OPEN STRATEGIC AUTONOMY: IMPLICATIONS FOR FINANCE

EMMANUEL MOULIN

Director General of the Treasury - Ministry of the Economy, Finance and the Recovery Plan, France

European financial autonomy after and beyond Brexit

With Brexit, the European Union de facto lost its main financial center. It raised again the question of our financial autonomy, in particular when it came to market-related activities. We all became aware of the need to reduce our dependence vis-à-vis external players, in other words to develop the financial centers of the European continent.

I believe that we have made some progress in this regard. European equity trading has been massively relocated within the block. Our clearing business is gaining market share. The relocation of financial institutions and staff has also been significant: almost half of London-based financial services firms have moved or plan to move some operations and staff to the European Union since the Referendum. We see an original model taking shape in the European Union with several integrated financial centers, each with its own specificities and comparative advantages.

That being said, the issue of European autonomy in financial services extends far beyond Brexit. We must not lose sight of the essential. The real challenge is whether our financial system is agile and powerful enough to back our most promising entrepreneurs and businesses, to invest in the rest of the world, to deliver strong returns to savers and to remain at the frontier of innovation. From this point of view, the current situation is not fully satisfactory. We are yet to build a European financial system up to the task of financing the twin green and digital transitions.

Indeed, we have a formidable stock of financial savings which still does not sufficiently finance the productive economy. For example, too many innovative European companies still rely massively on American capital for growth financing, whether for late-stage funding rounds or initial public offerings. Only 28% of investors in the top 20 European growth companies are Europeans. There is still ample room for the Capital Markets Union to support the development of European financial markets, which is why we adopted and strongly support the Capital Markets Union action plan.

The challenge is whether our financial system is agile enough to back our best entrepreneurs.

How can we further increase our autonomy in matters relating to financial services? I see three important directions. First, there is an issue around data. To be attractive and efficient, a market requires easy access to information by current and prospective market participants at a reasonable cost. Our data ecosystem remains heavily reliant of non-EU players. This is why the new Capital Markets Union package, which we are starting to negotiate under the French presidency, foresees to implement two centralised data platforms: a database consolidating financial and ESG data published by European companies and a consolidated tape for each of the main asset classes aggregating in real time financial transactions carried out across European trading venues.

Second, there is an issue around investment tools available to savers. Expectations of younger generations are high in terms of transparency, ease of use and access to financial products. New behaviours are emerging with the development of online applications. I strongly believe in the power of financial education to improve capital allocation. We expect the upcoming Retail Investor Strategy to trigger a positive dynamic from that respect. Besides, with the ongoing revision of the ELTIF regulation, we intend to facilitate the emergence of pan-European funds easily accessible to retail investors to allocate more capital to real assets including critical infrastructure for the green transition.

Finally, there is an issue around regulations which must encourage innovation and integration. The banking and insurance sectors must be able to fully play their role in financing the European economy. European banks keep losing market shares to international peers and are 4x less profitable than their US competitors. We need more innovation, integration and digitization in this sector. A balanced transposition of Basel III will be essential. Similarly, the revision of Solvency II should allow insurers to allocate a larger portion of their balance sheet to equities.

Last but not least, our financial landscape is being disrupted by digital technology. To further strengthen the position of the EU as a breeding ground for FinTech, we will soon adopt a "pilot regime" which creates a sandbox to test and develop blockchain-based applications. We send a strong signal about our willingness to make Europe a place where digital transformation is encouraged and used to improve the financing of the economy. In addition, the creation of a digital euro will contribute to the euro area sovereignty and leadership in digital payments.

A strong, autonomous financial system is key to the prosperity of the EU economy but also for its influence throughout the world. In this perspective, we have to ensure that we give priority to three objectives that are the development of strong EU-based financial actors, the deepening of EU capital markets and the ability to attract foreign investments.

JOHN BERRIGAN
Director General, DG for Financial Stability, Financial Services and Capital Markets Union, European Commission

Financial openness and autonomy: rising to the challenges of a multipolar world

Does the EU's financial autonomy need reinforcing and if so for which reasons?

The introduction of the euro, combined with important reforms spearheaded in the aftermath of the last financial crisis, means that the EU has a large, sophisticated and stable financial system, much safer and better supervised now than it was ten years ago.

