EUROPEAN OPEN STRATEGIC AUTONOMY

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A new Banking Union for a truly autonomous European financial sector

The autonomy of the European banking sector has been at the center of public debate for many months now. However, this very discussion is often the subject of many misunderstandings. To address this issue, therefore, it is necessary to define precisely what we are talking about. I believe that autonomy must be assessed on the basis of the ability of the European banking system to efficiently and effectively support the real economy of the EU as a whole.

If we use this definition, it is clear that the situation in the EU is not good. European finance is still largely segmented along national lines, with savers and investors depending heavily on national banking systems. Data show that this phenomenon is predominant in all big Member States, with some difference for the smaller ones. In 2019, the market share of the top five US banks was 43% of domestic consolidated assets, compared with only 23% for the top five in Europe. Fewer than ten cross-border mergers and acquisitions' deals have been signed since 2014, compared with 180 domestic deals over the same period. A historic low.

This situation is having a serious impact on our banks and might have negative consequences in the medium and long run. The market share of the six major US investment banks in Europe towards their six major European competitors has increased from 44% to 58% in the last seven years. Larger groups are key in this historical phase of strong innovation. Since most of the investment in digital transformation are fixed, size is a decisive advantage.

The problem of nationwide fragmentation of the banking sector is not new on the European political agenda. The Banking Union was intended to be a response to this problem. Unfortunately, after a strong initial impulse having achieved an efficient first pillar, and an important but still improvable second pillar, Banking Union now lacks momentum and remains incomplete.

Why is the Banking Union important for tomorrow's challenges?

Why is the Banking Union project at a standstill? In my opinion, the main reason for this lack of progress lies in the fact that in the last 8 years the Banking Union project has changed its very nature. Its creation was a consequence to the sovereign debt crisis in Europe and its impact on the bank-sovereign nexus. The Banking Union was considered the necessary tool to break the link between banks and sovereigns. At that time, the main problem was the "too-big-to-fail", and that was the main obstacle to be removed in order to proceed with greater financial integration.

In a short time, however, the problems to be solved as a prerequisite to advance with the Banking Union project became others. First, a lot of attention has been devoted to NPLs, which led to an ad hoc roadmap by Member States, with a combination of legislative initiatives and enhanced supervision powers by the SSM. Once the NPL issue was sufficiently settled, we started talking about regulatory treatment of sovereign exposures. Curiously, breaking the link between sovereign and banks, that was the main aim of the Banking Union, becomes the pre-requisite to advance in the Banking Union. As this is a highly controversial issue, and with potential implications that would go well beyond the prudential perimeter, it has ended up being a boulder that has prevented any initiative towards greater banking integration.

In order to unblock the debate on the Banking Union we should address the issues from another angle. The question we must ask ourselves is perhaps: why is the Banking Union important for tomorrow's challenges?

Moving towards a true single banking market through cross-border restructuring is above all a matter of strategic autonomy. Genuine Pan-European banking groups could operate more effectively, raise their profitability thanks to scale effects and better face up to foreign competition, especially from the USA.

Moreover, Banking Union would decisively enhance private risk sharing within Europe. The political discussion remains primarily focused on public stabilization mechanisms, such as a possible common fiscal capacity. Let me stress that private stabilizers are important as well. Banking Union would enable, in conjunction with progress towards a CMU, a better channeling of our abundant savings toward the EU targets in terms of digitalization and green transformation of our economies.

How do we go about moving the Banking Union forward? I believe that all Member States should abandon the respective red lines, and should make an effort and identify new objectives that will make it possible to move towards greater financial autonomy for the Union. The roadmap endorsed by the Eurogroup in June, was an important step, because it allowed us to identify some priorities. However, it leaves open many issues. The same problems we had in advancing on the complete Banking Union project (risk sharing vs risk reduction, home vs host, ...) will recur in the reduced and less ambitious version proposed by the roadmap. We must proceed differently if we really want to be successful.

