CMU: is the High Level Forum report the right way forward?

John Berrigan

Director-General, DG for Financial Stability, Financial Services and Capital Markets Union, European Commission

Getting Europe's money to where it can do the most good financing the economy

Capital Markets Union (CMU) is our plan to establish a truly single market for capital across the EU. It aims to get investments and savings flowing across all Member States – to benefit citizens, investors and companies, regardless where they are located. CMU is about getting Europe's money from where it is, to where it can do the most good. To finance recovery and create new jobs. A fully functioning and integrated market for capital will allow our economy to grow and be more competitive, while delivering on the EU's commitment to green its economy.

The efforts to a build a single market for capital began with the Treaty of Rome. We are not done yet. The 2015 Action Plan on CMU set out some necessary measures to establish CMU. In 2017, the Commission complemented it by strengthening existing actions and introducing measures in response to evolving challenges. Many proposed measures were adopted and are being implemented. While we have made progress, much remains to do to establish a deep and efficient single market for capital.

CMU is undeniably more urgent in light of the COVID-19 crisis. Public support and bank loans helped businesses address the short-term liquidity squeeze caused by lockdowns. However, in the medium and longer-term, businesses need a more stable funding structure. Re-equitisation of EU industry, facilitated by CMU, is essential. Market financing will be the lifeblood that sustains recovery and growth.

Brexit also has an important impact on CMU. It strengthens the need for the EU to have well-functioning and integrated capital markets. After Brexit, EU capital markets consist of multiple financial centres. A single rulebook and effective supervision will be crucial to prevent regulatory arbitrage, forum shopping, and a race to the supervisory bottom. A strong and complete CMU also goes hand in hand with the promotion of a stronger international role of the euro and an effective policy to protect the EU against extra-territorial effects of measures taken by third countries.

However, deepening the CMU that Europe deserves will be difficult. Remaining barriers, conditioned by history, customs and culture, are deep-rooted. They will take time to tackle. There is no single measure that will complete our vision. The only way forward is step-by-step, in all areas where barriers to free movement of capital still exist. This requires commitment and determination from all parties, especially Member States. Building CMU is a gradual process, based on delivering many small but important changes, so it is important not to lose sight of the global vision for CMU.

> *CMU aims to get investments and savings flowing across all Member States - benefitting citizens, investors and companies, regardless of where they are.*

In November 2019, we brought together 28 industry executives, experts, consumer representatives and scholars in the High Level Forum on CMU. It published a report with 17 recommendations for us and the Member States to advance CMU. This final report now provides, and feedback on the specific recommendations will provide the Commission with valuable input from stakeholders. That will feed into the new CMU Action Plan coming later this year.

While we are still developing specific actions of the next CMU Action Plan, it is clear that areas such as SME access to finance, market infrastructure, retail investor participation, and removing barriers to cross-border investment will be at the heart of the new vision. CMU will make it easier for our businesses to get the funding they need to invest in our economy. Capital markets are vital to the recovery and to the EU's future, because public financing alone will not be enough to get our economies back on track, nor to build the green economy we have committed ourselves to. •

Jörg Kukies

State Secretary, Federal Ministry of Finance, Germany

Using the momentum: our work on strengthening the CMU to support the recovery

The Capital Markets Recovery Package and the expected Action Plan on the Capital Markets Union by the Commission are key steps for continuing work on strengthening EU capital markets. This important work has gained new momentum following the report by the Next CMU High Level Group, which was set up by France, the Netherlands and Germany, the subsequent Council conclusions under Finnish Presidency in December 2019, and the recent report by the High Level Forum. This momentum has developed at the right time: First, the Covid crisis has further increased the importance of access to finance. Well-functioning capital markets will be essential to overcome the COVID 19 crisis. Second, strong EU Capital markets have become even more important in light of the United Kingdom's exit that is providing a strong cause for developing them further.

It will be key to create a vibrant and competitive business environment that supports recovery and growth by facilitating the access to funding for companies across the EU. This includes the lifting of barriers to financing for small and medium-sized enterprises. With regard to the expected CMU Action Plan, one starting points could be the establishment of an appropriately designed European Single Access Point (ESAP). Enhanced visibility of companies and better investment decisions would allow for a more efficient allocation of capital.

