

COMPETITIVENESS OF EU CAPITAL MARKETS



EVA WIMMER

Director General - Federal
Ministry of Finance, Germany

CMU to-do's for next EU cycle

Finance Ministers and decision makers across the EU are calling for measures to strengthen the Capital Markets Union. Capital markets are well-suited for the long-term investment cycles that we need for the green and digital transformation of our economy. Innovators rely on market-based funding to turn their ideas into new inventions. Deep and well-functioning EU capital markets are thus crucial in order to meet our economic challenges and to boost growth.

There can be no question that we need to improve capital market competitiveness. We have the biggest single market, the deepest pool of savings, and yet our share of global capital markets activity is shrinking. At the same time, this situation gives EU capital markets plenty of room to grow, if we succeed in turning this trend around.

We will see important improvements in the near future, as we are working on finalizing and implementing a number of measures at the end of this EU legislative cycle.

A European Single Access Point will soon make financial and sustainability reports easily accessible for investors. The Listing Act will make it more attractive to raise funding through public markets in the EU. Improvements are urgently needed, given that in recent years the number of de-listings has exceeded the number of listings and that we have seen successful European companies turn to New York for their IPO.

With the the MiFIR Review we will bring our market infrastructure for securities trading up to date, reduce fragmentation and increase the level of transparency across EU stock, bond and derivatives markets. In particular, with the establishment of EU-wide consolidated tapes we can make a big step towards truly single EU bond and equity markets. To be effective, the consolidated tapes will need to be well integrated into the EU trading landscape. ESMA will have a key role in properly calibrating the conditions and in selecting the right candidates for the provision of the service.

The decision taken in the MiFIR Review to ban payment for order flow (PFOF), however, is likely going to increase trading costs for retail investors, putting a significant damper on otherwise positive developments around shareholder culture. We should avoid similar risks in the context of the Retail Investment Strategy. Here, as we are advancing the negotiations, we should not end up doing more harm than good by overly restricting the use of inducements that could severely limit retail investors' access to financial products.

A strong, resilient capital market cannot to a large extent depend on offshore actors when it comes to its key functions. We need an eco-system that is capable of satisfying the demand for the clearing of Euro-denominated over-the-counter derivatives in the EU. Consequently, in the negotiations on the EMIR Review, Germany has pushed for a careful balance: requirements that effectively support a build-up of clearing capacity in the EU without unduly burdening market participants.

Looking towards the upcoming legislative cycle, there are a number of logical next steps that we could take. Building on the Listing Act, we should explore further options to make listing in the EU more attractive, including a

possible harmonisation of the rules on prospectus liability.

In 2024, the US as well as Canada and Mexico will move to a t+1 settlement cycle. This change has potentially large ramifications on the relative competitiveness of different global financial hubs. The EU should thus consider to follow suit.

We should scrutinise our framework for securitisations and look to optimise it, while keeping the lessons of the financial crisis in mind. We need securitisation as a bridge between bank lending and capital markets.

We could modernize the Settlement Finality Directive and Financial Collateral Directive to reduce some legal uncertainty around netting that has arisen due to new technological developments and a different degree of harmonisation across member states.

We should also try to leverage our leading position in Sustainable Finance by streamlining and improving our existing framework, ensuring transparency while making sure that requirements are manageable.

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In 2025 we will have the 10-year anniversary of the first CMU Action Plan. The debate on the future of the Capital Markets Union is well underway. In September 2023 the French and German Finance Ministers published a joint CMU roadmap to move the discussion forward. Since June 2023, EU Finance Ministers have engaged with market participants in a workstream on the priorities for the next legislative cycle. Germany is pushing for an ambitious to-do list as a foundation for a productive CMU agenda in the next years.

Building a strong Capital Markets Union is a marathon, not a sprint. Crucial issues like improving financial literacy take time. We still have a lot to do in order to build a Capital Markets Union that provides a tangible benefit to all EU citizens.



FRANCESCO CECCATO

Chief Executive Officer -
Barclays Europe

Successful European Capital Markets require hard decisions

How competitive are EU capital markets at present?

There is good news and bad news. The good news is that EU capital markets are growing. Nearly all sectors of capital markets are bigger and deeper than they were before CMU was launched in 2015. The bad news is that the growth is not nearly sufficient. In nearly all sectors of capital markets, the EU's share of global activity is less than its share of global GDP and the trend remains downward.

In which areas does the competitiveness of EU capital markets need improving most?

Deep pools of long-term capital such as pension and insurance assets are the starting point for deep and effective capital markets. The next step is to connect that capital with companies, particularly innovative and potentially high-growth ones. On both of these metrics the EU is not where it should be and as a result has, for example, a declining proportion of global equity market capitalisation of listed shares.

What enhancements can be expected from on-going MiFIR, CMU and Eurosystem initiatives in this regard?

