Madam Chair and members of the Subcommittee:

I am Richard E. Thornburgh, the 2004 Chairman of the Securities Industry Association, as well as the Chief Risk Officer for Credit Suisse Group, a member of the Executive Board, and ex-officio member of the Credit Suisse First Boston Operating Committee.

Thank you for your continued interest in the U.S.-EU Financial Markets Dialogue, and the European Union’s Financial Services Action Plan (the “Action Plan” or the “FSAP”). I also thank you for giving me, and the Securities Industry Association, the opportunity to be heard on
these topics, which are of great interest to financial market participants in the United States and Europe.

My testimony today will focus on the critical importance of U.S. involvement in the development of EU capital markets. In particular, I will make the following points:

- The U.S.-EU Financial Markets Regulatory Dialogue is working – we need to build on what is now in place;
- The EU capital markets are both a critical source of investment capital for U.S. companies, and vital to U.S. investors, asset managers, and pension and mutual funds seeking portfolio diversification;
- Proper implementation of the “Action Plan” or “FSAP” is essential for the creation of an integrated, transparent, and liquid capital market; and
- We recommend a U.S. Action Plan to complement the implementation of FSAP including:
  - Placement of a Treasury Attaché in Brussels;
  - Increased inter-agency coordination – particularly utilizing State Department contacts in EU member states;
  - Formalized regulatory dialogue between the SEC and the Committee of European Securities Regulators (CESR) on regulatory convergence, as has been started; and
  - Greater Congressional/Parliamentary interaction.

The Dialogue is Working

I am especially pleased to testify today about the U.S.-EU Financial Markets Regulatory Dialogue. The securities industry believes that this Dialogue can be a starting point as well as an integral tool in promoting the best interests of the U.S. and EU economies and capital markets, including the development of an equity culture. With the Dialogue in place, we believe it should be complemented with a coordinated U.S. inter-agency Action Plan (USAP) that can work with individual EU members states and Brussels to achieve FSAP goals: an integrated, deep, transparent and liquid European capital market.

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2 This will be critical if Europe is to stimulate the development of risk capital. EU Risk Capital Action Plan, http://europa.eu.int/comm/internal_market/en/finances/mobil/risk-capital_en.htm
The securities industry – both here and in the EU – has been a strong supporter of the FSAP. We have worked closely with the European Commission, the European Parliament and member-state regulators to help ensure that the Action Plan’s objectives for a single, integrated, efficient EU capital market is realized. The FSAP is a considerable undertaking and we commend the continued commitment of member-state governments, the European Parliament, and the European Commission to this endeavor. I will discuss the FSAP’s initial successes, which we believe are substantial, and certain aspects of the Action Plan, such as the Investment Services Directive (ISD), that we believe might have been accomplished differently if the Dialogue had been in place earlier.

Perhaps most importantly, I will address the future, and the desirability of building on existing capital-market linkages through a U.S.-EU regulatory-convergence dialogue. Not only are these issues important for the continued growth and integration of the EU’s capital market and the broader transatlantic capital market, but also they are issues we believe will benefit greatly from the collective views to be offered by the participants to the U.S.-EU Financial Markets Dialogue. In this regard, we commend both the U.S. and EU for their consultation with SIA on capital-markets issues related to the Dialogue.
The FSAP (And The Dialogue) Are Important To U.S. Issuers and Investors

The U.S. relationship with the EU is extremely strong. Notwithstanding the inevitable disagreements that occur in a close relationship, the U.S. and EU have deep and ever-growing political and economic ties. The health of our respective economies is inextricably connected, with trade and cross-border investment flows linking the transatlantic economies and capital markets. The recent historic enlargement of the EU through the accession of 10 new Member States magnifies the region’s importance to the United States.