VITORIO GRILLI
Chairman of Italy & CIB EMEA - J.P. Morgan

The Banking Union and CMU as pillars for EU strategic resiliency

Well-functioning financial markets are key aspects of the overall Strategic Resilience of Europe. Especially now that the world is in a place of political and economic turmoil due to the ongoing war in Ukraine, post-pandemic recovery, a cost of living as well as a climate crisis, there is an increased need for stability at a time of uncertainty. EU Financial Resilience is a key aspect of ensuring that Europe stands ready to weather current and future storms.

From my perspective as former Finance Minister and a Member of the European Commission's CMU High-Level Forum, the completion of the Banking Union and CMU will be the key pillars to underpin financial resilience in the EU - although it is clear that the road to get there may be long.

The current status of the EU CMU project can be summed up along to following lines. The ambition is huge, and the potential is great. Strong capital markets help support the economy, reduce pressure on banks and complement bank lending, and create more long-term wealth for European households. And the potential benefits are obvious. The think tank New Financial estimates that significant progress towards the CMU could double the current levels of activity. Any such increase (or significant progress towards it) would significantly reduce the reliance of the EU economy on bank lending, drive innovation, and boost investment in jobs and growth.

As the Commission's CMU Indicator Dashboard shows, a lot of work has been done over the last years. A first phase of securitisation legislation is now implemented, and we are looking forward to improvements in the coming years. Other parts of the CMU are still coming down the pipeline. Good progress is being made on ELTIF, covered bonds and private pensions. The discussions around the ESAP, which will establish a European-wide company data registry system, are near completion, and we look forward to proposals on solvency reform later this year to help harmonise aspects of corporate insolvency procedures across Member States. We are also looking forward to the upcoming proposal for the EU Listing Act to improve access to capital for companies by making the listings of securities easier.

Still, there is no silver bullet that will deliver the CMU. Instead, the CMU will be a decades long project of patiently chipping away, whereby all the initiatives listed above will all be part of that journey. We hope the need for strategic resilience will help inject a greater sense of urgency and political momentum across the EU to develop bigger and better capital markets.

Well-functioning financial markets are key aspects of the overall Strategic Resilience of Europe.

At the same time, we need to ensure that Europe is stronger when it comes to the flow of capital across the Member States. This brings me to the second pillar of EU Financial Resilience – the Banking Union. Again, we have seen good progress achieved, especially the creation of the single supervisory and resolution mechanisms. The recent agreement to work on a proposal to strengthen rules for bank crisis management and national deposit guarantee schemes (CMDI) is a very welcome one. Although I know this is a highly political issue, I hope that EU policymakers will continue to press ahead in finding a common position. Delay is not helping us reach our joint goals.

A key aspect of EU resilience will be to remain open to international financial markets. The participation of global firms in the EU system brings added competition and market depth, to the benefit of EU clients. The involvement of firms such as J.P. Morgan in EU capital markets supports the EU's aspiration of US style capital market financing for the EU economy. For example: in 2020 one third of loan issuances to EEA clients were provided by non-EEA firms, split broadly between US, UK, and other banks; a 'healthy' mix. Importantly, non-EEA firm market share in syndicated lending was more-or-less stable between 2019 (36%) and 2020 (33%)Part of the concern about "reliance" on US banks relates to the incorrect perception that all non-EU banks retreat to their home markets in times of crisis.

J.P. Morgan is committed to the EU ad its businesses through all economic cycles. We increased lending by >20% during Covid in 2020. Additionally, we have recently completed the consolidation of our EU presence into a single legal entity, known as J.P. Morgan Societas Europaea (JPMSE), which operates a network comprising 14 branches across the EEA and the UK, making us among the top 20 ECB supervised banks with a total capital base of around €34 billion.

