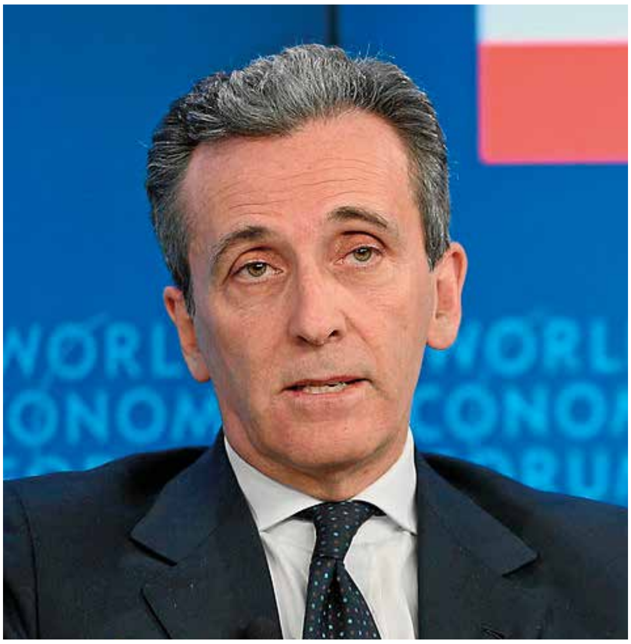

Q&A

VITTORIO GRILLI

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

The new political cycle brings an opportunity that cannot be missed if we want to achieve a true CMU

How can we achieve tangible progress towards more unified banking and financial services markets during the next European legislative cycle? What are the main obstacles to overcome?

A deepening of the CMU will be achieved through true political will, intensified efforts to finalize the Banking Union and legislation that helps remove the frictions that currently exist in the EU's financial system. I am delighted to see the renewed focus on Capital Markets Union – or a Savings and Investment Union – for the next EU mandate. Reports from Enrico Letta, Noyer (French Tresor) and ESMA on how to develop the Single Market have indeed put a strong focus on the need to continue our work on the CMU, and it will be interesting to see the specific recommendations from Draghi to increase EU's competitiveness. An equilibrium will have to be found balancing the open strategic autonomy while increasing EU's financial resilience and allowing for cross-border market financing.

Recent geopolitical events and banking turmoil have become ongoing reminders that our financial system is not perfect, and needs all countries within the Union to accept the efforts being made to de-risk the sector and increase resiliency. In order to increase the support in these projects from the more reluctant Member States, it will be important to ensure Europe is made stronger when it comes to the flow of capital across the Union. A focus on the development of EU-wide standards to banking rules and regulation done in close collaboration with regulators and industry experts will be essential to build trust and belief in these projects. The EU has proven the benefits of a deeply integrated single market for goods, and a similar process should follow in the single market for services, particularly financial services.

The sector has seen good progress achieved in recent years, especially the creation of the single supervisory and resolution mechanisms. Indeed, the recent proposal to strengthen rules for bank crisis management and national deposit guarantee schemes (CMDI) is very welcome and EU policymakers should seek to find a common position during upcoming trilogue discussions as a priority for the new political cycle.

What are the synergies between Banking Union, Capital market Union and the single market for financial services? Is it possible to simultaneously progress on these three projects or is one a prerequisite to the others?

A true Capital Market Union requires a Banking Union and an integrated and frictionless single market. 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.

Specifically, it is paramount that the EU develops deep and liquid Capital Markets Union, which would allow free movement of capital and ensure investment is deployed in an efficient way, which in turns increases the economic resilience in the EU. However, the lack of a single integrated market is currently one of the most important barriers preventing EU corporates to scale.

Re-launching and scaling up securitisation is an essential component of the CMU, a bridge between the Banking Union and the CMU, and can bring considerable benefits to the European financial system, including by reducing over-reliance on bank funding while encouraging cross border investments. When developed in such a way as to be responsible, prudentially sound and transparent, securitisation is an important vehicle to increase the capacity of banks to lend and also for investors to have access to European credit products.

Another benefit of such reform would be the fact that it would significantly free up capital in bank's balance sheet. This increase in capital available could be deployed into corporates, making it easier for them to raise capital in the traditional banking system.

Is further integrating its financial markets a key objective for the EU to remain competitive vis a vis the US and Asia? What are the conditions for making progress?

As it stands, the fragmented market in Europe puts the EU at a competitive disadvantage vis a vis other jurisdictions. Idiosyncrasies of the EU, including the diversity in languages, an embedded regulatory patchwork across Member States or the continued difficult movement of services compared to the free movement of goods, makes the EU an difficult union to navigate for financial services.

In the US, on the other hand, corporates can raise capital and scale with less difficulties, regulatory burdens and barriers, which makes it a more attractive market for companies to relocate there if they want to significantly grow. In fact, in the US there are currently around 700 unicorns, versus the 130 in the EU. In addition, even when EU corporates manage to scale within the Union, almost half of the venture capital investment comes from outside of the EU – with the US being one of the largest investors in European deep-tech startups. Therefore, I believe that incentives to achieve a more diversified funding system would also be significantly positive for the EU, together with efforts to increase competitiveness (and therefore attractiveness) of EU corporates, and allow flow of capital in all stages of the life cycle of corporates.

Without suggesting replication, other international comparisons are helpful to analyse as they give an idea about the possibilities that could be unlocked with a successful and integrated financial services market in the EU. For example, securitisation represents 12.5% of GDP in the US (excluding GSEs) and 12% in the UK vs. 3% in the EU-27. We can therefore see the potential that securitisation has in the EU to advance capital markets union and green finance, although it does not mean that the same levels should be replicated in the EU.

The EU should also continue to develop its private markets, both through cross-border investment and scaling up venture capital, as acknowledged in the Eurogroup CMU March Statement. If the incentives are right, the development of private markets would significantly facilitate the raise of capital by corporates at the same time as it would decrease the current dependency that some corporates have on banking funding/raising capital through debt.

To what extent would the achievement of a true Banking Union and CMU contribute to the advancement of a unified banking and financial market in Europe?

I would firstly like to caveat my answer by reinforcing the idea that we are unlikely to see a moment when the CMU nor the Banking Union are declared "complete". Instead, they will be ongoing processes, with progress depending on incremental steps, continued political momentum as well as the avoidance of 'pitfalls' that could be detrimental to cross-border market financing.

I fully support the EU's ambition to build financial markets capabilities and achieve further market integration, and fundamentally believe that the EU's financial resilience is best achieved through the Capital Markets Union (CMU) and Banking Union projects. 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. My hope is that we see some additional progress into the Banking Union package in the next political cycle.