

José Manuel Barroso
President of the European Commission

Brussels, 18.12.08
PRES (2008) D/2470

Dear Ms Berès,
Dear Mr Rasmussen,
Dear Mr Schulz,

Thank you for your letter of 16 December on the progress of certain proposals to reform the regulation of financial markets. I am glad to have this opportunity to clarify the position of the Commission. First of all, I would like to be clear that the Commission is absolutely committed to this programme. It is critical to the effort to restore confidence in financial markets, showing that policymakers, legislators and regulators have learnt the lessons of the past and are taking the action required. That is why the Commission has come forward with a wide range of proposals including: strengthening capital requirements, UCITS, Solvency II, credit rating agencies and deposit guarantees. We have changed our accounting rules and have taken the initiative to bring the systemically important Credit Default Swaps market onto central clearing in the EU. We must all maintain the level of ambition of these proposals and initiatives to ensure that they will be able to achieve the intended objectives.

It is clear that as we gain new insights into this crisis we have to draw the consequences for our financial regulatory and supervisory structure. New regulation will be required. No financial player should be exempt from regulation and oversight. That is a clear commitment on our part. It means that hedge funds and private equity must be covered.

I can therefore confirm again that the Commission will come forward with appropriate regulatory initiatives.

However, these proposals need to be properly prepared. Nobody can claim that the context for action today is the same as even six months ago. As you rightly refer to in your letter, we also need to factor in the fact that now we have, with the G-20, an international process in place that looks at the strengthening of regulation, prudential oversight and risk management across all financial markets, products and participants – something we want to contribute to actively. I might add that in regards to hedge funds we are moving beyond what the G/20 have recommended. It is therefore essential that the Commission undertakes a process of consultation to factor in new developments. It is also

Ms Pervenche BERES, Chairwoman
Committee on Economic and Monetary Affairs

Mr Poul Nyrup RASMUSSEN, President
Party of European Socialists

Mr Martin SCHULZ, President
Socialist Group in the European Parliament

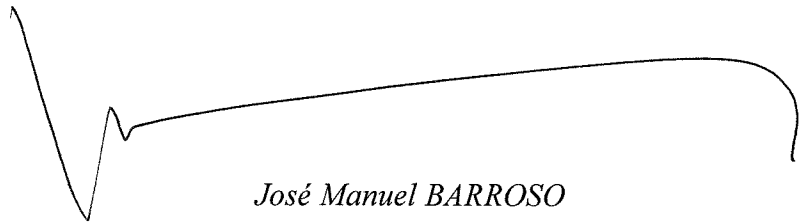
important that the coverage of this consultation is wide, an open process which allows all interested parties to contribute.

However, I fully agree that there is an urgency here. In order to show the seriousness of our resolve to take action, I have agreed with Commissioner McCreevy that we should derogate from the normal length of time for consultations and fix a deadline of the end of January. This will allow us to move rapidly forward with the design of appropriate regulatory initiatives as soon as possible, and in any event before the European elections

To be clear, the purpose of the consultation is not to decide whether or not appropriate regulatory initiatives will be taken. It is to decide on the content.

The Commission has demonstrated its capacity to respond quickly and effectively to this crisis. It will continue to do so. We remain determined to ensure that we have all the necessary regulation in place to strengthen our financial markets and will come forward with appropriate proposals as soon as possible.

Yours sincerely,

A handwritten signature in black ink, consisting of a series of connected loops and curves, extending from the left towards the right of the page.

José Manuel BARROSO