The attractiveness of capital-markets based financing would benefit from an improved ecosystem. Especially for small and medium-sized enterprises, costly and burdensome requirements might discourage listing on public markets in the European Union. As another element, measures to strengthen long-term and equity-based investments are worth striving for while safeguarding financial stability.

Building a stronger and more efficient market infrastructure will be another priority. Apart from settlement services, this could include the establishment of a post-trade consolidated tape. Further elements could be a harmonization of rules on shareholder identification and the exercise of rights associated with the ownership of shares, i.e. voting rights and shareholders' participation in general meetings of corporates.

Beside enhancing the business environment and strengthening the infrastructure, we should also focus on retail investors. We need to think about how to tackle the lack of an investment culture and the low participation of retail investors in capital markets. Enhancing these investors' confidence represents an unused opportunity that we should address by finding a sustainable balance with consumer protection concerns.

Beyond these areas, work on insolvency systems and withholding taxes will be important as well. The question of improving supervisory structures at the European level has gained even more importance against the background of recent events. It turns out that we need supervisors with forensic skills and all the necessary competences, not only in relation to monitoring and enforcement of financial information requirements for listed companies and auditor supervision, but also to money laundering. This will require further attention and an assessment of the need for action.

> *Well-functioning capital markets will be essential to overcome the Covid-19 crisis.*

The future work on CMU will need to focus these important elements in the four areas outlined above. Some elements could potentially be addressed more adequately by complementary work on digital finance and sustainable finance.

More than ever, we need to work on ensuring future-proof financial markets in the Union. Further steps are required to promote capital market-based financing, to integrate and strengthen the European capital market further and to make it internationally competitive. Hence, it is also a key deliverable under our Presidency and we certainly want to use the momentum to achieve meaningful progress.

That means, in the short term, that we are committed to pass legislation putting in place Covid-19 response measures as quickly as possible. And it means, in a more medium term, that we will be working on Council Conclusions on the broader set-up of a true European Capital Markets Union until the end of the year. This should give clear political support for the subsequent legislative work and also underline our common commitment at EU level to bring forward a Capital Markets Union that serves both EU businesses and citizens the best way possible. ●

Steven Maijoor

Chair, European Securities and Markets Authority (ESMA)

The priority areas for deepening the CMU

It is clear that the Covid-19 pandemic and its economic impact result in an urgent need to support the recovery of the European economy. Indeed, helping companies to raise the necessary funds in order to support their recovery is an urgent priority.

While the banking sector will undoubtfully play an important role in supporting this recovery, further development of the CMU will be necessary to ensure additional funding from capital markets. This may reduce the risk of further increasing the reliance on bank lending and give a more important role to (equity) capital.

The proposals made by the HLF on the CMU provide some good initiatives that would contribute to a further development of EU capital markets. The four pillars of the report, namely business environment, market infrastructure, retail participation and cross-border activities are all essential for a deep and efficient CMU. Especially an increasing retail participation is essential to develop the CMU.

Firstly, a successful CMU requires a large retail investor base that would enable financing the economic recovery, digital and green transformation of the European economy. Multiple initiatives could improve retail participation as there is no single measure that would achieve this goal.

While significant efforts need to be devoted to financial education and improving financial literacy, other measures, such tax incentives, insolvency proceedings or pensions rules, are also very important albeit outside the scope of financial market regulators.

Inspiring trust and confidence in the efficiency and integrity of the capital markets is a pre-requisite for the CMU. Information that retail investors receive must be fair, objective and timely but also clear and understandable. Further review and alignment of disclosure requirements for investment products across sectors will be required in order to facilitate their cross-border distribution. Further analysis is also needed on the role of the incentives of financial advisors.

Secondly, easy access to comparable and reliable information on all listed companies in the EU is indispensable for the development of an integrated EU capital market. Indeed, the creation of a single access point to financial and non-financial regulated information based on one harmonised format would facilitate investment on both a national and cross-border basis.

In this context, also the development of the EU consolidated tape with comprehensive coverage and standardised high-quality data would contribute to price discovery and market efficiency.

