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„EU needs a truly consolidated European Capital Market"

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When it comes to the European Capital Market, we all agree that the European Union needs robust, expanding and less fragmented capital markets, with well-functioning level playing field and attractive for global investment. Today capital market is happening at both EU and national levels. And the EU is still far away from consolidation. Unlike US or UK we are not a unified jurisdiction which is a challenge in itself. The fragmentation creates trade and execution risks, it also generates uncertainty and reduces attractiveness of EU capital markets.

The European Commission's proposal aims at addressing these issues, filling gaps and producing simple, understandable and deliverable market environment. The question is whether we are ambitious enough. And whether what is there is at all politically deliverable. After the UK floated away, Europe lost its main financial centre and the focus on wholesale markets. Europe now needs to think strategically and holistically, with global mindset, identify necessary changes to the current market structure, as well as build skills to drive these changes forward. That includes human capital needs. We need a win-win framework where all market players can contribute to making the pie grow and benefit from it. 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. The sense of urgency should be with us.

And I can say that, indeed, MiFIR review has fostered a great deal of interest across the markets. My conversations with market participants covered all elements of the proposal. We agreed that we need consolidated capital market and the consolidated

tape as single source of data is an initial step in this direction. Of course, what lies ahead goes beyond the tape and touches upon the integration of all elements of the cycle: the trading, clearing and settlements. There is a need to move away from this silos approach slowing down the move toward integration of capital markets.

Indeed, there are many reasons to go beyond the Consolidated Tape in the current review. There is the need as well 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. Not all the concerns regarding market infrastructures are purely technical, some of them raise political concerns or interest. This cannot be ignored but must not be a stumbling block. And on some of those issues we need to see what other jurisdictions are doing, in particular the UK when it comes to commodity derivatives market and wholesale market. We must remember that non-equity is international, that bonds and derivatives will not be under trading obligation. We must care about both, the wholesale market and retail investors. EU must make itself competitive in all these markets.

An important question is how can market structure be further improved to deliver for EU citizens. Here, I would start with the need to prepare and encourage citizens to go with their savings to capital market in a situation when the EU continues to suffer from a general lack of equity culture. And we have been always underlining the importance of education for capital market. It was raised already in the first Action Plan. Most importantly, I would say, expanding the access for citizens can be facilitated by more transparency in the whole system, less complexity, more simplification which will lower costs. One of the objectives of the Commission's review is to ensure that the share trading on lit venues in the EU is approximately in line with ratios observed in other international financial centres.

Everybody talks now how very fragmented the equity and bond markets are in the EU. When investors want to buy, the prices are dispersed across platforms and across hundreds of trading venues. Through efforts to regulate this fragmented market, over

the years we created a system that is excessively complex. Today market participants are expected to adhere to highly complex transparency rules, including the application of waivers, deferrals and the double volume cap. Complexity results in additional administrative costs that affect the overall competitiveness of EU platforms. The lack of a clear view on the markets often discourages small investors from market participation as they do not have a clear view of prices and volumes available in the markets. Simplifying the current transparency framework can improve the current market structure and make it more understandable and accessible to all investors. It can also facilitate level playing field between the different actors in the market.

Amongst the options being considered we are looking at streamlining the deferral regime for fixed income, which today is too complex and too lengthy. Removing the discretion of NCAs on the deferrals would simplify the regime and lead to a level playing field across Europe - which in turn would provide more certainty to investors and reduce the complexity of the systems. Shortening the deferrals can also have a positive impact - the experience of the US has shown that the greater transparency associated with shorter deferrals has led to a reduction in costs for the end investors. I hear that they are now considering to shorten the minimum deferral period even further - from 15 minutes to 60 seconds. Another possible change could be the revision of the system of waivers and the double volume cap. On the cap, we should certainly review the entire process - and possibly give greater interpretive powers to ESMA.

