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Capital Markets Union - keep it simple

CMU is a flagship initiative for valid reasons. Europe needs to diversify funding alternatives for companies in order to unlock the potential for sustainable growth across the continent. Progress has been made, but more is needed.

The CMU High Level Forum report – where my Latvian colleague Daiga Auzina-Melalksne participated – puts forward a number of important and concrete measures, ready to be realized and implemented.

One point to highlight is the already initiated idea of an EU IPO Fund. Structures for government fund investment already exist in some countries, and institutions such as EBRD, EIB and EIF are more active in other countries. An EU IPO Fund will add immense value to the current landscape, especially if it can be flexible, i.e. cross-over the IPO moment and be active pre as well as post-IPO, supporting also secondary capital raisings. In the Nordic as well as Baltic markets, the IPO moment is not always the important point of fundraising. Instead this happens post-IPO. Allowing the IPO fund to support companies in this phase is a condition to make it a useful tool for economic recovery.

The majority of listed companies on European markets, and even more so those in the listing pipeline, are in fact SMEs. This is true even on the main markets, the regulated markets. The regulatory framework should be adapted to better suit SMEs, and not just the blue chips. Clarifications and simplifications can be done in legislative pieces such as MAR, the Prospectus Regulation and the Transparency Directive. Cross-border financing will be supported by simpler rules on for instance insider lists and information disclosure. When rules leave less room for differences in interpretation, application and enforcement, investors will hesitate less on cross-border financing.

Retail investors want to be part of the capital markets. They want to invest in innovative companies, contribute to the transition to a more sustainable world and be part of the growth journeys of new companies. In fact, throughout the Covid-19 pandemic, we have seen participation from retail traders increase, adding crucial liquidity for companies in a critical time. Capital markets provide opportunities for long-term financial engagement by retail investors, while at the same time unlocking financing opportunities for growth companies. These opportunities for retail investor engagement should be facilitated.

There is room to adapt some of the paperwork burden for intermediaries, when it comes to especially experienced retail investors. I support the initiatives of the European Commission in this respect. Intermediaries

are needed to facilitate retail investments, and the administration around it should not be disincentivising, but appropriate for investor protection.

An important factor for investor protection is the transparency and fairness in the functioning of the markets. MiFID II has not brought more transparency to the equity markets and large parts of matching still takes place outside the regulated markets and MTFs. I believe MiFID can be simplified, providing for simpler market models that support price formation and establishment of reference prices. The purpose of serving smaller investors trading in smaller lots needs to be balanced with the need to cater for execution of blocks which are big enough to have an impact on the price of a share. The LIS waiver serves the latter purpose and should be maintained. Systematic Internalisers play an important role for large orders and their services should be offered exclusively for such large trades in order to restore a fair playing field for equity trading. Retiring the reference price and negotiated trade waivers would make the complicated double volume cap mechanism redundant, provided the market structure is adapted to ensure full transparency of small trades, which is necessary for attracting and protecting retail investors. These are bold measures, but I believe they would achieve a market model which is more likely to deliver on end investor needs, in being simpler to implement and enforce.

I am convinced that keeping it simple, and keeping a focus on smaller companies and smaller investors, will help us develop the capital markets in the best direction for providing the urgent financial support needed in the recovery from the Covid-19 crisis. ●