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PARLEMENT EUROPEËN PARLAIMINT NA HEORPA PARLAMENTO EUROPEO EIROPAS PARLAMENTS
EUROPOS PARLAMANTAS EURÓPAI PARLAMENT IL-PARLAMENT EWROPEW EUROPEES PARLEMENT
PARLAMENT EUROPEJSKI PARLAMENTO EUROPEU PARLAMENTUL EUROPEAN
EURÓPSKY PARLAMENT EVROPSKI PARLAMENT EUROOPAN PARLAMENTTI EUROPARLAMENTET

WORKSHOP

**DG INTERNAL POLICIES OF THE UNION
DIRECTORATE A – ECONOMIC & SCIENTIFIC POLICY**

INTEGRATION OF EU FINANCIAL SERVICES WHO IS GAINING FROM IT?

Programme

Theme 1: Competition failures and market dominant positions

Theme 2: Access to Finance

Theme 3: Financial Education and Consultation of Consumers

**23 January 2007
European Parliament Brussels
Room ASP 5 G 3, 9.00 – 13.30
The Workshop is open to all interested parties**

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**DIRECTORATE-GENERAL INTERNAL POLICIES OF THE UNION
- DIRECTORATE A -
ECONOMIC AND SCIENTIFIC POLICIES**

**Workshop on the Integration of EU Financial Services
Who is gaining from it?**

23 January 2007
European Parliament Brussels
Room ASP 5G3, 09h00-13h30
Interpretation EN DE FR IT ES (until 12.30 only)

9.00 hrs

Introduction by Ieke van den Burg, PES, ECON Rapporteur for the White paper on Financial Services 2005-2010

The Benefits of Financial Integration for European Citizens

Intervention by Philippe Herzog, Former Vice-Chairman of ECON, Chairman of Confrontations Europe
Short discussion

9.30 - 10:45 Session 1

Competition failures and market dominant positions

- *Oligopolistic trends in financial markets;*
- *Investment banks, different roles and risk of conflicts of interest; new industry initiatives after the adoption of the FSAP measures, example of the Turquoise initiative;*
- *Growing role and influence of private bodies on modern financial markets; further need of regulation to ensure transparency and fair competition: credit rating agencies? Proxy collecting agencies?*
- *Assessment and public oversight of private normalisation and standard-setting*

Guest speakers:

- Hubert Reynier, Managing Director, Regulation Policy & International Affairs Division of the Autorité des marchés financiers, Paris

- Dr Philip Augar, former investment banker, author of "The Greed Merchants" and other books about financial services

- John Serocold, Director for Securities Trading and C&S Matters, London Investment Banking Association

- Nicolas Véron, Research Fellow at Bruegel, Co-author of "Smoke&Mirrors, Inc.: Accounting for Capitalism"

Presentation by each speaker, followed by a discussion

10:45 - 12:00 Session 2

Access to Finance

- *Access to capital, consequences of recent legislation in the field of financial services (change in depth and liquidity of markets), who is benefiting from the FSAP measures?*
- *Costs of Capital for the different end users, in particular SMEs and private consumers,*
- *Initiatives in the field of micro-finance;*
- *Venture capital, private equity*

Guest speakers:

- *Maria Nowak, Association pour le droit à l'initiative économique, Paris*
- *Marcelo Abbad, Director Microcredit Department, Obra Social "La Caixa", Barcelona*
- *Dr. Franz-Georg Leitner, Vorstandsvorsitzender, Volksbank Freiburg eG*
- *Marie-Annick Peninon-Bernard, EVCA - European Private Equity & Venture Capital Association*

Presentation by each speaker, followed by a discussion

12:00 - 13:30 Session 3

Financial Education and Consultation of Consumers

- *Consequences of developments of liberalisation/privatisation of income/social security for consumers: pensions, insurance, transfer of risk to consumers...*
- *financial literacy programs, education and information,*
- *How to improve participation and expertise of SME's and end users/ consumers in the lawmaking process at European level.*

Guest speakers:

- *Pascale Micolet-Michel, Institute pour l'éducation financière du public, Paris*
- *Breda Kutin, Director of the International Institute for Consumer research, Slovenia*
- *Dr. Zita Ceponyte, Member of FIN-USE, Lithuanian Consumer Institute*
- *Vernon Everitt, Director Retail Themes, UK Financial Services Authority*
- *Tina Sommer, Chairman for International Affairs, Federation of Small Businesses, London*

Presentation by each speaker, followed by a discussion

Order of Speakers

**Ieke van den Burg, rapporteur,
Introductory remarks**

**Philippe Herzog, former Vice-Chairman of ECON, Chairman of Confrontations Europe
"The Benefits of Financial Integration for European Citizens"**

Session 1 – Competition Failures and Market Dominant Positions	
Reynier, Hubert	Managing Director, Regulation Policy & International Affairs Division, Autorité des marchés financiers
Dr Augar, Philip	Former investment banker, author of "The Greed Merchants" and other books about financial services
Serocold, John	Director for Securities Trading and C&S Matters, London Investment Banking Association
Véron, Nicolas	Research Fellow at Bruegel, Co-author of "Smoke&Mirrors, Inc.: Accounting for Capitalism"
Session 2 – Access to Finance	
Nowak, Maria	Présidente, Association pour le droit à l'initiative économique, Paris
Abbad, Marcelo	Director Microcredit Department, Obra Social "La Caixa"
Dr Leitner, Franz-Georg	Vorstandsvorsitzender (CEO) Volksbank Freiburg eG
Peninon-Bernard, Marie-Annick	European Private Equity & Venture Capital Association
Session 3 – Financial Education and Consultation of Consumers	
Micoleau-Marcel, Pascale	Institute pour l'éducation financière du public, Paris
Kutin, Breda	Director, International Institute for Consumer Research, Slovenia
Dr Ceponyte, Zita	Member of Fin-Use, Lithuanian Consumer Institute
Everitt, Vernon	Director Retail Themes, UK Financial Services Authority
Sommer, Tina	Chairman for International Affairs, Federation of Small Businesses, London



Philippe Herzog

Philippe Herzog est président de l'association Confrontations Europe, ancien député européen et ancien professeur des Universités. Il est né en 1940 à Bruay-en-Artois d'un père chimiste d'origine croate, qui a terminé sa carrière comme directeur de recherche chez Pont-à-Mousson et d'une mère d'une famille de mineurs du Pas-de-Calais.

Ancien élève de l'École Polytechnique, dans la même promotion que Francis Mer, et de l'ENSAE, agrégé en sciences économiques, ses activités professionnelles et politiques ont été multiples.

Il débute sa vie active comme administrateur à l'INSEE (1964). Comptable national et chargé des budgets économiques, il crée, avec son collègue Gaston Olive, le premier modèle français de prévision économique (Zogol). Son premier livre "Prévisions économiques et comptabilité nationale" (PUF,1968) retrace cette période d'innovation dans le contexte de la planification française.

Il devient professeur d'université en janvier 1969, et enseigne à Clermont-Ferrand, Vincennes et Amiens ; puis à Paris-X Nanterre de 1973 à 2003.

Il adhère au PCF en 1965 où il est élu au Comité central (1972) puis au Bureau politique (1979).. Il dirige la section économique du PCF et la revue Économie et Politique. Marxiste et keynésien, il est un des auteurs du Programme Commun de la Gauche et milite pour la participation des salariés à la gestion. La section économique, notamment avec l'apport du théoricien Paul Boccara, analyse la crise du capitalisme monopoliste d'État et propose de nouveaux critères de gestion.

Membre de la Commission nationale de planification de 1982 à 1988 et du Comité économique et social de 1984 à 1989, il publie notamment " L'économie à bras le corps " (1982,1984) et " La France peut se ressaisir " en 1987 (Éditions Sociales). Dans les entreprises et dans les régions, il intervient dans les processus de restructurations avec des propositions alternatives et préconise des réformes de structures.

Militant passionné de " l'Europe autrement ", il est tête de liste du PCF aux élections européennes de 1989. Après un long combat contre les éléments les plus orthodoxes, il quitte le parti en 1996, mais sera encore candidat apparenté communiste en 1999.

Député européen de 1989 à 1999, puis de 2000 à 2004 (groupe de la Gauche Unitaire Européenne), il a été président de la commission des Relations économiques extérieures, vice-président de la commission économique et monétaire, et vice-président de la Délégation Europe /États-Unis.

Ses rapports les plus importants ont porté sur " la participation des citoyens et des acteurs sociaux au système institutionnel " qui a été voté à la grande majorité du Parlement Européen (1996), puis sur " les services d'intérêt général "(2003-2004), également adopté majoritairement après un combat riche d'enseignements et de prolongements. En 1998, le ministère des Affaires européennes lui a confié une mission sur la promotion du dialogue social européen.

Sa recherche sur la crise de la démocratie représentative et l'invention d'une démocratie participative se traduit par de nouvelles publications comme "Reconstruire un pouvoir politique - gouverner en partenaires" (La Découverte , 1997). Ses chroniques au Figaro-Économie (1999-2005) étaient très appréciées.

En décembre 1991, il est un des fondateurs de l'association Confrontations visant à la relance du débat public et en prend la présidence. Pluraliste et indépendante, elle travaille au diagnostic sur la mondialisation et à la stratégie des réformes en France et en Europe. Devenue Confrontations Europe, l'association a un bureau à Bruxelles et des correspondants dans de nombreux pays. Elle est devenue une école et un foyer d'initiatives estimé et reconnu, très actif dans les institutions européennes. Interface entre la société civile, les entreprises et l'Europe, l'association contribue à former des acteurs européens et à forger une nouvelle perspective pour l'Union. L'association rassemble aussi bien des grands patrons que des personnalités issues d'une certaine frange de la gauche. Philippe Herzog est directeur de la revue La Lettre de Confrontations Europe qui est diffusée à 28 000 exemplaires.

Philippe Herzog est l'auteur de très nombreux articles et ouvrages. Son dernier livre "Le bonheur du voyage - Ethique, action, projets pour relancer l'Europe" (ed. Le Manuscrit) fait référence. Il est décoré des Palmes académiques, de l'Ordre National du Mérite et de la Légion d'honneur.

En mai 2006, il est nommé président de l'Institut pour l'éducation financière du public (IEFP, France).

Source Wikipedia



Hubert Reynier

Managing Director, Regulation Policy & International Affairs Division of the
Autorité des marchés financiers, Paris

Dr Philip Augar

Former investment banker, author of "The Greed Merchants" and other books about financial services

For over twenty years, Philip Augar has been one of the City's top brokers. After building NatWest's equities business into a leading position, he transformed Schroder Securities and most recently was a member of the team that negotiated the sale of Schroders' investment bank to Citigroup.

