

FESE Feedback on the CMU HLF Report

30th June 2020

NB: 2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Recommendation 1: An EU Single Access Point

Do you agree that recommendation 1 is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 1, how would you amend it?

Recommendation 2: European Long-term Investment Funds (ELTIFs)

Do you agree that recommendation 2 is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 2, how would you amend it?

Recommendation 3: Encouraging insurers to provide more financing for capital markets

Recommendation 3a

Do you agree that recommendation 3a is important?

- 1 - Not important at all
- 2 - Rather not important

- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 3b

Do you agree that recommendation 3b is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 3c

Do you agree that recommendation 3c is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 3, how would you amend it?

Recommendation 4: Market-making and re-equitisation of the market

Recommendation 4a: Market-making

Do you agree that recommendation 4a is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 4b: Re-equitisation of the market

Do you agree that recommendation 4b is important?

- 1 - Not important at all

- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 4, how would you amend it?

Recommendation 5: Scaling up the European securitisation market

Recommendation 5a: Unlocking the Significant Risk Transfer Assessment process

Do you agree that recommendation 5a is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 5b: Recalibrating capital charges applied to senior tranches, in line with their risk profile, under CRR2

Do you agree that recommendation 5b is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 5c: Recalibrating capital treatment for securitisation tranches under Solvency II

Do you agree that recommendation 5c is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 5d: Reducing the costs of SME financing

Do you agree that recommendation 5d is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 5e: Applying equivalent treatment to cash and synthetic securitisations of all asset classes, and including their STS execution

Do you agree that recommendation 5e is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 5f: Upgrading eligibility of senior STS and non-STS tranches in the LCR ratio

Do you agree that recommendation 5f is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 5g: Differentiating between disclosure and due diligence requirements for public and private securitisations

Do you agree that recommendation 5g is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 5, how would you amend it?

Recommendation 6: Improving the public markets ecosystem

Recommendation 6a: Definition for Small and Medium Capitalisation Companies (SMCs)

Do you agree that recommendation 6a is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6b: IPO transitional periods

Do you agree that recommendation 6b is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6c: Dual-class shares

Do you agree that recommendation 6c is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6d: Minimum free float for SMEs

Do you agree that recommendation 6d is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6e: SME index and regional index classification

Do you agree that recommendation 6e is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6f: Creation of a pan-EU Public-Private IPO Fund backed by the EU

Do you agree that recommendation 6f is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6g: Alleviations to the Market Abuse Regulation

Do you agree that recommendation 6g is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6h: Alleviations to the Prospectus Regulation

Do you agree that recommendation 6h is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6i: Alleviations to IFRS and ESEF

Do you agree that recommendation 6i is important?

- 1 - Not important at all
- 2 - Rather not important

- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6j: Exempt research in SMEs from unbundling rule in MiFID II

Do you agree that recommendation 6j is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6k: Tick size regime

Do you agree that recommendation 6k is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6l: Review the framework for an efficient stock loan market for SMEs

Do you agree that recommendation 6l is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6m: Create an SME Market Maker status subject to alleviated prudential requirements

Do you agree that recommendation 6m is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important

- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 6n: Encourage interconnection of smaller cap markets and supporting unimpeded set-up of branches

Do you agree that recommendation 6n is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 6, how would you amend it?

While FESE considers rather important to encourage interconnection of smaller cap markets, we believe that those interconnections should be left to markets to decide.

Recommendation 7: Crypto/digital assets and tokenisation

Do you agree that recommendation 7 is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 7, how would you amend it?

Recommendation 8: Central Securities Depositories

Do you agree that recommendation 8 is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 8, how would you amend it?

Recommendation 9: Shareholder identification, exercise of voting rights and corporate actions

Recommendation 9a

Do you agree that recommendation 9a is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 9b

Do you agree that recommendation 9b is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 9c

Do you agree that recommendation 9c is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 9, how would you amend it?

Recommendation 10: Cloud

Recommendation 10a

Do you agree that recommendation 10a is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral

- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 10b

Do you agree that recommendation 10b is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 10c

Do you agree that recommendation 10c is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 10, how would you amend it?

Recommendation 11: Pensions

Recommendation 11a: Pension dashboards for Member States

Do you agree that recommendation 11a is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 11b

Do you agree that recommendation 11b is important?

- 1 - Not important at all
- 2 - Rather not important

- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 11c

Do you agree that recommendation 11c is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 11, how would you amend it?

Recommendation 12: Financial literacy/education and investment culture

Recommendation 12a: Recognition of financial knowledge and skills as a priority

Do you agree that recommendation 12a is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 12b

Recommendation 12b(i): EU competence framework on financial competence

Do you agree that recommendation 12b(i) is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 12b(ii): Working groups with Member States

Do you agree that recommendation 12b(ii) is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 12b(iii): Indicator on financial education

Do you agree that recommendation 12b(iii) is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 12b(iv): EU-coordinated approach for Member States to set up tests

Do you agree that recommendation 12b(iv) is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 12c: Erasmus+ or other EU funding programmes

Do you agree that recommendation 12c is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 12d

Do you agree that recommendation 12d is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral

- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 12e: Financial guidance

Do you agree that recommendation 12e is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 12f: Collective redress

Do you agree that recommendation 12f is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 12g: Employee share ownership (ESO)

Do you agree that recommendation 12g is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 12, how would you amend it?

Recommendation 13: Distribution, advice and disclosure

Recommendation 13a: Inducements

Do you agree that recommendation 13a is important?