Reducing barriers and increasing efficiency between the national systems is what the EU level focus should be on. The EU should prioritise proposals through the lens of CMU. Potentially costly or complex initiatives which risk the attractiveness of investing in European markets [such as T+1, increasing settlement fail penalties or enforcing clearing at EU CCPs], however well intentioned, should be weighed carefully to ensure the medicine does not kill the patient. The MIFIR reforms set out a framework to introduce meaningful transparency in the most liquid instruments in EU markets. While the recent agreement offers a welcome boost for a consolidated tape more can be done and the EU should continue to increase its ambitions to add pre-trade equities data through the mandated reviews.

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Would a more top-down approach to the CMU be needed and if so what should be the priorities?

It has become popular to emphasize either 'top-down' or 'bottom-up' measures as the key to developing EU capital markets. The reality is, of course, that a combination of the two is required. In some areas, take pensions reform, action at member state level will have a more significant effect than action at EU level. It is difficult to harmonise when the building blocks don't really exist. In other areas, we probably have too many building blocks – too many sub-scale options for trading or clearing – and EU level action is the only way to address it. The things that will really make the difference, whether at Member State or EU level, are the most difficult, however. The low-hanging fruit only gets us so far.

What are the alternatives / other approaches to consider?

It is difficult to overstate the importance of the Capital Markets Union. Political buy-in is key and it is encouraging to see France and Germany working together to propose a Roadmap for CMU. It is also encouraging that in the limited time available to the Belgian Presidency before the European Parliament elections, it is putting an emphasis on negotiations

with the European Parliament to bolster the Capital Markets Union.

Another key point is to ensure that in combining top-down and bottom-up, we don't try to boil the ocean. A limited number of significant actions, with political buy-in, will do more than tinkering around the edges in a wide range of different areas.

- National level pensions reform to create larger pools of capital while helping to secure sustainable retirement provision for European citizens.
- Harmonisation of the corporate insolvency framework is particularly important in addressing the challenges of fragmented legal regimes that hinder the debt market.
- Building on company law frameworks such as the "societas europaea" and the takeover bids regime, the development of a system of pan-EU company law.
- Reform of the European Securities and Markets Authority into a single, strong, centralised securities regulator.
- A clearer focus on transition finance to ensure that the EU can maintain and expand its leadership in ESG financing.
- Education to build confidence and trust in equity markets is critical to developing an investor culture resulting in significant investment from individual EU consumers.

Finally, there is an extent to which a true banking union is a pre-requisite for a true CMU. The market needs to see the development of banks that are truly integrated pan-EU firms which can act as the facilitators of capital flows between savers and the real economy.



NICK DUTTON
 Chief Regulatory Officer -
 Cboe Europe

Making EU capital markets more competitive on the global stage

As the European Commission nears the end of its current term, it's a good time to reflect on the state of the EU's regulatory landscape and the key priorities during the next mandate. In the capital markets domain, we should consider what aspects of the regulatory framework have performed well and what the focus of regulators should be to ensure EU markets are competitive and grow in the years to come.

The decisions facing EU policymakers are pivotal: across many metrics EU markets have underperformed compared to those in other developed countries in recent years, including trading volumes, liquidity and listings. We should therefore be ambitious in our efforts to increase the visibility of EU issuers to the rest of world, make our markets easier and cheaper to access for end investors, and be more attractive to investors globally.

As policymakers consider how best to further these goals, it is important to recognize and learn from the successes of the last 20 years: EU markets are much more competitive than they were 20 years ago, particularly in market infrastructure. In equity trading and clearing, we now have a well-established competitive framework that has lowered

costs, encouraged innovation and forced incumbent players to raise their game – all to the benefit of end investors.

Cboe Europe's success – we operate the largest pan-European stock exchange by market share, the most connected pan-European CCP and a fledgling equity derivatives exchange – is proof that this competitive framework works and is what market participants want. We embody a vision of European Capital Markets through our pan-European approach, that helps simplify access to and dramatically reduces costs for those wishing to access EU markets. This is a fundamental aspect of growing European capital markets: we must preserve and enhance the spirit of open competition in our capital markets to ensure the future competitiveness and attractiveness of EU markets, and to create connections across European markets for the benefit of all end users.

To this end, amongst all the discussion about “top down” and “bottom up” approaches to delivering more effective capital markets, we believe significant responsibility sits with the industry to continue to develop structures that support that objective. In many cases the role of policymakers – whether at national or European level - should not be to regulate more effective capital markets into existence, but rather to create an environment in which the industry can deliver them.

