# CMU ACTION PLAN IMPLEMENTATION

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## More “capital markets” is a prerequisite for a successful Capital Markets Union

European capital markets played their role in keeping afloat the economy during the sanitary crisis. Bonds markets, especially, turned out to be the linchpin of our funding scheme to weather the crisis. They functioned well and lent massively to both private businesses and public authorities, thus funding public recovery programs.

Short-term debt markets experienced more difficulties as liquidity suddenly withdrew in March 2020: the ongoing FSB workstream on money market funds has rightly underlined the issue. Deeper short-term debt markets would actually help financial stability in the European Union and the funding of European corporates.

Now that the sanitary background is – hopefully – gradually improving, it is time for equity markets to prove their ability to fund the economic recovery. The relaunch of the Capital Markets Union (CMU) should be seen for what it is now: the second pillar of our recovery strategy together with the Next Generation EU plan. Indeed, this historic European public stimulus package will fully bear its fruits with a symmetrical mobilisation of European equity markets.

Over the longer run, rebooting the Capital Markets Union is also crucial to meet more structural needs while the EU economy remains much dependent on bank lending. Increasing the part of the debt and equity financial markets in the total funding mix will reduce the concentration of systematic risk linked to purely bank-based financial systems. Developing deep and liquid equity markets will turn out to be more suited to fund tomorrow’s innovative sectors based on intangible capital. Kick-starting the sustainable finance will prove to be one of our main levers to foster the green economy.

**Now we have to maintain a strong political momentum.**

Against this backdrop, the publication of the Commission’s plan for the Capital Markets Union in September 2020 was much awaited. The plan largely stems from the reports drawn up by the High Level Forum set up by the Commission in 2020 and chaired by Thomas Wieser and by the Next CMU working party set up by the Finance Ministers of the Netherlands, Germany and France in 2019 and chaired by Fabrice Demarigny. It relies thus on a coherent strategy and its priorities are better defined as it sets out a shorter list of well-defined actions.

France has always seen the Capital Markets Union as a strong priority for the European economic and financial agenda and is a strong advocate for an ambitious approach to boost the implementation of the Commission’s new plan and for a clear prioritization among the 16 actions the Commission has put forward. Last December’s Ecofin conclusions met that goal. Similarly, the Commission has carried out a comprehensive work to define a dashboard of key performance indicators, so as to facilitate a closer monitoring process at the political level.

Now we have to maintain a strong political momentum. The French Presidency of the EU Council, starting next January, will dedicate efforts to foster an ambitious delivering strategy, based on some priorities.

As financing both the economic recovery and the ecological transition will require massive amounts of equity to be raised, priority should be given to actions enabling equity markets to grow further. The review of the Solvency II directive constitutes in this regard an opportunity to direct more of European savings to capital markets, notably equity markets. The current framework – though improved by the 2018 technical review – still disincentives the insurance industry to invest in equity.

It is now time to act decisively to solve the issue, for the benefit of the European economy. Similarly, significant progress in the development of equity markets, notably European private equity markets, should be a priority when reviewing the ELTIF regulation.

Once more, it is only with deeper, more easily accessible and more competitive capital markets that the European Union will be able to fund both the economic recovery and its environmental as well as digital transformation. This will require to pay due attention when reviewing the MIF framework, as well as the Capital Requirements framework for banks, notably for their market activities.

SEBASTIAN THOMASIUS

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# Stepping up work to advance the Capital Markets Union further

Enhancing the access to finance and facilitating investments are key elements to achieve a single market for capital across the EU to the benefit of European citizens, businesses and investors. Progress towards a genuine Capital Markets Union (CMU) and well-functioning European capital markets have become more important due to the COVID-19 pandemic and the withdrawal of the United Kingdom which entails that the largest capital market in Europe is located outside the Union. The CMU will also facilitate the ongoing transition towards a digital and sustainable economy. Against this backdrop, work on the Capital Markets Recovery Package and Council Conclusions on the new CMU Action Plan were a key priority of the German Presidency of the Council in the field of financial services.

In December 2020, the Council agreed on conclusion to give political steering for future work and set out its priorities with regard to the measures outlined in the new CMU action plan by the European Commission.