The Greed Merchants

How the investment banks played the free market game

Early in the new millennium the investment banks were on their knees. Beaten by the boom and bust of the dot.com bubble, mixed up in corporate scandals and accused of uncontrolled and rampant conflict of interest, the game seemed over for the masters of the universe. Then the bounce back came. New rules, promises to be more vigilant and rising markets took the heat off. Having learned their lesson and paid their dues, the investment banks could be relied upon to oil the wheels of capitalism in this best of all possible worlds. Philip Augar's cutting critique challenges this consensus. By being able to act simultaneously for buyers, sellers and themselves, they can generate huge returns at their customers' expense. This book explains how this systematic and legal transfer of wealth occurs and answers some important questions. Do the investment banks add value through their advice? Is there a cartel? Are there any alternatives? What will happen next?

Source: Penguin Books Ltd.

Philip Augar is the author of *The Death of Gentlemanly Capitalism: The Rise and Fall of London's Investment Banks* (Penguin, 2000) and *The Greed Merchants: How the Investment Banks Played the Free Market Game* (Penguin, 2005).

Augar holds a doctorate in History and is a Visiting Fellow at Cranfield School of Management.



John Serocold, Director for Securities Trading and C&S Matters, London Investment Banking Association

Mr. Serocold advises in the areas of Equity Financing, Securities and Derivatives Markets, (including prime brokerage, clearing and settlement, securities lending and repo and treasury operations).



Nicolas Véron, Research Fellow at Bruegel, Co-author of "Smoke&Mirrors, Inc.: Accounting for Capitalism"

Nicolas Véron, an expert on financial regulation and markets, coordinates Bruegel's project on Europe's Financial Integration and Corporate Funding. He also researches the evolution patterns of Europe's largest listed companies, as well as regulatory issues including auditing and accounting standards. Simultaneously, he is Bruegel's Chief Development Officer, with responsibility for its administration and development as an independent organisation.

Véron has a background in both public policy and corporate finance. In his early career, he worked successively in a subsidiary of the Saint-Gobain Group in Berlin and Potsdam, at Rothschilds' mergers & acquisitions department in Paris, and at the office of the state representative (Préfecture) in Lille in the north of France. Between 1997 and 2000, he was the corporate adviser to France's Labour Minister Martine Aubry. He then became chief financial officer of MultiMania / Lycos France, an Internet company listed on Euronext's Nouveau Marché (2000-2002), and in mid-2002 founded ECIF, a financial-services consultancy based in Paris.

His initial training was at Ecole Polytechnique (Palaiseau, France) and Ecole des Mines in Paris. He speaks fluent English, French, German, Italian and Spanish. He is the co-author of *Smoke & Mirrors, Inc.: Accounting for Capitalism*, a book on accounting standards and practices and their evolution in a changing financial system (with Matthieu Autret and Alfred Galichon; Cornell University Press, July 2006; French version: *L'Information financière en crise*, Odile Jacob publisher, 2004), and writes a bi-weekly column on business and financial markets in *La Tribune*, France's second-leading business daily.

He is also involved in various non profit activities, including as a member of the MIT-France Board of Advisors, of the Accounting and Auditing Practices Committee of the International Corporate Governance Network, and of the editorial boards of Paris-based journals *Commentaire* and *La Vie des Idées*.

Bruegel (www.bruegel.org) is a European think tank devoted to international economics, which started operations in Brussels in 2005 with the support of European governments and international corporations. Bruegel aims to contribute to the quality of economic policymaking in Europe through open, fact-based and policy-relevant research, analysis and discussion. Since early 2005, Bruegel's Chairman is Mario Monti, and its Director is Jean Pisani-Ferry.



Maria Nowak, Association pour le droit à l'initiative économique, Paris

A la fin des années 1980 Maria Nowak, Présidente de l'Adie, a été la première à transférer le microcrédit en France en s'inspirant de l'expérience de la Grameen Bank créée par Muhammad Yunus, Prix Nobel de la Paix. Depuis, l'Adie est devenue le principal opérateur de microcrédit en France : plus de 35 000 entreprises créées avec 42 000 emplois à la clé.

L'Adie est une association qui aide des personnes exclues du marché du travail et du système bancaire classique à créer leur entreprise et leur propre emploi grâce au microcrédit.

Elle a été créée en 1989 par Maria Nowak en adaptant à la France le principe du microcrédit. Particulièrement efficace dans le cadre de l'économie du tiers-monde, le microcrédit s'est développé de façon considérable en Asie, en Afrique et en Amérique Latine. Aujourd'hui des millions de personnes à travers le monde vivent de leur travail grâce à ce type de financement. Depuis une quinzaine d'années, le microcrédit se développe dans les pays industrialisés d'Europe et d'Amérique du Nord.

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Marcelo Abbad, Director Microcredit Department, Obra Social "La Caixa", Barcelona

Marcel Abbad Sort est diplômé en droit de l'Université de Barcelone. Après 5 années passées au département juridique de la Banque Centrale Espagnole, Marcel a rejoint "la Caixa" où il a occupé plusieurs postes liés au management et à l'administration du département Affaires.

Il a été nommé Directeur du Département de Microcrédit de Obra Social "la Caixa" en 2003.



Dr. Franz-Georg Leitner, Chairman & CEO, Volksbank Freiburg eG

Dr. Leitner joined Volksbank Freiburg e.G. in July 1994 and in July 1998 was appointed CEO. Before this he held senior managerial positions in New York and London in the banking industry.

He holds a doctorate in laws from the University of Vienna and a MBA from INSEAD.

Dr. Leitner has contributed widely to professional conferences and contributed articles regarding banking to professional associations.



Marie-Annick Peninon-Bernard, EVCA - European Private Equity & Venture Capital Association

Titulaire d'un DESS de Politique Monétaire et diplômée de l'Institut d'Etudes Politiques de Paris (section Service Public), Marie-Annick Peninon-Bernard a débuté sa vie professionnelle comme analyste financier et gestionnaire de SICAV. Dès 1982, elle commence à la GMF, aux côtés de Michel Baroin, à pratiquer l'investissement non coté, activité qu'elle poursuivra à la Caisse Nationale du Crédit Agricole jusqu'en 1994. Entre 1995 et 2002, Marie-Annick Peninon-Bernard a assumé la responsabilité de Délégué Général de l'AFIC (l'Association Française des Investisseurs en Capital) et a rejoint depuis 2003 l'EVCA (European Private Equity and Venture Capital Association) où elle occupe les fonctions de responsable de la stratégie et de l'entrepreneuriat.

Créée en 1983, l'EVCA (European Private Equity & Venture Capital Association) est devenue l'organisation professionnelle de référence à l'échelle de l'Europe en matière de capital-investissement. Avec plus de 950 membres adhérents et en étroite coopération avec les associations nationales professionnelles (comme l'AFIC en France), l'EVCA, dont le siège est situé à Bruxelles, joue un rôle important de représentation de la profession auprès des institutions de l'Union Européenne et de mise en place des standards professionnels. L'EVCA est particulièrement active en terme d'études statistiques, de formation et de développement de réseaux.

Pascale Micoleau-Marcel, Institute pour l'éducation financière du public, Paris

Récemment créé, l'Institut pour l'éducation financière du public, association qui réunit, au sein de son conseil d'administration, des représentants des professionnels de la finance et de la société civile, a pour ambition d'aider les Français à mieux maîtriser les dimensions financières de leur vie et de susciter la mise en œuvre d'une politique globale de formation et d'éducation du public sur les questions financières. Car comprendre la finance, c'est être en mesure de faire des choix conscients et mieux maîtriser son avenir.

En effet, les différents partenaires de l'institut ont ressenti la nécessité de mobiliser l'opinion sur la question des substituts possibles aux régimes classiques de retraite par répartition, de faciliter la compréhension de produits financiers d'une complexité sans cesse croissante, et d'aider les Français à s'y retrouver dans les supports d'épargne collective. Dans ce contexte, l'IEFP entend promouvoir l'éducation financière à l'école, la formation dans l'entreprise aux mécanismes d'épargne salariale et aux principaux concepts de la finance personnelle, l'information du consommateur de produits financiers.



Breda Kutin, Director of the International Institute for Consumer research, Slovenia

Born 1 of October, 1954 in Ljubljana and graduated from the Faculty of Economics in Ljubljana in 1978 where she obtained her university degree. During the time of her university studies (1971 - 1975) she was engaged in press and worked on a contract basis for the newspaper DELO. She was involved in the area of sports and finances. From 1978 to 1983 she worked as a counsellor in the Ministry of Economic Relations and Development and from the year 1983 to 1985 as a counsellor in a commercial company SOZD KEMIJA. From 1985 she was a Research officer and from 1986 until 1990 Head off Research Unit in the Institute of Home Economics. Her present post since 1993 is a Director of International Consumers Research Institute.

Involvement in the field of consumer protection:

Since 1990 President of the Slovene Consumers' Association (SCA-Zveza potrošnikov Slovenije)

Since 1991 Chief editor of the consumer magazine VIP

1992-1996 Member of the Board of Directors of the Slovene Housing Fund

Since 1992 Chair of a Committee within the Slovene Housing Fund

Since 1993 Board Member of the Slovene Institute of Quality (SIQ)

Since 1993 Representative of the Slovene Consumers' Association in International Testing (ICRT)

Since 1994 Member of the American Council on Consumer Interest

Since 1994 Council Member of the Consumers International (CI)

Since 1995 Representative of SCA in European Consumer Association BEUC

Since 1997 Member of the Board of Directors of the European Research Institute Into Consumer Affairs ERICA

Co-author of the publications:

- Comparative study of Comparative testing in UK , Sweden and Germany, 1987
- Handbook: Consumer Policy and Consumer Organisation in Central and Eastern Europe, 1996
- Consumer Policy and Consumer Organisations in Central and Eastern Europe, 2000
- Guidelines for Cconsumer Policy in Central and Eastern Europe, 2000

Dr. Zita Ceponyte
Member of FIN-USE, Lithuanian Consumer Institute

FIN-USE experts have been selected by the Commission on the strength of their user background. FIN-USE members include consumer protection and small business experts, academic researchers and staff from major consumer and small business organisations.

The FIN-USE mandate is to strengthen the role of consumers and small businesses in the on-going evolution of the EU financial services sector. Historically, the national regulation of these matters has often involved ministries of justice, of consumer protection, of economics and of enterprise. FIN-USE begins with a similarly broad view of the range of societal interests that are affected by the financial services sector. In its perspective, financial services are not only a tool to increase income and wealth but also a means by which adequate consumption and employment can be achieved.

The Forum will deal with all financial services as defined in the Distance Marketing Directive, i.e. any service of a banking, credit, insurance, personal pension, investment or payment nature.

FIN-USE will monitor and comment on all measures affecting the relationship between consumers and small businesses, on the one hand, and banks, insurance companies and other financial services provider on the other.

The FIN-USE experts' understanding of the financial integration process thus far leads them to set out two more specific goals. First, they want to bring a more nuanced and more pragmatic vision of how consumers and small businesses will respond to the new reality of an expanded market for financial services. For example, the diversity of users suggests that what might be beneficial for the average user could be detrimental for users who have limited access to information. Second, they would wish to comment on the process by which change is being managed by the Commission. For example, they believe that it matters a great deal whether the Commission adopts a policy of minimum or maximum harmonisation, of mutual recognition or respect for the national culture.

