CMU: WHAT CAN BE ACHIEVED BY Q1 2024?

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From Capital Markets Union to Capital Markets Growth

The CMU project has been flying around since 2015. There were two main goals: to make capital markets more integrated and to make them larger, attracting more companies to them. I think the time has come to concentrate on the second objective.

The word "Union" is starting to become misleading of the true priority, growth, for three reasons.

First, because it implies that regulation or supervision of securities markets are still fragmented. Maybe this was the case in 2015, but it is not anymore in 2023. Since 2015, we have in place a fully harmonized regime, through regulations, for registry and settlement (CSDR), prospectuses (Prospectus Regulation), EMIR Regulation, and trading and reporting (MIFIR). We have a single settlement point in the Euro area (through T2S). We have also made good progress on true convergence of supervision of issuers of securities. ESMA has reinforced powers and brings deeper convergence each year. Financial reporting and prospectuses, the two main avenues through which issuers inform the markets they tap, are so closely aligned across Member States that even ESMA recognises this through its public reports. Some areas do require further progress, like a single point to access information on issuers and products or the consolidated tape. But those are information systems, not a transformational initiative of market structure or integration.

Second, because the word union resonates unhelpfully to Banking Union, in which the priority was to centralize the supervision of the largest players, as a response to the sovereign debt crisis due to the link between banking and sovereign risk. Nothing of this sort is needed today in capital markets. We are not facing any "market failure" in terms of wrong way risk or supervision shortcomings that would require to reshuffle the deck of supervisory competences.

And third, because in practice companies and investors are already freely picking their market of choice. There are Spanish companies that issue and list bonds in Ireland, or that decide to register their shares in the Netherlands or in Portugal. We have companies from Luxembourg, Romania or France listing their shares in Spain. We have CSDs and CCPs from all these countries providing services to issuers and investors seamlessly in other Member States. And we have 50% of the investment funds bought by Spaniards coming from other Member States.

The comparison with banking markets is striking. We just need to compare where investors place their savings (in funds investing all over Europe) to where depositors hold their deposits (almost exclusively in banks of their own country). Or compare where companies that go public have their shareholders (all over Europe and the world) with where companies obtain their bank financing (almost exclusively in their own member state).

Although EU capital markets are reasonably integrated, way more than banking markets, they are scaringly small. We still have 3 times less market-based financing than the US. The primary equity markets have run dry in the last two years in many countries. With governments having to consolidate public finances in the next decade and banks facing new and increased risks, that is a truly risky situation for the European economy. Without larger and deeper capital markets, EU companies will not be able to finance the huge investments they face to accommodate the two large transformations: digital and green. We need to pursue, urgently, deeper capital markets, not more integration. It's more market-finance growth, not "union" what matters now.

How to do that, is sufficiently understood by the Commission and the co-legislators. The plan is there, we just need to deliver it. We need to make it cheaper, simpler, and quicker for companies to tap the markets (through the Listing Act and similar initiatives, including tax incentives). We need to make it easier, safer, and simpler for retail investors to invest in bonds and shares, either directly or through investment funds (through the AIFMD/UCITS and Retail Investment Strategy initiatives).

We need to make it cheaper and simpler for institutional investors to access the already highly comparable information (ESAP). And, very importantly, we need to break the equity-debt asymmetry that companies face when deciding how they finance an investment (through the DEBRA initiative). This tool, DEBRA, is probably more important for the attraction of EU companies towards equity markets than any of the other "classical" CMU initiatives.

And we need to do that quickly and boldly. With ambitious timelines and enough determination. But in order to be effective, I think we need to concentrate and focus now on the G (of growth).