Unlocking the Potential of European Capital Markets on the Global Stage

A truly pan-European market that is accessible and works for all

A strong, growing and global Europe is a Europe that is well-prepared to solve the problems of today and tomorrow. In order to achieve those objectives, we should strive to attract global capital flows, increase the visibility of European issuers across Europe and to the rest of world, make European markets easier and cheaper to access by European and non-European investors, and enhance European investment opportunities for all types of investors across all member states. By delivering a more attractive marketplace for issuers, investors, and market participants of all stripes, we will grow our capital markets and increase their collective strength to support and finance new and existing enterprises across the European Union.

Key Objectives of the Next Capital Markets Union

In our experience, investors are naturally drawn to markets that are integrated, efficient, accessible, driven to innovate, and incentivised to reduce suboptimal, high-cost outcomes. We strongly believe that we can make great strides in developing a market that achieves these outcomes if CMU initiatives prioritise:

1) customer choice, innovation, and incentives ***(page 2)***
2) legislative and regulatory efficiency ***(page 3)***
3) building an investing culture with education and access at the fore ***(page 4)***
4) avoiding unnecessary pitfalls ***(page 5)***

Cboe Recommendations

Customer Choice/Innovation/Incentives	Legislative and Regulatory Efficiency
• ***Identify a committed CT (Consolidated Tape) operator*** • *Preserve and extend choice in equities clearing and trading* • *Target tax neutrality; reduce debt/equity bias in corporate funding* • *Reevaluate certain prudential rules to attract market participants*	• ***Prioritise supervisory convergence and effective rulemaking/supervision*** • *Streamline listing processes* • *Streamline regulatory approval processes* • *Enhance ESMA capabilities with forbearance measures*
Investing Culture	**Pitfalls to be Avoided**
• ***Enhance access and financial literacy for retail investors*** • *Support early stage companies by filling the funding gap* • *Explore tax incentives for retail investment* • *Develop pan-European investment products*	• *Prioritising central supervision over supervisory convergence* • *Top-down consolidation* • *Single marketplaces for SMEs* • *Regulatory retracement in equities trading and post-trading*

Customer Choice, Innovation, and Incentives

Markets are attractive when service providers innovate and compete to deliver real choice to customers. If we respect and nurture innovation, prioritise customer choice, and target the right incentives, European providers can play a central role in delivering a more attractive marketplace for issuers, investors and citizens. We must continue to build an ecosystem that prioritises openness, integration and interoperability and avoid policies that incentivise infrastructures or service providers to sever pan-European networks or avoid pan-European solutions.

Policy Recommendations

1) **Identify a Consolidated Tape Operator Committed to Building an Effective Consolidated Tape**: The consolidated tape has the potential to deliver incredible benefits for European capital markets by increasing competition for market data, democratising access to data and enhancing visibility for EU issuers to the rest of the world – making it easier to invest in the EU and incentivising EU issuers to remain in the EU. It is vital that there is a competitive bidding process that results in an operator that is committed to providing a reasonably priced tape that enables broad adoption of the CT and provides a true consolidated picture of liquidity, therefore maximising interest in European companies from investors across the EU and globally.

2) **Preserve and Extend Customer Choice in Equities Clearing and Trading**: Customer choice is the foundation on which we can build a future CMU and enhance the attractiveness of EU markets. The elimination of the concentration rule and the adoption of interoperability in equities clearing are but two examples of regulatory changes that have dramatically improved customer choice in the equities market. The road to progress is forward not backward. We must embrace and extend customer choice by, for instance, extending interoperability in equities clearing to all European cash equities markets. If policymakers pursue regulatory retracement – whether by preferencing locally focused players or by pursing top-down consolidation of infrastructure – European capital markets will stagnate. We must pursue a CMU with customer choice at the fore.

