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**Single Market in Financial Services Progress Report  
2006**

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## 1. INTRODUCTION

It is increasingly acknowledged that open, competitive, deep financial markets are a key to competitiveness and growth. EU markets have been particularly strong in 2006, across the range of financial sectors; profit levels are high in banking, insurance, and securities markets, mergers & acquisition activity is booming, IPOs have returned to the market and the private equity industry is enjoying unprecedented success.

Market participants are innovating, taking advantage of the possibilities offered by developments in EU financial regulations. For instance, the announcement in November that a group of 7 international investment banks would establish a joint equity platform, and other pan-European projects such as Equiduct and Project Boat, are a direct response to the opening up of competition as facilitated under the Markets in Financial Instruments Directive (MiFID)<sup>1</sup>, which will enter into force in November 2007.

In 2006, the Commission services have been driving forward across the range of financial sectors and in the vital areas of corporate governance and company law, accounting and auditing, to equip the EU with the most advanced regulatory framework. Landmark developments include the adoption of the Capital Requirements Directive, the publication of a White Paper on Investment Funds<sup>2</sup>, the agreement of an industry-led Code of Conduct on Clearing and Settlement<sup>3</sup>, the adoption of technical implementing measures for MiFID, the clarification of supervisory approval processes in cross-border mergers and acquisitions in the financial sector, progress in the EU-US Financial Markets Regulatory Dialogue including the convergence of EU and US accounting standards by 2009, and a clear strategy on the future priorities for company law.

### 1.1. Delivering the White Paper

*Policy of  
"dynamic  
consolidation"*

After the publication of the White Paper on Financial Services<sup>4</sup> in December 2005, the priority this year has been to fulfil our objective of "dynamic consolidation" of the EU financial services framework. In this respect 2006 has been a very productive year. The publication of this progress report is a White Paper commitment.

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<sup>1</sup> Directive 2004/39/EC

<sup>2</sup> COM(2006)686, see [http://ec.europa.eu/internal\\_market/securities/ucits/index\\_en.htm#061116](http://ec.europa.eu/internal_market/securities/ucits/index_en.htm#061116)

<sup>3</sup> See [http://ec.europa.eu/internal\\_market/financial-markets/clearing/index\\_en.htm#code](http://ec.europa.eu/internal_market/financial-markets/clearing/index_en.htm#code)

<sup>4</sup> COM(2005)629, see [http://ec.europa.eu/internal\\_market/finances/policy/index\\_en.htm](http://ec.europa.eu/internal_market/finances/policy/index_en.htm)

### 1.1.1. Better Regulation

*Better Regulation  
now fully  
embedded in  
policy making*

We have now fully incorporated the Better Regulation approach into our policy making processes. Consultation has become a cornerstone of formulating policy decisions. All key initiatives are open to public consultations. The Commission services also call upon the advice and input of dozens of expert groups, committees and advisory boards before formulating its positions. In this way, the key stakeholders, from financial services industry professionals to standard setters, from national supervisory and regulatory authorities to consumer representatives give valuable guidance to the Commission and ensure greater buy-in to the final policies.

Impact assessment is now a standard tool to evaluate in detail the consequences of proposed actions. The outcomes of prior research allow the Commission to tailor its response accordingly. In some instances, the decision has been made that legislation is not the best way to address certain market failures, as in the area of Clearing and Settlement. The adoption of the industry-led Code of Conduct in this regard is testament to how closely the Commission services and stakeholders work together to reach solutions.

Ex-post evaluation is another area where the Commission services are fulfilling their obligation to carefully assess whether existing measures are achieving their stated aims. This is not just the case with individual legislative initiatives, but also on wider policies, such as the review of the priorities to be addressed in the final phase of the Corporate Governance Action Plan<sup>5</sup>, and also the two-part evaluation of the Financial Services Action Plan<sup>6</sup>.

The Better Regulation approach also requires that policy initiatives are based on objective economic analysis. The annual publication of the Financial Integration Monitor<sup>7</sup>, which sets out an analysis of the state of play of EU financial integration, provides important input in this regard.

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<sup>5</sup> See [http://ec.europa.eu/internal\\_market/company/consultation/index\\_en.htm](http://ec.europa.eu/internal_market/company/consultation/index_en.htm)

<sup>6</sup> See [http://ec.europa.eu/internal\\_market/finances/actionplan/index\\_en.htm](http://ec.europa.eu/internal_market/finances/actionplan/index_en.htm)

<sup>7</sup> See 2006 edition at [http://ec.europa.eu/internal\\_market/finances/fim/index\\_en.htm](http://ec.europa.eu/internal_market/finances/fim/index_en.htm)

### *1.1.2. Supervisory Co-operation*

*Supervisory co-operation under the spotlight this year*

With the Lamfalussy structure and its three sectoral committees of supervisors becoming even more firmly established this year, and with attention turning to the effective implementation of financial services measures, the issue of supervisory co-operation has taken on an ever greater significance. Considerable attention has been devoted to this issue, with the ECOFIN Council adopting conclusions<sup>8</sup> at its May meeting, building on the findings of the Financial Services Committee (FSC)'s 2005 Report on Financial Supervision<sup>9</sup>. These include recommendations on the implementation of mediation, delegation, and data-sharing arrangements and the development of streamlined reporting requirements. The Commission has been fully engaged in this process, as well as analysing the medium- and long-term challenges of supervision, in particular to ensure the optimal functioning of supervision in the event of a cross-border financial crisis. The demands of increased contribution to EU policy development as well as heightened cross-border co-operation means that there have been increasing calls for the resources of Member State supervisory authorities to be strengthened.

### *1.1.3. Institutional arrangements*

*Improved inter-institutional balance achieved*

In July 2006, the Council adopted a Decision amending the Comitology decision<sup>10</sup>. A new procedure introduced by this amendment, the 'regulatory procedure with scrutiny', is a balanced solution to the European Parliament's request for improving scrutiny of implementation of legal acts adopted under the co-decision procedure.

Given the rejection of the proposed Constitutional Treaty in 2005, reaching this agreement was necessary in order to ensure that the Lamfalussy arrangements, and specifically the right of the Commission to adopt level-2 implementing measures, was not jeopardised. The new comitology decision introduces a new regulatory procedure with scrutiny, which shall apply to most of the delegated areas in the Lamfalussy directives.

The European Parliament and the Council recognised that the principles of good legislation require that implementing powers be conferred on the Commission without time-limit, which means that both institutions will have to delete the sunset clauses and refrain from introducing any in the future.