In the end, however, they share an underlying goal with the Commission and with the suppliers of financial services. They all desire a well-functioning pan-European market that provides valuable services to consumers, that allows suppliers to function efficiently and profitably and that protects consumers against the threats that often accompany commercial relations.



Vernon Everitt, Director Retail Themes, UK Financial Services Authority

Vernon Everitt, 36, worked at the Bank of England from 1980 to 1998. From 1987 to 1992 he held a number of positions in the Banking Supervision Division, including line, policy and legal roles. From 1993-1997 he worked in the Banks Press Office taking the lead with the media on banking supervision, policy and enforcement. From 1997 to 1998, he managed a project to ensure that the Banks back office systems were capable of dealing with the introduction of the euro.

He joined the FSA on its creation in 1998. As Head of Communications Infrastructure, he assumed management responsibility for internal communications, external publications, plain language, conferences/events, internet and intranet sites and the FSAs in-house Information Centre. More recently, he worked in the Financial Supervision Year 2000 Unit.



Tina Sommer, Chairman for International Affairs, Federation of Small Businesses, London

The FSB is the largest campaigning pressure group promoting and protecting the interests of the self-employed and owners of small firms. Formed in 1974, it now has over 200,000+ members across 33 regions and 230 branches. On the member benefits side, it offers assistance and support 24 hours a day, while its lobbying arm - led by the Westminster Press and Parliamentary office - applies pressure on MPs, Government and Whitehall, lobbies politicians in their constituencies and puts the FSB viewpoint over to the media.

Session I

Competition Failures and Market Dominant Positions

Hubert Reynier

Philip Augar

John Serocold

Nicolas Véron



Hedge Funds and regulatory responses: the French AMF perspective

**European Parliament – *Workshop on the integration of EU
Financial Services* – January 23rd, 2007**

Hubert Reynier, Managing Director
Regulation and International Affairs Division
Autorité des marchés financiers (AMF)
*Chairman of IOSCO Standing Committee 5 to Investment
Management*

Hedge Funds and regulatory responses: the French AMF perspective

I. Hedge Funds: prejudice and reality

II. What does a more rational risk-analysis say?

III. What regulatory responses could work most efficiently?

I – Hedge Funds: prejudice and reality

Hedge Funds: prejudice and reality (1/3)

- Hedge Funds are a very blurred notion as none of the IOSCO members have reported a legal definition (...)
- (...) but everybody seems to agree with the following criteria:
 - **no restrictions** imposed on investment funds in terms of diversification and marketability of financial assets → Hedge Funds can acquire significant amounts of illiquid or complex assets;
 - unlimited use by hedge fund managers of **derivatives** and complex **financial techniques** → possibility to sell short;
 - intensive use of **leveraging** by managers, thanks to the prime brokers → aggregate leverage at 2.4 with high at 15 (LTCM was between 25 and 50);
 - **substantial performance commissions** → the 2% and 20% rules is a powerful incentive to take significant market risks;
 - fund **shares** often **not redeemable at any** time by investors → lock-up periods of 2 and 3 years in general.

Hedge Funds: prejudice and reality (2/3)

- Hedge Funds would be totally unregulated, as their investment vehicles are all located in offshore centers and out of the reach of financial supervisors;
- (...) but IOSCO 2006 survey indicates 18 of the world's 20 largest financial regulators *supervise* Hedge Funds in one way or another (the funds, their managers or their distribution);

Hedge Funds' activity is also *indirectly* regulated:

- through the prudential monitoring of **banks** and **prime brokers** which supply the necessary leverage to hedge funds;
- or, in continental Europe, through the **depository** which plays a key role in the external control of Hedge Funds.

Hedge Funds: prejudice and reality (3/3)

- Hedge Funds would exclusively be sold to high net worth individuals (...)
- (...) but the recent growth of assets under management is largely explained by the expansion of Hedge Funds' client base:
 - **institutional investors**, including pension and collective management funds, have significantly increased their holdings in Hedge Funds;
 - in many countries (Hong Kong, Australia, Germany, France and soon the U.K), **retail investors** with relatively more modest financial means **can invest** in alternative management products → mainly through Funds of Hedge Funds which now represent 40% of assets under management;
 - in Europe (Netherlands and UK tomorrow), listing of Hedge Funds is becoming the new trend to **circumvent redemption policy** and create a **more liquid secondary market** for investors.

II - What does a more rational risk-analysis say?

The five main regulatory risks raised by Hedge Funds (1/5)

September 2006: Amaranth lost USD 6 Bln in 1 month

Between 3 and 5% of Hedge Funds collapse every year

→ The systemic risk, i.e. the risk of overall destabilization of financial markets stemming from the failure of a large-size hedge fund or a chain of failures of several smaller hedge funds

The five main regulatory risks raised by Hedge Funds (2/5)

Hedge Funds represent only 3% of assets under collective management but 30% of the daily flows on the main international stock markets

→ The risk of market abuse, i.e. potential market price manipulations and insider trading

The five main regulatory risks raised by Hedge Funds (3/5)

Hedge Funds influence the strategy of a growing number of listed companies amid increasing numbers of Take-Overs in Europe

→ The risk of misbehavior at shareholders' meetings, and more particularly the question of stock lending to acquire votes at the general assembly of listed companies

The five main regulatory risks raised by Hedge Funds (4/5)

Valuation related losses in HF globally totalled USD 1,6 Bln in 2005 (*FSA source*) and 20% of Hedge Fund Strategies and Portfolio are hard to value (*2004 AIMA estimation*)

→ The operational risk, and more particularly the risk of inadequate valuation of illiquid or complex assets

The five main regulatory risks raised by Hedge Funds (5/5)

The UCITS and prospectus directives, may lead to an increasing number of possibilities for retail investors to buy direct or indirect exposure to Hedge Funds

→ The risk of misselling, i.e. the marketing and selling of inappropriate alternative products to insufficiently informed retail clients

III – What regulatory responses could work most efficiently?

The regulatory responses (1/5)

The systemic risk

→ Improving the investors' credit risk assessment on Hedge Funds

The recent suggestion of Hedge Funds' rating is worth looking at, under the following conditions:

- **goal of the approach** to be correctly defined:
control of hedge funds' operational risks *versus* to the prevention of systemic risks on a global scale;
- **the subject of the rating** to be defined: funds and/or the managers?
- a **supplementary prudential procedure** to be studied, in terms of capital allocation by the prime brokers (Basle II agreement) and based on the published ratings of hedge funds.

The regulatory responses (2/5)

The risk of Market Abuse

→ Improving the transparency of the OTC market

- **The US** initiative of creating a giant database in the field of credit derivatives, the DTCC-managed “Trade Warehouse”, is intended for global geographic coverage with further extension to other types of fixed-income and equity derivatives;
- **Europe** should urgently set up a similar instrument.

The regulatory responses (3/5)

The risk for the governance of listed companies

→ Improving the stock lending practices

- At the time of the general meeting, managers should recall the shares they have lent (AMF recommendation in line with the UK Myners Report, 2005)
- France has implemented an original regulatory framework for the transparency of the voting rights exercise by asset management companies
 - to be organized in Europe?

The regulatory responses (4/5)

The operational risk

→ Improving the Hedge Funds valuation process and internal controls

- The SC5 of IOSCO is pursuing a fruitful dialogue with industry representatives to establish principles for the valuation of illiquid or complex assets held by Hedge Funds.

→ **IOSCO principles to be published in April 2007**

The regulatory responses (5/5)

The risk of misselling

→ Improving standards for retail exposure to alternative products

- The discussion on eligible asset for UCITS and the question of the eligibility of hedge funds indices : the future reply of CESR;
- The key question of **funds of hedge funds** regulation after the recommendations of the European Commission Expert Group on Hedge Funds (July 2006): the AMF wishes to promote best practices in the area of the management of funds of hedge funds

Conflict of interest in investment banking

Dr Philip Augar

Brussels 23 January 2007

What do we mean by integration?

- ◆ American model, accepted globally
- ◆ Integration of broking, corporate finance and principal investing
- ◆ Within broking, integration of client advice with own account trading
- ◆ Involvement of investor facing staff in services to corporates

The Eliot Spitzer moment

- ◆ 2001- Wall Street on the run
- ◆ Calls for an end to the days of “cooking the books and shading the truth”
- ◆ And a return to “trusted advisers not salesmen with a hidden agenda”
- ◆ 2003- regulation not structural reform.

Four key questions

- ◆ Where is there potential conflict of interest?
- ◆ Can such conflict be managed?
- ◆ If not, does it matter?
- ◆ Can we rely on the invisible hand of market forces to ensure fair play?

Where is there potential conflict?

- ◆ Share issues
- ◆ Client advice and trading
- ◆ Proprietary trading
- ◆ Principal investing

Can conflict be managed?

- ◆ Advising issuer and investor hard to reconcile
- ◆ 2003 settlement merely pushes conflict below the surface
- ◆ Own account trading/investing hard to reconcile with customer advice

Does it matter?

- ◆ Sophisticated clients
 - ◆ Efficient markets
 - ◆ Reputation
 - ◆ Intelligent regulation
- BUT
- ◆ Premium returns in investment banking
 - ◆ Market's end user is not sophisticated
 - ◆ End user funds the returns

Whatever happened to the invisible hand?

- ◆ End users a long way from the action
- ◆ Vested interests
- ◆ Hard for new players to break in
- ◆ Price competition not very important

Oligopoly?

- ◆ “When a few firms dominate a market. Often they can together behave as if they were a single monopoly, perhaps by forming a cartel. They may collude informally, by preferring gentle non-price competition to a bloody price war.” *Economist.com*

Investment banking in Europe

John Serocold

London Investment Banking
Association

Oligopoly?

- Barriers to entry low in many areas
- Benefits of scale and scope passed on by competitive initiatives

Project 'Turquoise'

- Open architecture
- Pro-competitive
- Enabled by MiFID
- Needs clearing and settlement reform

Clearing and settlement

- Boring but important
- Lots of technical detail: software, networks and legal
- Facilitates competition between trading platforms
- Progress *is* being made
 - Joint effort by public and private sectors
 - Joint effort by suppliers and market users

Better regulation

- Objective: employment, prosperity and growth
- Efficient, internationally competitive financial markets are a tool
- Principles of better regulation: the questions:
 - Is there a problem caused by market failure?
 - Should the authorities intervene?
 - Will the authorities' intervention yield benefits, net of the costs of intervention?
- Sometimes the answer is “No”...

Conclusions and questions

- Can and should the financial services industry do more to explain the issues to parliamentarians?
- Shouldn't we consider other areas requiring attention, and monitor implementation of FSAP measures?