This relationship provides the global U.S. securities industry and its corporate, institutional and retail clients with tremendous opportunities. Indeed, SIA’s largest members engaging in global business receive about 20 percent of their net revenues (excluding interest) from European markets. About 35,000 European employees support these operations. Moreover, their revenues from Europe are close to double what is earned from their Asian operations. This is clear evidence that the largest U.S. firms are, in the truest sense, global in nature. Another example of the close financial linkages: six of SIA’s top-20 member firms (as measured by equity capital) have European parents, including my own.

Fundamentally, the U.S.–EU relationship relies on building common social and public policy goals. The increasing closeness of the relationship is underscored in the statistics and the large trade in financial ideas, talent, technology and capital across the Atlantic; the nascent EU securitization market, U.S.-EU discussions on fair-value accounting and market structure, and improved EU consultation practices, to name just a few examples. In light of these linkages, we commend the Administration, and particularly U.S. Treasury Under Secretary Taylor, Assistant Secretary Quarles, and their staff for opening a specific dialogue with the EU on financial services issues.

The newly expanded EU – with 450-million potential investors and a Gross Domestic Product exceeding $8.6 trillion – is a key market for the U.S. securities industry and its clients.\(^3\)

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\(^3\) The U.S. and EU equity markets combined account for 70 percent of global stock market capitalization. Not surprisingly then, our respective capital markets also benefit from the cross-border purchase and sale of securities. In 2003, EU-resident investors had transactions (purchases plus sales) in U.S. stocks and bonds of a record $12.8 trillion, resulting in their net acquisition of $225 billion of U.S. securities. Total U.S. transactions in EU securities amounted to about $4.3 trillion, a record, resulting in U.S. net divestitures of EU securities of about $7.6 billion.
The two-way flow of trade, portfolio, and direct investment between our two regions exceeds $1 trillion annually – more solid evidence of the partnership cemented between the U.S. and the EU. Importantly, the EU offers U.S. companies an alternative pool of capital for raising debt and equity capital. For example, in 2003 U.S. companies raised more than $171.1 billion in the EU capital market, of which $164.3 billion was in corporate debt issues, and more than $6.8 billion in equity. EU investors have a healthy appetite for U.S. securities and are a major supplier of capital and liquidity to the U.S. market. In 2003, EU investors acquired $225 billion of U.S. stocks and bonds; $33.6 billion in corporate debt, $170 billion of U.S. treasuries and agencies, and $21.3 billion in equity. Impressively, EU-based investors have added $1 trillion of U.S. stocks and bonds to their holdings since 2000.

The EU markets also provide U.S. investors with alternative investment options for purposes of portfolio diversification. For example, U.S. investors own more than $1.3 trillion in foreign stocks, of which over $712 billion, or 53 percent, are EU shares. U.S. ownership of foreign bonds shows a similar emphasis. U.S. holdings of EU bonds totals more than $227 billion, or 45 percent, of total foreign bond holdings.

Without question, the U.S. and EU are each other’s most important economic partner. U.S. companies, for example, get half their foreign profits from the European Union. U.S. direct investment in the European Union totaled $700 billion in 2002, and U.S. companies employed more than 3.3 million people in Europe (2001 data). EU investment in the U.S. is also significant. At the end of 2002, EU companies had direct investments in the U.S. totaling nearly $862 billion, or 64 percent of the $1.35 trillion total invested in the U.S. by all foreign nations. Moreover, EU companies based in the U.S. accounted for nearly 3.7 million U.S. jobs in 2001 (most recent data). Two-way trade in 2003 for goods and services totaled $589 billion, accounting for 23 percent of all U.S. trade volume. Clearly, the economic ties are substantial, and will continue to expand, particularly as the new EU accession countries prosper.

The rationale for the EU’s Action Plan becomes clear when comparisons are made about market capitalization: the EU does not (yet) have a single financial market – it continues to be a

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collection of national financial markets with an overlay of certain significant single-product markets, such as the Eurobond market. The result is that the EU’s financial markets are still considerably smaller. By year-end 2003, the market capitalization of the U.S. equity markets totaled $14.3 trillion; almost double the EU total of $7.8 trillion. This tremendous potential for growth helped lead the European Union to conclude that integration of its financial markets should be a key political and economic priority. This, in turn, helped drive the development and pursuit of the FSAP.

