
Overcoming the crisis & moving beyond:

EBF policy recommendations for advancing the
integration of European financial services markets

2009

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This is an update of the 2007 EBF Report on the Integration of European Financial Services Markets. It focuses on the difficulties faced by the banking industry as a consequence of the global financial crisis, and the new challenges to be confronted by the industry and policy makers.

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Set up in 1960, the European Banking Federation is the voice of the European banking sector (EU and EFTA countries). The EBF represents the interests of some 5000 European banks: large and small, wholesale and retail, local and cross-border financial institutions

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A NOTE FROM THE EDITORS

This publication reviews the progress made since December 2007, when the EBF Report on the Integration of European Financial Services Markets (the 'Integration Report') was issued. In it, we analysed why financial services integration is justifiably one of the most important economic and political goals for the European Union, and identified the *Key Challenges* to be addressed in achieving it.

Unprecedented changes have taken place within the financial industry since then, and the prospect of financial integration now looks very different compared with 24 months ago. In light of the lessons still being learned from the current crisis, we assess the relevance of our earlier objectives and the scale of the challenges ahead.

The crisis has thrown into prominence weaknesses in the regulatory infrastructure which contributed to the build-up of poor quality financial assets and caused market confidence to spiral downwards. It has also demonstrated the importance of coordination and collaboration between the authorities, both within Europe and globally. Dramatic progress has been made in some policy areas which had been identified as priorities for the future. Some reordering and adjustment of the initial Key Challenges has therefore been necessary.

The sequence of Key Challenges in this Report is as follows:

1. Instil Confidence
2. Agree on the European Model of Prudential Supervision
3. Establish Meaningful Transparency in Financial Markets
4. Ensure Level Playing Field across Financial Institutions
5. Harmonise Financial Reporting
6. Progress the Integration of Retail Markets
7. Remove Fiscal Impediments
8. Implement the Single Euro Payments Area
9. Intensify International Cooperation

The 2007 Integration Report is available on the following web page:

<http://www.ebf-fbe.eu/content/Default.asp?PageID=250>

INTRODUCTION

The financial crisis has changed the course of integration in banking markets of the European Union.

First and foremost, the crisis has forced banks to look inwards, to take stock of their own weaknesses and consider measures to protect their viability. This has **interrupted the previous clear dynamic towards European integration**, which had been stimulated by banks' search for value, and economies of scale and scope. Although banks are now striving more than ever to reduce costs and improve the returns from their businesses, the proximate means of achieving this is through sometimes radical adjustments in business lines, and the liquidation of investments.

Banks have had to reappraise their activities from the point of view of risk and return, and current funding realities. There is a renewed interest in simpler, traditional services such as 'plain vanilla'¹ lending, but asset growth is being constrained by the need to rebuild balance sheets, weak client demand, due to the recession and by persisting difficulties for some banks in obtaining funding from capital markets at reasonable cost. In these circumstances, the rationale for greater integration, to reduce costs and grasp new opportunities for profitable business, cannot be ignored for long. When uncertainty has lessened, it seems very likely that **integration and consolidation will be viewed again as attractive ways to protect and build profitability, provided that the new regulatory environment creates favourable conditions for such international business models.**

An immediate and important structural change resulting from the upheaval has been the increase in public ownership and influence in the EU banking sector. This network of public support, although it is acknowledged that it has been of paramount importance to avert the risk of a systemic financial crisis, has had the unwelcome effect of accentuating national divisions. There is a risk that the delicate process of withdrawal itself will cause other competitive distortions. **Only when governments have fully retired from their crisis interventions will the benefits of the single marketplace be fully clear and accessible.** It is hoped that the suffering caused by the financial and economic upheaval will not encourage support for protectionism, leading other barriers to integration to be erected. At the level of the G20 leaders, meeting in Pittsburgh in September 2009, it has also been acknowledged that fighting protectionism is vital to global

growth as part of a common “goal to promote a broader prosperity for our people through balanced growth within and across nations; through coherent economic, social, and environmental strategies; and through robust financial systems and effective international collaboration.”

The euro, the original catalyst for the integration of European financial markets, has shown its strengths and its limits over the past years. **The benefits of euro membership during the crisis have been strikingly evident in two areas:** confidence in the currency, which has made it possible for the member countries worst hit by the crisis to avoid the havoc of a sharp devaluation, as was experienced by Iceland; and the ECB’s astute measures to enhance market liquidity, which have enabled euro area countries to avoid a credit crunch. On the other hand, the shelter of a single currency and communal economic governance has not freed member economies from market disciplines. Differences in the pricing of euro member countries’ debt and credit default insurance have widened. Such market sanctions and incentives are needed at a time of huge challenges for budgetary and fiscal management.

The crisis has demonstrated the strengths of the structure of economic and financial governance in the EU, while highlighting the areas where improvements are required. The policy infrastructure needs to be in step with market developments, and particularly innovation. **Recent events have sharpened the case for moving forward in a number of the key policy ‘challenges’** which were identified in the original Integration Report. Considering the origins of the crisis, a top priority must be reinforcement of the quality and flexibility of the regulatory and supervisory framework, and its coherence with other important international markets. In the case of supervision, comprehensive proposals have been put forward to ensure more appropriate standards, and better coordination among the institutions responsible - supervisors, governments and central banks. Policy makers are working to repair the perceived gaps in financial services legislation in other areas, such as investment funds, retail markets and financial reporting. The industry understands and supports the need, made prominent by the crisis, to identify and bridge the gaps in the existing regulatory and supervisory landscape, at both European and international levels. This however should be targeted at (re-)forming a sound basis for financial markets and the economy as a whole, thereby avoiding overregulation and preserving a favourable environment for financial innovation. Depositor protection has also been enhanced, to maintain the confidence of depositors in the financial safety net. All

these efforts should, in the longer run, help to build a solid foundation for greater market consolidation.

In this Report, **two new challenges** have been identified, as a direct result of the crisis. The new first **Key Challenge** is to restore confidence in the banking sector. **Confidence is of paramount importance** not only because it underpins the functioning of financial markets, and its return will help markets to function properly. It is also crucial to banks as institutions: they need urgently to rebuild the trust of their customers and the society in which they are based. Trust is a necessary condition for the industry to operate successfully, and for the single market in banking services to be realised. This challenge is urgent and immediate. If it is successfully addressed, it should no longer feature on the list of challenges by the time of the next Report.

The second new **Key Challenge**, not registered as such in the 2007 report, is to establish **meaningful transparency in financial markets**. Yet while there is general agreement that more transparency in financial markets is needed, the question of what exactly this implies and how to achieve it remains difficult to address.

1. Term “plain vanilla” refers to the most basic or standard version of a financial instrument, as opposed to complex / exotic instruments.

