Vanderbilt Journal of Transnational Law

Volume 3
Issue 1 *Winter 1969*

Article 5

1969

Securities Regulation in Selected European Countries

Mitchell Brock

SECURITIES REGULATION

IN

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In approaching the subject of securities regulation in selected European countries, I will not attempt to provide a detailed description of the existing arrangements in the principal European countries. I shall of course to some degree descend to the "nitty gritty" of concrete details to give to airy generalizations a local reality, but my principal objective will be to discuss the economic context, the structure of the capital markets in which the regulatory authorities are performing their functions.

This economic context is pertinent to an understanding of why the pattern of regulation differs in many respects from that existing in the United States. It bears also on the extent of regulation in particular areas and on the manner in which it is carried out and helps one to understand why regulatory arrangements that would be inadequate under conditions existing in the United States can more adequately deal with the problems with which they have to deal in their own countries. Finally, an understanding of the economic conditions is of use in understanding emerging regulatory problems and considering lines of possible evolution. And there will be evolution. The winds of change are at work.

The presentation that I shall make will largely ignore political and historical factors affecting the evolution of securities regulation in Europe. These are certainly highly relevant, but the consideration of them would extend excessively this inquiry. Moreover, even with regard to the economic context, my presentation must of necessity be incomplete and subject to qualification as applied to any particular country.

I propose further to focus primarily on certain generalizations about the capital markets in the Common Market countries as compared with the United States. While I shall occasionally refer to conditions in Switzerland, the United Kingdom and Sweden, the peculiarities of these important capital markets are sufficiently distinctive that were I to be equally concerned with them, it would be difficult to make any meaningful generalizations at all.

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*Partner, Sullivan & Cromwell, New York City

Switzerland because of its traditional neutrality to a large extent was spared the inflation and the resulting devaluation of currencies that affected other European countries after two World Wars. In addition, with its well developed banking system and bank secrecy laws, Switzerland provides an international haven for capital. The funds of many persons, particularly in the Middle East and South America, as well as European countries, who are not residents of Switzerland are invested through Swiss banks.

In the case of the United Kingdom, its island position, the early development there of highly industrialized capitalism, the export of British capital to a world-wide empire, and the resulting development in the City of London, which was for over a century the center of international finance, of highly specialized financial institutions, together with distinctive British governmental traditions, have created conditions that differ in many respects from those on the continent.

In the case of Sweden, some measure of isolation, neutrality, highly advanced socialism and a more classless society have again brought about rather dissimilar conditions.

Accordingly, because of their special circumstances, Switzerland, the United Kingdom and Sweden will not be included in the major generalizations I shall make, which will be confined to the Common Market countries.

Even within the Common Market itself, there is considerable diversity. Government regulation of the economic area is far less pervasive in Germany than in France. The Germans have relied largely upon general monetary and fiscal policies as compared with French efforts to effect some measure of central planning. On the other hand where the Germans do regulate, this is often done in great detail. For example, the German regulations on cartels and the disclosure requirements for Aktien Gesellschaft are the most comprehensive in Europe.

There are also considerable differences in the standards of living of various Common Market countries. In France the per capita income in 1967 was $1,632, 60 per cent greater than in Italy where it was only $1,020. Germany is a substantial exporter of capital, France an importer of capital. Savings as a percentage of the gross national product is far greater in Germany and the Netherlands than it is in France or Belgium. These and other differences obviously affect the extent of the capital markets and the problems of the regulatory authorities in the various Common Market countries.

For the economic data on which my comparisons are based, I shall rely primarily on the OECD Capital Markets Study published in 1967. This is largely based on data for 1965 and prior years. As the rapporteurs stress, it was extremely difficult to obtain figures from the participating countries that are comparable. The OECD figures must be used with caution. Moreover, they are getting a little old though I doubt if more recent developments would materially affect the conclusions they suggest.

The first generalization that might be hazarded is that the role of the private institutional investor in long term debt securities is much less important in the Common Market capital markets than it is in the United States. During the years studied in the OECD report insurance and provident institutions provided 20 per cent of the sources of funds of the consolidated financial sector in the case of the United States as compared with 3 per cent in the case of France, 7 per cent in the case of Italy, 10 per cent in the case of Germany, and 14 per cent in the case of Belgium. An exception must be made here for the Netherlands where insurance companies are highly developed, perhaps even relatively more important than they are in the United States as a source of long term debt financing.