U.S. securities firms have long participated in – and been committed to – the EU capital markets. They and their customers have participated directly in the gains that have been made to date, and expect to be among the primary instruments and beneficiaries of a more integrated, efficient EU capital market. The securities industry is extremely optimistic about the future of those markets and is committed to helping realize the full benefits intended by the FSAP.

*Developing An Equity Culture*

The FSAP, by integrating Europe’s capital markets, will stimulate the demand and supply of funds to be intermediated by securities markets. This is critical because EU companies have, of course, traditionally been more dependent on banks for sources of financing through traditional loans. In fact, since the start of the EU single market in 1992, banking assets, as measured as a percent of Gross Domestic Product (GDP), have continued to increase, and ended 2002 at about 204 percent of GDP; the comparable number in the U.S. is 56 percent of GDP. By contrast, U.S. companies seek more capital for financing needs through the securities markets.
For example, the U.S. equity market is about 130 percent of GDP, while in Europe the comparable number is 74 percent.

Behind the FSAP lies the assumption that once the Action Plan is successfully implemented and enforced, EU capital markets will be more efficient, resulting in a broader pool of capital that can support economic growth and job creation. The FSAP will help to create an “infrastructure” for deeper and more liquid capital markets – but it alone cannot broaden the equity markets.

There are, in fact, promising signs of an emerging equity culture for investors in Europe. In the United Kingdom, one out of every three adults now invests in equities. In addition, institutional investors are also increasingly looking to build a greater equity presence by substantially increasing their equity holdings.\(^5\) These trends and others bode well for EU investors and providers of financial products and services, as well as entrepreneurs seeking venture capital. As a result, the implementation of the FSAP – together with common internationally recognized accounting standards, the EU’s corporate governance action plan, and improved efficiencies in clearing and settlement – will serve as a catalyst for the development of a Pan-European equity culture.

The recent U.S.-UK Enterprise Forum (May 24, 2004) was a great example of a bilateral attempt to share common experiences on developing a more dynamic “enterprise culture”\(^6\) for which the development of equity investors is critical.\(^7\) However, recent discussions by German

\(^5\) An OECD study shows a similar trend. European holdings of stocks (as a percent of household financial assets) increased from 14.5 percent (1995) to 21.3 percent in 2000. During the same period, U.S. households increased their holdings form 32.0 percent to 33.1 percent. Household Wealth In The National Accounts Of Europe, The United States And Japan, March 4, 2003. http://www.olis.oecd.org/olis/2003doc.nsf/43bb6130e5e86e5fc12569fa005d004e/91e34dc3d290e515e1256cdf003a444/$FILE/JT00140238.PDF


\(^7\) Also, note Results of the Competitiveness Council of Ministers, Brussels, 11th March 2004 Internal Market, Enterprise and Consumer Protection issues: “The Council adopted Conclusions welcoming the Commission's Action: The European Agenda for Entrepreneurship” as well as the progress achieved in implementing the European Charter for small enterprises. It identified a range of issues which now need to be taken forward, in particular helping to change attitudes to entrepreneurship through education and training, as well as ensuring that businesses can access the skills base they need to help them to grow; improving the flow of finance for small and medium sized businesses and seeing further progress in the
and French authorities to create “industrial champions” illustrate the challenges that market forces face within the European Union, and contrast sharply with the market-oriented principles that underpin the FSAP, and could very well impede the ability to realize the full benefits of the FSAP.

Similar issues arose in the Investment Services Directive (ISD) debate on market structure. While the ISD eliminated the “concentration” rule, a number of EU countries supported pre-trade transparency provisions to protect local exchanges, which ran counter to goals of promoting greater competition, choice, and efficiency, and indeed might be a de facto concentration rule for certain transactions. The U.S. must work together with its friends in Europe to bridge these differences within the EU and create the environment for private business to flourish, promote market reforms that empower investors and market participants, and allocate capital in a manner that maximizes growth, productivity, and job creation.

