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A rolling stone gathers no moss: Capital Markets Union now!

In light of the unprecedent global health, economic and social crisis created by Covid-19, tangible progress on the Capital Markets Union (CMU) is ever more critical for the EU's recovery. With a new political and economic reality for the EU at the global level, we need to ensure that our regulatory frameworks support the key functions and competitiveness of our capital markets in the interest of our society. Clearly, the CMU 1.0 has not brought the results we had hoped for. But there are good reasons to be optimistic that we can make important steps towards a real and efficient CMU in near future.

The Commission's CMU High-Level Forum (HLF) of which I am a proud member – has produced an important report outlining key milestones to progress. We expect the Commission to publish a new Action Plan based on these recommendations in September, as well as an Own Initiative Report from Parliament. Furthermore, Germany's Presidency has made the CMU a special case for their term. It hence seems as if the stars are finally aligning, real progress is on the horizon.

Europe has a number of success stories on which we should build. This is an important lesson to learn, as much of the discourse has focused on what the EU does not have. But: The G20's financial reform agenda has made our financial system much more stable and resilient compared to the years of the great financial crisis. Covid-19 has acted like a live stress test where exchanges, CCPs and CSDs have once again served as a safe haven amid unprecedented market turmoil due to their transparent, efficient and reliable price formation and risk management processes. Does that mean we can lean back? Quite the opposite. Building on this foundation of stability, time is ripe to foster the growth contribution capacity of EU capital markets.

As a starting point, the EU needs deep and liquid euro markets, ensuring the proper functioning of resilient private risk transfer mechanisms and limiting costs for investors and end-users. Hence, we should build on success stories, such as the market in Eurobond instruments, while avoiding harm to other well-functioning euro-denominated markets, such as in the sphere of exchange traded derivatives where no other jurisdiction applies the "open access" provisions. Rather, the growth of key euro-markets should be further supported while helping new euro-denominated markets emerge in asset classes where the EU is underperforming. Some key steps have already been taken in this regard with the proposed amendments to mitigate the negative impact of the position limits regime and promote the development of competitive euro-denominated energy derivatives markets.

Let us not forget that massive investments are needed to tackle the consequences of Covid-19 during the years to come, and the EU should seize this unique opportunity to reduce its reliance on bank funding, and shift towards equity financing to create an ecosystem that fosters sustainable economic growth. With banks' balance sheets saturated with non-performing loans, increased access to capital raising solutions is key to provide alternatives for companies and an additional route of relief on public finances.

The CMU HLF has pointed out some of the essential to-dos in this respect and the Commission is expected to include them in its Action Plan, such as removing barriers to capital markets (e.g. fiscal disincentives to equity financing such as taxation and insolvency procedures). However, it is also about putting the right incentives into place by promoting the availability of SME research, as well as further tailoring SME Growth Markets to the needs of SMEs. Market operators have already taken steps in this direction by introducing their own programs to support SMEs. At Deutsche Börse Group (DBG), for example, we help to bring smaller enterprises together with investors through our Venture Network or Scale market segment.

Yet, in order to fully unlock the potential of the CMU, we must not forget that well-functioning secondary markets are a prerequisite for the successful development of capital markets. With more than 300 registered execution venues, the equity trading landscape across the EU is highly fragmented and does not contribute sufficiently to the growth of the EU. Importantly, MiFID II/ MiFIR has failed on "transparency". A consolidated tape will not be the solution, it would rather erode the level playing field further and inject new costs for investors and end-users of EU capital markets.

Our efforts should hence focus on addressing the flaws in equity market structures and the quality of the price formation process. Measures for a simplified market structure and well-calibrated transparency regimes should therefore be an integral part of completing the CMU to fully support efficient, liquid and resilient capital markets. ●