Severe inflation after two World Wars has perhaps been the major factor not only in reducing the value of the accumulations of capital available for investment in fixed interest long term obligations, but in severely impairing confidence in this means of investment. Among other effects it has discouraged life insurance as means of personal savings. As a result, life insurance companies, which in the United States, Switzerland, the United Kingdom and the Netherlands are important means of converting savings to long term capital, are much less developed in other Common Market countries.

Private pension funds, one of the most rapidly growing forms of institutional investment in the United States, are also much less important. The Common Market is characterized by state controlled comprehensive social security systems and there are relatively few supplemental private pension funds. Moreover, as a rule Common Market pension schemes are on a distributive rather than a capitalization basis, that is, their concern is to collect annually amounts sufficient to pay annually the pensions of those then entitled to receive them. There is no attempt to accumulate funds sufficient on an actuarial basis to pay a guaranteed pension at normal retirement dates. As a result less funds accumulate and those that do are not invested in long term securities.

A second generalization is that in most Common Market countries the role of the Government in the capital markets is more active and comprehensive than it is in the United States. This is in part a consequence of the relative shortage of long term debt financing. When capital is short, the Government takes steps calculated to insure that priority is given to borrowing having social utility. Of course, no capital market is entirely free of Government intervention. In the United States the Federal Reserve Board's policy concerning its purchases or sales from banks takes into consideration plans for the flotation or refunding of Government paper. What we are discussing is to some extent a matter of degree, but it is more than that when the intervention takes the form of requiring Government approval for public offerings. This is true of all Common Market countries except Germany (where the regulation is informal) when an issuer is foreign to the country. It is true as well in the United Kingdom and also in Switzerland if the issue exceeds ten million Swiss francs.

In the case of domestic issues, controls, except in Germany, are less strict but still impose considerable barriers to free market access.

In the case of foreign issues the limitation on public offerings may be administered through the exchange control authorities. While exchange controls in Europe today are considerably less important than they were in the recent past, only Germany and Switzerland are free from exchange controls. Of course consideration other than purely balance of payments considerations may influence the decision as to whether or not a particular foreign issue will be permitted.

In Belgium the Minister of Finance must approve foreign public issues. In the case of domestic issues the Commission Bancaire has the powers to delay or to reduce the size of an issue to preserve a more orderly market. Exchange controls are presently of little importance.

In France the Minister of Economy and Finance must approve any foreign public issue. In the case of domestic public issues the Finance Ministry must be advised of the date and terms. In the recent past there was authority to maintain and issue calendar and to control the terms of domestic issues. Since January 1, 1968,the recently created Commission of Stock Exchange Transactions (Commission des Operations de Bourse) must approve the prospectus used for a public offering in France, before it may be issued. Apparently it may block an issue, but to do so would be inconsistent with its purpose which is to see that satisfactory disclosure is made.

In Italy, Treasury approval given after consultation with an inter-ministerial committee is a prerequisite for both domestic and foreign issues. Exchange control requirements must also be satisfied for the foreign issue.

In Germany there is no official control of foreign issues, but through a gentlemen's agreement with the principal issuing banks the Ministry for Economic Affairs is notified of foreign Deutsche Mark issues. The banks apparently also administer an issue calendar, and the continued growth in the volume of foreign Deutsche Mark issues notwithstanding the risk of revaluation has tended to make this informal control more rigorous. In the case of local issues the Federal Ministry for Economic Affairs must license public offerings in Germany of debt securities by German corporations. A Central Capital Markets Committee, a voluntary agency established by the banking sector, coordinates domestic issues and advises with regard to their terms.

In the Netherlands a license is required from the Nederlandsche Bank for a foreign public offering in the Netherlands and through a gentlemen's agreement among the banks domestic issues are notified to the Nederlandsche Bank in order to maintain an orderly issue schedule.

Even in Switzerland with all its capital, the Swiss National Bank must approve foreign issues of ten million Swiss francs or more. Voluntary arrangements now regulate the scheduling of domestic issues.

