



Proposal for a
CEPS-ECMI-ECRI Task Force

EU FINANCIAL MARKETS IN 2030

A ROADMAP FOR THE NEXT EUROPEAN COMMISSION

BACKGROUND

Financial markets have been the object of heavy regulatory activity over the last 15 years. From crisis response, the start of the European Supervisory Authorities (ESAs) over banking union and the creation of the Single Supervisory Mechanism (SSM) to the launch of the Capital Markets Union (CMU), and to the beginnings of the sustainable finance agenda, these developments have been nothing less than a regulatory roller-coaster. Financial regulation has become very dense, and is likely to remain so, with review clauses becoming standard in almost all pieces of regulation.

Decision processes on regulation have not become easier – on the contrary, they have become much more difficult. Debates on draft regulatory measures are very intense and polarised. The final outcome is often suboptimal, both from a regulatory clarity and market integration perspective. But this, of course, is the downside of a process that stimulates multi-stakeholder consensus.

The pace of financial integration – the objective of all this regulation – has not advanced, however. In banking, consolidation has stalled, and the European Central Bank’s integration indicator declined over the last year. In capital markets, there are some timid signs that more start-up finance is becoming available, but European markets continue to be very diverse and fragmented, with huge differences in market development. Overall the political support for banking union and CMU has dwindled, which has serious implications for Europe’s competitiveness.

CEPS, with its ‘sister’ organisations ECMI and ECRI, has been at the centre of monitoring financial market and regulatory developments over the last two decades. It is thus well placed to discuss a roadmap for the next legislature (2024-2029). This outline provides an initial agenda for such a task force.

LEITMOTIF OR COMMON THEME

A common theme for the EU’s actions is important as a galvaniser. The ‘Banking Union’ and ‘Capital Markets Union’ were important objectives for the work on the EU, but may need to be recalibrated to give a fresh impetus to these ambitions.

Competitiveness of the European economy in general, and of the financial services’ sector in particular, has become an increasing concern. This is related to a call for a regulatory pause. Competitiveness is relative, however, and depends on the benchmark. Overall, Europe’s financial sector is profitable in its core activities, and its prudential capital levels are satisfactory. A regulatory pause starts from the assumption that regulation is costly, and a competitive disadvantage, which again, depends on the benchmark.

MARKET DEVELOPMENT, INTEGRATION AND INDICATORS, A SNAPSHOT

Europe is largely a bank-driven financial system, and its capital markets remain underdeveloped and fragmented. Two decades of liberalising measures have not brought Europe’s capital markets much closer to each other. On the contrary, the divergence has grown between North and South. From this perspective alone, capital market development, and market integration will remain objectives, but repackaging and re-prioritisation will be necessary. The third pillar of the banking union and some elements of the resolution framework remain unresolved, and with it, effective consolidation in European banking.

Lack of consolidation in European banking affects their capital market activities, as they often do not have the size to participate in specific segments, or to provide financing for European corporates across the globe. Subsidiarisation requirements for foreign banks affect competition and costs in Europe's financial markets. Brexit has further reduced attractiveness of Europe's financial markets as liquidity and depth have been affected, increasing even more the appeal of the US market, for listings of large corporates, initial public offerings (IPOs), specialised financing tools and vehicles (leveraged financing, syndicate loan markets, infrastructure and real estate finance).

The financial sector has radically innovated over the last two decades. Digital platforms have largely replaced branch networks and financial institutions have pushed their customers online. Also thanks to EU rules on financial data access, fintech companies have challenged incumbents, and the traditional world of finance has opened up.

REGULATORY ACHIEVEMENTS AND CHARACTERISTICS

Much has been achieved on the regulatory side. The EU financial sector is governed by a vast rulebook in banking, for insurance and investment providers, on prudential regulation and conduct of business rules. Additional proposals have been made during the Von Der Leyen Commission for CMU, payment services providers, crypto currencies and digital resilience. Generalised review clauses means that many of these acts are subject to change every five years. The degree of detail within the basic measures has dramatically increased, and it takes a long time from legislators to reach compromises on sensitive points, raising doubts about the effectiveness of this regulatory system.

The regulatory burden is further extensively amplified by secondary legislation and soft law (guidelines, Q&As) and shaped by different supervisory perspectives. The ESAs have stepped up their activity to ensure similar outcomes across countries, but this is possibly only the beginning, in banking for countries outside the SSM, and in capital markets.

With much detail already in primary law, and loads of implementing acts and technical standards, supplemented by soft law, rulemaking in finance has multiplied over the last two decades, not paralleled yet by market development and integration. A revisiting of the Lamfalussy framework may be required.

SUPERVISORY ACHIEVEMENTS AND DEVELOPMENTS

Much has also been achieved on the supervisory side. The SSM has become the uncontested banking supervisor for the eurozone, now covering 20 countries. Its expertise is unparalleled in Europe, and its way of working has been fully endorsed. As a more distant supervisor, it stands above political interference, and with the support of the ECB, it has the tools to monitor general banking industry and financial markets developments.