3) **Target Tax Neutrality, Reduce Debt-Equity Bias**: Tax policy drives powerful incentives. We support efforts such as DEBRA (Debt Equity Bias Reduction Allowance) to analyse and reduce bias toward debt financing in national tax systems. Equity financing is an important, yet underutilized, mechanism that can drive economic growth and retail investment. We also encourage policymakers to expand beyond national tax systems to identify other frictions for equity financing vs. debt financing.

4) **Reevaluate Bank and Investment Firm Capital Requirements**: Markets are global. To build the competitive capital market of tomorrow policymakers must ensure that prudential regimes for banks and investment firms are properly calibrated. This will attract liquidity providers and banks to European markets, both of which are essential components of a healthy ecosystem and lead to beneficial outcomes for end users. In order for Europe to remain competitive we must incentivise liquidity providers and banks to grow in Europe.

Legislative and Regulatory Efficiency

Policymakers can play a significant role in attracting investors, issuers and service providers by delivering regulatory frameworks that are efficient, effective, and fit for purpose.

Policy Recommendations

1) **Prioritise Supervisory Convergence and Effective Rulemaking/Supervision**: To create a more integrated and attractive capital market it is important to pursue a cohesive and integrated regulatory framework. This requires a concerted effort to drive supervisory convergence across European markets. The begins with the legislative process. If we adopt *principles-based* Regulations rather than Directives it will be a helpful step toward harmonised, pan-European outcomes. If we pursue effective rulemaking that avoids regulatory duplication and "gold plating", we can develop a less complex market and more level playing field. If we avoid dual supervision but leverage the expertise and efficiencies of local supervisors while supporting ESMA's important convening, coordination, and enforcement role, we can drive convergence. However, central supervision itself will not make European markets more attractive. NCA expertise is essential. It is often the close collaboration with NCAs that allows new approaches to be discovered that benefit European markets. To the extent that central supervision is pursued, the process of collaboration and innovation should be embraced and enshrined at the EU level. Local NCA experts should be included in the process of collaboration and innovation (e.g., through Joint Supervisory Teams, CCP colleges, or adapting the principles underpinning the Single Supervisory Mechanism model).

2) **Streamlined Listing Processes**: The next iteration of the CMU must facilitate an EU listing experience that gives European issuers seamless access to European and global investors and allows multiple exchanges to compete for listings (corporate listings and ETFs) and offer secondary trading across markets. The Listing Act is an important legislative initiative that will ideally streamline the listing process and enable shares to be seen by the widest pool of investors by facilitating the admission to trading of small and medium-sized enterprises (SME) shares on additional trading venues. In addition, by implementing a regime that recognises the prospectuses of non-EU listed companies we can, over time, begin to incentivise issuers to access European capital markets through dual listings.

3) **Streamlined Product Approval Processes**: In order to develop an attractive and dynamic marketplace it is essential for product approvals to move at a reasonable and predictable pace. We strongly encourage policymakers to reduce duplicative oversight and decision-making mechanisms that delay product development and innovation. While this was an important goal of EMIR 3.0, additional work is necessary. This includes ensuring that administrative processes of NCAs, colleges, and ESMA are specifically designed to reduce time to market for innovative and novel ideas.

4) **Enhanced Forbearance Measures for ESMA**: We would also support enhanced capabilities for ESMA in the form of targeted 'no-action relief' powers as it would not only smooth regulatory frictions across jurisdictions, but also enable ESMA to directly support the international attractiveness of the European Union through broadly applicable interventions.

Building an Investing Culture

Developing an investing culture will create benefits across the market ecosystem; however, it is a long-term process and takes more than a mindset. It is about marshalling our resources and focus of attention across all of the interconnected dynamics that create a market ecosystem – from providing access to retail investors to ensuring our early-stage companies have working capital and a future in European capital markets.