KEY CHALLENGE 1: INSTIL CONFIDENCE

The world economies are undergoing a historically significant, synchronised downturn.

An unprecedented downward spiral in the financial world brought with it a number of highly damaging changes: an evaporation of liquidity in global financial markets; the fall of some of the world's largest financial giants; and a consequent loss of public trust in the financial sector; as well as a deterioration in general economic conditions, including a fall in manufacturing output, rise in unemployment and the threat of deflation. Actual and potential write-downs from bad assets incurred by the financial industry worldwide are estimated at USD 3.4 trillion² (approx. EUR 2.3 trillion) between 2007 and 2010. It is estimated that the losses of European banks could reach close to EUR 420 billion by 2010 (IMF Global Financial Stability Report, October 2009). The world's economies are taking their share of the blow: EU GDP is expected to shrink by 4% in 2009, while the US economy may contract by almost 2.6% over the same period.³ These events called for an unprecedented level of financial and structural support and reform around the globe.

Actions taken by the EU and the national governments which are its members have been aimed initially at containing the damaging effect of the fall of the financial markets, helping the financial industry to stabilise and **instilling confidence** among investors, banks and their customers. In parallel, and with a longer perspective, they have aimed to adapt the current body of legislation to better meet the needs of the modern financial and economic worlds. Although it takes an instant to lose trust, it may take years to regain it. That is to say that the crucial process of rebuilding trust will be arduous.

STABILISATION MEASURES

The **Eurosystem** (at the euro area level) and the **national governments** (at country level) reacted quickly and effectively to counter the unravelling financial and economic crisis. In the euro area alone, governments have by now committed about 35% of GDP to financial sector support measures, and the Eurosystem's balance sheet had almost doubled at the peak of the process of extension of liquidity to the economy (it has shrunk since then as a sign of a resumption of normal market activity)⁴.

The EBF, convinced of the importance of free and fair competition in the EU, believes that in order to maintain confidence in the financial sector, these measures must be timely and effective, yet remain temporary. EU citizens must see the capacity and the ability of the sector to restore itself and regain independent and consistent functioning. Governments must in due course turn to reducing their budget deficits, expected to rise to an average of 6.5% in the euro area in 2010⁴, and to restraining the booming public debts, estimated to rise to 84% of euro area GDP in 2010⁴, not least for the sake of maintaining fiscal policy credibility. Devising credible and effective **exit strategies** for their financial support and the reversal of fiscal stimuli will also help restore fairness in the banking markets as well as help maintain public expectations of future government spending (see Key Challenge on **Level Playing Field**).

REGULATORY REFORM AND PRIVATE ACTION

From the point of view of market restructuring, the **European Commission** has been working hard on developing and improving a body of legislation (on supervisory architecture, capital requirements, accounting principles, remuneration policies, hedge funds, UCITS, to name but a few) to ensure the right incentives for the financial sector, to reduce room for different interpretations of legislation, and to strengthen risk management and prudential oversight.

It is not only the authorities who must implement a stringent approach to solving the crisis. The **banking sector** itself must restructure, improve its risk assessment (for example through stress-testing and internal prudential controls), make sure that compensation policies are aligned with risk and the overall long term interests of consumers, shareholders and the company, and adjust to the new banking model where necessary, in response to the global shift towards a new regulatory regime and altered conditions in the inter-bank and financial markets. Indeed, many of these changes are already underway. The EBF regards this development as consistent with its guiding principle to support banks' efforts to increase their stability, efficiency and competitiveness.

On the operational side, **banks are undergoing restructuring**: they are downsizing, merging, shrinking and tidying up their balance sheets, as well as becoming

more transparent. This is a significant and necessary development, after a period of lax monetary policy and ever-more sophisticated financial innovation with insufficient prudential regulation. In the words of Jürgen Stark (Member of the Executive Board, ECB)⁵: “The crisis may well turn out to be a catalyst for a paradigm shift, transforming the global financial landscape for the better.”

Although the shift to the new regulatory and financial paradigm is not complete, it is clear that the **era of easy credit is over**. In economic terms, lending should and will cease to be an ‘inferior’ good, to become again a ‘normal’ good. The last year has seen a gradual slowing of the growth in lending to households and non-financial corporations; Q2 of 2009 appearing, in the view of the ECB, to mark the end of credit tightening⁶. So far in the euro area bank lending has held up well, even taking into account the lagged effect of the economic downturn on demand. Aside from the private sector efforts to maintain lending growth, an important part in maintaining the level of lending to SMEs (Small and Medium Enterprises) and non-financial institutions has been played by the ECB (through its open-market operations) and the European Investment Bank. These developments underline the shared understanding of the importance of continued private bank lending to the private sector, as an effective measure for preserving confidence in the economy and in financial institutions.

PRIORITIES FOR THE COMING PERIOD

- Governments to develop effective, internationally coordinated exit strategies and take control over public deficits and debt;
- The ECB to continue facilitating the working of financial markets with suitable conditions for reviving banking sector operations, and undertake a sensible exit strategy from the liquidity-enhancing monetary measures;
- Banks to continue their operations while reforming internal procedures and becoming leaner, more transparent and adapting to new rules for prudential supervision.

2. Source: <https://www.imf.org/external/pubs/ft/gfsr/2009/02/index.htm>

3. Source: http://ec.europa.eu/economy_finance/thematic_articles/article15857_en.htm and <http://www.imf.org/external/pubs/ft/weo/2009/update/02/>

4. Source: http://www.ecb.int/press/key/date/2009/html/sp090904_2.en.html

5. Source: <http://www.ecb.int/press/key/date/2009/html/sp090625.en.html>

6. Source: ECB Bank Lending Survey, 29 July 2009: http://www.ecb.int/stats/pdf/blssurvey_200907.pdf?818fec83f5e27083bb2bc3130769ef9



KEY CHALLENGE 2: AGREE ON THE EUROPEAN MODEL OF PRUDENTIAL SUPERVISION

The financial crisis has demonstrated that the current supervisory arrangements can no longer efficiently address the needs of rapidly integrating financial markets. The priority has been - and is now more than ever - for the public and the private sectors to assist the implementation of a regulatory and supervisory framework which can effectively address risks, while at the same time avoid regulatory duplication and minimise compliance costs for cross-border banking groups.

The ongoing market turbulence has made clear that cooperation between the authorities (supervisors, finance ministries and central banks) needs to be strengthened and the regulatory framework improved to enable the adoption of EU-wide approaches to cross-border banking groups' supervision, and crisis management and resolution.

On 24 September, the G20 group of nations called for the establishment of a legal framework and tools for internationally-consistent cross-border crisis management and resolution.

The reform of European financial supervision is now at the top of the agenda: the Commission presented on 23 September 2009 its project for a new two-pillar European supervisory architecture⁷, with the ambitious objective that it would be implemented by end 2010.

