

OPENING ADDRESS BY MR CHRISTOPHER TUGENDHAT AT THE
SYMPOSIUM "TOWARDS A EUROPEAN STOCK EXCHANGE",
THE HILTON HOTEL, BRUSSELS, 13 AND 14 NOVEMBER 1980

Ladies and Gentlemen,

It gives me great pleasure to welcome you all to this symposium, to which we have given the title "Towards a European Stock Exchange".

I should particularly like to thank our distinguished speakers for having agreed to let us have their views on this topic, and I am sure we all look forward with keen interest to hearing what they have to say. All our contributors will, naturally, be giving their own views but they will of course be drawing on their experience in the particular side of the securities industry from which they come.

I am particularly grateful to Mr Batten of the New York Stock Exchange for having made the long journey to be with us today.

We are also fortunate in having Mr Hambro share with us his experience on the Eurobond markets, and in having two such articulate representatives of European Stock Exchanges as Mr Goodison from London and Mr Flornoy from Paris.

/We will have

We will have the views of the companies looking for risk-taking capital presented by Mr BERGSMA and Mr MATTEI, Mr COUSSEMENT will give us a banker's view, while Mr GODEAUX, the President of the Belgian Banking Commission, will represent the supervisory authorities.

It is with great satisfaction I note that we could not have a more distinguished list of guest speakers and with equal satisfaction that I address my thanks to Mr ALETTI, the President of FIBV, and Mr REYERS, the President of the European Stock Exchange Committee for having agreed to preside over the first two part sessions.

I would like here at the opening of the symposium to place it against a dual background: that of the Commission's work in the field of financial institutions, and that of some major economic factors which are likely to influence the role and development of international securities markets in the years to come.

As you know, Ladies and Gentlemen, the present Commission is nearing the end of its mandate, and this makes it an appropriate moment to take stock of what has been achieved over the last four years. It is, of course, true that Community progress in the field of financial services has lagged considerably behind that of goods, in respect of which the break-through towards the true common market was obtained back in the 1960s. However, the last four years have been marked by a number of not insignificant achievements in the field of financial institutions.

Let me mention banking first, where the so-called First Coordination Directive was passed in December 1977. It brought some specific common regulations on licensing of banks, but above all it brought a general acceptance at the Community level of the principle of home-country control of banks opening in other Member States as the final objective. There is, admittedly, a long way to go before this can be realized, but the development has, if anything, been quicker and more constructive over the last three years than one could have expected, when comparing with the past : we have drawn up a far-reaching work programme in collaboration and with the authorities of Member States/ we have set up an Advisory Committee, chaired by Dr Köhler of the Deutsche Bundesbank, which brings together the senior civil servants responsible for legislation and supervision of banks. This Committee has worked extremely efficiently; it has taken the first steps in agreeing on solvency ratios which will be applied gradually by all banks in the Community. More work will be done to develop prudential ratios further; and the Commission hopes shortly to present legislation proposals on consolidated supervision of banks operating in other Member States. Finally there will shortly be a proposal on Annual Accounts of banks. In sum, there is a new sense of urgency attached to the work at Community level in this area, reflecting as it should the sophistication which international banking has now reached.

/While the Commission's

While the Commission's work in the banking area has been marked by a sudden upsurge, after years of stagnation, activities in the insurance area have developed more gradually. Here, an important start was made in 1973, when common rules on the establishment of companies providing non-life insurance were agreed by the Council. There has been progress since and we now have before the Council an absolutely fundamental proposal relating to the general freedom of services for direct, non-life insurance. On the progress of this proposal depends to a large extent our success in creating a truly common market in insurance services.

/In the field of

In the field of securities markets, this Commission has also witnessed ^{an} increasing momentum of work. We presented our Code of Conduct in 1977, comprising a philosophy which we defend together with the International Federation of Stock Exchanges; the first two stock exchange directives were adopted in 1979 and 1980, coordinating the conditions for admission to stock exchange listing, and the prospectus to be published when securities are admitted to listing. However, such measures are inevitably limited to encouraging a certain interpenetration of Community securities markets rather than bringing about a truly integrated market. Such a market would, I believe, offer advantages both for European investors and for European firms looking for risk-taking capital. In the speech I delivered in Milan in January of this year I stressed the need to start considering making progress towards greater integration of the European securities market. I also on that occasion announced the Commission's intention of organising this symposium to enable an initial, wideranging and thorough exchange of views to take place among all those most interested in such matters. I am pleased to see that the response has been so positive. There is no doubt that public interest has been stimulated in this subject: witness the resolution which Mr Petronio (who I am glad to see is here today) has put forward for adoption by the European Parliament.

/I turn now to

I turn now to the context in which the securities markets will be operating in future. My point of departure is the European Monetary System which stems directly from the now famous speech made by the President of the Commission, Mr Roy Jenkins, in Florence in October 1977. ^{the EMS} It entered into force early in 1979 and so far has worked well. Despite the wide fluctuations of the dollar and the yen and the remorseless climb of sterling, the fully participating currencies have maintained an impressive stability. Looking back over the period, one can, I think, claim that the disciplines of the EMS and the coordination between national authorities which takes place within its framework have proved their worth.

