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FINANCIAL INTEGRATION

(Communication from the Commission to the Council)

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INTRODUCTION

The considerable development of international financial relations over the past twenty years - the spectacular growth of Euro-markets being the most striking example - contrasts sharply with the sluggishness of European progress in the area of finance.

Indeed, it is amazing that free trade in goods is so much easier to achieve than freedom to provide insurance services, or that the mechanisms of cooperation among European currencies apparently do not facilitate portfolio arbitrage among the investment instruments available on the various Community markets.

This day-to-day reality can be expressed analytically by observing that the degree of financial integration in the Community is far from an optimal situation which would have two features:

- the existence of a single, homogeneous market open to the outside world on an orderly basis. Market operators seeking to optimize the return on their investments would be in a position freely to buy, sell and trade in financial assets, which would ensure maximum mobility of capital within the Community's financial sector;

- mechanisms and instruments tailored to providing the financial basis for efficient mobilization of Community savings and their allocation to productive investments.

This means that the process of financial integration involves the mobilization, circulation and allocation of financial resources within the Community. Consequently, the barriers set up by exchange regulations and taxation techniques must be removed, and, beyond the field of Community financial instruments, the coordination of policies for regulating financial markets must be encouraged. This effort must be backed up by a common, or at least coordinated, approach to organizing international monetary and financial relations and by greater solidarity with the Member States with balance of payments problems. It goes without saying that the scope and

rate of integration, both financial and monetary, depend on the degree of convergence of economic policies; this convergence is essential to stabilize the expectations of investors and savers.

Taking into account the vast domain over which it applies, the movement of financial integration can and must be undertaken through intermediate stages involving greater freedom for capital movements, more stable exchange rates, closer convergence of economic and monetary policies and fuller institutional harmonization. In fact this process has not developed over so wide a front, so that the specifically financial dimension of European construction is at present undeveloped and fragmentary. The failure to progress towards financial integration contrasts with hard-earned achievements in other fields of Community integration.

There are probably historical and economic reasons for this situation. And yet the conditions for financial integration now appear in quite a new light. A European financial market is as necessary as ever: its failure to appear is hampering the reinforcement of the common market and preventing the Community economy from efficiently tapping available savings.

This communication describes the present situation, assesses possibilities for progress and points to practical initiatives that could, if adopted lead the way to renewed progress towards financial integration.

I. DEADLOCK IN THE PROCESS OF FINANCIAL INTEGRATION

1. The facts

a) Unlike the Treaty's provisions concerning the right of establishment and the free movement of goods, services and persons, the provisions on freedom of capital movement are not directly applicable, as a recent Court of Justice judgement has confirmed. The Member States' obligations are thus at present defined in the Council Directives of 1960 and 1962 for the implementation of Article 67 of the Treaty.

Certain transactions are unrestricted, and freedom can be suspended only by applying the safeguard clauses provided for in Articles 73, 108 and 109 of the Treaty. These transactions are: direct investments, operations in securities dealt in on a stock exchange, commercial credits and capital movements of a personal character or connected with the supply of services. A second group of transactions may be restricted on certain conditions: a Member State may maintain or reintroduce restrictions operative on the date of entry into force of the Directive, or on the date of accession, where free movement of capital might form an obstacle to the achievement of its economic policy objectives. These transactions are: flotation of foreign securities on domestic markets and introduction of foreign securities on a domestic stock exchange, transactions in unquoted securities, acquisition of units in unit trusts and the granting and repayment of financial credits. For the remaining transactions, concerning mainly short-term capital movements, the Member States are free to impose restrictions as they see fit.

