

**AMBASSADOR BURGHARDT'S REMARKS TO THE
EUROPEAN INSTITUTE, WASHINGTON, DC, 10
DECEMBER 2002,**

**“CREATING A TRANSATLANTIC SECURITIES MARKET:
EU/US REGULATORY CONVERGENCE”**

I. Introduction

I am very honoured to be present at this Twelfth Annual Transatlantic Seminar on Trade and Investment. Thank you Madam Chair for inviting me to speak on the issue of creating a transatlantic securities market.

Commissioner Bolkestein regrets that he is unable to take part in today's conference himself, but he was detained in Brussels due to a hastily arranged meeting of Finance Ministers, convened to discuss the issue of the taxation of savings. In any case, two of his intended interlocutors are no longer available for him to talk to! The Commissioner expects to be able to reschedule his trip to Washington for February. Hopefully by that time we expect to see a new economic team in place with whom we can continue our dialogue on a number of important matters relating to securities markets.

As you made clear in your introduction, this is a subject whose time is coming. It is also a subject that Commissioner Bolkestein flagged when he in Washington at the end of May this year as part of his overall comments on the EU's policy on financial integration after Enron¹. I would like to use the time available to me today to develop the theme further.

I want to devote most of my remarks to addressing two issues:

- **Why** a Transatlantic Securities Market is necessary, and in particular why it is needed urgently;
- **How** we can best go about achieving it.

But before I do that, I want to briefly explain what we, or at least I, mean by a “Transatlantic Securities Market”.

II. What is a Transatlantic Securities Market?

I think that:

“A transatlantic securities market is an open market in which investors and traders on both sides of the Atlantic

¹ <http://www.eurunion.org/news/speeches/2002/020529fb.htm>

can buy and sell financial products of companies and firms on the other as easily as if they were buying or selling domestic financial products at home, with equivalent levels of appropriate investor protection.”

This means a market in which:

- i. **Investors have the freedom to invest** so that they can choose to buy products wherever they wish that are best tailored to their individual needs and that allow them to balance and diversify their investments and risk in the way that best suits them.

- ii. A market in which **companies have the freedom to raise the capital** that they need in the most efficient and cost-effective way possible. This could be particularly important for SMEs.

- iii. A market in which investors have access to **adequate and timely information**, preferably based on one set of principles-based global accounting rules.

- iv. And finally it means a market in which both investors and companies can have confidence in the

accountability, transparency and financial stability of the markets so that they use them, and can be confident that they have “equivalent” protection. This means a market which is underpinned by high and **equivalent** standards of regulation, **effective** day to day supervision, with regulators working together, not duplicating each other’s efforts and costs or at worst, undermining each other.

III. Why do we need a transatlantic securities market?

This leads me to the second issue: why we need a transatlantic securities market. I see three reasons.

a) The first reason is very obvious: it is because there are **huge potential economic and social benefits** from doing so. In the EU, we are on the verge of creating an Internal Market of over 450 million people. If we can link up with the US, we will have a transatlantic market of around 740 million potential investors. The Transatlantic Business Dialogue recently called for a report quantifying the benefits of transatlantic capital

market integration to be completed by the middle of next year. We warmly welcome and endorse this.

But some excellent work has already been done to shine a light on the benefits. Earlier today a study by Dr Benn Steil on “Building a Transatlantic Securities Market” was published by ISMA in co-operation with the Council on Foreign Relations². I strongly recommend you read the report, because I think that Dr Steil has produced an excellent piece of work that deserves to be thoroughly considered. I welcome the clear and compelling medium-term policy blueprint for an integrated transatlantic securities market set out by Dr Steil. His report estimates that a true integration of the financial market has the potential to lower trading costs on both sides of the Atlantic by **sixty** per cent, and that this in turn would lead to a **fifty** per cent increase in US and European trading volumes and a nine per cent decline in the cost of equity capital. And this, he says, is just a conservative estimate!

We have recently been working on studies of our own on the benefits from an integrated European financial

² www.isma.co.uk

market. Two major studies have been released in the past month, pointing to potential benefits of around one percent in GDP and a sustained 0.7 to 0.9 per cent increase in manufacturing growth. One positive spin-off is an increase in employment of half a percent. And that is without even examining the much larger unexploited gains in an enlarged EU.

b) This leads me to the second reason. We must be wary of the status quo. Doing nothing means letting significant barriers persist. Let me give two examples.

