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Members of the Economic and Finance Council

5 May 2000

Dear Minister

ECOFIN meeting June 5 2000: Progress Report on the Action Plan on Financial Services

We understand that at your forthcoming June 5 Council meeting you are due to consider the report of the Commission and the high level Financial Services Policy Group on progress towards a single market in financial services.

I am writing on behalf of the following trade associations: the Futures and Options Association (FOA), the International Securities Market Association (ISMA), the International Swaps and Derivatives Association (ISDA), and the London Investment Banking Association (LIBA). Together we represent the interests of a broad range of participants in Europe's wholesale financial markets.

Some of us wrote to ECOFIN a year ago to urge support for the Commission's Financial Services Action Plan and to point out that rapid action could and should be taken to move to more efficient and integrated European capital markets. Whilst we welcome the political support ECOFIN and the European Council has given to the Action Plan, and to requiring action on wholesale markets as a priority, we are concerned that this support needs now to be translated into specific agreement on a number of important issues. It is a sobering thought that almost no measures to improve the workings of the single market in financial services have been adopted since the framework directives agreed nearly a decade ago.

We agree with the Lisbon conclusions that swift action to improve the workings of the EU capital markets would bring particular and immediate economic benefits. More efficient and deeper, more liquid wholesale Euro markets would bring lower borrowing costs and greater investment for European industry and would improve access to finance for smaller companies. This in turn would improve EU competitiveness, increase EU jobs and economic growth prospects.

Action on wholesale markets was supposed to represent the "early harvest" from the Action Plan. We therefore find it disappointing that little concrete progress has actually been made, despite the upbeat assessment in the first progress report agreed late last year. We hope that ECOFIN will respond to the call from Lisbon to make progress in this area and that the incoming Presidency will reflect these priorities. We are particularly concerned that the timetable for action on the Investment Services Directive seems to be slipping.

We attach a paper calling for prompt action based on the following principles:

- The regulation of cross-border wholesale business can and should be on a country of origin basis. *A draft Commission Communication was due by the end of 1999 in the original Action Plan but this timetable has now slipped. Lisbon also made an ISD review a priority. A draft Communication should now be issued as a top priority.*
- National regulations should differentiate between professional and non-professional investors. *The draft Communication should address this issue.*
- The EU's wholesale markets should be open to international competition. *It would be helpful if the Communication also addressed the treatment of third country firms dealing with professional counterparties.*
- It should be made easier for corporates to raise capital on an EU basis. *A "single passport" for issues was a Lisbon priority. A Commission proposal was due under the Action Plan by mid 2000. This timetable should not slip.*
- New forms of electronic trading systems offer scope for greater efficiency and competition and should be subject to an appropriate regulatory regime. *A Green Paper on the ISD was scheduled in the Action Plan for mid 2000, but seems to have been delayed. We agree with the Lisbon conclusions that an ISD review is a priority.*
- Investors should be free to invest prudently cross-border. *Again we welcome the priority Lisbon gave to this issue. The Communication on pension funds was welcome and needs to be followed by a draft directive in mid 2000 as planned. But action on UCITS is behind schedule.*
- Cross-border wholesale markets require greater legal certainty for collateral. *We understand that the Commission is on schedule with work on a draft directive and welcome this progress.*
- EU banks and securities firms need modern, competitive, and risk-sensitive capital requirements. *The Commission's consultative process is running in tandem with that of the G10 Basel Committee. The EU will need to move quickly to implement the outcome.*
- We must be vigilant against the creation of new barriers to cross-border business. *We are concerned that the case for a directive on market manipulation has not yet been made.*

We are sending an identical paper to FSPG members in advance of their discussion on May 11.

Mark Harding
ISDA European Vice Chairman

On behalf of
Futures and Options Association (FOA)
International Securities Market Association (ISMA)
International Swaps and Derivatives Association (ISDA)
London Investment Banking Association (LIBA).