The effect of these controls is to reduce to a greater or lesser degree or even preclude access to the capital markets. Probably speculative issues are discouraged. Because of the prior approval of the issuer there has been less concern for disclosures made in offering prospectuses. The great bulk of this financing is by government instrumentalities or by companies on whom a fair amount of information is available in standard periodicals. The offering prospectuses have therefore been principally concerned with the terms of the securities and give only limited information on the issuer itself.

This situation is gradually changing both as the breadth of the capital markets improves and with improved standards and concern for disclosure. The creation of the new French Commission des Operations de Bourse is indicative of this new concern.

In certain Common Market countries, such as France, the practice has developed of the Government making large borrowings for industrial development which it in turn parcels out among private corporations. This both permits capital to be raised on more favorable terms and reinforces Government control over industrial development. While of assistance to the favored companies, this practice is incompatible with free and competitive markets. Loans for the public sector, both direct obligations of the Government and issues by the nationalized industries, become so preponderant that private borrowing is virtually squeezed out.

A similar concern for the terms of issue of governmental securities can lead to controls over the terms of issue of securities which are offered in competition.

Another aspect of the shortage of capital is reflected in Government control of permitted investments of savings banks, pension funds and other institutional borrowers. The legal investment requirements are not concerned exclusively with the quality of the securities which these institutions may purchase, but with making sure that a portion of the assets of these investors will at all times be invested in governmental securities so as to improve and maintain the market for governmental securities.

Generally in the Common Market countries commercial banks are the most free in regard to what they may invest. These institutions are very important, particularly in Germany and Italy. But from considerations of liquidity even these banks must to a large extent remain invested in governmental securities.

The third important generalization that I would like to bring out is that in the Common Market Countries securities are distributed primarily and almost exclusively through the banking system. There is nothing comparable to the Glass-Steagall Act which attempts to separate the underwriting of securities from the banking business. Moreover, European banks have not been aggressive in opening offices outside their country of origin. The United States banks and investment banking firms have been considerably more active in this respect. As a result in most of the Common Market the distribution of securities could until quite recently be effectively controlled by official or unofficial regulation of local banks.

The great predominance of local banks among the outlets for securities in any country has a number of interesting consequences. First, the underwriting of securities tends to become merely a side line of the banking business. This I think has somewhat retarded the development of the intensive research activities that characterize brokerage firms who compete for institutional commissions by the quality of their research. The banks themselves in many countries are the principal institutional investors.

There do exist stockbrokers who are members of the Bourse and have direct relations with the investing public, but apparently in both France and perhaps even more in Germany where banks are members of the stock exchanges wealthy individual investors maintain their securities account with their banks. Brokers in France are to a large extent dependent upon bank commissions. It is probable that under these circumstances were a broker to develop research and attempt to reach a wider public (which would be at the expense of the banks), he would find his commissions from banks reduced.

European banks tend to be relatively conservative institutions that, as is the case in the United States, are likely to take a less aggressive attitude toward investment than more specialized intermediaries. Many of the most important banks in France and Italy are nationalized. But all banks because of their close connections with the Finance Ministry and Exchange Control authorities are subject to a wide variety of governmental pressures. This permits some degree of informal regulation of the securities markets by request of the governments.

Finally, since the group is small, it is possible for the banks by agreement among themselves to impose a degree of self-regulation and thereby to some extent render unnecessary or head off greater governmental intervention and control. This self-regulation is particularly important in the Netherlands and Germany.

In a broad sense the assurances offered by the character and standing of these banks seems to reduce the need for detailed regulation in many areas.