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<sup>8</sup> doc. 8798/06 EF 10 ECOFIN 141

<sup>9</sup> See: [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ecofin/89449.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/89449.pdf)

<sup>10</sup> Council decision 1999/468/EC

The three institutions agreed to align 25 basic acts forming part of the existing acquis to the new procedure as a matter of urgency (before end 2006). 13 financial services directives are included in the list of priority acts whereas 9 out of those contain sunset clauses. The abolition of existing sunset clauses should be dealt with simultaneously with the alignment of priority acts. The Proposals were adopted by the Commission and presented to Council and EP on 22 December 2006<sup>11</sup>.

Furthermore, the Commission has committed itself to scrutinise the entire acquis until the end 2007 in order to replace the regulatory procedure by the regulatory procedure with scrutiny, wherever there are measures which fall within its scope.

#### *1.1.4. Transposition, implementation and enforcement*

The Commission services have published this year on a bi-monthly basis online updates of the transposition tables for all of the financial services directives introduced under the Financial Services Action Plan and, more specifically, of the Lamfalussy-style directives<sup>12</sup>. The publication of these tables has proven a useful incentive in encouraging Member States to ensure timely transposition of the directives. Since July, the FSAP transposition tables have also been linked to the national implementing legislation in each Member State. Overall, Member States's performance has improved.

*Publication of national transposition has proved an effective tool*

#### *1.1.5. Input of consumers and users*

The White Paper contained a commitment to take steps to improve communication with consumers and users of financial services. In this regard, 2006 has seen the establishment of the Financial Services Consumer Group<sup>13</sup>, bringing together national and EU consumer association representatives to discuss financial services issues of particular relevance to consumers. This group is complementary to the work of Fin-Use which has continued to provide vital consumer/user input to policy developments<sup>14</sup>. Efforts have also been made to involve consumer/user representatives in focused expert groups on specific policy initiatives. Examples here include the Mortgage Credit Industry & Consumer Dialogue, the

*Several steps have been taken to improve communication with consumers and users*

<sup>11</sup> COM(2006)900 et sequitur

<sup>12</sup> See [http://ec.europa.eu/internal\\_market/finances/actionplan/index\\_en.htm#transposition](http://ec.europa.eu/internal_market/finances/actionplan/index_en.htm#transposition)

<sup>13</sup> [http://ec.europa.eu/internal\\_market/finances/fscg/index\\_en.htm](http://ec.europa.eu/internal_market/finances/fscg/index_en.htm)

<sup>14</sup> In 2006, Fin-Use provided responses to consultations on the future priorities for the Corporate Governance Action Plan, the interim reports arising from the sectoral inquiries into retail banking and payment cards, the Commission's Incentives paper regarding the Single Euro Payments Area, the Commission's Call for Evidence on extending the transparency provisions of the MiFID directive to non-share instruments and the two UCITS expert group reports. It also issued a paper on the Consumers' Voice in the European Financial Services Sector. These opinions can be found on the Fin-Use website, [http://ec.europa.eu/internal\\_market/fin-use\\_forum/documents/index\\_en.htm](http://ec.europa.eu/internal_market/fin-use_forum/documents/index_en.htm)

Investment Fund Expert Groups and the Bank Account Expert Group (see below). Users were also invited to provide their views in ad-hoc meetings during the preparatory phase of the industry Code of Conduct on Clearing and Settlement. The Commission services also published two issues of a new periodic newsletter, Fin-Focus<sup>15</sup>, containing relevant information on financial services policy issues of concern to consumers.

#### 1.1.6. Supervisory approval process for mergers and acquisitions

*Proposed directive aims to achieve greater clarity in supervisory assessments of M&A transactions*

In 2005, the Commission Services, in co-operation with the European Banking Committee, commenced work on amending Article 16 of the Banking Directive, which covers the acquisition and increase of shareholdings in a credit institution (now Article 19 of the Capital Requirements Directive 2006/48/EC). In order to ensure cross-sectoral consistency, it was decided to also amend the corresponding provisions in the Life, Non-life and Reinsurance Directives, as well as the corresponding rule in the MiFID-Directive. To this end, on 12 September 2006, the Commission brought forward a proposal for a directive<sup>16</sup> amending the relevant directives.

The purpose of this proposal is to tighten the procedures that Member States' supervisory authorities have to follow when assessing proposed mergers and acquisitions (M&A) in the banking, insurance and securities sectors. In particular, it clarifies the criteria against which supervisors should assess possible M&A operations. This will improve clarity and transparency in supervisory assessment and help to ensure a consistent handling of M&A requests across the EU. It is hoped that this directive may be adopted in the early part of 2007.

#### 1.1.7. External dimension

##### 1.1.7.1. EU-US Financial Markets Regulatory Dialogue

*Continued close co-operation with US authorities through FMRD*

The informal EU-US Financial Markets Regulatory Dialogue (FMRD) continued to work well in 2006, enhanced by the visit of Commissioner McCreevy to the US in May. Considerable progress is being made on a number of key issues.

Significant progress is being made on accounting standards. A work programme was established between the SEC and the Committee of European Securities Regulators (CESR) on the correct application of accounting standards by companies active on both sides of the Atlantic. This is an important element in achieving the goal of the SEC's 2005 Roadmap of removing the reconciliation to US GAAP

*Moving towards 2009 deadline on accounting standard convergence*

<sup>15</sup> See [http://ec.europa.eu/internal\\_market/finances/news/newsletter\\_en.htm](http://ec.europa.eu/internal_market/finances/news/newsletter_en.htm)

<sup>16</sup> COM(2006)507. See [http://ec.europa.eu/internal\\_market/finances/cross-sector/index\\_en.htm](http://ec.europa.eu/internal_market/finances/cross-sector/index_en.htm) for the text of this proposed Directive and the accompanying press release

requirement for EU issuers in the US by 2009. The approval of the Commission proposal to postpone the decision on equivalence of third country GAAPs with IFRS for two years (see section 2.9.3, below) aligns the EU and US convergence timetables.

The proposals for mergers between EU and US securities markets were discussed. Commissioner McCreevy has stated that market forces and not politics should decide on commercial opportunities, subject to regulatory and competition issues being resolved, but that European financial markets must continue to be subject to European regulation and regulators, regardless of their ownership.

*Regular contacts  
on securities  
markets mergers*

In early 2006, the Commission, in co-operation with the European Securities Committee and representatives of listed companies, sent detailed comments on the US SEC's proposal aimed at facilitating the termination of SEC registration for those foreign companies that wish to exit the US capital markets. These comments centred on the fact that although the proposal was welcome, it did not go far enough. On 13 December 2006, the SEC made a revised proposal<sup>17</sup>, which is a significant improvement. This sets out that any foreign private issuer will be eligible to deregister from the US if they are able to demonstrate that the average daily trading volume in the US is 5% or less of their average daily trading volume in their primary market. The proposal is subject to a 30-day comment period and is expected to be adopted within the first quarter of 2007.