Furthermore, integrated capital markets require an efficient integrated supervision system that ensures harmonised application of the rules in a manner proportionate to the risks. This requires further progress in harmonising supervisory practices as well as safeguarding sufficient supervisory resources at both national and European levels.

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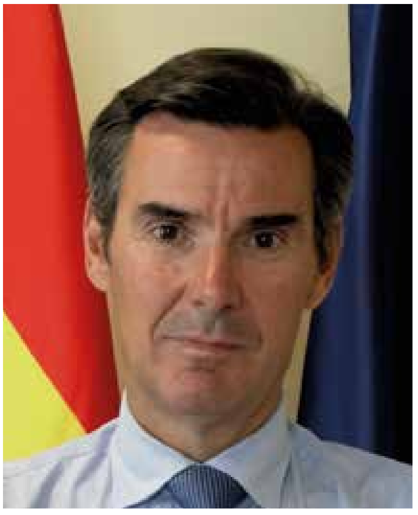
Even though the ESAs' review introduced useful changes to the available supervisory convergence tools, they are less ambitious than originally proposed. In addition, certain parts of the available toolkit prove to be burdensome for the national authorities and ESMA.

The coordination and centralisation of supervision at European level needs to go hand in hand with the development of the CMU. Since the establishment of the ESAs, there has been steady and significant progress in this respect, and based on recent legislation, an increasing number of entities will fall under ESMA's remit in the years to come.

The current environment and developments only reinforce the need to strengthen the role of European coordination and supervision to support a successful CMU.



Carlos San Basilio

Secretary General of the Treasury and International Financing,
Ministry of Economy and Business, Spain

The CMU is key to Europe's recovery

It has been 5 years since the European Commission adopted the CMU initiative and since then, EU institutions and Member States have managed to hammer out over 30 measures in order to establish the building blocks of an EU wide, integrated capital market. If one looks back to the impressive array of legislative actions adopted, it is fair to say that the EU has delivered on its promise. And yet, it would be naïve to believe that we already live in a truly integrated European single financial market.

Despite the efforts undertaken by EU regulators and market participants, EU capital markets are still fragmented and relatively fragile. The EU's unparalleled economic and commercial strength is not commensurate with the comparatively small scale and fragility of EU capital markets; it remains an economic giant, but a financial dwarf.

However, we should also avoid overly simplistic comparisons with other international financial strongholds, or with the progress achieved in the Banking Union. Capital Markets are by nature very complex, ever more sophisticated and diverse. Whereas the Banking Union essentially affects banks, the CMU project comprises a myriad of very different financial 'creatures' and their encompassing regulatory frameworks. This complexity makes it hard to tell the progress made, and to assess the true impact of CMU. Take for instance the dynamics of crowdfunding. At first sight, crowdfunding might seem to be a negligible part of the financial system, but if one takes a closer look at this phenomenon, it soon realizes the potentially disruptive change in the way new ventures are funded, that crowdfunding entails.

Despite all the work done so far and the modest figures in non-banking financing across the EU, we should not fall in self-indulgence, conformism or despair. CMU should remain a high political priority for the next years and, to this end, the HLF report represents a very good starting point. This second batch of legislative measures should be issued and negotiated in the same vein as the ones adopted under CMU I: we need to adopt concrete and pragmatic measures and, at the same time, have a clear sense of direction. If we do so, it is entirely possible for this project to succeed—we just need to proceed one step at a time.

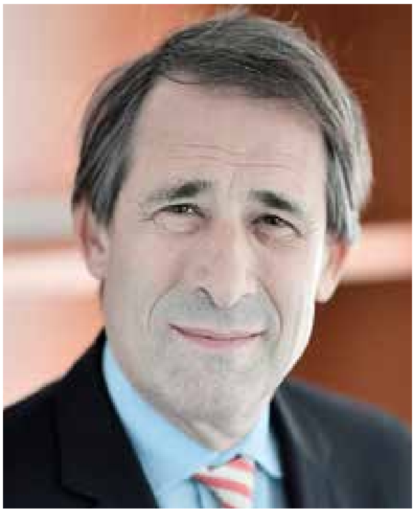
In this regard, the CMU II project will have to overcome important challenges. That is the case of the still very divergent and fragmented national taxation and insolvency regimes. Another challenge where a consensus on how to face it is still lacking (as pointed out in the HLF report) is the issue of the European supervisory architecture. It is commonly accepted that ESMA has established itself as a highly competent, agile and reliable supervisor. However, the question of whether or not it should be the building block of a single supervisory mechanism, in the way of the Banking SSM, remains open. Thus, instead of spending valuable resources in trying to advance stuck negotiations, we could for instance further focus on fostering convergence between national competent authorities, with the leadership of ESMA.

