EURONEXT

MEMO

CMU 2.0 priorities

A. CMU – the role of capital markets

The existence of strong and liquid capital markets supports the growth of the European economy. It provides access to capital markets for issuers, including SMEs, providing reliable price formation and risk management. Capital market financing also supports and adds discipline to the transformation to a green and digital economy. Public markets are one of the major transmission tools towards greater sustainability and digitalisation, encouraging best practices in corporate governance, the internationalisation of companies, transparency, and environmental stewardship.

Capital markets can also promote a broader investor culture and a more efficient pension system. By easing pressure on public finances through improved risk-sharing, public markets play a vital role in societal wealth creation and can complement public pension systems.

As a true pan-European financial markets infrastructure provider across trading, clearing and settlement, **Euronext helps overcome issues of fragmentation**, providing benefits to investors and issuers alike. After Euronext migrated the trading of Italian securities on its proprietary technology platform in 2023, investors and issuers can now benefit from a single liquidity pool with an aggregated market capitalization of more than € 6.5 trillion. In 2023, c. 24% of European equity flows have been traded on the Euronext platform.

B. Addressing market fragmentation

Consolidation should be encouraged in Europe across the value chain and across asset classes. Financing the European economies is a critical industrial capability, and the next Commission must focus on creating a favorable environment for further consolidation opportunities to emerge.

Exchanges and post-trade infrastructures have played a large part in furthering the CMU. Euronext has spent considerable efforts in connecting capital markets by way of consolidating orderbooks, forming one single liquidity pool for markets and is promoting harmonization of its CSDs through its Euronext Securities projects. It is important to note that consolidation efforts are individual strategic business decisions that respond to economic realities and growth prospects. Any further consideration of consolidation steps should go hand in hand with a recognition of exchange groups and strengthening of the harmonised regulatory framework to allow exchanges to operate in a consolidated manner. This is a necessary precondition for companies to decide on consolidation steps in a commercially reasonable manner and to respect their shareholders' interests.

It should furthermore not be forgotten that consolidation alone is not the silver bullet. **Divergent applications of European rules** across its European markets must be addressed. We must progress towards **a single set of rules, enforced by a single supervision authority** which will reduce complexity. This requires the phasing-out of national exemptions and domestic 'goldplating' of EU regulations, and an empowered, and necessarily reformed, European Securities and Markets Authority.

C. Priorities for the next mandate

The next mandate should focus on:

a. **Implementation and assessments of the result**: It is critical to advocate for a legislative pause and focus on implementation, especially where it regards recently agreed packages on the ESG front and the digital area.

b. **As a general principle,** newly proposed regulation and supervision of financial services should incorporate the following key elements:
   i. A systematic "competitiveness test" with a clear assessment, before introducing new rules, whether such new rules will weaken or strengthen European companies and beyond the European strategic autonomy.
   ii. Simplification as an overarching approach encompassing simple access to markets, simple listing rules, convergence in supervision.
   iii. Maximum harmonization.

c. **Regulatory and supervisory simplification.** A focus is needed on necessary adjustments to facilitate the ability of European financial market infrastructure to deliver positive and harmonised outcomes for the real economy and citizens. The current complexity prevents value creation commensurate with the potential of European economies. In this respect we see two options:
   i. We believe we should work towards **ESMA supervision as the single regulator**. Pan-European groups should transition under a single supervision authority to ensure a true level- playing field with subsidiaries of global financial firms operating from a single country
   ii. In the interim, whilst taking steps towards this goal, we need to tailor the regulatory regime applying to exchanges taking steps to acknowledge the concept of a group of exchanges operating in more than one country in the EU. The condition for these exchange groups to fully operate on a consolidated basis is the need for a true single rulebook, no local gold-plating and fully harmonized supervision. The consolidated groups **should be allowed to organise the group and its functions as if it were one legal entity.** Only then can financial market infrastructures create full value and efficiency. This requires a mindset change where national supervisors look for the interests of the total markets across the borders of their own jurisdiction.

d. **Incentivize public and private savings into equity markets**. Europe has a prevailing culture of risk aversion and overall lacks a vibrant equity culture. The bias towards debt and bank financing, coupled with an abundance of retail bank savings, creates a climate of cautious investment. European households hold €10 trillion in cash within their bank accounts, and fewer than 10% of them are actively engaged in direct equity holdings[1]. This risk aversion not only limits the diversity of investment portfolios and the resilience of pension

[1] ECB, https://www.ecb.europa.eu/pub/pdf/scpsps/ecb.sps46~3563bc9f03.en.pdf?0a1159f78d18c469a8cd9348bada56b9

systems but also contributes to a scarcity of early-stage funding for innovative ventures, hindering the growth of startups. **Measures like a revamped equity fund or debt-equity bias reduction allowance** would help channel these savings into listed equity and provide solid returns for citizens.

e. Learning from experience and best practices will be key to encourage **retail investor participation.** In this sense, the Retail Investment Strategy (RIS) proposal could offer a unique opportunity to increase retail investors' participation in EU capital markets. We suggest reconsidering the current proposals moving beyond discussion on costs and risks and consider the true purpose here: provide and promote retail access to capital markets and focus on a more investor-centric approach that looks into the goals and strategies of retail investors, their behaviour, risk appetite and their investment priorities. We need to take a balanced approach that takes into account investor protection concerns while incentivise retail investor participation in capital markets and their access to a diversified product offering, through (i) a harmonized treatment of retail investors across Member States, (ii) a roll-out of systematic financial literacy training and (iii) measures to incentivise research coverage to improve transparency on listed companies.

f. **Tap into long-term saving plans through tax-efficient saving schemes** – including capital gains, income, and inheritance tax exemptions – which promote investment in European companies and a diversification of assets to balance risk with their time horizon. These plans should have simple eligibility criteria and include a proportion of investment in European public equities, to address the global mandate of investors and the rise of passive investments.

g. **Supporting cross-border investments:** the EU needs to prioritize cross-border investments as a key objective and facilitate financial market infrastructure in their consolidation. Challenging areas that require regulatory harmonization should finally be addressed, notably insolvency laws and remaining required adjustments to the post-trading regime.

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