Highest priority was given to measures, that improve the funding of the economy and particularly of SMEs and support a swift economic recovery in the context of COVID-19 pandemic (e.g., facilitating access to financing on capital markets, creating a single access point to company data for investors, supporting long-term investments), and to measures important for mobilising private capital (e.g. enhancing financial literacy and enhancing data availability and transparency). These should be followed by measures that are deemed to be of major importance for progressing towards a more vibrant and globally competitive capital market in the short and medium term (e.g. enhancing the cross-border activities of post-trading infrastructures and settlement and on promoting further supervisory convergence and work towards a more harmonised legal framework).

These individual measures will already significantly contribute to the deepening of the CMU. However, it is evident that other important measures related to withholding tax relief procedures for cross-border investments or the convergence of the outcomes of insolvency procedures are more complex and time-consuming. Thus, the Council has encouraged the Commission to work on these medium-term topics as well.

**Deepening the CMU will be an ongoing endeavor - also beyond the current institutional cycle.**

The Council has recognized that, despite the measures taken so far, further steps are needed and that making swift and tangible progress has become more urgent than ever.

Also the European Parliament has called for further steps improving the access to capital markets and enabling retail participation with its resolution on the CMU from October 2020.

In light of this, it is welcomed that the Commission – within the next months – will propose a European Single Access Point (ESAP) for financial and non-financial information already publicly disclosed by companies and review the rules for European Long-term Investment Funds (ELTIFs), the securitisation framework, the rules applicable to listed companies as well as the Central Securities Depositories Regulation (CSDR). With regard to the retail investment strategy announced for 2022, it is also very positive that the Commission has already conducted a respective public consultation to gather stakeholder's views on possible improvements that could also contribute to the deepening of the CMU.

The Commission and both co-legislators have intensive and busy months ahead of them. The commitment of both the European Parliament and the Council to advance the CMU will facilitate the implementation of the new CMU action plan.

In any case, the deepening of the CMU has been and will be an ongoing longer-term endeavour beyond the current institutional cycle. It will be key to assess the progress achieved on a regular basis. Although the identification of a causal relationship between individual CMU measures and key progress indicators will be challenging, the toolkit for monitoring progress published by the Commission will be a helpful first starting point.

STÉPHANE BOUJNAH
Chief Executive Officer and Chairman of the Managing Board, Euronext

# As any European integration project, CMU needs determination and focus

Euronext has a unique perspective on capital markets in Europe. In 2000, Euronext was formed as a result of a three-way merger of the Amsterdam, Brussels and Paris exchanges. The Portuguese exchange joined Euronext in 2002. In recent years, the ambition of the Euronext founders to bring European markets together has further materialized with the integration of the Irish Stock Exchange in 2018, Oslo Børs VPS in 2019, VP Securities, the CSD of Denmark, in 2020, and the Borsa Italiana Group in 2021. For the first time, market infrastructures in eight countries in Europe, accounting for almost 40% of the EU population and 46% of the EU GDP, are operated within a common pan-European company managed through a federal governance model. Making CMU a reality is core to the Euronext's DNA.

However, more than any other European initiative, CMU suffers from a discrepancy between stated ambitions and results. Policymakers, supervisors and business leaders regularly proclaim their support for greater integration of capital markets in the European Union. Yet, when the time comes for action, many important initiatives have been held back. To really move forward, I would argue for two priorities.

First, the EU should facilitate the consolidation of European integrated companies. Europe needs strong integrated financial players to compete with global financial institutions. Promoting European integrated companies delivers tangible benefits not only in terms of better financing of the real economy in Europe, but also contributes to the European Commission's objective of strengthening the strategic autonomy of the EU. The EU must strive to support the European architects of European finance rather than reinforcing non-European institutions at every turn. This strategic autonomy ambition is not incompatible with the preservation of a transparent, open and competitive environment based on a level playing field. This strategic autonomy ambition in the finance sector must be underpinned by a systematic "competitiveness test" to assess, ex-ante ahead of their tabling, whether proposed rules will strengthen or weaken European financial institutions.

**In building the CMU, the EU must avoid the risk of being precisely wrong rather than roughly correct.**

For market infrastructure, this ambition must be supported by a strengthening of ESMA's current supervisory powers to foster supervisory convergence. Today, there are still too many differences between Member States in respect of the market models they are prepared to authorise. This is problematic given that investor flows are increasingly cross-border within a CMU context.

