

# Capital Markets Union 2024

The conference began with a welcoming speech by **Mark Weinmeister, Secretary of State of the State of Hessen**. He welcomed the event to their building and stressed that Capital Markets Union is more important now than ever, however, its goals need to be reached much quicker - there is a need to speed up.



**Mario Nava, Director Horizontal Policies, DG FISMA, European Commission** in his keynote speech **said**: The CMU is not as advanced towards completion in comparison to the Banking Union, but there is now a renewed political momentum and interest from Members States and public society.

He outlined a number of projects in the pipeline. Firstly, an SMEs IPO Fund which, together with InvestEU, could retain those excellent companies that grow in Europe but then decide to list abroad. Secondly, SMEs Strategy: SMEs need help to update and perform in the context of the digital revolution and sustainability

Finally, the establishment of the CMU High-Level Experts Forum: for which they have received more than 140 applications and will be launched on 25 November, one week before they will open up their twitter feed for users to post questions to the forum.

Three areas of work have been identified going forward including:

- o **Ecosystem and capital raising (equity vs debt, market liquidity and depth, etc.)**
- o **Architecture (trading & post-trading, financial technology, financial technology, etc.)**
- o **Retail participation (transparency & disclosure, financial education, etc.)**

Nava also advised that they have identified cross-border obstacles for which help from Member States will be required:

- o **Taxation (withholding tax)**
- o **Insolvency**
- o **Supervisory convergence**
- o **Regulatory framework: how to enhance trust in investing at a cross-border level in the EU?**

## Fireside chat on the FESE Blueprint

It was agreed by all that clear political ambition to support transparent markets, an orderly price formation process and a balanced equivalence process was required. The CMU should have a holistic approach and disincentives against equity should be removed. In addition, it was suggested that pre-IPOs programmes done by exchanges would welcome new linked initiatives under the InvestEU umbrella that could help.



**Robin Jezek, Group Head of Regulation & Government Affairs, Euronext**



**Martin Reck, Managing Director, Deutsche Börse AG**



**Bjørn Sibbern, President, European Markets, NASDAQ**



**Rosa Armesto Deputy Director General FESE**



The panel also identified challenges in secondary markets including

- o Reduced transparency;
- o Liquidity fragmentation;
- o Market data: heavy investments from exchanges to support the price formation process of which market data is a result.

Exchanges are not the sole providers, they are part of a vast value chain. In the context of a possible CTP, we need full coverage if we want to have the complete picture of markets;

In answer to the question what can be done to support innovation and access to global capital markets? The panel agreed that we need to:

- o Ensure a fair equivalence process, determined by a broader range of legislators;
- o Equity & derivatives are different products: Assess the impact on financial stability, liquidity fragmentation of the MiFIR "non-discriminatory access" provisions;
- o Focus on ESG/green bonds;
- o Avoid FTT not to harm retail investors.

**Roger Havenith, Deputy Chief Executive, European Investment Fund** told the conference that we need to be looking at the overall life cycle of companies to avoid, once they start generating benefits, that they decide to migrate outside the EU. The EU's level of ambition needs to be higher to tackle the issues deriving from the limited size of European funds and the limited exit opportunities. We also need to improve the whole ecosystem for funds and for global solutions, not only regional.



## Empowering the end investor - what Europe needs to do now



**Niels Lemmers,**  
Director of Public Affairs and Legal,  
Dutch Investors' Association

There is a need to go back to focusing on the real economy. A possible MiFID Refit could be envisaged on the section on investors classification to increase participation in public markets. Experienced investors should have fewer constraints in their investment decisions. In addition, we need investor protection however we are not protecting investors if the markets are, in the end, empty.



**Tilman Lüder,**  
Head of Securities Markets,  
DG FISMA, European Commission

The panel discussed benchmarks and proposed a benchmark for long-term and sustainable investments should be established, instead of setting up a fund.



**Carmine Di Noia,**  
Commissioner  
Consob

There was a general consensus that the retail sector is underdeveloped in Europe due to a lack of financial education and equity culture.