*SEC has made  
significantly  
improved  
proposal on  
deregistration*

The Commission services have been working closely with US banking agencies and have had frequent contacts with the US Treasury and Congress representatives with regard to the implementation of Basel II. Whereas the EU will apply Basel II in the 2007-2008 timeframe, US application will only commence in 2009.

*Working together  
to resolve Basel II  
"gap year" issues*

Commission staff also continued to encourage supervisors and industry to work together, bilaterally and multilaterally, to solve the issues arising from the 'gap year' in a sensible and pragmatic way.

Another key issue in the context of the FMRD has been that of reinsurance collateral. EU reinsurers who provide reinsurance into the US are required under US rules to post collateral. This requirement does not apply to US domestic companies or subsidiaries. The Commission services, together with the EU industry, have long campaigned for the current regime to be changed. In spring of 2006, the US National Association of Insurance Commissioners committed to look at alternatives to the current credit for reinsurance rules and deliver a proposal on a revision to the current reinsurance regime by the end of 2006. The new proposal, adopted on 11 December by the NAIC Reinsurance

*Work on revising  
US reinsurance  
collateral  
requirements  
will continue into  
2007*

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<sup>17</sup>See <http://sec.gov/news/press/2006/2006-207.htm>



Task Force, suggests moving towards a system where collateral is charged for all reinsurers, regardless of origin, on the basis of a credit rating established by a Ratings Evaluation Organisation. The Task Force agreed to carry out further work on the details of the move with a view to full adoption by the full NAIC Executive Committee at the latest in September 2007. This was welcomed by European reinsurers and regulators as a significant step forward.

A final issue of general discussion with US counterparts in 2006 was that of maintaining an open investment climate, with the Commission services closely monitoring potential amendments to the US Exon Florio legislation which subjects foreign investment relevant to national security to a review process and to a potential Presidential veto. US partners were keen to ensure that economic protectionism would not be tolerated within Europe.

*Maintaining an open investment climate vital to both EU and US*

#### 1.1.7.2. Japan

*Deepening of regulatory dialogue with Japan*

In 2006, the regulatory dialogue with Japan was deepened and yielded fruitful results. There is a common approach on securities regulation: the new Japanese law on investment services promulgated in June is in the vein of the MiFID in the EU. On accounting standards, the Japanese Financial Services Agency (FSA) has committed to an accelerated convergence programme between Japanese GAAP and IFRS. With a view to providing EU companies in Japan with a level playing field and a stable regulatory environment, the Commission has brought forward several concerns such as the prohibition of universal banking, discriminatory trust banking regulations, excessive requirements for third country insurers providing reinsurance cover to Japanese small and short term insurance providers (Kyosai), and the need for convergence between regulations applying to discretionary investment advisers and asset management firms.

#### 1.1.7.3. China

*Dialogue with China is being stepped up*

With China, Commissioner McCreevy's first official visit in Beijing in May provided the occasion to deepen the regulatory dialogue started in 2005 on banking, insurance and securities regulations. In addition to a number of bilateral meetings, including on accounting issues, he participated in the 2nd EU-China Dialogue on Macroeconomic and Financial Regulatory Issues. As a result, technical meetings between Chinese regulators and the Commission on insurance and accounting were held in October and November respectively. Numerous technical exchanges on a range of subjects including payment systems, banking, UCITS and securities also took place, with the aim of achieving greater regulatory convergence. New Chinese financial services regulations were implemented in 2006. Although these represent significant progress, there is still room to further enhance the framework conditions for European firms' participation in the Chinese financial services markets. To

intensify these efforts, a representative of DG Internal Market & Services will join the Commission's Beijing delegation in 2007. It is hoped that the next Dialogue meeting will be held in Brussels in 2007.

#### 1.1.7.4. Russia and India

2006 was the first year of regulatory dialogues and meetings with Russia and India, which were held in June in Moscow and Brussels respectively. These first sessions were focused on building knowledge of respective regulatory agencies and studying financial services reforms, with a view to encouraging the adoption of high quality international standards in banking, accounting and insurance in Russia and India.

*2006 was first year of regulatory dialogues with India and Russia*

## 2. SECTORAL POLICY DEVELOPMENTS IN 2006

### 2.1. Banking

#### 2.1.1. Capital Requirements Directive

As reported in the 2005 Progress Report<sup>18</sup>, the Capital Requirements Directive<sup>19</sup>, which aims to put in place a comprehensive and risk-sensitive framework to foster enhanced risk management amongst financial institutions, was approved by the European Parliament and Council in 2005. Formal adoption followed on 14 June 2006. This directive introduces an updated supervisory framework in the EU which reflects the Basel II rules on capital standards agreed at G-10 level.

*Formal adoption of the Capital Requirements Directive*

#### 2.1.2. E-money

In 2006 an extensive evaluation was completed on the E-Money Directive<sup>20</sup>. A report by the Commission services<sup>21</sup> which draws together the results of the evaluation process (an independent consultants' evaluation report, a public stakeholder consultation as well as a series of meetings with Member States) was sent to the Council and the European Parliament on 20 July 2006. The report contains recommendations on further steps for the revision of the E-Money Directive and in particular advocates integrating E-Money Institutions into the Payment Services Directive once adopted (see section 2.4.1 below).

*Recommendations on future revisions of the E-money Directive*

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<sup>18</sup> SEC(2005) 17

<sup>19</sup> comprising Directive 2006/48/EC and Directive 2006/49/EC

<sup>20</sup> Directive 2000/46/EC

<sup>21</sup> See [http://ec.europa.eu/internal\\_market/bank/e-money/index\\_en.htm](http://ec.europa.eu/internal_market/bank/e-money/index_en.htm)

### 2.1.3. Deposit Guarantee Schemes

*Commission  
makes  
recommendations  
on way forward  
for Deposit  
Guarantee  
Schemes*

In November 2006, the Commission adopted a Communication on the review of the Directive on Deposit Guarantee Schemes<sup>22</sup>. The Communication focuses largely on seeking resolutions for issues that would not require legislative changes but which could be resolved through 'self-regulatory' approaches such as developing best practice or drawing up model arrangements. The objective is to achieve a more level playing field, and the areas to be tackled include facilitating "topping up" arrangements (i.e. where foreign bank branches are given access to the host country's deposit guarantee system in order to allow their depositors the same level of protection as the host country's banks) and possibly shortening the delay when depositors are paid out after a failure.

The Communication outlines the further work that should be pursued. As far as the minimum coverage level is concerned, a report has shown that there is currently no case for further harmonisation, since the disparities between old and new Member States are still too great.

