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„Closing the EU capital markets gap"

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Good morning,

and thank you for inviting me today.

I would like to start with the words of the finance ministers of France and Germany that resonated in September with urgency and importance. They declared that "we must close the EU capital markets gap". I could not agree more. France and Germany also were behind the idea of establishing the High Level Expert Group chaired by Fabrice Demarigny back in 2019. With relevant ideas to build upon. New wave of legislative acts followed. I think that today we might have the period of building a rather heavy legislative framework behind us. We have been through a similar approach at the beginning of the not yet completed Banking Union, when financial stability was on the top of the agenda.

Going back to the Franco-German statement, I would say that the main driver behind such positive statements of the EU Member States is usually the awareness of need to mobilize private investment to finance our future. There are many studies acknowledging what we are faced with: the EU requires more than 500 billion euros of additional funding annually to ensure its competitiveness and resilience in the global landscape and to finance the green and digital transitions. This is not a mere financial challenge; it is a strategic imperative. When it comes to capital market, the EU has lagged behind other major industrial powers for years.

The once vibrant landscape of initial public offerings (IPOs), comparable to the United States, now stands at less than half the previous size. The US stock market's value relative to GDP is nearly twice that of the EU.

You might remember that we embarked on building the CMU in 2015, in a way to complement the Banking Union, as it was part of the process of completing the EMU, and part of the 5th Presidents' Report.

At that time the Capital Markets Union was tailored to the EU of 28 Member States, with a major financial centre across the Channel. The focus was on national capital markets rather than on the removal of cross-border barriers. It was a project for a union of capital markets, and not for a European Capital Market Union.

But then, when our financial center floated away with Brexit, we did not use this opportunity to move away from the initial concept of a union of capital markets and towards the idea of a capital market union. The post-Brexit EU did not emerge as a single capital market and as a clear competitor to the London centre. Brexit did not produce winners. The EU seems too busy to try to get as much as possible from what the floating away British financial center left. A big outflow of banking jobs from the City to the EU did not materialize, neither did a strong boost to British economy expected by Brexiteers. I would rather see the concentration of liquidity in the US in different sectors.

So indeed it is legitimate to ask why our savings continue to be inefficiently allocated. In my view, the heart of the matter continues to lie in the fragmentation of the Capital Markets Union (CMU). You know it better than I do that fragmentation increases costs and barriers for investors and other market participants.

While we have taken significant strides towards integration, the reality remains that we still operate under different national regimes and the fundamental challenge is a lack of political will to transition from a fragmented system towards a truly European market that would be deeper, better functioning and more European in character. But it is also true that, since 2015, the CMU project has experienced strong verbal political support and a huge gap between this verbal support and political agreement to act.

Working on MIFIR/MIFID and EMIR, we could clearly see this fragmentation. Combining equities and bonds, European securities are traded on 430 trading venues registered in the EEA at the end of 2019. We have 30 Central Securities Depositories. And we have 14 CCPs.

By contrast, the US which is twice as big as EU in terms of market capitalization, only has 2 CSDs, less than 10 CCPs and less than 100 trading venues. Also, if we consider that market infrastructures do not offer open access, we see an even bigger fragmentation between listing, trading and post-trading. So having less fragmented capital markets would not be merely a financial goal. It is a foundational element in building Open Strategic Autonomy (OSA), and it should be a common strategic objective shared by all EU member states.

Some would underline that flourishing capital markets are needed to increase Europe’s economic resilience by diversifying our financing sources. But, in reality, Member States try to preserve their own market balance, their own stock exchange, their own clearinghouse. One can say that national interests block common advancements on European Capital Market. Also, relying predominantly on bank-based financing poses significant risks, and the way forward is to make market-based financing more attractive for European businesses.

We have seen in recent years more de-listings than listings, with European companies turning to the US or the UK to tap into the deeper markets they have. On our legislative path to revitalizing capital markets we have spare no effort to cutting red tape and facilitating market access, particularly for small and medium-sized enterprises (SMEs). The good news is that the introduction of the EU Listing Act simplifies the process. Also, strengthening the shareholder culture can boost retail investment and insurance-based products.

For years, in the European Parliament we have insisted that to deepen pools of capital and broaden the investor base, we must offer more comprehensive information to the public, and make sure that retail investors look at capital markets with trust and ability to understand what products they are buying. This is one of the objectives of the Retail Investment Strategy and it is vital not only for the growth of the market but also for the overall health of our financial ecosystem.