The EU will adopt **International Accounting Standards** from 2005, greatly reducing the burdens and costs on companies looking to do business cross-border on the basis of accounts prepared in accordance with high-quality international standards. However, those looking to do business in the US will still be faced with the costs of reconciling those accounts to US GAAP standards.

Equally, European exchanges looking to offer their services to US investors through the installation of **trading screens** – and thus to allow those investors the kind of choice that I referred to earlier – are being

prevented from doing so by unnecessary duplicative requirements.

Neither of these barriers is in the interests of either the EU or the US. They are penalising our companies and investors. We welcome the recent FASB-IASB convergence project on accounting standards by 2005, and on trading screens we look forward to proposals from the SEC so that significant steps can be taken on this issue early in 2003.

More broadly, we must work to remove all trading barriers if we are to move towards transatlantic convergence. I believe that the EU market is open and we want the same openness from our major trading partners.

c) But above all what we do in one part of the world can and does have direct effects on each other's companies. Your regulations affect us, and vice versa. I hardly need say that the recent **Sarbanes-Oxley Act** is the classic example of this. In looking to protect US investors, Congress has - I assume inadvertently - placed heavy and once again duplicative requirements on EU companies whose shares are listed in the US, and even on

EU companies who are merely subsidiaries of US-listed companies. Auditors of EU companies face similar burdens. Worse still, some of these directly contradict the national requirements of the Member States where those companies and auditors are based. One aspect, Section 402, is blatantly discriminatory, and has been recognised as such by the SEC. We in the EU are working intensively with US authorities to repair the effects of this and to find mutually acceptable solutions. This is a test case of whether EU-US regulatory convergence can work in practice.

So we in the EU and US have to act **now**, not just to secure the benefits of a transatlantic securities market, but also to tackle the very real problems that are already emerging. We have no choice: we have to work together, and regulators must be at the heart of that. If not, the regulatory problems are bound to get more complex and difficult in the future.

IV. How we can best go about achieving the Transatlantic Securities Market

In March this year, the European Commission and the US Treasury opened two new dialogues to look at issues of mutual concern: a specific dialogue on **financial conglomerates**, and a much wider-ranging informal **Financial Markets Dialogue** with corporate governance issues and access for exchanges at its heart. This dialogue is now part of the whole EU-US Positive Economic Agenda launched by Presidents Prodi and Bush in April. We have embarked on an intense dialogue with the Treasury and SEC, with numerous visits and meetings between senior officials in Brussels and Washington, and we have drawn up a concrete work programme. We hope that both sides will soon be able to agree on what, precisely, needs to be done next year, so that Commissioner Bolkestein and the new Treasury Secretary could begin to review progress early next year.

This dialogue has four basic objectives:

- a) We are trying to identify new potential issues **upstream** before they arise, listening to each other's comments on the **potential effects of legislation** before it is adopted, avoiding the time-consuming difficulties and costs of ex-post regulatory repair that we have to

do on Sarbanes-Oxley. We are already doing this on the Financial Conglomerates proposal – indeed full consultation with all interested parties is a central part to the way in which the EU operates.

- b) We are looking to **resolve those barriers that are already there** in existing legislation and standards, by identifying concrete and step-by-step roadmaps. My view is that the best and indeed only long term way of achieving this in a way that will give investors and companies the confidence that they require will be an EU-US Mutual Recognition Agreement.
- c) This can only be done if we also engage with each other in an **educational process** on the details of our legislation and rules. In a global market, it is unacceptable and untenable for regulators to be ignorant of each others' regulatory standards.
- d) Last but not least, we need to ensure much greater **day-to-day co-operation** between national regulators on both sides of the Atlantic to prevent systemic or prudential problems.

V. Conclusion

We have started this process, but it will be a long haul. If it is to deliver over the medium to long term, we need to be able to show early results. Nothing breeds success like success. As I hope I have made clear today, a transatlantic securities market is not an option, it is an economic and regulatory necessity. We need your support to make it a reality.

Thank you.

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