The Communication also describes the interdependency of Deposit Guarantee Schemes with ongoing activities in other fora concerning the effective management of financial crises, in particular the question of how to share the burden of a cross-border bank failure. It concludes that, pending the outcome of these activities, a legislative amendment of the directive might prove necessary in the future. One core element of such a revision could be the harmonisation of the financing mechanisms of Deposit Guarantee Schemes. However, since a recent report from the Joint Research Centre revealed that certain Member States would face costs of several billion Euros to change their systems, further assessment will be necessary in order to substantiate whether the benefits of change would outweigh the costs involved.

## 2.2. Insurance

### 2.2.1. Solvency II

*Preparatory work  
for Solvency II  
proceeds apace*

Work continued on the ongoing Solvency II initiative in 2006. This project aims to bring about major changes in the overall approach to insurance regulation in the EU, in particular as far as capital requirements and supervision of insurance undertakings are concerned. Solvency II will introduce a new risk-based approach. The Commission is aiming for a directive to be adopted in July 2007.

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<sup>22</sup> Directive 94/19/EEC

In March 2006, the Commission Services received from the level-3 committee CEIOPS (Committee of European Insurance and Occupational Pension Supervisors) the replies to the third and final wave of Calls for Advice. During 2006, CEIOPS has continued its work on a number of complex technical issues including the calculation of the Solvency Capital Requirement standard formula, the calculation of the Minimum Capital Requirement and issues related to supervision of insurance groups. Moreover, CEIOPS has conducted a second round of quantitative impact studies in which a high number of European insurance undertakings participated.

The Commission Services have also continued work on the codification and recasting of the existing insurance directives, which will be included in the Solvency II-proposal, and on the Impact Assessment to accompany the proposal for a directive. In this context, a public hearing on Solvency II was held on 21 June 2006 to discuss and gather the opinions of stakeholders on the overall picture of Solvency II, in which 250 people participated. The Services have in addition sent questionnaires on the possible impact of Solvency II on their business to a number of insurance undertakings in all the EU States.

#### 2.2.2. *Insurance guarantee schemes*

The Commission launched a Call for tender in September 2006 to engage an external consultant to carry out a comparative analysis of existing insurance guarantee schemes in the EU, with an analysis of problems and evaluation of options and their feasibility. No decision has been taken at this stage whether or not to proceed further with the preparation of a policy proposal. The study is due to be carried out in 2007.

*Commission to review Insurance Guarantee Schemes in the EU*

#### 2.2.3. *Insurance mediation*

The CEIOPS Insurance Intermediaries Working Group adopted a Protocol<sup>23</sup> on 26 April 2006 concerning the co-operation between Supervisory Authorities of the EU/EEA Member States in the context of the Insurance Mediation Directive<sup>24</sup>. The Co-operation Protocol sets out practical rules and arrangements for the co-operation between supervisors with regard to the regular exchange of information and the notification procedures foreseen in the directive. The Insurance Mediation Directive will be reviewed in due course to assess the extent to which it has, or has not, succeeded in achieving its original objectives of providing the framework for a single market for insurance intermediaries, ensuring a high level of professionalism and competence among insurance intermediaries

*IMD protocol should improve co-operation between supervisors*

<sup>23</sup> See <http://www.ceiops.org/content/view/19/23/>

<sup>24</sup> Directive 2002/92/EC

whilst guaranteeing a high level of protection of customers' interests.

#### 2.2.4. *Motor insurance*

In January 2006, the Commission issued a report<sup>25</sup> on two motor insurance issues – compensation bodies and third-party liability cover for trailers. Based upon various consultations carried out in 2005 with Member States, industry and the public, the report suggests possible solutions for improving compensation for victims of accidents with a trailer. The report also concludes that compensation bodies are operating smoothly in the EU and that no major revision of the motor insurance directives is required at this stage

*Motor insurance  
compensation  
bodies and  
accidents with  
trailers addressed*

### 2.3. Retail financial services

#### 2.3.1. *Customer mobility: Bank accounts*

In 2006, and as announced in the White Paper, the Commission has created an expert group on customer mobility in relation to bank accounts<sup>26</sup>. In particular, this group is to identify any legal, administrative or other obstacles that customers encounter when opening, closing or switching bank accounts at both domestic and cross-border level. It will advise the Commission on how those obstacles can be addressed. The group is composed of experts proposed by European or national associations, who represent customer or financial services industry interests, and of individuals with an academic background in the area. It is due to present its findings in May 2007.

*Expert group  
looks at mobility  
with regard to  
bank accounts*

#### 2.3.2. *Home loans (mortgage credit)*

Two groups were established in 2006 to continue with the broad consultation work on furthering integration in the mortgage credit market.

The first of these groups, the Mortgage Funding Expert Group<sup>27</sup>, was set up to identify the obstacles to integration of various mortgage funding models such as retail deposits, covered bonds and Residential Mortgage Backed Securities, to prioritise these obstacles and consider possible solutions. The group, which is made up of industry and investor experts in this field, delivered its final report on 22 December 2006. The report concludes that although mortgage funding markets are already relatively competitive and efficient, targeted measures at national or EU level could further improve their

*Targeted  
consultation on  
mortgage credit  
has continued –  
industry and  
consumers  
involved*

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<sup>25</sup> See [http://ec.europa.eu/internal\\_market/insurance/motor\\_en.htm#20051222](http://ec.europa.eu/internal_market/insurance/motor_en.htm#20051222)

<sup>26</sup> See [http://ec.europa.eu/internal\\_market/finservices-retail/baeg\\_en.htm](http://ec.europa.eu/internal_market/finservices-retail/baeg_en.htm)

<sup>27</sup> [http://ec.europa.eu/internal\\_market/finservices-retail/home-loans/integration\\_en.htm#mfeg](http://ec.europa.eu/internal_market/finservices-retail/home-loans/integration_en.htm#mfeg)

operation.

The second group, the Mortgage Credit Industry and Consumer Dialogue<sup>28</sup>, was established to explore the extent to which consumer and mortgage industry professionals can agree on common principles on four targeted consumer protection provisions, namely information, advice, early repayment and annual percentage rate. Discussions were open and constructive, however more time would be needed in order to achieve more concrete results. A summary of the discussions is contained in the report adopted in early January 2007.

The work of these groups will feed in to the White Paper on Mortgage Credit, due in Spring 2007.

### 2.3.3. *Consumer Credit Directive*

*Work continues on the revised proposal for the Consumer Credit Directive*

At present, the Council is discussing the Commission's October 2005 modified proposal for a revised Directive on Consumer Credit<sup>29</sup> (CCD). The objective of this proposal is to achieve a genuine single market for consumer credit while maintaining a high level of consumer protection. The proposal contains, *inter alia*, provisions on pre-contractual and contractual information, a right of withdrawal, a right to early repayment with compensation for the creditor and a fully harmonised percentage rate of charge (APR). Discussions are ongoing under the German presidency.