For example, while it is the practice in all European countries to prepare a prospectus in connection with a public offering this is not always mandatory. It is mandatory in Belgium, Luxenbourg, France, Switzerland, and the United Kingdom. It is required in Germany and the Netherlands only where there is an intention to apply for a listing on a local exchange. In Italy there appear to be no prospectus requirements at all though it is customary to furnish one. In none of these countries are the requirements with respect to the form and content of a prospectus as complete or detailed as in the United States. In Belgium the Commission Bancaire reviews and approves prospectuses,but it has not yet published detailed regulations. In Luxembourg the Commissaire au Controle de Banques takes much the same approach. In France until January of 1968 a very brief publication in the B.A.L.O. was sufficient, but the new Commission des Operations de Bourse has now prescribed a form which is fairly detailed. Nevertheless in view of its relatively limited staff and experience, one may suppose that the examination of the documents submitted for approval is not as thorough as is customary in the United States. In the United Kingdom and the Netherlands the stock exchanges which are private institutions will review and comment on the prospectus. In the Netherlands this private body is the principal supervisory agency. In the United Kingdom the Companies Act also requires a prospectus to be filed with the Board of Trade. That body only makes a very limited review to determine whether there is prima facie compliance. In Germany the listing prospectus is perhaps the most detailed in Europe, but it is required only in connection with listing which occurs after the securities are sold. To describe the issue a selling prospectus is usually prepared which is appreciably less detailed.

To a considerable extent in Europe reliance is placed upon the character and reputation of the issuing banks to make appropriate disclosures. This reliance is most evident in Germany, Italy, Netherlands, and the United Kingdom.

Parenthetically, it might be noted that our own Securities and Exchange Commission has followed somewhat the same procedure with regard to registration statements on Schedule B for the securities of foreign governmental issuers. There is as yet no prescribed form for these registration statements, but in view of the nature of the issuers, the quality of the investment banking houses who manage these issues and the competence of counsel who prepare the prospectuses this approach has to date worked very well.

The fourth major generalization that I think may be made concerning the Common Market countries is that in general the market for equity securities, particularly for the higher risk equity securities, is relatively narrow. This assertion requires several important qualifications. The OECD figures indicate that new share issues expressed at a percentage of total market capitalization of quoted shares is very much greater in all of the leading Common Market countries than is the case in the United States. In the United States for the years 1960 through 1965 the percentage was only 3 per cent as compared with figures in Germany, France and Belgium in excess of 3 per cent. In Italy the percentage rose to 9 per cent whereas in the United Kingdom and the Netherlands it was 5 and 8 per cent respectively. In absolute term the net share issues in the United States were only 1.03 billion dollars for the years 1960 through 1965 as compared with .81 billion in Italy, .79 billion in France, and .66 billion in Germany. It is not clear how convertible debt issues were classified. These are principally important in the United States.

Two important points must be borne in mind in evaluating these statistics. First the value of quoted shares in the United States is disproportionately greater than in the other countries and the need to resort to equity financing for funds much less. That in part is the reason for the lower percentages shown for the Netherlands and the United Kingdom. Moreover, and this is unique to the United States, major American corporations have a practice of retiring their own shares. In two of the years in question, 1963 and 1965, there were net repurchases by American enterprises of their own shares. The absolute amount of shares issued in these years averaged $3.05 billion.

Because American corporations have suffered less attrition of capital through inflation and because profit margins are usually sufficient to permit a large and apparently increasing degree of internal financing, major American corporations only relatively infrequently resort to the stock market for additional equity.

In Europe, this is not the case. In general European corporations are decidedly undercapitalized by United States standards. They must not only raise more money relative to their existing capital, but given the limited market for debt securities they must endeavour to raise a greater proportion of this from the equity capital market.

In the United States for the years 1960 through 1965 the OECD figures show that share issues as a percentage of total securities issues was only 7 per cent. This compares with an average in Belgium of 20 per cent, in France 41 per cent, in German 20 per cent, in Italy 29 per cent, in the Netherlands 19 per cent and in the United Kingdon 39 per cent. Share issues as a percentage of private sector securities issues for the same years was 15 per cent in the United States, as compared with 33 per cent in Germany, 40 per cent in the Netherlands and Italy, 45 per cent in Belgium and 52 per cent in France.

In Europe most of these share issues are rights offerings to shareholders. These are increasingly rare in the United States but in Europe remain customary and in certain countries such as Italy and France legally mandatory. What this means is that in Europe the equity capital markets are largely a means of raising funds for established companies and to a large extent from the existing shareholders. This may be one of the reasons why European buyers of equity securities seem more concerned with yields than in the United States.