Overall, the success of the FSAP is important for the global economy. The U.S. and EU play leadership roles in the international marketplace, helping to set best practices, advocating open and non-discriminatory trade, and acting as engines for global economic growth and job creation. Ultimately, the success of the Action Plan will be determined by how it’s implemented, interpreted and enforced by the European Commission and member states. Successful implementation of the FSAP – defined by its ability to create an integrated, deep, transparent, and liquid European capital market – is perhaps best viewed as a perpetual annuity.

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8 UK minister hits out at EU “industrial champions”, Financial Times, James Mackintosh, May 24, 2004. Also see, Let the market choose Europe’s champions, “The key to prosperity is ensuring the right conditions for business investment, particularly in innovative sectors. An essential condition is strong competition.” Financial Times, June 13, 2004 by Frits Bolkestein, EU Commissioner for Internal Markets.
9 SIA letter to David Wright, December 3, 2003. Also see Linklaters’ Financial Markets Group Briefing - April 2004, EU Agrees Revised Investment Services Directive, “However, ISD2 does introduce a new market making obligation for off exchange dealing, which is a significant restriction for those who currently deal as principal in the UK and which may act as a back-door concentration requirement for some transactions.”

Looking forward at the next phases of U.S. engagement and the U.S.-EU Dialogue we would suggest a coordinated inter-agency effort – a U.S. Action Plan – to fully and effectively engage EU governments and regulators at all levels about the need for open and competitive markets. As stated before, our goals include: establishment of a Brussels Attaché; increased coordination with the State Department; further U.S. Congress/EU Parliament contacts; and a SEC/CESR coordinated focus on regulatory convergence.

The implementation and enforcement phase of the key capital market directives at the core of the FSAP – as well as other topics under current discussion in Europe such as clearing and settlement, corporate governance, and the examination of rating agencies – will have a direct impact on the U.S. capital markets and U.S. financial services firms operating in Europe. Moreover, the Directives will affect U.S. corporation access to an essential pool of capital for years to come. To ensure that U.S. interests in the European Union are adequately represented, we strongly believe that the U.S. Treasury Department should place a U.S. Treasury Financial Attaché in Brussels. Such a post would advocate U.S. industry interests and support the financial-sector dialogue in which the U.S. and EU are now actively engaged.

A Treasury Attaché in Brussels would make possible much-needed day-to-day dialogue with the Commission and other EU decision-makers as implementation of FSAP progresses; would coordinate with the U.S. regulatory community as appropriate; and would both monitor and study developments of significance to the U.S. financial community in partnership with the industry. The expected pace of change in the EU financial market over the next years, and the complexity of capital markets legislation now in formation, justifies this type of focused presence at the center of the newly expanded EU.

And while we strongly believe a Treasury Attaché in Brussels is needed, we also believe the U.S. State Department, through its Mission to the EU in Brussels, and its Embassies and Consulates in all 25 member states, can enhance and support the U.S. Treasury Department's efforts on behalf of the U.S. financial services throughout the European Union. We believe this

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10 In Appendix A to this testimony we have detailed our views on the development of the Financial Markets Dialogue, and its importance to the U.S. securities industry
effort is essential because individual EU member-states can – and often do – play a pivotal role in key EU legislative decisions. Our experience with the Investment Services Directive made this point plain when the European Parliament's amendments to the proposed ISD were reversed (unhelpfully) by a political vote of finance ministers of the member states acting in Council. This reality, and the fact that FSAP measures will be implemented at the member-state level, calls for a U.S. government strategy in Europe.

Treasury clearly has the leadership role in the financial markets Dialogue. However, the State Department has Foreign Service officers with access to, and daily contact with, key government officials in all 25 EU member states – including each of the 10 new member states. Consequently, the State Department is extraordinarily well positioned to be an integral resource for the Treasury Department in these efforts. Increased focus by the State Department, in coordination with the Treasury Department, should therefore be a key element in enhancing U.S. engagement in the Dialogue.