The adoption of these two Directives was the last occasion on which any progress was made towards freedom of capital movements. None of the subsequent attempts to advance one step further towards the goal came to anything. Indeed, financial markets are probably even less integrated

now than in the 1960s since capital movements within the Community are less free now, and the differences between the Member States are more marked. Exchange restrictions for all capital transactions have been discontinued in Germany, the United Kingdom, Belgium and Luxembourg (although there is a two-tier exchange market in those two countries). In the Netherlands, obligations to the Community are respected and capital transactions not covered by the requirement for free movement are treated liberally. In France, Italy, Ireland and Denmark, controls have been maintained for most capital movements, and these countries have been authorized by the Commission under the safeguard clauses to introduce restrictions on some of the capital transactions freed by the provision of the Directives of 1960 and 1962.

b) The possibility of restrictions when movements of capital lead to disturbances in the functioning of the capital market in a Member State (Article 73 EEC) or when a Member State is in difficulties or is seriously threatened with difficulties as regards its balance of payments (Article 108 EEC) is one of the aspects of solidarity between the Member States. But the sprit and scope of the safeguard clauses implies that such measures should be exceptional : they should not be kept in force - although they have in fact been - for long periods. Otherwise, direct exchange controls become a permanent economic policy instrument, which is incompatible with the intentions of the Treaty.

There is a tendency to prefer recourse to the safeguard clauses rather than another, better but also more difficult, expression of solidarity: mutual assistance. Apart from credit mechanisms between central banks the Community has added two instruments to its arsenal since the beginning of the 1970s : medium-term financial assistance and the Community loans mechanism. Under both these instruments, the support is conditional upon observance by the recipient country of certain jointly agreed economic policy conditions. The instruments of mutual support ought not to be regarded as a last resort : on the contrary they

should be brought into play early enough to prevent balance of payments crises and facilitate the required adjustments in conformity with the obligations under the Treaty. In fact, in spite of a considerable increase in the amounts available, the mutual support instruments have not been used since 1977.

c) At institutional level, a series of Directives has been adopted to cover the activity of financial intermediaries and stock markets. The arrangements that have gradually been introduced are intended to translate into reality the right to freedom of establishment within the Community for banks and insurance companies, and to safeguard their freedom to supply services. The aim in connection with stock markets was to increase transparency and make it easier for issuers to enter the stock markets of the various Member States.

But the incidence of past and future progress towards institutional harmonization of the activities of financial intermediaries and markets will inevitably be limited if it is not backed up by parallel progress towards free capital movements. Free establishment alone does not lead to the integration of markets, even though it permits some interpenetration of the markets through the opening of agencies and branches. Similarly, the freedom to provide financial services or to choose the desired investments on behalf of the savers is sharply constricted if the corresponding movements of funds are subject to restrictions.

2. The explanation

The approach laid down in the Treaty and the economic analysis on which it was based were coherent. In a situation of fixed exchange rates, implicitly assumed in the Treaty, the two-fold objective of free trade in goods and services and free capital movement implies that national monetary policies must take account of the requirements of the balance of payments situation. Since most Member States wished to keep control of

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monetary policy for purposes of domestic regulation, they have had to ignore one or more of the other constraints, or come to terms with them in various ways. They obviously preferred to loosen what looked like the weakest constraint : free capital movements. There are two attitudes that seem to make this constraint less than urgent. First, fluctuations in capital movements are sometimes due as much to speculation as to the trend of basic economic variables. Secondly, a net outflow of long-term capital is often regarded as a loss of real resources for the national economy, the resulting accumulation of claims on the rest of the world being ignored. This explains why the Bretton Woods system justified restrictions on capital movements when such restrictions were essential to ensure the freedom of current transactions and the stability of exchange rates (see Article VI of the Articles of Agreement). The EEC Treaty, while it lays down the principle of "the abolition, as between Member States, of obstacles to freedom of movement for ... capital", (Article 3(c)), permits the abolition of restrictions to be "progressive" to the extent necessary to ensure the proper functioning of the common market (Article 67).

II. THE NEED TO RELAUNCH EFFORTS TOWARDS FINANCIAL INTEGRATION

It is an evident disadvantage, from the point of view of Community law, that Europe is not an integrated financial area. It is also, increasingly, a serious obstacle to reinforcing the common market, to restructuring the Community economy and even to stabilizing the international financial system. The economic policy considerations that long justified this situation have now become much less relevant.

