Theodor Weimer

Chief Executive Officer, Deutsche Börse Group

Speech

Ladies and gentlemen, I think it is my turn now. Honourable ministers, members of parliament, distinguished central bank governors, ladies and gentlemen, dear colleagues and friends, it is an honour and in fact a privilege to be here today. Relance, puissance, appartenance: this triad is the model of the Council Presidency of our host nation, France. It is about sovereignty as a union; it is about the future of our society, our values and community; and it is about the future of the EU as the focal point for global business.

A familiar project has of course made it up to the top of the agenda: the Capital Markets Union (CMU). Although we have been discussing it for years, frankly we are not making much progress. Is this due to a lack of will? Is it due to a lack of ability or skill? I hope it is neither. However, if we are serious about the CMU, I believe we need to change our perspective; we need to change the sense of urgency; quite frankly, we need to change our strategy. To quote Commissioner McGuinness, what we need is to strengthen EU financial market infrastructures. As the CEO of Europe's largest financial market infrastructure operator as well as the largest stock exchange and, quite frankly, the largest clearing house, I would like to share with you 10 brief observations on the capital markets and their significance for the EU. I would like to apply a rather bird's eye perspective, because there is a certain tendency for us to get lost in detail. These are intended as talking points to stimulate the discussion, deliberately running the risk of being a little bit provocative.

Let me start with observation one. With or without CMU, Europe's capital markets are already of vital importance to its future, and that importance will increase further. The capital markets are not merely a playing field for bankers and investors anymore. They are the engine that drives our global competitiveness. It is important to recognise their significance for Europe, as even before the pandemic we were suffering from weak economic growth and high levels of debt. We also know that the capital markets facilitate our citizens' participation and the prosperity generated by our companies. All major tech companies, which we are talking about so much, from the youngest unicorn to the oldest IT firm, owe a big part of their success to the capital markets.

Observation two is that, despite years of effort, we are going through a rough time. Europe is falling behind globally rapidly. We need to take a sobering look at reality. First, in 2021 we saw 2,700 initial public offerings (IPO) globally. Merely 12% of these new listings happened in Europe. Second, the number of listed companies in Europe is declining. In the EU, it dropped by 15% between 2009 and 2019, which is an exit in one decade of more than 700 listed companies. Thirdly, in the US the market capitalisation of all listed companies amounts to more than 150% of gross domestic product (GDP) – we are all aware of it – as opposed to the famous 50% in Europe. That is a factor of three times. Fourthly, the EU's capital markets are also highly fragmented, with over 650 trading and execution venues in Europe compared to 100 in the much bigger, larger and deeper market in the United States.

Observation three is about Brexit. Brexit makes the existing challenges faced by Europe's capital markets considerably more severe. Brexit has further weakened the capital markets on the European continent. In losing the UK, we lost an important voice for strong capital markets in the European Union. The question is, 'Who is going to step in?' Despite all the differences we are currently navigating with the UK in other policy areas, in terms of capital markets there is a lot for us to learn from the Anglo American world. Not only can we learn from the UK and United States, we must learn, if we want to remain competitive on a global scale. Consequently, the EU 27 must significantly step up their efforts regarding the capital markets agenda while increasing the focus on our own sovereignty and creating a consistent regulatory framework in their own interests. I just alluded to what has been said in the previous session on the Markets in Financial Instruments Directive (MiFID). If you have 27 different regimes, it will lead you nowhere. The City of London – we should all be aware of this – is launching new consultations on a daily basis to rework the current regulatory regime and reality. For

us within the EU 27, this means we need to organise ourselves much better. If we continue in our current vein and pace, we will not be able to keep up with our competitors.

