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**Deputy Assistant Secretary Mark Sobel  
Remarks at Conference on U.S. – EU Regulatory Cooperation  
U.S. Chamber of Commerce**

**Washington** - Thank you for the invitation to join this panel and discuss U.S.-EU financial market issues ahead of the TEC.

Obviously, the current global financial turmoil and US/EU cooperation is uppermost in people's minds. As noted in the recent G7 statement, the world's major central banks have coordinated their actions to address liquidity pressures in funding markets and disruptions in global financial markets. The Financial Stability Forum (FSF) -- which consists of the G7 countries, Switzerland, the Netherlands, Australia, Hong Kong and Singapore, and also brings together the key standard setting bodies -- put forward a strong consensus-based report with proposals on prudential oversight, transparency and valuation, the role of credit rating agencies, supervisory authorities' responsiveness to risk and robust arrangements for dealing with stress in the financial system.

Several EU members are active participants in the FSF and the European Commission works closely with many standard setting bodies and has itself pursued work in the European context aimed at addressing the turmoil. The substance of this work is closely aligned with that of the FSF as well as U.S. work in the President's Working Group on Financial Markets. These activities underscore that US-EU cooperation in addressing global financial market turmoil is excellent and that this work needs to be anchored not just in transatlantic cooperation but also in the global system.

Let me step back now and put US/EU financial discussions in a broader context. This decade, the EU intensified its efforts to forge an integrated financial market under its Financial Services Action Plan (FSAP). Transformation is already visible, especially at the wholesale level. The EU Markets in Financial Instruments Directive has made for more seamless trading across European platforms. Stock exchanges are being consolidated in Europe and across the Atlantic. Several EU cross-border bank mergers have taken place. All listed European firms use International Financial Reporting Standards (IFRS). Efforts are underway to create more efficient clearance, settlements and payments systems.

In the United States, change is also afoot. Financial markets have evolved significantly reflecting the increased globalization of finance and commerce. Technological change has increased trading efficiency. Cross-border capital flows have picked up and corporate governance has been strengthened.

While financial market regulation is undertaken at the national level, one nation's actions clearly don't stop at the water's edge. This is a reality that the U.S. and EU have confronted. Against that background, in 2002, the informal U.S.-EU Financial Market Regulatory Dialogue (FMRD) began. This dialogue complemented many other critical international processes, for example, in the G-7, Financial Stability Forum, Basel Committee, IOSCO and the like.

Since then, the Dialogue has addressed many topics, including the impact of the FSAP on U.S. interests; the effect of U.S. regulatory actions on the EU; how to manage these spillovers; and our common interests in working with emerging markets on financial sector issues. Let me underscore -- this is an "informal dialogue", not a negotiation. Both sides respect the independence of regulatory authorities, recognize that our structures are different and focus on promoting the common objective of facilitating global financial stability and finding practical solutions, if possible.

Much has been achieved. The relationships among the players are extremely cordial and virtual. The nitty-gritty depth of our discussions at times can be mind-numbing. Since many items I will discuss in the rest of my remarks fall in the domain of our regulators, let me be clear that they are independent, I would not presume to speak on their behalf, and my points are solely intended to be factual. To list a few things done since 2002:

- Asset pledge requirements for foreign branches in the U.S. were reduced.
- U.S. firms continued their European operations in the presence of the EU's Financial Conglomerates Directive.
- Accommodations were reached on the impact of Sarbanes-Oxley on Europe.
- European financial rule-making became more transparent and consultation with market participants improved.
- Europe allowed for internalization of stock trading.
- Good discussions were held on the timeline for implementing Basel II, helping to facilitate the smooth management of this issue. Trading book capital charges were included in European legislation.
- Rules were put in place making it easier for foreign companies to terminate SEC registration and reporting requirements when there is little US market interest in their securities.
- In 2005, the SEC and EU began work on a landmark "roadmap" for the United States to accept IFRS statements as a basis for U.S. public listings no later than 2009, and the EU to find US GAAP statements "equivalent" in order to ensure their continued use on European markets without a reverse reconciliation requirement.
- And in early 2007, an active debate emerged on establishing a system of "substituted compliance" for recognition of foreign broker-dealer regimes, or what the G7 Finance Ministers have labeled "mutual recognition of comparable regimes," aimed at facilitating cross-border access by securities exchanges, other trading systems and investment firms, while ensuring high quality investor protection.