Specifically, a European Systemic Risk Board (ESRB) would be responsible for examining macro-economic developments and the prevention of systemic risks while colleges of national supervisors and three new European Supervisory Authorities replacing the 3 Level-3 Committees (3L3)⁸ would oversee specific financial institutions in the banking, securities and insurance sectors within a European System of Financial Supervisors (EFSF).

As explained in the 2007 Integration Report, the EBF believes that the objective should be to arrive at a supervisory framework that would allow cross-border banks in Europe to be supervised in a consolidated, consistent and coherent way, reflecting their centralised risk management.

The first revision of the Capital Requirements Directive (**CRD**), adopted by the European Parliament in early May, falls short of providing an efficient decision-making mechanism within colleges of supervisors while allowing for some progress:

- Establishment of colleges of supervisors for cross-border banking groups, together with provisions on their composition and tasks;
- Provision for the Committee of European Banking Supervisors (**CEBS**) – the future European Banking Authority (EBA) - to elaborate guidelines and to give advice to any of the college's members to facilitate joint decisions.
- Involvement of CEBS/EBA in the monitoring of colleges' practices to ensure supervisory convergence.
- A common reporting framework, including uniform formats, frequencies and dates of reporting by 2012.

Certainly, the architecture proposed by the Commission goes further than the CRD revision and lays the foundations for taking a European approach to financial supervision to support a single financial market. However, it does not make the point that cross-border groups can no longer undergo the system of dual supervision imposed by the CRD. In the view of EBF, unless this is addressed, the benefits of the proposed reform will not be fully reaped in terms of efficiency, costs, consistency and integration of cross-border banking groups' prudential supervision.

Preconditions to a truly integrated prudential regime in the EU are the elimination of national options and discretions in the CRD, a common reporting framework and colleges of supervisors. It is encouraging that, as noted above, the recently adopted CRD revision provides for the last two elements to be established.

PRIORITIES FOR THE COMING PERIOD

- **Commonly agreed rules at EU level should be commonly implemented across Member States.** National options and discretions must be removed from the CRD and diverging national interpretations and gold plating of EU regulation should be discontinued.
- Consistent interpretation and application of these rules by supervisors must be ensured. This implies enhancing and assisting supervisory cooperation within colleges of supervisors to establish complementary supervisory practices across Europe.
- Harmonising supervisory rules and practices in the EU as well as globally will furthermore accelerate the

possibility for cross-border banking groups to report consistent data within a single reporting format.

- Strengthened supervisory cooperation within a more integrated supervisory framework will facilitate, and needs to be accompanied by, the **establishment of a European crisis intervention framework** for Member States to approach ailing cross-border institutions in a collective EU manner before they reach the stage where they need to be liquidated.
- A further important and related aspect will be to continue progressing towards more **harmonisation of the main elements of Member States' deposit guarantee schemes** so that EU consumers benefit from the same level of protection across Member States thereby increasing their confidence in the banking system and contributing to financial stability.
- Maintaining this momentum towards a substantial reform of financial supervision in Europe certainly now relies **on Member States' readiness to support the proposed and future reforms**, when the financial crisis has called for a revision of the rules with a view to restoring trust towards the financial sphere.

7. Commission proposals for Regulations based on the de Larosière Group recommendations of 25 February 2009. http://ec.europa.eu/internal_market/finances/committees/index_en.htm#package

8. CEBS, CESR and CEIOPS

KEY CHALLENGE 3: ESTABLISH MEANINGFUL TRANSPARENCY IN FINANCIAL MARKETS

The financial crisis has made ‘transparency’ one of the keywords of the past months. However, whilst there is widespread agreement that more transparency in financial markets is needed, the question of what exactly this implies and how to achieve it remains a difficult challenge to address.

As a starting point, it is true that **information asymmetries** have an important and sometimes disturbing effect on the financial markets. Uneven levels of information among contracting parties can potentially prevent deals from happening. Asymmetries are a natural phenomenon in all types of markets but can also arise or be aggravated as a result of geographical influences and legal differences, in which case they present an additional obstacle to cross-border market integration. Efficiently reducing information asymmetries and/or their consequence is, therefore, of the utmost importance. Effective solutions can be market-driven or of a regulatory nature.

Regulatory solutions are in particular relevant for the retail markets, where investors are likely to be less aware of all types of information that will be relevant for their contract. The realisation proven by recent events that also professional investors enter at times into deals that they do not fully understand is leading to a renewed appetite for regulatory interference also in wholesale markets. The challenge, therefore, would be to target deal-relevant information requirements which meet the specific needs of investors.

On **retail markets**, work has for example been ongoing for several years to present the most relevant information on investment funds of the ‘UCITS’-type (Undertakings for Collective Investments in Transferable Securities). On the basis of the UCITS IV Level 1 text that was adopted by the European Parliament and Council in the spring of 2009, the European Commission will have to adopt appropriate Level 2 measures over 2010, in time for implementation in 2011. Work to enhance the availability of relevant information for **wholesale investors** is also ongoing. For example, the Committee of European Securities Regulators has proposed a post-trade transparency framework for fixed income products, which would provide information about prices and volumes of corporate bonds, structured finance products and credit derivatives markets.

In this context, a distinction has to be made between different types of information, and in particular **market**

transparency versus **product transparency**. Whilst the former refers to, for example, trading volumes and prices, the latter is concerned with the substantial characteristics of the traded securities.

Furthermore, in thinking about appropriate solutions to enhance transparency it must be borne in mind that difficulties often arise from the **abundance of information**, rather than its scarcity. This can be true both for the retail markets and for the wholesale markets. An inverse relationship between the amount of available information and its accessibility can be observed. For example on the retail markets, a great amount of information is available on different kinds of securities, but research shows evidence that most retail investors are unlikely to read more than a few pages of product information before making an investment decision. Therefore, it must be ensured that investors are aware of the most relevant information, rather than of all possible eventualities. In the first instance, this is meant to be achieved by the **MiFID rules**, which comprehensively and horizontally cover the entire context of product advice and distribution, including for example potential conflicts of interest.

In addition, the European Commission has suggested that short information documents should be made compulsory for all retail investment products with an element of ‘packaging’, i.e. an altered risk profile as compared to the pure financing product that underlies the product (cf. Communication from the Commission on ‘*Packaged Retail Investment Products*’). With this requirement, the Commission also hopes to achieve a high degree of comparability of products. It is desirable to demonstrate to investors the range of products available and to increase competition between different types of products and product providers. However, this mechanism can only be effective if investors are fully aware of the differences of products and the related limits of comparability. Hence, investors must in the first place be enabled to understand the essential product characteristics. A comparison between different products can only be made in a second step.

