



Press release - Let's (finally) complete the Capital Markets Union

Thursday, 24th September 2020

FESE strongly supports the proposals outlined in the new Action Plan for 'A Capital Markets Union for people and businesses'. Given the current economic crisis, we commend the European Commission on forging ahead with this project and its call for all to unite in shaping an effective European Union (EU) capital market strategy.

An economically stronger Europe will better serve its citizens. The CMU Action Plan, if implemented effectively, will be crucial in safeguarding an EU wide approach towards economic recovery from the pandemic. As demonstrated during the crisis, equity is needed to buffer exogenous shocks and will be needed more than ever; hence, public equity markets can help companies weather the crisis and finance their post-crisis growth.

However, we encourage policy makers to be even more ambitious to finally complete the CMU by 2024. To have more liquid and efficient markets, the set of rules that govern the functioning of trading in secondary markets (i.e. MiFID II/MiFIR) should be simplified, with the objective of achieving improved levels of transparency and strengthened price formation in the EU. Let's not forget that MiFID is at the heart of capital markets regulation. To ensure a successful CMU, a review of previously unmet objectives within MiFID is urgently required. In the absence of a review of MiFID II alongside this project, progress on the CMU will be hindered by the constraints in the current regulatory framework, in particular in relation to the lack of transparency.

The CMU Action Plan indicates that a true single market cannot exist without a more integrated view of EU trading and suggests the creation of a European Consolidated Tape (ECT). The lack of transparency in EU equity markets is, however, deeply rooted in a flawed equity market structure contrary to the original aims of MiFiD II/MiFIR¹. The ECT will not solve this fundamental problem. A well-functioning equity markets structure, which incentivises transparency and creates a robust price formation process is paramount to an effective CMU, as it reduces fragmentation, benefits companies (getting better valuations), and protects investors (getting a fairer and safer outcome).

It should be noted that the CMU High Level Forum (composed of industry, retail investors, regulators, and policy makers) did not identify a ECT as a game changer for a renewed CMU. Participants struggled to agree on a precise model for the CT which would deliver concrete improvements without excessive costs or disruption to the market. Without fixing the underlying design of an adequate market structure as well as the set of reporting rules that cover 100% of all transactions beforehand, the ECT will not deliver anything meaningful. Investors must be empowered to understand how and where their executions happen. Market transparency is required first and foremost, an EU tape could then be achieved by consolidating available information. Let's not put a costly band-aid on a wooden leg!

The EU needs to be ambitious and there are many positive actions in the CMU action plan which includes simplifying listing rules, establishing a SME IPO Fund, applying a common standardised EU-wide system for withholding tax, and an EU single point of access, amongst other projects. But the CMU cannot be built in a single stroke. If we don't tackle the core problems within MiFID II right now, the CMU project will not realise its ambition of making the EU's economy more innovative and competitive and ready to face global competition head on.

In the words of President Von der Leyen '*let's finally complete the Capital Markets Union*' by tackling the core issues in MiFID which will hold this project back, if not addressed now.

¹ <https://fese.eu/app/uploads/2020/07/200730-FESE-Paper-on-the-Evolution-of-EU-Equity-Market-Structure-Final.pdf>

Information for the Editor:

The Federation of European Securities Exchanges (FESE) represents 36 exchanges in equities, bonds, derivatives and commodities through 18 Full Members from 30 countries, as well as 1 Affiliate Member and 1 Observer Member.

At the end of August 2020, FESE members had companies listed on their markets, of which are foreign companies contributing towards European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access capital markets; companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union.

FESE is registered in the European Union Transparency Register: 71488206456-23.

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