

Report

EuropeanIssuers Capital Markets Webinar Series: EU Market STRUCTURE: How to make the EU markets accessible and fair for all?



EuropeanIssuer Capital Market Webinar Series

EU Market Structure: How to make the EU markets accessible and fair for all?

16 June 2022

14.00 – 15.30

Webinar Report

Moderator: *Abel Ferreira, Executive Director of AEM (Associação de Empresas Emitentes de Valores Cotados em Mercado) and board member of EuropeanIssuers.*

Speakers:

- *Prof. Danuta Hübner, Member of EU Parliament, Committee on Economic and Monetary Affairs*
- *Christiane Hölz, Managing Director of DSW and Chair of ESMA's Securities and Markets Stakeholder Group.*
- *Henrik Husman, President Nasdaq Helsinki*

An efficient market structure is a prerequisite for a successful Capital Markets Union (CMU). The EU needs a market architecture that funds the economy in the most inclusive and fairest way for all investors and issuers. European regulations like MiFID II/MiFIR provide some tools to support this vision. However, whilst the CMU is striving to improve the funding of the economy and foster investment, capital markets still present significant challenges for issuers and investors. This webinar will discuss how to overcome these challenges and what the focus of MiFIR review should be to increase transparency and make markets accessible and fair for all investors, retail and professional.

The webinar was structured around four questions to address this topic.

1. Since the launch of the capital markets union project in 2014, the gap between countries with well-developed and countries with less-developed capital markets seems to be widening rather than narrowing; how can we accelerate or transform European initiatives and plans, in a more achievable and focused way for bigger and better capital markets in the longer term?

Prof. Hübner agreed that there is fragmentation and gaps across the EU. Much of the work is focused on national capital and markets and not on the removal of cross border barriers. The project was initially launched as 'Union of capital markets' and not as a 'single EU capital market'. However, this could be solved with appropriate translation to convince European legislators, regulators, supervisors, national authorities, and market participants to move forward with CMU. The issue is also historical given that there has always been a

certain resistance towards further integration in segments of the economy. The 27 Member States need to agree on a common vision and political will is required to move towards European solutions to reduce the fragmentation and make European capital markets globally competitive. The regulation needs to be less prescriptive and not add regulatory burdens for companies and investors.

Ms Christiane Hölz, in her role as representative of the retail investors, explained that, with regards to the CMU, the EC plans to place retail investors at the hearts of its policies. CMU and well-functioning and integrated capital EU markets are even more important given the current context with Brexit, a global health crisis, inflation, sustainability and digitalisation shaping the financial sector, and the war in Ukraine, all these having a consequent impact on capital markets. In the context of the MiFID review, it was proposed to create a consolidated tape, however it seems that enhancing live trading in the EU seems more important and should have priority. According to ESMA, there are 296 trading venues and 172 systematic internalizers, making the process way too complex and does not help ensuring cost optimisation or to improve liquidity.

Mr Henrik Hussman agreed that a more efficient capital market was important. However, the issues are the divergences within the EU. NASDAQ operates in seven of the EU markets running exchanges, both small and large and they've noticed the importance and value of well-functioning local markets within the EU. The Nordic markets, when compared to US markets, are doing well, the data participation in equities market in Sweden and Finland show that it would actually be possible within the EU framework to create a fairly thriving equity market. Emphasis should be put on the measures that the member States would be willing to take. National initiatives to improve the markets already exist in some Member States and nothing is preventing other EU members to use good benchmarks to keep doing so. The trading participants in the Nordic markets are including global investment banks, meaning that special international flow is already well acquainted to access the EU capital markets.

2. How do you think the MiFID II/MiFIR post-implementation reviews and proposed changes can contribute for a European market structure that competes more successfully on a global scale, improving the current situation both for companies and for investors?

In her intervention **Ms Hölz** indicated that MiFID and MiFIR will improve the framework but had missed some opportunities to work on important points and believes that better harmonization is required to stimulate cross border trade to achieve a true integration of capitals markets. Ms Hölz added that, on one hand, it is essential to solve the market structure efficiency before trying to establish a consolidated tape and strong and liquid markets that contribute to price formation. On the other hand, the consolidated tape will not substitute the necessary reforms in the market structure. Several barriers are existing with regards to the EU capital market: Member States remain with a local saving culture and there are several legal instruments allowing regulatory arbitrage or gold plating.

Drawing from his experience, **Mr Hussman** agreed that there are a lot of differences between the Member States and there is a need to reach more of an equity culture in Europe. At the national level and within the EU framework, some improvements could also be made, for example regarding taxation. On NASDAQ's three Nordic markets (Sweden, Finland, Denmark), the use of investments savings accounts is well implemented and simplifies the tax treatment of equity investments and boosts the number of operator participants owning direct shares.

