult to believe. The current market turbulence is displaying the extent to which markets have integrated and have become truly global. In earlier times, the sub-prime crisis would have been a purely American issue, only affecting European markets to the extent that it dragged down the American economy. And yet we see German banks exposed. British banks exposed. French banks exposed.

The solution to this is not to try to retreat into our jurisdictions like snails into shells, but to accept it and deal with it. As Commissioner Charlie McCreevy said earlier this month:

"The recent turmoil has clearly demonstrated the interconnectivity and globalisation of financial markets. [...] This makes the Commission's regulatory dialogues with the US and with other jurisdictions even more critical."

International cooperation is very much the future of regulation. We in the Delegation have been fully involved in the Financial Markets Regulatory Dialogue and in the wider work on Transatlantic Economic Cooperation launched by Presidents Bush and Barroso and

Chancellor Merkel. Even as we continue to integrate our markets in Europe, we need to cooperate internationally ever more closely.

And with that, let me introduce the discussants.

Jörg Decressin is Division Chief for Euro Area Policies in the IMF's European Department, where he is responsible for developing economic policy advice to the Eurogroup, the European Commission and the European Central Bank. A German national, he obtained his Ph.D. from Harvard University and joined the IMF in 1993. His interest in financial sector policy dates back to 2002, when he developed policy advice on reforming Germany's public sector banking system in the context of the IMF's Financial Sector Assessment Programme. **Wim Fonteyne** is a Senior Economist in Jörg's Division, and an expert on financial sector issues. He is a graduate of the University of Ghent and the Kiel Institute for World Economics. A Belgian citizen, he joined the IMF in 1998. Completing the trio of IMF experts is **Hamid Faruqee**, who is now Assistant to the Director in the IMF's Research Department. A Bangladeshi national, he obtained his Ph.D. from Princeton and joined the IMF in 1993. He has written extensively on financial market issues and on exchange rates. A warm welcome to Jörg, Wim and Hamid.

We are also delighted to welcome two highly distinguished scholars who have agreed to participate in the panel discussion. Firstly, **Adam Posen**, who is Deputy Director of the Peterson Institute for International Economics, the leading think-tank on international

economic policy issues here in Washington, DC. Adam has written extensively on subjects such as monetary policy, economic reform in Germany and economic integration in Europe. As he is one of the leading US experts on Europe, it is a particular pleasure to welcome him here today. Secondly, **Nicolas Véron**, who is a Resident Fellow at the Bruegel Institute in Brussels, is a leading European commentator on financial market issues and has previously served as an advisor to the French government. His most recent Bruegel policy brief is entitled, "Is Europe Ready for a Major Banking Crisis?", an issue which he also discussed in his recent Financial Times op-ed piece, which I'm sure many of you have read. We are delighted that he has agreed to come from Brussels to participate in this discussion.

Lastly, let me introduce **Nigel Nagarajan**, who is Economic and Financial Counselor here at the Delegation, who will moderate today's discussion. I will now leave you in his hands and wish you a very fruitful discussion.

Background

The book which Decressin, Faruqee and Fonteyne have edited covers the integration of European financial markets from the launch of the 1999 Financial Services Action Plan (FSAP) to the present. The book has two parts and takes an economic look at the whole issue.

The first part covers financial integration, looking at the concept, how far Europe has got, how it compares to the US and the state of equity market integration. There is nothing particularly stunning about their conclusions: Europe needs to go further but is impeded by tax, legal and cultural barriers; its securities markets are not as developed as those of the US; the wholesale market is becoming very integrated, but the retail market has further to go. These are all conclusions that are commonly shared, indeed in the Commission's Financial Services White Paper of December 2005.

The second part covers financial stability. Once again, it is competent but not earth-shattering in its conclusion that Europe needs to do far more. There is a lot of work ongoing on this area, but a lot of frustration about the difficulties of getting Member States to compromise here.

Pour rappel, the FSAP was launched in 1999 and contained 42 proposed measures – Directives, recommendations, studies and reports - on a range of areas of accounting, insurance, banking, auditing, corporate governance and securities. The key measures adopted were the Markets in Financial Instruments Directive (MiFID replacing the old Investment Services Directive; the Market Abuse, Transparency and Prospectus Directives; the Pension Funds and UCITS II (Undertakings in Collective Investment in Transferable Securities) Directives; the Capital Requirements Directive implementing Basel II and the Regulation introducing International Financial Reporting Standards (IFRS) in the EU. 41 of the 42 measures were completed and in many cases new measures were adopted as events moved on (e.g. the response to the Enron and Worldcom corporate governance problems.)

After lengthy consultation, the Commission issued a Financial Services White Paper in December 2005, calling for "dynamic consolidation" based on a small number of well-targeted further measures such as a proposal for a Solvency II proposal for insurance; a much greater focus on implementation, enforcement and evaluation of the legislation agree; and enhanced supervisory cooperation and convergence together with greater international cooperation.

Crispin Waymouth, 16th September 2007