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## CMU 2.0

Ladies and Gentlemen,

About 20 years ago, the European Union gave itself a wonderful motto: "United in diversity."[1] Joining forces to advocate for peace and prosperity while perceiving the many different European cultures, traditions and languages as an asset – this combination is precisely what makes the EU strong. The motto is thus a very good fit for one of the EU's major projects: the European Capital Markets Union. To achieve this, we definitely need a closer union which still offers room for diversity. I very much welcome the fact that deepening the CMU has been placed on the political agenda of Germany's presidency of the Council of the European Union.

Completing the CMU is one of the most important regulatory tasks at the moment. Although we have already made significant progress, there is still some work to do. For instance, in terms of integration: in the EU, we still do not have a genuine single capital market but 27 national capital markets. As a result, those providing and those receiving capital are still facing unnecessary hurdles. There is also the issue of competitiveness: in this area, the EU's position is still too weak at the international level.

I expect considerable impetus for the development of the CMU to come from an action plan that the European Commission intends to release in the autumn. The action plan is likely to address parts of the proposals that an expert group commissioned by the European Commission presented in mid-June. The group has shown what is important now: building a truly integrated CMU, creating a more vibrant and competitive business environment and more efficient market infrastructure and making the capital market accessible for retail investors, too. More transparency and more homogeneity in the area of regulation is needed here – not just for financial supervisory purposes. Germany will promote this approach during its presidency of the Council of the European Union.

The action plan is set to follow a plan presented by the European Commission already back in 2015. The objective at the time was to eliminate regulatory and bureaucratic hurdles, promote EU-wide financial markets and reduce reliance on bank-based funding. Let's take a look at financing, for instance: the stock market capitalisation-to-GDP ratio alone shows how significant the need for action is. It is still much higher in the UK and the US than in the EU. In Germany, it is roughly 50%; in the UK, it is about twice as high. In the US, it is even three times higher. And Brexit has put even more pressure on the EU 27 to remain competitive internationally. If we achieve more integration here, we will be able to offer new, alternative and affordable financing options to many companies seeking capital, which is likely to offer more choice for SMEs in particular. At the same time, we would give these companies and the financial system as a whole new opportunities for diversifying their risks.

After the COVID-19 pandemic further weakened the already flagging economy, this endeavour has become even more urgent – despite the extensive state support packages. Brexit, too, has increased the pressure to act. Up until the previous year, we had a very large capital market hub within the EU: London. This hub is now at our doorstep, and we can play a part in setting the rules of the game there only to a limited extent. Another reason why the EU-27 must strengthen its own capabilities.

We should not be discouraged by the fact that we are now well behind the Juncker Commission's original timetable set in 2015. In my view, the CMU is and remains an ambitious long-term project. We will have to tackle a number of difficult tasks here and there. Some examples that come to mind include the harmonisation of minimum standards in the area of insolvency law, the simplification of tax law regulations, e.g. withholding tax refunds, the standardisation of company law provisions, the issue of investor education and building trust among retail investors in capital markets.

But let mention another point that is important to me: we not only need more "U"; i.e. more of a union – or to be more specific – more harmonization for markets in the EU. We also need more "M" – in other words: larger and deeper markets. To give an example, we still have a buy-side that is far too weakly developed compared to the US and other markets. And we still don't have a genuinely European investor structure, particularly with regard to pension funds. This includes the heavyweight EU countries of Germany and France.

In my view, an ideal starting point to counter this would be the strengthening of funded pension schemes within the CMU. I was therefore pleased to find out that the expert group I have just mentioned has dedicated an entire chapter to pensions. Given the forecasts made by various demographers, we would do well to examine every sensible-sounding idea with an open mind. And especially in times of low and negative interest rates, it is essential that savers are offered attractive investment products to build up additional pension savings across Europe. Longer-term investment opportunities in particular should be promoted. Initiatives

[1] https://europa.eu/european-union/about-eu/symbols/motto_en

in the private-sector industry could make just as much a contribution to this as the sort of big bang that could only be triggered by policymakers, ideally European ones.

For this reason, we also welcome the fact that the EU has laid the foundations for a truly European pension product. The Pan-European Personal Pension Product (PEPP) is set to be a simple, transparent and affordable solution to complement private pension schemes and would be primarily aimed at mobile individuals working in different countries. Insured individuals would then be able to take their pension entitlements with them from one EU Member State to another and continue to save up for old age with the same product. Even if PEPP does not really become a product for the mass market, which remains to be seen, I consider it a key pioneer, which marks an important milestone towards achieving a capital market union.

What I do not want is to create an insurmountable conflict between the capital market side and concepts that rely on a state-backed standard product. The simple matter of the fact is: given current and future demographics we don't have a choice and must do both. We have to leverage any and all opportunities that present themselves to reinforce each of the three pillars of pension provision to the best possible extent. And that is exactly what makes the capital market union a unique political opportunity and project: it serves obvious and urgent social policy goals on behalf of millions of current and future pensioners as much as it lays the foundation for a stronger and distinctly European capital market. What else could we ask for to mobilise as much political energy as possible to promote this important project.

In the EU, we will not be able to avoid having to take an even closer look at the issues surrounding digitalisation – which forms part of the much broader context behind the CMU project. We must give special attention to crypto assets in particular. Of course, technological progress and the rise in digitalisation are playing an increasingly important role on global capital markets, too. Blockchain technology should be mentioned in particular. It can be used both as an underlying technology for services and as a means of payment (e.g. stablecoins). It can therefore be assumed that blockchain applications will be a key driver of digital transformation. To allow this technology to unravel its full potential in the EU, trust is needed. Only a robust legal framework can guarantee this. Firstly, it should not stifle but should promote innovation. Secondly, it should have a protective effect on two fronts: protecting both financial stability and investors and consumers.

In August, the German Federal Ministry of Finance published a draft law on the introduction of electronic securities. Fruitful ideas for the CMU can be derived from this. Electronic securities allow companies to gain quick and affordable access to the capital market, which is likely to be highly appealing for SMEs in particular. Investors – including retail investors – have a wide range of products to choose from and can invest at a low cost and on a small scale – and thus diversify their risks.

We should set out the rules for this at European level, as this is the only way we can succeed in avoiding arbitrage and creating a genuine level playing field, while, at the same time creating a market of sufficient size to be efficient; of course in line with the proven mantra "same business, same risk, same rules". Speed is also needed here. If we do not rapidly set out clear rules for the further inclusion of crypto assets into the already existing financial market, then others will do that for us. And a financial market of the size and significance of the EU cannot and should not let this happen. For this reason, I again welcome the comprehensive report that the European Commission's expert group presented in mid-June. In this report, the group recommends incorporating crypto assets and blockchain technology into European financial market regulation for the purpose of further developing the CMU.

I am certain that this topic will play a significant role, also in the context of Germany's presidency of the Council of the European Union.

Ladies and Gentlemen,

Thank you for your attention. I am now looking forward to your views on the matter of this topic. ■