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The European Monetary Union as a Catalyst for the Integration of Financial Markets in Europe

*Antonio Sáinz de Vicuña**

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I. Trends Pre-Existing European Monetary Union Leading Toward the Integration of Financial Markets

Europe has achieved monetary unification at a moment when the world economy is being governed by universal trends:

- (i) Deregulation, liberalization, and free competition; whereby complete sectors of the national economy that were once protected from domestic and international competition have been thrown into the full open market-oriented rules in order to foster the efficient allocation of resources. On that line, in many countries publicly-owned companies have been privatized; legal monopolies have been terminated; and organized exchanges, hitherto characterized under public-law categories, have demutualized¹ and privatized, and opened to foreign ownership.

* The author is the General Counsel of the European Central Bank. The opinions expressed in this section are those of the author and cannot be attributed to the European Central Bank.

1. The Paris Bourse demutualized in 1988; the Madrid Bolsa in 1989; the Frankfurt Börse in 1991; the Stockholm exchange in 1993; Amsterdam and Milano in 1997; Brussels and Lisbon in 1999; and finally, London in 2000.

- (ii) Dematerialization of securities, not only in the practice but in the law, whereby such titles need not exist outside electronic formats, permitting real-time trade, computerization of depository activities, cross-border links between custodians, quick settlement, as well as international indirect holdings.
- (iii) Spread of modern technologies permitting real-time access to markets and instant economic intercourse between market participants, while also granting the capacity to replace the traditional human function of matching offer with demand with sophisticated software that automatically matches platforms.

The economic consequences of such trends have been a drive towards market integration: the reduced impact of protectionist and administrative barriers, and economies of scale; market consolidation ('bigger' dimension of market participants, by way of mergers, acquisitions, groupings, or associations); and conglomeration ('wider' scope of activities for market players).

II. Changes Arising From the Introduction of the Euro on January 1, 1999

In Europe, monetary union came after the final abolition of restrictions to the free movement of capital in July 1992, and the completion of the program leading to a single internal market fostered in the late 1980s via the Single European Act. In this context the single currency entails an additional element for the achievement of the internal market, by way of:

- (i) the abolition of exchange risks;
- (ii) transparency and comparability in the formation of prices;
- (iii) a general environment of macroeconomic convergence and stability within the whole euro area, and synchronized fiscal policies of the participating Member States.

Moreover, the full implementation in the late 1990s of the Investment Services Directive (ISD) by all Member States has permitted the remote access to financial markets, by legally allowing the installation of trading screens across Europe, thus allowing for the provision of investment services beyond national boundaries under a method known as 'European passport' or single European licensing for investment firms. However, in hindsight, it may be said that the national implementation of the ISD did not achieve the objective of that crucial piece of European securities law: it basically organized a *de minimis* harmonization, allowing room for Member States to add national rules, and permitting them to use the 'general good' clause² to deviate from the directive content.³

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2. The ISD permits the host Member State to introduce "conditions, including the rules of conduct, with which, in the interest of the general good, the providers of the investment services in question must comply in the host Member State." Council Directive 93/22, art 18.2, 1993 O.J. (L 141) 27. The "general good" clauses enabling Member States to deviate from harmonized rules, namely for foreign service providers, are a general feature in Community financial legislation and one barrier for the integration of financial markets. *Id.*, at arts. 13, 17.4, and 18.2.
 3. Currently the Financial Services Action Plan of the European Commission foresees a forthcoming revision of the ISD.
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On January 1, 1999, the euro replaced the fixing of irreversible conversion rates for the national currencies,⁴ and the Council Regulation (EC) 974/98 on the introduction of the euro entered into force,⁵ providing the legal basis for a huge redenomination of public debt in all participating Member States. The rapid development of euro-denominated bond and equity markets followed the euro's introduction, together with a switch into euro of price quotations and trading in organized markets, and of clearing and settlement in central depositories and payment systems. All these changes took place in the first days of 1999, in each Member State that adopted the euro.