> *EU leaders, capitals and market participants need to take swift and decisive action for completing the CMU.*

But obviously, the greatest challenge for the CMU in the short and mid-term is the impact of the Covid 19 pandemic. In this new context, one has to ask himself: what can the CMU do in order to mitigate the impact of this crisis? How can it contribute to absorb the impact of the Covid crisis and at the same time deliver a more diverse and balanced financial system that meets the demands of households, SMEs and companies, and strengthens the international role of the Euro?

SMEs, which are the backbone of the European economy, haven been very hard hit by the pandemic. Therefore, I am very glad that the report includes such a detailed and comprehensive set of recommendations towards SMEs. Certainly, it is essential to facilitate financial resources to SMEs, with a proper balance between banking and non-banking financial resources. Hence, proportionality will be one of the key tools to promote SME's access to capital markets, by adjusting compliance obligations to the size and nature of these companies.

In the post Covid-19 recovery scenario it will be of the utmost importance to count on smooth functioning and reliable capital markets, that are able to efficiently channel vast amounts of financial resources to the real economy. To this end, we shall double our efforts and work together for overcoming this crisis and drive forward the Capital Markets Union. ●



Robert Ophèle

Chairman, Autorité des Marchés Financiers (AMF)

CMU: a key opportunity for the EU to recover and compete

Completing the Capital Markets Union (CMU) is an essential milestone to create a true Single Market in financial services that provides businesses with a greater choice of funding, offers new opportunities for investors and makes the financial system more resilient.

While Europe is facing its most severe crisis since decades, and with the UK leaving the Union, a new impetus based on a renewed narrative and a strong political commitment is more than ever needed. A few key principles should guide all forthcoming initiatives aimed at completing the CMU. There are not new but they have taken a more acute relevance over the last months in light of the Covid19 crisis.

Boosting European equity markets should be a central focus of the CMU. European firms will need to have access to capital in the recovery phase. IPOs by issuers of all sizes should be facilitated, as well as recapitalizations for issuers seeking to rebalance their debt / equity ratio. Retail investors' savings should be channeled more into equity investment. The long-awaited consolidated tape for equity instruments must be established in the forthcoming review of MiFID.

There is no CMU without safe and efficient cross-border investments and services. The EU passport regime must be enhanced, and so should relations between 'home' and 'host' supervisors. Regulatory arbitrage should be avoided and, in absence of a centralized supervision, regulated firms should not elect a 'home' jurisdiction in a Member State where they do not intend to conduct their business in practice. On another front, the architecture of asset management regulation should be revisited to clarify the framework applicable to cross-border activities and address divergent implementation across Member States.

The long-term needs and interests of EU investors must be at the heart of all initiatives under the CMU flagship. This entails making sure that retail investors receive proper advice before making their investment decisions and that all pre-contractual information delivered to clients (prospectuses, key information documents, marketing materials) are fit for purpose, coherent and not prone to mislead them. This also implies fostering long-term savings and investments by creating a pan-European vehicle for employee share-ownership and revisiting the EU framework for existing long-term vehicles (ELTIF).

Resilient financial markets rely on competitive infrastructures and players. In a fragmented landscape, fostering the competitiveness of the EU27 markets should be recognized as a core component of the renewed CMU. To that end, in future legislation, the impact of any proposed measure on the competitiveness of the EU, its markets and stakeholders - and its relations with third countries - must be taken into account, without affecting market integrity and financial stability. In the long run, this is key to ensure Europe's financial autonomy and economic sovereignty.