Regulation and Self-Regulation in Financial Services

Nicolas Véron, Research Fellow at Bruegel

Workshop on the Integration of EU Financial Services

European Parliament, 23 January 2007



An Era of Distributed Authority

- **Globalising Markets Straddle Jurisdictions**
- **Regulatory Competition is a General Consequence**
- **But Markets Also Need Common Rules and Enforcement**
 - Umbrella Rules: International Organisations
 - Horizontal Cooperation between National Agencies
 - 'Disaggregated States' forming 'Government Networks'
 - e.g. IOSCO, IAIS, Basel Committee, Financial Stability Forum, Transatlantic Dialogue on Financial Services; Lamfalussy Level-3 Committees at EU Level
 - Cross-Border Private-Sector Actors
 - Firms: Investment Banks, Rating Agencies – and now, Stock Exchanges
 - Big Four Audit Networks
 - Non-Profit Rulemaking Bodies: IASB, IFAC, CFA Institute
- **Legitimacy / Efficiency Trade-Off?**

“ Formal organisations acting on the basis of instructions that come up the accountability channels of sovereign states are too inefficient to suit the economic needs of the global economy. We have accepted a trade-off of legitimacy, transparency, and accountability for the sake of efficient decision making in the economic realm ”

Francis Fukuyama, *America at the Crossroads*, 2006

- **Not an Unprecedented Story: Medieval *Lex Mercatoria***



Europe's Current Regulatory Structure

- **A Massively Multiplayer Game**
 - European Commission
 - (Various) National Regulators
 - Sub-National Regulatory Framework, e.g. Germany
- **Market Integration Spurs Regulatory Competition**
 - Different National Markets
 - Different National Regulatory Models, Systems of Law
- **Implementation of Recent Legislation Will Be Testing**
 - IFRS Implementation
 - MiFID Implementation
 - Will the Lamfalussy Structure Cope?
- **Compliance with Subsidiarity Principle Not Self-Evident**



Credit Rating Agencies

- **Origins: Independent Financial Research / Financial Press**
- **Significant Market Power**

“There are two superpowers in the world today in my opinion. There's the United States and there's Moody's Bond Rating Service. The United States can destroy you by dropping bombs, and Moody's can destroy you by downgrading your bonds. And believe me, it's not clear sometimes who's more powerful.”

Thomas Friedman, interview by David Gergen on PBS, February 1996

- **High Profit Margins**
- **Mixed Performance in Spotting Financial Risk**
- **Does Regulation Lower or Increase Barriers To Entry?**
- **No Scandal**



Private Standard-Setting: The IFRS Experience

- **Success So Far**
 - Innovative Response to Need For Globally Shared Norms
 - High-Quality Platform of Standards
 - European Transition Costly But Smooth
 - Bandwagon Effect: Canada, Japan, China, etc.
- **Challenges Ahead**
 - Implementation Challenge
 - High Stakes for the EU
 - Excessive Subservience to US Authorities (Convergence)
 - Recent Developments Not Encouraging (IFRS8)
 - IASCF/IASB Governance Remains Fragile
 - Lack of Accountability Mechanisms, imperfect Transparency
 - Weak Investor Representation
- **Success By No Means Guaranteed**



Thank You For Your Attention

Nicolas Véron

+32 473 815 372, n.veron@bruegel.org

Rue de la Charité 33, B-1210 Brussels

www.bruegel.org

Session II

Access to Finance

Maria Nowak

Marcelo Abbad

Dr. Franz-Georg Leitner

Marie-Annick Peninon-Bernard



Access to finance : initiatives in the field of microfinance

Objective 2007-2013 : Build an inclusive financial sector ?

Workshop on the integration of EU financial services

23 January 2007
European Parliament Brussels

The renewed Lisbon strategy for growth, employment and Social Cohesion

- The Community Strategic Guidelines on Cohesion 2007 - 2013
 - 2 out of 3 priorities refer to « entrepreneurship » and « entrepreneurial activity »
 - The guidelines include :
 - improving access to finance
 - outreaching to disadvantaged groups
 - ESF, ERDF (JEREMIE) European Globalisation Fund and Agricultural Fund can finance microcredit
- Competitiveness and innovation framework programme (CIP) 2007 - 2013
 - includes a microcredit guarantee facility which exists already under that multiannual programme for enterprise and entrepreneurship (MAP)

How to define microcredit in Europe ?

International definition based on social target (active poor who do not have access to banks) + financial sustainability.

In Europe, given the high density of banks, the definition could be based on a segmentation of the market.

Segment	Clients	Suppliers	Public support needed
Bank microcredit or minicredit	Bankable clientele	Commercial and cooperative banks	Guarantee funds securitisation
Upper segment, corresponding to a market failure	Existing microenterprises		Start-up capital Risk capital (ex : EBRD in Central Europe, OSEO in France, ICO in Spain)
Indicative amount of financing : 15 to 50 000 euros, 50% of which relating to microcredit	Classical Start-ups	Banks specialised in microfinance (ex : ProCredit Banks)	Subsidies for excess operating costs (ex : KfW in Germany)
		Savings and credit cooperatives, or credit unions (ex : SKOK en Pologne)	Business support services

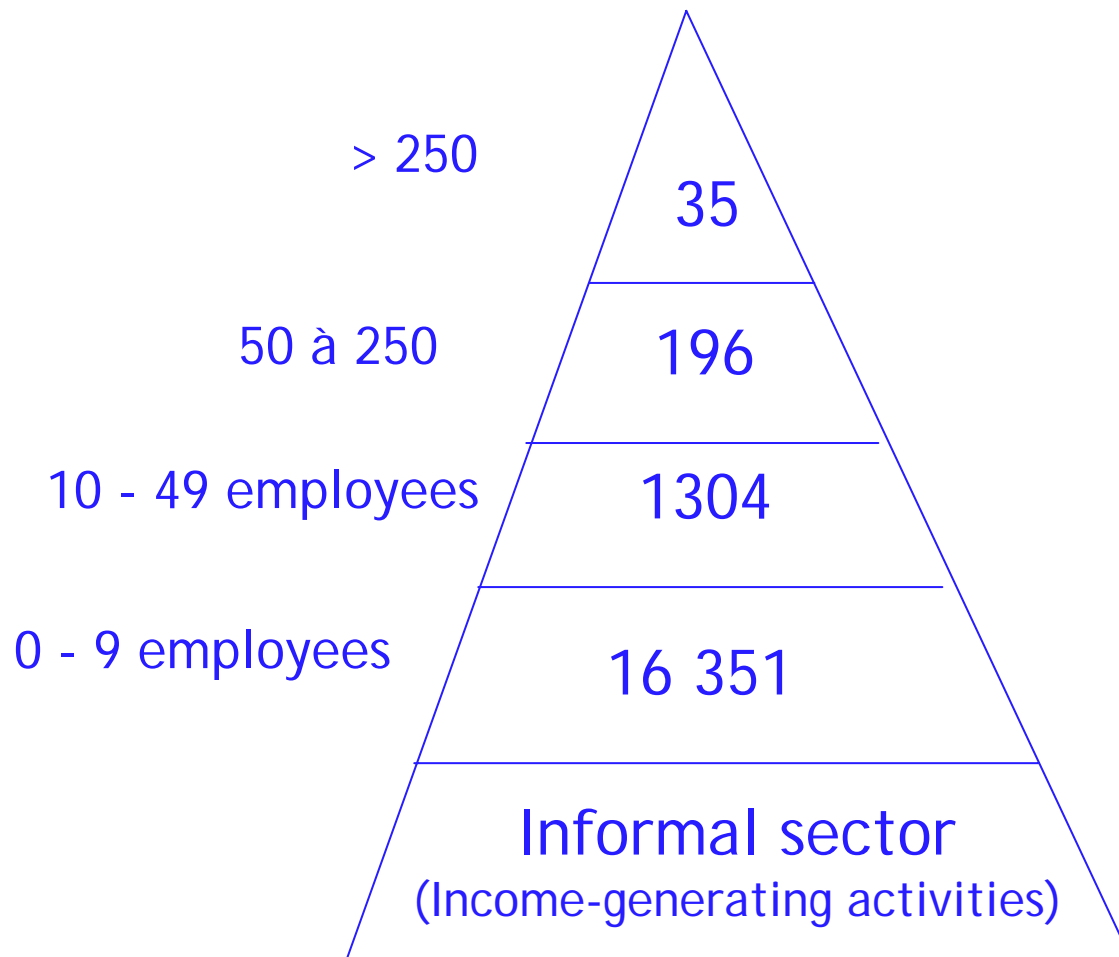
How to define microcredit in Europe ?

<p>Microcredit</p> <p>Lower segment corresponding to a market failure</p> <p>Indicative amount of total financing : up to 15 000 euros 50% of which relating to microcredit</p>	<p>Clientele not immediately bankable</p> <p>Self-employment and microenterprises created by persons in difficulty : unemployed, social welfare recipients, immigrants, ethnic minorities, etc.</p>	<p>Nonbank microfinance institutions (MFIs) recognized in the banking law (ex : Adie, France)</p> <p>Bank foundations (ex : Un Sol Mon, Sapin)</p> <p>Special bank windows or branch (ex : la Caixa, Spain)</p>	<p>Start-up subsidy, guarantees</p> <p>Subsidies for excess operating costs and business support services</p>
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<p>Local finance</p> <p>Institutions not subject to bank regulations</p>	<p>Classical microenterprises, microenterprises created by persons in difficulty</p>	<p>Local funds (ex :Poland)</p> <p>Community finance (ex : CDFI in United Kingdom)</p> <p>Solidarity finance (ex : FIR, France Active in France)</p>	<p>Subsidies</p> <p>Loans, if authorised</p>
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Potential demand at the bottom of the pyramid estimated at a minimum of 11 millions clients

Number of enterprises in Europe (in thousands)



- 92% of enterprises in Europe are microenterprises (0 - 9)
- Informal sector represents 10 to 15% of GDP
- Active population under the poverty line : 28 million

Development of microcredit supported by two major trends :

- Economic : increasing part of services in the GDP and new communication technologies ➔ development of small production units
- Demographic : decreasing active population and increasing immigration ➔ reform of the Welfare State and more active inclusion policy

A diversified but very limited supply

Downscaling commercial banks ↗ Bulgaria, Romania with the support Of EBRD

Downscaling savings banks ↗ la Caixa (Spain)

Savings bank Foundation ↗ Caixa Catalunya

State-owned financial institution ↗ Finnvera (Finland)

Company ↗ Fundusz Mikro (Poland)

Microfinance bank ↗ ProCredit Bank (Bulgaria, Romania)

Savings and credit cooperatives ↗ UK, Ireland, Poland, Romania, Bulgaria, Czech Republic

Nonbank institutions ↗ Adie (France), Credal (Belgium), ANDC (Portugal)



Rate of penetration of the market : less than 5%

Three major drivers of microcredit development

I - Retail management : MFIs' combining social and financial performances

Social performances

- Focus on people who don't have access to banks
- Choice of methodology adapted to the target population (individual or group lending)

Financial performances

- Good control of risk
- application of best practices and new technologies to reduce transaction costs

II - Financing : combination of grants and market resources

- Self-generated income, at this stage, insufficient in most countries to cover the costs of credit..
- Grant financing necessary to support the start-up of MFIs, compensate, partly, high transaction costs of small credit and finance business development services...
- Soft financial resources for equity investment, lines of credit, guarantee, securitization etc...