On January 4, 1999 the first pan-European⁶ real-time gross-settlement system, known by its acronym, TARGET, started operation, and since its first days of operation, the volume of euro transferred through it surpassed any previous estimate. To this day, TARGET processes the largest amount of money on the planet. Through TARGET the interbank money markets become European-wide, and indeed margins or differentials in interest rates in those markets have disappeared or become negligible.

Since January 4, 1999, the so-called "market conventions" have unified practices in the financial markets (like quoting and calculation of interest rates, and settlement periods), as well as the two unified euro money market rates, the Euribor and the EONIA, which began operation and became extensively used by market participants.

Monetary union is the completion of the single internal market of goods and services. "One market, one currency." But in itself, monetary union is also the creation of a new financial dimension. Conversion into the same unit of account, the euro, together with the abolition of exchange risks, has created, in aggregate amounts, a huge financial market for the euro. The transparency in the formation of prices has multiplied the depth and liquidity of euro financial markets.

III. The Integration of Euro Financial Markets

When are financial markets deemed to have 'integrated'? I submit that the ingredients necessary for such integration to have been fulfilled are the following:

- (i) Pricing: to equal products and equal risks, there should be an equal price.
- (ii) Availability of financial instruments: a similar, if not equal, range of financial instruments should be available to all market players (*i.e.*, issuers, investors, intermediaries, lenders, and borrowers).
- (iii) Multinational consolidation: whereby the new dimension of the financial markets is accompanied by a new, multinational, dimension of the economic agents acting on those markets.

Have the euro financial markets integrated since January 1999 according to the above elements? Let us have a short review. First, the **money markets**.

4. Council Regulation 2866/98 of 31 Dec. 1998 Conversion Rates Between the Euro and the Currencies of Member States Adopting the Euro, 1998 O.J. (L 359) 1, 2.

5. 1998 O.J. (L 139) 1.

6. "Pan-European" means here the fifteen EU Member States. The Swiss payment system known as Swiss Interbank Clearing, or by its acronym SIC, connected indirectly to TARGET by way of a special-purpose bank established in Frankfurt (Germany).

A. MONEY MARKETS

- (i) The establishment of the single monetary policy of the Eurosystem, together with the establishment and functioning of TARGET, has produced a convergence of reference rates to the EURIBOR and EONIA reference rates in the unsecured money market, whereby the wholesale cost of money in the interbank market is basically uniform throughout the euro area. However, if we turn to the secured money market, pricing differences⁷ of up to six basis points still persist, due to the fact that the repo market is not a single one, but rather spread across twelve national markets with marginal cross-border trading. Although there is a general trend toward a more integrated 'secured' money market (*i.e.*, in relation to the 'unsecured' money market that operates without collateral), and a parallel trend toward more cross-border use of collateral along the progressive establishment of functional and legal 'linkages' between securities settlement systems, there is not yet a global euro-wide collateral market, only a series of connected national collateral markets.
- (ii) The equal availability of money market instruments throughout the currency zone is a criterion that is not met. The short-term paper that is traded in the money market is far from being equally available to market players, and data⁸ shows important asymmetries. The most important market for euro denominated commercial paper ('CP') is located in France; its amount is above the figure for the so-called euro-commercial paper ('ECP') being issued in several currencies—including the euro—in the London market. The size of the French CP market is around four times the size of the next regulated⁹ CP market, Germany. In several euro-area Member States, the CP market is either very small or non-existent. If we turn to the market for certificates of deposits ('CD'), which is short-term paper issued by credit institutions fully backed by cash deposits, we reach a similar conclusion: the size of the French CD market is thirty times the volume of the German CD market, and the German CD market is roughly twice the London CD market. Finally, if we look into the figures for medium-term notes issued by the public sector and credit institutions ('MTN'), it appears that the number of Italian MTNs doubles that of the French or the Spanish MTN market, and that in some countries the MTN is nonexistent or very limited. All in all, the second criterion of market integration, the equal availability of all instruments to all market players, is not met. Legal, taxation, settlement, and other differences impede the cross-border integration of such markets.
- (iii) With regard to the last criterion, multinational consolidation of money market players, the ECB has observed¹⁰ a trend towards concentration of activity among a number of major market players, but without any significant institutional cross-border effect so far. Players are still the big players of each national money market.

