ATTRACTIVENESS OF EU CAPITAL MARKETS FOR ISSUERS AND INVESTORS

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Revamping EU capital markets: a tough task without simple solutions

The appeal of European capital markets has decreased in the last decade, and they have not developed enough if we compare them with those of other geographies. We have fewer listed companies and their weight with respect to the economy has shrunk.

Capital markets have not either succeeded to attract European citizens to invest more in stocks, funds and fixed income compared to bank deposits or real estate investment.

Europe needs much deeper and more liquid capital markets if we want it to catch up our economic position in the world. Our economic future is linked to this. European leaders, thinkers and institutions clearly agree that either we enhance capital markets and Europeans' investment in these markets, or the European economy will regret it for decades.

There is consensus on what needs to be done, but divergences on how to achieve it. Political initiatives such as Capital Markets Union (CMU) flow to achieve this goal, but in my opinion, it is necessary to focus on a broader and more holistic vision that would focus on several factors. There is no silver bullet but a series of complex and costly policy actions.

The first and most important one is to boost a European strategy that promotes retail investment in financial instruments. This requires a cultural and structural change so that investment in shares, bonds, investment funds, and pension funds become the main destination for the long-term savings of European citizens. But a transformation of this magnitude, although possible, is not simple, and requires a stable framework maintained over time. Among the most important ones is to offer stable tax incentives to retail investment in financial instruments that allow investment through personal financial savings accounts as in the Swedish market. And, also, incentives to issuers that equate the taxation of financing through debt with equity financing. Similarly, a favorable framework is needed for investment in funds and pension plans that boost long-term investment and a promotion to financial education for teens and adults with much greater resources than the current ones.

Secondly, Europe must continue to be open to international capital in a double sense. The opening of the market means the freedom of non-European investors to invest and disinvest in Europe and the freedom of European savers to invest and disinvest their savings outside of Europe. It would be a mistake to lure EU citizens (through tax measures) to invest only in EU companies. If EU companies are going to succeed attracting investment, they better do that on their own merits. And if EU citizens are going to invest more, they should be allowed to do so in the pursuit of the higher return, be that in the EU or abroad.

Thirdly, it is necessary to advocate for a single regulation and a coordinated supervision that consists of a single rulebook that is applied in a consistent way, where ESMA must have the role of a strong coordinator and overseer of national supervisors. Europe must show more trust in ESMA and provide it with greater capabilities, so that we are more agile in the EU adjusting the regulation to the dizzying changes of markets. This does not mean having a single supervisor for everything, because in most areas national supervision will always be more effective and efficient, and the existence of a single supervisor (as we have seen in banking) is not a recipe for faster market development or more integration.

As a fourth factor, care must be taken to ensure that listed companies do not become an experimental population for new regulations that address much broader social or economic problems, like climate change or gender diversity. These are cross-cutting for all companies regardless of whether they are listed or unlisted on a stock market.

There is no silver bullet but a series of complex and costly policy actions.

And finally, I would add a fifth element, which is to be open to potential market consolidation. This should not be imposed by new regulation, it should not be forced but neither should it be hindered if market forces themselves see that it is necessary in order to achieve greater competitiveness.

ESMA has published a proposal on how to strengthen EU capital markets, with 20 proposals. And CNMV stands behind it in full. But we cannot cut corners. The main risk in the next political cycle in the EU is to pick a couple of flashy measures (like securitization and central supervision) to pretend that the CMU dossier is achieved, leaving out true incentives to change how Europeans are investing long term. That would be a huge mistake and a lost opportunity.

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The attractiveness of EU capital markets should be reflected on at global level

Capital markets at EU level are underdeveloped and reliant on third countries' players. European markets are not deep enough and don't provide sufficient liquidity to issuers and investors.

At the same time, a race amongst European jurisdictions is happening, that has become even more important after the UK's decision to leave the EU, as a more multipolar model seems to emerge within Europe.

In this context, a number of initiatives have been taken in the various countries, and legislations adopted, to promote attractiveness. This is the case for instance in France, Germany, Italy...As a national regulator, the AMF takes its full part in the effort to promote the French and European markets, and has included these goals in its strategic orientations for 2023-2027.

The main message that the AMF wants to bring to stakeholders in its strategic plan is that the quality of supervision is a fundamental asset. There is no contradiction between promoting the attractiveness of Paris as a financial center and being a demanding supervisor, as a well regulated and predictable environment is a prerequisite for the financial sector to thrive.

