



Capital Markets Union in the EU and the Role of Local and Regional Markets

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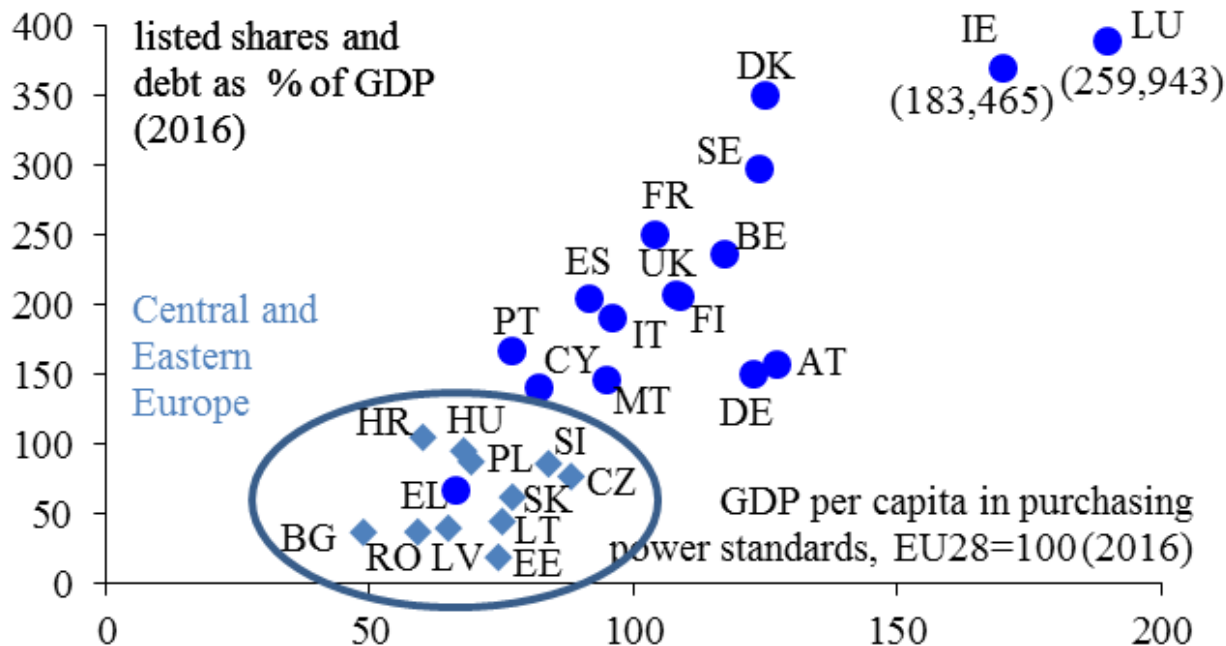
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19th Annual Conference
Macedonian Stock Exchange
Panel II: Do the regional capital markets
need a development strategy?

4 May 2018
Ohrid

Rationale for local and regional capital markets

Positive relation between capital market development and GDP/head because of proximity argument (costs and cultural barriers), in particular for SMEs allowing for optimisation of risk and funding management and facilitating foreign investment bringing along innovation and pressure to improve the local business and regulatory environment.



On the other hand liquidity is essential for which scale effects are needed and market infrastructure (CSD, CCP) is complex and expensive, requiring cooperation and integration

Rationale for local and regional capital markets

There is a tension between local capital market development and integration or building a single capital market. The question is why not focusing on the already well established financial centres of London, Frankfurt or Paris and expand them further. In short, a certain level of development facilitates integration and a level playing field eases cooperation.

- ➡ Reply to the panel's question is yes.
- ➡ The importance of local markets is recognised in the EU's project of Capital Markets Union (CMU).

Capital Market Union

CMU Action Plan launched in
September 2015

Further elaborated in the CMU Mid-
Term Review in June 2017 with
priority action Nr 9:

"By Q2 2018, the Commission will propose a comprehensive EU strategy on steps that can be taken at EU level to support local and regional capital market development across the EU. This will build on the report of the Vienna Initiative's CMU Working Group and will take account of experience through the growing delivery of on-demand technical support under the Commission's Structural Reform Support Programme."

Report from the CMU Working Group under the Vienna Initiative

**Based on a questionnaire
and contributions from the
participants, impediments
and challenges for capital
market development were
indicated as well as ways
to address them.**

**Mindful of the tensions which exist between the
local and international dimension, policy
suggestions are formulated at national, regional
and EU level**

Priorities for policy action at national level (I)

- **Development of national capital market strategies**
- **Improving business environment**
- **Public support to companies to access capital markets**
- **Encouraging privatization of state-owned enterprises through IPOs**

Priorities for policy action at national level (II)

- **Expand the base of institutional investors on local capital markets**
- **Invest in financial education, in particular improve financial literacy of retail investors and SMEs**
- **Enhance the supervisory framework**

Potential for cross-border projects and cooperation

- **Strengthen existing regional alliances of stock exchanges (Nasdaq Baltic Market, CEESEG, SEE Link)**
- **Foreign listing and market access**
- **CSDs**
- **CCPs**
- **Creating regional markets through alignment of national legislations**

Policy questions at EU level

- **Concerns related to the proportionality of EU law**
- **MREL: parent banks could be allowed to invest in the debt issued by their subsidiaries**
- **Harmonization of EU legislation in certain areas (e.g. crowdfunding, fintech, corporate insolvency)**
- **Technical assistance**

Thank you

Bonus: additional information on the Vienna Initiative, areas of technical support by the SRSS, recent CMU initiatives by the Commission

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Vienna Initiative

Established at the height of the global financial crisis of 2008/09 as a private-public sector platform to secure adequate capital and liquidity support by Western banking groups for their affiliates in several countries in Central, Eastern, and South Eastern Europe (CESEE) receiving Balance of Payment assistance programmes (Hungary, Romania, Latvia, Serbia and Bosnia and Herzegovina)

Evolved to home-host supervisory coordination including, avoiding disorderly deleveraging, resolution of non-performing loans, review of financial instruments offered by international financial institutions, CMU and regional capital market development

Vienna Initiative

The Vienna Initiative is chaired by Mr Boris Vujčić, governor of the Croatian National Bank.

