DEUTSCHE BÖRSE GROUP

Policy Paper

Towards an EU Savings and Investments Union

Transforming the Capital Markets Union into a success story: A next generation of excellence roadmap

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Towards an EU Savings and Investments Union

Transforming the Capital Markets Union into a success story: a next generation of excellence roadmap

Foreword

With a new EU legislative cycle, a decisive period lies ahead that provides the unique opportunity to advance on key challenges of our time.

In light of geopolitical realities, sluggish economic growth, and constrained monetary and fiscal policies, it will be critical for the EU to ensure nothing less than a new vision for the Capital Markets Union (CMU).

Despite decades of efforts, our capital market remains underdeveloped if benchmarked at global level, and its size does not correspond to the magnitude of the EU's economy and its international role.

Especially in equities, the steady decline is strongly observable. The EU has the most fragmented market amongst developed countries. The market capitalisation of listed companies is only about 50 per cent of GDP. And the EU is only home to around 10 per cent of global IPOs.

Most importantly, an increasing trend towards structural relocations of companies can be observed, which choose other jurisdictions as their primary business and listing location – creating a pronounced socio-economic damage as growth, jobs, innovation and ultimately tax income get lost.

However, there are reasons to be optimistic: Despite a perceived fatigue after many years of hard work, a renewed political impetus offers a key window of opportunity to finally make the long-standing endeavour around the CMU a true success story.

Time has come to fundamentally reshape the EU's policy-approach, and the first crucial step has been taken with a new vision on the horizon: The CMU's transformation towards a true Savings and Investments Union (SIU).

Paired with the ambition around a new European competitiveness deal, the valuable work conducted by the Eurogroup, the European Securities and Markets Authority, Enrico Letta, Christian Noyer, and Mario Draghi, has laid the foundation to fill the next agenda with lifeblood.

An extensive list of game-changing ideas is on the table that can make a real difference and truly move the needle – notably by putting citizens and investors stronger into the focus to foster participation, with mobilising private capital as a key leverage for success.

Moving ahead, we should ensure to focus on some key principles to guide our actions: We need a clear political will and commitment to make Europe's capital markets globally competitive again. They are a key pillar of our future industrial strategy and are critical to succeed at global level.

Capital markets are anchored in a strong investment basis and deep liquidity pools. We need to guarantee a true commitment to establish sustainable pension systems that are built on role models like Sweden or the US.

Capital markets work well with a strong private sector and a user-anchored infrastructure – not driven by public intervention. Therefore, we need simple and effective regulation that guarantees financial stability and consumer protection – but fosters innovation and entrepreneurship.

We need to reduce complexity, bureaucracy and the overarching regulatory burden – fostering trust in the private sector and guaranteeing breathing space.

A flourishing private data economy is a key ingredient for successful capital markets. Data is the backbone to any comprehensive investment decision. But it is also the basis on which the “new economy” is based. The EU needs to recalibrate and rethink its policy approach in this sphere to foster a globally competitive ecosystem rather than pushing concepts like price regulation or promoting public intervention.

Also, EU competition law needs to work in symbiosis with the political concept around the future SIU – not stand in the way of consolidation and a true integration of the single market. We need to build European champions and leverage our approach together.

In fact, the EU has global success stories with products like UCITS or Eurobonds, private sector players like Deutsche Börse Group, and effective ecosystems like in Sweden. We should build on this rather than trying to reinvent the wheel – and simultaneously fix what is broken.

Finally, we should establish a permanent advisory council that brings together the key players of the EU’s ecosystem to structurally support the EU in its endeavours and guarantee a strategic approach.

Let us jointly work to boost the CMU into a next generation of excellence, with a SIU that delivers on our societal expectations and truly transforms capital markets to act as a key leverage for the global role of the EU in a new geopolitical context.

Stephan Leithner
Co-CEO, Deutsche Börse Group

10 Steps to establish a Savings and Investments Union

1 | Equity markets: Reduce fragmentation, increase transparency, and boost the IPO ecosystem

- ✓ Increase share of lit trading, reduce complexity of waivers and review transparency and SI regimes
- ✓ Harmonise listing requirements and establish a true prospectus passporting regime to boost IPOs

2 | Deepen demand: A new masterplan to unlock savings and mobilise investments

- ✓ Create EU savings and investment products
- ✓ Rework PEPP into a “401k EU” regime
- ✓ Establish an EU Equity Fund

3 | Fostering a private data economy as a key ingredient for the EU’s competitiveness

- ✓ Avoid price regulation and other regulatory interventions that deter investments and innovation
- ✓ Promote a globally leading data ecosystem as a backbone for the SIU

4 | Strengthening the EU clearing ecosystem as a backbone of financial stability and efficiency

- ✓ Foster critical Euro-related clearing services on the continent
- ✓ Make the EU more competitive by levelling the playing field at global level

5 | The post-trading landscape: Boosting competition to foster consolidation and integration

- ✓ Reduce national barriers (securities laws, tax laws, corporate actions, etc.)
- ✓ Enhance the effectiveness of T2S by incentivising participation
- ✓ Limit settlement internalization and streamline relevant standards and processes

6 | Digital thought-leadership: A permanent CBDC

- ✓ Establish a permanent digital euro (CBDC) as a key complementary element of the EU’s digital agenda

7 | Boosting securitisation and market making

- ✓ Revitalise the competitiveness of banks and market makers
- ✓ Ensure an appropriate regulatory framework across prudential treatment, transparency and due diligence

8 | Ensuring an integrated supervisory vision to guarantee trust, investor protection and stability

- ✓ Reduce cross-border frictions and supervisory arbitrage
- ✓ Promote and enhance convergence, harmonisation and technology

9 | Developing future talent – the foundation for a leading ecosystem and retail participation

- ✓ Enhance the EU’s academic network and foster financial education
- ✓ Boost secondments between public and private sector and work on attractiveness for young professionals

10 | Tax incentives as a key driver of a cultural reorientation

- ✓ Create a tax regime that incentivises investments and re-orientation of private pensions to capital markets
- ✓ Boost employee participation

Introduction: Empirical realities and the need for action

Amidst **rising geopolitical tensions and macroeconomic uncertainties**, the EU finds itself in a significantly changed environment.

Economic growth remains low, and a number of indicators continue to signal **the steady decline of the EU's competitiveness at a global level**.

While monetary and fiscal policy are increasingly constrained, financing needs continue to rise drastically. In turn, the **EU's SIU project becomes ever more important, moving from a "nice-to-have" to an "urgent-must-have" exercise.**

> ***"Time is of the essence. We have made notable progress toward Europe's financial integration in the past two decades, but it is time to show greater ambition. A genuine Capital Markets Union is within reach. The coming decades will see the greatest industrial transformation of our times. Our long-term competitiveness will depend on it. Let's make sure we have the capital to make it happen."***
>
> Ursula von der Leyen (President of the European Commission), Christine Lagarde (President of the European Central Bank), Paschal Donohoe (President of the Eurogroup), Charles Michel (Ex-President of the European Council), and Werner Hoyer (Ex-President of the European Investment Bank).

The fundamental strategic relevance is especially underlined by the fact that **geopolitical risks have become a dominant factor for economies and societies worldwide.**

"**Trade disruptions and economic policy uncertainty shocks have become more frequent, while political polarisation, social unrest, conflict and geopolitical risk have also been on the rise in a significant number of countries with cross-border spillovers."**[1]

Exhibit 1 – geopolitical risk index

Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225.

At the same time, however, financing challenges remain pronounced and manifold[2]: Managing the twin transitions of sustainable and digital transformations; maintaining and enhancing the long-term viability of pension systems; funding investments into technical infrastructures.

Yet, while funding needs are unprecedentedly urgent and significant, **public finances are under serious pressure while traditional bank lending and credit markets will not be able to match the financing needs in isolation.**[3]

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[1] ECB (2023), The EU's Open Strategic Autonomy from a central banking perspective, p8

[2] European Commission (2019), The European Green Deal, COM (2019) 640 final; Deutsche Bundesregierung (2021), Deutsche Nachhaltigkeitsstrategie; BMF (2023), Monatsbericht Januar 2023, Das Generationenkapital: für Gerechtigkeit und solide Staatsfinanzen; Deutsche Bundesregierung (2023), Zukunftsstrategie Forschung und Innovation; Bericht der Kommission Verlässlicher Generationenvertrag (2020), Band I & II

[3] **GDP Growth**: The European Commission's Spring 2024 Forecast shows EU and euro area GDP growth slowing to 0.4 per cent in 2023, impacted by high inflation, tightening monetary policy, and weak external demand. EU's GDP growth is forecasted to reach 1.0 per cent in 2024, with the euro area slightly lower at 0.8 per cent, and strengthening to 1.6 per cent in the EU and 1.4 per cent in the euro area by 2025. Economic activity in Germany is expected to contract by 0.3 per cent in 2023 as a result of weak industrial activity, tighter financing conditions, weak internal demand, and a worsened trade outlook. Economic growth is expected to resume gradually to 0.1 per cent in 2024 and 1.0 per cent in 2025.
Inflation in the euro area is on a downward trajectory, dropping from a peak of 10.6 per cent in October 2022 to 2.0 per cent in October 2024. The forecast for the whole year was 2.5 per cent in 2024 and 2.1 per cent in 2025. The EU's inflation is projected to decrease from 6.4 per cent in 2023 to 2.7 per cent in 2024 and 2.2 per cent in 2025. Meanwhile, according to the ECB's September 2024 Staff Projections, the central bank expects to meet its inflation target by H2 2025, after a temporary rise at the end of 2024.
Funding conditions: The ECB's Q1 2024 bank lending survey indicates a significant impact of monetary tightening on bank lending, with net tightening of 12 per cent for enterprise loans in 2023 and further tightening projected in 2024, while loans to households for house purchases and consumer credit experienced net tightening of 11 per cent and 16 per cent respectively in 2023 with a slight recovery expected in 2024. The survey revealed a challenging lending landscape, with tightened credit conditions and declining loan demand amidst an economic slowdown. This was attributed to factors like higher interest rates, reduced consumer confidence, and deteriorating housing market prospects.
Public debt: The EU and euro area debt-to-GDP ratios are projected to marginally decline to 83.4 per cent and 89.5 per cent respectively by 2025. At the end of 2024, the lowest ratios of general government gross debt to GDP are projected to be in Estonia (20.5 per cent), Bulgaria (24.3 per cent), Denmark (28.4 per cent), Luxembourg (28.7 per cent), Sweden (30.1 per cent) and Lithuania (38.3 per cent). On the other hand, twelve Member States have government debt ratios in excess of the 60 per cent of GDP threshold set in the Maastricht Treaty, with the highest registered in Greece (151.9 per cent), Italy (140.6 per cent), France (109.5 per cent), Spain (106.5 per cent), Belgium (106.4 per cent) and Portugal (100.3 per cent).
The **United States** economy has proven robust despite rising interest rates. As of September 2024, the United States has experienced a notable easing in inflation with the annual CPI falling to 2.4 per cent, down from its peak of 9.0 per cent in June 2022. According to the IMF World Economic Outlook from April 2024, the United States economy grew by 2.5 per cent in 2023. This robust growth, however, has decelerated in the latter half of 2023 and going into 2024, influenced by slower wage growth, dwindling pandemic savings, tight monetary policy, and a predicted rise in unemployment.