7. ECB EURO MONEY MARKET REPORT (European Central Bank, Frankfurt am Main, Germany), July 2001, at 13.

8. See *id* at 14–17.

9. The London ECP market is a nonregulated market.

10. ECB EURO MONEY MARKET REPORT, *supra* note 8, at 23–24.

The apparent conclusion is that the integration of the euro money markets is still not complete.

B. SOVEREIGN BOND MARKET¹¹

Although institutionalized cooperation has developed¹² between sovereign issuers that compete for the same sector of investment, with positive results, EMU has created a strong competition among those issuers. Such competition has triggered a certain increase in cross-border activity. However, the market is still far from being integrated.

- (i) With regard to the pricing of public bonds, differentials remain,¹³ most likely reflecting not only differences in risk appreciation, but also in the still nationally compartmentalized markets.
- (ii) If we turn to the availability criterion, although all Member States do issue bonds, it is striking that six Member States¹⁴ together hold more than 93 percent of the total sovereign bond market of the euro zone. Some niche markets have developed only at the national level.¹⁵
- (iii) On consolidation, in the primary market, the Brouhns Group¹⁶ has explored the possibility to coordinate the calendar and volume of issues, and even the establishment of a common issuing agency, without a positive outcome so far. With regard to the secondary market, a few electronic trading platforms have emerged to facilitate the pan-European cross-border trading of public bonds denominated in euro.¹⁷ Additionally, some central clearing houses are emerging for the cross-border trading of repos of euro-denominated sovereign bonds.¹⁸

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11. ECB BOND MARKET REPORT (European Central Bank, Frankfurt am Main, Germany), July 2001.
 12. Contact Group on EU Government Bonds and Bills established by the Economic and Financial Committee (so-called "Brouhns Group" after its chairman).
 13. On the benchmark ten-year German Treasury Bond, differentials in 2001 have gone up to thirty-eight basis points for the Italian equivalent bond, thirty basis points for the Spanish, and up to fifteen basis points for the French ten-year treasury bond.
 14. Italy, Germany, France, Spain, Belgium, and The Netherlands.
 15. For instance, the main bulk of floating rates notes are issued by the Italian treasury, whilst other countries issue them only marginally. Another example, inflation-indexed bonds are issued only by the French treasury.
 16. ECB EURO MONEY MARKET REPORT, *supra* note 8, at 23–24.
 17. The most important of which, from a cross-border trading perspective, being EuroMTS, a platform regulated by the FSA in London, having as shareholders, all major players in the euro-denominated sovereign bond secondary market. It trades euro bonds issued by ten euro-zone governments, plus bonds issued by the EIB, the German KfW, and the US "Freddie Mac" euro-denominated bonds.
 18. The most important of which, from a cross-border trading perspective, being RepoClear, a central clearing house service of the London Clearing House, FSA-regulated, where several cross-border repo products are offered in relation to German, Dutch, Belgian, and Austrian euro-denominated sovereign bonds.
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C. MORTGAGE BOND MARKET

If we turn now to the **mortgage bond** market, whose volume is above the size of the public debt market, we may also appreciate its lack of symmetry and integration:

