



Q&A

VITTORIO GRILLI

Chairman of Italy and of the Corporate & Investment Bank, EMEA – J.P. Morgan

The right moment to move forward with an ambitious Savings and Investments Union

Does the EU Competitiveness Compass document address the main areas where further progress is needed to achieve the Savings and Investments Union (SIU)?

The EU Competitiveness Compass, in addition to the Draghi report, put into stark terms the financing needs for the EU's objectives going forward: EUR 750-800 billion per year by 2030, roughly a 5% of EU GDP per year increase in the EU's total investment-to-GDP rate, similar to the 1960s and 1970s.

The Savings and Investments Union (SIU) Action Plan therefore comes at an important moment, and it will be crucial to identify the right initiatives to help bring us forward. Thankfully, some of the most vital reforms are mentioned: securitisation, post-trade, pensions, insolvency and taxation.

I have been participating in Eurofi and writing articles for this magazine for over 10 years. If you look back, you'll see that I have been calling for concerted efforts in these areas throughout that time. And there has been progress through the Capital Markets Union initiatives.

Of these initiatives, I would like to highlight the need for ambition around securitisation reform. While not a silver bullet, we do see it as playing a part in helping free up space in banks' balance sheets to provide more lending to the real economy.

Fragmentation within the EU Member States, such as differences in contract laws and insolvency laws create legal uncertainty, which makes it complex and difficult for the securitisation market to scale. Unfortunately, these are also the most politically charged issues to address. Therefore we would support more targeted changes in the short term.

One would be to diversify the investor base by looking at EU regulatory frameworks, particularly the prudential treatment under Solvency II which limits insurer investments in securitisations. However, the prudential treatment of banks alone will not revive the EU securitisation market and instead further the outside role that bank investors already play in the European public securitisation market. This could risk further crowding out of non-bank investors in that market.

Alleviating due diligence and transparency requirements to a more principles-based approach would also help. Templated disclosure can be useful for vanilla products and help standardisation but is generally not adapted to complex transactions.

How to retain the surplus European savings (around 300 billion euros leave Europe every year) in order to finance more investment in Europe? How can the two objectives of increasing the long-term return on investments for citizens' retirement and financing the EU economy be reconciled?

At JPMorgan, we are committed to investing in Europe and its economy. Investments in European assets constitute a meaningful part of our Asset Management division's global investment portfolio, across asset classes.

It is also important to highlight that the funds from European savers alone are insufficient to fuel the ambitious recommendations made by Mario Draghi in his landmark report. Additionally, it would not be wise for European investors to concentrate all their investments in one region. International players have a crucial role in scaling up Europe's investment ecosystem by attracting and facilitating global capital. Our global presence allows us to channel significant

investment from the U.S., Asia, and Latin America into Europe, invigorating the region's economies. We are ideally positioned to mobilise both European and international capital to achieve the EU's strategic investment goals. For instance, when EU companies successfully scale within the Union, a substantial portion of venture capital investment comes from outside the EU, with the U.S. being a major contributor to European deep-tech startups.

Furthermore, we strongly believe that public policy initiatives affecting how EU citizens invest their savings should prioritise their long-term financial wellbeing. Investors should be empowered to make the best investment decisions taking into account their personal circumstances, risk appetite, and investment horizon. By connecting European savers with the global investment landscape, they can maximise their retirement savings and achieve the best possible returns.

The question, therefore, is whether there are opportunities to enhance the ease of foreign capital investment in Europe. Simplifying and harmonizing regulatory frameworks across Member States can make it significantly easier for foreign investors to navigate the EU market. Additionally, facilitating cross-border investments by reducing bureaucratic hurdles can further attract foreign capital. By implementing these measures, we can create a more welcoming and efficient investment environment, ultimately strengthening the EU's competitiveness on the global stage.

Does the SIU need a new approach compared to the CMU action plans? How can top-down and bottom-up action be combined in an effective way?

Having been a member of the European Commission's CMU High-level Forum, I know the intention of the CMU project was not for this to be an EU-level driven process. It was recognised that key changes would need to be driven at the national level.

It is therefore important that greater ownership of the CMU process has been committed to by EU finance ministers through the Eurogroup and at heads of state and government level. Official sector top-down and bottom up process therefore need to run in parallel. For example, if we want to achieve the ambitions of a new European savings product, it should be accompanied by national-level tax incentives.

However, bottom-up market developments are also important. Consider the potential role of technology. For example, DLT has the potential to expand access to capital markets, improve their efficiency, and promote innovation. Implemented at scale, DLT can make a significant beneficial contribution to the functioning and depth of capital markets, and the real economy.

The EU has until now been a global leader in the experimentation of DLT, but the current regulatory framework prevents the full deployment of DLT in the financial sector.

As the Draghi report says "The EU's competitiveness will increasingly depend on the digitalisation of all sectors and on building strengths in advanced technologies, which will drive investment, job and wealth creation." The EU should remove regulatory barriers to scaling DLT markets.

In addition, the development of a pan-European DLT based market infrastructure can help to address the fragmentation of European capital markets as outlined in the Draghi and other reports, help to drive the Savings and Investments Union agenda, and address the competitive gap vs other major capital markets. In the short-term, the EU should make entry into the DLT Pilot Regime more flexible, to incentive the participation of more firms.

What are the synergies between the Banking Union and the Savings and Investments Union? What would be the consequences of a lack of progress in the Banking Union on the implementation of the SIU?

A true Savings and Investments Union requires a Banking Union and an integrated and frictionless single market.

By their nature, banking and financial markets increase their resilience and quality through the strength and breadth of their network. A true Banking Union would in fact generate a wide array of benefits across the Union by reducing market fragmentation, developing strength, solvency and resiliency of banks. It would help generate a growth of trust and confidence in financial services where citizens would enjoy more competitive and effective banking structures, which would in turn increase the appeal of investors into the EU, as well as achieve the much needed additional financial integration in the Union.

Considering the amount of work that remains to be done in order to achieve the three, moving ahead simultaneously on all issues would be greatly beneficial to help grow the appeal of the EU's financial markets, as well as build trust and confidence in financial services from consumers across Member States. It would allow for the natural deepening of cross border integration across the Union. My hope is that we see some important progress into the Banking Union package during this political cycle.