Observation four is that the EU's priorities cannot be achieved without the support of the capital markets. We all know that. This is especially true for the two central tasks of our time, the climate emergency and digitalisation. It is a challenge too great to be borne by our banks alone. Trust me: I know what I am talking about. I was the CEO of a large bank in Europe for nine years, and I can tell you that the banks are completely overburdened. Equity and risk weighted assets (RWA) are precious. Even if you have increased equity, they cannot and will not resolve the transformational challenge. Individual countries are equally overburdened. National debt is already reaching its limits. The only way to mobilise the necessary investment is through the capital market, which is why I really welcome the clear objective stated by Bruno Le Maire, the French Minister of Finance, and quite frankly a very determined architect of the future European economic model. He stated – and we all know it – that for every publicly invested euro, we must secure at least three euros of private investment via the capital market. We can debate it, but the long and the short of it is that he is simply right with his request.

Observation 5 is this. To succeed in this endeavour, we need a cultural shift in the European Union. We must stop demonising the capital markets. It is not us but many others who are not invited to this elite conference. It is a notion shared by citizens, politicians and regulators as well as entrepreneurs, academics and other groups. Many of them still think that only manufacturing and producing companies are good companies. Within the EU, we lack the basic understanding that well-functioning financial markets are a necessary condition for functioning product markets and thriving economies. In the Anglo American world, this insight forms part of the political mainstream for leaders from politics, industry and finance. In the UK and the US, they are working together closely. We are missing something in this regard. The EU younger generation, fortunately, is more open to the opportunities of the capital markets, which is good, and, quite frankly, they are more demanding.

In conclusion, my observation six is this. It is imperative to attract wider circles of society into the capital markets. I therefore welcome the European Commission's push for a retail financial strategy. This process will require an increase of investment in economic education and especially in financial education. We need to empower and enable our citizens, our young people, to be able to invest safely, smartly and sensibly and we need to provide them with a wide range of attractive products and incentives to do this. We also must ensure that there is transparency and plausibility in the EU capital markets.

That brings me to observation seven. Transparency, integrity and plausibility are not merely nice to haves. These are must haves. We should strive to avoid conflicts of interest among platform operators. The prominent example – we all know it – is payment for order flow, a practice that is, at the end of the day, at the cost and expense of investors. We need to stop fooling ourselves. We are very far away from having transparent capital markets in the European Union. Let me provide you with three facts which underscore what I have just stated. First, contrary to the political goal, transparency across the European Union equity markets is now at a significantly lower level than it was before MiFID. Only 35% to 50% of the trading volume is executed on transparent trading venues. Secondly, more than 10 years after the global financial crisis, 92% – please recall this – of the European Union's derivatives trading is over the counter (OTC). It has risen, which is again entirely against and contrary to the prevailing political will. Why is this the case? Thirdly, we have also created an EU bond regime, a bond markets regime, where only 3% of bond instruments are considered transparent. The regulatory framework we have created not only continues to tolerate conflicts of interest and opacity; it actually encourages them. We must accept that the EU operators of regulated markets are artificially placed at a disadvantage. Is there a level playing field? Jesus, it is nowhere to be seen. The European Securities and Markets Authority (ESMA) market structure report clearly shows that those benefiting are Chicago, New York and London. They are the global investment banks, especially stemming from the United States.

Observation eight is closest to my heart. An effective EU capital market needs strong and major stock exchanges capable of competing globally, especially with the strongest US stock exchanges. Interestingly, however, stock exchanges are regarded as part of national DNA, which means each country is eager to have their own stock exchange, preferably, of course, in your own capital. It is an understandable aspiration, but in an increasingly united Europe, whatever 'united' means, it should no longer be the goal. Rather, a sovereign Europe should work together to create globally competitive EU stock exchanges. There is no other way for us to succeed against our UK and US competitors. In the US, the capital markets are today driven by three global exchanges: CME, ICE and NASDAQ. We can no longer afford the luxury of having many fragmented markets and the luxury of having more than a few exchanges. Even those few exchanges need to get challenged. Some will now argue that the past bad experience with major banks should be taken as a warning. This is wrong, because stock exchanges are frequently lumped together with banks. As I said, it is wrong. Why is it wrong? In times of crisis, stock exchanges have time and again proven to be a reliable anchor of stability. They have never required government assistance. Being without proprietary business, stock exchanges have no conflicts of interest. Stock exchanges are

neutral, they are independent and they ensure transparency. They ensure best prices, true competition and the most efficient allocation of capital.