In short, we are present in Europe, spread over the continent, employing people and are here support the EU in its goals for resilience. Thank you to those of you who continue to push ahead on these aims. Together we can make a difference and make Europe stronger than it is today in the financial area.

EMMANUEL MOULIN

Director General of the Treasury - Ministry of the Economy, Finance and Industrial and Digital Sovereignty, France

A competitive financial sector is key to ensure autonomic strategy

Building a truly European strategic autonomy has been a political goal for the EU since 2020, and the concept is particularly relevant for the financial sector.

One, massive needs for financing are needed for the post-pandemic recovery, the transition to a green economy, and the need to support the digitization of economic actors.

Two, the European financial sector is currently undergoing massive changes such as the digitization of their business models, as well as an evolving competitive landscape.

Three, the EU itself is growing increasingly dependent on the external provision of some essential financial services. Accordingly, in April 2022, the Council adopted ambitious conclusions on European financial strategic autonomy, which covered, inter alia, considerations on the way forward to build a strong and competitive financial sector, while limiting risks arising from excessive reliance on third country institutions.

Our first priority is to build a more integrated financial sector. I believe that we have already made some progress in this regard. Under the French Presidency, the Council adopted its position on three of the four proposals made last November by the Commission as part of its Capital Markets Union package, which aim at supporting the development of attractive investment vehicles that are easily accessible to retail investors to allocate more capital to real assets, and at facilitating investors' access to information on companies all over Europe. From this perspective, the agreement on EU standards for non-financial reporting will support the EU's strategic autonomy agenda, as it will be fully adapted to EU companies' and investors' needs.

Moreover, in February, 18 Member States committed to implement the Scale-up Europe initiative, in order to develop 10 to 20 European funds active in the late-stage segment, including the European Tech Champions Initiative (ETCI), which will invest mainly in European technology companies. We also expect the upcoming Commission proposal for a "Listing Act" to foster attractiveness of public markets, which should make it easier for companies to raise funds.

> Financial strategic autonomy is key for Europe to meet its financing needs in the long-term.

Finally, we largely support the intention from the Commission to harmonize better insolvency proceedings in the Union, as it remains one of the key barriers to cross-border investments. However, without a genuine Banking Union, such actions will remain insufficient to achieve a fully integrated European financial sector. France has been supportive of the Eurogroup president's attempt to unlock political discussions on the matter, but to date, we have not been able to transcend national differences.

The second priority is to make sure that we build a strong and competitive European home-market for financial services, by ensuring its capacity to largely meet the European economy's financing needs. At Council level, discussions on the transposition of the Basel III accord into European law have been progressing fast, while an agreement was reached on Solvency II in June. I hope that the final agreements with the European Parliament on these texts will support the banking and insurance sectors' capacity to provide sufficient funds to the European economy. Moreover, a strong European home-market should limit its dependencies on third-country essential services, which could create financial stability risks in times of financial market disruption.

I look forward to the upcoming EMIR proposal, which should allow to build a more competitive clearing market in the EU. I also expect the advice from the EBA on the dependence of the EU economy on non EU banks to help policy makers address some of the vulnerabilities of the EU financial sector and identify policy priorities. In that regard, it is key for the funding of large European corporates to still be able to rely on large European investment and financing banks, as demonstrated during the Covid crisis.

Finally, **the third priority is to ensure the EU financial sector fully embraces the digital transformation,** which means the regulation should encourage innovation and digitization of the sector. Under the French Presidency, we have reached political agreement on MiCA, providing a framework for EU financial players providing crypto-assets services, and DORA, which will aim at mitigating the risks linked to the use of technology third-party providers. In addition, current initiatives on instant payments, open finance, digital euro and artificial intelligence should contribute to the EU leadership in this area and adequately accompany the digitization of financial players in the EU.

Financial strategic autonomy is key for Europe to meet its financing needs in the long-term and ensure the prosperity of its economy. To that end, completing the integration of European financial markets, supporting competitive and resilient financial markets, and encouraging the digitization of the sector are some of the main drivers to consider in order to ensure its success.