Exhibit 2 – key macroeconomic indicators

	Real GDP Growth (Annual % Change)				Inflation (Annual % Percentage Change)				General Government Gross Debt (% of GDP)			
Country	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Canada	3.8	1.1	1.2	2.3	6.8	3.9	2.6	1.9	107.4	107.1	104.7	102.1
China	3	5.2	4.6	4.1	2	0.2	1	2	50.7	56.3	60.5	63.7
France	2.5	0.7	0.7	1.3	5.9	5.7	2.5	2	111.9	110.6	112.4	113.8
Germany	1.8	-0.3	0.1	1	8.7	6	2.4	2	66.1	63.6	62.9	62.2
Italy	4	0.9	0.9	1.1	8.7	5.9	1.6	1.9	140.5	139.3	138.6	141.7
Japan	1	1.9	0.9	1	2.5	3.3	2.2	2.1	257.2	252.4	254.6	252.6
Spain	5.8	2.5	2.1	1.9	8.3	3.4	3.1	2.3	111.6	107.7	105.5	104.8
United Kingdom	4.3	0.1	0.5	1.4	7.9	6.8	2.4	2	100.4	101.1	104.3	106.4
United States	1.9	2.5	2.7	1.9	8	4.1	2.9	2	120	122.1	123.3	126.6
European Union	3.5	0.4	1	1.6	9.2	6.4	2.7	2.2	84.8	82.9	82.9	83.4
Euro area	3.4	0.4	0.8	1.4	8.4	5.4	2.5	2.1	92.4	90	90	90.4

Source: European Commission Spring 2024 Economic Forecasts, IMF World Economic Outlook April 2024, IMF 2024 China Article IV Consultation Mission.

Thus, the stakes are high for an encompassing and active capital market strategy to fill this funding gap and **to give the core idea of the EU – i.e. together stronger than the sum of its parts – new impetus and ambition.**

This becomes even more obvious when analysing key performance proxies in more detail, which continue to underpin the **EU's underperformance at global level**. Indeed, core capital markets indicators illustrate how much growth potential remains untapped and in the period 2006–2022, **the EU's share of global capital market activity declined by 44 per cent.**

In turn, **the EU's economic size and importance at global level does not correspond to the size and performance of its capital markets.**

This reality is particularly pronounced when it comes to equity markets, which remain a key ingredient for future success due to the fact that **listed companies do not only grow faster and create more jobs, but also because they allow for participation in value creation by citizens.**

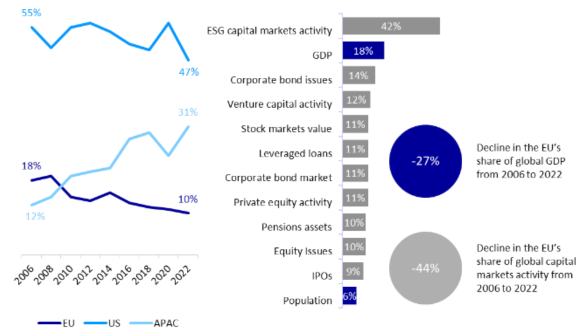
The size of the US capital market measured in market capitalisation of listed companies over GDP is almost four times larger than the EU capital market.

Although Europe's share of global GDP is 18 per cent, only **10 per cent of global IPOs, 10 per cent of all equity issues, 11 per cent of private equity and 12 per cent of venture capital activity** takes place in the EU.

Moreover, the **market value of all European stocks is about 10 per cent** of the global market capitalisation.[4] **The lower market capitalisation is linked to the EU's very high fragmentation in terms of number of execution venues as key driver for its subdued trading activity** compared to the US (see exhibit 3).

ESMA states that **US share trading volumes amounted to €86.3 trillion in 2022 and were thus more than six times larger than the EEA** (€13.4 trillion less).[5]

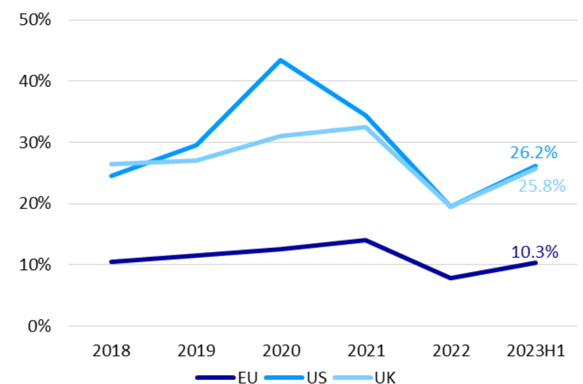
Exhibit 3 – EU capital markets in global comparison



Source: New Financial (2023), EU Capital Markets: A new call to action

In parallel, bank financing remains the dominant source of funding in the EU, creating a less resilient and less competitive reality compared to jurisdictions with a more balanced funding mix of banking and capital markets (see exhibit 4).

Exhibit 4 – EU corporates funding mix in global comparison



Source: AFME (2023), Capital Markets Union. Key Performance Indicators, Sixth Edition.

In the first half of 2023, **only 10.3 per cent of the annualised total fundings of EU non-financial companies were raised by equity or corporate bonds.**[6]

[4] New Financial (2023), EU Capital Markets: A new call to action

[5] ESMA (2023), Evolution of EEA share market structure since MiFID II ESMA, ESMA50-524821-2954

[6] AFME Report Capital Markets Union (2023), Key Performance Indicators

This is paired with an underdeveloped capital markets culture across many parts of the EU, where vast parts of the population do not participate in the overarching economic value creation.

EU households are almost as dependent on bank deposits as companies are on bank lending. They divide their financial assets roughly equally in three parts: 34 per cent are held in bank deposits, 28 per cent in pensions and insurance products, and 38 per cent are invested in stocks, bonds, or funds.[7] When it comes to the total size of financial assets relative to GDP, total financial assets in the US are more than twice as large as in the EU.

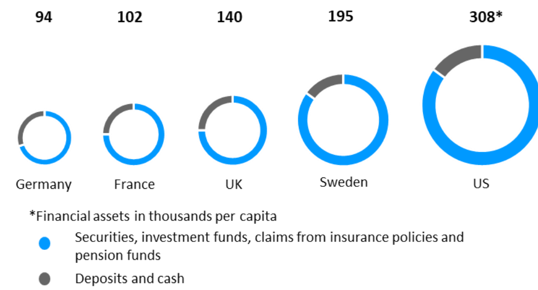
In addition, **the underdeveloped equity culture remains particularly pronounced**. In Germany, for example, only about 17 per cent of all citizens hold equities[8] – while the ownership structures of the DAX indicate that only 10 per cent are held by residents in Germany, whereas more than 60 per cent are owned by US and UK investors.

This footprint is also illustrated in the overarching comparison – where **US citizens clearly lead the game on a more equity focused and capital markets-based investment culture that drives higher returns but also means that capital is invested in a more productive manner, creating more growth while structurally boosting competitiveness.**

This empirical reality is complemented with the picture in the sphere of pensions, where only Sweden manages a comparatively strong and competitive footprint.

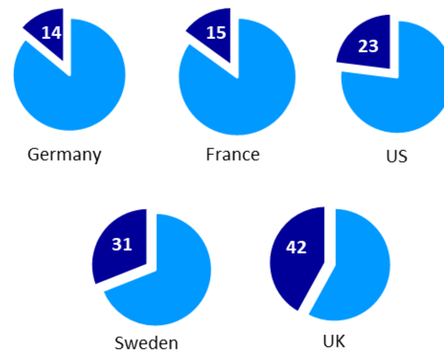
The EU should therefore **define a more active industrial strategy to boost the CMU as a critical key cornerstone of its open strategic autonomy. With Ursula von der Leyen's announcement of a new plan for Europe's sustainable prosperity and competitiveness, the broader ecosystem of the EU's capital markets must be rethought** to match macro-economic and geopolitical realities.

Exhibit 5 – investment mix by citizens in comparison, deposits and cash in grey (per cent of GDP)



Source: Deutsches Aktieninstitut (2023), Die Deutschen setzen zu sehr auf das Sparbuch; Gefährlicher Verzicht – Andere Länder setzen deutlich stärker auf Kapitaleinkünfte für die Rente.

Exhibit 6 – pensions picture, equity-based investments in dark-blue



Source: Deutsches Aktieninstitut (2023), Die Deutschen setzen zu sehr auf das Sparbuch; Gefährlicher Verzicht – Andere Länder setzen deutlich stärker auf Kapitaleinkünfte für die Rente.

[7] New Financial (2023), EU Capital Markets: A new call to action

[8] Deutsches Aktieninstitut (2024), Aktionärszahlen 2023

1. Reduce fragmentation, increase transparency, and boost the IPO ecosystem

While a lot of regulatory discourse has been observed over the past decade when it comes to the negative consequences of fragmentation, **the reality around the EU's capital markets continues to be marked by a hyper-fragmented trading sphere.**

With more than 500 trading and execution venues across all asset classes[9], the EU's market structure remains the most fragmented one across all developed countries.

> *"Despite two European Commission action plans, Europe's capital market remains fragmented. Financial integration is lower than before the financial crisis. […] We will not succeed in these transitions if we don't get CMU back on track."*
>
> Christine Lagarde, President of the European Central Bank

While the empirical realities emphasise the underperformance of EU markets, **it is key to realise that an overly pronounced fragmentation acts as a serious negative factor** – weakening overall liquidity pictures and widening bid-ask spreads.

As part of this reflection, **the symbiotic relationship between primary and secondary markets must be understood as a cornerstone of economic stability and growth**.

Their efficient functioning is not only crucial for capital formation, liquidity provision, and risk management – but **decisive for the question if an attractive business and listing environment exists.**

Yet, it should be noted that the declining international competitiveness of the EU capital markets is particularly reflected in the weak IPO figures and low market liquidity.

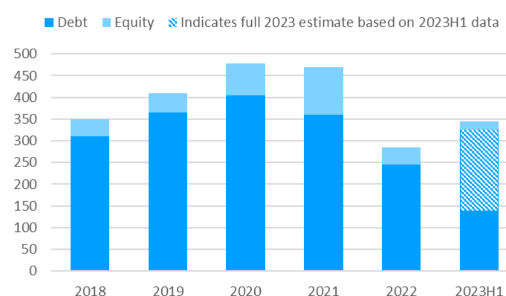
Out of all global IPO activity, only about 10 per cent takes place in Europe, accounting for 9 per cent of the capital raised.[10] The picture does not look any better for equity issuances in 2023.[11] **In addition, a structural trend towards relocation of companies can be observed.** A number of case studies show that even big companies are increasingly delisting in the EU to list abroad in more favourable jurisdictions.

But also growth companies across the EU are leaving the jurisdiction to list abroad – resulting in a structural loss of growth, wealth creation, jobs, and tax revenues.[12]

Despite numerous initiatives over the last decade to improve access to capital for companies, these efforts did not bring about the desired increase – empirical data proves the opposite and underlines the **significant socio-economic damage created with an overly pronounced regulatory focus on secondary markets trading and explicit trading fees to the detriment of primary markets' ecosystems.**

Due to low depth and an ever more fragmented liquidity landscape, **EU primary markets' contribution to companies' funding is therefore further declining,** against the original aim.

Exhibit 7 – breakdown of EU market-based financing



Source: AFME (2023), Capital Markets Union. Key Performance Indicators, Sixth Edition.

Deep liquidity pools are the basis for an efficient capital market ecosystem. This includes capital invested in the secondary markets, but also capital for financing an IPO and venture capital that is needed for start-ups before being able to go public.

