

# INTEGRATION OF FINANCIAL MARKETS

KARINA MUŽÁKOVÁ

Technická univerzita v Liberci, Hospodářská fakulta, Katedra pojišťovnictví

## Abstrakt

Tento článek se zabývá integrací finančních trhů. Spolupráce institucí EU při vytváření jednotných legislativních pravidel vytváří legislativní základ integrace finančních trhů. V rámci sekundárního práva má zde nezastupitelné místo směrnice jejímž cílem je aproximace jednotlivých právních systémů. Přičemž jednotlivé instituce mají své specifické pravomoci. Nezaměnitelnou roli při integraci finančních trhů zaujímá Evropská komise. Mezi první kroky k vytvoření jednotného finančního trhu EU patří Akční plán finančních služeb, který zveřejnila Evropská komise a který byl Evropskou radou schválen v roce 2000.

## Klíčová slova

Evropská komise, finanční trhy, Akční plán finančních služeb, Zelená kniha, Bílá kniha

## Abstract

This paper deals with the integration of financial markets. The EU institutions cooperation at generating of single legislative rules generates the legislative base of financial markets integration. In terms of secondary legislation have here irreplaceable place directive whit the main purpose is to align national legislation. Whereas individual institutions have his specifically powers. In the integration of financial market have incommutable role European Commission. To the first steps to achievement of simple financial market of European Union belongs Financial Sector Assessment Program that was published of European Commission and was approved in 2000 by European Council.

## Key words

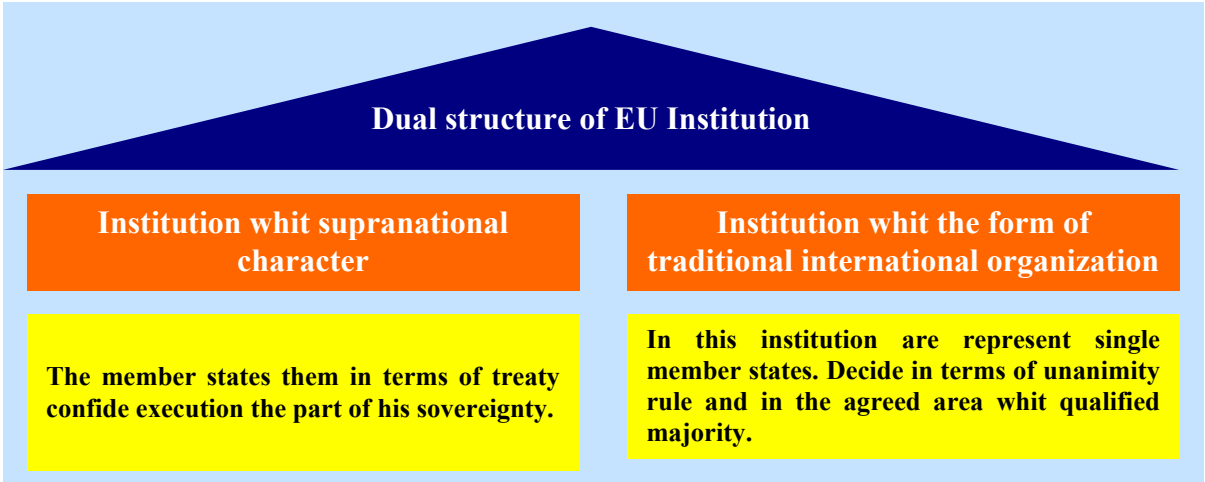
European Commission, financial markets, Financial Sector Assessment Program, Green paper, White paper

**Introduction**

Financial markets are crucial to the functioning of modern economies. The EU institutions cooperation at generating of single legislative rules generates the legislative base of integration of financial markets. The more integrated they are, the more efficient the allocation of capital and long-run economic performance will be. Completing the single market in financial services is thus a crucial part of the European Commission's. The financial markets can be divided into different subtypes (e. g. capital markets, commodity markets, money markets, derivatives markets, insurance markets ...), but this paper describes the European Union approach to the integration of financial markets as a whole.

**1 Institution of European Union**

Institutions of European Union have dual structure that forms the institution with supranational character and the institution which have form of traditional international organization (see figure 1). [1]



Source: self-elaboration

Figure 1 **Dual structure**

In compliance with the Treaty of Maastricht (Treaty on European Union), which came into force in 1993 exist these main institutions of European Union, namely: European Council, European Parliament, Council of the European Union, European Commission, Court of Justice and Court of Auditors. This individual institutions have his specifically powers. [1]

In the integration of financial market have incommutable role European Commission, here is short characteristic of her four main roles.

