



Securities Industry Association

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Ms. Anita Thomas
Office of Europe and the Mediterranean
Office of the U.S. Trade Representative
1724 F Street, N.W.
Washington, D.C. 20508
FR0439@ustr.eop.gov

Re: Enhancing the Transatlantic Economic Relationship

Dear Ms. Thomas:

The Securities Industry Association¹ ("SIA") appreciates the opportunity to respond to the United States Trade Representative's Federal Register notices of August 17 (Vol. 69, No. 158) and November 9 (Vol. 69, No. 216), soliciting comments about ways to further strengthen the transatlantic economic relationship. SIA is extremely supportive of the steps already taken by the U.S. government to establish a U.S.-EU Financial Markets Dialogue², and similarly applauds the recent announcement by the U.S. Securities and Exchange Commission and the EU's Committee of European Securities Regulators to open discussions intended to further regulatory convergence in the transatlantic capital markets³.

¹ The Securities Industry Association brings together the shared interests of nearly 600 securities firms to accomplish common goals. SIA's primary mission is to build and maintain public trust and confidence in the securities markets. At its core: Commitment to Clarity, a commitment to openness and understanding as the guiding principles for all interactions between investors and the firms that serve them. SIA members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry employs 790,600 individuals, and its personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2003, the industry generated \$213 billion in domestic revenue and an estimated \$283 billion in global revenues. (More information about SIA is available at: www.sia.com.)

² "Financial Market Dialogue: United States financial officials, including representatives from the Treasury Department, Securities and Exchange Commission, and the Federal Reserve, are engaged with their EU counterparts to ensure that European capital market liberalization is achieved in a non-discriminatory manner and are market transparent, efficient, and protect against risk." White House Fact Sheet from the U.S.-EU Summit, May 2, 2002.

³ SEC-CESR Set Out the Shape of Future Collaboration, SEC Press Release, "The enhanced relationship between the SEC and the members of CESR has two objectives. The first objective is improved oversight of US 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." June 4, 2004, <http://www.sec.gov/news/press/2004-75.htm>.

SIA's submission provides some background on the importance of the U.S.-EU economic relationship. In addition, the submission provides our views on developing a more pro-active strategy for a capital markets dialogue, as well as recommendations for U.S. and EU trade negotiators with responsibility for the WTO financial services negotiations. We have attached supporting materials that provide further details.

These pioneering efforts in the financial services give SIA confidence that regular, flexible dialogue at all levels among relevant U.S. and EU officials and regulators, with continuing input from the private sector, has the capacity to strengthen the transatlantic economic relationship in other sectors as well, and can help to overcome the inevitable disagreements that occur in a close relationship. For that reason, we write in further strong support of the U.S.-EU Financial Markets Dialogue, both in its own right, and as an example of what we believe is an extremely productive approach to strengthening the transatlantic relationship in particular sectors and overall.

The health of the U.S. and EU economies are inextricably bound together, with trade and cross-border investment flows linking them and their capital markets. The recent historic enlargement of the EU through the accession of 10 new Member States only 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 approximately 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.

Fundamentally, the U.S.-EU relationship relies on achieving 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 staffs for opening a dialogue with the EU dedicated specifically to financial services issues.

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.⁴ 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. Clearly, the economic ties are substantial, and will continue to expand, particularly as the new EU accession countries prosper.

Without question, the U.S. and EU are one another'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.

U.S. Action Plan

The securities industry plays an important, and increasingly significant, role in the EU capital markets. As a result, the Directives adopted and other actions taken by the EU relating to financial services directly affect our ability to provide the products and services our customers worldwide demand, as well as our ability to maintain our international competitiveness. 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.

Consequently, SIA urges the Administration to support the U.S.-EU Financial Markets Dialogue with an even more pro-active strategy. Specifically, SIA recommends complementing the Dialogue with a coordinated U.S. inter-agency Action Plan (USAP) that can work with individual EU members states and Brussels to achieve an integrated, deep, transparent and liquid European capital market:

- ⇒ Placement of a Treasury Attaché in Brussels;
- ⇒ Increased inter-agency coordination – particularly utilizing State Department contacts in EU member states;
- ⇒ Continued formalized regulatory dialogue between the SEC and the Committee of European Securities Regulators (CESR) on regulatory convergence; and
- ⇒ Greater Congressional/Parliamentary interaction.

SIA looks forward to working with the Administration and Congress to further promoting efficient transatlantic capital markets that will boost economic growth and job creation.

⁴ The International Investment Position of the United States at Yearend 2002, July 2003, Survey of Current Business, U.S. Department of Commerce, Bureau Of Economic Analysis.

U.S.-EU Partnership: Working Together to Reduce Barriers to Global Financial Markets

The 1997 WTO financial services agreement was an important step forward in achieving trade liberalization and market access in financial services. Importantly, this agreement established a good foundation upon which WTO Members can pursue further liberalization to reduce and eliminate remaining barriers. We urge U.S. and EU negotiators to provide joint leadership to achieve commercially meaningful WTO financial services commitments from developing countries in the WTO Doha Round negotiations. The successful conclusion of the 1997 WTO Financial Services Agreement was in large part a result of the co-operative efforts of the U.S. and EU negotiators.

U.S. and EU negotiators should seek a forward-looking WTO agreement that commits countries to enhanced levels of regulatory transparency in addition to addressing specific trade barriers. Regulatory practice in the financial services industry has developed unevenly and often at odds with the market access and national treatment commitments of WTO members. We believe that regulatory transparency commitments have a unique power to break down barriers to global trade in financial services and urge negotiators to focus particular attention on them.

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The Securities Industry Association appreciates the opportunity to address some of the important securities industry issues related to the U.S.-EU Financial Markets Dialogue. We look forward to working with the Administration and Congress. If you have any questions concerning our comments, or would like to discuss our comments further, please feel free to contact me at 212/618-0513.

Sincerely,

David G. Strongin
Vice President, Director, International
Finance

Attachments

- SIA Testimony on the U.S.-EU Financial Markets Dialogue
- SIA Regulatory Transparency Paper