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Building an open and competitive financial market for Europe

Brexit comes at a time of dramatic change. In COVID-19, the world is confronting one of the great peacetime challenges of the modern age. Digitalization is transforming our personal and professional lives, and the pandemic will accelerate the pace of technology adoption. Relationships between the world's superpowers, the US and China, are increasingly strained.

As Europe strives to assert its place in a more competitive and uncertain world, well-functioning financial markets are vital for the strength and competitiveness of Europe's economy. Designing Europe's financial markets to thrive in the post-Brexit environment represents a challenge, but also an opportunity.

In the near term, continuity is key. For over 40 years, the City of London has been Europe's financial center. Financial services firms and their clients will need to adjust their activities and manage the complexities inherent in providing services across borders previously covered by single market passports. Supervisors will need to establish new modes of cooperation and regulators will have to deploy equivalence to avoid unnecessary disruption.

This transition will not be without cost or effort. Financial firms and businesses have already spent tens of millions of euros preparing for Brexit, and goodwill is necessary on both sides of the channel. Our goal must be to ensure that, as Europe's economy recovers from the impact of the pandemic, businesses across the EU continue to have access to financing and risk mitigation opportunities through deep, liquid and well-diversified financial markets.

In the short term, many of these markets will remain in the UK. Closing the door to EU firms accessing these markets - ie through the operation of trading obligations in the absence of equivalence - will do nothing to promote the attractiveness of EU capital markets. It may, however, make financial market access narrower and more expensive. Avoiding permanent frictional costs and loss of EU market efficiency is key. Equivalence needs to be understood with this goal in mind.

Brexit, however, needs to be more than a near-term challenge. In the longer term, it can serve as a catalyst for the development of an ambitious, strategic vision for an open and competitive European financial market. One which is integrated with other capital markets across the globe: an essential enabler of economic recovery post-COVID, the shift to a low carbon economy, and Europe's efforts to remain competitive in a fast digitalizing world.

The path to achieving that goal will require delivery of an ambitious Capital Markets Union (CMU). Furthermore, given the unique role that banks play in the financing of Europe, it demands further progress on Banking Union. The removal of intra-EU regulatory barriers and further harmonization of rules relating to trade and post-trade activity is an essential pre-requisite to further development of Europe's sub-scale capital markets.

That is the prize that CMU can deliver - for Europe's businesses, investors, governments and supranational institutions. Also, in this context, discussion of a Financial Transaction Tax must take account of the added cost for businesses accessing much-needed capital, and the risk of eroding the competitiveness of Europe's financial markets.

For EU financial markets to flourish, however, we will need European market makers - banks with the scale and capital to support trading activity - and a prudential regime that is calibrated to support that role. This is what the completion of the Banking Union can offer. By clearing the path to a true single market for banks, and removing barriers to free movement of capital and liquidity within EU banking groups, it will support overdue consolidation in the banking sector and greater resilience and profitability.

Managed correctly and combined with a clear vision for EU financial markets, Brexit could be an historic opportunity for Europe. To grasp that opportunity will, however, require co-operation across international borders and decisions that supersede national interests. It will require political courage, ambition and a pragmatic approach to regulatory cooperation. Defining our vision for Europe's financial markets, and moving swiftly and decisively to turn vision into reality, is all-important, given the uncertainties and competitive pressures facing Europe in the 21st century world. ●