The European Commission has four main roles:

- it has a near-monopoly in initiating legislation: the Commission is responsible for drawing up proposals for new legislative instruments which it forwards to the Parliament and the Council. It also plays an active part in the successive stages of the legislative procedures;
- it puts policies into effect and implements the budget of the European Union: the Commission is responsible for managing and carrying out the budget and puts into effect the policies and programmes' adopted by Parliament and the Council;
- it is the guardian of the treaties: the Commission ensures that the legal provisions adopted by the Community institutions are applied by individuals, by the Member States and by the other institutions. In exercising its powers, the Commission can in particular impose sanctions on individuals and companies for infringements of Community law. It can institute infringement proceedings against Member States, as part of which it invites Member States to rectify the situation within a specified period. Lastly, the Commission can bring actions before the Court of Justice on the grounds of infringements of Community law by the Member States or by other institutions;
- it represents the Community: on behalf of the Community the Commission conducts negotiations with a view to concluding international agreements with non-member countries or international organizations', in conjunction with special committees appointed by the Council and within the framework of negotiating directives established by the Council. [2]

This Treaty pursues two main objectives: the creation of a monetary union by laying down the principles and arrangements for the introduction of the Euro and the creation of an economic and political union. This is the treaty that originated the concept of a three-pillar structure. The first pillar consisting of the European Community and the other two of the common foreign and security policy and police and judicial cooperation in criminal matters.

There is, however, a big difference between the first pillar and the other two, which have not given rise to any transfers of sovereignty to the common institutions as was the case with the Treaty establishing the European Community. In these fields the Member States wished to

preserve their independent decision-making powers and restrict themselves to an intergovernmental form of cooperation. The most important legal instruments in these fields are the joint action, the common position, and the framework decision, which are almost always adopted unanimously and are binding only to a limited extent. [3]

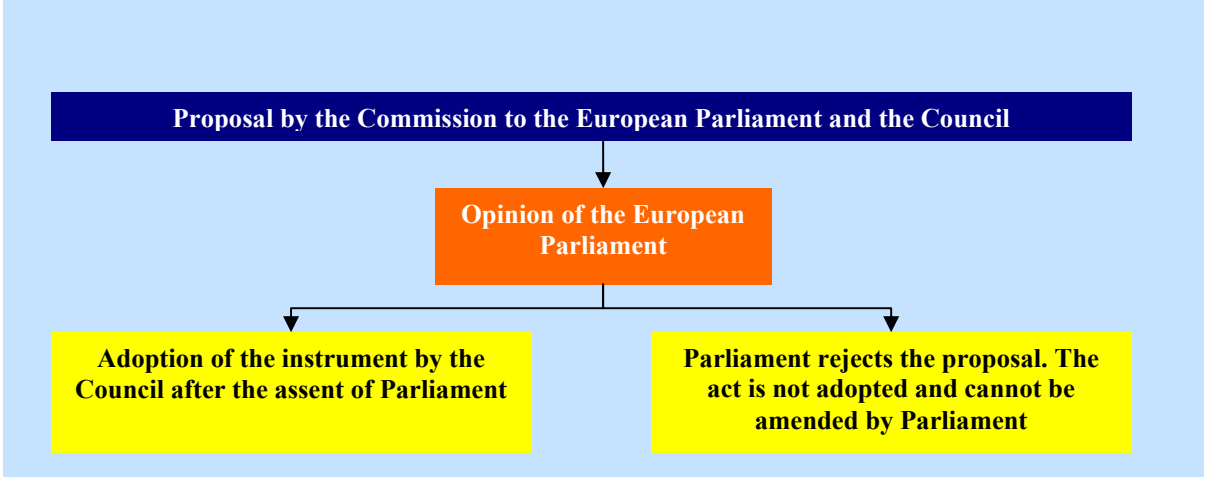
## **2 Legislative procedures**

In contrast to the national systems, in which the will of the nation is expressed in Parliament, the European Union accords a major legislative role to the representatives of the Member States meeting in the Council. As the institutions have developed, the European Parliament has seen its powers increase: the Council now shares its legislative powers with Parliament for the adoption of general legal instruments of a binding nature (regulations and directives). The decision-making procedures comprise the consultation procedure, the cooperation procedure, the co-decision procedure and the assent procedure.