### 2.3.4. *Sectoral Inquiries into Retail Banking and Business Insurance*

*Competition inquiries into retail banking reveal market fragmentation and barriers to entry*

In June 2005, the Commission services opened inquiries into the European retail banking and business insurance sectors<sup>30</sup>. The purpose of these inquiries was to examine whether competition is working in these markets and whether markets are competitive enough to deliver their full benefits to consumers. Preliminary findings of the inquiries with regard to payment cards and systems and current accounts and related services were published in April and July 2006, respectively, and were subject to public consultation. A public hearing on the retail banking inquiries was held on 17 July 2006, with the final retail banking report published on 31 January 2007. The interim report concerning the Sector Inquiry into business insurance was published on 24 January 2007 and is also subject to public consultation. A public hearing was held on 09 February 2007. The final report shall be published by summer 2007.

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<sup>28</sup> [http://ec.europa.eu/internal\\_market/finances-retail/home-loans/integration\\_en.htm#miceg](http://ec.europa.eu/internal_market/finances-retail/home-loans/integration_en.htm#miceg)

<sup>29</sup> COM(2002)433

<sup>30</sup> See [http://ec.europa.eu/comm/competition/antitrust/others/sector\\_inquiries/financial\\_services/](http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/financial_services/)

In relation to current accounts and related services, the retail banking inquiry's findings show market fragmentation and significant variations in banking prices and financial performance across the Member States. There is evidence of widespread barriers to entry and competition in upstream infrastructures such as payment systems and credit registers. The inquiry also found barriers to customer mobility in retail banking which are likely to reduce competition and increase banks' market power.

In relation to payment cards, the inquiry's findings show that markets remain fragmented along national lines, compounded by major competition barriers in card issuing and acquiring markets. Barriers were found in the governance, membership rules and fee structures of several card payment networks, and these barriers tended to result in high card fees for businesses and consumers. The inquiry also produced important evidence challenging the justification for and economic effect of interchange fees in four-party payment card systems.

The follow-up to these inquiries may result in antitrust case investigations either by the Commission competition services or by national competition authorities. However the inquiry has already produced first concrete results: several banking communities and/or networks have initiated contacts with the Commission and have started to remove the barriers identified in the inquiry. The findings of the inquiry also provide input for a pro-competitive design of the Single Euro Payment Area (SEPA).

## 2.4. [Payment services](#)

### 2.4.1. *New Legal Framework for Payments*

In December 2005 the Commission brought forward a proposal for a Directive on a New Legal Framework (NLF) for Payments<sup>31</sup>. The New Legal Framework for Payments in the Internal Market should establish a modern and comprehensive set of rules applicable to all payment services in the European Union. The removal of legal obstacles to a Single Payment Area should allow competition on equal terms, adequate protection of payment service users, security of payments, an increase in the efficiency of payment systems and a guarantee of legal certainty for all relevant parties in the payment process. The European Commission and the European Central Bank underlined on 4 May 2006 in their [Joint statement](#) that they see the Single Euro Payments Area (SEPA) as an integrated market for payment services which is subject to effective competition and where there is no distinction between cross-border and national payments within the Euro area. This calls for the removal of all

*Hopes that the proposed Payments Directive can be adopted early in 2007*

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<sup>31</sup> [COM\(2005\)603](#)

technical, legal and commercial barriers between the current national payment markets. The proposed Payments Directive is currently under active discussion in the European Parliament and the Council and all parties are committed to striving for rapid adoption of the proposal through a single reading in early 2007.

## 2.5. Investment services

### 2.5.1. Securities - MiFID

The Markets in Financial Instruments Directive (MiFID) is one of the cornerstones of the Financial Services Action Plan and will play a vital role in creating a robust, common regulatory framework for Europe's securities markets. The technical measures implementing the MiFID were adopted by the Commission in August 2006, after unanimous approval by the European Parliament and European Securities Committee. The implementing (or "level 2") measures develop a number of the provisions set out in the framework (or "level 1") Directive adopted in April 2004.

*Essential  
implementing  
measures to  
MiFID adopted*

Furthermore, the European Commission has launched a call for evidence on transparency in the bond markets and other non-equity markets<sup>32</sup>. The call for evidence investigates whether and to what extent new requirements on pre- and post-trade transparency should be introduced at EU level to the trading in financial instruments such as bonds and other non-equities. The consultation responses received during the call for evidence have been published as well as a feedback statement. This work is in the context of a requirement under the MiFID to present a report to the European Parliament and the Council by the end of 2007 concerning pre- and post-trade transparency obligations to transactions in classes of financial instrument other than shares.

*Call for evidence  
on transparency  
in non-equity  
markets launched*

In August, the Commission services published a draft report on the continued appropriateness of the requirements for professional indemnity insurance imposed on intermediaries under Community law and opened this report up for consultation. Final adoption of this report is foreseen for early 2007.

In early December the Commission services launched a call for evidence<sup>33</sup> on a review of the regulatory framework concerning commodity and exotic derivatives business. The call for evidence relates to a report that the Council of Ministers and the European Parliament have asked the Commission to make by the end of April 2008 under both MiFID and the Directive on the Capital Adequacy of Investment Firms and Credit Institutions (recast CAD). The

*Call for evidence  
on regulatory  
framework for  
commodity and  
exotic derivatives  
launched*

<sup>32</sup> See [http://ec.europa.eu/internal\\_market/securities/isd/mifid\\_reports\\_en.htm](http://ec.europa.eu/internal_market/securities/isd/mifid_reports_en.htm)

<sup>33</sup> See [http://ec.europa.eu/internal\\_market/securities/news\\_en.htm](http://ec.europa.eu/internal_market/securities/news_en.htm)



closing date to reply to the call for evidence is 30 April 2007.

2.5.2. *Prospectus Directive – amendment to implementing regulation* *Amendments to prospectus requirements for issuers with complex financial histories*

An amendment to the Regulation implementing the Prospectus Directive was due for adoption in early 2007. This amendment will apply in cases where the issuer has a complex financial history or has agreed to undertake a transaction that will entail a significant gross change. It aims to eliminate uncertainty as to the scope of the powers of competent authorities under the Prospectus Regulation<sup>34</sup> and to ensure that the prospectus includes historical financial information relating to entities other than the issuer in cases where such information is necessary to enable investors to make an informed assessment of the issuer and the securities.