1. Macro-economic incompatibility has been attenuated

Experience has constantly shown that direct controls contribute little to restoring basic economic equilibrium, and in particular that the impact of direct controls of capital movements on the balance of payments fades away quickly.

More generally, the Member State Governments are finding that controlling financial flows is less and less certain to ensure a degree of autonomy in the pursuit of economic policy. The extent of convertibility of currencies and persistent external deficits in most of the Member States singularly restrict monetary policy independence. But most of all, major progress towards coordinating economic and monetary policies in the Community, helped by the interplay of the European Monetary System, has widened the margin available to the authorities in defining arrangements for capital movements. It is therefore possible to reconsider traditional controls introduced or reinforced under the Bretton Woods system, when the coordination of economic policies was embryonic and the economic cycles in the national economies were not synchronized.

Experience has also shown that control mechanisms have most effect on long-term capital movements, easier to identify but usually corresponding to the investment or re-allocation of savings; short-term capital movements, which are more likely to involve speculation, are more difficult to regulate, since operators are very clever at finding ways through the tangled web of national rules.

2. The reinforcement of the internal market also involves the question of financial services

If firms are to exploit to the full the possibilities provided by the large single market of the Community, they must be in a position not only to move products around but also to choose the location of their production establishments without sacrificing the economies of scale obtainable through centralized management of a number of departments, especially those dealing with financial and banking matters. Freedom to carry out direct investment, which is now almost complete in the Community, is not enough to ensure actual mobility of the factors of production. Firms develop through the accumulation of financial assets as well as through productive investment. In recent years, net purchases of financial assets have represented some 20% to 30% of capital formation by German, French and UK companies, and even more in Italy.

Financial costs are absorbing a growing proportion of firms' gross operating surpluses. These costs could usefully be minimized through increased competition and economies of scale if the common market in banking were reinforced. Freedom to provide insurance services would also help : premiums on insurance against damage now often account for over 3% of gross operating surplus. If industrial groups are to operate efficiently on the single market, they must not be artificially forced into fragmented and piecemeal financial relations.

3. Direct tapping of European savings would make for more effective restructuring of the Community economy

Considerable capital is required for the ordered restructuring of industrial sectors in difficulty and the development of new activities.

Gross savings in the Community amounted in 1980 to 430 000 million ECU, compared with a figure of only 340 000 million ECU for the United States. Very little of this total is tapped by national financial markets. Total transferable securities issued on the five major markets (Germany, France, Italy, the Netherlands and the United Kingdom) amounted to 142 000 million ECU, much lower than the corresponding figure of 212 000 million for the US market. The disproportion is even more striking in the specific area of venture capital: the market capitalization of national shares quoted on Community stock exchanges amounts to only about 40% of that of shares quoted on Wall Street alone.

In general, financial flows between Community countries are extremely underdeveloped in comparison with trade in goods and services. It is striking that long-term capital movements(1) between Member States involve less than one twentieth of the value of commercial flows (average sums between 1976 and 1980 were 10 000 million ECU and 230 000 million ECU respectively).

This partitioning of Community financial markets is even more paradoxical in the light of the fact that foreign borrowing on those markets by non-member countries(2) is much greater than that of non-member countries, and covers almost the same proportion of their borrowing requirements. In 1981, Community borrowers issued loans totalling $ 2 200 million on the markets of their partners, accounting for 8% of their foreign borrowing, while non-member borrowers issued a total of $ 10 000 million, covering 6% of foreign borrowing. The only significant contribution to capital movements in the Community is that of the Community institutions, more than half of whose loans were floated on Member States' markets in 1981.(2)

The activity of financial intermediaries is never neutral in its effects on the allocation of available savings. The partitioning of financial circuits at national level leads to waste; but the free application of the criterion of maximum financial yield does not always ensure maximum economic efficiency. Similarly, at the level of the Community, it may be that a financial system with too many internal partitions and not enough homogeneous regulation of external relations, which encourages too far the diversion of savings to outside destinations, does not serve the best interests of productive investment in the Community.