Sustainability of MFIs remains a long term objective

III - Favourable institutional environment

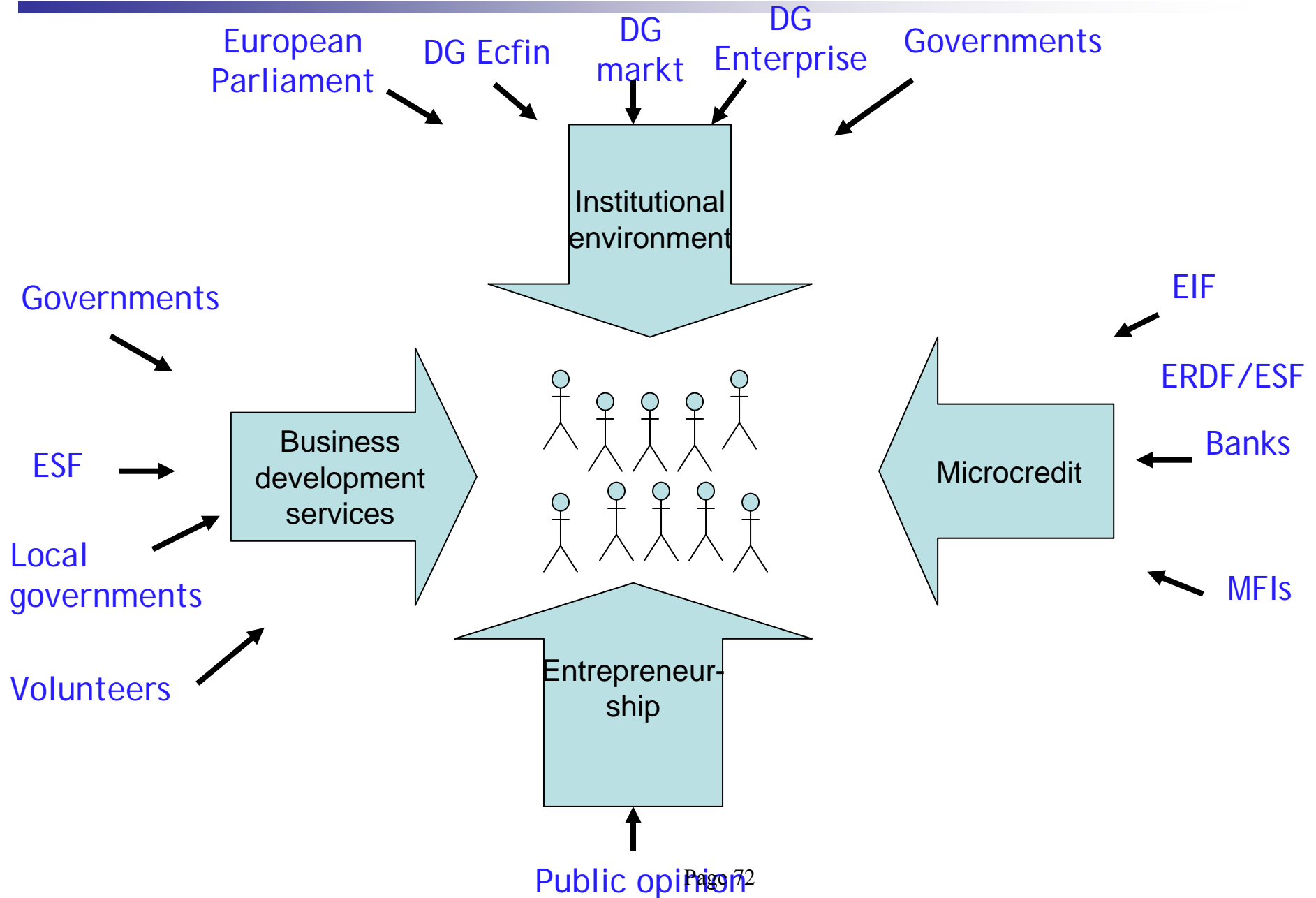
Policy measures for microcredit

- Flexible interest rates
- Clarification of the impact of Basel II on microcredit development
- Authorization given to credit unions to mobilize savings and to finance small business loans
- Authorization to borrow and on-lend for nonbank institutions
- Favourable fiscal status for MFIs (tax waivers or incentives)

Policy measures for microenterprises

- Simplification of administrative regulations created for larger enterprises
- Low taxes and social insurance fees, especially at the outset
- Income bridge during the transition from welfare system to self-employment

Complementary roles of different actors



Impact of microcredit in Europe

- Contribution to growth by developing microenterprises and transforming people who are unemployed or on welfare into creators of wealth
- Social cohesion and integration of immigrants and ethnic minorities
- Development of human capital by promoting self-confidence and entrepreneurship, and creating opportunities for all segments of population
- In countries with a large agricultural sector and hidden unemployment in agriculture, development of microenterprises helps modernizing the sector. In countries with depressed rural areas, microcredit contributes to local development
- In areas of industrial restructuring it is a way of creating local employment

Conclusion

Following Eurofi conference on retail banking organised in the European Parliament in June 2006 microcredit action plan for Europe is being prepared by EC at the initiative of DG Regio

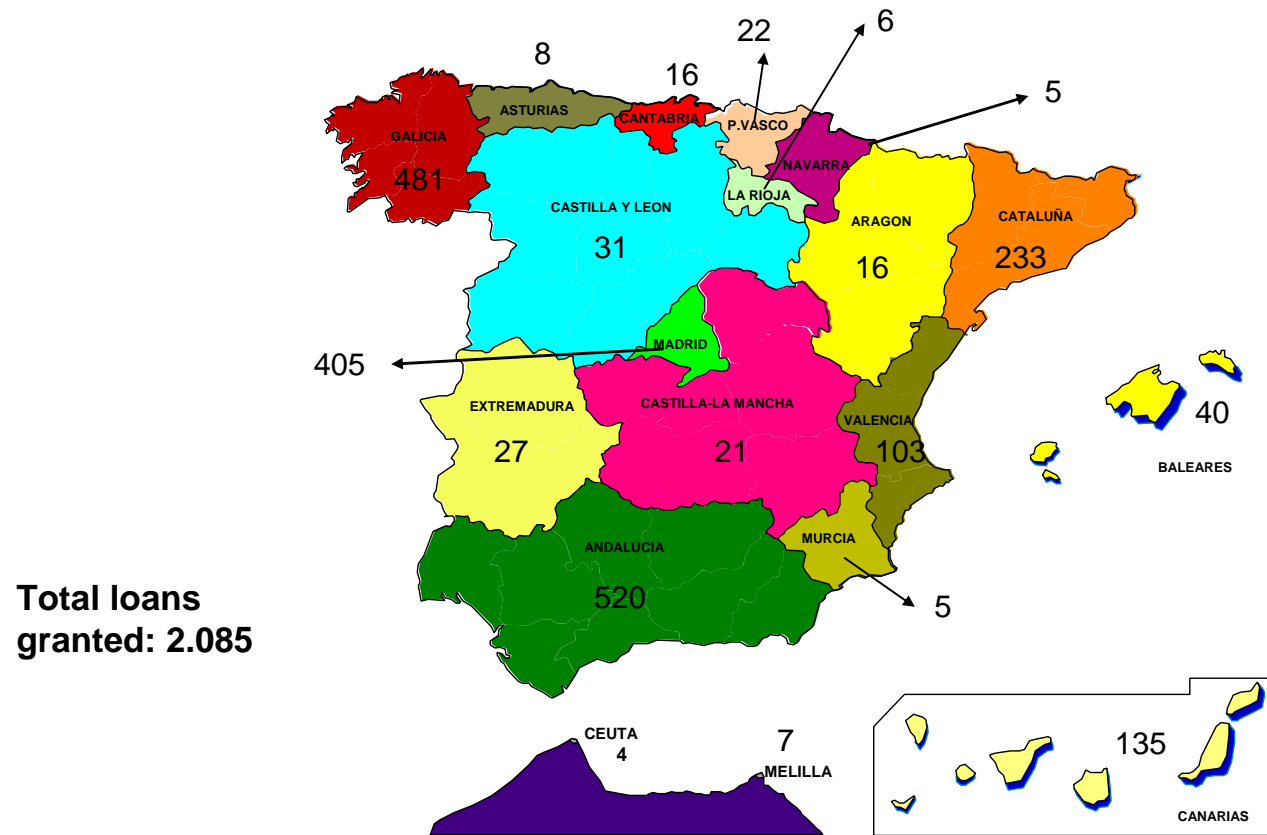
The support of the European Parliament and inclusion of microcredit in the proposals formulated by the Economic and Financial Affairs Committee in respect of financial services policy are essential for its success

MICROCREDITS***(INFORMATION AT DECEMBER 31, 2006)***

Significatives informations

- Total microcredits analysed (from 2000 to 2006): **2.653**
- Total amount analysed (from 2000 to 2006) : **40.893.737 euros**
- Total microcredits granted : **2.085**
- Total amount granted: **29.304.350 euros**
- Total microcredits prevailing: **1.714**
- Amount microcredits prevailing: **18.595.658 euros**
- Total microcredits year 2006: **613**
- Total Agreements signed: **215**

Loans submitted for CC.AA.



Microloans granted by finality

Microloans. Finality

Finality	%
Shops	27,02
Services (Social Assistance, Couriers, Traders, gardening, cleaning, ...)	25,28
Bar/coffee-shop/Ciber-coffee	9,01
Restaurant/catterings	7,37
Hairdresser's shop, esthetics	5,83
Repair's shop	5,42
Locutories	2,87
Training centres	2,76
Clinics	2,46
House's assistance	2,15
Consultants	2,05
Transport	1,54
Book's shops	1,43
Nurseries	1,33
Bakeries	1,23
Travel agencies	0,82
Import	0,72
Video shops	0,31
Apiculture	0,31
Pet shops	0,10

DISTRIBUTION BY NATIONALITY.
Loans at December 31, 2006

País	Núm. oper.	Importe concedido
ESPAÑA	1484	21327613
ARGENTINA	107	1451402
COLOMBIA	92	1235252
ITALIA	61	812478
ECUADOR	39	533237
VENEZUELA	31	399068
PERU	29	382636
MARRUECOS	28	351215
FRANCIA	27	329599
URUGUAY	22	282682
CUBA	12	165000
MEXICO	11	144000
RUMANIA	9	133186
BOLIVIA	9	132020
BULGARIA	9	108300
UCRANIA	9	104837
POLONIA	8	117000
ALEMANIA	7	96112
BRASIL	7	92020
CHILE	6	86000
AUSTRIA	4	60000
CAMERUN	4	60000
SUECIA	4	57020
GUINEA ECUATORIAL	4	51000
PAKISTAN	4	51000
SENEGAL	4	38000
RUSIA	3	45000
ARGELIA	3	45000
REINO UNIDO	3	43000
REPUBLICA DOMINICAN	3	42709
PORTUGAL	3	42020
NIGERIA	3	40000
BELGICA	3	34500
ARMENIA	2	30000
IRAN	2	30000
SUIZA	2	27400
SIRIA	2	24020
GEORGIA	2	20300
HOLANDA	2	20000
CONGO	2	15000
LITUANIA	1	15000
BIELORRUSIA	1	15000
CROACIA	1	15000
TUNEZ	1	15000
GUINEA	1	15000
GHANA	1	15000
ANGOLA	1	15000
COSTA RICA	1	15000
INDIA	1	15000
EL SALVADOR	1	14923
COSTA DE MARFIL	1	13000
MONGOLIA	1	13000
DINAMARCA	1	12000
NIGER	1	12000
CHINA	1	12000
ESTADOS UNIDOS DE A	1	10500
JAPON	1	9800
SIERRA LEONA	1	7000
OMAN	1	5500
TOTAL	2085	29.304.351

