



## Press Release - Realising the Capital Markets Union ambition

Improving European capital markets requires a holistic look at legislation to ensure they have the lowest cost of capital accompanied with the highest depth of liquidity. The major reforms currently being discussed by the co-legislators are a true opportunity to strengthen capital markets and increase their attractiveness and resilience, which are critical to fostering economic growth in an increasingly volatile and uncertain macro-economic environment.

Brussels, 13<sup>th</sup> April 2023

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European Union (EU) political leaders have recently called<sup>1</sup> for greater ambition in the Capital Markets Union (CMU) project to provide effective financing and channel Europe's savings and foreign investments into economic growth. This call came just a few days before the recent banking turmoil, providing once again a knock-on effect on investors' trust.

With rising interest rates, a lower capacity of banks to finance the economy and more restrained public budgets, capital markets matter more than ever. Strong capital markets play a key economic role as drivers of growth and wealth creation, but also for resilience against exogenous shocks.

So far, CMU has not reversed the over-reliance on bank funding nor managed to mobilise the capital of European citizens. A sound market structure is critical to attracting sustainable participation from both issuers and investors within the capital markets ecosystem. The consistent EU call for strong capital markets, requires a robust listing and trading ecosystem, where fairness and transparency are upheld to the highest standards.

The Listing Act proposal has been a welcome step in this direction: the current proposals strike an effective balance between providing investors with the information they need whilst making listings more efficient and effective, empowering companies to list in Europe. "This must be a wake-up call to make listing attractive again, with less burdensome requirements," said FESE President, Petr Koblic.

The long-awaited Retail Investment Strategy will also be crucial to mobilise EU citizens' savings and increase the liquidity of EU capital markets. We need to mobilise the retail base to have participation levels like those of Anglo-Saxon countries, lowering the cost of capital for issuers and improving returns for investors.

Further down the EU capital market value chain, the current review of MiFID II/MiFIR is a true opportunity to create the strong, liquid capital markets that Europe needs to finance innovation and the sustainable transition. Addressing the main shortcomings of EU market structure, by enhancing market transparency, fairness for all investors, notably retail, and striking a balance between trading models and the negative side-effects of fragmentation should be the core priority of the current review, which will frame the functioning of EU capital markets for the coming decade.

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<sup>1</sup> <https://www.ecb.europa.eu/press/blog/date/2023/html/ecb.blog.230309-addaac5e08.en.html>

Firstly, the Consolidated Tape should be carefully designed. It has the potential to support all market participants' non-trading use cases (from issuance management, to portfolio valuation, best execution monitoring and post-trade management), via a real-time feed of post-trade information and including pre-trade information at the time of the transaction execution (consistent with the Council proposal). Yet, as demonstrated by the US tapes, this Consolidated Tape should not be perceived as a magical solution to the current issues of an unlevel playing field for investors, dark trading and fragmentation in the EU. The inclusion of real-time pre-trade data, as per the European Parliament proposal, under these conditions would only further distort EU market structure.

Secondly, addressing the trading transparency and fairness issues will require the strengthening of the investor protection framework, with a formal ban on Payment For Order Flow and a careful framing of the Systematic Internaliser regime, to ensure trading away from displayed prices (i.e. midpoint trading) is limited, as per the European Parliament proposal.

“Policymakers have a last chance under the current mandate to improve the regulatory environment in capital markets with coherence, so Europe enhances its competitiveness and resilience. Market structure rules and the consolidated tape must go hand in hand; they need to be well synchronised and calibrated, an aspect so far not discussed by policymakers,” said FESE Director General, Rainer Riess.

#### Note to editors:

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**For further information, please contact:**

**Marián Caro Martínez-Berganza**  
Communications officer  
Federation of European Securities Exchanges  
Email: [caro@fese.eu](mailto:caro@fese.eu)  
Tel: +32 2 551 01 87

#### About FESE

The Federation of European Securities Exchanges (FESE) represents 35 exchanges in equities, bonds, derivatives and commodities through 16 Full Members and 1 Affiliate Member across 30 countries.

At the end of February 2023, FESE members had 8827 companies listed on their markets, of which 17% 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; 1676 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.