In considering transparency solutions, a difference must furthermore be made between **disclosure to the market** on the one hand, and **reporting to regulators** on the other. This distinction flows naturally from a thorough consideration of the purpose of transparency and its uses. Reporting to regulators is appropriate as a pre-condition for effective macro- and micro-economic oversight, but for reasons of confidentiality the same information could often not be provided freely to the markets. Reporting to regulators

must also be made in a way that is practically usable, with the help of the right technological means. In turn, regulators’ challenge lies in ensuring that such means are in place to analyse the received information efficiently and within a defined period of time. Regulators are currently considering a range of measures that would extend market participants’ reporting requirements to regulators where such considerations are of great relevance; including for example Committee of European Securities Regulators - CESR’s proposals to extend the MiFID’s reporting requirements to OTC derivatives and its proposals for a short position disclosure regime.

Finally, the potential **costs of enhanced transparency** must be taken into account, considering that all reporting and disclosure requirements constitute a burden for market participants. More importantly, some regulatory requirements aimed at providing enhanced transparency in some markets may force negative adjustments, with the result of a potential loss in efficiency. For example, the European Commission has proposed a range of measures to enhance the transparency of Over-The-Counter (**OTC**) markets, including that of greater product standardisation. Such a development would hamper market participants’ ability to hedge risks through bespoke contracts, i.e. costs would result on the micro-economic level in individually sub-optimal hedging contracts; and possibly on the macro-economic level, if the result would be that of higher overall levels of unhedged risks.

PRIORITIES FOR THE COMING PERIOD

- Target information requirements at the market participants’ effective needs, making a clear distinction between retail and wholesale markets;
- Make a clear distinction between different kinds and recipients of information, in line with the defined objectives;
- Ensure full implementation of the MiFID’s conduct of business provisions;
- In considering transparency solutions for the OTC markets, avoid negative impacts on the market.

KEY CHALLENGE 4: ENSURE LEVEL PLAYING FIELD ACROSS FINANCIAL INSTITUTIONS

In the Integration Report of December 2007, the focus was squarely on remaining obstacles to the possibility of further consolidation of the banking market within and across European Member States. In the meantime, the European financial services sector has seen the occurrence of financial turmoil that culminated in a crisis of confidence in and among financial services entities and has spilled into the real economy as a whole. Without invalidating earlier arguments for integration, the financial crisis has, however, added several dimensions to the level playing field issues that were not seen before.

The EBF maintains its position on the need for a level playing field among the different financial market participants, as expressed in the Integration Report 2007 (Key Challenge III, page 36).

In particular, the European Commission and the Member States continue to have to pay attention to removing national articulations of national law which enshrine differentiations derived from institutions' legal form/public ownership, territorial limitations, name-protection as well as interpretations of prudential regulatory treatment. This vigilance is also needed with respect to non-bank participants in the financial markets. The financial crisis has demonstrated that the legally enshrined protection offered to participants in some of Europe's banking markets is not an obstacle to the volatility of the market affecting the protected entities if they are allowed to take part in the market as any other financial market participant. It is not surprising to see the long-awaited rationalisation of the market take place in, for example Germany, where the Landesbanken are compelled to consolidate to overcome the losses incurred as a result of an unviable business model and a quest for yield that has brought them into difficulty.

More generally and importantly, the events of the past year provided for a sea-change in the landscape of the banking sector in Europe and beyond. With the aim to restore confidence, and following the ECOFIN statement of 7 October 2008, European governments committed themselves to "take all necessary measures to enhance the soundness and stability of the banking system in order to restore confidence and the proper functioning of the financial sector". It was further agreed that public intervention had to be decided on "*national level*" but within a "*coordinated framework and on the basis of a number of EU common principles*". At a global level, the G20 leaders gathered

in Pittsburgh at the end of September 2009, committed to “take action at the national and international level to raise standards together so that [...] national authorities implement global standards consistently in a way that ensures a level playing field and avoids fragmentation of markets, protectionism, and regulatory arbitrage.”

Given the scale of the crisis and the risk to the financial system, the EBF accepted the temporary hierarchy of stabilisation of the financial market concerns over those of competition. It also acknowledges that the swift action by national governments has benefited from a degree of coordination by the European Commission and its subsequent four communications on the matter.

Having said that, the process whereby national authorities have determined the soundness of any given financial institution has been characterised by a lack of transparency. There is an essential need for transparency around the conditions placed on the granting of State support, for example as to:

- what are the objectives pursued by each aid measure and whether those objectives are consistent with the general framework of State aid;
- on the basis of what concrete objective parameters State remuneration is formulated; and
- what are the behavioural conditions (i.e. safeguards) imposed on the supported institution to prevent distortions to the level playing field and what is the rationale behind them.

Transparency around these issues would allow the market to understand the degree of distortion of the competitive conditions. The resulting competitive distortions must be reduced as much as possible and - in the longer run - the free market must prevail, allowing the Internal Market to return, and further integration of financial markets should be resumed.

The competitive distortions derive from the wide variety of measures adopted by Member States, as well as the diversity of conditions established for the injection of public money into the capital of banks, which contravene the principles of an integrated European market. This asymmetry is made worse by the lack of transparency in both support measures and the attached conditions.

Finally, and with particular regard to the recapitalisation measures, the EBF reiterates that it is confident that the institutions that have received State support can be put on

a firmer footing again and return to viable business modes. In those circumstances, the presence of the State would be rendered unnecessary. For that reason, the EBF would like to request to the relevant public authorities (i.e. national governments and the Commission) that the approval of support measures is closely linked to the existence of a sufficiently clear path and incentives towards exit from reliance on State support. The EBF notes that the pricing mechanism needs to carry a powerful incentive to keep the duration of State involvement to a minimum.

These State interventions should, however, be timely and the support should, in principle, be temporary. The legitimate interests of other competitors should be protected both within a Member State and across Member States, and not put EU operators at a disadvantage globally.

In this context, application of the principle ‘same business, same risks, same rules’ among all market participants is as relevant as ever.

PRIORITIES FOR THE COMING PERIOD

The EBF will encourage the European Commission in the following steps:

- To bridge the gap over transparency concerns and enforce the notion that any State aid received is remunerated according to normal market conditions.
- To coax all banks back to a situation of long-term viability and analyse the scale and scope of potential competitive distortions in the market place as a result of the implementation of the government support plans, with a view to identifying the required exit strategies that will allow a level playing field for banks, both at a national level and cross-border, to return.

KEY CHALLENGE 5: HARMONISE FINANCIAL REPORTING

Work has been underway on a number of accounting priorities over the past year and a half, and the crisis has highlighted the importance of fast adoption of high quality accounting standards at international level, as was also reaffirmed by the G20 in Pittsburgh.