2.5.3. *Credit rating agencies* *No new legislative proposals currently needed on CRAs*

In January, the Commission published its policy on credit rating agencies (CRAs) in the form of a Communication.<sup>35</sup> The main findings of this Communication were that no fresh legislative proposals are required to regulate the activities of CRA, and that the existing securities directives, combined with self-regulation on the basis of the International Organisation of Securities Commissions (IOSCO) code<sup>36</sup> adequately cover the most important aspects of their activity. The Communication does stipulate that the Committee of European Securities Regulators (CESR) should monitor the CRAs' adherence to the IOSCO code to report back to the Commission on an annual basis. CESR published its report on 04 January 2007<sup>37</sup>.

2.5.4. *Financial analysts* *Financial analysts' conflicts of interests addressed*

In December, the Commission published a Communication on Investment Research and Financial Analysts<sup>38</sup>. The purpose of this Communication was to take stock of, and to provide stakeholders with practical guidance on, the provisions of recent European legislation relating to investment research and financial analysts, and to respond to the report of the Forum Group on Financial Analysts<sup>39</sup>, which helped inform the drafting of that legislation.

This Communication deals with the issue of conflicts of interest, and describes the main European legislation specifically addressing that

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<sup>34</sup> Commission Regulation (CE) 809/2004

<sup>35</sup> 2005/11990

<sup>36</sup> See <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD180.pdf>

<sup>37</sup> Ref CESR/ 06-545, see <http://www.cesr.eu/index.php?page=groups&mac=0&id=43>

<sup>38</sup> COM(2006)789, see [http://ec.europa.eu/internal\\_market/securities/analysts/index\\_en.htm](http://ec.europa.eu/internal_market/securities/analysts/index_en.htm)

<sup>39</sup> See [http://ec.europa.eu/internal\\_market/securities/docs/analysts/bestpractices/report\\_en.pdf](http://ec.europa.eu/internal_market/securities/docs/analysts/bestpractices/report_en.pdf)

topic. In the final section, other issues are addressed (analyst registration, independent research, issuer relations with analysts and investor education).

#### 2.5.5. *European Securities Markets Expert Group*

2006 saw the establishment of the 20-strong European Securities Markets Expert Group (ESME)<sup>40</sup> which will look carefully at how the EU securities directives are applied in practice, determine whether or not they are delivering the intended results, and propose changes where necessary.

*ESME will give expert advice on the application of securities legislation in practice*

ESME will aim to identify points of legal uncertainty which impair the functioning of securities markets from the perspective of the regulated community and users of these markets, and will make recommendations to the Commission accordingly. It will provide the Commission with input for the reports on the application of various provisions of the Markets in Financial Instruments Directive ("MiFID"), the Prospectus Directive, the Market Abuse Directive<sup>41</sup> and the Transparency Directive<sup>42</sup>. In addition, it will analyse the economic impact of those directives. Finally, it will provide technical advice – in response to specific requests from the Commission – on issues of contemporary relevance in EU securities markets, such as credit rating agencies and financial analysts.

The group is composed of high-level practitioners and market participants who are directly affected by the EU legislative framework. This is a follow-up action to the White Paper on Financial Services Policy 2005-2010.

## 2.6. **Financial markets Infrastructure**

### 2.6.1. *Clearing and settlement*

On 7 November 2006, the Commission welcomed the adoption of the "European Code of Conduct for Clearing and Settlement" by the industry. This followed on from the statement of Commissioner McCreevy in July that, in order to address the outstanding issues in the post-trading sector at this stage, he favoured an industry-led solution as opposed to an EU directive.

*Industry-led Code of Conduct adopted*

The measures contained in this Code are aimed at enhancing transparency and increasing competition in the post-trading sector. The main issues to be addressed are on transparency of prices and services, access and interoperability, unbundling of services and

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<sup>40</sup> [http://ec.europa.eu/internal\\_market/securities/esme/index\\_en.htm](http://ec.europa.eu/internal_market/securities/esme/index_en.htm)

<sup>41</sup> Directive 2004/72/EC

<sup>42</sup> Directive 2004/109/EC

accounting separation. The signatories to the Code, which include securities exchanges, central securities depositories and central counterparties, have committed to fully implementing the measures by 01 January 2008. A strict monitoring mechanism will ensure that they do so correctly and on time. If this self-regulatory approach proves to be successful, it could be applied to policy making in other areas.

#### 2.6.2. *Reports on the implementation of the Settlement Finality Directive and Financial Collateral Directive*

*Current Clearing & Settlement directives working well*

In the area of clearing and settlement there are two directives: the Settlement Finality Directive<sup>43</sup> (SFD) and the Financial Collateral Arrangements Directive<sup>44</sup> (FCD). Both directives have recently been subject to an evaluation on the basis of questionnaires to Member States and market participants. The SFD-evaluation report was published in 2005, and the evaluation report regarding the FCD was published on 20 December 2006<sup>45</sup>. The overwhelming conclusion is that both directives have been a success and enjoy wide support among market participants.

Nonetheless, the SFD report identified some areas that could be changed. These included the inclusion of credit claims and clarification of indirect participants, insolvency definition and conflict-of-laws regime. We will explore with the Member States and the ECB on how best to introduce these and other technical amendments in both Directives.

The main issues addressed by the FCD report are the inclusion of credit claims and changes in the conflict-of-laws regime plus the need to review the provisions on close-out netting in the financial acquis.

#### 2.7. **Investment funds**

*White Paper on Investment Funds proposes measures to improve the efficiency of the EU investment fund market*

EU UCITS legislation<sup>46</sup> has been the basis for an integrated investment fund market facilitating the cross-border offer of collective investment funds. In 2006, work was taken forward to build on the Green Paper on the enhancement of the EU framework for investment funds that had been published in 2005. Two expert groups were appointed to examine investment fund market efficiency and alternative investments and in July, three reports produced by these groups on investment fund market efficiency, private equity and hedge funds were published. The reports were

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<sup>43</sup> Directive 98/26/EC

<sup>44</sup> Directive 2002/47/EC

<sup>45</sup> See [http://ec.europa.eu/internal\\_market/financial-markets/collateral/index\\_en.htm#evaluation](http://ec.europa.eu/internal_market/financial-markets/collateral/index_en.htm#evaluation)

<sup>46</sup> Directives 2001/107/EC and 2001/108/EC

subsequently discussed at an Open Hearing on 19 July 2006 and opened up to public consultation. In parallel, two workshops were held to examine possible improvements to the UCITS Simplified prospectus. This work culminated in the publication on 16 November of the White Paper on Investment Funds, which sets out a number of proposed measures to make improvements to the efficiency of the European investment fund market.

The improvements put forward in the White Paper will simplify cumbersome provisions of the current UCITS Directive; ensure that investors receive useful cost and performance disclosures when selecting funds; and make it easier for the industry to achieve cost savings and specialisation benefits across the single market. Following further studies on cost-effectiveness and investor protection, the Commission plans to propose these changes in autumn 2007, in the form of amendments to the current directive. Meanwhile the Commission will also look at whether there is a need to make similar changes for other fund products, especially real estate funds, that are not covered by the current EU framework.