The **ecosystem is heavily shaped by investors, trading venues, banks, analysts, and companies**. Investors provide the capital that is needed for growth, analysts offer their

[9] ESMA Register

[10] S&P Global: Global IPO activity cut nearly in half in 2022, available here. In 2023, Europe saw a slight uptake in IPO activity with around 12 per cent of all IPOs taking place in Europe, raising around 14 per cent of total IPO capital. Overall, IPO activity slowed down globally in 2023, with the trend stretching into Q1 2024 where 291 IPOs were launched compared to 371 in Q1 2023, available here.

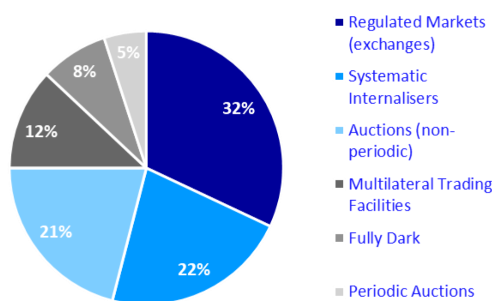
[11] AFME (2023), Capital Markets Union – Key Performance Indicators. Sixth Edition.

[12] Deutsche Börse (2021), Strategien zur nachhaltigen Finanzierung der Zukunft Deutschlands
Deutsches Aktieninstitut (2021), Auslandslistings von BioNTech, CureVac & Co. – Handlungsempfehlungen an die Politik für mehr Börsengänge in Deutschland

expertise, and powerful banks support with underwriting services and other capital market services. **These relationships are working very well in strong equity markets**, such as in the US, where deeper capital pools are available, driving higher valuations of companies.

In addition, **it should be noted that the EU's equity market is marked by low transparency and an extremely high level of dark trading**, which, paired with a highly fragmented landscape, increases information asymmetries, inefficiencies and overall makes it challenging to address liquidity (see exhibit 8). [13]

Exhibit 8 – distribution of EU equity trading volumes



Source: Liquidnet, Market Structure, Liquidity Landscape, Q1 2024, available here.

In turn, **the EU needs to review its approach to market structure and shape a new vision that tackles the significant fragmentation on secondary markets**, which has been a major negative factor contributing to the decline of the primary markets' ecosystem.

As part of this, **the EU should generally aim for a comparable share of lit trading as in the US, in the range of 60-65 per cent**. To achieve this objective, the EU should reduce the complexity around the Markets in Financial Instruments Regime, **decreasing the number of waivers by means of streamlining.**

In addition, **the Single Volume Cap (SVC) should be widened beyond the Reference Price Waiver**. As such, it seems **questionable why the EU's control measure for too much dark trading should remain artificially restricted** to capture a marginal snapshot of the market.

Instead, the **scope of the SVC should be enlarged to capture the full market of the EU**, across all waivers and all trade execution facilities. This would provide a more holistic view, capturing all its complexities and nuances. It would also ensure that all market participants are subject to the same rules, promoting fairness and transparency.

Moreover, **it will remain key for the EU to fill the new authorisation and registration regime for Systematic Internalisers with lifeblood**. Supervision and enforcement must be enhanced, be it around the general operational set-up, "risk taking", quoting obligations or actual execution realities.

In addition, **the Systematic Internaliser regime should be limited to what it was originally intended for, i.e. large institutional orders**. Current empirical realities demonstrate that average execution sizes are significantly lower, and the last MiFIR Reform will unlikely lead to a meaningful change.[14]

Beyond the market structure and transparency realities, the **EU should also simplify the access to equity markets for SMEs and growth companies**. Despite attempts to reduce the regulatory burden, the overall rules should continue to be streamlined.

The US Securities Act allows newly listed public companies that qualify as an "emerging growth company" to choose **reduced disclosure requirements, lower internal control obligations for a maximum of the first five fiscal years after completing an IPO**.[15]

The EU could consider introducing similar rules for growth companies that may not yet have sufficient resources to meet the full set of transparency and compliance rules.

Moreover, **a roadmap to facilitate SMEs' and growth companies' access to equity markets could include harmonised listing requirements and a true passporting regime in the context of the Prospectus Regulation** to facilitate cross-border flows at reduced costs and complexities.

In addition, the existing initiatives around the European Investment Bank's European Investment Fund should be further strengthened and enhanced. This should not only include a **revision around the European Tech Champions**

[13] ESMA (2020), DVC mechanism - The impact on EU equity markets, ESMA working Paper No. 3, 2020. Oxera (2021), The landscape for European equity trading and liquidity

[14] Autorité des marchés financiers (2020), Quantifying systematic Internalisers' activity: their share in the equity market structure and role in the price discovery process

[15] SEC on Emerging Growth Companies: https://www.sec.gov/education/smallbusiness/goingpublic/EGC

Initiative with more liquidity and broader scope, but also foresee additional elements worth exploring, such as cross-over funds and an enhanced approach to guarantees.

Finally, a deeper look across EU realities also indicates the **strong lack of capital in pre-IPO financing.** The financing gaps in the various financing rounds for start-ups vary between member states. **In some countries there is a lack of early financing, in other countries late financing shortly before a possible IPO constitutes the identified problem.**

Large financing rounds with three-digit million amounts are common and needed in the final financing round before a potential IPO. **In Europe, these mega rounds are mainly financed by foreign investors**, even though the availability of growth capital directly affects the success and effectiveness of the IPO ecosystem.[16]

SIU Action Item #1: Reduce hyper-fragmented market structure and boost transparency by focusing on a 60–65 per cent share of lit trading. As part of this, reduce complexity of waivers and review SVC and SI Regimes. Boost IPO ecosystem by facilitating SMEs' and growth markets' access to equity markets, harmonizing listing requirements and establishing a Prospectus Passporting. Transform EIB's EIF with more liquidity and broader scope, establish cross-over funds and enhanced guarantees. Finally, improve pre-IPO financing realities.

[16] Deutsches Aktieninstitut (2021), Auslandslistings von BioNTech, CureVac & Co. – Handlungsempfehlungen an die Politik für mehr Börsengänge in Deutschland

2. Deepen demand: Create EU savings and investment products, rework PEPP into a “401k EU”, and establish an EU equity fund

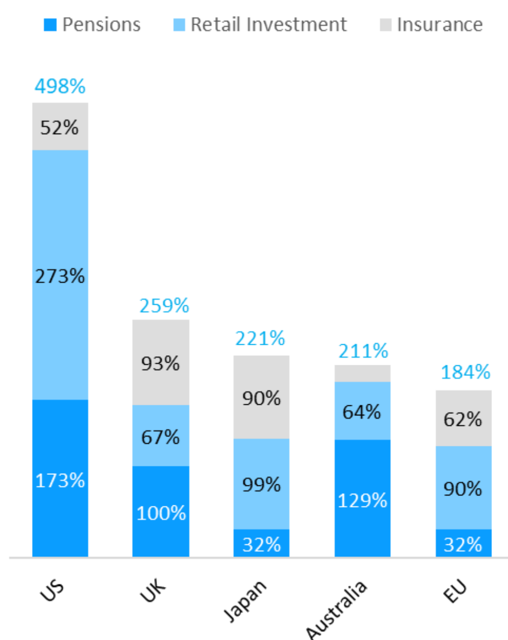
A masterplan to unlock long-term capital: Create synergies between retail investments, old-age savings and an EU investment fund

In light of the EU’s massive funding needs, mobilising private savings is imperative for strengthening the capital markets ecosystem. Currently, over €33 trillion of European savings are held in currency and deposits across the EU – a huge untapped resource for a true EU Savings and Investments Union.

Fragmentation, underdeveloped ecosystems, a low-profile equity culture and a lack of a diversified investor community weigh heavily on the performance and competitiveness of the EU capital market. Importantly, the EU economy suffers from a structural gap in terms of long-term capital compared to other advanced economies.

Pension assets in the EU amount to only 32 per cent of EU GDP which significantly lags behind the size of pension assets in the US, Australia, or the UK (see exhibit 9)

Exhibit 9 – size of EU’s pools of long-term capital



Source: New Financial (2024), The Future of Pension and Retail Investments in the EU.

Mobilising private savings work for investments, old-age security and the funding of the real economy is also of strategic relevance in the EU’s geostrategic race for innovations, future investments, and talent.

Nothing less than a joint EU Masterplan to unlock long-term capital is needed to address these shortcomings. A simple thought experiment can exemplify how big the lever of mobilising private long-term capital actually is: With private households in the EU holding on average around a third of their financial assets in cash, mobilising just 5 percentage points for investments into shares or funded pensions, this would free up an additional €1.8 trillion (11 per cent of EU GDP 2023). An enormous investment potential that could be unleashed to promote research and innovation, jobs and growth.

EU savings and investment products: Simple by default, at low costs and supported by tax incentives

To make this capital work to the benefit of retail investors, companies, public budgets, and the EU economy as a whole, the **EU should establish a new range of savings and investment products**. **Supported by targeted tax incentives, designed for ordinary citizens with a high stability and return profile due to diversification, such products should become a key pillar of a strong and vivid European capital market ecosystem – also helping to build legitimacy thanks to a much-needed endorsement by citizens.**

When it comes to the concrete set-up and roll-out of such EU savings and investment products, the following features should be considered.

- **Create trust**: An EU-wide “basic” investment product label would help to promote investor confidence and make such products easily accessible. While a label by itself will not suffice to make SIU products a success and shall not end in creating additional red tape, it may spur transparency, comparability and competition based on equal product standards. Market acceptance could be further enhanced by targeted and simple investment advice.
- **Make it easy to enter and pursue a medium to long-term investment strategy**: Eligible investment products should offer design features that simplify initial access, entice permanent retention and give

retail investors choice how to invest. Features like programmed monthly contributions, an option for a diversified allocation by default or an auto-enrolment option can work as simple low-barrier solutions to turn savers and prospective pensioners into investors – without compromising on their level of self-discretion, protection and preferences.

- **Make it attractive and affordable for young citizen**: Provide them with capital market experience in a simple and cost-efficient manner that meets their needs and interests. Importantly, suitable, low-touch and easy-to-use trading apps could help improve investment experience.
- **Entice retail participation by dedicated national tax incentives**: This should comprise of a broad range of tools and measures, covering not only reduced tax rates, but also simplified tax collection and reporting procedures, higher allowances for employee shareholdings, waivers on the taxation of capital gains below a certain amount of assets held in individual portfolios, or an annual standard income tax based on the value of assets in the account (see Swedish ISK model).
- **Allow for diversification of investment strategies, a broad range of investable assets and a mindset of taking risks:** Letting investors decide which eligible assets to invest their money in may help in creating a more entrepreneurial, self-guided attitude. Further, avoiding overly strict provisions in terms of investment strategies, risk management, capital guarantees and value retention may spur competition amongst providers. The universe of investable assets should include (but not be limited to) equities, ETFs, active funds and plain vanilla derivatives. Due to the establishment of simple, low-cost financial products (especially ETFs) and easier access to financial information, it is already easy to invest even small amounts in diversified portfolios. It needs to be ensured that more citizens understand these opportunities. In addition, a collection of best practices in close cooperation with the Member States should be pursued.

