

# Challenges and priorities for EU capital markets



## Adena Friedman

President and Chief Executive Officer, Nasdaq

### Modernizing capital markets to fuel economic prosperity

Efficient capital formation is the bedrock to job creation, economic growth and prosperity. The evolution of our global capital markets is essential to continued economic opportunity. Adopting new technologies and taking measures to ensure that the markets are fair for all participants will only drive our global markets forward.

Exchanges are the beating heart of capital markets. Companies of all sizes utilize exchanges to gain much-needed access to investors who in turn fund their ideas and raise capital. Exchanges also play a crucial role in fostering stability in the financial markets, facilitating transparent pricing and providing all investors, professional and non-professional, with the opportunity to achieve their desired asset allocation and enjoy in the benefits of growth.

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- ADENA FRIEDMAN

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With the rapid rise of new technologies, however, the capital markets ecosystem is shifting dramatically. The cloud, machine intelligence, cryptocurrency and the like are giving investors new and unprecedented opportunities in the capital markets. From establishing digital currencies to storing immense data sets to machines that can send pricing information in fractions of a second to distinguishing malicious trading behaviors, we know technology can transform capital markets for the better.

As more investors, companies and exchanges embrace new technologies, modernizing the global capital markets to keep pace with advancements in technology becomes an urgent priority. At Nasdaq, we believe the following practices will fuel the future of modern global markets:

#### **Implement orderly market structure**

Equity markets exist to serve public investors, especially retail investors, and it is imperative that all participants are treated fairly with equal access. Beyond



>>> investors, the market structure should support companies of all sizes, recognizing the different liquidity characteristics of small- and large-company stocks.

#### Embrace innovative technology

New technologies have fundamentally changed the way customers interact with market infrastructure providers. Developments in data analytics, field-programmable gate array (FPGA), mobile technology, cloud computing, machine learning, artificial intelligence and blockchain hold the promise of allowing capital markets to operate more efficiently while simultaneously providing greater transparency and security to investors.

#### Sustain healthy IPO market

An active IPO market invigorates securities markets, as research has found that a vast majority of new jobs in young firms come after they go public. Recently, Nasdaq Nordic, particularly Stockholm, has been a leading IPO venue for small- and medium-sized enterprises. Bringing those companies to the public markets is a critical step in unlocking the potential of job creation for the broader European market.

#### Prioritize sustainability

While Environmental, Social and Governance (ESG) has been a prevalent part of investment strategies in the European markets for many years, we're finally seeing ESG become a top priority in the U.S. The growth in ESG comes amid a growing body of research and fund reports that suggest ESG-themed investments can outperform during calm markets and withstand market volatility and downturns. Since 2017, we've been a leading force in bringing about standardized, voluntary ESG guidance and now offer an ESG data portal solution that allows investors and listed companies to reach their sustainability goals.

At Nasdaq, we've seen how these factors stimulate capital markets and the greater global economy, and we have a responsibility to leverage our capabilities to make the capital markets better for tomorrow. Tomorrow's markets, if governed with properly-calibrated regulation, should embrace rapid technological advancement for the betterment of all market participants, and continue to unleash the dynamic, entrepreneurial spirit that drives economies forward. ●



## Patrick Thomson

Chief Executive Officer, EMEA,  
J.P. Morgan Asset Management

### Empowering Europe in the funds space

Europe is in a position of strength when it comes to asset management - boasting a vibrant funds infrastructure and strong investor protections. However, the industry is facing significant challenges.

Two of the biggest challenges are 1) under-investment in Europe and 2) global market fragmentation. The good news is that there are opportunities for both industry and policymakers to address these problems.

J.P. Morgan Asset Management recently conducted a survey. 49% of investors in Austria, Belgium, Spain, UK, Germany and Italy say they are concerned about poor returns but are too afraid or insufficiently informed to take action. Investors know their bank deposits aren't generating the returns they need but they don't know >>>

>>> how to invest most effectively. 76% of 6000 people we surveyed do not own a single investment product. Simple lack of knowledge about markets and investment seems to be leaving Europeans in the dark. So how do we remedy this?

Financial literacy is key. We need an EU policy agenda that is more focused on investor education. I'm delighted that our new European Commission President Ursula von der Leyen is keen to empower Europeans through education and skills – investor education needs to be a key component of this. Retirement planning should be central to this agenda given the current generational shift.

Technology will also play an important role. An individual on average takes in 34GB of data a day and listens to an average of 105K words. The average parent only has 17 minutes per day to themselves. Modern society is really busy – we don't have time to digest information the way we used to. Fortunately, technological advancements make it easier to provide accurate, clear and relevant information efficiently to make it a lot faster and easier for people to invest. We are partnering with FinTechs designing platforms that make it easier for people to save for retirement and for companies to offer pension plans. But policymakers can play a role too in ensuring that regulation is balanced appropriately, to harness this kind of positive innovation. Regulations like MiFID and PRIIPs, while well-intended, can hinder digital delivery of information to investors. We need to open up new channels for sharing information especially to appeal to younger investors in Europe.

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*"Promoting Europe's global attractiveness, and empowering investors will help Europe thrive."*

- PATRICK THOMSON

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We also need to promote Europe's attractiveness on the global stage. Both geographically and geopolitically, we are at the centre of many of the world's key investment themes here in Europe. In the asset management industry more than anywhere, we have embraced this opportunity. UCITS remain the top shelf mutual fund in many jurisdictions across the world. But we cannot take this for granted. Market fragmentation is a real threat to UCITS' success across the globe. We still hear murmurings about the need to tamper with third country delegation rules that are so critical to the success of UCITS. The ability for European firms to delegate portfolio management across the globe provides European investors with access to expertise across the world. Reducing access and promoting a "local markets for local people" mentality in Europe would be a major setback.

We see opportunity in promoting our markets and our products across the globe. Latin American countries have taken advantage of UCITS as a gold standard. Local rules in some Latin American and Asian jurisdictions create challenges to client-onboarding and to fund distribution. We should help where we can.

In short, when we think about cross-border fund management, we need to shift out of the intra-EU mindset and take a global outlook. Selling Europe-domiciled UCITS and opening up global markets is a huge opportunity. But if we aim to open up global markets, we also need to lead by example and embrace an open and attractive market here at home.

In conclusion, as we move into the next EU mandate and as we think about investment management policy, we would encourage lawmakers to focus on two central themes 1) making investment simpler and easier and 2) promoting Europe's attractiveness on the global stage. Europe has shown leadership in the asset management space over past decades – the creation and nurturing of UCITS has been critical. If we focus on promoting Europe's global attractiveness, and empowering investors through financial literacy and technology, we will create the right mix to thrive for decades to come. ●