- (i) The most important mortgage bond market of Europe is the German 'Pfandbriefe' market. Its excellent rating, sound performance, market depth, and liquidity have produced a pricing that is normally below the Euribor rate. All other mortgage bonds price themselves above the Euribor rate. There is, thus, a structural pricing differential among the national markets.
- (ii) The enormous asymmetry of the mortgage bond market is striking: while the German Pfandbriefe has an outstanding amount above EUR 1,000 billion,¹⁹ the volume of all other mortgage bonds issued within the euro-area do not go beyond EUR 60 billion. Four euro-area Member States²⁰ do not have any significant mortgage bond market at all. One non-euro-area EU country alone, Denmark,²¹ doubles the total volume of euro-area mortgage bonds, excluding the German Pfandbriefe. However, recent legislation in some Member States²² may facilitate a trend towards relative balancing within the euro zone of mortgage bond issuance.
- (iii) The enormous asymmetry in this mortgage bonds market has made difficult any market consolidation, where German issuers and intermediaries are paramount.

D. EQUITY MARKET

If we look now to other kinds of securities, like the **equity market**, the lack of integration despite extensive redenomination into the euro of both company shares and organized markets in the first days of January 1999 is evident. Until the introduction of the euro, big institutional investors like pension funds, insurance and other investment companies, and collective funds, were obliged to have a basic portion of their portfolio in their domestic currency in order to avoid exchange risks. Although this constraint changed with monetary unification, the secondary equity markets are still basically national, with a marginal amount of cross-border trade.²³ Differences in accounting treatment, of corporate governance, of taxation, of transparency and disclosure rules, in company law rules, and costs related to cross-border settlement make it difficult for investors to go international. From the issuers' point of view, raising multi-jurisdictional capital is cumbersome and expensive, also because of the differences in the legal framework, listing and reporting requirements, codes of conduct and of governance. The whole motivation of the Commission's Financial Services Action Plan and the explanatory part of the Report of the Committee of Wise Men on the Regulation of European Securities Market provide a description—and evidence—of the fragmentation of equity markets.²⁴

19. Still well below the U.S. mortgage bond market whose volume is of EUR 2,200 billion.

20. Ireland, Greece, Italy, and Portugal.

21. With a volume of EUR 130 billion.

22. Spain, France, Italy, and Ireland.

23. For instance, the share of non-domestic European equities in European equity mutual funds was still at 26 percent in March 2001, against, a mere 10 percent in December 1997.

24. Final Report of the Committee of Wise Men on the Regulation of European Securities Markets (Brussels, Feb. 15, 2001), available at http://www.europa.eu.int/comm/internal_market/en/finances/general/lamfalussyen.pdf (last visited Sept. 7, 2002).

On the institutional side, whilst until monetary unification, the London Stock Exchange was the only stock exchange in Europe with a significant proportion of listings of foreign equity issuers, after the redenomination into euro of the capital of most big corporations in the euro-zone a process of functional consolidation of organized markets has developed,²⁵ triggered by the demutualization process of exchange organizations. Also, emerging electronic exchanges have aimed at cross-border trades,²⁶ taking profit from the remote access and remote membership authorized by the Investment Services Directive implemented by Member States in the 1990s. Finally, in the derivatives markets institutional cross-border consolidation has also taken place.²⁷ A trend towards conglomeration of intermediaries in the equity market may be perceived, whereby large financial intermediaries are steadily replacing smaller domestic intermediaries on the equity markets,²⁸ with a decrease in average fees.

It needs to be said that such cross-border consolidation has been only organizational and functional, rather than legal. Indeed, 'merged' exchanges do keep their legal personality and legal framework. They have unified their decision-making bodies, their computer platforms, their quoting of prices, their rules and standards, and their fees. National supervisory structures remain in place, although some authorities have concluded special arrangements, so as to coordinate their supervisory activities. National regulatory frameworks also remain applicable.

E. CREDIT MARKET

If we turn now to the **credit market**, pricing of loans has converged towards the new euro-wide reference rates Euribor and Eonia. The 'products' offered by the banking industry still differ from country to country, however, due to differences in financial structures, customs and culture, law, and taxation. As a remarkable example of how legislation may distort the retail credit market, French law²⁹ prohibits the remuneration of sight deposits with credit institutions. Such prohibition also applies to the local branches of foreign banks, despite the fact that outside France such banks may remunerate sight accounts.

