

### Europe's financial services strategy looks broadly on course<sup>1</sup>

The Financial Services Action Plan (FSAP) was never a plan to harmonise all national rules on banking, insurance and investment, but it was intended as a first step toward establishing an internal market for financial services. It is true that the FSPA was ambitious in the number of measures it originally deployed to achieve this internal market, but the European Commission now recognises that only a small number of areas remain where legislative initiatives continue to be necessary. In some areas, like shareholders' rights and mortgage credit, we still need new rules, but others such as rating agencies and financial analysts can wait.

Experts like Alexandre Lamfalussy have done much to define what more is needed to improve financial market regulation. We need clear principles, we need to identify the correct market authorities and we need to maintain open discussions on market developments with financial intermediaries and users.

"First level" legislation must identify and clarify such keys areas of the financial marketplace as market infrastructure, insider trading or transparency requirements, and should incorporate the main principles of regulation in these areas. Clearing and settlement and other market infrastructures must be made both efficient and competitive. Insider trading must be forbidden as a market abuse that damages investors' confidence in the securities market. Prospectuses of securities issues must be fully harmonised to protect cross-border investors.

On the second and third levels, market authorities must develop and enforce these principles, taking into consideration the views of the different stakeholders.

We should be optimistic about this process of establishing an internal market. According to the European Commission's White Paper on Financial Services Policy 2005-2010, the aim should be to consolidate an integrated, competitive and

economically efficient EU financial market. This will require the Commission to implement, enforce and evaluate existing legislation, while at the same time maintaining effective levels of prudential regulation and consumer protection.

The UK market is a fundamental part of the EU financial services market. Like other parts of the EU market it applies the same common principles and regulations. But the process of building a more efficient and competitive Europe-wide market that benefits both users and market participants, means that some local interest may have to be sacrificed. In this scenario, firms should be able to estimate their future benefits, but it would be a waste of time for them to look back on what might have been. It was the Santander bid for Abbey National that opened up the European cross-border banking market, and today issuers and intermediaries evaluate choices and make their decisions on a pan-European basis.

For this first step, we do not need a single rule book for financial regulation, nor do we need a single financial regulator. If we take a pragmatic approach, then we only need common concepts, enforcement of the key principles and enough supervisory convergence to facilitate the growth of a pan-European financial culture.

And there is something new in this approach; it is the importance given to the participation of users and investors in the consultation process. The Commission's White Paper emphasises that the "FIN-USE forum of financial services users plays a very important role by conveying the user perspective about EC policy development". FIN-USE was set-up by the Commission in 2004 as an independent expert forum to help improve policy-making through a more structured dialogue with consumers and small business.

New legislation must be friendly for users and intermediaries alike, so I share David Lascelles' view that we need more user-friendly legislation.

It is equally important to combine efficiency with consumer protection, as users' confidence is fundamental to the development of a European financial market place, yet depends on national rules for the protection of users. European har-

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monisation should therefore incorporate national consumer protection laws.

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