Another crucial piece of the puzzle lies in the securitization market. It plays a pivotal role in banks' risk and liquidity management, and there is a growing consensus on the need to revitalize it. Although the Commission included a review of the securitisation framework in its 2020 Capital Market Union Plan, a full review was not published, and I hope that this is something that the next Commission will work on.

At the heart of these ambitions there is the competitiveness of the EU's capital markets. Europe's financial landscape should be viewed through a global lens, and we must cultivate a mind-set focused on enhancing competitiveness on a worldwide scale. Financial industry is inherently global. And Europe must strive to have a significant say in global markets.

We must not seek to create a euro-only hub, where EU market participants are forced to stay. We should not aim to force EU businesses to stay in Europe via regulatory intervention. Rather, we should create an environment that is conducive to global businesses wanting to invest in Europe. The strength of Europe should rely on its openness to international flows of capitals.

Yet, when we look at the markets globally, we see that economic security has gained significance, and protectionism is on the rise. It is not yet clear - but the risk is there - whether these trends will spillover to capital markets. Beyond our borders, we see China actively engaging in the financial sector, while our transatlantic partner is intensifying efforts to boost its competitiveness. In this light, the reports from Draghi and Letta - on competitiveness and single capital market - must be interlinked, as they chart the course forward. I hope that both reports will share the view that when Europe is faced with global challenges, we must say clearly that we cannot afford national responses to dominate the discussion and action.

Now, more than ever, we need comprehensive European response to underpin and support our capital market.

However, as I signaled earlier, my recent experiences with the legislative elements of CMU have revealed a sobering truth that member states are not universally committed to a European capital market. Instead, the focus often veers toward national champions, nation-specific market players, and a myopic concentration on

the consequences of potential crisis events, all without due consideration of the interconnectedness of these issues.

Recently, we have seen the blockage of the lacking Banking Union pillar, the Common European Deposit Insurance (EDIS), coexisting with a lack of political momentum regarding CMU construction, evident in the Member States' opposition to a Consolidated Tape, amongst other.

This highlights already mentioned fundamental problem—the wide gulf between the public commitment of member states to the CMU and their positions in the legislative process remains. A collective understanding of how national markets can benefit from a more integrated European market is conspicuously absent.

I also tend to be convinced that it is the highest time to rethink the way we approach financial services' legislation. We have, historically explainable, very prescriptive legislation, which is often the cause of excessive bureaucracy and endless political bargaining - while at the same time it is also a source of unnecessary barriers to access, particularly for international investors and smaller European investors.

The devil, as they say, is in the details - and the way we legislate contains at times too many details. We should consider more principle-based legislation, which would give European supervisory authorities more flexibility in adjusting the rulebook in light of market changes - the post-Brexit UK also seems to have returned to this approach.

It is true that while a conducive legal and regulatory environment is essential, it is only part of the equation. Building the CMU requires a nuanced approach that calibrates various factors to create a coherent and consistent environment. Investors must have efficient access to a variety of assets, including European safe assets. Some of us might remember what happened to SBBS.

The experience of the pandemic, with the common debt issued under NextGeneration EU, and that of Green Bonds has proven that the market sees the EU as a mature and trustworthy debt issuers, and the reasons to oppose safe assets are now mostly political. Historically, mature capital markets have been built around a public safe asset.

In the U.S., for example, capital markets developed alongside the issuance of federal bonds. A risk-free benchmark is necessary for critical financial activities. It would enable better pricing of risky financial products, such as corporate bonds or derivatives, encouraging the development of such products. It would provide a common form of collateral that would promote centralized clearing activity and cross-border collateralized trading in interbank markets. It would also help diversify bank and non-bank exposure. And it would support the euro's international role, helping to attract foreign investors. Establishing such a permanent European safe asset would be a game changer, but it hinges on Europe having a standing fiscal capacity with a borrowing function. Without that, building a deep and competitive CMU will prove much more difficult. I also think that the idea of strategic autonomy must be interpreted as a way to facilitate the emergence of a truly European single capital market.

Various national options and discretions are barriers that need to be overcome, as they discourage European solutions. Today we understand the significance of a single market for goods in bolstering the EU's global competitiveness. In the case of the CMU, a similar transformation is imperative. Today capital market stays far behind the single market for goods and services. I would say that fragmentation and complexity of the EU capital markets need to be addressed with the same vigor.

To facilitate emergence of capital market, we need to give a hard look to its supervision. And while European supervision is not a panacea for fragmentation, it is a potent lever to address diverging rules that contribute to complexity and increased costs.

European supervision stands as a fundamental glue that can help bridge the gaps, and I hope the European Parliament will continue to support and actively push for a greater Europeanisation of supervision in capital market.

