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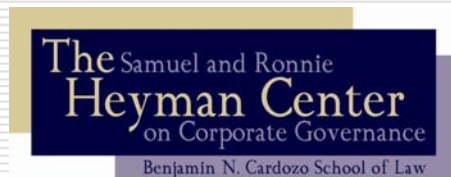
New Developments in European Financial Regulation

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Sponsored by:



The Committee of European Securities Regulators

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Overview

- ❑ Securities Regulation in Europe
- ❑ CESR
- ❑ The US - EU dialogue

Securities Regulation in Europe

- Harmonised Rules at EU level in Directives of Council and Parliament
- Implementing rules by Commission
- These rules have to be transposed in the national legal order: differences are inevitable
- To be applied by national supervisors

Securities Regulation in Europe

- ❑ Rulemaking is largely centralised at EU level
- ❑ Members often add local rules:
“goldplating”: prevents integration
- ❑ Directives forbid add-ons: often maximum harmonisation
- ❑ Implementation remains local
 - How to strengthen convergence

Cooperation among supervisors

□ Traditional MOUs

- Structured: CESR: Accounting, Insider cases, etc. Agreeing on how the rules will be applied

□ Operational cooperation

- Bilateral: frequent on a case by case basis
- Structured: market abuse, accounting, etc

CESR

- 2001: Level 3 Committee
- 27 national securities commissions + 2 observers
- No regulatory powers,
 - Advice to Commission at Level 2
 - But coordination and cooperation
 - Common work with
 - CEBS banking
 - CEIOPS insurance and pension funds
 - 3L3= 3* L3

CESR

- Network, not an institution
 - Based on working groups of national supervisors
- Small secretariat: 25 + remote members
- Financed by Members' contributions

Open dialogue with markets

- Consultations of the markets: part of CESR's charter
 - consultative panels: general and per working group
 - Written open consultations
 - Hearings
 - Feedback statement
 - All is on website: www.CESR.eu

Supervisory convergence

- CESR's role in coordinating effective implementation of EU rules
 - Common standards, recommendations, guidelines, interpretations, Q&A, etc
 - Published on the website
 - Adopted by all CESR members, although legally non binding
 - Voluntary: how to ensure application in all states?

Convergence Tools

- Review Panel
 - Publication of reviews: Peer pressure
 - Mediation
 - But:
 - Differences in national powers
 - National accountability
 - Difficult to always ensure compliance by members

Tools

- Operational cooperation: CESR Pol; CESR-Fin
- Databases on interpretations e.g. Prospectus Q&A; IFRS precedents
- Common supervisory culture (3L3)
 - Common training
 - Exchange of staff
 - Common IT projects - TREM

Mutual Recognition

- Basis of the European Regulatory Scheme
- Home State regulation
- Accepted in other states without any further formality
- Presupposes large equivalence of regulation, not identical regulation

Mutual Recognition in the EU

- Within the EU: achieved by the directives
 - Regulation not identical in form, but the same outcome has to be guaranteed
 - Increasingly similar application
 - Home state rule: avoids duplication: only once supervisor, one procedure, passport valid throughout Europe

What CESR has achieved

- Mainly development of common practice rules
- On difficult questions that have not been solved at L1 or L2
- Mifid:
 - Inducements
 - Q & A for best execution
 - Delegation for home host supervision 32 (7)
- Ucits
 - simplified prospectus Key Investor Info
 - Passport notification for UCITS
 - Definition of Indexes and other investment instruments

What Cesr has Achieved

□ Prospectus

- Q & A on interpretations
- Notification procedures
- Accountin: IFRS database

□ Market Abuse

- Database will open soon
- Urgent Issues group
- Mapping of powers: for further streamlining

Internal functioning

- ❑ Efficient multinational secretariat in Paris
- ❑ Internal procedures on consultation
- ❑ Peer Review and Review Panel
- ❑ Mediation
- ❑ Impact Assessment Rules
- ❑ First protocol on “delegation
 - + Dialogue with Parliament + Commission
 - + EU-US dialogue

The US - EU Dialogue

- Different levels of discussion
 - Commission: political basis
 - CESR: technical –
implementation

The first steps

□ Deregistration

- Considerable relief for many EU companies

□ NYSE - Euronext

- Complex deal: 5 jurisdictions/5 supervisors + SEC
- Cooperative supervision in Europe in a committee on the basis of an MOU = solid cooperation
- Deal approved within 6 months both from the disclosure and the market supervisory angle

Next Steps

□ On IFRS

- CESR investigated the differences between IFRS and US GAAP (also: Japan and Canada)
- Formulated basis for detailed agreement
- Roadmap agreed between Commission and US authorities
- Resulted in SEC position on IFRS for Non-US issuers
- SEC considering to extend to US issuers: rulemaking proposed/considered

Future Steps

□ Mutual Recognition

- Principle is being tested by the SEC in the US
- Basis: markets are increasingly integrated
- EU Regulations offer comparable safeguards
- Is the level of protection (incl.enforcement) sufficiently similar to conclude that no additional US requirements are needed ?
- Analysis of EU regulatory regime, based on Review Panel assessments

Concluding

- ❖ Financial integration in Europe is progressing at increasing speed
- ❖ Securities Markets: Exchanges, Investment Funds, Asset management
- ❖ Banking: consolidation has started

Concluding

- Regulation is already largely centralised
- Takes account of national differences
- Supervision has to be further streamlined
- Home state rule will lead to consolidation
- Mutual Recognition is necessary complement
- No evolution towards a European SEC