That brings me to my next observation, observation nine. Policy-makers and regulators should make a greater effort to create an internationally competitive arena for EU stock exchanges. They are the thought leaders and innovators of the capital markets. It was actually – this is kind of a marketing block here – Deutsche Börse Group that introduced electronic trading in the 1990s. In this spirit, we are today leading the EU capital markets, and I am determined to lead the capital markets further towards the digital future. The future of the capital markets is in the hands of organisations that intelligently set up and regulate stock exchanges, and of course their associated infrastructures, central clearing counterparties (CCPs) and central securities depositaries (CSDs). European regulation must above all be mindful of global competition in view of the upcoming Listing Act and further CMU measures. The European Commission, fortunately, does recognise the importance of capital markets. Incidentally, it is also high time to emphasise more strongly the benefits and advantages of efficient and effective regulation, which brings me to my last point.

The historic transformation in global capital markets through ESG and digitalisation opens up a unique opportunity to the EU. The EU is a world leader on integration and adherence to an ESG framework. We can actively tap into this regulated leadership to shape a future orientated and competitive capital market. This is all the more important, as ESG risks will have a significant impact on the future development and sustainability of business models, economic locations and, last but not least, societies. The future of capital markets is in the hands of organisations that intelligently set up and regulate stock exchanges and their associated infrastructures, clearing houses and securities depositaries, as I said before. Policy-makers and regulators should make a greater effort to create an internationally competitive arena for EU stock exchanges. They are the thought leaders and innovators. As I said, we are the leader. We have been the leader and we want to move ahead. Well organised and regulated exchanges will also significantly contribute to the reduction of the current excess liquidity in Europe. What are we working on? We want to take away liquidity by inventing and enabling new asset classes like fine art, music or e sports, and of course real estate.

In closing, ladies and gentlemen, I would like to summarise the three most important points. First, the EU's capital markets play a vital role in securing our future. Second, EU stock exchanges and infrastructure operators are the backbone of the CMU and of our future sovereignty. We need policies and a regulatory framework that face up to reality and aid our evolution rather than hamper it.

Ladies and gentlemen, at Deutsche Börse, we have defined our purpose: We create trust in the markets of today and tomorrow. Trust is the foundation of all of these aforementioned objectives. For us as Europeans, these are the priorities which we must remain focused on. They deserve our full commitment, and we need to speed up significantly. The time for debate is over. We need to act decisively. Thank you very much for your attention.

Didier Cahen

Thank you so much, Dr Weimer, for this outstanding speech. Are there any questions in the audience?

Participant

I thought your description of the fragmentation of capital markets in Europe was very interesting, with the 600 venues and all that. Could you tell us maybe how you see further integration of these capital markets? What would be the drivers? Is it just unified legislation or will more be needed? Is it to do with supervision or maybe other aspects?

Theodor Weimer

That is a great question. Let me be blunt here. Firstly, we need to create a legislative and regulatory framework which allows further consolidation. Secondly, we need to further consolidate. We have, structurally, a fragmentated market. We will not get over it. If you have the double whammy of a fragmentated market plus a highly fragmentated structural situation, you will never, ever succeed. I was a partner at Goldman Sachs 10 or 15 years ago. It was always very clear that we could win against Europe. Why? It is because the fragmentation creates smaller profit pools and lower prices, by the way. If you compare the big difference between the United States' investment banks and the European investment banks, the pricing level is much better. Therefore, we think we can have a fragmentated market plus a fragmentated organisational structure. We have to change this. That is reason why I pointed towards the stock exchanges. We cannot afford anymore to be that fragmented.