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(1) Direct investment, portfolio investment, other long-term capital including banking capital

(2) Including international loans denominated in Community currencies.

4. Excessive intermediary activity for European savings on international markets and for non-member currencies probably undermines the stability of the international financial system

The considerable development of the international financial system originated to a large extent in the Community. Community financial centres deal with about two thirds of Euro-loans. This demonstrates remarkable technical capacity, which it is in the Community's interests to preserve.

However, the Euromarkets' contribution to connecting up national markets is indirect and imperfect, because of the wide variety of national exchange rules governing the conditions in which residents have access to Euromarkets. In particular, communication via the Euromarkets usually involves non-member currencies and conditions beyond the control of the authorities of the member countries.

An unnecessarily large share of Community savings actually moves through international markets, for ill-defined economic purposes and subject to somewhat uncertain arrangements, as recent events have shown.

Only half the Member States' trade involves non-Community trade partners, but it is estimated that two thirds of their external long-term financial transactions take place outside Community financial circuits. Similarly, the BIS has established that the assets of non-bank Community residents with reporting banks amounted to the equivalent of about $ 70 000 million at the end of 1981; it is estimated that at least 80% of this amount is in the form of deposits in non-Community currencies.

III. PRACTICAL PROPOSALS FOR A REALISTIC PROCESS OF FINANCIAL INTEGRATION

To get the gradual process of financial integration under way, a set of specific initiatives is required; no single one on its own is determinant, but their simultaneous application would represent considerable progress towards affirming the financial identity of the Community and reinforcing its financial network. Such progress would supplement and support the Community's existing identity as a trading area and its emerging identity as a monetary union.

1. A financial system of more direct service to the Community's economic development

a) Gradual dismantling of partitions between capital markets

The Commission recognises that the present balance-of-payments situation in several Member States prevents substantial immediate liberalization of capital movements, but restrictions retained under Articles 73 and 108 of the EEC Treaty should be kept to a minimum.

- It intends to consider the situation as a whole during the coming year, so as to explore, jointly with the Member States concerned, the possibility of gradually removing restrictions applied pursuant to the safeguard clauses.

- At the same time, action should be taken concerning the Commission's proposal for a list of exchange control measures and monetary policy measures with equivalent effect that can hamper current transactions, with a view to prohibiting such measures where they affect relations with other Member States unless they have been agreed at Community level and apply for a limited period.

- Apart from the above-mentioned consideration of restrictions under the safeguard clauses, the Commission feels that the gradual removal of barriers to capital movements in the Community should concentrate on the establishment of a European venture capital market.

In the initial stages, the restrictions on transactions in transferable securities applied pursuant to the safeguard clauses could be gradually lifted for purchases of shares traded on a Community stock exchange and issued by Community companies. Foreign exchange should be available at official market rates for such transactions.

Where institutional investors are authorized to invest in venture capital, there should be no discrimination between the securities of national companies and those of the companies of other Member States. The principle of non-discrimination should be extended to cover tax incentives for venture capital investment in the framework of the coordination of such incentives.

It is worth noting that the full effects of freeing venture capital movements would be felt if, at the same time, corporation tax systems in the Community were harmonized. The Commission would recall that it has presented a relevant proposal, at present under discussion in Parliament, to avoid a situation where decisions about investment in shares at Community level are taken, all other things being equal, on the basis of tax considerations.

b) A more unified network of financial services

1) The initial aim for banking was to encourage integration through the establishment of agencies and branches. The Directive of 12 December 1977 laid down rules for the coordination of national laws in this respect. The Commission intends to continue and step up its work in this field, concentrating in particular on adjusting systems of control so as to facilitate the development of banking transactions within the Community.