Participation include in varied composition: international financial institutions (EBRD, IMF, World Bank), EU institutions (Commission, EIB), home and host countries, non-EU countries as well as parent banks and subsidiaries

The EBRD provides the secretariat.

Website: <http://www.vienna-initiative.com>

The Full Forum meetings are organised annually and several Working Groups are operational

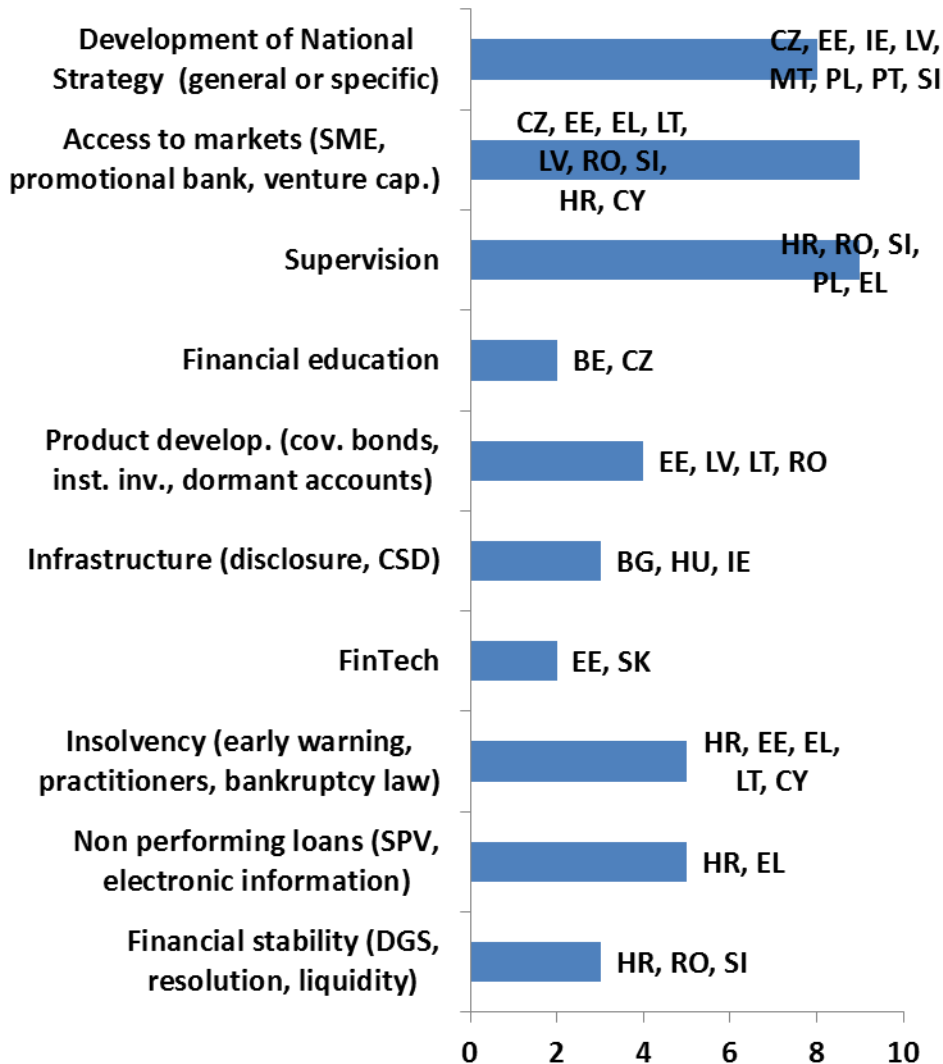
Working Group members and meetings

- Countries: 12 EU Member States and FYR of Macedonia (Stock Exchange, Financial Services Supervisor, Central Bank, Ministry of Finance)



- Interest groups: Association for Financial Markets in Europe (AFME), Eurochambers
- Commercial banks: Erste Group Bank, KBC Group, Raiffeisen Bank International, Unicredit
- Three meetings of the Working Group were held in Brussels during 2017: 4 April, 30 June and 3 October
- Questionnaire
- Report endorsed on 12 March 2018, available at:

<http://vienna-initiative.com/wp-content/uploads/2018/03/VI-CMU-Working-Group-Final-Report-March-2018.pdf>



Areas of support by the SRSS

Capital Market Union

Conclusions of the Economic and Financial Affairs Council of 11 July 2017 confirms the importance of local capital markets:

...

"20. UNDERLINES the importance of enhancing the efficiency of European financial markets as a whole, which implies striking the right balance between harmonised rules and the need to cater for local and regional market characteristics and to preserve well-functioning markets."

...

Recent CMU developments

**Action Plan on Financial Technology (FinTech),
7 March**

**A European label for investment-based and
lending-based crowdfunding platforms, 8 March**

**An EU enabling framework for covered bonds,
12 March**

**Measures to reduce the regulatory barriers to
the cross-border distribution of investment
funds in the EU, 12 March**

**Proportionate regulatory environment to
support SME listing Act, 23 May**

**Commission Communication on EU support for
local capital markets, 20 June**