Efficient public capital markets and their core role in driving European economic growth and investment.

Responding to the economic challenges of Covid-19 and supporting EU strategy

Brussels, 15 February 2021

The economic fallout from the COVID-19 pandemic, aligned with high levels of public debt and a continuing over-dependence on the banking sector, underlines the importance of developing a more strategic approach towards the development of European public capital markets, to drive the recovery as well as *sustainable*, economic growth in the EU.
Our policy recommendations to overcome the effects of the crisis are based upon our mission and values.

The value of exchanges and public capital markets

It is the firm conviction of FESE members that European capital markets deliver great structural benefits to the EU. Among others, they:

- Contribute to the financing of European companies, from large caps to SMEs.
- Provide investment opportunities to all investors, notably retail, and contribute to financial stability by providing opportunities for financial diversification.
- Reduce the pressure on public finances via enhanced private investments and risk sharing and support an overextended banking system (e.g. securitisation).
- Guarantee participation in wealth creation for our society and complement public pension systems.
- Support transformational challenges (sustainability and digitalisation, in particular).
- Enhance competitiveness and attract global capital and investments.

European exchanges have always been at the heart of EU initiatives that strengthen European public capital markets and look forward to working with all stakeholders on achieving the ambitions set out by the CMU.

The EU is at a crossroad, the direction we take will determine our global competitiveness and ability to successfully manage the transformative challenges – such as climate change, digitalisation, strategic sovereignty. A collective action by European and Member State policy makers is needed to ensure that European companies, from large caps to SMEs, can raise finance efficiently through public capital markets, and that investors, particularly retail, benefit from the opportunities such investments provide. Financial Market Infrastructures and public capital market ecosystems will also play a central role in addressing these challenges by continuously providing finance to the real economy, contributing to financial stability and maintaining the efficiency of markets.

FESE strongly supports the European Commission’s new Action Plan on the Capital Markets Union (CMU) as well as the initiative to strengthen the international role of the euro.

In order to support these goals, a focus on three critical areas is required: inclusive growth, empowering investor participation in a sustainable economy and fostering transformative innovation.

1. **Europe needs to recapitalise its economy and deliver inclusive growth.**

   a. **MiFID II Review: Competitive and efficient markets that deliver for issuers and investors are the foundation for growth and innovation.**

   i. **The CMU Action Plan must be closely linked to the upcoming review of the MIFID II framework.** Greater transparency and effective order interaction should be promoted. EU regulation should promote robust liquidity mechanisms and protect the price formation process. The continued fragmentation and opacity of the markets are harmful as they weaken market prices and increase costs for investors. [1]

   ii. **It is not an EU consolidated tape on its own that will solve market structure issues.** It is a coherent market structure fostering transparency together with a post-trade Tape of Record which strengthens capital markets and benefits investors and companies. In addition, investors need to be empowered to verify how, when and at what cost transactions were executed.

   iii. **Non-discriminatory access for exchange-traded derivatives must be repealed quickly.** Transparent and regulated derivatives markets are already vigorously competitive, offer product innovation at both a regional and international level, and, through centralised trading and diversified CCP clearing, avoid excessive risk concentration and optimise price formation. Exchanges have delivered a multi-faceted solution in support of CMU objectives including support for the international role of the euro without the need for any policy intervention. Non-discriminatory access is an obsolete policy and is now inappropriate for the EU as we focus on improving EU capital markets for the benefit of end investors. A solution needs to be found quickly before this policy in enacted causing harm to the foundation of EU capital markets.

   b. **The Recovery response must support entrepreneurs and jobs.**

   i. **SMEs need easy access to finance to be able to support an increase in jobs and growth.** While the need for more equity in Europe is already key in normal times, it is even more relevant now. This crisis has shown that the banking system on its own is not enough. When solvency is in question, equity is needed to buffer exogenous shocks. Public equity markets offer exactly this to companies, an avenue to raise equity capital. Policy makers need to be more ambitious to deliver a CMU that works for people.

   ii. **The recovery and growth must also benefit EU citizens.** Long term investors and pension savers will benefit by ensuring that the early and successful implementation of key CMU actions foster "retail" investments in capital markets, in particular small and mid-caps. Obstacles against direct "retail" investments in listed instruments such as shares, bonds and low-cost ETFs must be removed and employee share ownership should be promoted to foster an equity culture in Europe. A true CMU needs to empower citizens to realise direct investment opportunities into securities across borders without frictions and at low cost.

   iii. **The creation of the EU IPO fund is vital.** While contributing to IPOs, it should also support listed SMEs that want to tap into additional funds in the market and promote broad-based stock indices and related "retail" investment products which could facilitate more access to pension savers (as small and mid-caps have

[1] FESE Views on MiFID II Review for equity market structure and market data - https://fese.eu/app/uploads/2021/02/210215-FESE-Views-on-equity-market-structure-and-data_Final-.pdf

FESE Avenue de Cortenbergh, 116, 1000 Brussels — info@fese.eu — +32 2 551 01 80

in the US). This would also provide a more effective “exit” option for private equity investors and managers.

