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“The way forward for EU market structure: MiFIR and beyond”
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Since the launch of the capital markets union project in 2014, the gap between countries with well-developed and countries with less-developed capital markets seems to be widening rather than narrowing. There is fragmentation, there are gaps across EU and we need much deeper pools of long-term capital. It is also true that to an extent the first phase of building the CMU brought change. Some building blocks of EU capital markets in terms of legislation and products were enhanced. Some elements of a vision for the future of EU capital markets were on the table. However, the work focused mostly on national capital markets and their developments. Less was done on removal of cross border barriers. It was a project for a union of Capital Markets, rather than the project for a single EU Capital Market.

Today we continue to have fragmented market. I hope there is sufficient frustration to convince European legislators, regulators, supervisors, national authorities and market participants to move forward on the CMU project. European capital market is small. Europe continues to lag behind other major financial centres in terms of the size of capital market. Data for 2020 show that the domestic market for equity for US firms amounts to 175 percent of US GDP, while in Europe it is 60 percent of EU GDP. So European capital market is not only relatively small, but also fragmented. Trading in Europe takes place across 500 different venues for all financial instruments. All reasons for fragmentation are historical. There has always been a certain element of resistance to further integration in some segments of EU economies, financial services came late to the Single Market.

We have seen it in the discussions on MiFIR, the inclination to preserve national market balance, stock exchange, and clearinghouse. One way to accelerate the transformation of European capital markets is to find a way to reduce substantially the fragmentation. MiFIR 2 is an effort in this direction. We need 27 Member States and national authorities to agree on a common vision based on reduced fragmentation; and make European capital markets competitive globally. But we need political will to move towards solutions that will create a win-win framework where all market players can contribute to making the pie grow and benefit from it.

Regulation should be less prescriptive and not adding regulatory burdens to companies and investors. Market fragmentation creates trade and execution risks, generates uncertainty and reduces attractiveness of EU capital markets. When I look at the proposed changes of the MiFIR review, I see three main objectives

(i) reducing fragmentation and cross-border barriers

(ii) levelling the playing field between market participants

(iii) ensuring global competitiveness of European capital markets

We have to look at other jurisdictions to better understand their perspective on capital markets and their competitiveness building instruments. And to see in what direction we go. For me to be competitive means efficient raising of capital; supporting competitiveness of the EU economy, its forward looking innovativeness for the green and digital transition; it means also building trust, establishing high standards for market participants. There are several elements in the MiFIR proposal that if implemented effectively can respond to these objectives.

The Consolidated Tape will offer a single view of the prices and liquidity available in EU capital markets which is lacking today. This consolidated view should benefit all market participants. The CT should also reduce the overall costs of trading, in particular the costs of market data. It is an attempt to create a pan-European database for trading. Retail, small, and mid-size brokers will be the ones benefitting the most. Reducing the costs of accessing trading data and making them more accessible can lower the overall trading costs.

Today international investors wanting to trade in Europe they have to look at many trading venues with different prices, or have to buy really expensive data packages from the vendors. It seems to be broadly agreed to have one CTP per asset class, as equity, bonds and derivatives have very different characteristics. Another question that matters is how to sequence the introduction of the different tapes. My takeaway from dozens of conversations is that the bonds tape should come first, followed by equity, and derivatives. There is, of course, the issue of the impact of the consolidated equity tape on the business model of stock exchanges.

We discussed with many interlocutors the consequences of introducing the equity tape in a situation where stock exchanges remain the sole owners of trading data on lit venues, and where part of their revenues come from selling these trading data. I have heard that while the business models of large stock exchanges (Euronext, Deutsche Borse, Nasdaq, ...) is well diversified, the smaller stock exchanges particularly in Eastern Europe are concerned that if the CT were to take away their data revenue, their business viability may be threatened. We also know that these small exchanges have an important role in their local ecosystem, as they provide the trading and listing function for local investors and businesses. The Commission proposal addresses this by including a revenue redistribution model. The model could be adjusted to redistribute a greater percentage of revenue to small exchanges. Together with the redistribution model, the design of the equity Consolidated Tape will also influence the impact that this tool will have on stock exchanges. A real-time, pre-trade consolidated tape will serve the highest number of use cases. A pre-trade CT could also be a tool to improve the best execution framework in Europe, as it would provide a price benchmark against which trading across Europe could be measured. However, we also know that the impact of a pre-trade CT on the exchanges revenue will be significant, as pre-trade data are the data on which exchanges make most of their money.

Overall, co-legislators will have to carefully assess how the revenue redistribution model should be calibrated, and what is the right balance between the needs of all market participants (CT use cases vs exchanges viability). But the tape is only the

first step, and it is not a panacea. To make transparency work for fixed income asset class we need to harmonise the deferrals regime. It would reduce complexity and make the corporate bond market more accessible - benefitting European companies and investors. In our conversations with stakeholders I heard about limiting the internalisation of small trading flows by SIs. This should strengthen price formation, and redirect some trading volumes towards pre-trade transparent venues (stock exchanges). And we are seeking ways to enhance transparency of PFOF and in doing so strengthen the best execution regime.

With respect to the competitiveness angle, COM proposal goes in the right direction by removing open access provisions for exchange traded derivatives and refining the perimeter of the share trading obligation (STO). And co-legislators could consider removing the Double Volume Cap - while empowering ESMA to supervise the price formation process. These proposals would move the EU closer to other jurisdictions. We need also to empower the capital markets supervisor to contribute to the agility of the system and its competitiveness. Finally, there are other economic and technical barriers to the development of the EU primary and secondary equity markets. One of the main problems is the lack of integration between trading, clearing and settlement. In the EU today the cost drivers in the market are not just about trading fees, but also about clearing and settlement ("post-trading" fees).

Trading in Europe becomes very expensive because you trade, you clear and you settle separately, and there is very little competition in clearing and settlement because each trading venue is connected to one clearing house. That is a big cost driver. Additionally, in the US all listing exchanges can trade the same shares, then there is a funnel and they all go into the same clearing and settlement system (DTCC or a subsidiary). That is an integrated market, which is what we do not have in Europe. This "silos" approach in the EU prevents integration of capital markets. This remains to be addressed. The second barrier that I see as a legislator, is that in the EU too much is done through prescriptive legislation. We need to use better the flexibility in the legislative system in a way that reduces the red tape on market participants and let them innovate. We need to empower ESMA in its duties of EU

supervisor. Good example of this empowerment is the FCA in the UK or the SEC in the US. We need to empower ESMA and better use the flexibility in the legislative system in a way that reduces the red tape on market participants and let them innovate. Introducing a truly single European IPO document - like a passport to EU capital market. It would increase the number of companies that consider listing to raise capital; and those companies will “feel” more European.

This is not a trivial aspect - we need efficient equity markets. Europe needs to build a stronger equity culture. It is a question of better financial education for citizens, but also of facilitating access to the capital markets. We need to have institutional investors such as pension funds investing in equity; and we need to stimulate companies to seek more equity-based financing. The Commission has addressed some of these issues with recent legislation. In Solvency II there will be measures to allow insurance undertakings to invest. And we know that in the upcoming retail strategy there will be a strong focus on listing and financial education.