The legislative procedures include 4 procedures. Namely:

- **Assent procedure** (see figure 2) – this procedure, which was introduced by the Single European Act, gives Parliament the possibility of expressing its approval or disapproval of certain Council instruments. There are certain matters on which the Council cannot legislate unless Parliament gives its consent by an absolute majority of its members. The assent procedure, which represents as it were a right of veto for Parliament, was originally intended to apply only to the conclusion of association agreements and the examination of applications to join the European Community.
- **Co-decision procedure** - which was introduced by the Treaty on European Union, was conceived as an extension of the cooperation procedure. However, while in the latter the Council can, acting unanimously, disregard the opinion of Parliament, in the co-decision procedure there is no such possibility: in the event of disagreement, a conciliation committee made up of representatives of the Council and of Parliament has to arrive at a text that is acceptable to the two institutions. The co-decision procedure now puts these two institutions on an equal footing in the legislative roles. Under this procedure, the Council cannot adopt a common position if the process of conciliation with Parliament fails. If no agreement is reached, the legislative process is liable to be broken off.

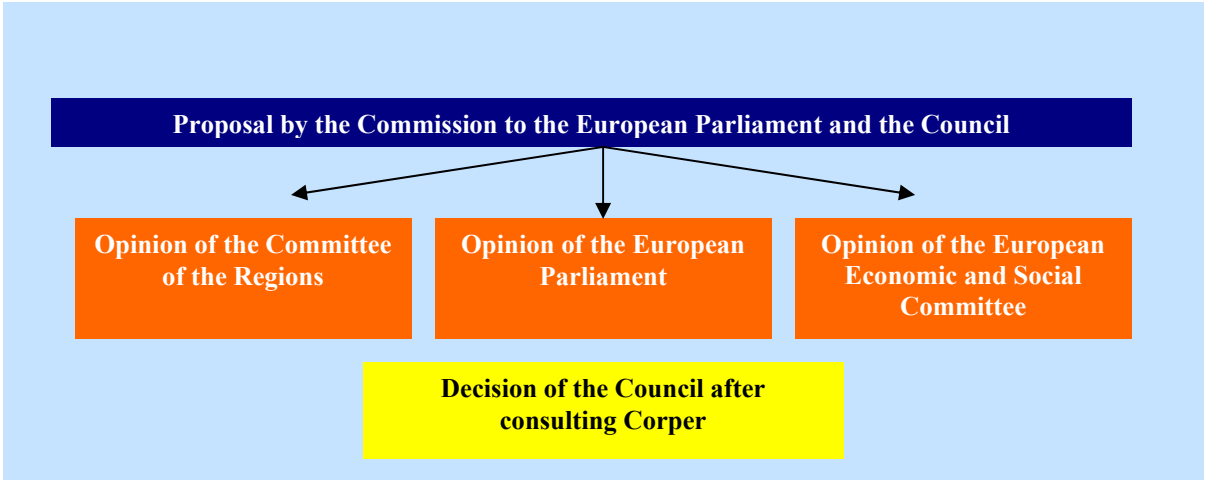
- **Cooperation procedure** - was introduced by the Single European Act to step up the role of the European Parliament compared with the consultation procedure. Parliament can make amendments to a Council common position but, unlike the co-decision procedure, the final decision lies with the Council alone.



Source: self-elaboration

Figure 2 Assent procedure

- **Consultation procedure** (see figure 3) - the characteristic feature is a division of tasks between the Commission and the Council that can be summed up in the phrase ‘the Commission proposes, the Council disposes’. However, before the Council can take a decision, certain stages have to be completed, in the course of which, besides the Commission and the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions may also have their say, depending on the subject of the regulations in question. [3]



Source: self-elaboration

Figure 3 Consultation procedure

### **3 First steps to achievement of simple financial market of European Union**

To the first steps to achievement of simple financial market of European Union belong Financial Sector Assessment Program (FSAP) that program was prepared by the Staff of the International Monetary Fund and the World Bank. The FSAP, launched in 1999, was largely completed by its 2004 deadline, with 39 of the 42 measures adopted. This program was published of European Commission and was approved in Lisbon in 2000 by European Council. The Lisbon objective of becoming “the world’s most dynamic knowledge-based economy by 2010” was one that the world’s press, public leaders and private individuals all came to know, and as the FSAP was named as a major contributing factor to achieving the Lisbon goals, this additional glare of public attention helped. [4]

The object of these measures was elimination of remaining barriers to legal and regulatory framework, which enable the financial markets integration in the all-European dimension.