The number of shareholders in European countries tends to be very much smaller than that in the United States despite in most countries fiscal inducements which would be quite attractive in the United States. In the United States, despite the diminishing role of the individual as compared with institutional investors, there are some twenty million shareholders. This is probably several times as many as in the entire Common Market. In France with one fourth of the population the number of shareholders is probably less than a million. The prevalence of shares in bearer from makes any estimate unreliable.

While the middle classes are proportionately smaller in the Common Market than in the United States, at least as important a factor is less confidence in equity investments. Part of this may be from a fear of nationalization. Part may be attributable to what has been in recent years a generally adverse trend in most European stock exchanges at least as compared with the New York Stock Exchange. A further factor in certain countries such as France may be the squeeze on corporate profits due to price controls.

The unsatisfied demand for equity securities in the United States leaves an opening for the offering of speculative securities. Moreover, with a great number of investment banking firms there is more competition. Ease of access to the market is considerably greater than it is in most European countries, with the exception of the United Kingdom. All of this creates regulatory problems that do not exist to anything like the same extent in the Common Market. There speculative issues are less frequent and less well received.

Recent measures taken in France and Germany indicate that the authorities feel that inadequate disclosure of corporate information is a factor reducing investor confidence and limiting equity markets. The relative paucity of published information is an additional reason why the regulatory authorities must largely rely on the honesty and competence of the banking community.

In certain countries, with Germany, the United Kingdom and the Netherlands as notable exceptions, a further problem is relative lack of development of accounting firms and of clearly established authoritative accounting principles. This is not to say that there are not individuals in all of these countries who are expert accountants with an excellent grasp of accounting theory and practice, but particularly in the romance language countries indigenous independent accounting firms are not well developed. The review that a Commissaire Aux Comptes would make of the accounts of a French or Belgium company is a far cry from an audit in accordance with generally accepted auditing standards as understood in the United States. Very much greater reliance is placed upon the accounting staffs of the issuers themselves.

What makes the settling of accounting principles difficult is the fact that in many European countries accounting principles permitted for the purpose of taxation greatly influence those for reporting to shareholders. This permits management considerable leeway in establishing reserves or in timing the realization of losses and does not require to the same degree the identification of extraordinary items or departures from past practices.

Another accounting difficulty in parts of Europe is a limited acceptance of concepts of consolidation. Very often only figures for the top holding company are published. For example, it is not the practice for French companies to publish consolidated figures. This makes it very difficult to determine the general health and growth of the over-all enterprise. In fairness it must be said that the presentation of consolidated figures in many of these countries is much more difficult than it would be in the United States because of the practice of having very significant minorities or even outside majority interests in controlled companies which are part of an industrial group. But this can usually be met by some form of equity accounting. One of the reasons for the reluctance to publish consolidated balance sheets I suspect may be that very often the debt-equity ratio or earnings per share would not be improved by consolidating subsidiaries.

Finally in certain countries, particularly Italy and Spain, but also to some degree in France, taxes for the smaller family company are to some extent a matter of negotiation with the tax authorities, and, again, particularly in the case of family firms, there appears to be a considerable amount of what can only be described as fiscal evasion. This, of course, makes it extremely difficult to prepare meaningful financial statements, since to do so would be to give the game away to the tax authorities. Fiscal evasion, inadequate accounting institutions and secretive attitudes of management are the major problems to be overcome in developing adequate public information on small companies.

The final general observation, which follows from what I have previously said, is that the factors that have contributed to relatively weak debt and equity issue markets also lead to relatively weak secondary markets. Or viewed in another sense, the capacity of financial systems to absorb new issues depends to some extent on the ease with which such securities can be traded. This in turn is a function of the size of the market, the demand for outstanding securities, and the breadth and depth of the market.

In 1966 the capitalization of listed securities in the United States (including bonds) was 642 billion dollars or 93 per cent of the gross national product (GNP) as compared with Germany of 39 billion or 35 per cent of the GNP, or with France of 33 billion also 35 per cent of GNP. In addition perhaps another 100 billion of equity securities in the United States were traded over-the-counter, and many publicly held bond issues are not listed at all.