At EU level, competition between jurisdictions can be a powerful engine to promote EU competitiveness provided that it remains fair. In particular, it must not play on regulatory arbitrages that ultimately impair the unicity and efficiency of the European single rulebook. To be attractive, Europe must therefore set and implement a unique set of rules, in order to offer local and third country market players a simple, legible and safe set of regulations.

In this context, the fragmentation of the supervision landscape has a detrimental effect on the quality of the EU rulebook, as each country tries - be it at Council or ESMA level - to make sure that no possible loophole exists in the applicable regulation.

Having a single supervisor in Europe, for which France has for long been a proeminent advocate, is key to ensure a harmonised application of the EU legislation across jurisdictions. A single supervisor applying a common rulebook would be a benefit for the EU as a whole. This is even more important, as the attractiveness of EU capital markets should be reflected upon at global level, for the EU to be competitive with third country jurisdictions.

Having a single supervisor in Europe is key to ensure a harmonized application of the EU legislation.

AMF strongly welcomes the recognition of these facts in ESMA Task Force's recent report. This report has also identified a number of possible improvements to be made to optimize the effectiveness and attractiveness of capital markets in the EU.

ESMA's recommendations for a well-functioning EU capital market focus on three dimensions, to address the needs of European citizens and companies, and to improve the EU regulatory and supervisory framework.

Among the main possible improvements identified, broadening investment opportunities for EU citizens is crucial. Options in this area include the development of basic long-term investment products and pension systems that are suitably incentivised and contribute to the development of capital markets, complemented by efforts to improve financial education. Revitalising a dynamic securitisation market in the EU through a comprehensive review of the current framework – particularly looking at prudential treatments, due diligence rules for institutional investors, reporting requirements for certain types of assets, the consistency of STS criteria and the supervisory process – while remaining conscious of potential risks, is also important.

Stimulating the development of diverse funding options beyond raising on public markets seems also key - venture capital and private equity may support the lifecycle of SMEs, at late stage or IPO phase, to allow the emergence of an ecosystem. In that objective, and to support innovation and growth, the potential to further mobilise and scale institutional and retail equity capital through dedicated funds, including public/private partnerships, to better support the growth of critical business sectors in the EU should be evaluated thoroughly.

Consolidation is also often mentioned as a necessary development for more competitive EU markets. It may make sense to a certain extent and for some activities to allow European champions to emerge (and to lower risks and fix costs for banks, asset managers). However benefits have to be carefully evaluated in other instances. In particular, consolidation is not sufficient to ensure a smoother and homogeneous trading and post-trading environment in Europe, which should also be a key objective.

Other issues have to be examined with a high level of priority within the next Commission's mandat: improving regulatory agility by giving EU authorities the power of forebearance, to suspend temporarily some dysfunctional rules, as it is the case in other jurisdictions such as the US (no action letters) ; and most importantly, ensuring the harmonisation of tax and insolvency laws, without which there cannot be a truly integrated EU capital market.

NATAN TIEFENBRUN
President – Cboe Europe

CMU – Daunting dream to practical reality

How do we create a truly European capital market that is accessible and works for all? How do we support the capital and funding needs of small member states, large member states, retail investors, professional investors, pensions, banks, private companies, public companies, your family, and my family and finance a green transition while we are at it? How can we continue to develop and enhance an entire capital markets system - on every front - in order to better the lives of all Europeans and support their financial independence?

There is no single answer. However, important strides have already been made in many areas which serve as the building blocks of more efficient and integrated capital markets that are attractive to investors and issuers alike.

The equities consolidated tape will be a great leap forward for European markets when it is introduced from 2026. The consolidated tape will democratise access to market data and give more European and international investors greater visibility to European companies via a single access point.

Competition, pricing and risk management via EMIR 3.0 reaffirmed the importance of interoperability of equities clearing, which places the needs of market participants first, and brings significant operational and capital efficiencies to the benefit of the end-investor. Put more simply, it enables firms to mobilise more of their capital into growing their businesses, furthering the development of the capital market as a whole.

The EU Listing Act also simplifies the listing process to make it easier and more cost effective to raise capital in European markets.

These are foundational elements on which much can be built, and at Cboe Europe we can speak from experience.

Our philosophy mirrors the EU Capital Markets Union, and the pan-European approach we have taken to all of our services enhances their attractiveness and the competitiveness of European markets as a whole. Through this approach we have galvanized the support of market participants and succeeded in building one of the largest pan-European stock exchanges and the most connected pan-European CCP. More recently, we have invested in the development of a pan-European equity derivatives exchange (CEDX) and will soon launch a corporate listings initiative designed to attract global capital to European markets.

Competition, innovation, and customer choice: These are the tenets on which the future CMU can be built.