Reforms of old-age security: An EU 401k approach to kick-start occupational pensions

National state pension systems should be less pay-as-you-go and more capital-orientated. Without fundamental reform, the pay-as-you-go pension system in Germany will consume 60 per cent of the federal budget for old-age provision by 2060. For the EU, projections paint a dark picture with 12.8 per cent EU GDP spent on public pension expenditures in 2040.[17] Therefore, the establishment of a dedicated regime for EU savings and investment products should be linked to and accompanied by ambitious reforms of the old-age pension systems.

A rework of the Pan-European Pension Product (PEPP) to introduce a European standardised occupational pension scheme based on the US model (401k regime) with auto-enrolment would make the current system a strong pillar of retirement provision. Designed as a flexible model with regard to investment options (default investments in a cost-effective and standardised portfolio of eligible assets or self-guided investments), payout (one-off payment vs. annual pension) and tax incentives (deferral of tax liability until the payout date, combination with employee share ownership), this could make a vital contribution to mobilise capital currently locked in statutory pension systems for long-term investments.

Employees could voluntarily pay an additional part of their gross income into an occupational pension account. The payments can be further increased through tax-free employer contributions. The income generated during the savings phase remains tax-free in the account. With retirement, the available amounts should be taxed at a low flat rate.

EU Equity Fund: A lighthouse project to boost growth, jobs and innovation

Many countries have managed to establish world-leading equity-based funds that massively benefit their societies (see e.g. Norway).[18] **Due to rising pressure on public budgets, the EU should urgently establish an EU investment fund that structurally boosts the EU's ecosystem.**

This EU equity fund could inject fresh capital into the real economy to boost growth, jobs, innovation and tax income. Equipped with sufficient firepower, such funds can mobilise long-term capital, reduce pressure on public budgets and improve financing realities and market valuations for the economy while simultaneously allowing for a better participation by citizens and investors.

[17] European Commission (2021), The 2021 Ageing Report. Economic & Budgetary Projections for the EU Member States (2019-2070)

[18] IZA Institute of Labor Economics (2022), Staatsfonds im internationalen Vergleich. Kurzexpertise im Auftrag des Bundesministeriums für Arbeit und Soziales, IZA Research Report No. 13

Such an equity fund should cover all major indices from all 27 EU Member States, weighted by the respective market capitalisation. With such an approach, all parts of the EU will benefit from the fund and a fair distribution is being ensured. In order to increase the availability of risk capital across all stages of financing, the fund should apply an encompassing and flexible approach investment strategy to provide funding also to eligible SME growth companies as well as venture capital funds.

Financing of the equity fund could be sourced by Saving and Investment Union products, a 401K component and employee share ownership programmes. In addition, EU Member States should be able to provide funding into the new fund on a voluntary basis. Returns should be able to be used after a mandatory holding period of 6 years via a relative reduction of their contributions to the EU budget. Where proceeds exceed the EU budget contribution, 10 per cent of all excesses should be added to the EU budget while all other excesses should be exclusively added to national budgets in relation to the pension system, education, climate change or the broader industrial strategy.

The initial conditions for admission as well as subsequent requirements for financial intermediaries and investee companies should facilitate easy access to the funds. Extensive disclosure, reporting and compliance requirements should be avoided that may create a high administrative burden for SMEs and small-mid caps which play a crucial role in Europe's economic landscape. Rather, implementing a more standardised approach could alleviate the administrative and financial burden on SMEs, thereby encouraging their participation and innovation potential.

EU citizens as well as corporates should be able to invest into the new EU fund via cost efficient products. To attract a wider array of third-party benchmark investors and thus to increase the amount of eligible funding, institutional investors (pension funds, asset managers, insurance companies, family offices, endowments) should also be incentivised to contribute, e.g. by a guaranteed **0 per cent capital gains tax** after a holding period of three years. **To avoid that pension systems across many parts of the EU are increasingly at risk of becoming unsustainable in light of the demographic situation, existing private and occupational pension funds should be encouraged to invest** into the EU equity fund with a minimum part of their total assets under management.

The EU equity fund should be established under the European Investment Bank (EIB) wing as a manager of key parameters – but operated by the private sector as a true public-private partnership.

SIU Action Item #2: A new masterplan for retail participation, old-age pensions and large-scale investments to create a powerful and globally competitive EU capital markets ecosystem.

3. Fostering a private data economy as a key ingredient for future success and EU competitiveness

Data is a key ingredient of the future strength of capital markets – and has rightly been termed the "gold of the 21st century". The European Commission predicted in 2020 that the **value of the EU's data economy will be worth €829 billion in 2025 which equals to 6 per cent of the EU GDP**. The World Economic Forum expects that around **70 per cent of global value creation over the next ten years will come from "digitally-enabled platform business models"**.[19]

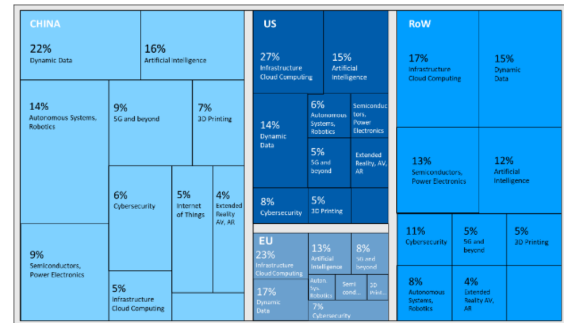
However, current **empirical realities underline that the EU has not been successful in establishing a strong data economy**. EU companies are lagging behind their counterparts from other jurisdictions in terms of adoption of new technologies and building and scaling up data-driven business models – this **leaves "European firms more likely to be stuck on the wrong side of the digitalisation divide"**.[20]

While large US tech companies clearly dominate the global platform economy with a market share of more than 80 per cent of the top 100 platform economy companies worldwide, **EU companies account for only around 2 per cent and rank on a level commensurate to Africa,** while APAC companies account for 15 per cent of global markets.[21]

In terms of **involvement of non-EU big tech companies in financial services, the EU lags far behind and only accounts for 6.3 per cent of total global tech market capitalisation**, compared to the United States (70 per cent) and China (18 per cent).

As regards its overall digital performance, the EU has lost touch with other advanced economies and major competitors. The EU's position in the global information and communications technology (ICT) market has dropped significantly, with its **global share in ICT-related revenues dropping from 21.8 per cent in 2013 to just 11.3 per cent in 2022**. In contrast, the US share has risen from 26.8 per cent to 36 per cent over this period.[22]

Exhibit 10– EU's state of play in digital transformation



Source: European Commission (2023), Report on the state of the Digital Decade.

These shifting weights also come with a **pronounced dependence of the EU on foreign countries for over 80 per cent of digital products, services, infrastructures and intellectual property**.

These shortcomings translate into missed value and growth opportunities in ICT and weigh heavily on the EU's international competitiveness. Even more concerning from a public policy perspective, the **digital gap between the EU and the US but also the Asia-Pacific region seriously undermines the strategic autonomy of the EU.**

Dependencies on external providers of critical digital services and infrastructures create vulnerabilities and contribute to a **"slow-motion competitiveness crisis that has quietly been unfolding for two decades, centred on its corporate and technology gap with other major regions."**[23]

While the reasons and dynamics of this development are manifold, there is a **clear political mandate to establish and maintain a regulatory environment that is conducive to Europe's race to close the digital gap**.

A **competitive private data economy that is actively supported by regulation is urgently needed** to avoid that the EU falls further behind in a critical field of importance.

[19] The Economist (2017), https://www.economist.com/leaders/2017/05/06/the-worlds-most-valuable-resource-is-no-longer-oil-but-data
European Commission (2020), A European strategy for data (COM/2020/66 final). World Economic Forum (2023), Shaping the future of digital economy and new value creation

[20] Veugelers, R., Faivre, C., Rückert, D. and Weiss, C. (2023), "The Green and Digital Twin Transition: EU vs US firms." Intereconomics, 58(1), 56-62. ECB (2023), The EU's Open Strategic Autonomy from a central banking perspective

[21] Hamidreza Hosseini (2023), Plattformökonomie 2023: Amerika dominiert, EU fällt zurück

[22] European Commission (2023), Report on the state of the Digital Decade

[23] McKinsey Global Institute (2022), Securing Europe's competitiveness: Addressing its technology gap

This holds particularly true as high-quality data and analytics services (such as transaction and reference data, ESG data, indices, research, ratings, market intelligence, portfolio analytics, etc.) **are the very foundation of any comprehensive investment decision and are key to information transmission within a highly connected economy** to ensure that corporates get access to capital. The ability to commercialise investments into data-based digital research, products and services is also mirrored in a company's credit rating score which rewards innovative corporates with higher market valuations and access to capital at more favourable conditions and costs.

Providing data-related services requires a regulatory framework that incentivises EU private data companies to invest and innovate. The EU cannot afford to see such services exclusively provided by third-country providers but needs to build domestic capacities as well, within a regulatory set-up that fosters not only competition but also competitiveness on a global scale.

In this context it should also be recognised that **EU market participants may suffer from a constrained und limited ecosystem in the data and analytics universe**, which non-EU competitors may also be able to access and use.

Therefore, **the regulatory trends around "communitising" and "democratising" data in the financial sector should be reflected upon**, which do not seem to acknowledge the commercial value of data as cornerstone of a competitive EU private data economy like in other jurisdictions.

In particular, **the EU's approach to deploy price regulation without proven market failures and without ensuring that end-investors truly benefit from such approaches** should be revised.

Other globally leading jurisdictions do not make use of such a drastic market intervention, meaning that the EU's current approach creates structural competitive disadvantages for EU entities active in the capital markets' data economy.

Price-regulation deters investments and innovation at a moment when the EU's capital market ecosystem urgently needs to be boosted to become globally competitive.

From the realities around trading data, over indices, through to ESG ratings and data, **the EU should avoid an approach that erodes the fundamental incentives for private sector players to invest into these critical pieces of the capital markets ecosystem.**

In addition, the EU should also reflect on trends around public intervention in the capital markets related data ecosystem. The experience around a number of case-studies have illustrated that incentives for an attractive EU market for the private economy may prove to be an integral element for the future of the SIU.

SIU Action Item #3: Foster a private sector data economy as a key ingredient of the future strength of the SIU, avoiding price regulation and other regulatory intervention that deters investments and innovation.

4. Strengthening the EU clearing ecosystem as a backbone of financial stability and next generation efficiency

The positive effects of the G20 Pittsburgh agreement with **new realities around broader financial stability were particularly observed around key stress tests of the markets over the past years**, such as around Covid-19 or Ukraine.

Especially the **significantly improved risk management in global financial markets through an enhanced and entrusted role of independent central counterparties (CCPs) has proven to be the right decision**.

While the EU's regulatory framework in the clearing sphere, notably with EMIR and the CCP recovery and resolution regime, **sets the global benchmark, it will remain key for the EU to continue on its path of global thought-leadership.**

The EU's clearing strategy is an important element to meet the objectives around the SIU and the strategic autonomy agenda. **Enhancing the global competitiveness of the EU clearing ecosystem while reducing the systemic overreliance on third country CCPs will remain key in the years ahead**.

> *"Our common objective of deepening the EU's capital markets will not be achievable if we continue to rely on market infrastructures that are outside the EU. I fully understand short-term concerns, but the EU should focus on the long-term goals."*
>
> Mairead McGuinness, EU Commissioner for Financial Services, Financial Stability and Capital Markets Union.

