The Chairman of the Committee of Wise Men, Baron Alexandre Lamfalussy's, opening comments to the Press, 12h00, Thursday 15 February, on the release of the Committee's final report on the regulation of European securities markets

Ladies and Gentlemen,

Our final report is structured in two parts.

IN PART 1 : THE REASON FOR CHANGE [PAGES 9-18]

In part 1 – building on many of the points of our initial report, we summarize why we believe that change is needed in the European Union if we are to build an integrated financial market by the deadlines that have been set by Heads of State and Governments. We all agree that unless there is profound change and reform there is no chance whatsoever the Financial Services Action Plan will be delivered on time. This would be serious – politically and economically. We have to recognize today that we have a very long way to go.

The basic legislation for an integrated financial market is not in place. The mosaic of European regulatory structures is well documented – over 40 of them – with different powers and competences. The current regulatory system is simply too slow, too rigid and ill-adapted to the needs of modern financial markets. Even when it does work, which is rare, it often produces texts of legendary ambiguity – along with little or no common effort to transpose the agreed texts consistently – nor enforce their proper application.

All these weaknesses are compounded by a plethora of other complexities, such as clearing and settlement systems that fragment liquidity, increase costs and present a real barrier to financial market development in the EU. Add on top differences in legal systems, taxation, external trade barriers, different cultural approaches and a lack of identified regulatory priorities and you have a remarkable cocktail of Kafkaesque inefficiency that serves no-one – neither consumers, nor investors, nor SME's, nor large companies, nor governments.

Why is this so important?

Because the Committee believes that the economic gains for the European Union of an integrated financial market will be very substantial. In macroeconomic terms, the productivity of capital and labour will increase – enhancing the potential for stronger GDP growth and job creation throughout the Union.

So we believe reform is needed urgently.

PART 2 : REGULATORY REFORM [PAGES 19-41]

In part 2 we set out the regulatory reforms we believe are required. Our final report confirms, broadly speaking, the approach we put forward in our initial report last November. Furthermore, after further rounds of consultations and hearings we believe that the approach I will outline to you is very widely supported.

The core of our proposal centres around a new 4 level approach to regulate European securities markets. [You will see projected on the screen a diagram of our proposal.]

We believe that the **Level 1** legislative acts should concentrate on the core political principles, the *"essential elements"* of each Directive or Regulation. In other words, the Council/European Parliament acting on a proposal from the Commission in Level 1 would agree the key political direction and orientation for each subject. Most importantly – in each Level 1 proposal – the Council and the European Parliament would agree on the nature and extent of the implementing measures to be decided at the second level. We give examples in the report of how this would work. The split between Level 1 framework principles and Level 2 implementing measures need to be determined on a case by case basis.

Let me emphasize that this approach is in complete conformity with the requirements of the Treaty (Article 202) and recent Interinstitutional Agreements between the Council, European Parliament and the Commission.

I must emphasize how important we believe it is that the Commission should consult, in a very open, transparent and systematic way, **before** making its Level 1 proposal.

Level 2 is composed of a network of national regulators, the European Commission and a new European Securities Committee to define, propose and decide on the implementing details of framework Level 1 Directives (or Regulations).

We propose setting up 2 new committees :

(i)	An EU securities committee (ESC) – a regulatory committee.
(ii)	An EU securities regulators committee (ESRC) - with advisory functions.

We set out our proposals on how they should work, who should participate and how they should vote. All this, I stress, should happen quickly – in a matter of months, the whole process speeding up.

Three further important points :

(i) **The European Parliament must be kept fully informed** throughout the process in line with interinstitutional agreements.

(ii) **The European Securities Regulators must also consult in a professional, open and transparent way** on all their ideas in the future. I stress this again because I believe this Committee has drawn strength from the open way we have gone about our work.

(iii) **Both the ESC and ESRC must be high level committees**.

Now, **Level 3.** Level 3 is European regulators working in a network to ensure consistent transposition and implementation of Level 1 and 2 legislation. Here regulators are acting in a different capacity than in Level 2. Clearly we would like to see and encourage European regulatory structures to converge.

In Level 4 - our main message is that the European Commission, as guardian of the Treaties, must enforce Community law more rigorously. But it needs the resources to do this work – and well-researched cases. On resources – we are staggered by how few resources the Commission has been able to dedicate to the vital work of building an integrated financial market given its importance to the European economy.

What is new in the final report?

(a) We respond to ECOFIN's request to *"clarify and refine"* this regulatory approach and *"to propose operational recommendations"*. Hence the length and technicalities of our final report.

(b) We did our own *"examen de conscience"* and, more importantly, listened carefully to questions, queries, concerns communicated to us (see page 21) : over 40 submissions by practitioners etc (see a summary of the submissions in Annex 3), plus additional hearings and comments on legal/institutional aspects, with the European Parliament, governments and regulators.

Among the more important recommendations we make are :

(i) The need for **clear mandates and operating methods** for the two key Level 2 committees (pages 29-33).

(ii) **Full and organized transparency of the whole process from top to bottom**. This is vital. Openness, consultation and transparency will strengthen European financial policy making – by avoiding suspicion – building a stronger consensus – and involving more participants. It is also essential for democracy. We must breakdown, once and for all, the secrecy shibboleths of the past. That is why we set out in considerable detail the sort of necessary procedures we feel are needed both for the Commission and the Regulators (page 25, pages 32-33).

(iii) The new legislative process – in Level 2 – must be nailed down with **fixed deadlines** – which will speed up decision making and provide procedural predictability.

(iv) The **inter-institutional monitoring process** we put forward is a tough one - six month reports to all the Institutions on where we are. Is the system working? If not why not? Who is to blame? Is European market integration happening? Where, where not (pages 40-41)?

(v) We believe there must be a **full and open review of the whole process with the involvement of the European Parliament in 2004** – ahead of the next Intergovernmental Conference (page 41).

(vi) **Maintaining institutional balance** (pages 33-35)

We have been acutely aware throughout our work on the importance of maintaining institutional balance. The Committee was not given *"an institutional mandate"* – and so it has decided that any of its proposals should respect the current boundaries of the Treaty. That is why we were finally convinced not to introduce a *"Parliamentary override"* provision.

Nevertheless, we believe that if the Committee's recommendations are implemented - the European Parliament will maintain a significant degree of control and have a significant impact on the Level 2 decision-making process. Because there should be :

- Full transparency at all times.
- Sufficient time for the European Parliament to check that any decisions are in line with the scope of the implementing measures it agreed to.
- If the European Parliament believes that the European Commission is exceeding its implementing powers – it could pass a Resolution. Were it to do so the Commission would be required to re-examine its proposal and should take the utmost account of the European Parliament's position. It would be inconceivable if the Commission did not.
- Were the European Parliament not to be satisfied, the consequences would be felt next time a request for Level 2 implementing powers were requested.
- Ultimately, of course, the European Parliament always has the possibility to take a case to the European Court of Justice.

If there are any residual political problems, we believe they should be dealt with by the three institutions working together – and they should find agreement before the Stockholm European Council in March.

CONCLUSION

The way to ensure real progress is for the European Institutions, governments, supported by regulators and the markets to act now and implement these recommendations. This requires all the Institutions to cooperate and accept some changes in order for the European Union and its citizens to seize the benefits of an integrated financial market.

Thank you.