As a longstanding supporter of the CMU, pan-European solutions, and meaningful legislative enhancements (e.g., consolidated tape and interoperability in equites clearing) that benefit investors, Cboe Europe remains open and committed to exploring enhancements that will grow European markets through choice and competition.

In our experience, investors are naturally drawn to capital markets that are efficient, accessible, driven to innovate, and incentivized to reduce suboptimal, high-cost outcomes. If we pursue supervisory frameworks – centralised or not – that support efficient product approval processes, encourage innovation, and allow for the principles-based application of rules, we will have a solid foundation. If we pursue an ecosystem that supports competition (beneficial fragmentation) through openness and interoperability – rather than unproductive fragmentation or uncompetitive silos that are driven by rules, infrastructures and service providers that avoid pan-European solutions and sever Pan-European networks – we can build a CMU that embraces connections and reduces inefficiencies. If we pursue an ecosystem that rewards competitive infrastructures rather than national silos, we can build a CMU that improves outcomes for all.

Cboe embodies a pan-European approach rather than a country-by-country approach in the belief that it helps simplify access to European markets, reduces unproductive fragmentation, while improving capital efficiencies and reducing costs for investors, to the benefit of issuers in large and small markets.

As new ideas are proposed, we encourage policymakers to consider a simple rubric; does the idea/provision/legislative text support competition and innovation? Does the proposal support the ability of investors to make informed decisions? Does the proposal reduce bureaucracy and encourage dynamism? Does the proposal improve retail investor access to transparent investment products? Will it make it easier for a company to raise initial or additional capital in public markets?

If the answer to any of these questions is 'no' we encourage policymakers to strongly consider whether the proposal is fit for purpose. We must not lose sight of the core tenets at the heart of these questions; competition, innovation, and customer choice. Markets that support these principles empower and attract investors. These are the tenets on which the future CMU can be built.

PILAR MARTÍNEZ

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Empowering the EU: paving the way for global competitiveness

If one looks at the Capital Markets Union of the Juncker Commission in 2015, it could as well be the next European Commission's action plan. When considering the challenges and needs for capital markets in the EU and measures proposed then, they are very similar to those that we face today. The world, however, is in a very different place now than it was almost 10 years ago: competition is fierce, uncertainty has raised, and stakeholders are navigating a rapidly changing landscape.

Despite the efforts of Europe to emulate the United States, it is paradoxical how we are not yet arriving to the desired results. The issue, then, must lie not in the goals, but in the means to get to them. Perhaps we should try not to replicate the US, but to build on the strengths the EU has and work together with all different stakeholders for that purpose.

For decades the EU has tried to become an appealing market vis-à-vis the outside, with regulation improvements to capture external investors and companies. And yet, those changes have not necessarily replicated for those participants that are already inside the EU and to whom listing in the Member States brings cumbersome and complex analyses. This partially explains the phenomenon of EU companies choosing to list, for instance, in the US. It is clear at this point that being listed in the EU should not be perceived as a burden for issuers, but rather a means to add value.

Precisely on the value added of listed markets, fragmentation is a pivotal point: in the European Economic Area there are more than 500 execution venues, out of which near 190 are systematic internalisers. Exchanges compete against each other in a healthy manner and obeying the same rules. Furthermore, Exchange groups compete with one another meaning that, in practice, there is already consolidation in the trading space for lit markets happening. Nevertheless, there is the widespread understanding that for fragmentation to decrease, exchanges must reduce in number.

If liquidity was found only in Exchanges this will certainly increase it, but SIs capture it in an opaque manner and reduce its availability for companies listed. In practice, that liquidity that is drawn away to dark or semi-dark venues, becomes unreachable. As a result, issuers have less and less incentives to go public in the EU.

Policy makers have the capacity to make EU markets attractive also by listening to the concerns of companies, and good proof is the recent Listing Act, but it should certainly not stop there.

The potential of the EU needs the joint effort policymakers, institutions and market participants.

At the same time, financial market infrastructures need to be able to innovate and align with NCAs to ensure consistent and harmonised application of regulation across the Union as we play a key role in ensuring that our market is competitive and attractive.

Looking at the investor side, with very few exceptions, for retail investors the range of assets and the moments of the lifecycle of a company where they can invest is very limited. While investor protection needs to be secured, participants need to be able to channel their savings in the long term via investment in capital markets. Informed and responsible investors should be able to access a wider catalogue of assets, and for doing so, fiscal policy also needs to provide incentives. Elements such as the FTT or the equity-debt bias that disincentivise investment need to be reconsidered.