FRANCO PASSACANTANDO
Deputy Chairman – Euroclear S.A.

European financial autonomy: a means to an end

Successful financial markets are those that allow economic agents to diversify investment and borrowing opportunities, globally. Policies aiming at increasing autonomy must guarantee a market that remains open. The search for financial autonomy should be considered not as an end in itself but as a means to achieve the objectives of EU policies such as:

- Improving the financial sector's capacity to support the European economy at a time that war in Ukraine and COVID-19 create huge investment needs;
- Strengthening the resilience of the financial sector by reducing old vulnerabilities and preventing new ones from emerging;
- Fostering the capacity of Financial Market Infrastructures (FMIs) to minimize transaction costs;
- Reducing dependency on third countries for key services and technology.

Most importantly, autonomy means creating the capacity to support the vital European values of ensuring a green transition and supporting the international role of the euro.

The factors that currently limit the EU financial autonomy are well known, including excessive reliance on bank funding, an incomplete banking union, delays in the Capital Market Union (CMU), and inadequate risk sharing – to name a few. While there is an urgent need to fill these gaps at a political level, market operators can also play a key role.

Conceptually, we believe a major financial centre in the EU could achieve high levels of liquidity and efficiency, comparable to those of New York or London. However, this option is unrealistic and may not be even desirable in an ever-growing digital world. An alternative to a single EU financial centre is to connect individual financial centres, by creating data platforms that could allow interoperability and information sharing. Part of Euroclear's strategy, approved by its Board, goes in this direction by envisaging the development of an open shared data platform for the services it offers to its ecosystem of issuers, investors and broker/dealers.

Further progress in the CMU would represent the most important contribution to the European financial autonomy. We support the Commission's CSDR refit to simplify the passporting process that currently makes the provision of cross-border financial services highly complex. We also greatly welcome the most recent work by the Commission that seeks to overcome disparities in the withholding tax procedures amongst member states. New digital technologies could also help limiting manual processes, while enhancing transparency and communication between tax authorities.

An alternative to a single EU financial centre is to connect individual financial centres, by creating data platforms that could allow interoperability and information sharing.

The Euroclear group is the world's leading provider of domestic and cross-border settlement and related services for bonds, equities, and fund transactions. The Euroclear group holds assets under custody on behalf of clients for a value of €37.6 trillion and in 2021 settled transactions for a value of almost one quadrillion euros. Euroclear plays an essential role in attracting international investors into Europe through its multi-currency settlement and its multi-assets collateral management services, and hence contributing to the resilience and liquidity of European markets.

Some of our recent initiatives contribute to key European strategic objectives.

Euroclear Bank (EB) has decided to migrate to the TARGET2-Securities platform - one of the ECB's pivotal instruments to establish a single capital market. The migration, which will take place in phases, will allow EB to offer securities settlement in EUR central bank money to its global clients. They will then be able to tap into the whole range of TARGET services for collateral and payments.

Euroclear also supports the European Green Deal. A recent study, commissioned to PwC, revealed that FMIs can play a crucial role in developing solutions that permit issuers and other market participants to embark on the ESG journey. Euroclear will integrate ESG metrics into existing products across the value chain, and it has recently invested in Greenomy to enhance its sustainable finance strategy. We expect Greenomy's work to facilitate the reporting on sustainability-linked data and as such help increase transparency of sustainable issuances.

Financial instruments and even the very concept of money are going through a profound transformation with the advent of digital technologies. The tokenisation of assets could widen the range of securities been processed by financial markets. On the securities side, a proper regulatory framework is necessary to avoid market fragmentation and improve operational efficiency. On the cash side, the creation of wholesale Central Bank Digital Currencies could expand the range of operators which would have access to central bank money and extend operating hours.

Different routes can be explored, and we stand ready to contribute to this process either by participating in experimentations, as done with the Banque de France, or by building on our well established links with TARGET.

