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Odile Renaud-Basso

Secretary, Directorate-General of the French Treasury, Ministry of Economy and Finance, France

Financing the future of the European Union

Between 2015 and 2019, the Banking Union and Capital Markets Union (CMU) have made some progress towards a more resilient and consistent framework for financial services in Europe, covering aspects such as prudential ratios, securitization, central clearing or transparency. In doing so, these initiatives have deepened the approach initiated in the aftermath of the 2008 financial crisis, which aimed primarily at restoring buffers, increasing reporting and tightening supervision. The CMU has been conceived mostly as one of the pillars of risk-lowering and private risk-sharing in the EU alongside the Banking Union.

Despite the high level of European households' savings, European financial markets remain underdeveloped and poorly integrated. They suffer from a lack of liquidity and the financing of the economy relies mostly on the national and "traditional" banking channels. Following its agenda for investment in Europe, the Juncker Commission acknowledged the relevance of the subject and proposed an action plan bringing together a range of technical initiatives.

The essential function of a financial market is to provide them with diversified and interesting investment opportunities that will fund the growth everywhere in the EU. This is a critical task for the CMU, one that ought to transcend the different pieces of legislation that have and will continue to underpin it. This is a strong political message which we should focus on during the next five years, on a pragmatic and results-oriented manner.

European savers hold the key to the future of our financial markets. European markets should first and foremost serve European consumers, savers and investors. This implies streamlining current documentation and granting seamless and accurate access to two types of information that are critical in making informed investment decisions: performance (net from fees) and risk.

EU companies are less inclined to go listed than ever before. It is of course a widespread phenomenon among developed capital markets. But the fact remains that European entrepreneurs today are skeptical that their business can be valued in Europe as much as it could be abroad. Private equity has gathered a lot of momentum but should scale in size in the field of venture capital, as we still see too few European unicorns. In that regard, the review of Solvency 2 should facilitate investments in equity, as this would offer alternatives to bank financing while benefiting to clients.

Europe was undoubtedly right when pioneering the field of sustainable finance. The drawback of this dramatic uptake is the looming risk of further market fragmentation, across too many labels and definitions. The Commission should therefore strive to harmonize the concepts of «sustainable» and «green» finance, making it a European standard that can then be a reference for the rest of the world. The taxonomy of environmentally sustainable activities will be a crucial tool in this respect.

Data sciences and technologic disruption are also a core component of financial markets. Spearheading this revolution would position Europe at the forefront of innovation in customer services, payment systems, market infrastructure and collateral management models. Two technologies in particular should focus our attention: blockchain and its applications in the realm of virtual assets, and the advent of a more pervasive use of artificial intelligence and machine learning. An SME raising funds in 2030 may resort to classic issuance, crowdfunding, token emission all at once with instant knowledge of their investor base and infinite possibilities to tailor the parameters of the instruments they offer, most likely embedded with a strong component of automation and smart execution.

As a conclusion, one should recall that the single market in the field of financial services will obviously not be achieved without the support of existing European financial players. Thus, the effect of Basel 3 on EU banks, and more specifically on corporate and investment banking business, must be carefully assessed – there is indeed a serious gap between the impact recently measured by EBA and the political guidance from ECOFIN and G20 that the reform should not lead to a "significant increase" of capital requirements. Besides, initiatives such as STS, or a supplementary facilitation of securitisation may help European banks adapt and increase their performance in the future. ●