From: [redacted]
Sent: Friday, March 1, 2024 4:10 PM
To: [redacted]
Subject: Eurogruppen Statement / CMU future

Liebe [redacted],

Im Kontext der Eurogruppen Diskussionen bzgl der CMU Future sowie den weiteren Arbeitssträngen zu dem Thema (siehe FSC Agenda etc.), erlaube ich mir nochmal mit einem kurzen Input auf Sie zuzukommen.

Wir haben jenes nachstehend direkt in Englisch erarbeitet – und hoffen, dass sich jenes als hilfreich für Sie erweist. Insbesondere die im Eurogruppen Statement aufgenommenen Referenzen zur Börsen-Konsolidierung sowie dem consolidated tape machen uns Bauchschmerzen.

Der Sprachgebrauch um die Referenzen im Bereich Aufsicht scheinen besser geworden zu sein. Ein klarerer Verweis auf die Notwendigkeit eines EU Aktienfonds wäre aus unserer Sicht begrüßenswert.

Vielen herzlichen Dank für Ihre Bemühungen in dem Kontext. Sollten Sie Nachfragen und/ oder Kommentare haben, lassen Sie es mich bitte wie immer gerne wissen.

In der Zwischenzeit wünsche ich bereits ein schönes Wochenende!

Mit herzlichen Grüßen,
[redacted]

Deutsche Börse Group remains extremely committed to making the EU Capital Markets Union a success story, as we are firmly convinced that it will constitute a key ingredient for the future success of our economy and industrial set-up.

If we truly want to boost our competitiveness and mobilise the required financing around the sustainable and digital transitions, we need to be clear that the CMU will no longer be a “nice to have” but is essentially an “urgent must have” exercise.

However, we should also be fair in our reflection process as the empirical realities demonstrate that the policy-course driven over the past two decades did not result in the desired benefits and objectives.

That is why we would recommend to reflect on the following points:

1. **Eurogroup reference to consolidation of stock exchanges and the real picture on fragmentation**: We do not believe that it would be appropriate for a Ministerial declaration to include a call on certain private sector entities (i.e. stock exchanges in this context) to consolidate. In fact, with MiFID I and MiFID II/ MiFIR, the EU has fragmented its market structure via an artificial competition based on different regulatory realities. This has tilted the level playing field in the favor of dark execution (systematic internalisers; dark pools; etc) with structural detrimental effects for our economy. The EU nowadays has 550 execution venues across all asset classes – 200+ of which are active in the equity world. The US has a market that is much bigger but only 20% of the number of execution venues – which means that the true level of fragmentation in the US is probably somewhere in the range of 5-10% of the EU’s level of fragmentation. We urge legislators to have a new vision on market structure – the discussed consolidation of 27 national exchanges will not materially address this problem. On top of that it should be realized that stock exchanges are the big losers of such market structure reforms over the past two decades where especially US players that operate dark execution venues have

emerged as the winners. This unfair regulatory treatment and a lack of a concise vision that matches the broader thinking of the CMU or also the strategic autonomy should be remedied and understood – the way ahead cannot be a continuation of the strategy driven in the past if we truly want to achieve a meaningful change. Conceptually, we believe that it does not make much sense to pretend that the stock exchanges would be the problem of the CMU (see also link to point 4).

2. **Consolidated tape and the need for a private data economy**: The latest drafts of the Eurogroup statement includes a "call to explore where the consolidated tape should be developed further". First of all, we believe it is important to realise that the currently agreed consolidated tape (which excludes pre-trade data) has not even been established yet. Second, MiFIR includes a review clause to explore if a pre-trade tape would be desirable after any experience has been made with the agreed set-up by legislators (post-trade with anonymized pre-trade). It would be fully premature to already include any reference on this end from our perspective. There has been a lot of talk on price regulation in relation to trading data, ESG data, ESG ratings, index licenses, etc. and indeed we have seen the emergence of the consolidated tape and other interventionist approaches. We are conscious that there might be an intrinsic interest by market participants to get data for free. But as we all know: There is no such thing as a free lunch. The US and other successful capital market ecosystems have striving private data economies. We believe the EU should reconsider its approach on this discussion and ensure a flourishing private data economy. In the Eurogroup drafts, we believe that the wording around "further developing the consolidated tape" should be deleted.

3. **Establish an EU Equity fund**: The example of Norway shows how powerful an equity fund can be in structurally boosting a whole society. In the EU, this would help to inject fresh capital into the real economy to boost growth, create jobs, keep innovation and ultimately drive tax revenues. At the same time, it would bring a new vehicle that revives our equity markets' ecosystem while ensuring that citizens can participate in the value creation they drive on a daily basis. Finally, it would also bring a significant relief for constraint public finances and a challenging monetary policy reality. Please find a more detailed outline of the concept below.