GEDIMINAS ŠIMKUS
Governor - Bank of Lithuania

An open strategic autonomy must be ensured in the EU's financial sector

Initially limited to matters of defense, the concept of strategic autonomy has in the past years found echoes in all EU policies. We are moving towards less trade with geopolitically more risky countries, with a goal of greater independence in the production of essential goods and digital sovereignty. At the same time, the EU strives for deeper integration and must avoid protectionism, aiming for an open strategic autonomy.

According to the European Commission, the EU should be „open where we can, but autonomous where we must". The financial sector is one of the key areas in which such an open strategic autonomy must be ensured. Financial and real economy sectors go hand in hand, and without fostering autonomy in both, the macroeconomic stability and resilience of the EU cannot be ensured. Achieving this aim requires a complex dance of dependencies and capabilities.

The EU's financial sector is large and very open internationally. This openness spurs competition; however, to date, the European financing model is still heavily skewed towards bank financing. Too few European companies go public, and when they do, they tend to use third-country exchanges to raise funding. Excessive reliance on third-country critical service providers, such as central counterparties clearing derivatives and third-country digital technologies, creates financial stability risks in times of market disruption. We must therefore take the necessary steps to tackle such dependencies.

In this pursuit, however, we must not simply replace one dependency with another. We should avoid the pitfalls of picking national or binational winners, focusing on national goals rather than European ones, and setting standards in areas where we are not technologically competitive.

Let me expand on this idea. While one could see a point in cautioning that „if we don't build our own champions in all areas – digital, artificial intelligence – our choices will be dictated by others"[1], we cannot proceed by simply picking national champions and allowing them to compete in strategically sensitive sectors internationally. Doing so would stifle innovation and put the SMEs from smaller EU member states at a disadvantage, as they would not be able to benefit from customized innovative products.

Autonomy is not about picking champions, but about fostering horizontal policies and strategies.

Instead of picking champions, the EU should identify key European ecosystems that deserve support and foster deeper EU-wide cooperation. Horizontal rather than vertical policies could be pursued, with vertical policies embraced only where they contribute to the EU-wide strategic autonomy without undermining the level playing field. While completion of the Banking Union and the deepening of the Capital Markets Union are crucial, harmonization of the legislation with regards to insolvency and taxation is of prime importance too. To this end, we welcome plans of the European Commission to present Customs and Taxation as well as further Capital Markets packages this winter.

The EU's open strategic autonomy is inseparable from the promotion of financial innovation supporting the EU's climate and digital transitions. The EU's role as a global standard-setter can be a key element in the EU toolbox to promote this. Nevertheless, we cannot just set the rules and be the referee; we need to be players as well in order to credibly shape global standards. Therefore, the EU can only use its standard-setting power in areas where it is technologically prominent and competitive.

One such area is data collection, management, and protection. Through such initiatives as the European Single Access Point as an EU-wide data powerhouse with sustainability data on European companies, or the creation of the consolidated tape for transactions taking place on trading platforms across the EU, European companies would be made more visible, accessible, and comparable. Combined with an interconnected and open technology sector in Europe, such initiatives would provide the continent with a strong position to set global standards and promote European values, as well as to maintain and expand Europe's economy.

The past few years have witnessed a need to strike an appropriate balance between achieving economic and financial autonomy on the one hand and maintaining openness and global cooperation with like-minded partners to reap the potential benefits thereof, on the other. The EU must continue working to achieve an open and stable international economic ecosystem against the background of profound changes to the global economic and geopolitical order. Experience has shown that coping with such changes takes time, leadership, and stamina.

Let us thus follow the tried and true approach of "not letting a good crisis go to waste" and institutionalize our long-term strategies.

[1] Interview with French President Emmanuel Macron at the Radio France International, September 2019.