The central philosophy of FSAP:

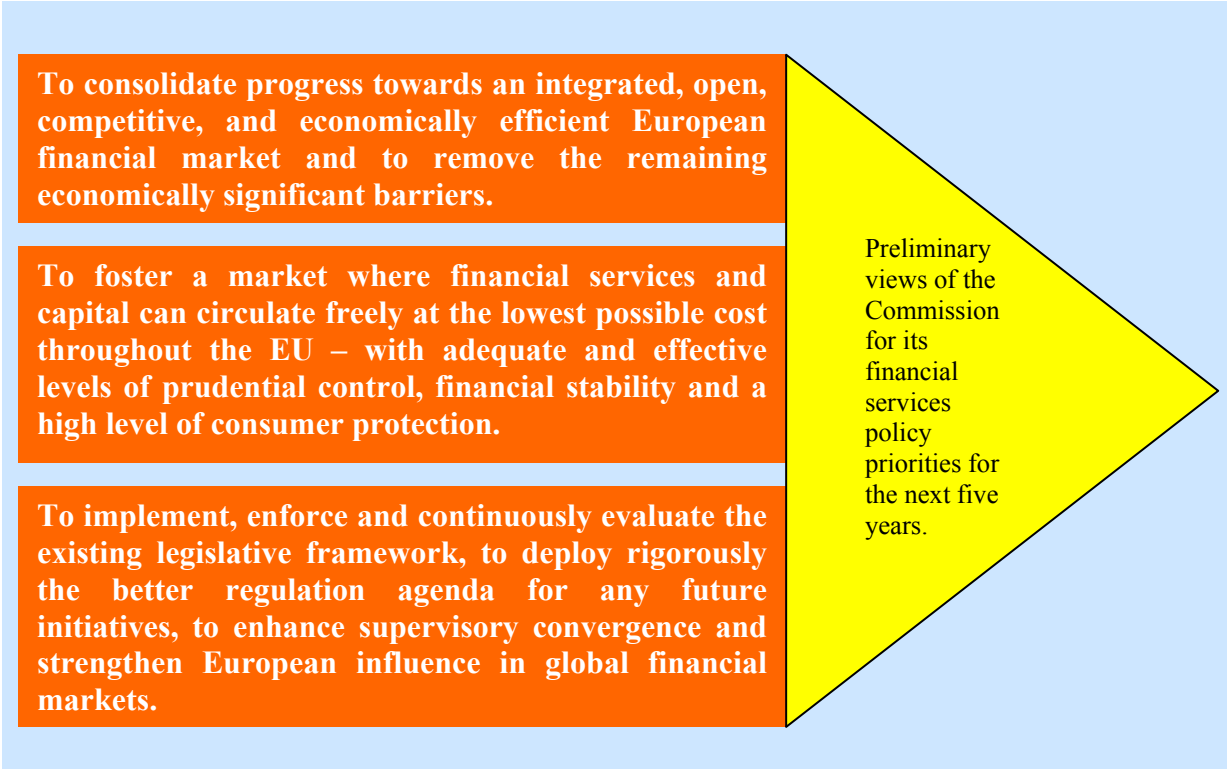
- Financial industry’s performance has improved;
- Higher liquidity;
- Increased competition;
- Sound profitability;
- Stronger financial stability.

#### **3.1 Green paper of European Commission on Financial Services Policy (2005 – 2010)**

This paper presents the preliminary views of the Commission for its financial services policy priorities for the next five years. It takes into account many convergent opinions expressed in the 2-year consultation process that started with the work of four expert groups, followed by wide public consultation. Other parallel Services Committee and the Draft Report by the Economic and Monetary Affairs Committee of the European Parliament on the current state of integration of EU financial markets.

In the last six years there has been major progress towards an integrated European capital and financial services market. Most of the necessary rules outlined in the Financial Services

Action Plan (FSAP) have been agreed on time and are now being put in place. European decision making and regulatory structures have become more rational and efficient as a result of the “Lamfalussy process”. Continued systematic cooperation has developed between the European institutions and market participants. And, in the wake of the euro in some member countries, political confidence in the integration process has increased.