With the launch of the Transatlantic Economic Council, the U.S. and EU highlighted the benefits to our economies from promoting greater transatlantic economic integration and seeking to reduce regulatory burdens. Given that some two-thirds of global capital flows take place in the transatlantic space, it was natural that the TEC highlighted financial market issues. Three issues, long in the financial realm, will be in focus.

**Accounting Convergence:** Following up on the accounting "roadmap" work, in late 2007, the SEC decided to abolish the requirement for reconciliation to US GAAP for foreign companies using IFRS as issued by the International Accounting Standards Board and solicited comment on the possibility of allowing domestic companies to file using IFRS. Noting the report published by the EC Services earlier this month that US GAAP meets the criteria established for recognition as "equivalent" to IFRS, we look forward to a formal decision confirming this finding. We fully expect this to happen this year. It bears underscoring that this work, along with efforts to converge global accounting standards and strengthen international accounting governance, offers the prospect for firms to use one set of financial statements for their global activities, with all of the attendant benefits in terms of reduced costs and greater efficiencies. This is a hugely positive achievement, and the SEC and EU deserve tremendous praise for their hard work in past in bringing these efforts toward fruition.

**Mutual Recognition in Securities:** Work in this area is proceeding apace. Last year, consultations and roundtables were held with stakeholders to flesh out ideas. In February, Chairman Cox and EU Internal Markets Commissioner McCreevy issued a joint statement on the common willingness of the US and EU to work together on mutual recognition in securities. In late March, the SEC announced actions to further the implementation of the concept of mutual recognition for high-quality regulatory regimes in other countries. It also announced that it would work to develop a process for discussing mutual recognition with the EU, hopefully by mid-2008.

**Insurance Issues:** Undoubtedly, lively discussions will continue on insurance issues – notably on the implications of U.S. state reinsurance collateral requirements for unlicensed reinsurers and the EU's forthcoming

Solvency II Directive for foreign insurance firms operating in the EU.

The US is open to foreign reinsurers, who account for 85% of the US reinsurance market. On reinsurance collateral, certain European reinsurers operating without licenses in given states take the view that the requirement to hold 100% collateral against gross liabilities is excessively costly and inconsistent with a risk-based regime. High-level discussions have occurred for years on reinsurance collateral, including through the NAIC/EU insurance dialogue, a NAIC dialogue with the European committee of insurance supervisors and the FMRD. Unfortunately, a solution which could be implemented has not been found, though many good ideas have been advanced and work undertaken in good faith to address the matter. Those efforts continue among state insurance commissioners.

On Solvency II, Europe is moving to adopt a new regime, perhaps in 2012, which would provide for consolidated supervision of insurance firms at the financial holding company level and a risk-based approach to capital requirements. Solvency II also provides that foreign firms operating in the EU must be supervised on an "equivalent" basis by their home supervisor or face unspecified measures. Large U.S. insurance firms operating in Europe fear the EU will find the U.S. insurance supervisory regime not equivalent and that they in turn will face uncertainties and higher costs in continuing their European operations. This is a matter requiring intensive discussion.

The Chair specifically asked me to address Treasury's "Blueprint for a Modernized Financial Regulatory Structure" in this context. As Secretary Paulson has said, a state-based regulatory system is burdensome, and it can hinder development of national products and directly impact the competitiveness of U.S. insurers. Also, he has said insurance presents a clear need for regulatory modernization. Certainly in my talks with regulators across the globe, a familiar refrain has been that foreign firms find interacting with many state regulators cumbersome.

Against this background, the Blueprint made two proposals. First, Treasury recommended the establishment of a federal insurance regulatory structure to provide for the creation of an Optional Federal Charter. Second, as an intermediate step, Treasury recommended that Congress create a federal Office of Insurance Oversight within Treasury to establish a federal presence in insurance for international and regulatory issues. These reforms would provide in Treasury's view for more effective, efficient and consistent regulation for national insurers.

Two weeks ago, Congresspersons Kanjorski and Pryce of the House Financial Services Committee introduced legislation to create a federal insurance adviser within Treasury, similar to the intermediate step proposal in the Blueprint. As Assistant Secretary David Nason stated, Treasury welcomes this proposal and it would help the U.S. address international regulatory issues affecting our markets' competitiveness.

Needless to say, these proposals are not yet law and until such time that they are implemented, the current U.S. insurance regulatory structure will remain in place. It is in this context for the period ahead that U.S.-EU international insurance discussions will continue to take place in the various dialogues previously outlined. It is Treasury's strong hope and expectation that all parties will work constructively together in search of practical solutions.

Thank you.