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS AT STATUTORY LEVEL IN THE EU

The EU Regulation No 1606/2002/EC which requires listed companies to draw up their consolidated accounts in accordance with International Financial Reporting Standards (IFRS), **gives Member States the option to extend its application**, on a compulsory or voluntary basis. Consequently, some Member States have not allowed the application of IFRS to individual (statutory) accounts. This means that banking groups with subsidiaries in such Member States are obliged to use a double set of accounting standards, leading to burdensome reconciliation requirements and implementation costs; and to potential inconsistencies within an institution's internal information system and its accountancy. **This creates an unlevel playing field and represents an obstacle to the integration of EU financial markets.** It makes it unduly costly for banking groups to operate across borders.

The EBF has lobbied the European Commission on the need for all EU Member States to allow for listed and non-listed companies within group structures to use IFRS for the preparation of their statutory accounts. The EBF is aware that several issues related to the use of fair value for tax purposes and other implications need to be addressed beforehand. The Commission has acknowledged the need to consider this prospect, in particular if the double reporting burden is found to be excessive.

REPORTING IN THE EU

At present, there are various projects underway related to reporting at the EU level. The work of the Joint Expert Group on Reconciliation (JEGR), sponsored by the European Central Bank (ECB) and the Committee of European Banking Supervisors (CEBS) aims at convergence of reporting processes for statistical and

prudential/financial reporting. The JEGR has undertaken a thorough analysis of the areas of potential overlap between ECB statistical reporting requirements and selected supervisory requirements addressed to credit institutions. Moreover, it has started to transpose this analysis into a 'relational database' aiming at identifying possible links in the system (commonalities and differences) between these requirements. This database is designed to facilitate respondents' data production processes, under certain conditions. This work may lead to proposals for establishing closer links between certain statistical and supervisory requirements addressed to credit institutions. A **methodological bridging** manual and the **relational database**, jointly considered as a classification system, are being developed in the framework of this project. This important initiative will not result in mandatory application by all Member States, but will serve as a facility for compilers of reporting, and will help to reduce the financial institutions' reporting burden.

Initiatives such as the JEGR should go some way to addressing the industry's concern that the impact of the changes resulting from various reporting initiatives should be duly considered to avoid overlaps, ensure consistent and relevant information requests, timely setting of requirements and a realistic timeframe for implementation.

The EBF has also welcomed the efforts of CEBS addressing the differences between national frameworks on financial reporting (FINREP) that impede integration and raise costs unduly for multi-country banks. Institutions prefer to rely on one unique common data and reporting format without the need to provide additional information at national level. The EBF therefore supports the 'Maximum Data Model' as a very pragmatic approach. However, the overall reduction of reporting burdens will depend on the level of non-core information collected by national authorities.

ACCOUNTING STANDARD-SETTING PROCESS

With the anticipated move of the USA towards IFRS in 2014, IFRS will become even more global. It is therefore ever more important to reflect the needs of various stakeholders in a balanced way and to make the new standards workable in the highly diverse legal and economic environments. The EBF welcomed the outcome of the G20 summit in Pittsburgh whereby leaders called on the International Accounting Standards Board (IASB) to involve various stakeholders as part of the process of agreement on the

single set of high quality global accounting standards. While the EBF is supportive of the convergence process with the FASB, it considers that the IASB proposal, which is more appropriate, should serve as the basis for future discussion with the FASB and become the future global standard for financial instruments.

In the context of the world-wide trend towards the harmonisation of reporting, it is crucial that the accounting standards in Europe do not diverge from the IFRS. This includes avoiding a temporary 'carve out' where the EU IFRS differ from the IASB's issued IFRS due to a late endorsement, which may put EU companies at a competitive disadvantage. This implies that Europe needs to play an active and important role in the standard setting process to ensure the needs of the European constituents are fully considered. In this regard, the EBF supports the proactive role the European Financial Reporting Advisory Group (EFRAG) which was formally entrusted with in the recent enhancement project.

The EBF believes that the standard-setting process should: (a) be more transparent, (b) be based on impact analyses, (c) involve field testing of the implications of the changes, (d) have realistic deadlines for comments, and (e) result in timely and transparent publication of the findings.

During the crisis, in many instances the standard setters have had to balance the need to urgently resolve issues and to follow proper due process allowing involvement of all constituents. There are clearly instances in which the need for action outweighs that for lengthy deliberation, as in the case of pro-cyclicality of fair value measurement of financial assets, which worsened the impact of the crisis on financial and non-financial corporations, making it an urgent priority to be taken up by standard-setters. The speed with which the IASB and the European authorities acted to address this issue was welcomed by the banking industry. The adopted amendments allowed banks to reorganise their books and provide investors with more relevant information in the context of illiquid markets.

There is a need to formalise the criteria and governing rules for a permanent fast track procedure. The newly established Monitoring Board of the IASB, as the guardian of public interest should be entrusted with the responsibility to identify emergency issues. However, it is very important that the need for urgency will not be at the expense of the quality of the new standards.

PRIORITIES FOR THE COMING PERIOD

- The IASB should complete their project on **improving the IAS 39 mixed measurement model**, also in light of the current crisis.
- The EBF to contribute to the IASB relevant consultations to ensure that the needs of the European banking industry are taken into account.
- All Member States should **permit the use of IFRS at least for companies within group structures for the preparation of their statutory accounts** in all EU Member States.

KEY CHALLENGE 6: PROGRESS THE INTEGRATION OF RETAIL MARKETS

The impact of the financial and economic crisis on European integration is still unclear. The question of further **integration of European retail markets** is therefore also at stake for the time being.

In an environment where the cost of funding has risen and banks have retreated from some of their market-funding activities to focus on the basics of banking, the importance of traditional retail banking (and more notably deposit gathering) has come to the fore. In this context, the EBF still remains convinced of the importance of achieving a higher degree of financial integration in the retail banking markets, although the first priority of banks and authorities is obviously now to work through the current crisis.

The banking industry believes that **further integration** is needed to give the banking system the means to deal with the challenges of the global business environment, including the crisis of confidence. Retail banking integration is particularly crucial as it is one of the most important financial markets that allows economies of scale and generates further competition, to the benefit of the industry and consumers alike. Not least, retail banking integration is also particularly important in the current political context as it is a key market in which to convince European citizens that Europe is beneficial for them.

However, a **reality check**, also taking into account the impact of the current crisis, is needed. Further ambition towards integration should remain, but the focus should be on well targeted and limited initiatives where progress can be achieved in building a true Single Market, without increasing too much the burden and compliance costs for banks. Furthermore, recent turbulence in financial markets reminds us that any further integration process has to be guided by appropriate provisions to safeguard financial stability.