It is also very open internationally, with strong links to other major economies and financial markets, most notably in the United States and the United Kingdom. Several EU banks and other financial companies are global players, and third-country financial institutions and markets provide important services in the EU through subsidiaries, branches or from their home countries under the equivalence regime. Above all, our openness has spurred greater competition and innovation of financial products and services, as well as access to a broader set of investment opportunities and capital.

We firmly believe that openness is an advantage for the EU, and we do not want to retreat from that. However, there is a need to reinforce the EU's strategic autonomy by addressing some vulnerabilities linked to that enduring commitment to openness.

The global geopolitical situation and the EU financial landscape have dramatically changed in the last years, and we need to take action in order to continue to reap the benefits of our openness and mitigate any associated risks. For example:

- The departure of the United Kingdom from the EU has meant that London, once the EU's largest financial centre, is now offshore. This situation implies financial-stability risks for the EU, as some critical services and products are now subject to a third-country jurisdiction and outside the framework of EU co-ordination. It cannot be assumed that the needs of the EU and the United Kingdom will always be aligned in all circumstances.
- We have witnessed increasing departures from international multilateralism. By imposing sanctions and restrictions related the use of their currencies or access to their markets, third countries can have extra-territorial impact and thereby diminish the sovereignty of, and potentially causing economic damages to, the EU.

> We need to take action in order to continue to reap the benefits of our openness and mitigate any associated risks.

What is the degree of financial autonomy possible in a world where the dollar is the international benchmark currency and dollar liquidity is the key to financial stability?

We are aware that the US dollar is the international benchmark currency, and dollar liquidity is key to financial stability. However, the euro is the second most used currency, and there is room for further strengthening its position. By doing so, the EU can not only strengthen the global monetary system, but also benefit from lower cross-border transaction and funding costs. Moreover, it may reduce funding and investment needs in non-EU currencies, thereby lowering reliance on foreign-currency funding.

This gradual process will depend on many factors, including on changing market practices (e.g. commodities pricing and cross-border invoicing), and on further developing EU capital markets. We are on a good track in this respect, and the issuance of NGEU bonds, or some reforms to our securities markets regulation have given a further boost to the euro in the international arena.

How does the European Commission's "Open strategic autonomy" agenda translate in the financial sector?

The financial sector is a key area in which open strategic autonomy can be ensured. The euro is not the only means through which the EU can achieve greater financial sector autonomy.

We need to complete the Banking Union and advance on the Capital Markets Union in order to increase the attractiveness of our financial institutions and markets and to widen financing and investment opportunities for businesses and individuals.

Moreover, we need to strengthen our financial-market infrastructures and create the conditions for building onshore capacity to provide critical financial services. With a view to discouraging third-country measures that interfere with EU legitimate business, we are also reviewing the Blocking Statute regulation. We are considering the establishment of mechanisms that could facilitate financial transactions and trade with third countries in case of market failures.

FLORIAN TONCAR

Parliamentary State Secretary - Federal Ministry of Finance, Germany

Enabling European financial markets fosters the Union's autonomy

Fundamentally, "open strategic autonomy" encompasses the Union's freedom to act sovereignly and independently on the world stage: as advocate of a rules-based multilateral system, defendant of a resilient and open global economy, and supporter of well-functioning financial markets.

Macro-economic stability is a crucial prerequisite for such sovereignty. This entails not only growth, – supported by investments in the green and digital transition – fiscal sustainability as well as price and financial stability, but also the ability of governments to act in times of crisis, which requires building fiscal buffers in economically good times. But while stable macro-economic conditions are necessary, they are by themselves not sufficient. To maintain the EU's financial sovereignty, we need to ensure that European financial markets are resilient, dynamic and well-integrated. In this, it is vital that policy makers set the right framework to enable a flourishing financial market ecosystem. Strong, innovative and resilient European banks, insurances and asset managers as well as central-counterparties, payment providers, stock exchanges and FinTechs – all have an important role in mantaining Europe's financial autonomy.

Against this backdrop, we welcome the intention of the French Presidency of the Council to focus on the EU's economic and financial strategic autonomy and work on respective Council Conclusion. The Council can build on important work of the Commission which has set out its vision with a set of important policy goals for financial markets last year:

i) strengthening the international role of the Euro,
ii) deepening the European Capital Markets Union, ensuring the strategic resilience of financial markets infrastructure
iii) enhancing the Union's ability to shield the functioning of financial markets infrastructure from unlawful extra-territorial application of unilateral sanctions. [This was put into perspective in the 2021 Strategic Foresight Report.]