Regarding the national improvements, **Ms Hubner** explained that equity culture could not just be established by integration and created from Brussels, as it would have to be locally created. The Member States are all very different and the national solutions should be seen as complementary to the European ones. She insisted that fragmentation has an impact on the competitiveness of the European Capital markets and will also require capital coming from outside of the EU. In the meantime, the CMU should be exploited to its full extent. MiFID and MiFIR will supplement the current legislation. To reach same level playing field for the market participants, the instruments used will depend on the history of each Member State. Incentives should be sent and the global competitiveness needs to be showed. To this end, **Ms Hubner** added that it would require the support of a financial system that is built on trust in high standards. Regarding the consolidated tape, she concurred with **Ms Hölz** that it would not solve everything, although it is a first step towards reducing the overall cost of trading and the cost of market data. Globally speaking, the system needs less complexity, and the corporate bond market should be made more accessible, which would benefit both investors and companies. The supervisor needs to be empowered as for them to contribute to the activity of the system and its competitiveness.

3. Do you believe that the establishment of an EU wide consolidated tape will enhance transparency and increase competitiveness of EU markets in the global landscapes?

To answer this question, **Mr Husman** first mentioned that NASDAQ was welcoming the creation of an EU wide tape. However, a lot more should be and could be done regarding the expectations management given that many expectations are currently laid on the tape and seems to be at the expense of the market structure reforms that are being discussed with the MiFIR review. The EU wide tape should be built properly, allow access to the trade information across all EU venues, provide transparent and qualitative data. A consolidated tape might also have a negative impact for the smaller exchanges, for example in the Eastern European exchanges which usually has up to a third of their revenues coming from the market data related sales. The consolidated tape would then compromise the ability of local exchanges to continue playing their role in the capital raising.

Ms Hölz sympathised with this opinion and added that, when looking at the regulated market at the stock exchanges, there is high-quality data accessible, however getting the data from non-regulated participants is a challenge given that it can take up to 10 steps and the data might not be understandable nor helpful to the investor. As a representative of the investors, she wishes for the parliament to listen to individual investors before making any

decision that might severely impact them given that, so far, it seemed that the EP and EC are not including the retail investors enough, for a post trade consolidated tape and for it to, by default, be accessible to the average retail investors, which, if it does not, will not have much added value. In **Ms Hölz** views', five requirements related to delayed market data are essential: data free of charge, directly available, easily accessible and in a non-discriminatory manner, in a format that can be understood by the average reader. The consolidated tape should focus first on the bond markets given that they are less transparent than others when it comes to liquidity and retail access.

4. How to avoid the consolidated tape to have a negative impact on the business model of stock exchanges?

Continuing her intervention, **Ms Hölz** indicated that it was essential to ensure that the consolidated tape does not distort competition in favour of the non-transparent venues and that it is freely accessible and user friendly to retail industries.

Prof. Danuta Hübner added that European harmonization usually does not come with simplification, especially when related to capital market. Retail and mid-size brokers will benefit the most thanks to the reduced costs to access data. Additionally, the investors won't have to go through several trading venues and won't have to buy expensive data packages from the vendor. The parliament does not have a final comment position on the consolidated tape although it agreed to have one consolidated tape per provider per asset class. Globally speaking, the model should avoid producing new burdens for the small stock exchanges. Following **Ms Hölz** comment on the need for a post-trade tape, **Ms Hübner** added a pre trade tape would also be a tool to improve the best execution framework in Europe given that it would provide a price benchmark against which trading across Europe could be measured. Additionally, pre trade data is the data on which exchanges make the most of their money as it is the most valuable data. The Parliament is discussing its position, although they do not know whether the Czech Presidency will work on it but are discussing with the Swedish presidency to see how soon it can get implemented in the system.

Following a question from the moderator on the economic and technical barriers to the development of the EU markets, **Ms Hölz** answered that, adding to the different barriers mentioned earlier in the webinar, issues lie within the insolvency law and the tax law. She illustrated her opinion with the example of the Nordics getting a high amount of IPOs compared to Germany and explained that, to her, the pension system is very much different and could be one the tax variable getting an impact on the amount of IPOs. Additionally, the regulation should allow a better start-up scene to attract SMEs, young and creative companies and make the markets more accessible.

To improve the capital market in the EU, **Mr Hussman** mentioned that accepting the English language in the prospectus should help in attracting cross-border investment. To this point, **Ms Hubner** agreed that a single EU IPO document would help IPOs to take place in the EU rather than in the US.

From a more historical perspective, **Ms Hubner** gave further explanations and mentioned that when the test plan for the CMU was launched, it hoped to create equity culture and to facilitate reaching out to potential clients and potential citizens interested in taking their savings somewhere else than just a deposit at the bank. On this matter, work still has to be done, but not only at EU level but also at local level. Getting more regulation will not mean better regulation, they have to be careful with it. EU regulation means 27 member states are taking part in the discussions and it can't end up in overregulation. A better regulation can only come with good cooperation between the legislators, the regulators, supervisors, stakeholders, and national competent authorities.

EuropeanIssuers is a pan-European organisation representing the interests of publicly quoted companies across Europe to the EU Institutions. There are approximately 13,225 such companies on both the main regulated markets and the alternative exchange-regulated markets. Our members include both national associations and companies from all sectors in 14 European countries, covering markets worth €7.6 trillion market capitalisation with approximately 8,000 companies.

We aim to ensure that EU policy creates an environment in which companies can raise capital through the public markets and can deliver growth over the longer term. We seek capital markets that serve the interests of their end users, including issuers.

For more information, please visit www.europeanissuers.eu.

For the recording of the webinar, please visit [EuropeanIssuers YouTube Channel](#).

This webinar session is sponsored by  **Nasdaq**.