> *Enhanced supervision at EU level is another cornerstone of a well-functioning Single Market.*

With a major financial hub at its doorsteps, enjoying full legislative autonomy, the EU will have no choice but to improve its legislative agility. The shortcomings of the EU rulemaking are well-known (regulatory inflation, excessive level of detail at level 1, lack of proportionality, unrealistic timetables, ambiguities in wording, too many national options ....). To compete on a global scale, the EU must have the ability to amend its rules swiftly, in response to market developments or when rules prove to be inapplicable or inappropriate. The EU cannot postpone any longer establishing the necessary forbearance tools that are respectful of the prerogatives of EU co-legislators.

Enhanced supervision at EU level is another cornerstone of a well-functioning Single Market. Taking stock of the fact that ambitious proposals towards more integrated European supervision have not received the necessary political support from most Member States, other ways should be explored to ensure the supervisory convergence that is crucial for all financial market players. For instance, the EU should strive to systematically legislate by way of regulations (as opposed to directives) and ban national options and scope for national gold-plating. In any case, if no further direct supervisory task is to be given to the ESAs, we must avoid any overly burdensome and costly administrative processes. ●

Bernd Spalt

Chief Executive Officer, Erste Group Bank AG

Strengthening Capital Markets as a prerequisite for the EU's economic recovery

The development of the EU single market is without doubt one of the greatest achievements of Europe. Despite the progress achieved, Europe and especially its capital markets are still far from the finish line. However, strengthening capital markets will be an important element in ensuring a full recovery from the Covid-19 crisis – and we should seize the momentum to do so.

In their early attempts to create a Capital Markets Union (CMU), the EU leaders aimed for the "low hanging fruits", such as the review of the Prospectus Directive or STS securitisations, while the underlying issues remained unresolved: Europe's economy is still too dependent on bank financing, European citizens still prefer to keep their savings in low-yielding bank accounts and the EU's capital market is still too fragmented to be called a capital markets union.

Europe's inability to stimulate entrepreneurship and to be attractive for innovative, growth-oriented companies is a consequence of its focus on regulation, instead of playing offense and supporting digital and technological advancement. Meanwhile, the power of US and Chinese tech giants is growing in Europe every day.

Recognizing this, the European Commission initiated in late 2019 a High Level Forum consisting of 28 experts from a wide spectrum of professional and national backgrounds. This working group produced a set of very practical, very clear recommendations to improve the business environment, the market infrastructure, to foster retail customers participation and to address cross-border aspects such as taxes, insolvency and supervision. All these aspects are highly welcome and will help to build our CMU.

However, the core mindset of the working group was pre-Covid-19. In light of the ongoing pandemic their recommendations have become more urgent. We must act faster and be more ambitious to secure the European recovery. So far, we have been protected from the worst, thanks to swift government and central bank action. But this relief is only temporary. We must realize that currently parts of our economies rest on monetary and fiscal crutches.

What we now need is a way to operate without them. This is a challenge and a big chance at the same time. It is a chance because rebuilding our economy leaves us no option but to ensure new financing sources and to strengthen the equity base of European businesses. Increasing the capitalization of businesses in the EU is important to recover from this crisis – it is however equally important to prepare the European economy for future crises.

When it comes to capital markets, we now must have the ambition not only to improve their operating environment, but to create a Capital Markets Union that truly covers our tremendous financing needs. This will be even more necessary when we tackle our biggest challenge – climate change – by financing new and sustainable ways of growth and prosperity. Going forward, this defines a couple of important priorities: first and foremost, capital market finance must become a true option for SMEs.

> *Increasing the capitalization of businesses in the EU is important to recover from this crisis.*

Therefore, we need to create a full level playing field between bank finance and market finance. As long as it is tax-wise or convenience-wise much easier to rely on loans, no significant moves can be expected. Tangible incentives for raising private and public equity must be introduced not only for SMEs themselves but also for institutional investors like banks and insurances. Second, EU-savers have to be motivated to put parts of their savings to better use via the capital market.

Here we need concrete material incentives, such as easier and wider access to financial instruments and attractive taxation. Of course, this requires every member state's full commitment to adapt taxation rules with a clear long-term objective to create a coherent, capital market friendly tax environment throughout the entire single market.