The second priority for the EU is to change the way we have added layer upon layer of regulations and reporting obligations. European citizens and companies love Europe when it makes their life simpler, not when it makes it more complicated. Unfortunately, from a regulatory point of view, the EU has been, when it comes to building CMU, quite often precisely wrong rather than roughly correct. We have stacked a large number of measures, sometimes of an excessively technical nature with a multitude of additional obligations, without tackling the key bottlenecks.

Delivering on the simplification ambition of the European Commission is key to making the new CMU a success. Before proposing new rules, there must be a systematic assessment of what works and what does not work in MiFID II, MAR, Prospectus, PRIIPS, Solvency 2, CSDR and other legislations that have transformed markets over the past few years. Improving the legislative process to make it faster and more efficient will also be critical. This is all the more the case if we want to prove that the EU is agile and determined enough to react to competitive changes, especially from the UK in a post-Brexit environment.

We should focus on a couple of big systemic priorities rather than multiplying super complex measures and reporting obligations with less ambition. One of the bottlenecks that should be addressed first is insolvency legislation. The divergences in the balance between creditor and investor rights across EU countries is one of the biggest impediments to the unleashing of the CMU potential. And the differences in the fundamental legal traditions are not insurmountable. In the recent years and months, the EU has overcome much bigger challenges.

To be transformed into another real and substantial European success, the CMU needs more courage and more focus by all stakeholders.

FRANCESCO CECCATO
Chief Executive Officer, Barclays Europe

# Time for ambitious reform to deliver enhanced European capital markets

The value of well-functioning capital markets was never more obvious than during the pandemic, not just in Europe, but across the world. Capital market access has been essential to corporates, sovereigns and investors to source liquidity and capital, and manage risks.

The latest CMU action plan, which aims to support the recovery from the pandemic and the transition to a digital and sustainable economy consistent with the Green Deal, has real purpose and can become a major pillar of economic prosperity in future. In addition, an appropriate balance between different sources of finance will help de-risk the European economy in times of stress, supporting financial stability. The objective of furthering sustainable capital markets is a particularly important one for us at Barclays, in addition to supporting the green transition through our own balance sheet.

According to an excellent paper by the Bank of International Settlements[1], capital markets can be enhanced (inter alia) by developing strong investor protections and clear frameworks of regulation, both of which are already within the scope of what existing EU frameworks seek to achieve. In addition, the paper cites the development of a strong institutional investor base, which is also key to holding issuers accountable, and the ability to access relevant derivatives markets as crucial.

For a European capital market to provide the right depth and liquidity to really perform the role intended, more than the incremental changes included in CMU's 33 initiatives will be required. Some areas which could be "quick wins" include:

Securitisation as a specific market needs to be addressed. In 2008, the size of the European securitisation market, including the United Kingdom, was 75% that of the US. In 2020, it was just 6%. While the US market has tripled, the European market is now three times smaller than it was in 2008. I'm pleased to see that the Commission has opened a consultation on the securitisation rules and you will find suggestions elsewhere in this magazine for the types of reforms that could help.

The Commission is due to come forward with proposals to revise both CRR and MiFIR in the coming months, both of which will have a major impact on banks' capital market activities. CRR will determine whether we can put our capital to work supporting economic activity or whether banks will continue to shrink to meet a further increase in requirements. With MiFIR, there is a real opportunity to introduce a consolidated tape to provide meaningful information to investors across a range of venues. Greater procedural flexibility in our rule-making is required, specifically an ability to provide latitude to capital markets operators where this is urgently required.

**Rallying Member States around a unifying principle could act as a powerful driver.**

At the time of writing, the industry is still faced with an implementation date of February 2022 for the CSDR mandatory buy-in regime, despite an almost universal agreement that the rules need to be revised. There are other examples of this type of situation, and the supervisors need the tools to be able to deal with such scenarios in order to contribute positively to the development of European markets. Despite such positive steps, which themselves will be arduous to achieve given the complexities in consensus building for European initiatives, policymakers should consider whether yet more could be achieved by rallying Member States around a unifying principle which could act as a powerful driver of a truly European capital market. Ideas worth considering include a dominant legal framework for capital markets issuance; promoting asset-based capital markets hubs to improve liquidity within a given asset class; and designating a European instrument as a benchmark for a Euro risk-free rate (e.g. the NGEU bond programme), potentially in conjunction with LIBOR transition.