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

Transforming the ambition of strategic autonomy for capital markets into action

The concept of strategic autonomy of European financial markets has become widely accepted in public debate. Yet, it is difficult to identify concrete measures recently taken by the EU to move towards this objective in financial services while major progress has been made recently in the areas of defence, semiconductors, health and budgetary policy.

Strategic autonomy does not mean financial autonomy, as European capital markets must remain open to foreign capital and companies. Strategic autonomy is based on having enough domestic capacity and control to transform the savings of 450 million Europeans into investments by EU companies.

Euronext provides an illustration of what it can mean in practice. We announced in June the successful completion of the migration of our core data centre from Basildon, UK, to a best-in-class and green data centre based in Bergamo, Italy. This relocation was a strategic decision made in response to multiple factors, including the dynamic created by Brexit, and a strong rationale for relocating in the EU, Euronext's core European trading activities which account for about 25% of the shares traded in Europe.

In the pre-Brexit world having London as the largest financial centre of the EU was a natural specialisation that was widely accepted. Post Brexit, Europe must make sure that within the EU there is a full architecture, from a regulatory and an operational point of view, to allow for a situation where Europeans have control over the key pillars of the financing of EU economies. Strengthening strategic autonomy should also rely on making sure that strong insurance companies, asset managers, global banks and market infrastructures are based and built in the EU.

The CMU is very much in the DNA of Euronext, as the founding principle of the integration initiated over 20 years ago was to pool European liquidity on a single platform, while retaining local infrastructure with the appropriate licensing and supervision to support local capital markets. This model is helping overcome issues of fragmentation, integrating markets and providing benefits to investors and issuers alike. It is underpinned by a genuinely European federal governance model.

It is critical to nurture, strengthen and defend a multicentre and interconnected European model.

Since the IPO of Euronext in 2014, the Group has expanded and operates regulated markets across 7 European countries, becoming a true pan-European financial markets infrastructure provider across trading, clearing and settlement.

Euronext develops the local ecosystems – particularly listings – which are so critical to public capital markets. This is in stark contrast to models from some non-EU actors which cherry pick the most profitable activity, provide access mainly to global institutions and do not bother with local specific requirements and ecosystems, nor with the financing of the real economy, in particular SMEs.

This is why it is critical to nurture, strengthen, and sometimes defend a genuinely European model with distributed but integrated and highly interconnected financial centres. If the EU is too naïve in preserving and developing its financial ecosystem, it will lose its domestic capacity in finance and turn into a simple sub-division of the "EMEA – Europe, Middle-East and Africa" zone of global groups.

From that perspective, the latest proposals to the MiFIR regulation are a source of concern especially regarding the consolidated tape. The proposed framework, if enacted, will mainly benefit players outside of Europe. This unfortunate situation demonstrates a lack of understanding of the issues caused by fragmentation and transparency in the EU which will not be addressed with a consolidated tape. Since MiFID II, fragmentation has been driven by the sharp increase in off venue Systematic Internalisation. It should be addressed by changes to market structure regulation in the MIFIR Review, in particular to limit Systematic Internalisation to where it can best benefit markets: the trading of large orders.

In order to build the EU's strategic autonomy, we must focus on Europe's aspirations for more simplification in EU rules, through, for example, the implementation of a competitiveness test and a single European prospectus for IPOs, similar to the single S-1 form in the US, as part of the Listing Act.

Now that the aggregate market capitalisation of companies listed on Euronext platforms is around €6 trillion, which is approximately twice the aggregate market capitalisation of companies listed in London, we are seeing a shift in international listings towards Euronext platforms. Companies that in the past would have considered listing in London are now selecting Euronext.

We are also able to launch new initiatives to achieve strategic autonomy such as Euronext Tech Leaders, to highlight the visibility and attractiveness of European Tech champions towards international investors.

At Euronext, we are proud to show that a genuine federal European model can be a driver of commercial success and an important contributor to the European strategic autonomy.