**Alexander Schindler**  
Member of the Executive Board  
Union Asset Management Holding



**Guillaume Prache**  
Managing Director  
Better Finance

It was also proposed to deconstruct some of the most complex packages of financial instruments in order to simplify and make the market easier to understand, specifically for retail investors. Education was key and investment advisers should be educated enough to guide investors on their choices.




It was agreed that investors react quite irrationally in the market, piling-up liquidity while avoiding long-term investments. In a recent Consob report (the Italian NCA), it was assessed that people are unsure of the costs they incur when investing, disincentivising them to do so. Other obstacles such as taxation and cross-border investments regime are not homogeneous. Finally, the European Commission confirmed that they will publish a consultation on these topics in January 2020.



**Caroline Nagtegaal, Member of the European Parliament** in her speech said that CMU is far from finished and in her view over dependence on bank funding is very risky. She added that IPOs increase job creation, favours wealth distribution and makes the economy more resilient to economic shocks.

As Chair of the European IPO Task Force, she highlighted that the Task Force is doing great work and in her view of capital markets' playing a role in the climate transition, improving ecosystems and having a framework which is well equipped to handle technological innovation are important. In reference to the title of the conference, it is her ambition that CMU is finalised by 2024.

# Interim Report from the European IPO Task Force: Equity Financing the EU



**Piet Hemschoote,**  
CMU Working Party Chair,  
Accountancy Europe




**Caroline Nagtegaal,**  
Member of the  
European Parliament



**Rainer Riess,**  
Director General, FESE



**André Küüsvek,**  
Director Local Currency & Capital  
Markets Development, EBRD



**Josina Kamerling,**  
Head of Regulatory Outreach EMEA,  
CFA Institute

The Moderator opened the panel with the following assessment: *during the last legislature, CMU was an ugly duckling. The ambition is to now turn it into a swan.*

The panel discussed that the numbers of IPOs are declining and private equity markets are booming. There is a real need to create a culture of entrepreneurship and see sustainability as an opportunity: climate is sexy. In addition, proportionality for SMEs and local markets is required - not one size fits all and one way of simplifying requirements would be by going digital.

It was agreed that the CMU needs to be well suited to all issuers in different members states. In addition, the role of local ecosystems in producing IPOs is crucial, well functioning local brokers researchers and advisers are needed.

Whilst there isn't yet an agreed process for company disclosures of climate-related information, the panel acknowledged that it does need to be developed in a proportional way and it should be ensured that sustainable finance does not become yet another layer of regulation for listed companies only. The panel closed with confirming that the debt/equity bias and the tax advantages currently available by leveraging a company with debt need to be revised.



**Markus Ferber, Member of the European Parliament**

opened his speech by reminding the audience that the objective of MiFID II was to bring more transparency to level the playing field and ensure orderly pricing to increase financial markets' attractiveness for investors.

In practice, MiFID II has resulted in highly regulated trading venues and disincentivises trading in lit markets.

As a result, the portion of trading taking place off-exchange is uncomfortably high.

He believes that Brexit should inform the MiFID II review.

And added that the DVC should also be reviewed, particularly the DVC calculations and its effects on trading flows. He added that in his view the CTP can enhance transparency however the devil is in the details. The CTP should encompass data from RMs, MTFs but also SIs and dark pools in order to get an entire picture. To begin with, he would favour a Tape of Record.

For this, the most important step would be getting data quality for all venues up to standard.