	Operations number	Amount granted
Spanish holders	1.484	21.327.613
Other nationalities	601	7.976.738
% Other nationalities	28,82%	27,22%

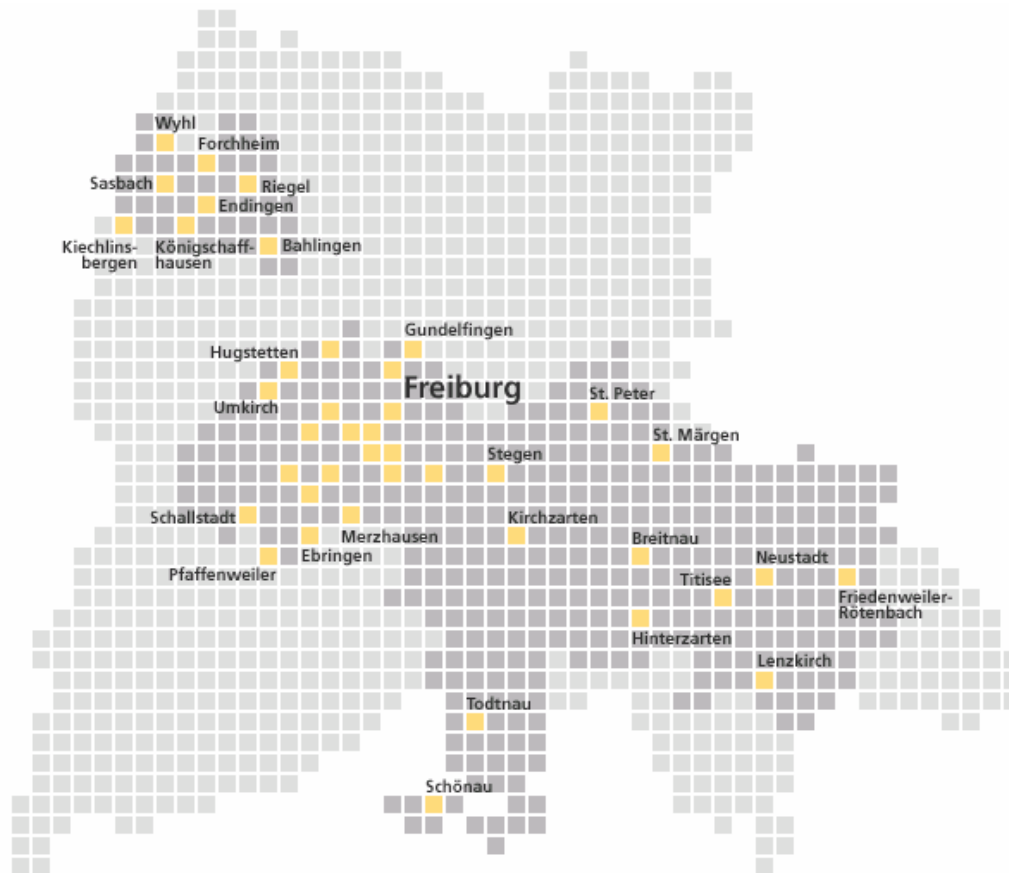
	Number	% under TOTAL	Amount granted	% under TOTAL
Women	1.508	72,33%	20.740.408	70,78%
Mans	577	27,67%	8.563.943	29,22%
TOTAL	2.085		29.304.351	

European Parliament Workshop on the Integration of EU Financial Services

Volksbank Freiburg –
Player in a highly competitive regional market

Brussels
23 January 2007

...small but big in its region



Regions:

- Kaiserstuhl
- Freiburg
- Schwarzwald

Population:

- ca. 300.000

Market share:

- > 30%
- ca. 145.000 cust.

Balance sheet total:

- 2 billion EUR

Ressources:

- 550 employees
- 40 branches

Their characteristics

Types of credit Characteristics	Consumer Credit	Housing Loans	SME Loans
Loan volume	small	small to medium	large
Collaterals	none	easy to handle	complex
Credit Documentation	little	little	very individual
Credit Decision	scoring	scoring or indiv. analysis	indiv. analysis, rating
Credit Assessment	case-related	case-related	annually
Customer knowledge	not necessary	less important	very important
E-Banking	yes	coming	still far away
Potential risk to bank	small	medium	high
General entry barrier	low	medium	high

Asset structure^{*)} of Volksbank Freiburg

	Balance sheet	VoBa group	Total
■ Consumer Credit	69.9	23.4	93.3
■ Housing Loans	585.1	188.5	773.6
■ SME Loans	499.2	10.0	509.2
	1154.2	221.9	1376.1

^{*)} as per 31 December 2006, in mio. EUR

A lot of banks are competing in Freiburg

Consumer

Sparkasse
Noris
Teambank
Fortis
PSD
Citi
Sparda
ING-DIBA
DKB

Housing

Sparkasse
PSD
Fortis
BBBank
Sparda
ING-DIBA

SME

Sparkasse
LBBW
DeuBa
DreBa
CoBa

Strong new business shows the strategy of a regional co-operative bank is working

	Consumer	Housing	SME
■ New business (in mio. EUR)	11	145	120
■ Compared to 2005	-24%*)	+17%	+34%

*) In 2005: Increase of 60%

Basel II and the German implementing guidelines (MaRisk) had a positive influence on the credit business

- No influence on the volume of new business
- Streamlining of loan processing
- Increased transparency within banks' loan portfolio
- Risk-orientated pricing (spread of margins)

But:

Any regulation has to be well-targeted, drafted with great care regarding its impact on banks and customers and not be too bureaucratic to handle.

Rating procedure improves communication with the customer

- Clear and prompt documentation
- Rating dialogue

Result:

Customers and banks have become more 'professional'

Where are we going to?

- The increasing importance of electronic distribution channels will lead to an ever increasing competition within the banking business
- Standardised credit processing and risk assessment will lead to bigger units that are not necessarily locally bound ...
...and even lead to reducing the role of banks (zopa.com)
- High level of advice and customer proximity lead in general to high entry barriers...
...however German major banks come back in all regions of Germany

The market alone is generating considerable competition!

Workshop on the Integration of EU Financial Services - Who is gaining from it?

Marie-Annick Peninon-Bernard
EVCA Public and Regulatory Affairs Director

European Parliament, Brussels
23 January 2007



European Private Equity &
Venture Capital
Association

EVCA – European Private Equity and Venture Capital Association

- Represents European Private Equity and Venture Capital (PE/VC) within Europe and throughout the world
- Aim: to create a more favourable environment for equity investment and entrepreneurship
- Over 900 members, mainly European:
 - PE/VC fund management companies
 - Institutional investors (pension funds, insurance companies, ...)
 - Professional advisors (lawyers, placement agents, investment bankers, ...)
 - National Private Equity and Venture Capital Associations



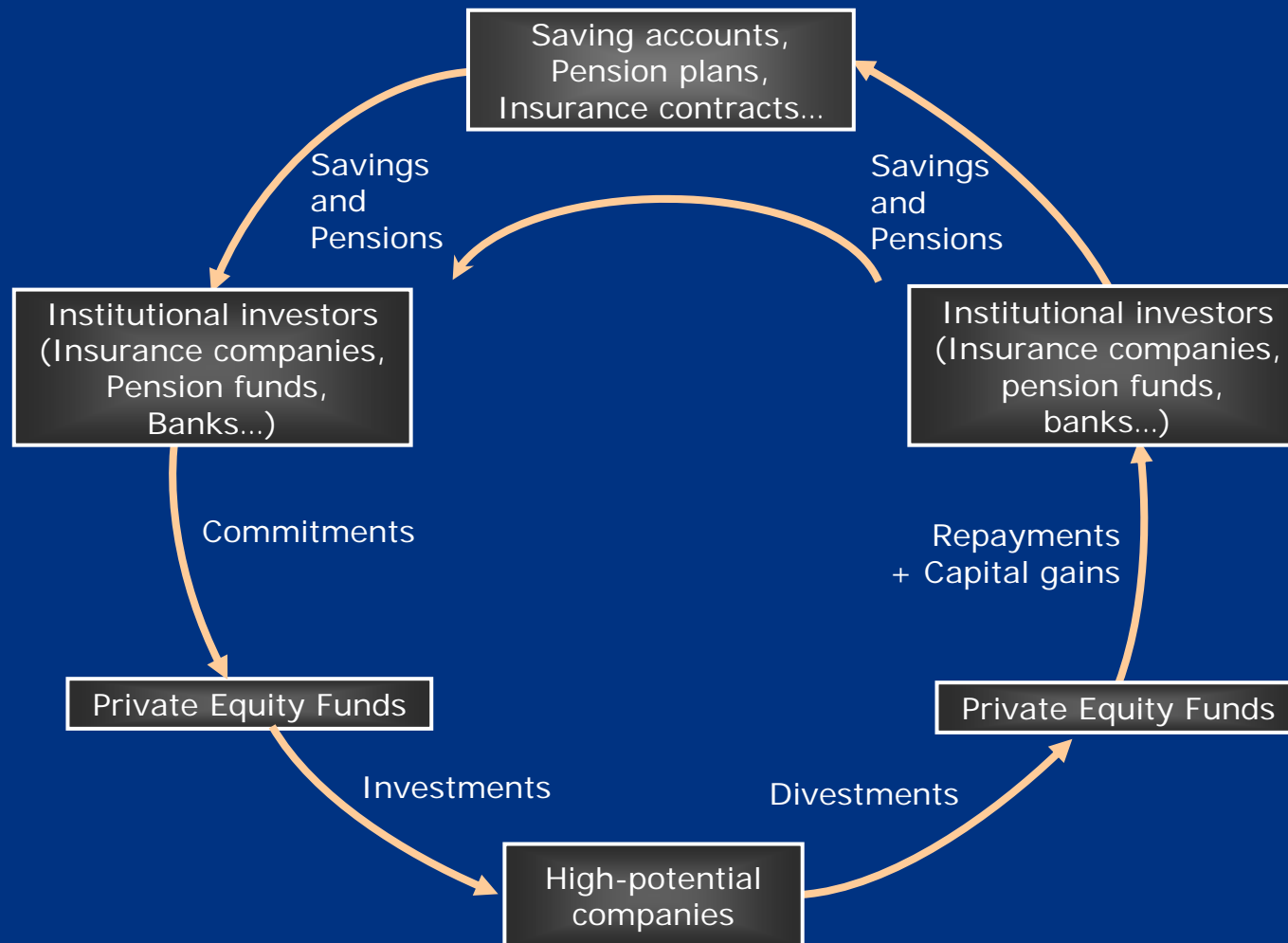
European PE/VC – Economic and Social Impact

European PE/VC: a direct influence on European growth

- 2000 – 2005: over €200bn invested across Europe in over 48,000 companies
- The PE/VC industry represents 6.5 million jobs in Europe (3% of economically active population)
- 2000 – 2004: 1 million new jobs created by European PE/VC financed companies
- 5.4% employment growth in PE/VC financed companies per year
- Average employment growth in buyout-financed companies: 2.4%
- Annual employment growth in venture-backed companies: 30.5%
- Annual EU25 employment growth: 0.7%
- 617 companies brought to the stock markets since 2000



Virtuous Financing Cycle of PE/VC Investment



EU Financial Services Policy, PE/VC and Access to Finance

Key issues

- The need for more efficient Tax and Legal frameworks across Europe, to reduce the costly effects of fragmented EU markets;
- The need to clearly assess the suitability of the industry structures for qualified or institutional investors, to avoid undue regulations due to the mix-up with retail investors protection;
- The use of professional standards as a basis for “soft law” and “better regulation”;
- The need for the FSAP and other major pieces of regulation to take PE/VC business model specificities into account and not impose inappropriate rules.