Part of this will undoubtedly be effective implementation of what has been agreed under the current European Commission mandate – particularly around the MiFIR/D review. The agreed text solidifies the ability of investors to access markets through a range of execution methods and provides a mandate to create a Consolidated Tape framework for equities, which has the potential to deliver incredible benefits for European capital markets by democratizing access to data and enhancing visibility for EU issuers to the rest of the world. On this latter point, it is vital that the Level 2 work being undertaken by ESMA in 2024 delivers a competitive bidding process that attracts operators that are committed to providing a sensibly priced tape that enables broad adoption of the CT and provides a true consolidated picture of liquidity, therefore maximising interest in European companies.

But more can be done to enable the EU to attract investment. We believe competition and innovation need to be consistently considered at all stages of the legislative process. We must also not lose sight of the fact that that a more integrated capital market remains a worthy goal.

Furthermore, and perhaps most importantly, capital markets need to work for retail investors. The national fragmentation of European retail activity is one reason why EU markets have underperformed. As EU policymakers seek to enhance retail participation by driving greater harmonisation and by enhancing investor protection, their priority should be to encourage customers towards competitively quoted, centrally cleared exchange-traded products such as options and ETFs by removing any barriers to investment in simple products and ensuring exchange-traded products are not disadvantaged through excessive disclosure requirements.

Competitive and integrated EU capital markets that embrace innovation have never been more important.

Cboe will always do what it can to bring greater efficiencies to Europe's trading and post-trade architecture, whether that is its established trading or clearing businesses or its recent launch of a derivatives exchange and its plans for corporate listings. But there is always more that can be done, and we look forward to working with policymakers this year and beyond to enable the EU to perform on a global stage as a financial centre.



VIRGINIE SAADE

Head of Government
& Regulatory Policy,
EMEA - Citadel

EU Consolidated Tape: a catalyst for competitiveness

*Transparent markets
drive competition and
capital formation*

Increasing the competitiveness of the European capital markets has long been at the core of EU policy makers' agendas and remains a central element of reforms to spearhead the creation of the Capital Markets Union (CMU).

A transparent, well-functioning and resilient EU capital market supports the real economy by opening up new sources of funding for European businesses, facilitating more efficient capital formation, attracting investments and fuelling growth across the EU.

One of the CMU's objectives in this context has been to improve the visibility of the EU's trading landscape for the benefit of both institutional and retail investors – a challenging task in the highly fragmented European trading environment. Introducing a well-functioning consolidated tape that provides a comprehensive view of the prices and volumes of various financial instruments traded across the EU is key to achieving this objective.

Transparent markets drive competition and capital formation, allowing for more efficient price discovery, more effective allocation of capital and investments, reducing transaction cost and enhancing liquidity. Academic evidence has demonstrated that transparency benefits all types of investors, from retail to large institutional investors. With the recently completed review of the Markets in Financial Instruments Regulation (MiFIR), the EU is finally getting closer to reaching that goal and the upcoming establishment of consolidated tapes in four key asset classes – bonds, shares, ETFs and derivatives – is a very welcome and long overdue development.

There are multiple benefits of a well-tailored consolidated tape. Providing market participants with an affordable and aggregated view of capital market activity empowers all investors to make more informed investment decisions. The real-time publication of comprehensive transaction price and volume data at a low cost via the consolidated tape removes information asymmetries and creates a more level playing field among market participants. By enabling investors to compare accurate data on the prices they receive from liquidity providers with concurrent trading activity across the market, a consolidated tape will promote price competition and facilitate entry to the market of new liquidity providers. It will also facilitate more accurate assessments of execution quality by providing a neutral and reliable source of trading activity and pricing for the purpose of transaction cost, risk management, and best execution analysis.

By providing a consistent set of standards regarding data submission, a well-functioning consolidated tape should also help solve the conundrum of data quality that has been long causing headaches for various stakeholders. Ultimately, the information value and usability of the consolidated tape will be a function of the quality of the data it receives.

Overall, the key defining criteria for determining the true value of the consolidated tape will be the delivery of data to the market in a timely fashion, the quality of data, market coverage and overall costs for market participants. As a bonus, the comprehensive data flows will inform academics and policymakers when they assess possible changes to the regulatory regime in the future.

In addition to improving the overall trading environment for market participants, the consolidated tape also has more macro-level implications. It enhances market resilience by ensuring

that changes in supply and demand are more efficiently reflected in current price levels, and as such decreases the likelihood of investors pulling back from the markets during times of volatility.

Finally, a consolidated tape promises to strengthen European capital markets by enhancing investor confidence and access to liquidity, which will ultimately result in stronger and more liquid capital markets that promote capital formation, job creation and economic growth.

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Building competitive and attractive European capital markets is a long-term and complex process. With dynamically moving markets and a challenging geopolitical environment, a critical part of ensuring European markets' competitiveness is creating a forward-looking regulatory framework that facilitates active involvement by international participants, allowing EU markets to remain open and integrated in the global financial ecosystem.