

Paris, Berlin, 8 June 2010

The President
of the French Republic

The Federal Chancellor
of the Federal Republic of Germany

His Excellency
José Manuel Barroso
President of the European Commission
Brussels

Mr President,

The European Union is fully committed to implement the decisions taken by the G20. Strong measures have already come into force, in particular regarding registration and supervision of credit-rating agencies and banking regulation. We are confident that discussions between the Council, the Commission and the European Parliament will rapidly lead to a Directive on alternative investment funds and that the creation of a new European supervisory structure is on a good way. These discussions are a priority for us, as it is in your programme for action over coming months.

The severe turbulence observed on financial markets over recent months has however led to considerable concern among the Member States of the European Union and all our fellow citizens. While the international community has unanimously undertaken not to leave any market, any product, any operator or any territory beyond the scope of regulation and supervision, the return of high market volatility raises some legitimate questions, specifically concerning certain financial techniques and the use of certain derivative products, as, for example, short selling and Credit Default Swaps (CDS).

These concerns were the subject of the letter addressed to you on 10 March by the President of the French Republic, the Chancellor of the German Federal

Republic and the Prime Ministers of Luxembourg and Greece. They call for the rapid and resolute deployment of your program for action addressing the regulation of infrastructures for markets in derivative products. Taking into account latest developments on markets we call on the Commission to further speed up and intensify this work.

Considering recent market developments, we believe there is an urgent need for the Commission to speed up its work to establish stricter control of markets in sovereign CDS and of short selling, and to present all possible measures for action in these areas before the July Ecofin meeting. In particular, we believe that it is indispensable to reinforce the transparency of short positions on equities and bonds, especially sovereign bonds. The Commission's work should encompass the possibility of an EU-wide prohibition of naked short selling of all or certain shares and sovereign bonds as well as of all or certain naked sovereign CDS and its conditions notably taking into account the special role of market-makers.

The European Commission should also consider the possibility of European harmonisation of the time allowed for securities settlement and delivery relating to trading on European markets.

We are confident that we can rely on your full commitment in dealing with these issues, which are critically important for the preservation of financial stability in the European Union.

Yours sincerely,

Nicolas Sarkozy

Angela Merkel