- 1 - Not important at all
- 2 - Rather not important

- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 13b: Qualification of advisors

Do you agree that recommendation 13b is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 13c: Non-professional qualified investor category

Do you agree that recommendation 13c is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 13d: Disclosure

Do you agree that recommendation 13d is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 13e: Investment product databases and comparison tools

Do you agree that recommendation 13e is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important

Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 13, how would you amend it?

While FESE finds this recommendation rather important, we believe it should ensure that it delivers execution quality for retail investors on venues.

MiFID II sets out best execution rules requiring brokers to execute orders on terms most favourable to the client, taking into account both execution costs (trading fees) and market quality (price, timing, and likelihood of execution). Typically, this involves connecting to a range of venues to secure the most favourable execution solution for a given order.

Based on information provided in their best execution reports, some execution providers advertise access to a range of venues but send the majority of their order flow to a limited selection of alternative venues or systematic internalisers (SIs) which do not charge trading fees, while maintaining minimum trading activity on exchange. The Commission should investigate the impact on retail investors and market quality of such practices and whether they are truly obtaining best execution. While 'free trading' solutions can appear superficially attractive to retail investors (via the suppression of fees for the execution of client orders), they may lose out in terms of the final execution price of their order.

Recommendation 14: Open finance

Recommendation 14a

Do you agree that recommendation 14a is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 14b

Do you agree that recommendation 14b is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 14, how would you amend it?

Recommendation 15: Withholding tax

Do you agree that recommendation 15 is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 15, how would you amend it?

Recommendation 16: Insolvency

Recommendation 16a

Do you agree that recommendation 16a is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 16b

Do you agree that recommendation 16b is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 16c

Do you agree that recommendation 16c is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 16, how would you amend it?

Recommendation 17: Supervision

Recommendation 17a: ESMA

Do you agree that recommendation 17a is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Recommendation 17b: EIOPA

Do you agree that recommendation 17b is important?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

If you disagree with all or part of recommendation 17, how would you amend it?

ESMA powers were recently assessed and amended under ESAs' Review discussions and we believe that the priority should be to implement these changes properly and assess their impact in the first instance. In terms of future changes, we do not support moves towards direct supervision by ESMA under any timeframe. Generally speaking, ESMA has the appropriate mandate and tools to pursue convergent supervisory powers. National competent authorities have the competence, expertise, and knowledge to pursue the tasks under their regulatory and supervisory remit. However, notwithstanding the point on priorities above, we generally welcome the proposals in 17a on strengthening supervisory convergence under the current structure apart from unspecified "emergency powers" and further product intervention, among other interventionist measures.

18. European consolidated tape (ECT)

Do you consider that the creation of a European Consolidated Tape is important to the Capital Markets Union?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don't know / no opinion / not relevant

Could you please explain your response on the importance of the ECT?

Characters limit (including spaces) is up to 2,000

FESE does not think that the creation of a European Consolidated Tape is a pre-requisite to the success of the Capital Markets Union. However, the role that lit markets play in delivering the Capital Markets Union (CMU), as well as the importance of the price formation process, should be considered in the CT debate as a matter of priority. A well-functioning equity markets structure which incentives transparency for a robust price formation process, and would reduce fragmentation, benefit companies (getting better valuations) and protect investors (getting a fairer and safer outcome) is key to the CMU.

While we acknowledge there is a need for consolidation when it comes to OTC and SI data, we believe a post-trade Tape of Record would represent the most appropriate solution to address these needs. Such a tape would be the easiest and least costly to build, while also avoiding latency and arbitrage issues as well as delivering clear value to market participants by supporting portfolio valuation, transaction cost analysis, and the building of some trading strategies.

A "Tape of Record" covering overall liquidity - 100% coverage of transactions in the market (including SIs and OTC transactions) - would best meet the needs of users and the market whilst providing a less resource intensive option. A convincing use case is particularly important to ensure that the tape does not add costs (i.e. infrastructure and maintenance costs) without any clear benefits, which would make it a disproportionate intervention. Hence, a cost-benefit analysis is highly recommended before anything is proposed.

Other recommendations

Are there any other recommendations that are not included in the HLF report that you think are crucial for the completion of the Capital Markets Union?

Characters limit (including spaces) is up to 2,000

Securing transparent and orderly secondary markets

FESE believes that for a proper completion of the Capital Markets Union, the re-design of the equity market structure should take priority. The report states that there is a need to re-equitize the economy. Securing the right market structure for European public capital markets will deliver price formation thereby serving companies and investors.

To have more equity, the set of rules that govern the functioning of trading in secondary markets should be simplified, with the objective of achieving improved levels of transparency in Europe.

Restricting Systematic Internalisers (SIs) equity trading to above the Large-in-Scale (LIS) threshold would be an efficient way to incentivise lit trading, ensure the quality and robustness of price formation, and simplify the rules and facilitate supervision, in line

with the initial objectives of MiFID II. The double volume cap mechanism would become redundant, since pre-trade transparency waivers would be limited to the LIS and order management facility (OMF) waivers.

A well-functioning price formation process is key to the stability and resilience of public capital markets - as recently demonstrated by the “flight to quality” in the Covid-19 crisis - and has a positive impact on the cost of capital for the broader economy, in view of a successful CMU.

Smart Regulation

Any future legislative proposal should be based on the fundamental principles of the Better Regulation toolkit, driven by the principle of “one rule in, one rule out”.

We need to avoid the “one-size-fits-all” approach. For instance, MAR applies the same rules for debt as for equity instruments, even though the potential risk of market abuse via debt instruments is far lower. This approach is driving debt issuers away from the EU, which goes against one of the Capital Markets Union’s objectives.

Finally, comprehensive impact assessments, including comparative analysis with third countries jurisdiction, will be key in future legislative proposals. This is key within the context of Brexit.