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With MiFiR toward Capital Market Union

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When it comes to the European capital market you would probably agree with me that the European Union needs less fragmented capital markets, with well-functioning level playing field and global investment flowing into Europe because investors see our market attractive and competitive.

When I look back, our work on CMU focused initially on national capital markets. Less was done on removal of cross border barriers and a single unified European CMU. I must admit that back in 2007, MIFID was quite successful in bringing new competition and expanding the market. Still, today the European capital markets remain highly fragmented.

When we look at figures comparing the US and EU markets we see that, although the difference between US and EU capital markets is to a large extent legitimate due to different history, the EU is still far away from consolidation. This creates trade and execution risks, it also generates uncertainty and reduces attractiveness of EU capital markets. Fragmentation has led to smaller disconnected liquidity pools with less efficient and more volatile pricing. Clearly regarding capital markets we are not yet where we would like to be.

The good news is that the European Commission's proposal demonstrates that capital markets are back on the agenda. The MiFIR proposal is only part of a broader regulatory focus.

There is more on listing, on prospectus facilitation, on IPO and market infrastructures. Ultimately, it all comes down to creating an ecosystem which is not only bank financed.

I believe that after the big European financial center has floated away from the European Union, the targeted review of Markets in Financial Instruments Regulation,

gives us a chance to increase the size of European capital markets and develop a unified financial center in its own right.

The challenge is to adjust legal framework to the needs of tomorrow.

The proposal from the Commission with changes to the current framework will hopefully fill gaps and produce simple, understandable and deliverable market environment. If the legislators play it well we have a chance to add the needed dynamism to the European capital market. We need well-functioning robust capital market that might support the post COVID, post war, pro climate economy, that needs deeper pools of long-term capital.

The objective of the proposal is to facilitate access to market data to all parties at level playing field conditions, and to facilitate further development of capital market. To get it right, in my view, we should work as much as possible together, regulators, legislators, supervisors, national authorities, all market participants to achieve the best possible outcome. That is why I have been extensively engaging with a very broad range of stakeholders.

This engagement helps create a win-win framework where all market players can contribute to making the pie grow and benefit from it.

And I can say that, indeed, MiFIR review has fostered a great deal of interest across the markets. We had conversations about all elements of the proposal, consolidated tape, the amount of transparency needed, beneficial harmonization, need to see different markets, different venues.

We agreed that we need consolidated capital market and the consolidated tape as single source of data is an initial step in this direction. Market participant will have a single source of data produced by all trading instruments. This seems a natural step toward consolidation.

Discussion on MIFIR Is not only about shares but also about Exchange Traded Funds, bonds and derivatives. But we could also see that what lies ahead goes beyond the tape and touches upon the integration of the trading, clearing and settlements legs. There is a need to get rid of this silos approach whereby market

participants are not moving toward integration of capital markets nor efficiency of trade.

The conversation with the stakeholder was strongly focused on the tape and, indeed, there is a long list of issues to be decided on the tape. I trust we will find a good solution for all of them.

I know that the CT is not a magic tool to solve the issues of capital markets in the EU. But this little step takes us toward creating the unicity of the market in which investors would have a single view on the kind of an asset class that is being traded and at what price as well as where is the deepest pool of liquidity. It will give as well the visibility to small markets where often our gems are and they are overlooked.

There is the need to give a hard look to issues related to market structure and transparency, rules on waivers and deferrals, and commodity derivatives market in the context of the war and energy crisis. Today, with the energy crisis, derivative markets are even more important also because emissions allowance and energy prices are hedged. It is therefore of a strategic importance that the CT includes derivatives.

Not all the issues regarding market infrastructures are purely technical, some of them raise political concerns or interest. And on some of them we need to see what other jurisdictions are doing, in particular the UK when it comes to commodity derivatives market or the US in the context of treasury bonds.