With EMIR 3.0, the EU has laid the foundation for critical next steps. A shorter time to market reality will significantly improve the ability of EU CCPs to launch products and services in a competitive manner – whilst also meaning that liquidity around new asset-classes and instruments can in future evolve around a stronger euro-denominated reality, a key aspect in the context of the open strategic autonomy and the future EU Competitiveness Deal.

In addition, **the shorter time to market reality also makes a positive contribution for an improved resilience and stability.** In future, risk models can be adapted in a much more reasonable timeframe to factor in recent stress events that are key to consider for appropriate risk management and margin calibration.

Beyond this, EMIR 3.0 has also brought a **broader pool of eligible collateral, improvements around portability, a reduction of regulatory hurdles** for the buy-side to use CCPs, and an **enhanced supervisory regime** with ESMA obtaining, amongst others, automatic information sharing rights and emergency intervention powers.

Finally, the **active account regime will help to address EU financial stability concerns** associated with offshore clearing and a reduction of the systemic overreliance on third country infrastructures.[24]

A transition towards a healthier market equilibrium, marked by reduced risk-concentration of systemically relevant market segments in offshore centres and increased competition, remains therefore vital.

However, in light of the EU's ambition around a new Competitiveness Deal and a general need for more growth, **the EU should continue to promote and boost the global competitiveness of its clearing ecosystem through a variety of different measures in the years ahead.**

For instance, **divergent central bank access policies in the EU have implications for EU CCPs' competitiveness**. Considering that other key jurisdictions provide their **CCPs with access to central bank liquidity in the interest of financial stability without the requirement to hold a banking license** and obligation to adhere to banking regulation on top of the stringent CCP framework, the EU should carefully review its regime.

As access policies fall within the central banks' remit, first central banks have recently announced to provide easier access to deposit and lending facilities. **While it is welcome that the Eurosystem has been discussing access conditions as well, it is a step into the right direction that EMIR 3.0 may facilitate a respective review, accelerating progress in meeting the IMF's recommendation to harmonise access**

[24] ESMA (2021), Tier 2 CCP systemicity assessment. European Commission communication as well as impact assessment for EMIR 3.0, December 2022. ECB (2023): Central clearing in turbulent times: frontiers in regulation and oversight. ESRB response to ESMA's consultation on determining the degree of systemic importance of LCH Ltd and ICE Clear Europe or some of their clearing services. ESRB response letter to the European Commission targeted consultation on the review of the central clearing framework in the EU. ESRB letter to the European Parliament on EMIR review. Policy Department for Economic, Scientific and Quality of Life Policies (2023), Post-trade services and financial stability – Assessing prospects for post-Brexit market infrastructure in the EU

policies[25]. In the meantime, the EU should address the unintended duplication of capital requirements resulting from the dual regulation of CCPs as recommended by EBA and ESMA.[26]

Further, in the sphere of anti-procyclicality and margin transparency the EU has proven to set the global benchmark. **The EU should also promote further global convergence in this sphere through the ongoing work on margining practices by the international standard setters**, rather than widen the gap towards other jurisdictions.

Importantly, the EU should in this context also promote further work regarding bilateral markets, to foster a level playing field and a race to the top not only amongst CCPs but also cleared and uncleared markets. A globally aligned outcomes-based approach would strengthen resilience and liquidity preparedness.

In addition, the EU should also continue to advance on accurate risk management standard in non-cleared markets when it comes to securities financing transactions (SFTs). While a lot of work has been carried out in the sphere of non-bank financial intermediation (NBFI), current realities continue to illustrate a significant gap towards cleared markets. **Here, minimum haircuts for bilateral transactions should be established, as recommended by the ECB.**

While other jurisdictions are ahead of the curve, CCP cleared SFT markets have seen significant demand in recent years as they allow for **standardisation and risk mitigation, help overcome the high fragmentation of the EU SFT market, and have proven to provide stable liquidity** notably in times of market stress compared to bilateral markets.

Moreover, the EU should continue to carefully watch developments in other markets and study best practices. The introduction of a repo clearing mandate for US Treasuries, for example, should be further discussed in the EU to extrapolate key lessons learnt. [27] This seems particularly important in light of potential new pockets of risks that require structural attention from a risk management perspective and may merit a conversation on clearing mandates**.**[28]

In this context, **facilitating access to central clearing by a broad range of participants across financial instruments is generally key to strengthen the SIU and the EU clearing ecosystem**. Due to the growing demand notably by non-bank financial institutions in hedging their risks via centrally cleared markets, EU CCPs have created access models designed to the needs of non-traditional clearing members. Whilst EMIR 3.0 and the expected review of the Solvency II Delegated Act will likely make progress on promoting client clearing, **some regulatory hurdles are yet to be removed, which disincentivise and restrict the use of such access models**. Addressing such restrictions for EU fund managers and insurance companies in the MMFR, UCITS-Directive as well as the NSFR and Solvency II[29] would significantly increase efficiencies, in particular related to centrally cleared derivatives and SFTs.

In the endeavour to further deepen the EU clearing ecosystem, **the EU should also establish incentives for more public sector entities to voluntarily join the EU's clearing landscape.** While there is already a growing number of such entities joining central clearing, a higher participation rate would further contribute to the diversification of the ecosystem and guarantee that "single points of failure" are systematically avoided while overall efficiency, liquidity, and stability could be structurally enhanced.

The EU should also consider giving more freedom to CCP operators when it comes to margin models and the broader realities around competitiveness. While the stability prerogative should not be compromised at any point, it is important to note that certain products and services (e.g. certain exchange traded derivatives) can be offered in other jurisdictions, such as the US, at significantly lower costs to market participants. This does not only mean a higher efficiency for the ecosystem, but also comes with more investment power for the real economy.

Boosting the level playing field is also a conversation when it comes to CCP recovery and resolution. With the EU setting the global gold standard in this sphere as well, it remains key to promote the adoption of comparable frameworks in third countries and to actively shape further work on global standards.

[25] European Commission communication "A path towards a stronger EU clearing ecosystem", December 2022

[26] Joint ESA report on the functioning of the Regulation (EU) No 575/2013 (CRR) with the related obligations under Regulation (EU) No 648/2012 (EMIR), link.

[27] SEC.gov | SEC Proposes Rules to Improve Risk Management in Clearance and Settlement and to Facilitate Additional Central Clearing for the U.S. Treasury Market

[28] Summary report of the targeted consultation on the review of the central clearing framework in the European Union ("EMIR") (europa.eu)

[29] Eurex, Whitepaper: Improving Access to Central Clearing (eurex.com), February 2021

Finally, it should not be forgotten that the EU's role in the world is meaningfully enhanced with a strong euro currency (see also "international role of the euro"). **Concretely, this means that the strategic endeavour around the NGEU bonds should be complemented with a fully-fledged ecosystem, including e.g. repo and futures markets**, which will be needed from a broader risk-management perspective but will also help sending the right signals around the maturity and perspective of key EU projects in this regard.

SIU Action Item #4: EU should leverage its clearing ecosystem to strengthen the EU's position as a global financial centre by further boosting competitiveness and attractiveness.

5. The post-trading landscape: Boosting cross-border competition to foster consolidation and integration

In a number of reports written in the run-up to the new CMU agenda, the **EU's Central Securities Depositories (CSD) landscape has been in the spotlight.**

The French CMU Taskforce outlines in its analysis: **"Europe seems to have far too many CSDs for the size of its markets. 28 CSDs operate in the EU (..). In the US – with a stock market more than four times the size of the European market in terms of capitalisation – all settlement goes through one agency."**

However, it should also be clarified that the more in-depth analysis of the market shows that, **despite the high number of CSDs across the EU, more than 95 per cent of the value of all settled transactions is already concentrated with three operators (see exhibit 11).**

In turn, the effect of further integration should be appropriately contextualised as it would likely bring rather marginal efficiencies in addition. **In fact, EU CSDs have proven to be highly efficient and competitive – illustrated by fast-track issuance processes of only 5 minutes, same day settlement, and access to international markets.**

This should, however, not be understood as a reason to not conduct further work to boost integration. When looking at the key reasons that act as barriers to further cross-border integration and the overall consolidation of CSDs, **it is important to realise that the EU settlement landscape remains largely fragmented across long-standing and well-known national laws.**

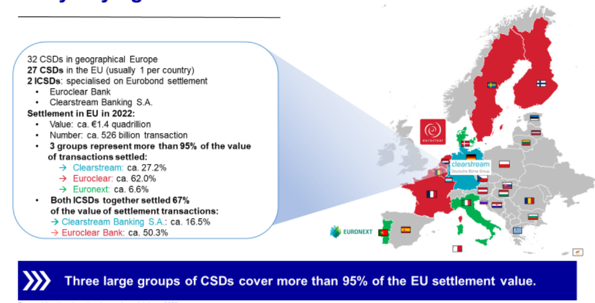
With its 27 Member States, the **EU is still lacking harmonised national laws and is dealing with diverging rule books, individual tax regimes/processes, differences in market specificities/practices, different supervisory practices, as well as different standards for securities issuance, settlement and corporate action processes.**

Furthermore, there are **differences in transaction taxes as well as withholding tax procedures or different registration versus non-registration processes.** All in all, this extensive list of obstacles hinders the offering of real cross-border services.

The future SIU agenda should ideally tackle those barriers, which have long been identified in the Giovannini work or the recently published report by the Advisory Group on Market Infrastructures for Securities and Collateral. **Therefore, the EU would benefit from establishing a new roadmap focused on national differences** across Member States and on effectively designing a workplan to reduce such barriers.

Exhibit 11– CSD landscape in the EU

Demystifying one CSD in the U.S. vs. 27 CSDs in the EU



This would help to enable CSDs to enhance cross-border competition and to see a natural consolidation and integration of the post-trading landscape.

In this context it is important to note that the **CSDR Refit (Art. 23) has included a revamped and streamlined CSD passporting regime**, which is expected to be phased-in in 2025. This will further strengthen cross-border business activities for CSDs.

In addition, it is also important to observe that the **EU will establish new CSD supervisory colleges**. These could support CSD operators in their cross-border business planning by providing a true European supervisory forum that allows for dialogue in relation to specific barriers.

In the broader scheme of things, it should not be forgotten that **the EU's T2S System has made an important contribution in the context of market integration** as well.

However, **T2S does not cover all EU Member States, and presents a number of technical barriers** that render cross-border settlement less efficient across the EU. **Working on improving these bottlenecks will constitute an important element** to achieve a less fragmented post-trade landscape.

In addition, **the attractiveness of T2S could be significantly enhanced by introducing incentives via targeted fee rebates based on volume contributions**. This would incentivise participation and reward those entities that

contribute most, thereby creating a race to the top.

Another important element as part of the future SIU conversations on the EU's settlement landscape concern the realities around "settlement internalisation", i.e. executing transfer orders on behalf of clients or on one's own account outside a CSD.

ESMA had noticed a strong increase in the number of internalised settlement instructions at EEA level, climbing from 68 million internalised settlement instructions in Q2/2019 to 116 million in Q3/2020 with a high degree of concentration of around 85 per cent (Q3/2020) in just five EU Member States (DE, BE, NL, IT, SE).

Also in terms of value of settlement internalisation, there is a very strong concentration trend with just a few million euros in some cases to several tens of trillion euros for the jurisdictions with more internalised settlement activity. The majority of internalised settlement instructions (based on their number) concerns equities, followed by sovereign debt, bonds, ETFs, other transferable securities, UCITS (other than ETFs), other financial instruments, money market instruments, and emission allowances.[30]

To conclude, due to the high fragmentation of EU securities markets and a high level of internalisation of the trading flows, **the EU's post-trading landscape is marked by a high level of settlement internalisation**. **These flows do not contribute to the ideas around cross-border business** and also do not go through the T2S system – thereby increasing implicit costs and driving fragmentation.