The international role of the euro is first and foremost determined by the strength and the stability of the economic and monetary union. Strengthening the Euro therefore means strengthening the EMU. We will continue our stabilisation efforts to recover strongly from the pandemic-induced crisis and aim to create momentum for an even more resilient Union in the future.

> **We need to ensure that European financial markets are resilient, dynamic and well-integrated.**

However, a strong currency in the international arena also depends on the stability and depth of the EU's financial sector and the international position of European economic and financial players. We are pursuing this goal with a multitude of initiatives.

A broadly usable digital Euro, would act as a visible sign of European sovereignty and strengthen the international role of the Euro. However, such an ambitious project could only be successful when Member States are adequately involved from the very beginning.

With the Capital Markets Recovery Package, we introduced changes needed to develop euro-denominated derivatives for energy and raw materials. Moreover, the euro is on a path to become the default currency for the denomination of sustainable financial products in line with the EU's development as the prime global hub for green finance and the world's largest carbon market.

With the European Capital Markets Union project, we will deepen and further integrate financial markets, supporting the financing of the real economy while increasing markets' resilience to shocks. The large amounts of derivatives, including contracts denominated in euro, that are currently cleared outside the EU show a high exposure of EU market particpants and raise financial-stability concerns for the EU. It is therefore of strategic importance for the EU to enlarge the clearing base in the EU in order to increase liquidity in EU CCPs and to make clearing in the EU more attractive to reduce its exposure to offshore clearing.

To further protect financial market infrastructure, the Commission has proposed several measures, such as creating a sanctions database or a system for anonymous reporting of sanctions' evasion. These proposals seem generally viable to strengthen the coherent implementation and enforcement of EU sanctions, but need to be elaborated further. In this regard it is crucial that Member State's competences in sanctions implementation would not be weakened.

These ambitions will not only increase the EU's financial autonomy by strengthening European financial markets. They will also have the potential to shape foreward-looking and rules-based policy internationally, known as the "Brussels Effect" - itself evidence of Europe's capacity to act open, strategically and autonomous on the global stage.

MARKUS
FERBER

MEP - Committee on Economic and Monetary Affairs, European Parliament

Gaining financial autonomy through increased competitiveness

In many aspects, Brexit has been quite the disaster for the British people and the British economy. Despite this, the most liquid and most highly developed capital market in Europe remains London. While some business has moved over to Paris, Frankfurt, Amsterdam and other European financial centres, the financial services ecosystem in place in London that consists of significantly more than just a share-trading venue remains mostly unchallenged.

The European Commission has voiced the aspiration for the European Union to achieve a status of 'strategic autonomy'. If the European Union wants to play in the international Champions League, it needs the financial system to match this aspiration. What needs to be done to get there? Apart from some structural factors such as a stable currency, a reliable banking system and overall macroeconomic stability, there are three steps to take that would get the European Union onto a sensible road.

Firstly, completing the Capital Markets Union: The Capital Markets Union has long been one of the European Commission's flagship projects, yet progress remains painstakingly slow. There is no lack of good ideas, but rather a lack of meaningful execution. The Commission's latest CMU package that revises certain aspects of MiFIR, AIFMD, ELTIF and introduces a European Single Access Point for company data is certainly a step in the right direction, but only a modest one. Once again, the big-ticket items such as a harmonisation of insolvency law and a further harmonisation of taxation rules are missing. Without these key aspects, that are famously difficult to resolve in the Council, the Capital Markets Union and thereby the integration of European capital markets will remain incomplete.

Secondly, repatriating crucial services such as Euroclearing to the European Union: While the European Commission has been hesitant to grant any equivalence status to the United Kingdom, there is one area that is noticeably different: clearing. Many European businesses make good and frequent use of the services of UK CCPs. For that reason, the European Commission has clearly been hesitant to enforce the relocation of clearing business to the Union. While cancelling the equivalence decision might come with financial stability risks, extending the equivalence status time and time again, certainly does not provide any incentives to moving clearing business into the Union, either.

The Union's attractiveness as a financial centre depends on its competitiveness.

If the end goal is to build a strong European financial services infrastructure along the entire value chain, the Commission needs to step up its game and tie the next equivalence decision to a firm and credible deadline for when European clearing business is expected to move back to the continent. Particularly when it comes to the sensitive matter of the clearing of euro-denominated derivatives, this is ultimately also a question of financial stability for the European Union.