Figures on the volume of trading if they existed in comparative form would undoubtedly be even more impressive. The total annual volume of trading on the Paris Bourse in 1968 of all securities was nearly 156 million units which is an average daily volume of approximately 670,000 units. By comparison the daily average volume of share trading on the New York Stock Exchange was nearly 13 million shares in 1968. The dollar volume of annual share transactions on the New York Stock Exchange was approximately $145 billion. On the Amsterdam Stock Exchange, one of the busiest in Europe, the annual volume was equivalent to approximately $4 billion. It is difficult to obtain complete figures for the four major stock exchanges in Germany, namely Frankfurt, Hamburg, Dusseldorf, and Munich, but it would appear that the combined annual share volume on the four exchanges would be in the order of 3-4 billion dollars. Of course, in addition to the New York Stock Exchange there exists the American Exchange and various regional exchanges, plus a very active over-the-counter market. There is little comparable in the Common Market to the diversified and specialized markets in the United States maintained by traders in government bonds, specialists in tax exempt securities, specialists in bank and insurance stocks, commodities, oil ventures, cattle, orange groves, etc.

The breadth of the American secondary capital markets in terms of the diversity of securities which are offered and absorbed and its depth in terms of the volume which can be handled without substantial effect on price is a major factor explaining foreign interest in American securities. It is evident that because of their diversity and efficiency the American secondary markets present regulatory problems that simply do not exist on anything like the same degree in Europe and which have not received the same attention.

Part of the strength of the American secondary markets is undoubtedly attributable to attitudes of management toward shareholders and publication of information.

Significant progress in publishing information is being made in the Common Market in the conviction that this will tend to extend the capital markets. But there is only slowly developing the secondary industry of financial publishers, investment advisors and the like which are of great importance to the functioning of the system but which also bring with them possibilities of abuse and further regulatory problems.

I think it is fair to say that in most Common Market countries the regulatory authorities have not yet come to grips with what may be described as the fiduciary responsibilities of persons entrusted with privileged information. Penalties on insider trading under Section 16b of the 1934 Act, trading regulations such as 10b-6, -7, and -8 and proceedings in cases such as <u>Caddy</u>, <u>Rowen</u>, <u>Texas Gulf Sulphur</u>, or the Merrill Lynch tippees reflect a stage of development considerably ahead of what exists in Common Market countries today, though there is increasing awareness of abuses in this area. Significant in this respect is a French Decree promulgated October 3, 1968 requiring corporate insiders to disclose their purchases and sales of the securities of the corporations with which they are associated.

I would like to close by suggesting two areas where in recent years there have been developments of some importance which present problems to the existing regulatory scheme because of the considerable reliance placed on the integrity and judgment of a limited number of local banking intermediaries in a national market that was largely isolated from other capital markets. These developments are mutual funds, particularly those investing primarily in United States securities, the so-called off-shore funds, and secondly the growth of the Euro-dollar market.

Net foreign investment in United States securities during 1968 was of the order of two billion dollars. A substantial proportion of this is believed to be attributable to these off-shore funds which are meeting with increasing acceptance among a broad public in Europe. One may anticipate, among other things, that European authorities concerned with this export of capital needed at home will react by imposing requirements which condition the privilege of selling a fund in their country on some portion of the portfolio of the fund being invested in local securities. Italy has apparently adopted an as yet unpublished requirement to this effect.

The burgeoning funds present problems to the authorities in other areas as well. These funds, particularly those based in Switzerland, are often promoted by numerous salesmen on a commission basis who are associated with firms that have developed outside of the banking systems. There are believed to be thousands of commission salesmen for these off-shore funds, and new companies are being formed with the express purpose of distributing them. In part this is a desirable development as tending to broaden the market, but it is accompanied in many cases by high pressure selling tactics. Proposed German legislation seems particularly concerned with this.

Also very often these funds are international promotions, sold outside the headquarters of the fund, with occasionally only a limited concern for compliance with the existing regulatory requirements in other countries. In France, for example, démarcharge, the selling of securities outside an established place of business, is only permitted to commercial banks. Nevertheless traveling fund salesmen appear to be active there.

One would not then be surprised to see the development of the fund business in Europe be accompanied by increased regulation of the people in the business, including educational requirements and testing of registered representatives.

