

Conference: The Euro and the Dollar: Pillars in Global Finance (FED, New York, 17th april 2007)

Regulatory Convergence & Differences in the Approaches between the EU and the US

Intervention by Pervenche Berès, Chairwoman of the Economic and Monetary Affairs Committee of the European Parliament

Dear Chairs, Dear Ladies and Gentlemen,

I wish to thank the organisers for the invitation to the conference.

It is my conviction that good regulation, which in any case cannot mean less regulation, is a very good tool to promote the competitiveness of a venue. Because regulation is a precondition to avoid systemic risk and to optimize the functioning of financial market, here more than in any other market, regulation is part of competition. That is why in a fair competition between the European Union and the United States, it is essential for us to be able to have a good regulation dialogue. If this is the case, we need to take into account and to recognize our main differences as a starting point. The first one comes of course from our respective histories. Do I need to remind you that the European Union as an Union of 27 Member States is elaborating an ad hoc regulatory system with a central role for the Commission, the Council and the European Parliament but also with CESR for the securities market, CEIOPS for the insurance and pensions and CEBS for the banking sector? From our side, the debate on how to improve integrated supervision will be on top of the agenda from now on. From the United States side, we see in some way a more complex picture with an important diversity of actors and level of responsibilities. It has been for example playing a crucial role in the field of Basel II. The second main differences between the European Union and the United States regulatory approach refers to the method used, namely principles based approach versus a rules approach. In this framework, the *structural differences in decision- and rule-making* between the European Union and the United States is a major point to acknowledge. US Congress having the power of legislative initiative with fairly high obstacles for any piece of legislation to pass the House and the Senate, not many new laws have passed in the past years. Thus most of the rules are being adopted by regulators without much political involvement or action.

While the Congressional position is: “act only if there are sufficient complaints & demands from the companies and consumers to act”, the EP’s role attitude is different. Although not having the power of legislative initiative as the Congress does and perhaps just because of it, the EP has been involved in the creation of financial services legislative framework as well as in the adoption of detailed rules, called implementing measures.

It therefore makes sense that the stakeholders to whom we need to address ourselves on the US side are not only Congressional committees on financial services, but also banking, insurance and securities regulators (Fed, OCC, OTS, FDIC / SEC / NAIC) as well as the Treasury.

Bearing this in mind let me now turn to an overview of the *main issues of importance* to the Economic and Monetary Affairs Committee that are relevant now on our table and that are relevant towards the issue of regulatory convergences and differences in the approach between the European Union and the United States.

I shall start with *accounting*. Although the SEC has signed to the roadmap for convergence and eventual equivalence of the IFRS and the US GAAP, as well as to allowing for all the public listed companies to publish their accounts according to the IFRS by 2009, we shall still keep monitoring developments in this area, so to ensure that the joint working plan between the SEC and the European Commission takes place. I want to stress that mutual recognition of accounting standards is certainly not merely a European prerogative. Recent Bloomberg-Schuman-McKinsey report on New York as competitive market place has called not for equivalence but for recognition of IFRS by the SEC without reconciliation to the US GAAP!

The same report also advised for adoption of *Basel II accord* as soon as possible, since the implementation of new rules on capital requirements would place American banks on the equal footing with their international competitors. In addition, the EP feels that with Basel II being international agreement, the US, its government, the Congress and the regulators have a (moral) responsibility to ensure that the rules will be implemented at the federal level.

Studying the principles and guidelines of the US Presidents Working Group (on financial services) as regards to the private pools of capital, I feel that given the global character of the *private equity and hedge funds*, the EU and the US should coordinate its action. Although the principles listed in this document tackle all the right issues such as: information disclosure, suitability of an investment product evaluated by an intermediary, level of exposure of creditors and counterparties to private equity and hedge funds, better risk management practice, supervisory control etc., I remain doubtful whether non-binding guidance can reduce the inherent systemic risk. High involvement of illiquid, complex and opaque investments and strategies may cause sudden waves of shock, which we are not being prepared for and of course the result of the latest G7 meeting in this matter is a disappointment.

In the field of *insurance*, we in the Parliament feel that with the US insurance regulatory landscape being so fragmented, we have no concrete partner to discuss issues such as reinsurance collateral or corner stones of International Association of Insurance Supervisors on solvency for insurance companies.

As to the *mergers of NYSE and the Euronext*: I believe this merger may just be the case for testing as to how the SEC and the Euronext regulators can or cannot work together effectively. Whether this will highlight differences in regulation or rather become another push towards closer cooperation and reconciliation, remains to be seen. What the EP will monitor for sure is whether the SEC rules may enter the EU market through the back door. The recent *SWIFT affair* showed us that we need to be more vigilant concerning cross-border (3rd country) business providers - in that particular case regarding data protection.

Among the recent reports and articles on the US vs. EU as a more competitive market place, many called for the US regulators to adopt more principle based rules and regulations, which the EU has been implementing in many areas for the past years. Therefore *mutual recognition of many regulatory rules on securities* should not be a problem from the US side.

Making your regulatory environment more business friendly as well as more in line with internationally agreed standards and rules would increases competitiveness of the United States market place. I do not think that I need to remind the audience that EU growth in financial stock has been faster than the US one in the past years (6.8% as to 6.5% annually) and that we may soon reach the US 51 trillion Dollars of financial stock very soon (at the moment Europe has 38 trillion Dollars).

We take those issues very seriously, because we cannot imagine that a good cooperation can be to have common regulatory negotiation after initiative launched on this side of the Atlantic that than end up in agreements that are implemented by the European Union and were in the United States the negotiation is completely reopened after different supervisors and the Congress get involved. If you allow me, my belief is that maybe something that should be looked upon on this side of the Atlantic concerns the consultation process during the elaboration of regulation.

For all these reasons, in the end, I wish to say that our Committee will be coming to the US to meet the House Financial Services Committee, the Senate Banking Committee, all the regulators and the Treasury in July this year and I hope that many of the issues outlined will be one step closer to solution by the time of our arrival.

Thank you for your attention.