A possible solution could be to restrict the maximum level of fail rates. Where the settlement fail rate (in a certain product) is significantly higher than in the CSD environment, **failing settlement volumes in the internalised universe could be mandated to be send to a CSD**.

Finally, to allow instant issuance, settlement and investment of more products especially also in the context of the digital evolution, **the EU should consider a 28th regime and increase its focus on complete processes throughout products' life cycles**.

This means that, if more efficient, digital, and scalable processes in the post-trade area are desired, **there should also be a stronger focus on the creation of the product itself in a digital way.** Hence **standardisation of the terms and conditions is crucial, as well as an overall harmonisation of the products and classes of products** (e.g. via an EU ISIN code, common definitions on "Force Majeure", standardisation on what features/datapoints a "bond" needs to have, etc.) **and a more harmonised EU framework for securities**.

Today, around 70 per cent of international securities are based on UK executable law, even if the securities are traded, cleared and settled on EU market infrastructure. **Therefore, EU-wide harmonised standards for legal terms and conditions would bring more legal certainty, as a security based on a consistent EU standard could be more easily issued in various Member States** – instead of having to follow several different national laws. **Standardisation of securities would structurally reduce costs next to boosting integration and could also make other securities-related services more efficient** (like securities lending or securitisation for instance).

To further improve issuance practices and asset servicing, **machine-readable and standardised announcements of issuers are needed, which are to be sent directly or via issuer agents to the respective issuer CSDs.** In that respect, if all issuers and their agents were to fully adopt the **AMI-SeCo's SCORE Corporate Actions Standards** to announce the corporate actions to the issuer CSDs, meaningful progress towards harmonisation of issuance practices and straight-through-processing (STP) of asset servicing across the EU could be achieved.

Another element that could help to advance cross-border services concerns the **Know Your Customer (KYC) and Anti-Money Laundering (AML) processes**, **which should be further streamlined**. One important step would be harmonising KYC/AML processes across the EU to **allow for the re-use of once verified data by one regulated entity for others to rely on this data**. This way, market participants could perform their activities more easily and efficiently between countries.

SIU Action Item #5: The EU should strengthen cross-border competition by CSDs, reduce national barriers, enhance T2S, limit settlement internalisation, and streamlining relevant standards and processes (such as terms and conditions, KYC, AML, etc.)

[30] ESMA Report on CSDR Internalised Settlement, ESMA70-156-3729, 05 November 2020

6. Building on EU success stories: Eurobonds and funds

As part of an integrated vision of the future SIU, **the EU should also build on its global success stories and further leverage those elements** in its ecosystem that have proven of high value.

Eurobonds – a hidden champion

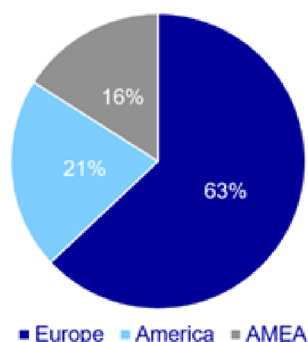
The Eurobond market[31] has just celebrated its 60th anniversary and remains **the third biggest debt market in the world with €13.2 trillion**, just after the US and China. It is exclusively rooted in the EU and recognised by investors as a **reliable, trustworthy and efficient instrument with an exceptional ability to enable companies to raise capital.**

Eurobonds are a true European champion on the international capital markets, also used by non-European issuers and investors – fostering the EU as an attractive location.

As shown in the ECB's latest Balance of Payment report (April 2023-2024), **non-EU investors invested a net €585 billion in EU securities,** with Eurobonds being a key recipient of such flows. As such, they are a central component of the European capital markets, which are **subject to European regulatory supervision and support Europe's open strategic autonomy and the Euro's role as a reserve currency**.

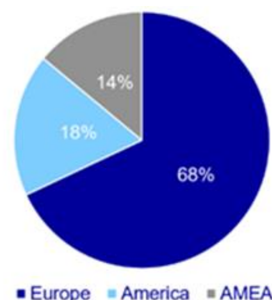
From the perspective of investors, **63 per cent of Eurobond assets are held by European investors, 37 per cent by investors from outside Europe (see exhibit 12).**

Exhibit 12 – Eurobonds investors by origin



Taking an issuer perspective, **68 per cent of Eurobonds in terms of assets are from European issuers, 32 per cent from non-European issuers (see exhibit 13).**

Exhibit 13 – Eurobonds issuers by origin



Finally, in terms of supporting the international role of the euro, **half of the 13 trillion Eurobond market is in euro.**

Across the financial landscape, **Eurobonds are therefore uniquely placed to be a key contributor to the EU's economic growth** and the single European market for debt issuance today that is not fragmented.

Over the years, it has grown to become a large, diversified, multi-currency and multi-instrument international securities market. Importantly, **the EU should boost and leverage this reality by improving cross-border funding and liquidity management to increase the attractiveness of Eurobonds for global issuers** – and avoid any negative impacts on this market segment.

Funds – the EU's globally leading lighthouse

The other key global success story that the EU should leverage in its future SIU agenda concerns the funds sector, which strategically boosts growth and competitiveness by driving cross-border investments, providing issuers with capital while facilitating citizens' and investors' participation.

Importantly, **the European funds market plays a pivotal role in fostering economic growth by channelling capital**

[31] Eurobonds are debt securities issued in a currency other than that of the country or region where they are issued. These bonds are typically denominated in a currency like Euros, making them distinct from bonds issued in the local currency. Eurobonds are often used by governments and corporations to tap into international capital markets. The Eurobond market is a significant contributor to the global economy, with over €10 trillion in outstanding issuance from thousands of financial and nonfinancial companies incorporated throughout the globe. The segment counts more than 6,000 issuers located in 150 countries with volumes of new issuances exceeding the 200,000 thresholds annually.

into a diverse range of investment opportunities. It provides a crucial avenue for investors, both retail and institutional, to participate in a variety of financial instruments, and to invest in different sectors contributing to portfolio diversification.

Through European funds, investors can support various sectors vital to the region's economic development, such as technology, infrastructure, and sustainable initiatives. At the same time, **funds markets facilitate capital mobilisation, allowing businesses to access necessary funding for expansion, innovation and finally job creation**. Funds also contribute and promote financial stability by distributing risks across a broad spectrum of assets, reducing the impact of market volatility.

Considering policy implications, it becomes **crucial to establish a framework and appropriate set of regulations that foster growth of the European funds sector and allow EU based companies to expand on a global scale**. Initiatives such as the Alternative Investment Fund Managers Directive (AIFMD) and the European Long-Term Investment Funds Regulation (ELTIF) can be further utilised to support and expand the cross-border distribution of funds within the EU, improving companies' access to diversified forms of investments, supporting long-term financing to SMEs and long-term infrastructure projects, in the case of ELTIFs, and enhancing the ability of fund managers to deal with stressed market conditions.

The recent discussions around the AIFMD Review, and the implementation of ELTIF 2.0, are expected to **modernise some of the rules and make these types of investments more attractive**. This is particularly pertinent during periods of higher interest rates, wherein investors might opt for the simplicity of "parking" funds in bank accounts, appreciating the straightforward returns of beneficial interest rates.

SIU Action Item #6: Debt primary markets offer a unique opportunity for Europe to not only build on our own strengths, but to boost them as a cornerstone for global competitiveness.

7. Continuing the digital thought-leadership: A permanent Central Bank Digital Currency (CBDC)

As part of the SIU future, it will be **key for the EU to further harness the benefits of the next wave of digitisation** to render the European capital markets landscape more competitive and attractive.

Digitisation has been a key driver of stability, efficiency and accessibility across capital markets. The integration of innovative technologies, such as cloud, DLT/blockchain, data analytics and artificial intelligence, **enhances processes, reduces costs, and fosters real-time information.** Furthermore, **superior financial products** emerge, expanding investment opportunities and contributing to the overall growth and competitiveness of the EU.

With key case-studies, such as the 'electronification' of trading in the 1990s, underlining the huge potential for significant change, **embracing technological advancement is key to ensure that the SIU remains dynamic, resilient, and capable** of meeting the evolving needs of the financial landscape.

Over the past years, the **EU has demonstrated to be a pioneer when it comes to the regulatory framework around digital assets**. Next to the question around the definitions of digital assets, **the EU is one of the first jurisdictions to have established a comprehensive set of legislative frameworks** (MiCA, DLT Pilot Regime, Transfer of Funds Regulation, AI Act).

This provides legal certainty for market operators and participants and hence **helps building a competitive environment where future innovation can strive and succeed**. **Such innovation trends are already manifested with a number of new services** (e.g. crypto custody, wallet providers, robo-advisors, etc.) **as well as new actors** (e.g. fintechs, neobrokers, crypto-exchanges, etc.) **emerging**.

In addition, innovative market approaches and models are being developed, including "decentralised finance" (DeFi), "gamification", and "metaverse"/ Web 3.0. **This goes hand in hand with a change in consumer behaviour** and a desire for streamlined, more transparent, cheaper, convenient ("24/7") and "on demand" services.

Importantly, the technological advancement will likely also come with different participation realities. **End investors will be able to actively participate in financial markets and build diversified portfolios of digital assets**, such as equity in start-ups, on DLT issued securities, cryptocurrencies, property rights in real estate or artworks, or any other digitised commodity.

What does this mean for the future work of the EU across its policy-framework and broader approach? **Especially the work on the "digital euro" as a strategic and complementary element of the ecosystem continues to remain critical**.

Fostering the role of the euro by ensuring a European solution, the ECB's joint approach with national Central Banks around a Central Bank Digital Currency (CBDC) **will facilitate exploration of the most suitable solutions and truly enrich the EU's capital markets ecosystem.**

Some technological developments would need various forms of **"cash on ledger" as well as "programmable payments" to enable delivery versus payment (DvP)** across different ledgers and for B2B services. It will also be important to ensure **interconnectivity with existing systems such as Target2 as well as T2S**.

However, while the current ECB timeline is limited to November 2024, **the EU should reflect on a permanent set-up and establish a structural digital euro solution.**

In combination with other key frameworks established across the EU (e.g. MiCA, AI Act, DORA, etc.), **this would enable the euro to gain competitive edge at global level** – ultimately supporting the broader agendas around the strategic open autonomy, international role of the euro, and the future of the Capital Markets Union.

SIU Action Item #7: Establish a permanent digital euro (CBDC) as a key complementary element of the EU's digital agenda in the sphere of capital markets.