The EU must focus on creating a long-lasting investment culture, and that means inevitably increasing financial literacy. Not only for investors, but also for issuers and companies looking to be listed. Europe can, and will compete with other regions in the world, but for doing so, it must change its narrative and leverage on the good measures it has implemented over the past ten years: Growth markets, solid and robust lit markets for listing, proportional regimes for smaller issuers and certainly the route to harmonisation across Member States.

Given that non-EU countries, as Switzerland or the UK, are fundamental stakeholders both as cross-border investors, but also as competitors, the EU cannot overlook the fact that harmonised rules and principle based approaches will work towards creating a less differentiated competitive ecosystem, and a more attractive investment centre towards which domestic and third-country investment can gravitate.

By now it is clear that there are no silver bullets for addressing the challenges the EU faces, but it is also evident that there are several measures that can be taken to start creating a virtuous circle to make the EU attractive and competitive.

The EU has the tools and the will to create a multifaceted approach that can focus on harmonised regulatory approach, issuer confidence and investor engagement, but it must do so swiftly to seize opportunities. To unlock the potential of the EU it is fundamental to work towards a joint effort between policymakers, institutions and market participants, and it must be done just like the EU, united in diversity.

TAREK TRANBERG
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Time for meaningful progress on capital market competitiveness

Integrating European capital markets to make them more competitive and attractive for institutional and retail participants has been a hot topic over the past few months. EU policymakers are increasingly realising that meaningful progress on this decade-old project is critical to address a number of challenges the EU is facing. These include the sustainable and digital transitions, the ticking timebomb around pensions, increased demand for defence spending, and the spectre of being left even further behind (in economic terms) by the United States, India, and China. The chorus of voices calling for progress on creating more competitive, more integrated, more efficient, and more liquid capital markets in the EU is therefore very welcome.

This time needs to be different, though. The past decade has seen its fair share of ideas on how to make this happen, but progress has been somewhat limited. Whilst none of the focus areas are new – reviving the securitisation market in Europe, increasing retail participation, overcoming post-trade fragmentation and addressing the elephant in the room that is supervision – it is a welcome change that this topic seems to finally have been given the political priority that it deserves.

If we are serious about making markets more competitive and more attractive for domestic and foreign institutional investors, delivering better investment opportunities for savers, and creating capacity for European firms to grow locally and compete globally, here is a (non-exhaustive) list of things to consider:

A streamlined and more nimble single rulebook

Whilst a lot of progress has been made, we should reconsider the overall complexity and prescriptiveness of European financial regulation – especially the balance between primary legislation and technical standards. Financial markets evolve significantly faster than the time it takes to pass new or amended laws in the EU. One of the hallmarks of a competitive capital market is the ability of regulators to react nimbly to changing market circumstances and tweak the regulatory framework. This means that more power over substantive aspects of the regulatory perimeter should be delegated to the supervisory and regulatory agencies than is currently the case.

> **If we are serious about competitiveness we need to recognise that markets don't only belong to banks.**

Better recognition of different business models

The narrative on capital markets integration has long emphasised the need to reduce the bank-centric funding model, but this has not always translated to the regulatory set-up for capital markets. Here a largely bank-centric approach still reigns. As a result, different business models with different risk profiles that play a fundamentally different role in supporting capital markets are chronically underrecognised. If we are serious about making capital markets more competitive and attractive for both domestic and foreign firms, we need to recognise on a fundamental level that capital markets do not solely belong to banks – and that anyone active at scale in those markets should not be regulated the same as a bank. This needs to be urgently addressed when revising the prudential regime for investment firms (IFR/IFD).

More powers for ESMA

This is one aspect of the discussion on capital markets that often provokes passionate responses, but it is important to highlight that capital markets will not function efficiently unless there is a single view on how to interpret the rulebook. This would make conduct of business for market participants significantly easier. It would also lower the cost of entry for new domestic or foreign players looking to scale their activities across the Union. This in turn will pay dividends in terms of growing the overall size and attractiveness of Europe's capital market. A larger, more liquid secondary market will drive better outcomes for all types of investors, but it will also make primary market activity more attractive. So yes, centralised supervision (which can come in different forms) is not the silver bullet that will create a competitive capital market, but it is a necessary element on the way to making it so.

Is this time different?

Staunchly defending the status quo is one reason why we have made little progress on this project over the past 10 years, so we can only hope that policymakers finally inject some real ambition into their decision-making in the interests of the common good. Otherwise the outlook is clear: We will continue with the current downward trend, see activities move out of Europe at an ever increasing pace, all while lacking the fiscal capacity to overcome our societal and transformational challenges, and reconvene in a few years, wondering what happened.