Thirdly, revise European listing rules: The best financial markets infrastructure is worth little if there is no demand to make use of it. The European financing model is still heavily skewed towards bank financing. Too few European companies go public and if they do, they often chose venues outside of Europe. That is of course an unsatisfying finding and indicates that European venues are less attractive than their international competitors.

Consequently, we need to consider whether European listing rules are indeed fit for purpose. The United Kingdom has done just that with the listings review performed by Lord Hill. The review has come up with some noteworthy recommendations such as lowering the disclosure requirements for subsequent financing rounds, recommendations on dual-class share structures and the free float requirement. Such changes can be understood as an attempt by the UK to snatch away business from European venues by offering more flexible and more attractive listing rules.

In order to remain competitive, the European Union would be well-advised to take a close look at those recommendations for the next iteration of the prospectus directive.

The example of the listing rules illustrates a bigger point though: ultimately, the Union's attractiveness as a financial centre depends on its competitiveness. The more competitive the EU's financial centres are, the bigger our strategic and financial autonomy. Fortunately, increasing the EU's competitiveness in financial services is firmly in our own hands and we should make good use of that opportunity. The three steps outlined above could be a starting point.

STÉPHANE BOUJNAH

Chief Executive Officer and Chairman of the Managing Board - Euronext

From finance takers to finance makers

The concept of strategic autonomy has emerged as a key policy objective of the EU to protect the European way of life. Initially limited to defence and security issues, the concept of strategic autonomy has found echoes in all EU policies.

In the area of finance, Brexit was the trigger for this growing awareness and has highlighted a fundamental question: can our continent be satisfied with being an importer of financial services developed and produced outside the EU or should it build some form of strategic autonomy in finance?

When the main financial centre of the EU was London, the status quo was both comfortable and inevitable. The situation has changed dramatically with Brexit. The EU depends on – and should remain open to – global capital but can no longer rely massively on intermediation which has also become non-European. We must all respect Brexit, but Europeans cannot accept in resignation the excessive dependence on third countries that it has engendered in critical areas such as derivatives, FX trading, clearing and asset management.

Building European strategic autonomy in finance means improving the competitiveness of EU capital markets, promoting a CMU based on European champions and a decentralized model as well as reducing our dependency on third countries by strengthening our EU capacities.

The EU is the home of leading companies in the areas of insurance, asset management, banking and market infrastructure. This rich ecosystem must be supported by legislation that allows it to compete on a level playing field. The European Commission must put in a place a systematic "competitiveness test" to focus, before introducing new rules, on whether such new rules will weaken or strengthen European companies. Attention to unwanted consequences must increase. The recent proposal to create a consolidated tape via MiFIR is a striking example of a form of unilateral disarmament of the EU for the benefit of non-European actors.

Simplification must also be an overarching principle of our strategy. Euronext is supporting several proposals to simplify rules via the proposed European Listing Act. To build an integrated primary market for equities, the Prospectus Regulation should be amended urgently to ensure its unified application across Europe to create a proper single European prospectus. This will be critical to accelerate the transfer of substance triggered by Brexit on international IPOS. Since 2021, a significant number of international companies have chosen to go public on Euronext in the EU, while in a pre-Brexit world, these companies might have otherwise considered London. This is the case of the Spanish Allfunds, the Polish Inpost, the Universal Music group, originally from the United States, the Franco-British investment fund Antin IP which all have chosen the Euronext markets to go public.

It is up to the European companies to concretely build the strategic autonomy of the EU.

There is a European momentum, with the gradual replacement of a single financial centre, the City, by a group of more specialized, deeply interconnected and fully integrated financial markets. Operating across eight countries in the Single Market, Euronext has a long track record of building a pan-European federal model connecting local economies to global markets. This European decentralized model will have to be supported by further initiatives to promote supervisory convergence at the EU level.

But it is up to European companies to concretely build the strategic autonomy of the EU. As part of its new strategic plan "Growth for Impact 2024", Euronext has taken two major decisions in that perspective.

Euronext is so far the only significant market infrastructure that does not directly manage its clearing activities, which are operated by a company controlled by the London Stock Exchange Group. Since April 2021, with the acquisition of Borsa Italiana Group, which operates CC&G, the Italian clearing house, Euronext now has 100% control of a multi-asset clearing house. Euronext has therefore decided to transform CC&G, into "Euronext Clearing", to offer clearing services to all European Euronext markets.