2) In the field of insurance, the right of establishment has been a practical reality since the First Directive of 24 July 1973 was adopted. The same is not true of freedom to provide services, in spite of the direct effect of the relevant provisions, Articles 59, 60 and 106 of the Treaty. A proposal for a directive on insurance other than life assurance sent to the Council in late 1975,

with the purpose of ensuring freedom to provide services; it was followed by a proposal for amendments in early 1978. Since then, participations have been at a standstill for technical reasons.

The development of services in this branch will help to strengthen the internal Community market. As to its financial impact on balances of payments, the transfer of premiums abroad will not be a one-way process, and will probably not affect more than a small percentage of total premiums paid in any one Member State, and there would probably be some correspondence between the descriptions of premiums collected and placements made. Management would be easier for those firms whose activity at Community level had developed most. Competition between insurers would encourage new insurance techniques, to the advantage both of customers and of the insurers themselves who are desirous of expanding their international activities.

3) In the field of stock exchanges, the Commission thinks that links between national stock market should be strengthened so that orders from clients may be carried out on the market offering the best terms at any given moment.

The idea is not to set up a new stock market, but to link existing exchanges so that Europe can pool its resources and end the present compartmentalization. In the first stages the link-up could be confined to European shares quoted on several exchanges, eventually spreading to other securities and other markets. The Commission, in close collaboration with the European Stock Exchange Committee, is at present considering ways of achieving this aim. It is prepared to consider granting financial assistance if necessary to get the link-up system currently under study of the ground, and in particular to help with investment in data-processing and information technology infrastructures.

If stock exchanges in all the Member States are to be in a position to participate fully in the system from the outset, the restrictions on listing foreign shares which some of them apply should be lifted.

Moreover, to avoid distortions of competition between the exchanges of the different Member States, the Council must rapidly adopt the proposal for a Directive on indirect taxation of transactions in securities, with a

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view to eliminating double taxation and reducing the burden of taxes on such transactions as a first step to abolishing them.

The Commission also feels that the development or establishment of markets for unlisted securities, particularly geared to the financing needs of small and medium-sized firms, could help to reinforce European markets and boost venture capital markets in Europe.

Encouragement should also be given to collective investment undertakings for transferable securities (CIUTS) established in the Community to play a role in the interpenetration of Community markets. Consequently the two proposals for Directives concerning, respectively, the corodination of national provisions relating to CIUTS and freedom for transactions in their units should be adopted as soon as possible by the Council to enable CIUTS to provide services.

c) New instruments for tapping savings in the Community

The Community institutions, including the EIB, have a useful contribution to make here. At the same time, it is necessary to develop financial instruments that can result in the effective interpenetration of financial circuits and ensure efficient tapping and circulation of capital within a geographically wider financial sector.

The Commission intends to take action on three fronts :

1) It will encourage closer collaboration between medium-term and long-term credit institutions on programmes or projects of common interest, and in particular develop co-financing operations like those already carried out by the Community's club of specialized long-term credit institutions. Such collaboration might be based for example on a programme of unified loans issued simultaneously on the Member States' markets.

2) It may consider the establishment of collective investment undertaking for industrial purposes; their units would be placed freely on the markets in the Member States and their portfolio made up of shares issued by Community firms. The adoption of the two Directives on CIUTS mentioned above would make it easier to set up such undertakings and distribute their units.

3) The third type of action concerns mortgage loans. Housing credit establishments financed by the issuing of mortgage bonds should be allowed to place their bonds, up to a certain ceiling, in other Member States, using the proceeds for mortgage loans in the country of issue. The establishments financed by deposits, whose freedom of establishment is hampered at the moment by administrative barriers, should be authorized to move into the markets of other Member States.