Of course complete stability has not been attained. That is impossible while rates of inflation, levels of productivity and, let us be frank, economic priorities, differ so much from one Member State to another. But the degree of stability already attained is itself highly desirable. If maintained it should facilitate the further removal of capital restrictions and thus encourage the further liberalisation of capital transactions. I also believe that more stable exchange rates will help to give investors the confidence they need to engage in transactions in foreign and unfamiliar securities. By the same token companies too will feel more inclined to float debt abroad in other EMS currencies.

Let me also mention in this connection that the ECU, the basket of Community currencies, may very well come to play a role which facilitates international financial transactions; the recent decision by the Council to start Community floatations denominated in ECU marks an important step.

The trends I have described here will, directly and indirectly, further European-wide transactions in securities in the years to come, and changes may indeed come more quickly than most observers might expect. It is important that we see the question of integration of European Stock Markets against this background.

We must accept that the general economic climate is unfavourable and not conducive to developments of the sort we are trying to foster. On the contrary: for some time now the market in shares has been squeezed: on the one hand interest rates have been kept high in the fight against inflation and as a consequence of the need to finance huge Government deficits in the money and capital markets. The result has been a comfortable yield for passive loan capital.

/On the other hand

On the other hand the low level of economic activity has resulted in smaller profits and has made it difficult if not impossible for shares to compete with loan capital. I do not need to persuade an audience such as this that we must do what we can to arrest this trend, and help bring about the strongest possible market for European companies looking for equity capital. Gradual integration of hitherto mainly national markets for shares cannot solve the problems I have outlined, but I believe it can alleviate them.

As I say, integration cannot fundamentally change the competitive balance between risk and loan capital, and when looking at this balance we must admit that investment in securities has too often been treated as the poor relation of other forms of investment. From the tax point of view, risk capital has often been discriminated against as compared to loan capital. In due course it may become clear that we shall have to tackle the whole question of abolition of such disincentives in a systematic manner.

It is obvious that were we to have a truly European market for securities not only would there need to be ^{the} abolition of capital restrictions, which I have mentioned already, but also a certain amount of fiscal harmonisation. The present situation whereby some Member States continue full double taxation of dividends while others give full tax credits would be untenable and would lead to permanent and serious distortions of the market in that investors would be unduly influenced by fiscal considerations.

Future problems are not, however, an argument for not starting work on an integrated European securities market. At present, the majority of the Member States authorise the purchase of securities which are admitted to official listing in the other Member States, and they no longer prohibit the admission to their own official listing of securities coming from other Member States. This is a good basis for further progress.

There are further arguments militating in favour of the gradual integration of the European securities market, and these relate to the structure of the markets.

First there is already, as we know, a considerable volume of securities - from the Member States or from third countries - which are listed on more than one Community stock exchange. This is in itself an indication of a certain degree of interpenetration of the markets. However, the confrontation of purchase and sale orders on each of these markets, and with it the fixing of prices, takes place in each of these markets in an isolated fashion, subject of course to arbitrage engaged in by professional intermediaries. I consider that as the volume of transactions in securities with double listing grows in the years to come it is very much in the interest of investors for such confrontation to be carried out directly on a Community-wide basis. This would result in investors enjoying better conditions for the execution of their orders, at prices which would be the fairest and most representative possible. In addition, such an integrated market would have considerably greater depth and liquidity than could be offered by any single national market.

Secondly, access by European companies to the European market would be considerably facilitated. This is because the admission to the European market would no longer require applications for listing on a number of different stock exchanges, but rather a single admission to the integrated market.

The conditions of access to such an integrated market could be established in such a way that medium-sized companies having securities of an international character could have access to the European market, even if they could not at present satisfy all the individual conditions for admission to listing imposed by the other Member States. The integrated market would therefore facilitate access to the international market by companies which, although wishing to have access to this market, are now confined to their national markets.

To sum up, the creation of an integrated European securities market would make it possible to expand national stock exchange markets, and to give them a truly international dimension. I consider that such a market could not fail to be more attractive not only for companies but also for investors. At the end of the day, this could only strengthen the position of existing stock exchanges. I believe that already present-day techniques in the field of telecommunications would even now allow a considerable element of integrated functions, and we can with confidence look forward to continued rapid technical progress.

If such a market is not created, it is to be feared that rival market places may be set up side by side with the existing proper stock exchanges in order to fulfil the need for a larger market, but falling outside any form of supervision. Institutional investors and the transactions carried out by them are of overwhelming importance to securities markets, and it would be regrettable if these transactions increasingly took place outside the usual channels and thereby deprived the European

of
investors and companies/the full advantages of a Community-
wide market.

The Commission has no preconceived notions concerning the structure that such a market ought to have, but we are looking forward to the discussion and the conclusions of this symposium with an open mind. We feel convinced, however, that - exactly because we want a pooling of ideas - the way forward is through strengthening the links which already exist between national stock exchanges. Creation of a new supranational institution is in my view unnecessary. We need to proceed gradually from our existing institutions. And to all those who regard the Commission as the bureaucratic high priests of European harmonization let me add that we are very much aware that markets are created by supply and demand, and not by national or Community legislation.

Let me finish by saying that in my view, the creation of an integrated European securities market should essentially be the task of the stock exchanges themselves. It is they which provide the market, and they which have the necessary experience. The Commission has established a close working relationship with the European Committee of Stock Exchanges, chaired by Mr Reyers of the Brussels Stock Exchange, and we will continue to do all we can to ensure that opportunities are opened up for European investors and for European companies seeking new equity finance.

My best wishes for successful and constructive work.