Banks need to continue to **lend in a responsible** way to deserving individuals (consumer and mortgage credits) and businesses as a way to restore confidence and to help to keep the economy going. **The financial turmoil and the economic downturn have caused banks to adopt a more cautious approach to lending. Meanwhile the European Commission and national authorities have criticised banks for insufficient lending.** Indeed, in the words of the ECB President, Jean Claude TRICHET, at a recent meeting of the European Parliament's Economic and Monetary

Affairs Committee, the role of banks in a market economy is “from time to time to say *no*”. The EBF believes that the introduction of unjustified legislative measures in the area of responsible lending, as currently assessed by the European Commission, could generate undesirable effects on the cost and availability of credit in the EU mortgage market because lenders will be even more careful in their lending policies.

The crisis in the European Union can be described as a liquidity and confidence crisis, although the EBF recognises that some cases of irresponsible behaviour have occurred in a limited number of the EU Member States, which in the meantime have taken necessary steps to adapt their respective legislations and practice. It is in no way a mortgage market crisis, nor a dysfunction of European mortgage markets driven by irresponsible lending. There is indeed no evidence in EU Member States of a widespread problem linked to irresponsible lending behaviour compared with the subprime crisis in the United States. This is partly due to major differences in lending practices between the EU and the US. As such, there is clearly no reason to change well-functioning EU practices in response to failings in the US system. The EBF is aware of the Commission’s concern to put safeguards in place as a preventive strategy for the future, but believes that the policy focus should rather be **on supervision issues** here, and not on retail policy, which generally we believe, does not need to be fixed at EU level.

At the same time the situation may be further improved in some specific areas, responding to the need for increased transparency and confidence, notably in the field of **credit intermediaries** and **appropriate information to consumers**. Specific regulation on credit intermediaries should be set out - preferably at national level - in those countries where they are not yet regulated, provided that a distinction is made between credit intermediaries acting on behalf of borrowers and of lenders. For the latter, regulatory measures should notably aim at registering and adequately supervising them as well as ensuring a high degree of professionalism within the activity by defining specific prudential and professional requirements, including addressing potential conflicts of interest. With regard to appropriate **information for consumers**, the banking industry has already declared itself ready in this sense to proceed, if necessary, with a revision of the European Standard information sheet (ESIS), notably to raise awareness about specific risks for some products.

The European Commission and stakeholders should be

encouraged to continue the dialogue on **cross-border access to credit data**. Tackling the existing obstacles to cross-border access and effective use of borrower credit data are essential for further integration of credit markets. Given the current context and low level of cross-border credits, progress in this area should be advanced, market-driven and based on existing working models. In this respect, the recent report of the Commission Expert Group on Credit Histories (**EGCH**) is welcome.

Although some elements of the banking industry were not entirely convinced that an initiative at EU level on **bank account switching** was justified, the banking industry regrouped under the auspices of the European Banking Industry Committee (**EBIC**) and worked hard to achieve a satisfactory self-regulation solution in order to address the problems effectively. The resulting common principles are designed to facilitate domestic current account switching - thereby creating a common benchmark for increasing customer mobility in all Member States.

Another crucial aspect concerns the intervention of the Commission in **recovery of costs/prices within retail banking services**. Retail banking services are not free and costs incurred must of course be recovered through normal business practices. Price intervention is a serious issue and there are concerns over a growing desire on the part of the Commission to directly intervene in pricing policies of banks, either through regulation or self-regulation. **Defining/clarifying the position of the industry on this matter should be considered a priority for the coming years.**

The EBF has also called for additional research on **actual as opposed to perceived needs of consumers**. Various initiatives taken in this direction by the European Commission are to be welcomed: the Consumer Markets Scoreboard (**CMS**) initiative launched at the beginning of 2008 by the Commission stressed, inter alia, the need for evidence-based policy. Additional surveys, focus groups, and consumer testing may, moreover, prove to be positive steps. Nevertheless, the banking industry remains concerned about potential misinterpretation of the data gathered, due to the lack of comparability of different (national and product) markets, notably because the underlying reasons for existing differences would not always sufficiently be taken into account. An **Advisory Board** (composed of interested stakeholders) could therefore be set up, with a view to assisting the Commission in elaborating appropriate and transparent methodology and interpreting the results of its surveys. This is also why **enhancing contacts**

with consumers at EU level (The European Consumers' Organisation, **BEUC**) through a more on-going constructive dialogue is to be considered as an additional priority for the EBF.

In conclusion, any further European policy on consumer protection should be based on **uniform and shared guiding principles**⁹ that consumers can reasonably expect to see applied in the area of consumer protection.

Last but not least, the sub-prime lending practices in the US have illustrated, among other things, the dangers, not only of inadequate information for borrowers, but also of consumers not being sufficiently aware of the risks of insolvency and excessive debt. This is why the EBF considers **financial education** - albeit in our view a subject to be primarily dealt with at national level - as central to helping consumers make informed decisions. It should obviously not relieve banks of their role and responsibilities, notably to provide consumers with effective, clear, and comprehensible information, before contracts are concluded. Consequently, the EBF very much supports the involvement of the European Commission and the European Parliament in this area.

PRIORITIES FOR THE COMING PERIOD

- The European institutions should prevent the detrimental effects to **cross-border trade** that would be caused by the introduction of collective redress across Member States, notably by further enhancing and promoting FIN-NET (a simple, inexpensive, cross-border dispute-handling network for consumers). With FIN-NET the Commission has indeed initiated an important infrastructure for creating consumer confidence in the legal safety of cross-border financial services. However, the existence of FIN-NET is not yet common knowledge.
- Current practices in the area of responsible lending are generally well functioning in Europe and there is no reason to adopt retail policy measures. The industry should however define a position towards integration of the **mortgage credit market** by identifying and promoting solutions to EU institutions in areas where consensus exists, including on the funding side. The situation might be improved in some specific areas, responding though to the need for increased transparency and confidence, notably in the field of **credit intermediaries** and **appropriate information to consumers**. Further dialogue amongst interested stakeholders should also be

promoted in order to progressively enhance **cross-border access to credit data**.

- The industry should ensure the right level of **transparency** to assist the emergence of demand for, as well as awareness of, financial products at cross-border level.
- Enhance the **dialogue with EU consumer organisations**. The setting-up of an Advisory Board to assist the Commission in its Consumer scoreboard exercise should be further considered.
- The public authorities, both at national level and potentially combined with voluntary private initiatives, should work to improve **consumers' financial education**. The European Commission and the European Parliament could act as catalyst and facilitator in transmitting best practice across Europe.

9. See previous report: Proportionality and the better regulation approach; Reasonable consumers; Quality and not quantity of information; Avoid standardisation of products; Customised advice on request but without obligation; Simple customer complaints system.