The impact of this development for European strategic autonomy is significant. The ultimate decision-making centre and the definition of the Euronext flow clearing strategy, as well as the development in the coming years of the associated technology will be transferred from a UK-headquartered Group to the EU.

Similarly, Euronext has decided to move its main data centre from Basildon, near London, to Bergamo, in Italy. This decision stems from a strategic, operational and financial logic. In the post-Brexit world, Euronext has chosen to relocate its main data centre in the EU.

These two examples, which, beyond Euronext and the market infrastructure sector, will surely be followed by others, illustrate the choice facing Europeans: supporting initiatives to build the strategic autonomy of the EU or seeking to preserve the status quo ante of a distribution model of global finance long considered immutable, but which belongs to the world of yesterday.

FABRIZIO CAMPELLI

Member of the Management Board – Corporate Bank and Investment Bank - Deutsche Bank Group

Strategic autonomy requires joint efforts

Achieving strategic autonomy is top of mind for every European policymaker right now, from those in the Commission to the Council and MEPs. At Deutsche Bank we too support EU Strategic Autonomy and the European Commission's efforts to strengthen our financial services sector.

This should mean lifting Europe's financial framework up to the level of our peers. More specifically, building a European banking sector that is more sustainably profitable, open and competitive, but no less stable. Banks must refocus their business models and further strengthen their balance sheets while bolstering their systems and infrastructure.

Strengthening European financial markets -- like addressing environmental issues and rolling out new data economy initiatives -- works best when there are the fewest possible geographical frictions. We should therefore strike the right balance and avoid "autonomy" being translated into ringfencing of activities.

However, European banks do not currently operate in an efficient Single Market for financial services. This is where policymakers can play a decisive role.

First of all, as Europe is still heavily dependent on bank funding, the impact of the final Basel III framework will not just be felt by banks, but also by clients. Originally, European finance ministers had issued a mandate for "no significant increase in capital demand". Even though the proposals from the European Commission provide relief for impacts, the vast majority of this is only temporary. European banks will therefore likely still see significant capital impacts in 2030.

With US regulators indicating a capital-neutral approach for US banks, there is a risk that European implementation in its current form may weaken the competitive position of European banks. This would undermine the strategic autonomy agenda.

Second, the Single Resolution Fund threatens to impede EU banks' ability to finance the transformation of European economies and to invest in their own future digital strategies. The SRF has grown beyond its initial target size – not because of additional risks in the banking sector, but because the methodology links the fund volume to deposits which have been inflated in an unusual way during the pandemic.

The right balance means avoiding "autonomy" being translated into ringfencing.

By now the fund has gathered bank contributions of more than 52 billion euros, and these funds are sitting unused rather than supporting the economic recovery. This limits the capacity of EU banks to lend and invest. It also places them at another competitive disadvantage: our non-European peers do not have to contribute to a national resolution scheme.

Third, we must complete both the Banking Union and the Capital Markets Union. A full Banking Union would strengthen individual institutions and enable much-needed consolidation, another requirement for keeping European banks globally competitive. A developed Capital Markets Union is vital to more effectively financing the recovery from Covid recovery and transformation of the economy.

The question therefore is not so much where Europe has its financial centre, or centres, but rather how to develop one rulebook, and no national divergences, so the EU can be really treated as one market. The sums needed are vast and the EU Green Deal, for instance, will not succeed without stronger European capital markets, complemented by appropriate local financial sector expertise.

Lastly, more generally, we would urge policymakers to avoid adding regulatory complexity to the European framework. The policy themes of the future do not fit into the traditional rulemaking boxes of "banking" or "insurance" any more. Instead, the policy areas of sustainability, data economy, new payment structures and digital assets will impact a wide array of institutions and corporates.

Regulatory proposals on these policy areas, which impact the financial sector among others, are now being developed across several policy units within the Commission, discussed in various Committees of the European Parliament and reviewed in various working groups of the Council. There is a risk that processes involving so many participants eventually produce standards that do not work in practice or achieve their intended goals. This again would place the EU as a whole at a disadvantage compared to jurisdictions that have a less complex policymaking setup, such as the US, the UK or parts of APAC.

Knowing that we have shared goals, we look forward to continuing working with policymakers on how to ensure a smooth regulatory implementation that enhances our capacity to finance the economy and the competitiveness of our home region.