8. Boosting securitisation and market making

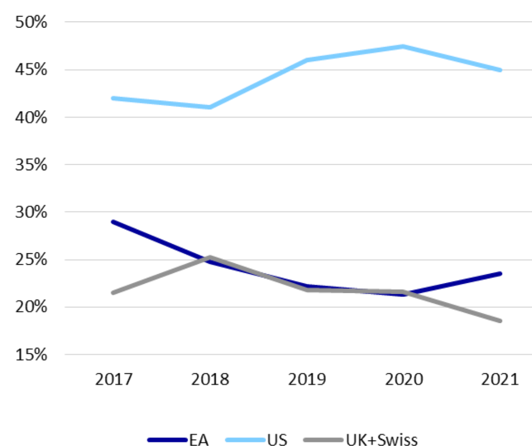
The EU financial system should avoid excessive reliance on non-EU service providers or jurisdictions. Since the financial crisis in 2008, the EU banking market has undergone much needed – and not always voluntary – steps to increase financial stability (banking union), to align with global standards on capital requirements (Basel III) and to meet new reporting and disclosure standards (ESG). The solidity of EU banks was repeatedly challenged by impacts of the COVID pandemic as well as severe turmoil of US and Swiss banks in early 2023 – but EU banks performed well and proved their stability.[32]

However, **EU banks continue to lag behind their global competitors in terms of profitability, cost-efficiency and diversification of business activities, particularly if compared to their US peers**. According to a 2022 EBA report on EU dependence on non-EU banks and funding in foreign currencies, non-EU banks, primarily from the United States, United Kingdom, Switzerland, Japan, and China, played a notable role in the EU banking market, with 360 such banks operating as of June 2021, accounting for 12.2 per cent of total EU banking assets. This included a strong presence in wholesale banking activities and a substantial market share in fee and commission income. According to the report, EU banks showed dependency on non-EU operators, particularly regarding the provision of payment services, clearing and settlement as well as custody services.

From a public policy perspective, such **pronounced underperformance and dependencies may become a serious problem** when looking at the sheer numbers of investments needed for the twin transition in the years to come as well as attempts to strengthen EU's open strategic autonomy.

Capital-intense market making by EU banks has been challenged by global competitors particularly from the US that provide the critical size needed for such investments based on their strong consolidation and deep domestic capital market. US banks incur 45 per cent of European equity capital market revenues while Eurozone banks are below 25 per cent.[33] (see exhibit 14)

Exhibit 14 – banks' market shares in European equity capital market revenues



Source: ESM-Blog (2022), Why Europe needs strong market making.

In its last CMU action plan, the European Commission already **identified market makers as integral for an efficient allocation of resources through capital markets and essential for risk management**, aiming to increase the number of domestic players. However, more needs to be done, e.g. by enhancing the capacity of European market makers to support secondary markets but also completing the banking union to help EU banks develop more cross-border activities and increase capital market activity besides their respective domestic market.

In order to boost competitiveness in the banking sector, the EU has to readjust banks' role in the market cycle and allow banks to nurture their core competencies: Firstly, the EU should **revitalise the EU's sluggish market for securitisations**, which are vital for banks in their risk and liquidity management as they ease balance sheet constraints and thus increase lending and investment capacities, funding capacities for real economy and private households.[34]

A genuine SIU would therefore benefit from a sufficiently large and flawlessly functioning securitisation market, which structurally provides balance sheet relief and hence mobilises capital and additional lending capacities for the

[32] ECB: Financial Stability Review, May 2023 (europa.eu)
[33] ESM-Blog, October 2022: Why Europe needs strong market making

[34] Joined article Lindner/LeMaire, September 2023: https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press_Room/Namensartikel/2023-09-14-lindner-lemaire-eu-capital-markets-gap.html
A Kantian shift for the capital markets union (europa.eu)

real economy and other parts of the ecosystem. Securitisations of SME loans could build a bridge between bank financing and the capital market. Considerations about how a dedicated framework for sustainable securitisation could look like and what kind of disclosure requirements would be necessary are therefore important. The current framework is too complex, processes take too much time and are too costly.

In this context, also the role of exchanges and organised markets should be assessed from the scratch. Concerns about risks of securitisation have been prevailing in the past. **Here, not only more standardisation, but also more transparency could help to tackle risks related to accountability and greenwashing-proofness – something where especially exchanges are very successful.** In addition, transaction costs could be reduced and, as a result, a pipeline of investment opportunities with sufficient quality and attractive prices could be offered to the market.

Recent securitisation approaches, e.g. creating the so-called STS segment (Standardised, Transparent & Simple), never really took off and didn't close the gap in terms of market size between the EU and the US where the securitisation market is significantly bigger and has a much more pronounced role in corporates' and private households' funding abilities. The US securitisation market benefits to a large extent from a strong institutional framework that builds on standardisation and – most importantly – on public market interventions. The EU should therefore **provide a government-backed public vehicle for placing loan-backed structured products on the capital market with an implicit state guarantee** (analogous to US' Freddie Mac and Fannie Mae) to boost both trust and growth.[35]

Also, non-bank liquidity providers and proprietary trading firms play a crucial role in securing and promoting liquid and efficient markets in the European Union. Significant steps have been undertaken to establish a dedicated regime for investment firms operating in the EU that acknowledges that these market participants are different from credit institutions in terms of nature and scale of business activities as well as risk profiles and hence caters for more targeted prudential requirements, governance arrangements, remuneration schemes and disclosure rules.

However, **rules for market access from third countries are still not harmonised within the EU** but split between Member States with diverging frameworks and practices for authorisation and supervision.

This leads to legal uncertainties and ambiguities for market participants from third countries, which impairs their ability to provide services within the EU. This may **transpose into a reduction of cross-border flows and liquidity fragmentation and impair the growth and innovation capacities**. Further, it reduces domestic market participants choice and access to services and products provided by third country firms.

With a view to maintaining EU financial markets globally competitive and attractive, market access rules for third country actors should therefore be harmonised and efficient.

SIU Action Item #8: The EU financial system should reduce its excessive reliance on non-EU service providers but revitalise the competitiveness of its domestic financial market infrastructure with an appropriate regulatory framework.

[35] Sachverständigenrat 2023: 178ff

9. Ensuring an integrated supervisory vision to guarantee trust, investor protection and financial stability

A key ingredient to the success of the EU's SIU vision concerns a **more integrated single market for capital that fosters cross-border business, reduces national barriers and ultimately leverages the full potential of the EU's jurisdiction**. Therefore, a reoccurring theme of the SIU conversation concerns the system of supervision.

A **strong and integrated supervisory set-up is needed to guarantee trust, investor protection and broader financial stability of any financial system**. Since the great financial crisis, the EU has made significant progress in this respect through the establishment and build-up of the European Supervisory Authorities (ESAs) and the promotion of supervisory convergence.

Against this background, **EU financial market participants and infrastructures currently operate within a wide range of different supervisors** across the regional, national and EU level.

This supervisory structure has evolved over time and – while a clear trend towards an increasing amount of competencies at EU level can be observed – **an important difference to the observations around the supervisory system during the times of the great financial crisis concerns the fact that the existing supervisory structures have proven capable of guaranteeing financial stability and resilience** in recent periods of unprecedented market stress (e.g. around Covid-19 or Ukraine).

Concretely, this observation underpins that **the EU is currently not suffering from a financial stability crisis – but rather from a lack of growth and competitiveness as well as a structural underperformance of its markets** in business terms that does not necessarily relate to the supervisory system in isolation.

Nevertheless, **the debate about a more comprehensive re-arrangement of the EU's supervisory architecture where decisive competencies are being handed over to the EU level** has consistently been part of the broader CMU discussion.

An integrated approach, which reduces cross-border frictions and supervisory arbitrage by boosting convergence and harmonisation of standard-setting and enforcement, **may indeed support the success of the SIU and underpin a globally attractive EU capital markets ecosystem.**

However, there also **exists a natural dissent between the benefits and speed of moving towards greater supervisory centralisation** on the one hand and **local expertise, proximity to domestic markets and national fiscal accountability** on the other.

Therefore, **it may be vital to explore an approach that avoids a strong polarisation and gives due consideration to the pace and resources for a deeper integration.** This could facilitate striking the right balance between centralisation and local enforcement while supporting an overarching next step on the EU's supervisory system.

Elements to consider could include:

- Consider further harmonisation of supervisory powers and resources based on **a thorough performance analysis of the existing set-up** to identify areas that work well and single out areas where further improvements appear beneficial to promote the SIU. The regular review of the ESAs regulation would allow for such a stocktaking exercise.[36]
- Based on an in-depth analysis, a **roadmap that defines solutions for identified problems, determines necessary resources and capabilities as well as clarifies responsibilities in interrelated dimensions** could be discussed (e.g. fiscal responsibilities, overlapping sectoral legislation, etc.).
- **ESMA's role as gatekeeper for market access from third countries could be reviewed**, including the overarching approach to authorisation and recognition procedures as well as enhanced supervisory cooperation with foreign authorities.
- The **potential of new technologies should be explored in more detail** to support more efficient and effective supervision (e.g. AI, cloud, etc.).
- A **shift from Directives to more Regulations** could be considered in addition to clearer ESMA mandates that support **supervisory convergence, avoiding regulatory arbitrage and supporting a joint supervisory approach**.
- **The supervisory culture should match the EU's**

[36] European Commission (2022), Report on the operation of the European Supervisory Authorities (ESAs), COM(2022) 228 final

ambition around growth and competitiveness, meaning that it should be agile and responsive to drive innovation. In this context, approval and authorisation procedures to reduce "time to market", notably to launch new products and services, should be enhanced.

- In addition, the concepts around the **"enabling of innovation" and "supporting competitiveness" could be included into the supervisory mandates**.
- **An enhanced exchange between supervisors, industry and academia could be envisaged** (including structural secondment programs between public and private sector) to support in-depth expertise also across innovative and new trends.
- Finally, the **EU could further study best practices from other jurisdictions and explore how centralisation may be paired with regional and local offices**. This could help finding an appropriate balance between a more integrated and harmonised approach while ensuring effective supervision and enforcement on the ground.

A reformed EU supervisory architecture with a joint EU vision as to how the future system should look like **is neither a low-hanging fruit nor an easy political conversation**.

Reforming an existing regime requires time and resources, a clear political agreement – as well as scarce human capital in the sense that supervision is driven by highly qualified and typically specialised staff that may be locally rooted due a variety of reasons (e.g. family life or cultural and language realities).

While the conversation around a more integrated and harmonised EU supervisory system in the capital markets context should structurally continue as a supporting factor of the overarching objectives, **a less polarized debate between EU and national level may help to shape a future vision that leans on an integrated approach between ESAs and NCAs**.

While **any changes to the supervisory architecture should result in a system that maintains financial stability and investor protection while simultaneously boosting growth and innovation**, the current market realities underpin that the latter dimension seems particularly critical in the years ahead and matches the broader ambition around an EU Competitiveness Deal.

SIU Action Item #9: Develop an integrated approach that reduces cross-border frictions and supervisory arbitrage, boosts convergence and harmonisation, leans on newest technology and matches the EU's ambition around growth and competitiveness.

10. Developing future talent – the foundation for a leading ecosystem and stronger retail participation

Long-term **success of the EU's SIU will also depend on the ability to attract talent** and globally leading human capital. Knowledge and thought leadership have always been key ingredients of evolution.

Therefore, the **EU needs to profoundly reshape its approach to developing the next generation of excellence in the financial services sphere**.

Hence**, developing a competitive talent pool must be considered a key cornerstone of the future agenda** and should be pursued with a dedicated roadmap.

To facilitate the matching of demand and supply, **the EU should develop an online platform to direct skilled workers and global talent towards open positions** in industry, public institutions and academia. Such a tool should provide a one-stop-shop for easy access and rapid approvals regarding work and study visas as well as other administrative requirements. In the case of completion of a formal education (specialist, academic) within the EU, such a qualification should be linked with an *EU skill pass* allowing global talent to retain the right to work within and access to the EU for a minimum of five years.