Policy Recommendations

1) **Enhance Access and Financial Literacy for Retail Investors**: Investors are increasingly making their own investment decisions. To build an investing culture we must first ensure retail has access to a wide set of investment tools and the education to allow them to make informed decisions. The continued development of a more robust retail market – with investor protection a central component - will empower a new generation of investors to support their retirement goals and help develop a stronger CMU. The Retail Investment Strategy is an important legislative initiative that will ideally support this development. We strongly encourage policymakers to refrain from adopting additional, more complicated suitability and appropriateness requirements that will hinder the ability of investors to access a wider variety of transparent exchange-traded and centrally cleared investment products. Targeted, digestible disclosures that enable investors to make informed decisions without limiting valuable access to investment products should be the primary objective. As we enhance the investor toolkit, we must support the ability of retail investors to access transparent, exchange-traded centrally cleared options and futures, which reduce systemic risk and provide investors important risk-reducing and return enhancement opportunities, rather than drive them exclusively toward opaque structured products and riskier CFDs (contracts for differences).
2) **Support Early Stage Companies by Filling the Funding Gap**: An investing culture is not built upon access and education alone. To achieve long-term prosperity and a culture shift we must support the European companies of tomorrow by exploring ways to attract funding at every stage of a company's lifecycle. The long-term virtuous cycle of capital formation and wealth creation is access to markets, education and feeding investors a steady diet of new and innovative companies in which to invest. This is how we can develop a sustainable, long-term investing culture.
3) **Explore Tax Incentives for Retail Investment**: We support exploring ways in which national tax systems can be reformed to enhance incentives for retail to participate in financial markets. Tax reforms or market structure initiatives that enhance the availability of investors to access cost-effective products, such as exchange traded funds (ETFs), should also be explored. Tax or other asymmetries that favour less transparent and cost effect products should be avoided.
4) **Develop Pan-European Investment Products**: We encourage policymakers to consider pan-European pension and investment products that support the development of an investing culture and incentivise investors to invest in their long-term financial goals.

Pitfalls and Red Herrings

While many CMU recommendations will enhance our markets, there are pitfalls that should be avoided.

Policy Recommendations

1) **Avoid Prioritising Central Supervision Over Supervisory Convergence**: Central supervision itself will not make European markets more attractive. The near-term objective should be harmonised, pan-European outcomes achieved by prioritising principles-based Regulations instead of Directives; pursuing effective rulemaking that avoids regulatory duplication and "gold plating" which create an unlevel playing field; and avoiding dual supervision while supporting ESMA's convening, coordination, and enforcement role. To the extent that central supervision is pursued, the process of collaboration and innovation should be embraced and enshrined at the EU level. Principles-based approaches to Regulation will help in this regard. We also strongly support exploring ways in which local NCA experts can be included in the process of collaboration, innovation and decision-making (e.g., through Joint Supervisory Teams, CCP colleges, or adapting the principles underpinning the Single Supervisory Mechanism model).
2) **Top-Down Consolidation of Infrastructure at the Expense of Customer Choice Should be Avoided**: We have long been supporters of developing pan-European solutions and believe, in the long term, customers will benefit from service providers that seek to provide those pan-European offerings. However, we have reservations about top-down consolidation of infrastructure as an end goal. In our view, the objective should be reducing barriers, such as extending interoperability in clearing to all equities markets, and creating efficiencies that help integrate our markets through competitive dynamics. We support exploring further efficiencies to Target-2S or other areas that may improve post-trade processes, but it should be competitive dynamics that drive the value creation from those efficiencies.
3) **Single Marketplaces for SMEs Should be Avoided**: European equity markets are more competitive and able to support efficient capital flows because of the removal of the concentration rule. Creating single, sole venues for SMEs or other dedicated segments for trading in an effort to consolidate trading activity is not a viable solution for addressing fragmentation as it is more likely to harm primary and secondary market liquidity. Exchanges must compete for SME listings and trading to properly support SMEs.
4) **Regulatory Retracement in Equities Trading and Post Trading**: EU markets – supported by industry investment and legislative initiatives promoting customer choice – are more competitive than they were 20 years ago, particularly in the market infrastructure of equities trading and equities clearing. This has lowered costs, encouraged innovation and demanded established providers raise their game – all to the benefit of end investors. We must continue to support competition and customer choice.