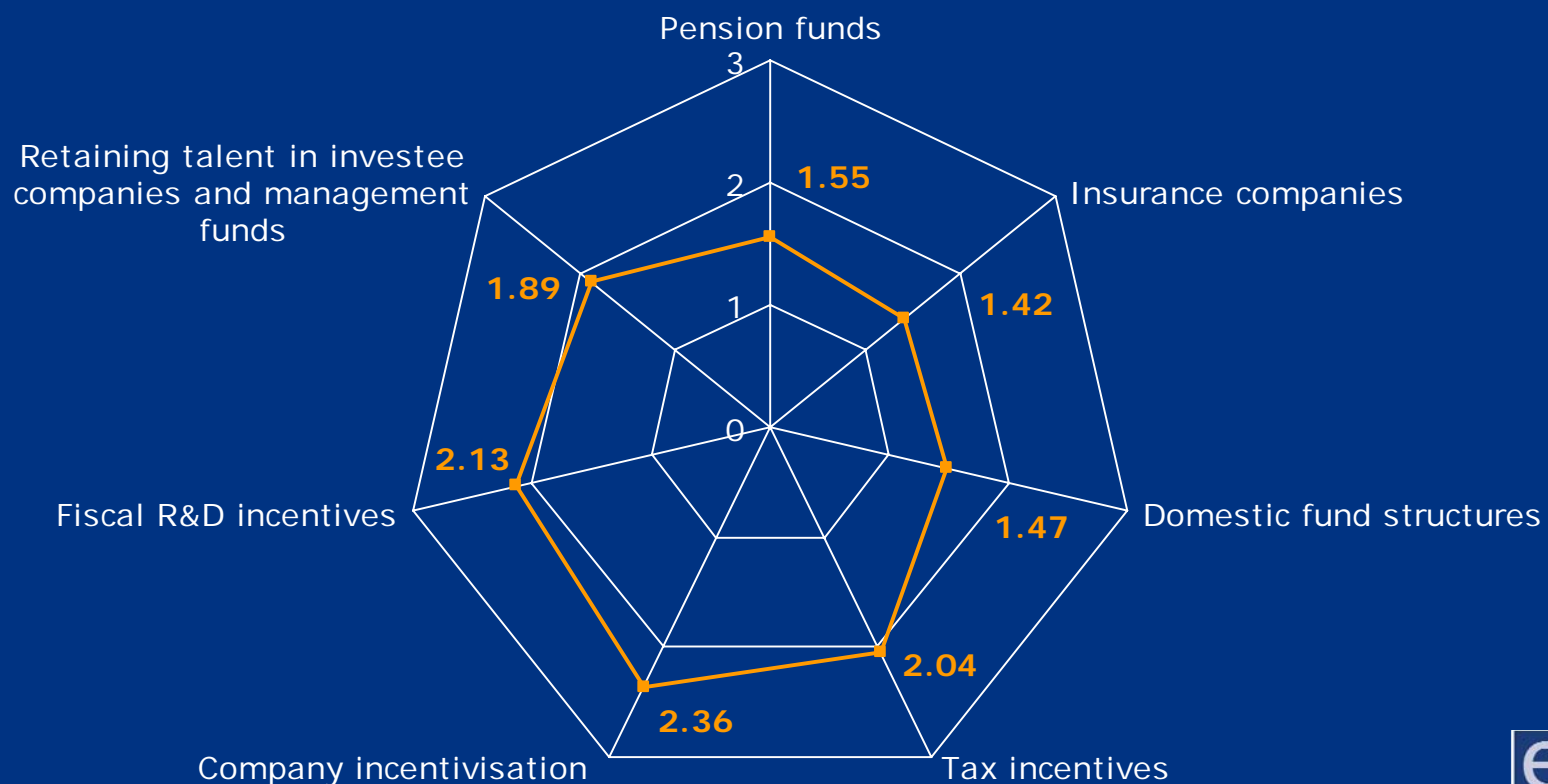
EVCA Benchmark

- 25 European countries, including 4 new countries (EE, LT, RO, SL)
- Study focused on 3 main areas and 7 criteria, split into 29 variables:
 - The tax and legal environment for investors and fund managers:
 - Pension funds
 - Insurance companies
 - Domestic fund structures
 - Tax incentives for investing in private equity and venture capital
 - The environment for investee companies:
 - Company incentivisation
 - Fiscal R&D incentives
 - The environment for staff retention in investee companies and management funds:
 - Retaining Talent



Key Findings of the Benchmark

Current European Situation



EVCA and the PE/VC Industry

European PE/VC Industry Professional Standards

- PE/VC is largely regulated at national level in the EU (at fund structure and management company level)
- EU PE/VC is *also* self-regulating - the most advanced professional standards of any alternative asset class:
 - Code of Ethics
 - International PE/VC Valuation Guidelines (IFRS and US GAAP consistent)
 - Reporting Guidelines
 - Corporate Governance:
 - Guiding Principles (Investor <-> General Partners)
 - CG Principles (General Partners <-> Investee Company)



European Private Equity &
Venture Capital
Association

Better Regulation

Key Financial Services Issues

- Clarity, Certainty, Consistency
- IFRS
- MiFID
- Capital Adequacy
- Solvency II
- Supervisory Convergence



Conclusions

- Coherence and clarity within the rules and regulations affecting the industry, either directly or indirectly (MiFID, Solvency II, CRD...);
- A common EU “eligible investor” definition, catering for both institutional and qualified private investors;
- Consistent implementation of the IORP Directive with agreement on the “prudent person” for regulated institutional investors, no “gold plating”;
- Common Private Placement Rules with agreement on a set of exemptions to the Public Placement Rules (cf Prospectus Directive);
- Tax neutrality to solve on/off-shore questions, agree common criteria to determine tax transparency and avoid double taxation;
- Encourage adherence to homogenous self-imposed European PE/VC professional standards in all Member States, (cf better regulation)



Session III

Financial Education and Consultation of Consumers

Pascale Mincoleau-Marcel

Dr. Zita Ceponyte

Vernon Everitt

Tina Sommer

Workshop on the integration of EU Financial services
European Parliament 23-01-2007

Financial Education of consumers

Pascale Micoleau-Marcel
General Secretary
Institut pour L'Education Financière du Public
France



lafinancepourtous

INSTITUT POUR L'ÉDUCATION FINANCIÈRE DU PUBLIC

Financial education of consumers

- I. French consumers increasingly need to tackle financial issues.**
- II. A recent recognition but already an ambitious program**



French specificities

- Mistrust towards market economy and finance ...
- A relatively weak exposure to financial markets
- Lead to inadequate saving behaviours



Mistrust towards market economy and finance

- Can be seen in the polls
- Impacts school curriculum
- Hurts financial industry



Relatively weak exposure to financial markets

- A high saving rate (15%)
- Financial portfolio = 25% of the whole households holdings.
- Within financial portfolio, life insurance is predominant (around 40%)
- Very little direct holding of securities (6% of financial holdings)
- A flimsy break-through of employees saving funds
- A still low indebtedness rate



Inadequate saving behaviours

- Holdings not enough diversified
- Procyclic investment



French consumers need to tackle financial issues

- A long-term and inevitable evolution
- Which produces advantages as well as risks
- Several answers, **including financial education.**



The French Institute for Education of the Public

- Progressive recognition of the need to improve financial education of the public
- The ambition of the Institute
- The program of the Institute



Progressive recognition

- **Some associations have been giving advice for managing budget and improving personal finance for young and disadvantaged people**
- **2004: Working Group within the French regulator (AMF).**
- **July 2005: OECD Recommendation on principles and good practices related to financial education**
- **November 2005 : M. Delmas-Marsalet report relative to commercialisation of financial products.**



Progressive recognition (2)

- **Avril 2006 Creation of the French Institute for Financial Education (IEFP) impulsed by the French regulator (AMF)**
- **Sept 2006 Creation of the CODICE**
- **Dec 2006 Law for the employees saving and shareholding development**
- **Next, in 2007, MIFID transposition including implementation of the Delmas-Marsalet report notably by self-regulation professional code**



Our ambition

- **A light structure**
- **To be at the cross-road of all policies and actions related to financial education**
- **Introduce personal finance in the basic school curriculum**
- **Assist French people better measure financial risks and returns in relation to their projects**
- **Demystify and explain the world of Finance in order to make French people more familiar and comfortable with it.**



The program (1) Priority targets

- **Young people, directly at school, and also through their parents and their teachers**
- **Employees, in particular in their company and with respect to training programs and employees saving funds**
- **Consumers of financial products**



The program (2) Priority actions

- **Assess the needs (recent poll to measure needs of Young people) et the offer (of training)**
- **Create an attractive website with specific spaces for young, teachers**
- **Web trainers**
- **Communicate in various manners, with various aids (books, TV, conferences) and at various levels (local, national, european...)**



Conclusion (1): les first lessons of experience

- Question of means
- Hard in France to organize cooperation between private and public sector
- Hard to convince all actors they will benefit from a better financial education
- There is still a need for better regulation and protection of consumers
- We dream of a national program



Conclusion (2) There must be some implication of EU in this process

- **The white book underscores the need for financial education in whole Europe. This is an issue common to all Europeans.**
- **All European actors must exchange experiences and good practices**
- **Parliament and Commission could launch messages towards governments to induce them act vigorously in this matter.**
- **Specific sensitivity and experiment programs at the European level can be useful peuvent être utiles. Existing programs in direction of consumers must be better known. Local actors as we are can help.**



FINANCIAL LITERACY: PROBLEMS AND NEEDS

Dr. Zita Čeponyte
FIN-USE MEMBER

MAIN PROBLEMS

- Supply changes (new supplier in the market, new channels of supply, increase in the number, complexity of products, more risks responsibility transferred to consumer)
- Level of financial literacy of consumer (low general understanding of financial issues, feel financial information difficult to understand, often receive information exclusively from industry, etc.)
- Low confidence of consumer in products/suppliers.