As a European, I believe that a true Capital Markets Union is worth developing, for all the reasons stated above. While not wanting to dismiss shorter term initiatives, we should guard against this ambition being diluted to an "umbrella term". Rather, we should find a fulcrum on which to concentrate our energies, creating a deep and vibrant source of funding and capital, which will be vital for sustainable economic development.

*[1] https://www.bis.org/publ/cgfs62.pdf*

CHRISTIAN STAUB

Managing Director Europe, Fidelity International

# Consumer advice must go digital for the CMU to succeed

Covid-19 has turned our analogue world into a digital one. Meetings have been swapped for video calls and shop windows have been replaced by iPads. The pandemic has also reshaped our behaviour towards our money. On average, people spent less and saved more in 2020, with some of that excess making its way into capital markets.

Europe now has an opportunity to capitalise on this behavioural shift.

**What the numbers say**

Last year belonged to the retail investor. Retail investment portfolios, representing 41 per cent of global assets at $42 trillion, grew by 11 per cent in 2020, according to a study by BCG. In Europe, assets grew by 10 per cent, outpacing the 10-year average.

Unusually for a year that experienced a severe market crash, retail investors were the main driver of net new inflows. The BCG report found that they contributed 4.4 per cent in 2020 to the growing asset pile, twice the size of the contribution made by institutional investors, at 2.2 per cent.

As with shopping and office work, the customer experience of the retail investor is going digital. One-third of firms are using digital distribution capabilities with up to 75 per cent of their clients, according to BCG.

As these numbers grow, the EU has a singular and unique opportunity to turn the digitisation of financial services into a force for their democratisation.

**Digitising consumer advice**

By recasting the concept of 'advice' in MiFID, it will be possible to unlock a range of personalised digital services for retail savers to use as they grow in confidence and financial health.

For example, we know that advised consumers benefit from prompts that highlight the risks associated with investing in only one type of asset or two correlated assets. Or from prompts that draw a consumer's attention to alternative products or to more tax-efficient choices.

These small but significant prompts are easy to deliver online (indeed, they are already part of the online shopping experience outside investments) but are not available to retail investors without triggering the regulatory requirements of full MiFID 'investment advice'.

> **Updating the concept of 'advice' in MiFID will unlock digital services to engage and empower savers.**

For the moment, then, personalised recommendations are the privilege of those who both understand the importance of advice and can afford the time and cost to seek it out in person.

And this has real-world implication: according to an EY survey of around 2,000 middle-income savers, 51 per cent do not feel that paid-for financial support is for them, while just under a third (32 per cent) feel they do need it.

**Reducing friction**

As the CMU looks to the online world specifically to boost 'retail participation' in capital markets, MiFID needs to keep pace by designing rules of consumer engagement capable of converting digital insight into digital advice. For example, improved data-sharing policies, such as the CMU's pensions tracker and Open Finance initiatives, will be of little use if they help consumers see where they are over- or -under-invested but offer no recommendation by way of a next step.

MiFID review must therefore proceed ambitiously and in line with the CMU's wider aspirations. It must begin by identifying the right tools and services needed to empower digital consumers, and then proceed by enabling these services in legislation. It must not make the mistake of simply tweaking face-to-face advice rules in the hope of giving them digital appeal. To paraphrase Henry T. Ford, MiFID needs to offer EU citizens cars not 'faster horses' as they journey towards better financial health.

Investing in capital markets takes both trust and knowledge: trust that the money foregone today will bring greater security and wealth tomorrow, and knowledge to do so in a way that meets an appropriate risk appetite and need for diversification. However, compared to the relatively low friction decisions of spending money or leaving it in a bank account, making an investment continues to be a high friction experience for too many consumers.

Retail investment policy needs to find a better balance between its existing investor protection mindset and an emerging investor empowerment agenda in general. In the meantime, distribution policy reform should at least seek to remove friction where it can.