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Working towards high quality supervisory outcomes across the EU

The AFM fully supports the objectives of the CMU and encourages the EC in its efforts to further strengthen the CMU by striving for liquid, transparent and accessible EU capital markets. A healthy financial system breathes with two lungs: 1. a robust banking system, and 2. resilient and diversified capital markets. It is key for the EU to keep working on stronger integrated capital markets in order to avoid over-reliance on the banking system. The AFM encourages the regulatory efforts taken so far. However, Europe's financial system is still very much dependent on banks and the strong home-bias in bond and equity markets indicate that markets are not yet fully integrated.

Overall, we believe that the Commission is focusing on the right topics in its current CMU action plan. **We especially endorse proposals that lead to central solutions for EU wide problems.** Such as proposals concerning a European Single Access Point or a consolidated tape.

Furthermore, there is still a significant need as well as high potential for increased participation of retail investors in EU capital markets. EU investors' overall participation in capital markets is relatively low. However, the demographic changes (ageing population) across the Union require larger retail participation. At the same time, retail participation increases the opportunities for SME funding. The AFM believes that efforts should be made to further increase the level of investor protection. In order to enable the retail investor to enter into cross-border transactions, they should be able to expect similar high quality supervisory outcomes across the EU. **Larger retail participation must go hand in hand with improved investor protection.** We hope that the upcoming Retail Investment Strategy by the EC acknowledges this need, and aspires to raise the bar for investor protection. As a market conduct supervisor we will also look with a bit more caution to proposals that might even jeopardize investor protection, such as introducing a new category of qualified investors, or to proposals to soften for instance listing requirements for SMEs.

In order to effectively supervise cross-border retail financial services, we believe that specific attention must be paid to issues related to the current passporting regimes. **The AFM encourages the EC to analyse both the positive and negative aspects of the current passporting system** and the supervisory challenges thereof

in order to look for solutions that will empower NCAs to effectively protect investors domestically. While being a cornerstone of the single market, the current system – with 'home' and 'host' responsibilities - imperils the effective protection of investors that are engaged in cross-border transactions.

We can also fully support any further work to strengthen supervisory convergence, or even further centralization of certain supervisory tasks. We believe that cross-border problems require cross-border solutions. Individual supervisors are not always able and in the position to effectively supervise individually. Therefore, for a well-integrated and functioning CMU it is key that ESMA and the national authorities further build on the work currently undertaken in their efforts to collectively address cross-border risks.

However, convergence also has its limitations, it will not make full use of the potential efficiency and effectiveness gains, nor does it eliminate the risk of regulatory arbitrage. **The ultimate convergence is centralization of direct supervision.** We believe there is a strong case to be made to centralize supervision on markets that are cross-border by nature, where the risks are cross-border related, rules are harmonized and we see a risk of regulatory arbitrage. This would in our view logically lead to centralization of certain supervisory tasks at the wholesale side of the capital markets.

To sum up: For EU markets to function effectively, high quality supervisory outcomes are required. Regardless as to whether the supervised entity (firm/business) is primarily offering services on a local or cross-border basis. Supervision should therefore be organised accordingly. For EU markets to function properly, the geometry of supervision should follow the geometry of the business.