In addition, we firmly endorse the further development of greater understanding and closer relationships between key financial services legislators in the U.S. Congress and the members of the European Parliament (such as the European Parliament Economic & Monetary Affairs Committee, the House Financial Services Subcommittee and the Senate Banking Committee). We believe these efforts should:

1) encourage constructive discussion of existing extraterritorial issues, such as the implementation of the Sarbanes-Oxley Act, and the EU’s Financial Conglomerates Directive;

2) facilitate and encourage mutual prior consultation (an “early-warning system”) on legislation with potential extraterritorial effects, to help prevent future conflicts; and

3) identify common future legislative goals and common or compatible solutions wherever possible.

Looking Forward: We Need Dialogue At The Regulatory Level On Convergence

The U.S. securities industry strongly supported the pro-active action taken by U.S. and European regulators as part of the U.S.-EU Financial Markets Dialogue – a new regulators’ dialogue on regulatory convergence. To date, the Dialogue has been largely reactive, with the
U.S. and EU addressing – and resolving – a substantial number of serious and vexing regulatory issues. The current dialogue has been problem driven.

However, we, and the U.S. Securities and Exchange Commission along with the EU’s Committee of European Securities Regulators have felt that the Dialogue should be employed for more than just solving problems once they have arisen. We have collectively concluded that the enhanced cooperation and understanding achieved to date can be used pro-actively for the purpose of minimizing regulatory differences or divergences and helping to make the transatlantic capital markets more efficient and accessible.

As a result, we welcome the SEC and CESR terms of reference for the cooperation and collaboration regarding market risks and regulatory projects. SIA’s support of such a pro-active “regulatory dialogue” is consistent with the industry’s goal to minimize regulatory differences and improve the efficiency of the transatlantic markets through regulatory convergence.

To this end, SIA has proposed a number of discrete issues that we believe CESR, the SEC, and the industry, working together, could actually resolve in the near-term to the mutual benefit of the transatlantic marketplace. Indeed, in light of the increasingly linked transatlantic capital markets, an uncoordinated approach on these issues could only lead to new regulatory hurdles and barriers that would raise costs for all market participants.

SIA does not seek convergence for its own sake, nor do we believe that all regulations warrant convergence. Differences in our respective regulatory systems often reflect the realities of our different legal systems, different market structures and sometimes even different political choices. As House Financial Services Committee Chairman Michael Oxley noted in his opening statement at last month’s hearing, “The choices one country makes for how best to protect its investors and depositors may not always coincide with the choices other countries make.

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11 SEC-CESR Set Out the Shape of Future Collaboration, June 4, 2004, “The enhanced relationship between the SEC and the members of CESR has two objectives. The first objective is improved oversight of U.S. and EU capital markets through increased communication regarding regulatory risks to enable regulators to anticipate regulatory problems more effectively. The second objective is to promote through timely discussion regulatory convergence with regard to future securities regulation.”
Different policies can be driven by differences in market structure. Such differences are legitimate and do not easily lend themselves to calls for convergence.”

However, we do believe that different or duplicative regulation in service of similar or identical policy rationales only complicates the ability of market intermediaries, investors, and those seeking to raise capital to conduct business efficiently. Those areas in which we have suggested that the SEC and CESR study convergence are:

- public offering documents in the U.S. and European markets – beginning with non-financial disclosure, e.g. Management Discussion and Analysis, reporting of beneficial ownership, real-time event disclosure;
- U.S. and EU broker-dealer registration requirements;
- rules relating to credit rating agencies;
- international anti-money laundering standards that promote uniformity, cooperation and efficacy – beginning with the ability to rely on financial intermediaries across borders to perform due diligence, such as customer identification requirements; and
- corporate governance standards.