These efforts should be complimented by the establishment of a new EU-wide academic network that ensures that the best and leading universities cooperate on making existing curricula more competitive.[37] **The benchmark should be to establish the world's leading financial education across all key layers of capital markets**. With the rise of data-driven regulation and an exponentially growing complexity of today's financial markets, academic excellence may also serve as a catalyst to integrate findings and impact assessments from empiric and theoretical research into sound policymaking.

Similarly, a new approach to talent development by public institutions and the private sector in the financial ecosystem is needed. Transparent secondments and a closer link to the EU-wide academic network should be established. This will boost the ability to understand the financial ecosystem holistically and foster a culture to work together across all layers.

Moreover, **the EU should establish a coordinating agency that acts as a centre to foster thought-leadership**, helping particularly gifted talents to embark on their vision of financial innovation. This agency should connect EU research centres (e.g. the European Commission's Joint Research Center (JRC) and the European Parliamentary Research Service (EPRS)) with national counterparts.

Finally, **the EU should advance on its endeavour around financial education**. While financial literacy is an essential prerequisite for retail investors to participate in capital markets, to properly understand and assess risks and opportunities and to make informed investment decisions, evidence shows the depth and breadth of financial literacy of EU retail investors is underdeveloped.[38] Hence, a key driver to increase retail investor participation is improving their financial literacy. Rightly, the EU has put the topic on the agenda with the European Retail Investment Strategy.[39] But more needs to be done!

Primary and secondary schools in the EU should be obliged to offer classes on key aspects of financial market realities, ranging from the education around basic banking products, over key insurance services, through to the very fundamentals of capital markets. This should be done in conjunction with the existing EU efforts under the OECD

[37] While the European Union is home to few high-ranking universities and research departments in areas closely linked to capital markets, selected indicators show a general decline in global comparison (MacLeod, W. Bentley, und Miguel Urquiola, 2021, Why does the United States Have the Best Research Universities? Incentives, Resources, and Virtuous Circles, Journal of Economic Perspectives 35, 185–206). US universities clearly rank first in each of the selected disciplines Social Sciences & Management; Economics, and Business, while each individual EU Member State is less represented in the top 100 universities across the three disciplines than the UK alone. UK universities are much more prevalent in the ranking than any other EU country (QS World University Rankings by Subject 2023). Anglo-Saxon countries also generally spearhead the top of the ranking in Economics departments far ahead of EU countries. Amongst EU Member States, France scores best with 4 departments among TOP 100 (# 6, 8, 39, 43) while Germany hosts only three Top 100 departments (# 73, 76, 93). The ranking of top 25 per cent Economics departments measures citations and research impact per institution/affiliated author (Source: IDEAS/ RePEc Economics Departments, October 2023)

[38] According to an Eurobarometer survey requested by the European Commission, the picture of financial knowledge across Europe is rather mixed. 52 per cent of the participants rated their overall knowledge about financial matters as about average; 30 per cent replied that their financial knowledge is high and only 16 per cent described their knowledge as low. However, a financial knowledge score (computed as the number of correct responses to the five financial knowledge questions) only attested 26 per cent of respondents a high score. There seems to be a disconnect between self-assessment and reality. The discrepancy is also made clear by the fact that only 24 per cent of the respondents replied that they have or, in the past two years, have had investment products (funds, stocks or bonds). Eurobarometer (2023), Monitoring the level of financial literacy in the EU, Flash Eurobarometer 525

[39] European Commission (2023): Proposal for a Directive of the European Parliament and of the council amending Directives (EU) 2009/65/EC, 2009/138/EC, 2011/61/EU, 2014/65/EU and (EU) 2016/97 as regards the Union retail investor protection rules

framework on financial literacy and in context of the OECD International Network on Financial Education (INFE).[40]

Improving financial knowledge and skills are key to promote a stronger equity culture in the EU, to build trust in capital markets and to lay the ground for well-informed investment decisions.[41] Already a slight shift in private households' asset allocation to capital markets by just five percentage points could free up an extra €1.8 trillion (11 per cent of EU GDP).[42]

In addition to initiatives to be taken by Member States to promote financial literacy, the **EU could also play a stronger role by integrating financial literacy projects into existing programmes like the EU's academic mobility scheme for students, pupils and vocational training (Erasmus+),** which has a budget of €4.3 billion for the year 2024, or other EU funding programmes and develop joint quality standards for the assessment and promotion of financial competences.

The EU should also establish targeted tax incentives for young professionals so as to be able to compete for talent with other globally leading capital markets ecosystems that, de facto, are all offering lower income tax and more attractive fiscal realities. This does not only relate to direct income tax but also to **linked aspects, be it in relation to employee participation schemes or investment opportunities.**

Finally, more needs to be done for families, noting that many individual talents will not choose a certain jurisdiction in the absence of considerations around their family members. **This includes aspects such as improved tax incentives and social support for spouses that might have to move and even leave their existing job, ensuring high premium childcare and guaranteed access without unreasonable waiting lists, and fostering the network of international and European schools.**

SIU Action Item #10: Develop a globally leading talent pool by driving key initiatives in business and academia e.g. EU job platform, enhanced EU academic network, transparent secondments between public and private sector, financial education in primary and secondary schools, tax incentives for young professionals, social support for spouses, high premium childcare and an improved network of international and European schools.

[40] OECD – Financial Education 2023

[41] Better Finance (2023), CMU Assessment Report 2019–2022. Ebert, S., M.H. Grote und C. Laudenbach (2019), Zum Rätsel der Aktienmarktteilnahme in Deutschland, Studie im Auftrag der Deutschen Börse. Deutsches Aktieninstitut, MSCI World-Rendite-Dreieck. Thomas, A. und L. Spataro (2018), Financial literacy, human capital and stock market participation in Europe, Journal of Family and Economic Issues 39 (4)

[42] New Financial (2023), EU Capital markets. A new call to action

11. Tax incentives as a key driver of a cultural reorientation

For the EU's SIU to become a reality, **the cultural approach towards capital markets must be profoundly rethought, promoting them as "first choice" for investments and financing**. More investments will mean more growth, more jobs, more innovation, and more equal participation – thereby strengthening democratic values while simultaneously reducing pressure on fiscal and monetary policy.

However, despite being a hotly debated and delicate political issue, this also means tackling challenging topics in the sphere of taxation. Tax policy needs to go hand in hand with the overarching political objective around the SIU and the EU has to capitalise on the unique opportunity to reshape taxes as a driver of investments in contrast to them posing a barrier.[43] **Hence, providing fair tax incentives to citizens, investors and companies remains a key ingredient to boosting the overall size and performance of EU capital markets.**

Especially in the sphere of equity markets, the EU should reflect on a new roadmap for tax incentives expanding its areas of cooperation across member states. This should include elements such as a unified structural relief of capital gains tax after a defined holding period and incentives for employee equity participation.

The current capital gains tax landscape within the EU is characterised by significant disparities among Member States. These disparities create distortions in investment decisions, leading to inefficiencies in the allocation of capital and hindering the free movement of capital. Such initiative shall not be about enforcing a one-size-fits-all approach, but rather about ensuring fairness and transparency in the way capital gains are taxed. It is about making sure that individuals and businesses, regardless of their location within the EU, are subject to a fair and equitable tax regime. **The ultimate goal is to create a capital gains tax environment that supports the SIU's broader objectives of promoting investment, growth, and job creation.**

One approach could be to harmonise the tax base across the EU. This would involve defining what constitutes a capital gain in a uniform manner across all member states. This would ensure that the same types of income are taxed in the same way, regardless of where in the EU they are generated. Another approach could be to align capital gains tax rates across the EU. **While complete alignment may not be feasible due to differing fiscal needs of Member States, a certain range or band of acceptable tax rates could be established. Also, the EU should decisively consider implementing a system of taxation at source for capital gains and agree on its initiative "FASTER".** This would mean that capital gains are taxed in the country where they arise, rather than the country of residence of the investor, helping to prevent tax evasion and ensure a fair distribution of tax revenues.

In addition, a comprehensive **boost of employee equity participation with a clear approach to existing barriers** (e.g. "dry tax charges") should be pursued. This would not only increase workers' participation in the value they create on a daily basis, but also act as a leverage to generate more growth, jobs and innovation. A logical element in symbiosis to employee participation concerns the need to profoundly revamp the EU's approach to pensions and ensuring a "401k EU" as also outlined in chapter 2.

Beyond the taxation realities for citizens and investors, **the EU should also continue its work on the debt-equity bias**. Despite recent regulatory impetus on this front, a cultural bias towards debt remains even though empirical realities suggest a much more profound change is needed.[44] However, focus should be placed on the equal treatment of equity and refraining from imposing new fiscal barriers to debt financing.

While it is key to engage in a comprehensive and inclusive review process that considers a wide range of perspectives and possibilities, the EU should commit to ensuring that its tax policies are fair, transparent, and conducive to economic growth, jobs creation, innovation, and participation by citizens. Finally, the **EU should also consider a structural temporary income tax incentive across all Member States to attract leading talent from within and outside the EU**.

SIU Action Item #11: Rethink tax policy as a key driver of the SIU's success, e.g. by setting tax incentives on the capital gains front, boosting employee participation, revamping the approach to private pensions, and reducing the debt equity bias.

[43] European Commission (2023), Annual Report on Taxation

[44] European Commission (2022), Impact assessment report on debt-equity bias reduction

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List of Abbreviations

AIFMD	Alternative Investment Fund Managers Directive
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
BCBS	Basel Committee on Banking Supervision
CCP	Central Counterparty Clearing
CMU	Capital Markets Union
CRR/CRD	Capital Requirements Regulation and Directive
CSD	Central Securities Depository
CSDR	Central Securities Depository Regulation
DIMCG	Debt Issuance Market Contact Group
DLT	Distributed Ledger Technology
DORA	Digital Operational Resilience Act
EBA	European Banking Authority
ECB	European Central Bank
EDDI	European Distribution of Debt Instruments
EMIR	European Market Infrastructure Regulation
ETD	Exchange Traded Derivatives
ETF	Exchange-Traded Fund
ESAs	European Supervisory Authorities
ESG	Environmental, Social and Corporate Governance
ESMA	European Securities and Markets Authority

EU	European Union
FMI	Financial Market Infrastructure
FSB	Financial Stability Board
FTT	Financial Transaction Tax
G20	Group of 20 major economies in the world
IOSCO	International Organisation of Securities Commissions
IIRC	International Integrated Reporting Council
IPO	Initial Public Offering
LIBOR	London Interbank Offered Rate
MAD/ MAR	Market Abuse Directive/ Regulation
MICA	Markets for Crypto-Assets Regulation
MiFID/ MiFIR	Markets in Financial Instruments Directive/ Regulation
MTF	Multilateral Trading Facility
NCA	National Competent Authority
NCB	National Central Bank
NSFR	Net Stable Funding Ratio
OTC	Over-the-Counter
OTF	Organised Trading Facility
PAB	Paris-Aligned Benchmark Index
REMIT	Regulation on wholesale Energy Market Integrity and Transparency
RM	Regulated Market

RRP	Recovery & Resolution Plans
RTS/ ITS	Regulatory Technical Standards/ Implementing Technical Standards
SFTR	Securities Financing Transactions Regulation
SI	Systematic Internaliser
SME	Small and Medium-sized Enterprise
UCITS	Undertakings for Collective Investment in Transferable Securities (Directive)

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