c. **Public policies need to support the objectives of the CMU.**

i. **EU Institutions need to prioritise CMU now more than ever in order to promote EU competitiveness.** The CMU needs to ensure that we create attractive financing conditions for companies, to include IPOs through renewed focus on equity investments, while preserving local ecosystems. Rules that unnecessarily focus on short-term corporate performance should be re-assessed. Incentives to create more long-term focus should be considered, to foster the innovation needed to protect our environment.

ii. **A financial transaction tax (FTT) is misguided as in reality it will harm the engine of growth for the (already) well-regulated public capital markets.** An FTT does not achieve revenue goals and results in additional taxation on individual investors, their personal savings and retirement accounts, as well as employment-based pension plans which will lead to reduced activity in the sector and would be contrary to the aims of CMU.

iii. **Tax policies need to be re-written in order not to discriminate between debt and equity, ending the debt-equity bias.** Withholding taxes needs to be simple, harmonised, and transparent in the EU. Any further harmonisation of insolvency laws, tax base and accounting standards will help investors to analyse issuers more easily between countries.

2. Empowering investor participation in a sustainable economy.

a. **Making capital markets accessible and fair for the end-investor.**

i. **The CMU must look after the savings of households and integrate retail investors into capital markets.** Too often citizens are only offered expensive packaged products by intermediaries rather than direct investments without management fees. To incentivise active retail participation and financial planning, simple, cost efficient products like listed shares, bonds and low-cost index funds must be easily accessible across the EU. In addition, a focus on increasing sustainable returns will further increase investor engagement.

ii. **End-investors must have easy access to high quality market data for the entire market.** Whether their trades are routed to Regulated Markets or to “dark” venues they must be able to verify execution quality of each transaction to ensure they truly received best execution. A Tape of Record that covers 100% of all transactions will benefit investors and the entire market by allowing verification of best execution.

iii. **Returns from payment for order flow should be prohibited or the profit resulting from this should always be passed on to the client.** New trading models involving retail order flow should be assessed against the requirements set for regulated markets, with particular consideration given to their contribution to efficient price formation and compliance with the MIFID II transparency requirements. A review should be undertaken of payment for order flow models with a view to ensuring that Best Execution requirements are met.

b. **Encouraging Sustainable finance**

i. **The financial sector is key to the global and EU sustainability agenda and can promote sustainable finance**. Achieved by incorporating environmental, social and governance (ESG) risk factors into investment decision-making, and by supporting the allocation of capital to sustainable initiatives. EU citizens as individual ESG-minded investors should get robust, fact-based, and consistent “ESG” brandings or labels to avoid greenwashing and foster genuine

FESE Avenue de Cortenbergh, 116, 1000 Brussels — info@fese.eu — +32 2 551 01 80

improvements of ESG factors. In developing ESG standards, it is important to take a global approach, especially in the field of Fixed Income. The Commission's initiative on the International Platform on Sustainable Finance in this regard is very welcome.

ii. **FESE stands ready to support the issuer community with respect to the upcoming changes in reporting on sustainability**. The recent launch of the FESE ESG Guiding Principles for issuers is an important example[1] of our commitment to this field. Vital to the progress in this area, is unlocking the data reported by issuers and used to inform the investor community. FESE therefore also supports the proposal on a European Single Access Point.

3. Fostering Innovation to drive the next era of the economy.

a. **Cloud Computing**
The cloud promises to lower costs and bring the benefits of advanced technology to more people. We should not over-regulate this key technological advancement. Harmonising regulation across borders within the EU would facilitate economic efficiency, competition, and EU investor protection.

b. **Cybersecurity**
More coordination is essential if we are to stay ahead of the growing threat of cyber-attacks on business. Divergences on cybersecurity resilience are counterproductive and should be harmonised. Many financial institutions operate on a cross border level serving the EU capital market. A more harmonised approach would avoid the need to comply with different national approaches to cybersecurity and boost resilience on a European level. Again, taking into consideration standards on global developments will maximise efficiency. Reporting requirements should be aligned in terms of formats and timelines whilst respecting local proximity and competence of regulators.

c. **Distributed Ledger Technology (DLT)**
DLT should be welcomed in financial and governance processes. DLT has shown to be useful in allowing the effective exercise of shareholders rights. However, it is important that the establishment of EU DLT legislative frameworks provide for a regulatory level playing field striking the right balance between innovation, investor protection and market integrity.

d. **Artificial Intelligence (AI)**
New products that flow from the development of artificial intelligence technology will transform the 21st century economy as electricity did to the 20th century. China and other jurisdictions recognise this and are engaged in rapid and sizeable public investment in partnership with the private sector. The EU needs to take on this competition with strategic, long-term investment.

FESE Avenue de Cortenbergh, 116, 1000 Brussels — info@fese.eu — +32 2 551 01 80

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 January 2021, FESE members had 8,385 companies listed on their markets, of which 15% 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 1,222 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.