Q&A

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A strategic view on EU capital markets

How are EU capital markets evolving 6 years after the launch of the CMU and one year after Brexit? Has progress been made in terms of integration and competitiveness?

We urgently need a sustainable, efficient, and globally competitive European capital market. The Covid-19 pandemic along with weak economic growth, high inflation, unprecedented levels of debt, and an increasingly constrained banking system have put us in a very challenging situation.

The Brexit and the enormous financing challenges raised by the transformation towards a sustainable and digital economy reinforce this reality. High time to understand the critical role of capital markets as a largely untapped growth engine for the EU and key pillar of strategic autonomy.

While I welcome the significant efforts undertaken by politicians and regulators over the past years, EU capital markets unfortunately continue to underperform across key proxies. Despite the record number of more than 1,800 IPOs globally last year, only about 10% took place in the EU. On top of that, the unlevel playing field created by MiFID II/MiFIR has resulted in a strong fragmentation with more than 650 trading and execution venues across all asset classes.

It creates significant drawbacks for liquidity, transparency, and broader market quality. The underperformance is further underlined by market capitalisation realities, where EU-listed companies come in at around 52% GDP while the comparative US figure is about 150% of GDP.

This means: We have a lot of homework to do and must double up on our efforts in this critical time! Which is why I welcome the clear emphasis by Commissioner Mairead McGuinness on the need for "strong EU financial market infrastructures".

Can a significant impact be expected from the CMU package of measures proposed in November 2021 in terms of further development and integration of EU capital markets?

Capital markets do not only unlock potential for growth, innovation, and jobs. First and foremost, they provide the unique opportunity for future generations to directly participate in Europe's economic success. Let me elaborate on three dimensions in this context: First, with regard to the financing of companies and notably SMEs, which requires particular attention for a swift Covid-19 recovery. I welcome the initiative around the European Single Access Point which strives to improve visibility and data availability. Not overburdening issuers will be the key recipe to success; but there are additional key elements that need to be tackled swiftly, such as the work on securitisation, where other markets are miles ahead.

Second, it is absolutely critical that we put our citizens at the heart of our markets. With pension systems across the EU being increasingly under pressure, it will be very important to open this segment to equities in a different way, ensuring participation and creating significant welfare effects. We need to advance financial education and improve transparency!

Third, MiFID II/MiFIR has failed to establish a market structure and market data quality that is in-sync with this broader political vision. It needs to be reformed.

Going forward, we need to ensure a holistic policy approach that differentiates between primary and secondary markets. We should not forget that exchanges play a very particular role in society through their positive contributions to transparency and price formation, but also by being an essential part of the IPO ecosystem. The ESMA market structure report has underlined this very clearly: While EU exchanges get disadvantaged, non-EU alternative execution venues emerge as the champions!

Will the new CMU action plan support adequately the EU post-Covid recovery? Are further measures needed in the capital market area to support the financial autonomy objectives of the EU following Brexit?

Any action plan must ensure that it creates an efficient symbiosis of regulators and the markets to strengthen strategic autonomy and to build a strong and globally competitive ecosystem, especially in light of Brexit.

The EU's Covid-19 response marks a historic turning point – as the EU itself is now turning to global capital markets. This shows both the importance but also the responsibility that capital markets carry for the future of our society. Regulation needs to complement and foster this responsibility. At Deutsche Börse Group, we stand ready with our vast products and services portfolio to play our part – be it with regards to the issuance process with our Clearstream operations or also the structural development of derivatives markets with Eurex. This stems not only from our history as technological innovator, having been the pioneer in introducing electronic trading in the 1990s and now harnessing the opportunities brought about by DLT. It's also rooted in our self-understanding as European corporate citizen aiming to build sustainable markets for generations to come.

Our Eurex Clearing Partnership Programme and the Euroclearing offer is a particular case in point here. Having been built to support our customers in times of significant regulatory uncertainties while simultaneously catering for the legitimate public interest of the EU, we are proud to have achieved a market share of about 20%. The next phase will require further incentivisation measures to help the market transition into a healthier environment, finding a new equilibrium with more competition and significantly reduced risk concentration.

Do the MiFID II/MiFIR review proposals tackle the main transparency and level playing field issues in the EU securities markets? Could more be done to increase the competitiveness of EU capital markets?

We have a high-quality and crisis-proof regulatory framework in Europe today. Nevertheless, in particular MiFID II/MiFIR still show great potential for further – mindful – improvements. All while I caution not to undermine its effectiveness by overengineering its purpose.

This is why I strongly welcome the proposal to delete the open access provisions for ETDs – rules that no other jurisdiction ever had or tested. This will reduce financial stability risks and guarantee the global competitiveness of EU infrastructures. I am also in favor of the proposed ban on payment for order flow. We cannot afford to tolerate conflicts of interests and have to ensure an equitable market structure.

However, it is exactly on this latter dimension where the review proposals fall short. This holds especially true for the SI regime, which was introduced for large institutional orders – and should be used only and exclusively for those. About 250 SIs have been created in the internal market since 2018. This regime needs a radical reform to effectively ensure market transparency.

Speaking of transparency, let me add a few words on the consolidated tape proposal. A consolidated tape could have a positive impact for the EU's investment climate. Yet, with a complete lack of data quality in the non-exchange segments, no consolidated tape has emerged yet despite already being included in MiFID II/MiFIR.

While exchanges are already making their high-quality market data freely available on a non-discriminatory basis after 15 minutes, alternative execution venues deliver neither high quality nor free data. This needs to be addressed urgently, as it prevents private sector offers from emerging. I believe the EU should work on establishing a CT that is fast to implement, does not come with significant costs for market operators or participants, and creates equitable value for all investors, not only professional ones.

Only if we understand that exchanges form the central heart-piece of our capital markets, we will be able to create deep, liquid and globally competitive capital markets that meet the expectations of EU citizens.