Source: self-elaboration

Figure 4 The overall objective over the next 5 years

A very different focus new phase for the period 2005 – 2010 includes Consolidation of existing legislation, with few new initiatives; ensuring the effective transposition of European rules into national regulation and more rigorous enforcement by supervisory authorities; continuous ex-post evaluation whereby the Commission will monitor carefully the application of these rules in practice – and their impact on the European financial sector. The overall objectives of Green paper see in figure 4.

In this period be very important, that Member States, regulators and market participants must play their role. If needed, the Commission will not hesitate to propose to modify or even repeal measures that are not delivering the intended benefits. This approach is essential to ensure that the hard-won European regulatory framework will function optimally – for the

benefit of market participants, more than 20 million European businesses and 450 million citizens, and thus for the European economy as a whole.

A rigorous “better regulation” approach will be applied throughout. Thereby so think – from policy conception, to open and transparent consultation at all levels, to establishing thorough and convincing economic impact assessments before launching a new proposal and to ex-post evaluation. This is very important to reduce administrative costs for financial institutions and issuers and to raise the competitiveness of the European financial industry. [5]

### **3.2 White paper of European Commission on Financial Services Policy (2005 – 2010)**

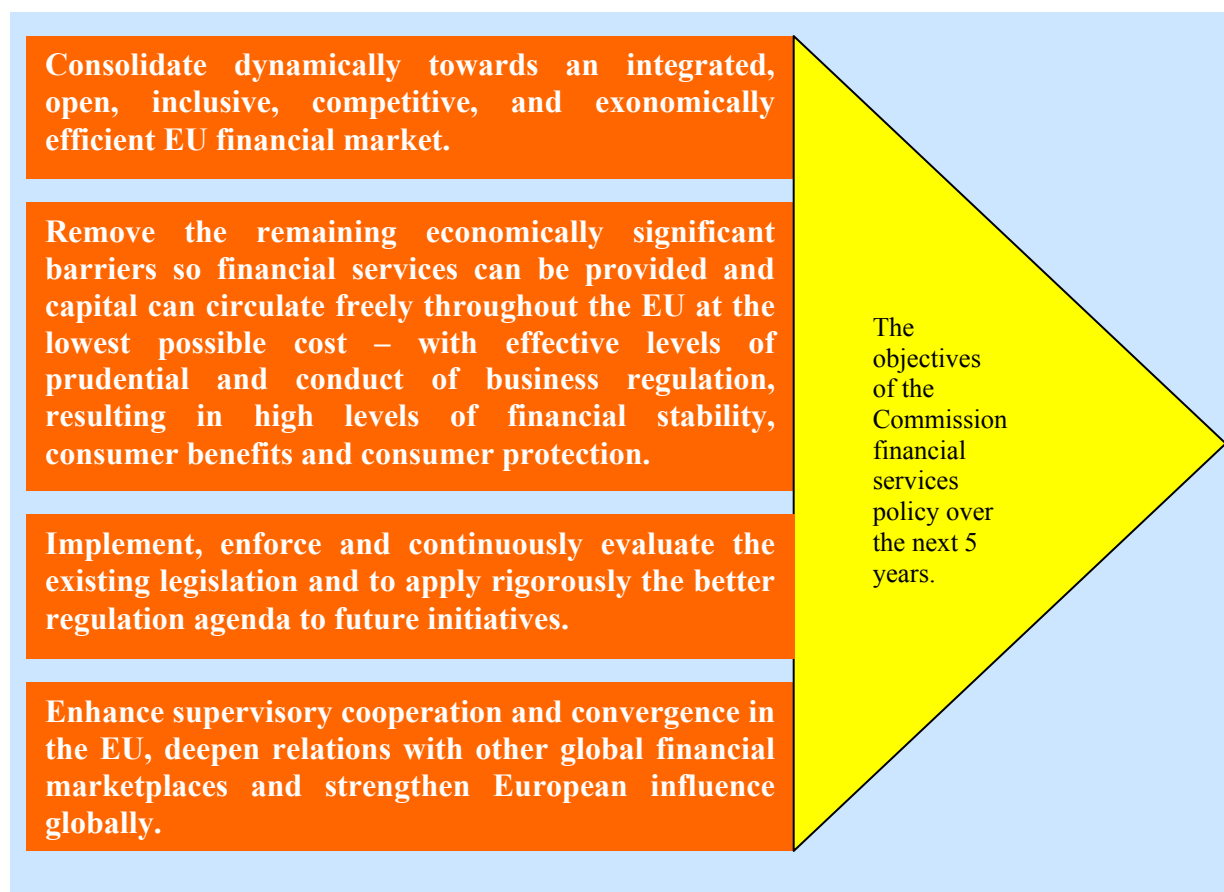
This paper presents the European Commission financial services policy priorities up to 2010. The consultation on the Green Paper has shown broad support for these political priorities. This Paper also takes into account the results of the “Exchange of Views” of 18 July 2005 and parallel initiatives such as the Report on financial integration by the Financial Services Committee, the ECOFIN Council Conclusions of the European Parliament on the current state of integration of EU financial markets. What belong to the overall objective of the Commission’s financial services policy over next 5 years see in figure 5.