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25. The most relevant of all being Euronext, a functional merger of the stock exchanges of Paris, Amsterdam, Brussels, Lisbon, Porto, and London's LIFFE. Other examples of cross-border consolidation outside the euro area—but trading also on euro-denominated securities—being: Virt-X (London's Tradepoint with Swiss SwX); Norex (exchanges of Stockholm, Iceland, Oslo, and Copenhagen).
 26. The most relevant being CoredealMTS, licensed under the FSA in London, trading with mainly euro-denominated debt securities (but also in other currencies), and associated to EuroMTS (the trading platform for euro-denominated public debt based in London). Also EASTDAQ, the acronym of NASDAQ EUROPE, a subsidiary of the NASDAQ stock exchange, located both in Brussels and London and offering pan-European listings.
 27. The most relevant examples being Eurex, the functional merger of the Frankfurt and Zurich derivatives markets, and the integration of London's LIFFE into the Euronext organization.
 28. The ECB has estimated that the top ten intermediaries dominate 60 percent of the European investment banking markets.
 29. Decision of the CNC of 8.5.1969, Regulation of 14.5.1986 and Art. 312(3) of the Code Monétaire et Financier, available at <http://www.age-capital.com/outils/cm/cfm> (last visited Sept. 7, 2002).
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Consolidation in the banking industry has mainly taken place within a domestic scenario, with few examples of cross-border consolidation.³⁰ Still, the only pan-European banks are non-European banks.³¹ The legal underpinnings for a protectionist attitude that has not favored the emergence of European and pan-European credit institutions stem from national legislation governing: (i) disclosure and control of significant shareholdings of credit institutions, (ii) concentration procedures and public offers for shares acquisition,³² or (iii) the abuse of the "national legitimate interest" concept that allows Member States to oppose a projected cross-border merger.³³

If we take into account that branches of foreign banks of other EU countries hold less than 5 percent of the total domestic assets in ten out of the twelve euro-zone Member States,³⁴ one must conclude that cross-border banking expansion is still limited. However, one element of optimism: the EU average total equity ownership by foreign banks of the capital in local credit institutions is twenty-three of total banking capital,³⁵ which shows quite a high degree of internationalization of the banking sector in Europe; the trend is on the growth side.

IV. The Infrastructure of the Financial Markets

Functional cross-border consolidation is taking place in the domain of securities settlement systems, where still, the scenario is of national fragmentation.³⁶ Since monetary union, the settlement system for one euro-zone government bond market has moved offshore into one of the international securities depositories.³⁷ Central counterparts for

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30. Some examples being: HypovereinBank and BankAustria, ING and BHF, Fortis and Société Générale, Dexia (Crédit Communal de Belgique and Crédit Local français); NORDEA (Merita Bank (Finland) and Unibank (Denmark) and Nordbank (Sweden)).
 31. Like some American banks (e.g., Citibank and Morgan Chase.).
 32. For instance, in the failed tri-partite merger BNP-Société Générale-Paribas throughout 1999 foreign "white knights" were kept at bay by the competent authority, the Comité des Etablissements de Crédit et des Entreprises d'Investissement (CECEI).
 33. Council Regulation 4064/89, art. 21.3, 1989 O.J. (L 395) 1, 12. That was the case, for instance, with the decision by the Ministry of Finance of Portugal, of June 18, 1999, opposing the take-over of the Champalimaud financial group by the Spanish bank BSCH. The decision leads to a case before the European Court of Justice (ECJ) that the Commission stopped, following a transactional arrangement between the concerned parties.
 34. In Luxembourg and Ireland the assets of foreign EU banks branches is well above 10 percent of total domestic banking assets.
 35. In Luxembourg the average foreign share of the capital of local banks goes beyond 50 percent; in Ireland, Finland, and Belgium the foreign share is around 30 percent.
 36. Except for two international securities depositories, which already pre-dated the monetary unification of Europe: Clearstream in Luxembourg and Euroclear in Brussels. Following the introduction of the euro, Clearstream (formerly Cedel) integrated itself with DBC, the central depository of Germany, to form Clearstream, and Euroclear integrated itself with Sicovam, the central depository of France, with Negicef, the central depository of The Netherlands, and with CIK, the central depository of Belgium.
 37. Ireland, whose government bond market now settles through Euroclear.
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cross-border trades are also emerging.³⁸ Last but not least, under the auspices of the association of central depositories, a series of bilateral links have been established between securities settlement systems, so that dematerialized securities may 'travel' from one depository to another across borders.³⁹