In the upcoming months we need bold political decisions on the national and the EU-level. The current situation has created the momentum to take these decisions and to deepen European integration. The banking community is ready to support such decisions, because a truly integrated capital market will serve all of us, from consumers to small businesses to global champions made in Europe – including banks. ●

Stephan Leithner

Member of the Executive Board, Deutsche Börse Group

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. Finally, we should create an efficient and globally competitive post-trade environment. I therefore highly welcome the HLF's focus on strengthening the CSD passport and improve supervisory convergence among national competent authorities, facilitating the integration of the internal market and spurring a true, competitive cross-border settlement business in Europe. This will ensure to make the euro area a more attractive destination for investment and helps to strengthen the sovereignty of the EU.

Time has come to build on these proposals and to ensure swift and meaningful progress, especially in light of the new pressure created by Covid-19. A rolling stone gathers no moss, CMU now! ●

Leonique van Houwelingen

Chief Executive Officer, The Bank of New York Mellon SA/NV

Capital Markets Union - The need for a strategy for retail investors

In an article published in April 2020 by Eurofi, I argued that we needed rapid, clear and incisive policy measures to build a capital markets union.

I do believe that the Capital Markets Union High Level Forum (HLF) has put such a set of policy measures on the table, and I do urge the European Commission to act on the recommendations contained in the Final Report. In his introduction to the Final Report, Thomas Wieser, the Chair of the HLF, stresses that the recommendations of the HLF are "mutually reinforcing, and dependent on each other".

This is a very important point that I want to illustrate by looking at some of the HLF recommendations that are particularly relevant for retail investors. The perspective of retail investors is especially important because retail investors, namely, households, are the ultimate investors in capital market instruments, and because, in the words of the Final Report, "households often refrain from investments because they do not trust or understand financial markets". This is a damning statement, and a statement that raises a point of key importance. For the Capital Market Union project to be a success, a critical pre-condition is that households do have a better understanding of, and a greater trust in, financial markets, and, in particular, capital markets.

The Final Report does contain a valuable recommendation (Recommendation 12) on financial literacy and education. But by itself this recommendation will not achieve results. This is because the problem is not just that households understand financial markets insufficiently; part of the problem may be that they understand some aspects of financial markets too well. From the perspective of a household, engaging with European capital markets, investing in, and holding, capital market assets, and managing the fiscal procedures and obligations, is complex, opaque, and burdensome.

The heart of several of the recommendations of the Final Report is to create common definitions, common standards, and a common access to information. Common definitions and standards reduce complexity; they provide greater transparency; they facilitate access to information; they reduce barriers to accessing markets; and, in addition, they create the possibility for fair, accurate, and easily understandable narratives that explain how capital markets function in channelling funds into socially and economically useful investments, and how they provide investment income. The single most important recommendation in the Final Report that delivers simplicity, comprehensibility, and tangible benefits to households is Recommendation 15 on withholding tax processes. This recommendation is critical, precisely because tax procedures are currently so opaque and burdensome, and because fiscal impacts are critical for the return on a capital markets investment.

A second critical recommendation that builds on common definitions and standards, and that delivers transparency and legal certainty and reduces operational burdens for investors and intermediaries, is Recommendation 9 on shareholder rights. In August, the Association of Global Custodians published a hard-hitting paper that sets out why we need Recommendation 9 as a matter of urgency.

> *They create the possibility for fair, accurate, and easily understandable narratives.*

Embedded within Recommendation 1 on a European Single Access Point is a requirement for the harmonisation and standardisation of content and format of European company data. Building a pan-European Single Access Point allowing free and unrestricted access to pan-European issuer data will be game-changer in the creation of pan-European capital market narratives.

In the April 2020 Eurofi article, I also wrote that we needed three things. We needed measures to bring investors to the market; we needed measures to bring issuers to the market; and we needed measures that reduce cost, complexity and risk in the use of infrastructure and intermediaries.