2. Contributing to better balanced international financial relations

The Community should set itself for international financial relations a goal similar to that adopted on the monetary front: an area of stability, to help create more balanced relations between the world's major financial centres. To take this approach, the Community must assume a financial personality *vis-à-vis* the rest of the world.

a) Greater control of capital flows between the Community and the rest of the world

The steps taken towards freeing capital flows early in the Community's existence were the product rather of a movement towards global financial exchanges. At the same time, within the Community national measures governing financial flows to the outside world were in force in several Member States. To date, Article 70 of the Treaty, which provides for the progressive coordination of the exchange policies of the Member States in respect of the movement of capital between those States and thrid countries, has only once been applied : in the 1972 Directive on regulating international capital flows and neutralizing their undesirable effects on domestic liquidity.

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The instruments created by the Member States in this respect are of general application, with no differentiation between capital movements within the Community and those between the Community and non-Member States. Some of them were or are solely intended to improve control over speculative inflows of capital (e.g. the Bardepot system). (1)

The Community's aim should be to maintain a high degree of freedom in relation to the rest of the world and to safeguard the international activity of its financial centres. At the same time, the relevant Community authorities should consider whether instruments should be set up at Community and international level to be used if necessary to improve control over flows of capital between Member States and the rest of the world, and if so, how.

b) Joint consideration of international banking supervision

Once the Community has well-defined instruments of integration at its disposal, it can, through the coordination of banking laws, create an area of stability that would not only achieve a homogenous internal structure control at international level in a way better adapted to banks' growing international exposure.

For example, the Commission has drawn up a proposal for a Directive on banking supervision on a consolidated basis in close collaboration with the EEC's Banking Advisory Committee on the basis of work done at the Bank for International Settlements; the proposal is intended to enable the supervisory authorities of the country where the parent company of a banking group has its headquarters to assess the financial situation of the entire group, including subsidiaries in other Member States.

The Commission has also taken steps concerning annual accounts of banks and the content of regular returns to be supplied to the supervisory authorities, the supervision of large exposures, in particular large loans granted by banks and cooperation between credit information exchanges; the calculation of banking solvency and liquidity ratios; procedures for the reorganization, or if necessary winding up of international banks in a critical situation.

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(1)

In 1972 and 1973 the German authorities introduced the requirement for a frozen deposit, called the Bardepot, corresponding to a certain percentage (it has varied from 20% to 50%) of foreign borrowing by residents.

It does not operate in the same way as the compulsory non-interest bearing deposit that Italian rules have required on several occasions (under measures taken in 1974, 1976 and 1981) on purchases of foreign currency by residents.

Among these measures, the calculation of coefficients (which the Banking Advisory Committee considers very important) is especially likely to lead to international cooperation in the field of capital requirements and day-to-day supervision of banks operating at international level, particularly since the methods of calculation are also being considered outside the Community, by a Committee of the Group of Ten in Basle.

In the Commission's opinion, action on these fronts, and in particular the adoption of the Directive on supervision on a consolidated basis, is a necessary first step to proper assessment of the international activity of European banks. These measures could also help to improve the management of international risks. The basic techniques developed should be used for a Community approach to official discussion of the risks to the international financial system, and the rescheduling of the external debt of countries in difficulty. A common position is especially necessary when these matters involve geographical regions or countries with which the Community's relations are intense or privileged.

c) Coordinating the foreign borrowing policies of the Member States

A joint attempt at Community level to find the proper balance between the constraint of international adjustment and the advantages of external financing is one of the basic factors in the convergence of the Member States' economic policies.

As announced in the programme put forward in 1980 in its report on recycling, the Monetary Committee has just set up a mutual information and monitoring procedure on the balance-of-payments and external indebtedness position of the member countries. This work should lead to the definition of general guidelines for foreign borrowing policy. This opportunity should be taken to assess whether Community instruments are suitable in view of the new technical features of financial markets, and whether they are adequate to meet the needs of the Member States.