Furthermore, in September, the Commission services published a draft implementing directive<sup>47</sup> on the clarification of definitions related to eligible assets for UCITS. The aim of this proposal is to ensure a uniform application of the UCITS Directive, to help Member States develop a common understanding as to whether a given asset category is eligible for a UCITS and to ensure that the definitions are understood in a manner consistent with the principles underlying the UCITS Directive. Following discussion within the European Securities Committee and a resolution of the European Parliament, it is anticipated that this text should be adopted at the beginning of 2007.

*Clarification of definitions of eligible assets proposed*

## **2.8. Company law, corporate governance and financial crime**

### **2.8.1. Consultation and public hearing on future priorities for the Action Plan**

*Future priorities for Company Law and Corporate Governance clarified*

In 2006, the Commission Services carried out a consultation on future priorities for the Action Plan on Company Law and Corporate Governance<sup>48</sup>. The input to this consultation was published in a summary report and discussed at an open hearing on 03 May 2006. The results of the consultation show clear support for the application of Better Regulation principles to the field of company law and corporate governance. Commissioner McCreevy announced on 21 November that the future priority lies in increased mobility of

<sup>47</sup> Working Document ESC /43/2006

<sup>48</sup> See [http://ec.europa.eu/internal\\_market/company/consultation/index\\_en.htm](http://ec.europa.eu/internal_market/company/consultation/index_en.htm)

companies within the EU, a focus on SMEs and a simplification of the Company Law acquis.

#### 2.8.2. *Implementing measures to Transparency Directive*

The Transparency Directive, adopted in December 2004, concerns the information available to investors on companies' performance and financial position and changes to major shareholdings. It is a "Lamfalussy" framework directive and needed to be complemented with "Level 2" implementing measures. These measures contain procedural arrangements for the choice of home Member State, the content of half-yearly financial reports, procedures for the notification and disclosure of acquisition or disposal of major shareholdings, the dissemination of regulated information and the equivalence of third country issuers. These level 2 measures are due to be adopted in January 2007.

*Required  
procedures under  
Transparency  
Directive  
clarified in  
implementing  
measures*

#### 2.8.3. *Shareholder's rights*

The Commission presented a proposal for a directive to facilitate the cross-border exercise of shareholders' rights in listed companies, through the introduction of minimum standards<sup>49</sup>. The proposed directive seeks to ensure that shareholders, no matter where in the EU they reside, have timely access to complete information and simple means to exercise certain rights – notably voting rights – at a distance. Furthermore, the proposal provides for share blocking and related practices being abolished which represents a major obstacle to voting in particular for institutional investors. Negotiations both at the Council and at the European Parliament have made considerable progress and the directive could be adopted in a single reading under the German Presidency.

*Clarification to  
be brought to  
shareholders'  
rights in new  
directive*

#### 2.8.4. *Companies' capital formation, maintenance and alteration*

A directive<sup>50</sup> amending the 2<sup>nd</sup> Directive on Capital Maintenance and Alteration was adopted in September 2006. This directive is an important step towards the aim of maximising the efficiency and competitiveness of European business. It allows companies to adjust their capital size and ownership structure more easily, enabling them to react more promptly and efficiently to market developments while maintaining the protection offered to shareholders and creditors.

*Directive helps  
EU businesses to  
maximise their  
efficiency and  
competitiveness*

#### 2.8.5. *Legislative proposal on transfer of registered office*

Work has commenced on the preparation of a legislative proposal on the cross-border transfer of the registered office of a limited liability

*Legislative  
proposal on  
cross-border  
transfer of seat to*

<sup>49</sup> COM (2005)685

<sup>50</sup> Directive [2006/68/EC](#) of the European Parliament and of the Council of 6 September 2006, amending Council Directive 77/91/EEC

company. This proposal aims to ensure continuity of a company's legal personality in the event of such a transfer. It will also contain specific provisions on employee participation. The Impact Assessment to accompany this proposal has commenced and the proposal will be made in the course of 2007.

*be made in 2007*

#### 2.8.6. *Report on implementation of the Takeover Directive*

The Commission Services have published a report on the implementation of the Takeover Bids Directive<sup>51</sup>. This report analyses how the directive has been implemented in the Member States and identifies certain gaps and weaknesses in this implementation. It will be followed up in 2007 by a thorough ex-post analysis of the directive.

*Some gaps and weaknesses in implementation of Takeover Bids Directive identified*

#### 2.8.7. *Money laundering and terrorist financing*

The Third Directive<sup>52</sup> on the Prevention of Money Laundering and Terrorist Financing was adopted in October 2005 and is to be implemented at the latest in December 2007. This directive is one of a series of measures designed to protect the financial system and other vulnerable professions and activities from being misused for money laundering and financing of terrorism purposes. In August 2006, the Commission adopted 'level 2' implementing measures<sup>53</sup> concerning the definition of politically exposed person and the technical criteria for simplified customer due diligence procedures and for exemption on grounds of a financial activity conducted on an occasional or very limited basis.

*Clarifications in application of 3<sup>rd</sup> Money Laundering Directive made in implementing measures*

The Commission services also published two evaluation reports<sup>54</sup> respectively on the impact of the 2nd Money Laundering Directive on the legal professions and on the way Member States have addressed the money laundering risk inherent to non face-to-face financial transactions. The report on legal professions reveals a need for more outreach efforts and actions to raise awareness among those professions. This is for part explained by the relatively recent transposition in national law of the 2nd Money Laundering Directive. The report should contribute to a better understanding by the professionals concerned of their role in the fight against money laundering and terrorist financing. The Financial Action Task Force on Money Laundering (FATF) itself organised a conference in Amsterdam on 7 & 8 November 2006 to this end. As regards non-face to face activities, the evaluation found that different approaches have been taken at the national level in regulating the identification in non-face to face situations. These range from the prohibition of non-face to face identification to the provision of specific measures

*Reports have assessed the impact of money laundering directives on the legal profession and on non face-to-face transactions*

<sup>51</sup> Directive 2004/25/EC

<sup>52</sup> Directive 2005/60/EC

<sup>53</sup> Commission Directive 2006/70/EC

<sup>54</sup> SEC(2006)1793 and SEC(2006) 1792

and procedures to address the higher level of risk associated with such situations. Overall, the risk of anonymity seems to be in general adequately mitigated and the Third Directive on the prevention of money laundering and terrorist financing foresees that non-face to face activities are subject to enhanced customer due diligence measures.

