

**Speech by Mr Jean-Pierre JOUYET,
Minister of State responsible for European Affairs,
to the gala dinner held by the Paris Europlace Financial Forum
on 5 July 2007
on *Europe's Financial Markets and the French Presidency***

Ladies and gentlemen,

It is a great pleasure to be here to speak to you this evening on subjects that, as you know, are not unfamiliar to me and on which I have already worked closely with Paris Europlace in the past. I intend, in my new capacity as Minister of State responsible for European Affairs, to continue to work on European financial integration in close liaison with Christine Lagarde.

The overall theme structuring your exchanges and focused on the European dimension is a strong sign that the organisation of the financial markets cannot be addressed without including the Community dynamic.

The French Presidency of the European Union, due to start in a year's time for the second half of 2008, will need to meet your expectations to boost financial market integration, a combat that France has always actively supported.

I/ Financial market integration in Europe is part of the broader national and European agenda for growth and employment.

The report I submitted with Maurice Lévy six months ago pointed up the levers for increasing our growth potential by capitalising on our assets in the intangible economy. Substantial sources of growth can be found in particular in the financial sector, at national and especially European level.

- Jean-Claude Trichet has often pointed out that half of the European economy's productivity lag behind the United States is due to a lack of productivity gains in the financial sector. It is therefore vital to complete the internal market for financial services to assert our capability to find, attract and optimise the financing that firms need to develop.

- Another priority is the promotion of innovation. The financial industry is and should remain one of the most innovative. You discussed this subject this morning. The modernisation of the stock exchanges, the boom in venture capital, hedge funds and structured funds should contribute to growth once the new risks associated with them are suitably under control.

- Regarding economic policy management, the financial market is particularly concerned by the handling of monetary policy and exchange rate policy. On this subject, we are clear-cut and confident: the economic governance of the euro area must be improved. For the French

authorities, this is not about challenging the independence of the European Central Bank, but promoting more of a link between its policy and the other economic policy levers. You addressed the international role of the euro with Jacques de Larosière this morning. The management of the exchange rate policy is an eminently political issue that concerns not only the Central Bank, but also the governments. This is simply a question of implementing the Treaty.

It is a question of making the most of our assets and defending our interests in Europe and worldwide as, for example, with our positions on the WTO and our proposals on the euro area's institutional architecture with regard to economic policy. This approach is perfectly in keeping with the will to conduct structural reforms and to fully participate in globalisation, which, to my mind, cannot be dissociated.

The British, who accuse us of economic protectionism, do not hesitate to affirm loud and clear, as they did yesterday, the necessity to defend the interests of the City. This is the approach we want to adopt for our centres of excellence.

II/ Turning to the possible financial market focuses in the programme of the French Presidency of the European Union in 2008, I can already pinpoint a few courses of action with which I am sure Mrs Lagarde would agree.

The work on the Lamfalussy process since 2002 has been remarkable. I will not go into the basic legislation adopted in recent years, which has extensively changed the financial services landscape in Europe. Our ambition, which I know to be shared by Paris Europlace, is to prevent these achievements from being an excuse to lose speed on financial market integration. This is why the French Presidency should step up the Council's work in two areas:

- Clearing and settlement. Cross-border investment operations are clearly more expensive than domestic operations for investors on the financial markets. This creates a substantial barrier to financial market integration in Europe and calls for greater competition and transparency in this sector. Based on the assessment of the implementation of the code of conduct adopted by professionals last year, at the Commission's initiative, the French Presidency will organise a think-tank on how to follow up this process, including in terms of legislation.
- Asset management. European financial players need to be able to offer internationally competitive investment products. This means that the European regulations have to constantly adapt to financial innovations. I am referring, in particular, to the developments in hedge funds and private equity funds. The Commission is expected to put forward proposals in the autumn on improvements to be made to the regulations. I know that the French financial industry, a leader in asset management, is in favour of an ambitious revision of the texts in force. The French Presidency should uphold these expectations.

As regards the meetings that are already foreseeable, I would also like to touch on the discussions that the French Presidency will need to have on important issues of concern to financial centre operations.

- The proposed Solvency II Directive, to be made public by the Commission on 10 July of this year, represents an extensive reform of the insurance directives. It will greatly affect the financial markets since the insurance groups are leading investors. The aim is to work with financial players to find effective solutions to increase insurance policyholder protection and take into account insurance developments in terms of finance techniques, risk management, international standards and prudential supervision;
- We need to follow up on the accomplishments of the Lamfalussy process, whose work since 2000 on setting up an ad-hoc mechanism to develop financial regulations has posted remarkable results. The Inter-Institutional Monitoring Group on the Lamfalussy process is due to propose useful improvements in the autumn to include, in particular, ways of improving the interface between the different regulatory committees to guarantee the flexibility of the legislative process in response to financial innovations;
- The regulatory dialogue on financial services with leading partner countries, especially with the United States. Europe needs to express a strong position to make sure that our regulatory and supervisory standards carry weight at international level. The merger between NYSE Group and Euronext comes with a guarantee that European regulation and supervision will remain autonomous. It is therefore particularly important to hold a transatlantic dialogue between regulatory authorities and supervisors on a level playing field to prevent any risk of American standards extending into Europe.

Lastly, the Presidency of the Council of the European Union also gives the Member State holding it an opportunity to take the initiative as regards the organisation of prudential supervision.

This is a very sensitive subject. There is widespread agreement in Europe about the need to improve co-ordination between supervisors given the emergence of major pan-European players, which has gained momentum in recent months. This is a need in terms of both efficiency and financial security.

However, it is not easy to determine which road to take to improve co-ordination. Yet this should not stop us from considering how to further align regulators' practices and improve the circulation of information. This issue is of strategic importance to the continuation of financial integration in Europe and the enhancement of our competitiveness. It is top of the list of the professionals' concerns.

The French Presidency should make this one of its priorities. We will therefore be listening to your opinions in the coming months with a view to making real progress on this subject.

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Ladies and gentlemen,

Our ambition is for Europe to improve its standing in a globalised world. This it should do in an uninhibited manner, as the other leading countries do, by being dynamic and making the most of its assets. At the last European Council, Europe solved its institutional deadlock.

This “European relaunch” gives us the opportunity to move forward with the Union’s priorities: the promotion of growth and employment, but also sustainable development, innovation and industrial policy. The French Presidency of the European Union will provide the opportunity to make progress with these priorities and Europe’s interests.

One of these interests is the need to have a strong financial industry, organised world-class markets and a dynamic marketplace in an environment of increasingly fierce competition. We need to be on the offensive. I know I can count on your help and determination.

Thank you.