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The EU as a key player in financial markets – not the playing field

This year's Eurofi Forum in Lisbon comes at a historical moment for our financial markets. The EU is facing a critical juncture: We urgently need to finance our recovery plans from the COVID-19 crisis, as well as drive the green and digital transformation at full speed. The unprecedented pressure on public finances and bank balance sheets make it indispensable to foster deep and thriving capital markets to finance these ambitions.

However, key metrics show that EU capital markets are still significantly less developed than in other leading jurisdictions. In 2020, looking at primary markets, there were 1,415 IPOs, of which 60% happened in the US and China. Only 7% took place in the EU. Similarly, if we look at the ratio of market capitalization to GDP, the US is at 148% while the EU lags behind at 53%.

The EU has sent a strong signal of unity with the EU Recovery Package. And the rapid implementation of the new CMU Action Plan is critical to support the EU's efforts going forward. However, **the time has come to strategically make the EU a key player in the global financial arena** by building synergies between existing areas of reform and taking leadership in new strategic growth areas.

This includes redefining our financial services landscape by linking the eurozone and CMU reforms to the strategic objectives of the international role of the euro initiative. To this end, we need a fit for purpose regulatory framework that supports our markets and strengthens the resilience and competitiveness of the EU's financial market infrastructures (FMIs). As Executive Vice-President Dombrovskis and Commissioner McGuinness put it: We need to "reinforce the EU infrastructure that underpins our financial system".

Against this background, the European Commission's strategy to promote the "openness, strength and resilience" of EU financial markets is a vital step in the right direction to complete the CMU agenda. It highlights the importance of EU FMIs, as well as key EU markets, to strengthen our financing capacity and stability.

In this sense, three aspects are paramount:

You cannot have a CMU, deal with the impact of Brexit and ensure a sustainable recovery from the COVID-19 crisis without functioning, deep and liquid secondary capital markets that allow for a robust price

discovery process and efficient capital allocation. ESMA's recent market structure report reveals very high fragmentation (more than 250 venues; versus 60 in the US) and overall low levels of transparency since the introduction of MiFID II. More than 50% of the volume is still traded off regulated exchanges.^[1] Paired with recent developments, such as the significant rise of payment for order flow schemes, it is therefore critical to simplify the EU equity market structures and effectively limit «dark trading» to increase transparency and general measurability for end-investors. To support long-term and sustainable growth, it is essential to continue strengthening the EU's resilience and financial stability and reducing our overreliance on offshore markets. Achieving our «Euroclearing» objectives must be a priority, as well as securing the Euro Area's well-functioning and liquid exchange-traded derivatives (ETDs) market. The mandatory «open access» rules for ETDs run counter to these objectives, put financial stability at risk and should be revisited, also in light of the fact that no other jurisdiction is applying them. And we need to consistently and systematically build up euro-denominated markets to reduce the dependencies and reliance on third countries. Finally, the EU should continue to take global leadership in new strategic growth areas such as sustainability. The EU can be the global leader in this sphere, set the standards, be competitive while having a role model function and defending our core values. Other jurisdictions start following us on this path, we can be bold and ambitious.

Let's embrace this broader perspective of openness, strength and resilience across the board – bring a balance into the relationship of the size of our real economy and our population with our financial industry – and make the EU and its capital markets global leaders that deliver in the societal interest to provide for a sustainable outlook for future generations!

[1] ESMA, [Annual Statistical Report on Securities Markets 2019](#), November 2020.