CONFRONTATIONS EUROPE

HOW CAN THE CMU CONTRIBUTE TO FOSTERING THE EUROPEAN FINANCIAL SYSTEM IN THE CONTEXT OF THE ENVIRONMENTAL AND DIGITAL TRANSITION? – SUMMARY

SUMMARY OF DISCUSSIONS AT THE CONFERENCE ON 24 NOVEMBER 2023 ORGANISED BY CONFRONTATIONS EUROPE

On 24th November 2023, Confrontations Europe, in collaboration with the French Treasury and the AEFR organised, under the Chatham House Rule, the third edition of its annual conference on the Capital Markets Union around the Treasury representatives of six EU Member States :

- **Emmanuel Moulin,** Director General of the French Treasury
- **Johan Almemberg,** State Secretary to the Swedish Minister for Financial Markets
- **Gary Tobin,** Assistant Secretary General to the Irish Department of Finance
- **Alvaro LOPEZ BARCELO,** Director General of the Spanish Treasury
- **Christiaan Rebergen,** Treasurer General of the Dutch Ministry of Finance
- **Luca Ferrais**, Director, Head of the European and International Affairs and Sustainable Finance Unit at the Italian Ministry of Economy and Finance

The following report summarises the debates which took place on this occasion.

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Eight years after the Capital Markets Union was launched, it is a **good time to take stock.** The Eurogroup, in inclusive format, is working to present a plan on capital markets at the Summit of EU leaders in March 2024, ahead of the new Commission mandate. Major transformative steps have been taken such the European Single Access Point, the CSRD, MiFID and AIFM reviews, although EU capital markets remain less developed than in other jurisdictions, most importantly in the US. Perhaps moving towards one single union should not be a goal in itself, as long as companies can find the capital they require and cross-border obstacles are removed, and several "unions" could emerge. Participants agreed that major obstacles that are hard to address at EU level continue to be flagged by investors and companies, such as insolvency law, red tape, and withholding tax. While the Commission has tried to move on these topics, member states have been reluctant to move towards a European solution that is not the same as their own; perhaps instead they should genuinely look for the best practice in each field and accept that as a European model.

That the challenge is huge is not up for discussion – the **funding gap to address the double or even triple transition** (green, digital, and competitiveness) requires all possible funds to be mobilised. The gap could be as high as 988 billion euros for each year until 2030. A third of this amount, 330 billion, is available as a surplus of domestic savings. Part of it could come from Europe's venture capital sector, which is ten times smaller than in the US: if just 1% of pension fund savings could unlock 100 billion euros in venture capital.

Despite the significant challenge, Europe remains a key leader and model on the financial markets were Europe leads the world, in fields such as green and broader **sustainable finance**. EU financial instruments targeting ESG investments such as green bonds cover 40% of global activities, for 18% of the world's GDP. In that context, the Capital Markets Union can make a significant contribution to addressing climate change.

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While all participants shared the **need to get retail consumers to invest in financial markets**, they recommended different ways of getting an increased participation, which doesn't necessarily have to come from direct purchase of equity. Even though some countries support stock market participation through tax incentives, **pushing for direct participation is not always the solution**; it puts high demands on financial education, and many consumers do not have a very high risk appetite which would require diversification. Investment funds can also be a good alternative, or **even a special government-mandated low-cost savings account** such as the Livret A in France. The increased reliance on apps for selling investment products should not only be seen as a risk of investments shifting to crypto-assets, but rather as an opportunity for a new way of dialoguing and educating consumers, especially young adults. **Apps could also help to break the cross-border barrier** and encourage investors to again look beyond their borders. In this context, the Spanish Presidency aims to make progress on important targeted initiatives within the CMU such as the Retail Investment Strategy (even if views on distribution models and inducements clearly differ), the Listing Act and EMIR.

Finally, several participants brought up the idea of an **opt-in pan-European regime** in addition to national supervisory regimes, possible as an opt-in, 28th regime. This would have the added benefit for requiring a gradual upscaling of ESMA capacities, rather than a big-bang change as proposed by Christine Lagarde in her recent speech. Others supported a **stronger role for securitisation**, learning from the past mistakes and perhaps setting up a guarantee mechanism, a European version of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

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From left to right, the Treasury representatives Gary Tobin, Christiaan Rebergen, the moderator, Fabienne Lissak, Emmanuel Moulin, Johan Almemberg, Michel Derdevet, President of Confrontations Europe, Luca Ferrais, Didier Vallet, Chairman of the Steering Committee of the Cercles d'échanges of AEFR

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