This list illustrates the serious and significant topics that Dialogue should address. Each is complex but provides an opportunity to eliminate unnecessary and unintended inconsistencies in regulatory requirements and, by so doing, contribute to more efficient capital markets.

Lastly, we will briefly discuss an issue of significant concern to the U.S securities industry, the EU’s Financial Conglomerates Directive (FCD). In April 2001, the European Commission presented a proposal – a priority measure under the FSAP – for a Directive that would introduce group-wide supervision of financial conglomerates. The proposal was prompted by the continuing consolidation in the financial services sector that has created cross-sectoral financial groups with activities in both the banking/investment services and insurance sectors. The FCD was adopted in December 2002.

The UK’s Financial Services Authority, as the “lead” regulator for virtually all major U.S. firms operating in the EU, will make the equivalence determination. It will do so using
guidance to be set forth by the EU Banking Advisory Committee taking advice from the European Commission. Originally, the guidance was to be announced by the end of April 2004, with the FSA scheduled to make its first set of equivalence judgments by June 2004. These timetables have slipped, and we are concerned that U.S. firms could face serious compliance problems. The ability to begin implementation of the Consolidated Supervised Entity regime that the SEC is carefully working on would be jeopardized. We urge the committee to monitor this situation carefully.

The U.S. securities industry plays an important role in the EU capital markets and is fully committed to the integration of Europe’s capital markets. Our competitiveness as a nation and an economy is supported by the ability of our financial services firms to compete openly and fairly. We look forward to working with the U.S. and EU on a positive economic agenda to ensure that European capital market liberalization is achieved in a non-discriminatory manner, and is transparent, efficient, and protects against risk. We very much appreciate the Committee’s serious interest in the deepening relationship between the U.S. capital markets and those of our largest trading partner – the European Union. We look forward to working with Congress and the Administration as we work to help create the best possible foundation for the global capital markets.

Thank you very much.
**Appendix A**

**The U.S.-EU Financial Markets Dialogue Is Only A First Step**

The creation of a single EU financial services market – and the implementation of the Action Plan as a critical step in the realization of that objective – are significant undertakings. The issues raised are numerous and varied and, in many cases, reflect concerns shared on both sides of the Atlantic. While some of these transatlantic issues are a direct result of the Action Plan, others are not and have only been highlighted by the EU’s major legislative program for financial services. Whatever their genesis, the Action Plan helped identify the critical need for a Dialogue between the U.S. and the EU focused specifically on financial services issues.

So, in December 2001, as the EU began to consider the specific details of key FSAP Directives, SIA’s International Committee wrote to U.S. Treasury Under Secretary John Taylor supporting the creation of a new U.S-EU financial markets dialogue saying – and I quote:

“The extensive capital markets linkages that have developed between the U.S. and EU make it all the more important that a more formal dialogue be established to supplement the ad hoc contacts that have existed and sufficed up till now.”

The letter also said that the International Committee had recently met with John Mogg (Dr. Alex Schaub’s predecessor as Director General of DG Internal Market) and had discussed with him the industry’s concerns over the European Union’s data protection, financial conglomerates, prospectus and market abuse directives.

It might be tempting to say that the familiarity of the items on that list, which looks not unlike a list one might make today, means that three intervening years of U.S.-EU Financial Markets Dialogue have not been very fruitful. But that would be a mistake. To the contrary, in common with the public sector witnesses from both sides of the Atlantic who testified before the full Committee on May 13, 2004, I am here to say that U.S. industry firmly believes that the U.S.-EU Financial Markets Dialogue is successful.

In the absence of the Dialogue, a substantial number of the items on that 2001 list might have easily degenerated into a disruptive – even ugly – “trade-style” dispute with potentially
disastrous consequences for both U.S. and EU financial services consumers. Instead, largely because of the Dialogue, each issue has been or is being resolved peacefully and sensibly by the relevant experts and professionals. And, success being the best of advertisements, new potential controversies have continued to be added to the list of issues the Dialogue is being asked to address.