I stand by these words. But, I think that we need more. We need a strategy that makes capital markets attractive and understandable for retail investors. The recommendations contained in the Final Report of the CMU HLF will be an important part of this strategy. ●

Christian Staub

Europe Managing Director, Fidelity International

Resilience, purpose and the Capital Markets Union

Financial crises often bring with them a reassessment of social purpose. Following the 2008 crisis, Adair Turner, chairman of the UK Financial Services Authority at the time, described some aspects of the credit derivative market as "socially useless." In the 11 years since those comments were made, concerns over the social utility of finance have moved from fringe products to the mainstream core of equity itself.

Greater attention is being paid to the role of equity in our system of financial capitalism, to how it can be more effectively harnessed to support the real economy and to how to address the balance between shareholder and stakeholder value.

The goal of policy will be to address these issues in a practical way. And, at Fidelity International, we firmly believe the European Union's Capital Markets Union (CMU), and the recommendations from the High Level Forum (HLF), present a real opportunity to bring together the common interests of finance and society for the purpose of reinvigorating Europe's economy. Here's how.

Finding purpose in the CMU

Household financial resilience plays a central role in the framework. The job of a socially embedded capital market is to disperse household savings to the real economy for its use and profitable return, and the CMU reminds us of this in the very structure of its design – with households in need of investment opportunity at one end of a chain and industry in need of funding at the other.

From this flows an ambition to stimulate retail participation in the EU's economic growth, seeking to transform salary-earners into asset-owners. There is an implicit need for greater financial education for this to happen successfully, so that citizens understand how to map their own particular set of liabilities on to the assets available to them.

An increased investor base needs a broader and deeper pool of corporate issuances to pick from, and so the CMU and the HLF's support for greater SME participation in capital markets, either via the channels of Solvency II, Basel III or ELTIF, is a necessary central pillar.

SMEs are one of the main engines of economic growth at a national level and improving their access to funding will fuel job creation and greater investment. To encourage these companies to issue equity for the first time, they should have some relief from market abuse regulations aimed at larger institutions.

And so, a solid plan to encourage greater participation in equity markets would not only boost the financial resilience of households, but of companies too. In rebalancing the funding mix away from debt and towards equity, SMEs will become less vulnerable to sudden credit and liquidity crunches.

The need for resilience

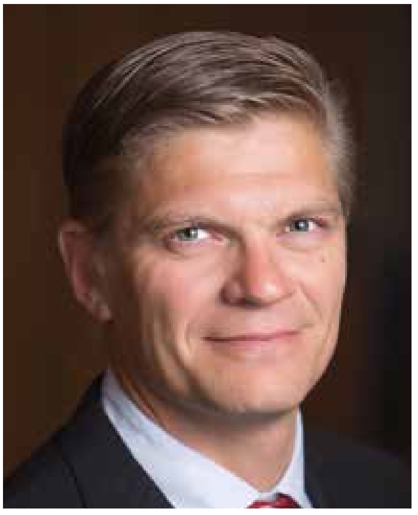
If the interests of society and firms are to be more closely bound by equity, then corporate resilience becomes an end in itself. Non-resilient companies bring fragility both to their employees and investors, as well as to the economic system as a whole.

There are elements of the CMU that will enable asset managers to guide corporates towards more resilient business models through capital allocation or stewardship. And the HLF's proposals around shareholding are a step in the right direction, as well as proposals to re-invigorate SME research and the EFAP.

However, there is room to widen the scope. In creating a new system of capital, as much as possible must be done to mitigate the systemic risks capable of puncturing it. We return once again to 2008, the response to which provided a policy blueprint for models of financial resilience.

Here, policymakers could make good use of bank and insurer recovery and resolution planning legislation, leaving capital adequacy rules aside but seeking to embed the same culture of resilience into non-financial firms. Here, policies from stress-testing to annual reporting may be applicable.

The CMU initiative clarifies the social purpose of equity, supported by the two pillars of increased retail participation in equity markets, and more dispersed corporate issuance. However, fragile companies risk breaking the virtuous circle of value creation and increased economic activity, as well as the trust of wary retail investors, requiring policymakers to consider a third pillar: that of corporate resilience. ●



Bjørn Sibbern

President European Markets, Nasdaq

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.

> *Europe needs to diversify funding alternatives for companies in order to unlock the potential for sustainable growth across the continent.*

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. ●