We must also remember that non-equity is international, that bonds and derivatives are not under trading obligation. We must be serious about the EU competitiveness in this space. And last but not least, when working on MiFIR the European Union must care about both, the wholesale market where we have left a lot of space to other jurisdictions and about retail investors.

It is true that the consolidated tape did not emerge when it was first proposed by previous version of MIFIR. One can say that the legislators did not make it attractive to potential providers. There was no mandatory contribution of data. With rising prices and difficult access to data the costs to obtain them was high. Data were not consistent in format and quality which made their consolidation more challenging.

And we did not have an effective framework to enforce data standards. In this context we will have to look at market structure, supply of market data, smaller markets and many other issues beyond the tape issue.

In short, what we have today is an unnecessarily complex market structure without commercial incentives for a consolidated tape provider. There are many venues reporting data and they are not obliged to do that.

So we will need to fix it. We need mandatory contribution, we need a definition of reasonable commercial basis for selling data. And Commission and ESMA need to work together with market participants on this.

We see four asset classes with different prices, volumes and characteristics: bonds, shares, derivatives and ETFs. We believe there is a need to have a consolidated tape for each of them. With a pan European (EU) data base for trading investors will be able to see prices and volumes for all instruments. Today for both retail and professional investors participating in capital markets is expensive, also due to challenging accessibility of market data.

This we have to look at also in the context of Brexit as large chunk of our capital market has floated away and a big economy like EU needs a robust capital market. Capital investment needs are enormous and will continue to grow.

Indeed, we need different tapes as I said. Equity, bonds, derivatives differ greatly when it comes to profile of participants, size of market and transactions, number of daily transactions and, of course, the fundamental characteristics of the products. Equity market is more mature and has good data quality standards. The broadcasting speed is for them essential. Also, the consolidated tape should be relatively easy to set up and run. There is the data revenue issue to look at. On bonds, where market is roughly three times equity market size, but also less transparent and with different data standards, less participants and transactions, the main issue seems to be the need of a hard look at deferrals and waivers. Bonds are often traded outside regulated markets which implies less transparency. However, the result is that to address the issue of transparency very complex transparency rules have emerged with many deferral and waiver options. Shorter deferrals and increased transparency seem to lower transaction costs. There is also the need to look in this context at the

balance between transparency and liquidity. We found useful to look at the US Trace experience.

Euro denominated derivatives are a large scale market of complex products, the challenge might be to obtain the right data which implies the need to look at identifiers.

Our consultations did not take us to the idea of multiple, competing tape providers. How fast can the tapes emerge and what could be the most rational sequencing of their introduction, is an open issue with different views coming from different market players. I cannot imagine an approach where markets and investors would be waiting for years to see the assessment of first tape. We have to find a good compromise between all tapes coming into effect at the same time and huge time gaps between the birth of each tape that would provide a needed transparent framework over twenty years. We cannot afford it.

There is no doubt that to advance on creating a fully-fledged capital market Union we also need to further invest in skills and awareness on the demand side. We are not a unified jurisdiction, we have high cross border fragmentation where member states pursue their national interests through national options and discretions. More European legislative efforts are needed and, indeed, coming this year from the European Commission. There is no doubt that on the upcoming legislation the EU has to keep the standards high. As a relative new comer we have to build the trust. But we must be careful as well not to undermine the competitiveness of European market participants. We have to care about proportionality of our regulatory framework. We must find a better balance between the prescriptive nature of our legislation and the space for principle based flexibility. We must also facilitate the work of supervisors. And bear in mind that in the world of finance today everything is interconnected with everything else. We can increase the EU competitiveness by reducing fragmentation across the cycle, the phases of listing, trading, clearing and settlement. Post trade market infrastructures are a fundamental piece of the CMU and EU competitiveness. The review of the clearing framework has a huge potential to improve the current situation. A single IPO regime can increase the flow of capital across EU and incentivize listing. A review of best execution framework with a more

precise legal definition is also needed. We also have to look at the role of national supervisors in the European capital market.