4. **Boost primary markets**: As part of the conversation on items 1, 2, and 3, we also believe that the EU needs a fundamental new strategy to boost its primary markets. Out of all global IPOs, the EU's share is only about 10% while 60% of all companies go live in the US and Asia. Our market capitalization is about 50% GDP – in the US it is about 190%. A single US company from the leading digital ones has a bigger market capitalization than all of the German equity market together. Our companies are delisting and move into the US – and logically take growth, jobs, innovation and tax money with them. This urgently needs to change. While the EU Listing Act is certainly a positive development to level the playing field with non-EU markets in regulatory terms, we believe that more needs to be done with a paired industrial strategy that we observe also in other leading equity markets outside the EU. This should also include a new discussion on the desired market structure as outlined under 1 – a continuation of the same regulatory approach will only make the problems worse.

5. **Supervision – avoid that too much time is wasted**: While we conceptually agree that an integrated supervisory system must be part of the endeavor of creating a true internal market for capital, we also believe that the discussion is too polarized between the interests at EU and national level. We should guarantee more legislative focus on "growth enhancing measures" and those items that will truly boost our ecosystems. We are concerned that a lot of discussion will focus again on supervision over the next 5 years and absorb a lot of resources. However, Covid-19 and Ukraine related market events did not reveal any material supervisory failures as was the case around the great financial crisis in 2007/2008.

6. **Build more talent**: The EU should focus much more on our talent pool in capital markets. Human capital remains a key driver of our success – at the end, we are only as good as our talents. As part of this, we believe it would be good to a) establish a new publicly managed secondment programme that structurally ensures revolving doors between public and private sector; b) strengthen cooperation programmes of universities by installing one single framework programme

for capital markets studies across all relevant EU universities (see SAFE example in Germany); and c) guarantee that financial literacy and economic education is integrated into the curricula of primary and secondary schools. Finally, we believe one should also reflect on a special income taxation incentive for young professionals in the capital markets ecosystem (e.g. up to 30 years) to avoid the structural loss of talents to other jurisdictions.

Other topics will naturally include: **Securitisation** with a similar system like in the US, harmonizing **insolvency law**, harmonizing **withholding tax**, establishing a **digital Euro** to advance the competitive edge on the digitalization front, or also the need to **review CSDR** in a way that the big CSDs in the EU can naturally drive the consolidation of the market via fair competition.

<u>EU EQUITY FUND – DETAILED OUTLINE</u>

- Managed by new EU agency (possibly under the EIB wing)
    - In charge of running the public tender and control around the tender for the index provider that provides the index and broader backbone to the portfolio composition
    - Index should be based on
        - 27 major equity indices from the 27 EU Member States
        - All SME Growth markets; and
        - Include a link to existing and listed Venture Capital fund structures (e.g. EIB)
    - Should be weighted by market cap (ensures full coverage and fair distribution)
    - Should be computed/ administered by an EU based index administrator only
    - Joint supervision of the whole set up by ESMA (in the lead with voting right and as chair) and with a college structure that includes the new EU fund management agency plus all 27 NCAs
    - Same supervisory set up should be used to authorize products that are allowed to reference (the natural default option should be ETFs with a low cost and high return reality / but one could also allow for active products as well as long as these are accurately supervised and controlled, i.e. they can prove to be better than the ETF alternative); buy side could hence still earn money on the distribution and sales of products
    - Note that an alternative approach could be to allow for multiple eligible indices and a decentralized private sector approach

- How to get the money in?
    - 401k EU approach – but truly copy the US way and import the system (and revamp all of the EU PEPP accordingly, which did not work)
    - Individual savings account – similar to the Swedish set up, install an EU wide regime for citizens to have an individual savings account so that you can cover private investments beyond the pension dimension
    - Mobilise institutional investors beyond pensions (funds etc)
    - Allow Member States and other EU supranational authorities to voluntarily participate (and give them a reduction on their EU budget contributions from the annual profit / allow them to use potential excess profits beyond their total EU budget contribution to be added again to national budgets)
    - Allow the EU to issue debt to invest into the fund
    - Incentive for private investors: Capital gains tax (ideally 0% or else serious reduction down to 1%)
        - Mandatory holding period: Avoid impact on public finances by forcing a mandatory holding period of e.g. 3-5 years (in the meantime, fresh capital can generate new growth and jobs, i.e. new tax income – and in turn the relief granted on the capital gains tax side after a few years will be outweighed by the new tax income generated)

- Some of the high level positive aspects of such a set up:

- Fresh capital into the real economy: you create growth, jobs, keep innovation and drive serious new tax income
- You reduce pressure on public finances and help monetary policy realities
- Citizens can participate in value creation (see DAX example with only 10% of Germans participating) – i.e. you also support democracy and counteract extreme voting behaviour
- Pensions have a future again
- The EU equity ecosystem is strongly boosted as demand and investment increases significantly; with that, valuations will be higher and companies will also want to IPO in the EU again (next to having a reason less to delist)
- A new capital markets ecosystem would flourish around the strong new equity reality (e.g. data side; derivatives side; etc pp)

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