Regulation (EC) 1781/2006 of the European Parliament and of the Council was adopted in November 2006 with a view to implementing FATF Special Recommendation VII in the EU. It provides that all fund transfers sent and received by payment service providers established in the EU shall be accompanied by precise information (such as the name, address and account number) on the sender. The Regulation will therefore create a network for the traceability of funds (audit trail) which will assist in the fight against money laundering and terrorist financing.

**2.9. Accounting**

*2.9.1. Creation of Standards Advice Review Group*

Since 01 January 2005, EU listed companies have been obliged to prepare their financial reports in accordance with International Financial Reporting Standards (IFRS).

IFRS are prepared by the International Accounting Standards Board (IASB), an independent standard-setter. Subsequently, they are endorsed for the use in the EU. The European Financial Reporting Advisory Group (EFRAG) was founded in March 2001 by the organisations representing preparers, users and accountancy professions involved in the financial reporting process. EFRAG provides opinions on whether the standard or interpretation to be endorsed complies with Community law and, in particular, the requirements of the IAS Regulation<sup>55</sup> as regards comprehensibility, relevance, reliability and comparability as well as the true and fair view principle.

*Group established to ensure the objectivity of EFRAG endorsement advice*

As EFRAG is a private body it was important to ensure that its endorsement advice is objective and well-balanced. In this context, the Commission decided to establish a Standards Advice Review Group composed of independent experts and high level representatives from National Standard Setters to reflect on the endorsement advice submitted by the EFRAG with a view to assessing whether its content is well-balanced and objective, and to advise the Commission as such.

*2.9.2. Accounting regulations adopted*

*Regulations*

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<sup>55</sup> Regulation 1606/2002

In this context, the Commission adopted a number of regulations in the course of 2006<sup>56</sup> adopting certain interpretations of and amendments to IFRS, namely IFRICs (interpretations) 7, 8 and 9 and an amendment to International Accounting Standard 21.

*adopting IASB standards and interpretations*

### 2.9.3. *Prospectus Regulation and Transparency Directive – Transitional Exemption for Third Country GAAPs*

*Exemption for third country GAAPs extended until end-2008*

In December, the Commission adopted two parallel measures which will enable third country issuers that are raising capital in the EU to continue using financial information drawn up in accordance with certain third country accounting standards until the end of 2008. Those measures are an amendment to the Prospectus Regulation and a Commission Decision under the Transparency Directive<sup>57</sup>.

The amending regulation exempts third country issuers from obligations under the Prospectus Regulation to restate historical financial information that has been drawn up in accordance with a third country GAAP, provided that one of three conditions is met. Similarly, the Commission Decision permits third country issuers to prepare its annual and half-yearly financial statements in accordance with a third country GAAP, rather than IAS as adopted in the EU, provided that one of the same conditions is met. Those conditions are either (i) that the financial information complies fully with IFRS (even if it does not comply with IAS as adopted in the EU); (ii) the information has been drawn up in accordance with either Canadian, Japanese or US GAAP; or (iii) the information has been drawn up in accordance with third country standards that are the subject of an official programme of convergence with IFRS.

These transitional measures expire at the end of 2008. From the beginning of 2009, third country issuers will have to prepare their annual and half yearly accounts under the Transparency Directive in accordance with IAS as adopted in the EU or a third country GAAP that is equivalent to such standards. Similarly, from 2009 third country issuers producing a prospectus under the Prospectus Directive will have to restate historical financial information in accordance with IAS as adopted in the EU, unless it was originally drawn up in an 'equivalent' third country GAAP. Both measures contain a timetable for the Commission to determine which third country GAAPs (if any) are equivalent before the end of 2008.

### 2.9.4. *Board responsibilities and improvement of financial information relating to financial and corporate governance matters*

*Directive should enhance confidence in companies'*

<sup>56</sup>See [http://ec.europa.eu/internal\\_market/accounting/ias\\_en.htm#adopted-commission](http://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission)

<sup>57</sup> Regulation 1787/2006 and Commission Decision 2006/891/EC, respectively



In June, Directive 2006/46/EC was adopted. This directive, which amends the 4<sup>th</sup> and 7<sup>th</sup> Company Law Directives, provides for collective board responsibility and greater disclosure on transactions, off-balance sheet vehicles and corporate governance in order to enhance confidence in financial reporting by companies.

*financial  
reporting*

## 2.10. Auditing

### 2.10.1. Report on Auditors' Liability

In October, the Commission Services published an independent study on the economic impact of current EU rules on auditors' liability regimes and on insurance conditions in Member States<sup>58</sup>. The study analyses the structure of the auditing market and its possible development in the future, describes the existing limitations in the insurance market for international audits, examines the economic needs for limiting auditors' liability and compares several possible methods for limiting liability. Preparation of the study has been accompanied by the creation of an Auditors Liability Forum composed of market experts. A Commission staff working document on auditors' liability and its impact on the European capital markets is due to be published in early 2007.

*Framework for  
auditors' liability  
in the EU  
examined*

This autumn, the Commission launched a study on ownership rules applying to audit firms and their consequences on audit market concentration<sup>59</sup>. The aim is to explore how more audit firms could be given access to the international audit market, for the benefit of companies and investors. Access to capital could be one of the key drivers.

## 3. GOING FORWARD

In 2007, the Commission will drive forward the various initiatives underway to encourage European financial integration. The White Paper on Mortgage Credit will bring to fruition four years of preparatory work on deciding the best way forward for mortgage regulation in the EU. The proposed directive on Solvency II will be a landmark measure, bringing a new risk-based approach to the insurance industry, and will bring greater clarity to the existing insurance legislation. We will move closer to the adoption of SEPA by 2008 and the considerable economic benefits that it promises to bring. The implementation of MiFID and the Code of Conduct on Clearing & Settlement will also be carefully monitored, in order to ensure that Europe's markets maintain their competitive edge. We will be moving forward to fill the key gaps in ensuring that Europe's

*Considered,  
targeted  
measures to be  
undertaken to  
enhance  
European  
financial  
integration and  
the strength of the  
European  
economy*

<sup>58</sup> See [http://ec.europa.eu/internal\\_market/auditing/liability/index\\_en.htm](http://ec.europa.eu/internal_market/auditing/liability/index_en.htm)

<sup>59</sup> [2006/S 118-125103](#)

companies can fully reap the benefits of the Internal Market, simplifying where possible to make life easier for companies. Finally, we will be further deepening and broadening our regulatory dialogues with key international partners.

#### **4. FUTURE MONITORING OF PROGRESS**

As from 2007, this progress report will be merged with the Commission's Financial Integration Monitor, resulting in future in a fuller analysis of the state of integration in the EU financial sector.

*European  
Financial  
Integration  
Report debuts in  
2007*