V. The Euro-system Experience

The system of central banks of the euro-zone, called the Euro-system, is one of the biggest market players in the euro financial markets. It uses a gross average of EUR 200 billion in financial collateral on a daily basis, consisting of either repo or pledge of euro-denominated securities. In addition, it holds and manages the foreign reserves of the Member States having adopted the euro, which consists in securities denominated in foreign currency and, to a lesser extent, in gold. The management of these foreign reserves is conducted by the Euro-system members⁴⁰ in the financial centers of Europe and worldwide.

The euro-denominated eligible collateral for Euro-system operations has been defined by the ECB in a wide manner, permitting EUR 6,500 billion worth in securities located in the euro-zone to be used as collateral for monetary policy and payment system operations.⁴¹

The lack of integration of euro financial markets is evidenced by the asymmetries in the geographical repartition of such eligible collateral:

- (i) 40 percent is located in Germany.
- (ii) 20 percent is located in Italy.
- (iii) 15 percent is located in France.
- (iv) No other euro-zone Member State exceeds 10 percent of the eligible collateral.

If we turn to the use of such collateral by the Euro-system, 8 percent of the total collateral used is domestic collateral, and is used for Euro-system national central banks' domestic operations; and 20 percent is used cross-border. 75 percent of such cross-border use is done through the 'correspondent central banking model' (CCBM), which allows a central bank in one Member State to take collateral on behalf of a sister central bank in another Member State, while the remaining 25 percent is done through the links that the central depositories have established among themselves. Here again there are important asymmetries:

- (i) 50 percent of the cross-border collateral used for Euro-system operations is Italian.⁴²

38. The Euroclear group now operates Clearnet, the Paris-based clearinghouse. The London Clearing House (LCH) offers Repoclear as the central clearing house for cross-border repos. Eurex in Frankfurt offers central counterparty services for derivatives.

39. The ECB has assessed for its own operations, sixty-seven of such bilateral links, against a set of previously established standards.

40. Inclusive of the ECB, which holds EUR 44 billion of foreign reserve assets transferred to it by the NCBs of the euro area, upon the introduction of the euro, as provided for in the Statute of the ESCB and of the ECB.

41. Of which EUR 1,800 billion are in the property of credit institutions qualifying for access to Eurosystem operations.

42. Basically, Italian public debt.

- (ii) Two Euro-system national central banks⁴³ use foreign collateral for more than 50 percent of the volume of their operations.

VI. Reasons for the Insufficiencies of Financial Market Integration

The picture that results from the above descriptions illustrates the fact that after more than three years of monetary unification in Europe, financial markets have not yet integrated and are still nationally compartmentalized. This is not due to a lack of effort from market players. Indeed, a series of actions taken by market organizations have strongly contributed to the still-unsatisfactory existing level of integration:

- (i) The adoption of a series of 'market conventions' in 1998 by a constellation of financial industry organizations, unifying technical and contractual aspects for both domestic and cross-border financial trading (*i.e.*, value dates, ways to calculate interest, periodicity of coupon payments, treatment of bank holidays, and time differences).⁴⁴
- (ii) The adoption of the euro-wide interests reference rates Euribor and EONIA.
- (iii) The adoption of uniform rules for cross-border payments.⁴⁵
- (iv) The launching of a common, multi-jurisdictional, multi-lingual master agreement, for use in both domestic and cross-border repo and securities lending markets;⁴⁶ market efforts do not suffice.

