

Deepening Transatlantic Financial Market Integration

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The financial crisis has dramatically affected the global economy. The need for more effective supervision and regulation of the financial services sector has become increasingly clear.

The United States and Europe are the most interdependent regions in the world with enormous amounts of investment and trade. Together the US and Europe generate 60% of the global GDP and bring together 70% of world-wide direct investment.

As the largest financial markets, the US and Europe play a central role in the international financial system. In the US, the financial services sector generates approximately 8% of GDP, 6% in the EU. Both markets account for over two thirds of all financial services world wide based in transaction volume.

AmCham Germany has made it its goal to strengthen the transatlantic partnership and improve investment conditions for multilateral companies. The promotion of the following measures are important:

- Strengthening the international financial market system through close coordination of measures within the G20 states
- Promotion of an integrated transatlantic financial market through a strategic partnership of the US and EU within the G20, the International Monetary Fund, the Financial Stability Board, and the Systemic Risk Board.
- Developing the American and European financial markets to become an international center for efficiency and innovation

Two Markets – Two Legal Entities

In spite of the first successful efforts to dismantle barriers to trade on both sides of the Atlantic, serious differences continue to hinder transatlantic market integration. There are discrepancies, for example, in licensing regulations for financial service providers and products, in the area of corporate governance, investor protection and other reporting obligations. This leads to the fact that the US and EU markets are effectively separate business locations for investors and companies. Fulfilling legal requirements and reporting obligations, which can be different in each location, is connected with high costs for companies operating internationally.

Strategic Partnership between the EU and the US

The Transatlantic Economic Council (TEC), which was founded in April 2007, provides decision makers with a platform to discuss short and long-term measures for advancing transatlantic economic integration. TEC's agenda is supplemented by other agreements which help form a basis for an open transatlantic capital and investment market. These include the EU-US Open Investment Statement from May 2008, the "US-EU Dialogue," established during the November 2007 TEC Meeting, as well as OECD efforts for international investment policy. These existing agreements can serve as a basis to advance an open investment climate with concrete measures. A transatlantic market without barriers would noticeably strengthen the US and Europe and could lead to growth of 3% of the GDP.

The Necessity of International Cooperation and Coordination

National and international governments are working on better regulation of financial markets in order to eliminate unnecessary risk and protect the system from future crisis situations. In a reformed system for better risk management, international institutions must

establish clear and binding rules for the international financial sector. Specific measures will be addressed in the following section.

The development and progression of the global financial and economic crisis showed that global cooperation based on the G20 format is essential. The G20 states account for 90% of global GDP and two thirds of the world population. Emerging, dynamic markets such as China, India and Brazil must be included more actively in the decision process.

The following principles should be acted upon: more transparency in the markets, awareness of responsibility, a stable banking sector, better risk management and world-wide financial agreements.

Only recently has the topic of uniting national legislation with foreign systems, particularly regarding market entry and dealing with third countries, returned to the foreground. Governments in the US and Europe have proven at the negotiations in Pittsburgh that they are well-positioned as strategic partners to advance international cooperation and motivate emerging markets and developing countries. It is a positive sign that the agreement by the G20 states regarding a reform of the financial system with the following measures:

- Regulation of banks: International banks should be held more accountable for safeguarding against risk than in the past. This measure should, however, be introduced in steps over a longer period, also beyond 2012.
- Bonuses: Banks' compensation systems based on success should be more sustainably-oriented
- World trade: Avoiding new barriers to trade and investment to create a stronger and more consistent basis for systematic international cooperation.
- The creation of the FSB to supervise cross-border macro-level risks

It is not only important in the area of financial market regulation to make long-term goals that will be supported by the international community and will create the necessary stability. Short-term, accessible goals also send positive signals and help support mutual long-term interests. It is also crucial, especially on a transatlantic level, to support the work of existing institutions such as the Transatlantic Economic Council.

Transatlantic Market Integration on the Basis of Mutual Recognition

Although the G20 governments are working towards stronger international coordination, there are considerable differences in the nations' proposed legislation. AmCham Germany calls on the USA and Europe to commit to an effective coordination of financial market policy and regulations, taking the following recommendations into consideration:

- Ex ante bilateral consultation regarding new regulation initiatives
- Close coordination of international positions, for example during G20 discussions
- Systematic cooperation in dismantling trade barriers on the basis of mutual recognition ("Statement of the European Commission and the US SEC on Mutual Recognition in Securities Markets of February 2008")
- Harmonization of accounting standards (Recognition of IFRS as global standard)
- Consistency in the regulation of alternative investments and credit rating agencies
- Mutual recognition of securities
- Agreement in the regulation of insurance (regulated through Solvency II)

International coordination does not necessarily call for identical regulations and laws, but rather for the recognition of the varying standards in the other jurisdictions.