## Efficient price formation – how to bring light into the dark?



**Markus Ferber,**  
Member of the  
European Parliament



**Rebecca Healey,**  
Head of EMEA Market Structure &  
Strategy, Liquidnet Europet



**Henrik Husman,** VP Nordic Cash  
Equity Products, Nasdaq



**Fabrizio Planta,**  
Head of Markets Department,  
ESMA



**Rainer Riess,**  
Director General, FESE

Efficient price formation is the backbone to valuing the assets of the real economy. Yet Europe has not delivered on the objective of the G20 and MiFID II / MIFiR to increase transparency in equity, fixed income and derivatives markets. To the contrary, bilateral trading through systematic internalisers has increased massively and OTC volumes remain high. However, it was said that there is a need to get the distinction between what consists of addressable and non-addressable liquidity right. In response, one of the panel members added it is important to increase transparency and increase lit trading. No matter how hard you look, none of the intended objectives of MiFID II can be seen. None of the dark pool trading has really moved into the lit order book. The data quality of SI and OTC data also needs to be enhanced.

It was suggested that MMT could be the solution. When assessing whether the objectives of MiFID II have been achieved it is important to distinguish per asset class. The results observed regarding ETFs and derivatives that are subject to the trading obligation are positive. However, the transparency of bonds markets should be further improved. Equity would require a complex analysis specifically in terms of market structure.



Overall, lit trading has not increased under MiFID II. The whole system is essentially stable but will not improve. It was suggested by an audience member that this is why the tape is important. The idea of an end of day Tape of Record is not ambitious enough and not sufficient to check best execution. There is a need to be able to look at the level of liquidity pools throughout the day. We need an 'as close as possible' to real-time tape. The fee structure could also be used to remunerate and incentivise the venues contributing to price formation. In addition, the representative from ESMA added that they see a lot of benefits to a tape which could be a remedy tool to the fragmentation of the market and contribute to CMU. It would also limit the power of exchanges in charging for their data and would be helpful to enforce best execution. In their view: the following aspects are key to the design of a successful CTP: 1) data quality, 2) 100% coverage, 3) Proper governance, 4) Fee structure and share of revenues, 5) Mandatory contribution. It was argued that the closer you get to real-time the cloudier the CTP will get in terms of the quality of the data. An end of day tape provides an opportunity to make corrections. A panellist also suggested that we should be asking what role do SIs have and should serve. When asked about their vision for CMU 2020, one wished to see a review of SI activity and developing primary markets. Another wanted to see a reduction in the cost of market data and address the complexity of market data policy as well as work on a CTP, whilst another agreed that we must focus much more on the primary market, finally, it was agreed that work is required on closing the loopholes in the MiFID II review.

## Closing Remarks by Petr Kobic, FESE President



So far, MiFID II has neither achieved the objective of more transparent markets with better data quality nor significantly improved investor protection. Instead, it has allowed non-public markets to continue to grow to the detriment of transparent trading on Exchanges.

In response to these challenges, FESE has put forward a Manifesto which identifies four objectives for the upcoming legislative period. **DELIVER. PROMOTE. PROTECT and ENSURE.**

Firstly, let's **deliver**:

We all learnt some valuable lessons from the financial crisis which simply could not be ignored, which is why we implore our policy makers to deliver on the G20 recommendations and the unachieved MiFID II objective of deep, fair and transparent pools of liquidity.

Secondly, let's **promote** EU competitiveness. The CMU needs to create attractive financing conditions for companies through IPOs refocusing on equity investments, while preserving local eco-systems.

Thirdly, **protect** – we need to protect the global competitiveness of European Exchange-Traded Derivatives. Derivatives markets are global in nature. The EU needs to follow global standards in order to foster integrated trading and clearing, minimising any systemic risk. And finally, to ensure.

We need to **ensure** a holistic sustainable and long-term oriented perspective, in addition, Measures should be accompanied by an impact assessment to ensure the proposals do not carry any unintended consequences.

Action is required now more than ever, if not, the number of listed companies will continue to fall, the level of retail investments will shrink, pricing of medium companies will deteriorate, and the number of private buyouts will increase.

With falling numbers of publicly tradable companies, EU citizens will have much less opportunities to invest their savings directly and even indirectly into the European companies.

Without public participation in the growth of the economy there will be no trust in civic society, creating a direct threat to our countries' democracy.

FESE's members stand ready to support and mobilise the Capital Markets Union, working alongside policy makers and industry to ensure Europe remains a credible competitor on a global scale.