COM proposal offers a good starting point and the EP could go further than that - for example by empowering ESMA to define the threshold for the Reference Price Waiver.
At Level 1 the co-legislators could for instance only consider a cap or a floor, and then ESMA would calibrate and revise periodically the actual threshold. This could make the regime more flexible. ESMA could intervene should the market participants behave in a way that compromises the price formation process. And last but not least the Consolidated Tape itself will influence the transparency of the market and deliver real value to EU citizens. Today they access the market either directly (a minority) or through small and mid-size brokers.

Improving the visibility of trading data and reducing the costs of accessing trading data for these brokers has the potential to improve the services and the prices that these asset managers present to the EU citizens and retail investors. When we talk transparency, solving the impasse on the PFOF debate seems crucially important. In this context, there is a direct question we need to ask. Does the current best execution framework work?

I have heard diverging responses to this question. My impression from the conversation with stakeholders and experts is that the definition of the best execution included in MiFID is not sufficiently precise and leads to different interpretation at national level. The issue of payment for order flows is an example of this divergence of interpretation. We see national supervisors with radically different positions on the same topic We need to have a more granular legal definition of what is best execution. The consolidated tape can improve the best execution framework. Frankly, I think that for best execution a pre-trade tape seems more important than a post-trade tape.

A pre-trade tape will show the quotations of a given share in real time and provide a benchmark against which the execution by a broker can be assessed. Today we do not have that benchmark. What we have is a system whereby the same practice is allowed in certain countries and banned in others, creating an unlevelled playing field. It seems that the only way for assessing best execution is by checking the execution price against a benchmark. And brokers could be required to disclose periodically what they were doing with their trading overall, and not just client by client (because clients may not be able to measure best execution effectively because of informational asymmetries).

Today there are also other options on the table for PFOF - including the ban proposed by the Commission. Or there could be a more granular definition of what is allowed and what is not. For example, brokers can be mandated to give clients different choices for the execution of a trade, including non-PFOF venues. The discussions around PFOF more generally links to the discussions on the inducement regime. And while the role of

inducement is a never-ending discussion, it is clear that the EU should have harmonised rules on its best-execution framework and in this particular case also on if and how PFOF is allowed. We cannot afford to have national rules and national interpretations. It is bad for Europeans.

And the last issue I would like to raise is the need to look at other jurisdictions. We definitely have to look at what the UK is proposing in its wholesale market review. It is not about what some call becoming a rule taker but about understanding well in what external regulatory environment we will be building competitive capital market. There are always lessons to be learnt. How do we square autonomy, our right to regulate and make choices with competitiveness.

When looking at challenges linked with the loss of the UK as EU financial centre, it is worth remembering that we relied strongly on London when it comes to wholesale market and clearing. Now we are building our own infrastructure, capital and skills (also human skills). And we have to approach this challenge as a jurisdiction which is not unified with still high cross-border fragmentation. We have to catch up. We have to keep the global mindset. We have to avoid regulatory arbitrage where national solutions apply.

We must not undermine EU market participants' competitiveness. So let us give a hard look as well at the way we legislate. Proportionate regulation should be the priority. It has always been. But for a few reasons our tradition in harmonizing national regimes has been of a rather prescriptive approach with detailed and heavy top down rules. What we see in the UK is an effort to empower supervisors to act on the basis of a more principle based legislation, which allows for much more flexibility. This came clear in the recent wholesale market review in the UK. We see the UK empowering the FCA to supervise the levels of dark and lit trading, removing the Double Volume Cap and giving the power to react if needed to the FCA. This means trust. UK seems to trust their supervision. This is important. I will never stop to emphasizing it.

The UK is also showing its willingness to liberalise the markets to be more attractive globally. They are amending the tick size regime; they will remove the STO; they will simplify the SI regime and make it less stringent. We do not have to be a rule taker from UK, we cherish our right to legislate strongly but we should pay attention to what is happening across the Channel - as they are now a direct competitor. On capital markets, it seems that Brexit is really a no-deal type of Brexit. The de- alignment will continue. And we need to be vigilant.