Unfortunately, as you know, we see a rather strong pushback by Member States, but also market participants who prefer national authorities retaining their competences. There is a paradox regarding the supervision of the clearing of the euro IRS. They are cleared in London, and the direct supervisor of LCH is ESMA. If some volumes move to the EU, they will be supervised nationally. I personally believe that the often used argument against European supervision is linked to the fiscal responsibility is in

reality flawed. The default waterfall provides a more than adequate level of protection. CCP has enough funds to cover for the default of its two biggest clearing members at the same time. Also, even after that there are several actions envisaged that can be taken, for example additional contribution from remaining members or CCP skin-in-the-game. It is also worth mentioning that the complex link of connection and contractual relationships between different financial actors make the entire financial system susceptible to the issues that may impact the CCP.

And before the CCP is affected there might be already several clearing members with problems which implies that a full-fledged banking crisis might be under way. The challenge is not about fiscal responsibility of a member state where CCP resides. It is about minimising building up of risks in the system and effective supervision of the whole clearing ecosystem. National supervisors will always have a partial view. Most likely the only way to effectively address this risk would be through creating a fund similar to the Single Resolution Fund to intervene when a CCP fails.

Europe needs to rebalance the supervisory framework. ESMA should grow from its role as coordinator of national supervisors to a supervisory body with direct powers. Perhaps we can leverage the European Market Infrastructure Regulation (EMIR) to take a decisive step forward, initiating a process of single supervision, a real move toward a Europeanisation of capital market. This would require trust between national and European authorities. Trust is the bedrock upon which the future of the CMU is built.

I echo the sentiments of the European Commission when they place responsibility on member states for the slow progress in building an EU-wide single market for capital. There is also a number of other relevant factors: financial education, taxation, labor laws, and government bureaucracy, all of which play a significant role in the success of the CMU.

There can be little doubt that the goals of competitiveness, open strategic autonomy, financial stability, and the green and digital transitions are universally lauded.

The CMU, which for quite some time, has been a key political project aimed at reducing dependence on bank funding and overcoming national differences, today is a strategic necessity.

It is sad to admit that when we take into account the two unfinished business areas: the Banking Union and the Capital Market Union, one can say that we are not yet the Economic Union. The lack of a complete Banking Union restricts European banks to operating in one or just a few national markets. Banks play a crucial role in the functioning of all major capital markets. They operate — and often have a leading role — in crucial segments like asset management, bond underwriting and trading, initial public offerings and financial advice. They are active traders in securities markets and often provide market-making services. Thus, it is difficult to envisage a genuine CMU without the key players being able to operate throughout the euro area.

What we need most is the political will and momentum to drive this vision forward. We must harness our collective will, vision, and determination to build a robust and integrated Capital Market Union that aligns with the principles of open strategic autonomy.

Europe's destiny as a global economic powerhouse and influential financial hub depends on our ability to create an integrated capital market that transcends national borders and encompasses a diverse range of assets. We also need to see differences in investment flows across Europe. There is clearly a private investment gap in the southern Europe. The alternative is to fill it with public funds which come in national envelopes. A full-fledged Banking Union and Capital Market Union could help to fully realize benefits of the single market. It would increase private risk sharing and facilitate more capital flows to southern members states, in particular in equity financing. Otherwise, public risk sharing will need to increase to absorb economic shocks in the years to come.

The next Commission should ensure that the Capital Market Union remains high on the political agenda. The urgency of this endeavor cannot be overstated, and we cannot afford to pursue a stop-and-go legislative process.

Next political cycle starts in mid-2024. Politically it might be a challenging time. There might be a bigger share of far right rather anti European political parties less committed to European solutions. In the context of next enlargement there will be a broad overview of many European policies, already announced by the Commission President. The enlargement might lead to the need of treaty change. At the same

time it is clear that by the end of this political cycle there will be quality a number of important CMU related legislations. Co- legislators made an effort to make them less prescriptive, with more flexibility based on a rather generous volume of level two legislation, empowering Commission and ESMA to act.

There is a Memorandum of Understanding concluded between Commission and the UK, followed by establishing a Forum on Financial Services which, I trust, will be a meaningful platform for mutually supportive cooperation. There might be areas for convergence identified. We should continue to cooperate with other jurisdictions, in particular the US. I can imagine that capital market participants should look toward the approaching enlargement and Ukraine's reconstruction.

But I also hope that the recent legislative effort on CMU has been moving the markets in the same direction, aiming at strategically and globally competitive Capital Market Union. And I trust that the two reports, of Mario Draghi and Enrique Letta will provide convincing inspiration for the new political cycle.