KEY CHALLENGE 7: REMOVE FISCAL IMPEDIMENTS

Although the EBF does not consider that tax issues feature among the reasons for the crisis, which are mainly liquidity and solvency issues, the political perception of tax aspects as key elements of the debate prompted by the crisis cannot be ignored. Transparency and good governance have become the key words for the enhancement of financial services regulation. The perceived lack of transparency has been extended from the insufficient transparency of financial structures and financial statements to a perceived lack of transparency in the information available to tax authorities about investors. The EBF, while expressing banks' willingness to help governments protect public finances, wants to emphasise that better and appropriate transparency does not require massive and redundant disclosures. The EBF is involved in discussions about information exchange in a number of instances, in particular in respect of:

- OECD proposals for cooperation between tax intermediaries and tax authorities;
- Non cooperative tax jurisdictions;
- US qualified intermediaries;
- EU and OECD initiatives on withholding tax relief procedures;
- Review of the EU Savings Tax Directive;
- European Commission proposals for Administrative Cooperation in the Field of Taxation; and
- EU Mutual Assistance for Recovery of Claims.

Following the EBF's continuing calls for a reform of Value Added Tax (VAT) **treatment of financial services**, on 28 November 2007 the European Commission put forward proposals for a Directive and for a Regulation, which are based on three pillars:

1. **The language of the 6th VAT Directive needs to be modernised and a Regulation providing descriptions and definitions of the main categories of financial services, based on their economic nature, should be adopted.** The European Commission proposals of 2007 go in the right direction, but have required additional work and will continue to do so in the second half of 2009 before achieving an acceptable solution.
2. **Related entities should be enabled to perform intra-group transactions without levying VAT.** The

EBF has been advocating that VAT grouping be made available in all Member States on an optional basis and be extended to cross-border situations. Although VAT grouping is clearly the EBF's preferred approach, a light approach to VAT grouping may alternatively take the shape of an exempt sharing of joint costs between related entities. Although not ideal, another option may present the consistent application of the VAT-exemption for cost sharing entities that is already available in the current VAT legislation, but which is currently applied inconsistently around the EU. Under this scheme, services performed by such entities for their members are exempt, provided that the aim is the sharing of joint costs. The proposed Directive has opted for the latter solution, but in its current form the EBF considers it too prescriptive.

3. **Financial institutions should be given the option to charge VAT on financial services.** Wider adoption of this option would allow financial institutions to supply services in perfect VAT-neutrality. The EBF has commissioned Ernst & Young to conduct an impact study on the option to tax. The EBF believes that such an option to tax should apply in a business-to-business environment and only to fee services.

Urgent action is still needed to **tackle the fiscal impediments to the efficient operation of cross-border entities**. In the current crisis conditions, it is more important than ever to provide banks with the possibility to operate smoothly and efficiently across borders.

Over the past year, the main progress achieved in the field of cross-border banking consolidation concerns domestic withholding of tax and transactions tax procedures. The EBF welcomed the recommendations put forward at the end of 2007 by the European Commission Fiscal Compliance Expert Group (**FISCO**) on how these obstacles to 'post trading' can be remedied and supports the work that is currently being carried out by the **OECD** in the framework of the Collective Investment Vehicles Project.

PRIORITIES FOR THE COMING PERIOD

- The European Commission and the Member States must update the definitions and scope of VAT financial exemptions to increase legal certainty and to simplify and ensure consistent VAT treatment;

- The European Commission and the Member States should grant an EU-wide option to treat eligible related entities as a single taxable person to allow that intra-group transactions can be performed without levying VAT;

- The European Commission and the Member States should grant an EU-wide option to charge VAT on financial services in a Business-to-Business environment to allow financial institutions to supply services in VAT neutrality;

- The European Commission and the OECD must remedy obstacles to 'post-trading': provide recommendations and best practices promoting the adoption by Member States and countries of appropriate withholding tax relief or collection procedures, while avoiding the adoption of disproportionate or redundant reporting requirements.



KEY CHALLENGE 8: IMPLEMENT THE SINGLE EURO PAYMENTS AREA

It is difficult to evaluate the impact of the financial crisis on the implementation of the Single Euro Payments Area (SEPA) and more generally on the integration of payments in Europe. No formal studies have been published to-date; however, empirical evidence would tend to identify both positive and negative effects of the crisis on SEPA. On the positive side, the onus to ‘return to core, retail banking’ will certainly influence banks to lend more attention to their payments business, as an integral part of core retail banking. Also, in times of customer volatility, banks can use payments excellence to retain or attract customers.

On the negative side, the crisis has dragged the SEPA project downwards within the priority list of all stakeholders. Funds needed to invest in SEPA are scarce and the lack of confidence in banks to deliver does not reinforce their position as the driving force to implement SEPA.

A number of developments have taken place with regard to SEPA implementation since the 2007 EBF Integration Report. On 28 January 2008, the official launch of SEPA took place. SEPA is the area where all payments in euro will be handled in the same way, be they domestic or cross-border. **However, not all of the three SEPA instruments are yet in place.**

- ‘SEPA Credit Transfer’ is already functioning, which means that credit transfers in euro are executed quickly, and in the same way, for any customer in Europe.
- ‘SEPA Direct Debit’ will allow direct debit payments to be made across Europe by the end of 2009, as if no borders existed.
- ‘SEPA Cards Framework’ will establish principles for harmonising card payments across Europe by end-2012.

The European Payments Council (**EPC**) Programme Management Forum, responsible for monitoring SEPA implementation, performed a gap analysis at national level to analyse what is needed in each country for customers to migrate from legacy to SEPA payment instruments. The EPC will work on a new roadmap 2010-2012 defining a migration approach and milestones by December 2009.

This new roadmap will address the second phase of SEPA, designated as ‘e-SEPA’ and encompassing such initiatives as:

- e-payments: using SEPA payment instruments to pay web-merchants;
- m-payments: using a mobile phone as a channel to initiate SEPA payments; and
- e-invoicing: seamless integration of SEPA payments in e-invoicing processes.

The new roadmap also foresees measures for enhancing current monitoring of SEPA Credit Transfer take-up, as well as measures for reviewing all required additional features (Additional Optional Services, AOS) to make full migration successful.

The EBF is fully committed to and involved in the process of implementing the SEPA schemes in Europe.

PRIORITIES FOR THE COMING PERIOD

- The EBF, together with the national banking associations should engage in dialogue with public administrations to ensure the widespread adoption of SEPA instruments by defining incentives for SEPA instruments' adoption for domestic transactions;
- The industry, together with the public authorities, should come up with clear and innovative proposals on the setting of an end-date by which only SEPA payments instruments would be accepted.
- Member States must ensure consistent implementation and transposition into national law of the Payments Services Directive to ensure the successful roll-out of SEPA products and services;
- The EBF believes that the broadening and deepening of SEPA should be encouraged. Banks should progress rapidly on electronic and mobile payments solutions and embrace a forward-looking attitude.