3. Promoting the use of the ECU

Financial integration in the Community cannot make genuine progress unless it is based on a higher degree of monetary identity. At this stage, the development of the role of the ECU is an essential factor here, both as the most important vehicle for increased transferability of financial assets within the Community and as the expression of an emerging monetary union that aspires to be one of the three pillars of an ordered international monetary system.

a) Recognition of foreign currency status

It would be a decisive step forward if the ECU were recognised as a foreign currency so that transactions denominated in ECUs could be treated as transactions in a convertible currency. Official rates for the ECU quoted on all the Community's exchange markets, even if the rates are based on those for the component currencies, would sanction the ECU's status in the eyes of operators.

b) Privileged treatment for financial transactions in ECUs

Community residents should be able to carry out transactions in securities denominated in ECUs, at least within certain limits, under normal conditions; in several Member States this would mean waiving rules now in force.

- First, all residents of Member States should be allowed to subscribe freely, at official exchange rates, to ECU issues floated by Community borrowers, and in particular to issues of this type floated by Community institutions.

- Under the rules governing the composition of the portfolios of institutional investors, securities denominated in ECUs should be assimilated to national securities of the same type, subject to possible provisions to limit the exchange risk.

- Any new instrument for tapping savings introduced at Community level should preferably be based on the ECU.

c) Enlarging the official role of the ECU

At present, official use of the ECU between central banks participating in the EMS takes place in a closed circuit. If the EMS is opened to the outside, as recommended by the Commission in its communication of 15 March 1982 on strengthening the EMS, this would extend the area of stability of the system by associating in exchange and intervention mechanisms the currencies of non-member countries having special economic and financial links with the Community and its Member States. It would also increase opportunities for using and mobilizing the official ECU, and, by setting an example, contribute to developing private use of the ECU by operators outside the Community.

CONCLUSIONS

With a view to ensuring the development of productive activity and to tapping savings to obtain required financing, the Commission would ask the Council.

1. To recognise the need for the financial integration process to get under way once more, with the removal of partitions and the establishment of interconnections between capital markets, the actual provision of financial services and the gradual establishment of genuine financial unity in Europe, vis-à-vis non-member countries.

2. To note the Commission's intention to present the Monetary Committee with a request for an opinion based on this communication, to help it assume its responsibilities of management and proposal, concerning in particular:

- consideration by the Commission of justification for partial or complete retention of national measures authorized under Articles 73 and 108 of the Treaty;

- the proposed list of exchange control measures or monetary policy measures of equivalent effect liable to hamper current transactions in the Community, which Member States should not introduce unless there has been a joint decision under the procedures of the safeguard clauses;

- the definition of instruments, and the conditions of their use, which the Member States could set up to control exchange and regulate capital movements involving non-member countries;

3. To request the Member States, irrespective of the consideration of safeguard clauses to be undertaken by the Commission, to take the required steps :

- to remove barriers to the free movement of shares issued by Community undertakings and traded on a Community stock exchange, and to bring arrangements for investment in equity, in particular rules governing institutional

investors and tax incentive measures, closer into line with a Community approach;

- to recognise the ECU as a convertible currency with the same status as all major currencies, and to treat transactions denominated in ECUs, especially loans floated by Community institutions, as privileged transactions for the purposes of exchange control regulations and provisions applying to institutional investors;

4. To set itself the following aims:

- the adoption of the Directive coordinating national provisions concerning insurance services other than life assurance, to facilitate freedom to provide services, as a priority measure for strengthening the internal market;

- the adoption by the end of 1983 of the Directive on banking supervision on a consolidated basis;

- the adoption as soon as possible

  of the two Directives on collective investment undertakings for transferable securities, in particular to make it easier to set up CIUTS with an industrial purpose and to place their units on the markets of the Member States;

  of the Directive concerning indirect taxation of transactions in securities;

- the intensification of efforts to smooth the way for the gradual emergence of a common market in banking, both from the point of view of conditions of entry to the market and from that of the coordination of measures on prudential control and the establishment of harmonized accounting procedures;

- further coordination of foreign indebtedness policies, with consideration of the respective roles of the various forms of official borrowing;

- the association of non-member central banks in the mechanisms of the European Monetary System; in the present international economic and monetary situation this would be particularly useful in strengthening the EMS.