Finally the sale of funds puts pressure on the very often nebulous distinction between a public and private offering. In most Common Market countries which regulate the public offering of securities, the requirements need not be satisfied in the case of securities which are not offered to the public. But what is permitted as a private offering would in all cases be substantially in excess of what is permitted in the United States in a private placement. Basically in a number of European countries there is only a prohibition against a public advertising of a security or a broad distribution of a prospectus among an indefinite public. Unless a security was so distributed it should have little effect on the reception of publicly advertised issues and the self-regulation of the banking system was sufficient to protect the banks' clients who purchased the private offering.

Sales of these off-shore funds except in Germany (which is open at present) are usually justified as falling within the private offering exemption. Here it may well be questioned whether the exemption was intended for such a purpose.

The second development is that of Eurobonds. While I shall not go into detail here concerning them, I should point out that Eurobonds, though of less interest to the general public, are again a development which puts considerable pressure on the distinction between private and public offerings.

Moreover, the level of rates of Eurodollars has inescapably some effect on local rates, tending to bring about an internationalization of capital markets. These effects are far from welcome in countries where there is an attempt to control interest rates or which desire a high degree of central direction of the economy.

Borrowings by American banks in Europe to obtain funds to reloan domestically are beginning to push upward European interest rates. As a news item in The New York Times of February 27, 1969, points out:

> Brussels, February 27 - The growing shortage of dollars is creating fresh currency problems and testing the present state of international monetary cooperation.
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> The surprise increase in the British bank rate was seen as at least partially reflecting the sharp rise in European lending rates for dollars.
>
> This in turn is a result of American bank branches in Europe pumping huge amounts of dollars into home offices, as money conditions continue to tighten in the United States.
>
> European bankers are in general accord with the tight money policies in the United States, which they consider necessary to control American inflation.
>
> They are nevertheless anxious about some of the side effects.
>
> Nowhere are the effects felt more strongly than in Belgium. Belgian francs can be borrowed for 6-3/4%. They can then be exchanged for dollars and lent out at over 8 per cent for one to three-month periods.

Yet the development of the Eurodollar market has proved of much interest to European borrowers as well. Eurobonds apparently tap sources of funds that might not otherwise be available. They are an international phenomenon that cannot simply be snuffed out by any one country. Many, probably most bankers, regard the Eurodollar market as valuable and worth preserving. Yet it is obviously somewhat anomalous and presents unresolved problems of how this activity may be brought within existing regulatory schemes. Some form of international regulation may be the response.

In conclusion let me simply observe that if I have made clear the points that I intended, it should be evident that while European securities regulation is complex and detailed in many areas, it exists in relation to capital markets which are in many ways less diverse and complicated than those in the United States and more amenable to simpler forms of regulation. The European capital markets have developed and improved during some twenty years of recovery and growing prosperity since the Second World War. As this process continues we shall surely see further elaboration and development of securities regulation, just as has occurred and continues to occur in this country. The creation of the French Committee des Operations de Bourse, which has been compared to our own SEC, is a prime example of this kind of development. There will be others.

While in general undeveloped as compared to its United States counterpart, there are areas where I think we have something to learn from European securities regulation, particularly where our own regulations in application have become enormously complicated and expensive. Consider for example, a prospectus for a conglomerate exchange offer--100 pages in length and extremely hard to analyze even for professionals. There are regulatory areas where simplification must be possible.

European procedures can be expected to grow more complex, but ours having perhaps gone to the other extreme, we can learn from European economy of means and European reliance on the character, reputation, and professional skills of the investment banking community. One advance would be the stimulation of more effective self-regulation. The recent decision of the SEC to give only a cursory review to certain registration statements, though brought about by a record backlog of filings, is perhaps a step in this direction. So also has been the promulgation of simplified forms.

It must be recognized, however, that self-regulation may represent only intermittent and partial regulation. Worse, the existence of a program for self-regulation may provide a false sense of security if it is not effectively implemented. Government admittedly has an important role as a gadfly in supervising the performance of the self-regulators, but if adequately supervised, self-regulation, in my opinion, can often provide the most flexible and responsive regulatory mechanism.

As the United States vainly attempts to simplify, Europe in contrast is expanding its securities regulation, particularly the disclosure requirements. Traditions, economic conditions and regulatory philosophies remain however very different from those in the United States. It would be erroneous to assume that with the passage of time European requirements will begin to approximate those in the United States.