Leonique van Houwelingen

Chief Executive Officer, BNY Mellon SA/NV

Capital markets Policy – Incisive steps to make progress

I started writing this article about a week ago. In that week the world has become a different place. Some things seem much more important; other things much less important. Capital markets policy doesn't seem very important for the moment. But I do sincerely hope that when this article is published capital markets policy will have regained some importance. Lessons and challenges.

As we recover from the devastating personal, social, and economic impacts of the COVID-19 virus, it will be possible to reflect on some important lessons, and on some major challenges. Two key challenges will be how to make our societies and economies better prepared and more resilient for the next crisis, and how to recover from the current crisis.

Capital markets policy. In this context, capital markets policy has a role to play. One of the main justifications for the Capital Markets Union project has been that a greater role for capital markets, and for cross-border capital markets, improves the ability of an economy to absorb external shocks. The current crisis has caused major economic disruption, and financing problems for many corporates, including banks and SMEs. Improving the financing mechanisms of capital markets can help support the future financing of corporates.

Key principles. A week ago, I would have said that key principles for a bigger and more effective European Capital Markets Union are simplicity, developing market access, and encouraging diversity. Today, I would add the principles of resilience, decentralisation, and inter-connectivity. I see all these principles as having common elements, including the importance of common definitions, and a key dependence on the widespread use of standards.

Practical proposals Capital markets policy has few tools that can have a rapid impact. Other policy areas, such as monetary and prudential policy, and supervisory actions, have a much speedier impact. Capital markets policy deals with the structures and institutions that allow issuers and investors to use capital markets. But the slowness of their impact is precisely why we need rapid, clear and incisive capital market policy measures.

We need three things. We need measures to bring investors to the market; we need measures to bring issuers to the market; and we need measures that reduce cost, complexity and risk in the use of infrastructure and intermediaries, especially with relation to cross-border investment. Measures to bring investors to the markets should include the development of pension funds, and the use of investment savings accounts to encourage direct participation in capital markets by retail investors. Measures to bring issuers to the markets should in particular tackle barriers for securitisation and for SMEs. Measures to reduce cost, complexity and risk in cross-border investment are typically the most challenging, as they affect policy areas (for example, tax and insolvency procedures) that are deeply embedded in national law, and their benefits may be difficult to see. But they deal with the foundational building blocks of capital markets, and they are critical pre-conditions for progress. They include common definitions, for example, of a financial instrument, and of a shareholder/legal owner of a security.

A Capital Markets Union will mean that investors in any European security are faced with common operational processes through the full life cycle of a securities investment, including common corporate action, and common withholding tax processes. This will require measures to facilitate cross-border and pan-European issuance, measures to ensure the harmonisation of core CSD processes, and a high degree of integration of tax processes. All these measures are desirable in themselves, but they have the additional benefit that they help build resilience in capital markets through decentralisation and inter-connectivity between capital market eco-systems. Report of the CMU High Level Forum. Despite the current difficult times, I am optimistic for the future.

I am confident that the final report of the European Commission's High Level Forum on the Capital Markets Union will contain some important transformational recommendations. And I am confident that the European Commission will take serious account of the recommendations in its future CMU Action Plan. ■

Deborah Zurkow

Global Head of Investments,
Allianz Global Investors

What do we see as priorities for the CMU to have a good chance to solve the pension dilemma?

Written as of March 16th, 2020 - The Capital Markets Union (CMU) has the ambitious mission to align and integrate Europe's financial system. This is a challenging but critical task, as the success of the CMU may well determine not only the strength of the EU's economy and its financial sector, but also the ability of its institutions and companies to serve its citizens now, and in the future.

If the main CMU's goals are fulfilled, two imperative needs of citizens will be solved: maximise their current quality of life and their current income by mobilizing capital to invest in Europe's companies, while simultaneously putting savings to work to guarantee retirement income adequacy.

Our starting point is the EU's very fragmented capital market from a regulatory point of view. National tax, corporate, securities and insolvency laws, come on top of very different procedures and practices from country to country. In addition, Member States are on very different stages of their respective business cycles, which makes it hard to make that one solution fits all.

This diversity quickly becomes complexity and it deters market access and portability. Greater harmonisation across Member States will facilitate broader and more diversified investment opportunities for pensions funds and the ultimate savers they represent. In the absence of further alignment between Member States markets will be unable to play their role in maximising retirement income adequacy.

Cross border alignment and collaboration, as well as openness to change in favour of innovation, simplification and harmonisation will be key to solve the structural pension threat. Priorities in my view are :

1) channelling long-term savings into financing entrepreneurship;

2) rethinking individual Member State approaches in favour of greater Pan European coherence, and 3) ensuring global competition of the EU in capital markets.

- **Channelling long-term savings into financing entrepreneurship;** A regulatory environment favourable to long-term investment would certainly help to enhance the offering of available savings products such as employees' savings schemes. Member States should work together and share best practices to undertake aligned measures that expand the amount of pension savings being invested. For this, unnecessary obstacles would have to be removed, and tax incentives would provide a much-needed support. One way to do this would be to recommit to a Pan European Pension Plan that allows citizens in all member states to direct their retirement savings into the capital markets in an aggregated and risk controlled way, with common regulatory and taxation principles that allow these savings to be transportable between countries in an efficient manner.
- **Rethinking individual Member State approaches in favour of greater Pan European coherence;** Member States should be encouraged to simplify and standardise withholding tax procedures and mutual fund taxation to encourage increased retail participation as well as greater cross-border asset ownership for institutional investors.
- **Ensuring global competition of the EU in capital markets;** Deeper and more competitive financial markets will contribute to growth through efficient allocation of capital. We need policy measures that balance market resiliency, market integrity and appropriate supervision with keeping Europe's capital markets sufficiently open and competitive in order to grow their capacity. This will promote further investment, continue to reduce reliance on banks and will create employment. There is also significant room to improve integration of financial centres, and to attract investors and companies from around the world.

In a nutshell, the investment challenge is well beyond the capacity of the public sector alone. Within the ambitious mission of the CMU, asset managers not only will help savers maximise their returns and mitigate investment risks, but also will be able to act as active stewards of capital, supporting sustainability through important extra-financial considerations such as ESG and climate, contributing to long-term health and sustainability of capital markets and society as a whole.