Financial markets are pivotal for the functioning of modern economies. The more they are integrated, the more efficient the allocation of economic resources and long run economic performance will be. Completing the single market in financial services is thus a crucial part of the Lisbon economic reform process; and essential for the EU’s global competitiveness.

But efforts have to continue. The EU financial services industry has strong untapped economic and employment growth potential. A further boost in the efficiency of pan-European markets for long-term savings products is needed urgently. The EU’s major structural economic challenge – its huge pension’s deficit – needs to be financed. The retail internal market is a long way from completion. A better functioning risk capital market is needed to promote new and innovative firms and to raise economic growth.

So, consolidating progress; completing unfinished business; enhancing supervisory cooperation and convergence; and removing the remaining economically significant barriers are the key axes of Commission policy for the next 5 years. [6]





*Source: self-elaboration*

Figure 5 The overall objective over the next 5 years

## Conclusion

The legislative processes in the EU have their standing rule. In the third part of this paper are these four very important procedures specify. These four procedures are very important to the legislative procedures in terms of European Union, while given single rules for legislative creation and herewith happen not to the overlap of powers.

As European financial integration progresses, new challenges for supervisors are emerging.

Monitoring cross-border risk is becoming more critical and although integration will strengthen overall stability, the potential for ‘spill-over effects’ such as a system failure affecting several financial markets and/or groups that operate on an EU-wide basis will increase.

The Commission will monitor carefully that candidate countries fulfill their responsibilities in the financial services area. Furthermore, enhancing European influence on the global stage and ensuring the global competitiveness of the European financial sector should remain a priority. Financial services are a global business - developments in one jurisdiction have an impact on others.

The integration of financial markets has very positive impacts', with this process should be connect with the elimination of a number of directives. This process begins in 90. years and continue to the 21st century to the successful end. In this legislative process have European Commission lead role.

## **Literature**

- [1] Mužáková, K.: *Legislativní změny v pojišťovnictví v souvislosti se vstupem České republiky do Evropské unie a jejich dopad na český pojistný trh*. [Diplomová práce]. Liberec: Technická univerzita v Liberci - Hospodářská fakulta, 2007.
- [2] European Commission [online]. Accessible from: <[www.europarl.europa.eu](http://www.europarl.europa.eu)>
- [3] Eur-lex [online]. Dostupné z: <[www.eur-lex.europa.eu](http://www.eur-lex.europa.eu)>
- [4] EUROPEAN COMMISSION *FSAP Evaluation Part I: Process and implementation*, Brussels, 21. 4. 2007, Accessible from <[ec.europa.eu](http://ec.europa.eu)>.
- [5] EUROPEAN COMMISSION *Green Paper on Financial Services Policy (2005 – 2010)*, Brussels, 3 May 2005, COM (2005) 177, Accessible from <[ec.europa.eu](http://ec.europa.eu)>.
- [6] EUROPEAN COMMISSION *White Paper - Financial Services Policy 2005 – 2010*, Brussels, Accessible from <[ec.europa.eu](http://ec.europa.eu)>.

## **Contact – email:**

*Ing. Karina Mužáková  
Katedra pojišťovnictví  
Hospodářská fakulta  
Technická univerzita v Liberci  
Voroněžská 13  
461 17 Liberec 1*

*e-mail: karina.muzakova@tul.cz*