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

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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](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: 
Areas of support by the SRSS

- Development of National Strategy (general or specific): CZ, EE, IE, LV, MT, PL, PT, SI
- Access to markets (SME, promotional bank, venture cap.): CZ, EE, EL, LT, LV, RO, SI, HR, CY
- Supervision: HR, RO, SI, PL, EL
- Financial education: BE, CZ
- Product develop. (cov. bonds, inst. inv., dormant accounts): EE, LV, LT, RO
- Infrastructure (disclosure, CSD): BG, HU, IE
- FinTech: EE, SK
- Insolvency (early warning, practitioners, bankruptcy law): HR, EE, EL, LT, CY
- Non performing loans (SPV, electronic information): HR, EL
- Financial stability (DGS, resolution, liquidity): HR, RO, SI
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