MAIN PROBLEMS

- Legal problems in internal market (applicable law, electronic signature, out-of-court dispute settlement)
- New Member States – from closed, restricted in quantity and quality market to wide and open market.

EDUCATION INITIATIVES

- Commission's decision to undertake a study on financial literacy
- Europa Diary
- Dolceta project (Pfinancial services)

EDUCATION INITIATIVES

- more attention to general financial education in schools;
- more forms for adult education (websites, brochures, campaigns, etc.)
- directed to concrete products: retirement savings and insurance, credit, debit;

EDUCATION INITIATIVES

- directed to specific target groups: unbanked, vulnerable groups, etc.;
- advice: more competent and unbiased advice from the distribution system, independent advice from consumer organizations and financial institutions;
- education on consumer protection issues.

ACTORS

- Government bodies (financial institutions, consumer protection agencies);
- NGO (consumer associations, sectorial associations);
- Industry

THE UK NATIONAL STRATEGY ON FINANCIAL CAPABILITY

January 2007

Vernon Everitt

Director Retail Themes, Financial Services Authority, UK

The FSA commissioned a comprehensive Financial Capability Survey to measure the financial capability of the UK population and to provide a baseline to measure future changes



- Important to be able to measure where the population stands today, to set a baseline against which we can measure future progress
- Rigorous large-scale study
 - over 5,300 in-depth interviews
 - representative of the UK population
 - covering people’s understanding, attitudes and behaviour
- We will repeat every 4 to 5 years
- Published March 2006 (alongside ‘Delivering Change’ – the seven point programme of action)

The survey covered each of the five components of financial capability...



Making ends meet

- Generally good, though a small but significant group scores well below average

Keeping track

- Fairly good overall

Planning ahead

- Poor overall, though considerable diversity, not always income-constrained

Choosing products

- Generally poor, lower scores predominate

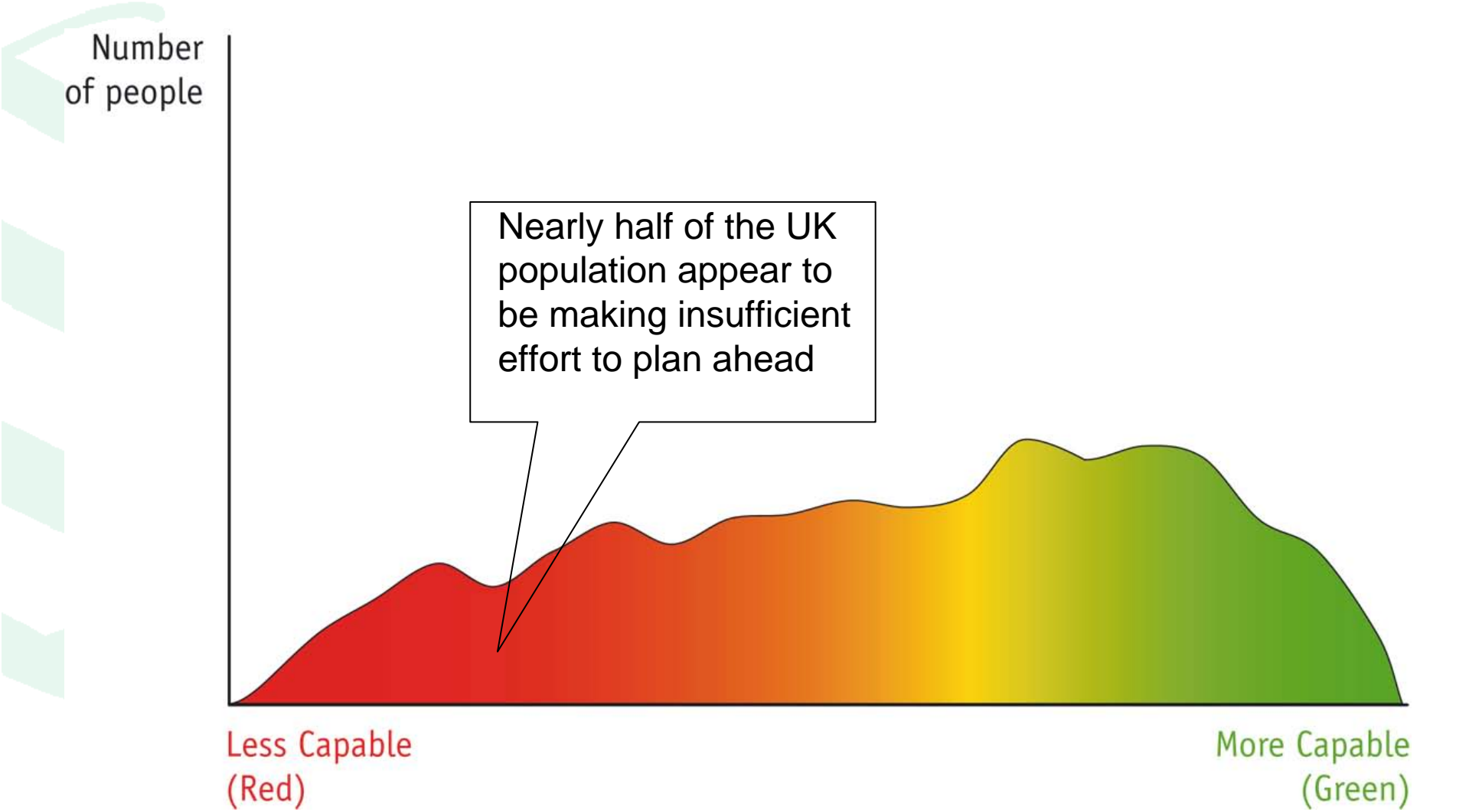
Staying informed

- Mixed results

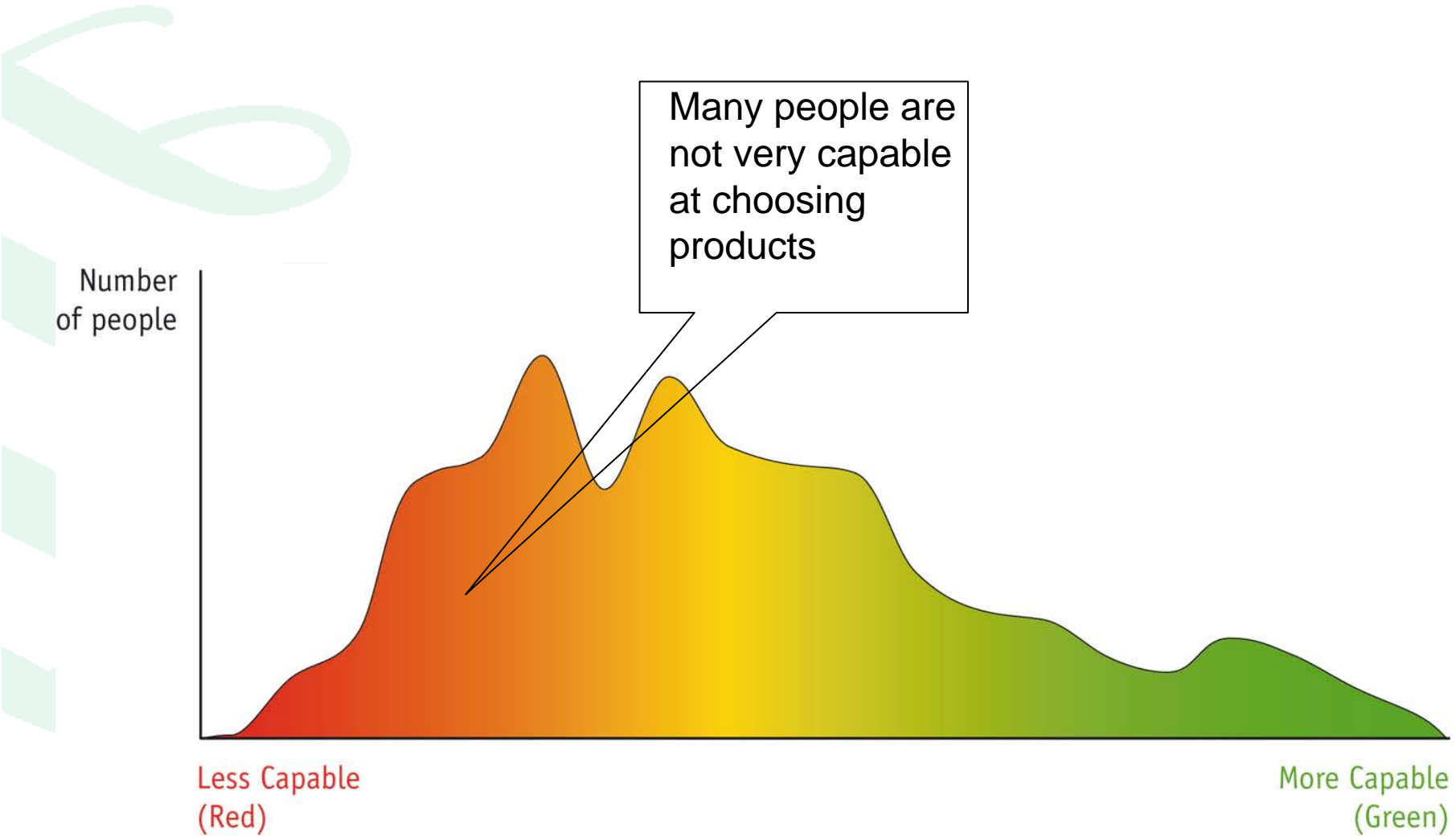
...and highlighted a number of particular weaknesses

- Many people are failing to plan ahead sufficiently, such as planning for retirement, an unexpected expense or drop in income
- Over-indebtedness is very severe for some, but not widespread. But given the lack of planning ahead, people who are now just coping will be vulnerable to any economic downturn or change in their personal circumstances
- Most people are not choosing products carefully and many are unaware of risks they take on
- The under-40s are less capable but carry much greater personal responsibility than their parents' generation

Planning ahead



Choosing financial products



Our programme of action to improve financial capability is being delivered



- Schools: Learning Money Matters
- Young Adults: Helping Young Adults Make Sense of Money
- Workplace: Make the Most of Your Money
- MoneyMadeClear
- Syndicating online tools
- Parent's Guide to Money
- Money advice

We have set ambitious targets: more than 10 million people over 5 years



4m employees in the workplace

1.8m children in 4,000 of the 6,000 schools in England

Around 2 million young students in higher education

Around 1 million young people not in training, education or employment

1.5m new and prospective parents

4m annual visits to the FSA website

FSA will spend c£10m in 2006/07 and £15-20m in each of the following four years