

# CSFI

## CENTRE FOR THE STUDY OF FINANCIAL INNOVATION

5 DERBY STREET  
LONDON W1J 7AB

TEL: 020 7493 0173  
FAX: 020 7493 0190

**Brussels for breakfast (33): A round-table discussion on EU regulatory issues, with Graham Bishop (grahambishop.com) and David Doyle (ACCA), held on Thursday, January 17, 2008, at the London Capital Club, 15 Abchurch Lane, from 8:30-10:15am.**

Slovenia acquired the EU presidency on 1st January. For a new EU member state of 2 million people, the first speaker said that so far it had shown remarkable robustness and good administration.

The first main theme was tax, where the core issue was a need to arrive at some sort of compromise on VAT charged on financial services. Financial service providers, along with insurance, are VAT-exempt under EU legislation. But while tax-exempt when providing services to clients, this sector often fails to recover the VAT that they pay on goods and services acquired for their businesses. The Slovenian presidency will have the task of seeking agreement on the Commission's three-point proposal to reduce inconsistencies. First, it is proposed to redefine the scope of exempt services. EU tax commissioner Kovacs has indicated that he would reduce the impact of non-deductible VAT on banks. Second, banks and insurance companies would have the choice to tax their services if they wished. Third, an industry-wide VAT-exemption on "cost sharing" arrangements would also be devised, encompassing also cross-border activities.

Solvency II requires insurance companies, of all sizes, to value their assets and liabilities on a consistent basis, in line with market principles; and to assess all types of risk and to manage those risks more effectively. In addition, insurance groups would have a dedicated 'group supervisor' in one country regulating their activities across the EU. On UCITS III - the Undertakings for Collective Investment In Transferable Securities directive - the first speaker said there were still issues to address, such as cross-border notifications which relates to the clear definition of home and host country supervisors, management company passport and mergers.

Turning to mortgage credit, the first speaker said that with only 1% of mortgages operating on a cross-border basis, the question inevitably has arisen: why are we going through this? He said collateral mortgage law was very much the prerogative of national states. He added the Lamfalussy Process was subject to a review by an EC-appointed Inter-institutional monitoring group, IIMG. In addition, the IIMG proposed that the Level 3 Committees reviewed their decision-making rules: curbing gold plating; avoiding excessive detail; retaining market and industry body consultation.

The second speaker said the European Council met in December, and that the single market was an undisputed success. He noted that Tommaso Padoa Schioppa, the Italian Finance Minister, said that Europe needed a single financial rulebook. The speaker wanted to draw the attention to an article by Karel Lannoo, Chief Executive of the Centre for European Policy Studies. He had said the language of ECOFIN ministers seemed to mask

important differences in approach and highlighted how much the exchange of information is a problem in the EU, and how little progress along these lines has been achieved. Lannoo called on the Commission to clarify the scope of the deposit guarantee schemes in the light of Northern Rock.

The first speaker said the question of supervisory convergence was critical. He had a meeting this week with the chairman of the Committee of European Securities Regulators whose view was that there was no need for more legislation, but instead more discussion about a common approach and interpretation of existing rules. He said where there were cross-border transactions and activities policymakers needed to come to some sort of agreement.

On Basel II, the second speaker pointed to *Daily Telegraph* comments on a Bank of England paper, saying Basel II posed risks to the stability of the financial system. What they're saying is that the new regime is much more pro-cyclical. Next, he turned to a couple of McCreevy speeches, the first to the Kuwait global forum in Brussels in which he asked how robust were the risk models that were used, and how much reliance was put on them. The second speech was about the importance of open markets - we should not fear globalisation, we should shape it. Europe has become the standard setter; European rules are not just respected, but also copied.

On bond trading, the second speaker said that NYSE Euronext was going to develop a global bond-trading platform. The London Stock Exchange trading plan, according to the *Financial Times*, prompted the European exchanges to offer customers what is described as "interoperability", so LSE is going to be making it easier for banks to buy and sell contracts for differences.

In the asset management area, he commented on Dutch pension funds fighting the IFRS: new rules must make a provision for the Dutch situation. We don't want to be forced by international accounting rules to abandon our solid pension system. He said that the AMF, the French regulator, had announced a couple of measures. On January 7, it inaugurated a new fast-track fund authorisation procedure, whereby a new fund can be authorised in less than eight business days if similar to one already authorized. Clearly the French are endeavouring to become more effective.

The speaker said that, from their own minutes of ECON, the comments by Alexander Radwan, on the structure of the IASB, showed he does not propose any concrete procedure, but he made abundantly clear that the European parliament has to bring in/defend its own ideas on how this structure should look.