KEY CHALLENGE 9: INTENSIFY INTERNATIONAL COOPERATION

The financial crisis has not only sparked a shake-up of international financial regulation, but also demanded vigorous, coordinated action to counter the global recession. These acts are backed by an unprecedented consensus on the need for and direction of global regulatory reform and the mix of measures to promote economic recovery. The **G20** Summit provided the forum where international consensus has been built and has, since November 2008, behaved as a de facto steering committee for the global economy. All these recent developments serve to highlight the **growing importance of international cooperation in the management of global economic activity**. At the same time they have revealed how much remains to be achieved in this area.

In terms of institutional underpinning, the **EBF welcomes recent commitments by developed economies to increase the resources available to the International Financial Institutions** such as the International Monetary Fund (**IMF**) and the Multilateral Development Banks (**MDBs**). The EBF also welcomes the G20 commitments to the reform of these institutions to improve their credibility, legitimacy, and effectiveness. Strengthening global financial institutions is crucial to helping them manage the current economic crisis and to preventing future crises.

As far as regulatory changes are concerned, the EBF notes that the **ongoing process of economic and financial integration taking place within the EU has been put - since November 2008 - in a broader, more meaningful but also more challenging context**. As the need for international regulatory cooperation increases, so does the urge for the European institutions and Member States to understand that the EU's internal single market for financial services will be increasingly defined by regulatory developments beyond its frontiers. The recent admission of the European Commission as a member of the Financial Stability Board (**FSB**) - the body overseeing global regulatory reform - is a first, very positive step towards addressing that concern.

While Europe, the US and others reappraise and reform their regulatory structures according to the **global agenda** set out by the FSB and endorsed by the G20, the building blocks of the global financial system should continue to avail of existing bilateral, **financial regulatory dialogues** to promote this process and to ease any possible concerns going forward. In this regard, the EBF is encouraging the European Commission to **intensify the existing financial regulatory dialogues - with the US, China, Russia, Japan**

and India - and to explore the feasibility of setting up new ones (for example, with Brazil, Mexico, South Korea or countries of the EuroMed region). Importantly, these dialogues should be supplemented by exchanges of view with the industry.

Regarding the crucial **EU-US financial dialogue**, the EBF is conscious that regulators have been focusing on national solutions as of late and, consequently, narrowing their traditional margin for transatlantic ex-ante cooperation and coordination. Avoiding unnecessary divergence is even more important today, in the context of the impetus for international coordination regarding the crisis, given by the G20 process.

In addition to regulatory developments, both from a global and a bilateral perspective international cooperation should continue being instrumental to the promotion of **freer trade and flows of capital across borders**. Turning freer trade in services into a true policy priority in the coming months should, in line with the G20 Pittsburgh Summit conclusions, bring a new lease of life to the **Doha Development Round of trade negotiations**, which broke down in July 2008 after failing to reach a compromise on agricultural import rules. The EBF strongly supports the G20 leaders' commitment to continue on the path of further trade liberalisation and to conclude the Doha Round in the course of 2010. The momentum of the G20 process provides a critical window of opportunity for true multilateral progress, which has proven so difficult to achieve. The EBF calls on the European Commission to continuously play a strong role in this process and to ensure that financial services are a well integrated part of the negotiations.

Trade liberalisation can also be pursued by means of the **ongoing bilateral EU negotiations** with some key trade partners (South Korea, India, ASEAN, Canada). The EBF welcomes that the European Commission's negotiations with South Korea are approaching their final stages and stands ready to continue to supply feedback to the Commission's negotiating teams on barriers to market access and operational obstacles in countries negotiating bilateral free trade agreements (FTAs) with the EU.

Sustainable growth cannot be rooted on positive, sponsoring actions only. **International cooperation is also needed to protect public finances and international standards against the risks posed by non-cooperative jurisdictions**, as agreed by the G20. European banks are committed to a pro-active stance on international cooperation concerning activities in non-cooperative countries and give special focus to the implementation of prudential, tax and Anti-

Money Laundering/Combating the Financing of Terrorism (AML/CFT) standards in order to avoid competitive impediments.

Lastly, **the EU needs to speak in the international arena with one voice**. This is not only consistent with the process of European financial and economic integration, but also necessary if it is to advance successfully. The participation of the European Authorities that should evolve from the current Lamfalussy Level 3 Committees in the global standard setters should follow in the footsteps of the European Commission's membership of the Financial Stability Board (FSB).

PRIORITIES FOR THE COMING PERIOD

- The European Commission should remain committed to the **multilateral trading system** and to renewing the dialogue to **ensure the G20 Pittsburgh commitment to bring the Doha Development Round to a successful conclusion in 2010**, including an appropriate result in the services package;
- The European Commission should **conclude FTAs with selected jurisdictions** to eliminate local legislation (i.e. market access barriers) and standards discriminatory to European banks;
- The European Commission should **intensify existing financial regulatory dialogues** - in particular with the US - and **set up new ones with other key partners** to enhance market opening, eliminate regulatory burdens for European banks and coordinate international financial markets regulation.
- The banking industry should contribute to the **elaboration by the relevant international authorities of the most effective international prudential, tax, and AML/CFT standards**, for risk and reputation management of activities in non-cooperative jurisdictions.
- The European Commission and the Member States should **unify the EU voice in the international arena**.

CONCLUDING REMARKS

The European banking sector is going through difficult times. The pace of integration has been set back by the collapse of major banking groups, the constraints on access to capital in the financial markets and the general deterioration in economic conditions domestically and globally.

Financial institutions find themselves in a situation where they must operate in sub-optimal market conditions and continue business-as-usual as far as possible, in order to minimise the second-round effects both for themselves and the real economy.

A major role in securing the situation in Europe is being played by the European Central Bank and the national governments. However, their support should remain time-limited. As soon as the market starts to stabilise, the support will be withdrawn in order to protect public finances and the market economy, as well as to maintain a level playing field across the financial institutions in Europe.

The European Commission is playing an active role in reacting to these turbulent times by identifying and bridging the gaps in the existing body of regulation, thus forming a sound foundation for financial market and banking activity in the future. A number of key issues are now being addressed both at EU and the wider international level: the transparency of financial services and products offered, harmonisation of accounting and reporting standards, elimination of fiscal barriers, stronger and more fruitful international cooperation, adoption of a common euro payments system, and the integration of retail financial markets. The overarching priority however lies in strengthening and harmonising the supervisory architecture, which will serve as a basis for a more stable and trustworthy financial sector in the European Union.

Given the reinforced legal ground and the generous (even if temporary) support from the European and national institutions extended to the financial sector in these difficult times, it is likely that, once the economies are back on track, the process of financial market integration will become clearer and more straightforward than before. The EBF's guiding principles impel it to play a role in furthering the single market, promoting better regulation and regulatory convergence, and supporting free and fair competition. It therefore stands ready to advocate and do its best to progress the pan-European integration of financial markets, thus making Europe a better place to live and work, for all its citizens.