And although the Dialogue was born of necessity – to provide a means of discussing and resolving issues caused by “overspill” – we believe that it should not be, and must not become, simply a means of “alternative dispute resolution”. The industry has advocated the development of a dialogue that enables both partners to avoid to the greatest extent possible conflicts in the pursuit of solutions to what are, largely, shared concerns. I will revisit this point in greater detail in a moment.

The Financial Markets Dialogue Must Involve All Constituencies

SIA wrote its letter to Under Secretary Taylor in 2001 because FSAP-related measures, and other actions taken by the EU relating to the financial services, were directly affecting our ability to provide the products and services our customers worldwide demand, as well as our ability to maintain our international competitiveness. And we were growing increasingly concerned that EU legislation, such as the Data Protection and the Financial Conglomerates Directives, could have a detrimental impact on the ability of our firms to compete.

As a result, SIA felt key government officials and regulators on both sides of the Atlantic should begin to discuss transatlantic capital markets issues on an ongoing basis, within an organized – but flexible, and informal – framework that would bring financial officials and regulators together to consult, to solve problems, and ideally to avoid problems before they arose. We were, in fact, concerned that without such a dialogue these complex regulatory issues

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12 For U.S. firms with a significant EU presence, FSAP Directives and other measure drafted and implemented could have a negative impact our ability to compete in Europe, and, even more worryingly, in other markets around the globe. In fact, we note that the EU Securities Expert Group Report (May 2004), recommends that European legislation and regulation better take into account the fact that investors and issuers frequently taken decisions on a global basis. The Group further notes that the prospectus and transparency directive, while helping integrate the pan-European market, may “…reduce the willingness of third country issuers and investors to raise funds and allocate capital in Europe.” Financial Services Action Plan: Progress and Prospects”, Securities Expert Group, Final Report, May 2004.
could lead to tensions or even trade disputes that would impede the efficient flow of capital between the two regions.

For that reason SIA was extremely pleased that government officials at the 2002 U.S./E.U. Summit in Washington, D.C. announced a financial markets dialogue that would include all relevant financial markets participants – a group whose members would change as appropriate depending on the particular issue being addressed.

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CESR = Committee of European Securities Regulators  
EC = European Commission  
EMAC = Economic and Monetary Affairs Committee

The Dialogue’s recent efforts have been notable and successful with a broadening of participants. They include, of course:

- The work by the SEC and the European Commission to mitigate the extra-territorial impact of the Sarbanes-Oxley Act;

- The graceful resolution of concerns over PCAOB registration for which we congratulate Director General Schaub and PCAOB Chairman McDonough, and;

- The very practical solutions to the Transparency Obligations Directive’s accounting standards requirements – grandfathering certain existing bond issues – that will avoid a threat to the liquidity of the European markets against the backdrop of coming accounting standard convergence.
One area where earlier conversations with U.S. market regulators and market participants might have been helpful is in connection with the EU’s efforts to update its rules relating to market structure. In our view, the Commission’s numerous attempts to balance the merits of pre- and post-trade transparency and on- and off-exchange trading during the revision of the EU’s Investment Services Directive could have benefited from greater, deeper, and earlier familiarity with the full range of experiences (both good and bad) of the U.S. markets. Consequently, SIA member firms and U.S. regulators spent a great deal of time with the Commission, EU regulators and legislators helping to craft a compromise ISD revision that seeks to balance, even if imperfectly, the requirements of retail and institutional markets and participants.

Now, with 39 of the 42 FSAP directives and measures introduced and agreed to, the emphasis within the EU (both in Brussels and at the member-state level) will shift to the implementation and enforcement stages. We expect this shift to highlight transatlantic issues that will have to be dealt with imaginatively if the FSAP is to deliver the desired benefits to issuers, investors, and consumers of financial products. It is therefore increasingly important that Congress, the Administration, and U.S. financial services regulators continue and even enhance their engagement in European capital markets developments.13