Market players are constrained by the mandatory effect of national, legal, and regulatory frameworks. This has been the conclusion of the Committee of the Wise Men on the Regulation of European Securities Markets,⁴⁷ endorsed by the European Council in Stockholm in 2001. It is the *leit motiv* and *raison d'être* of the Commission's Action Plan for the Financial Services.

43. Central Bank of Ireland and the Banque centrale du Luxembourg.

44. Such conventions are available at the ECB website, www.ecb.int.

45. Paul Janssens, Society for Worldwide Interbank Financial Telecommunication, *Enclosure to doc C1009 AEC*, (Heathrow Group Recommendations); FBE Guidelines on Liquidity Management (Federation Bancaire De L'Union Européenne, Brussels), Sept. 1999, available at <http://www.fbe.be> (last visited Sept. 7, 2002).

46. The European Master Agreement (EMA) (Federation Bancaire De L'Union Européenne, Brussels), FBE Doc. M4 FB N° 80, July 12, 2001. The EMA is sponsored by three main European banking organizations. Currently in use by the ECB for the management of its own funds, and foreign reserves with EU and Swiss repo counterparties. It is understood that the EMA sponsors intend to develop the EMA as a broader multi-product agreement under which foreign exchange transactions and plain-vanilla swaps and derivatives transactions can also be documented.

47. "Absence of clear Europe-wide regulation," "inefficient regulatory system," "inconsistent implementation" of directives, "differences in the legal systems," "differences in taxation," "the necessary European rules are missing," is typical language of the Wise Men report, whose conclusions recommend a swifter mode of European legislation to overcome problems. Final Report, *supra*, note 26.

The picture at the moment of this Sir Joseph Gold Lecture⁴⁸ is far from satisfactory. National legislators have suddenly discovered that their national financial markets have to compete with other national markets within the currency area, that they cannot rely on the natural and protective boundaries that national currencies provided until now, and that the mobility of money, and of the dematerialized and remote-accessible financial services, endanger the survival of their local market structures. Regulatory arbitrage is becoming fashionable, and financial legislators increasingly act in a manner designed to attract new business or to retain the existing activity.⁴⁹ Although it may be argued that such legislation is revamping and modernizing markets, I submit that regulatory competition in the financial world is unwarranted, and to overcome it, there is indeed the need for regulatory harmonization and for institutionalized cooperation of both regulators and prudential supervisors. If we want to have one single euro-wide financial market, we all need to play with the same rules.

The conclusion one would draw from the above, is that the euro has added a decisive element in the several trends⁵⁰ toward the integration of financial markets. Much more would have been achieved, were it not for the legal and regulatory barriers that indirectly protect national markets. In the absence (or insufficiency) of euro-wide common regulation, there is competition between the financial centers of the euro-zone. Since regulatory arbitrage is not a satisfactory development, the euro will, sooner rather than later, lead national regulators to consent to European harmonization. The euro would have gained the repeated motto that it is a catalyst for change.

48. June 2001.

49. A few examples: in Germany four laws (*Finanzmarktförderungsgesetze*) in the last five years aimed at promoting the German financial marketplace (*Finanzplatz Deutschland*); in Portugal, a new Securities Code in 1999; in France, a law on netting in 2001; in Italy, a new supervisory and regulatory regime for the entire financial market (*Testo unico*); in The Netherlands, a law on dematerialization in 2001; and in the UK, a completely re-vamped supervisory and regulatory regime, with the establishment of the FSA in 1999–2002.

50. *Supra*, Part I.