Over just a bit more than a decade, the ESAs have become a fully integrated part of the supervisory framework. The European Securities and Markets Authority (ESMA) is in the lead on the number of tasks and total personnel, and with possibly more to come, on the unique supervisory tasks, for environmental, social, and corporate governance (ESG) data providers, central counterparties (CCPs) and listings. The European Banking Authority (EBA) stands in the SSM's shadow, but with the heavy regulatory activity for delegated acts (over 100 at the moment), it managed to carve out a role for itself, and with enlargement clearly on the agenda, there will be a lot to do to prepare up to seven new countries' banking supervisors for EU membership. A large agenda is left for the European Insurance and Occupational Pensions Authority (EIOPA), as the EU's long term risk supervisor of the least integrated financial sector, with the biggest challenges ahead.

BACKDROPS

○ PRINCIPLES- VS RULES-BASED REGULATION

A clear tendency over the last decade is that more and more legislation is pushed into Level 1, which adds to the complexity. While the EU stood for a principles-based approach in the past, with mutual recognition, it is becoming more and more rules based. This is certainly the case for sustainable finance measures.

○ MUTUAL RECOGNITION

This remains a basic principle in the EU, but given the growing regulatory complexity, it can be legitimately debated as to whether the EU should go back to this building block of the single market, and more rigorously enforce it. It remains difficult to explain that even after many waves of harmonisation, public offer prospectuses for IPOs are not yet mutually acceptable, for example.

○ 'LAMFALUSSY' STRUCTURE NOT SUFFICIENTLY RESPECTED

The Lamfalussy proposals of 2001 needs to be revisited, in view of re-prioritising the principles of financial rulemaking along the four-level regulatory approach.

○ WHAT ABOUT CONSUMER FINANCE?

Consumer credit is still run by the Directorate-General for Justice and Consumers (DG JUST) and there may be other ways of working than the principles applied in the EU's core financial legislation. This mostly concerns the use of delegated acts.

PRIORITIES FOR THE NEXT LEGISLATURE

The context is clear, the EU will expand east and southwards, to regions with very low levels of market development that are in need of large investments. Ukraine's reconstruction will require massive financial efforts, with the private sector also expected to contribute, in public-private partnerships (PPPs) or long-term debt-raising exercises.

The EU's expansion will raise issues for governance and rulemaking, which will also impact financial regulation. Fragmentation and 'one-size-fits-all' may be even more of a problem. Further expansion of the number of Member States in the ESAs will raise the same issues as at the overall EU level, namely can every country be expected to be represented on the board of these organisations?

On top of this, green standards will definitely form the basis of all new legislation going forward into the next mandate. Reporting obligations clearly defining environmental goals and standards which companies will have to comply with will produce a wealth of data, serving as an input for monitoring and new laws. Similarly, companies and particularly SMEs which are particularly affected by the environmental transition need to be considered in order to ensure the EU's competitiveness.

The EU has started to legislate in the domain of cyber, which is the biggest unquantifiable risk out there. The Euro CBDC has the potential to alter the relative roles of central banks and the banking system.

A TASK FORCE

CEPS, in cooperation with ECMI and ECRI, intends to convene a Task Force from September/October 2023 onwards, to report by April/May 2024, and feed into the Commission's programme. The Task Force should meet three to four times on the basis of a detailed agenda, to be agreed upon. The final report should come out with specific policy recommendations, and reflect participant's consensus, with the report drafted by CEPS experts.

AGENDA

The task force will meet 3 to 4 times over a period of eight to nine months and come out with a report at the end. The suggested agenda is as follows:

1. First meeting: regulatory strategy (September/October)
2. Second meeting: supervisory system (November/December)
3. Third meeting: market developments and required changes (January/February)
4. Fourth meeting: policy recommendations (March/April)

The Chair of the task force is an external expert appointed by CEPS.

The Rapporteurs (CEPS staff) will organise the meetings, conduct research independently and draft the final report.

The Task Force members – a group of stakeholders: industry representatives and observers (e.g. academics, policymakers, regulators, supervisory authorities, consumer/investor associations) – will steer the research agenda of the meetings and actively participate at the discussion, together with the chairman. The members will also review the final report and comment on the list of recommendations.

All participants (except for the special guests) are required to attend (or designate another person) at least two (2) out of the three (3) closed-door meetings and will be invited at the public event dedicated to the launch of the final report.

The roles are described in detail in the Annex.

Based on the research agenda outlined in this prospectus, the meetings will be held under the Chatham House rule and be closed to the press. Participation is limited to members of the Task Force, observers and selected invitees. The Chairperson will make sure that multiple interests are represented and taken into account. A detailed agenda will be distributed prior to each meeting.

Each meeting will consist of 2 sessions (opening address, presentations, panel debates, roundtable discussions, wrap-up). Post-meeting reports will be prepared and circulated. Based on these discussions and its own independent research, CEPS-ECMI-ECRI will publish a final report drafted by the Rapporteurs.

Chair: Jesper Berg, Former Director General, FSA, Denmark

Rapporteurs: Karel Lannoo, CEO of CEPS and General Manager of ECMI

Apostolos Thomadakis, Research Fellow, ECMI and CEPS

CALL FOR PARTICIPATION

Participation in the Task Force is subject to a fee to cover organisational expenses. CEPS, ECMI and ECRI members are entitled to a discounted fee and non-members (with a commercial interest) pay the full fee. Discounted fees will be considered for non-members if they decide to become a member of CEPS, ECMI or ECRI. Membership of the Task Force or observer rights will be given to certain officials, academics and members of civil society upon invitation.

The fee covers:

- Research carried out by CEPS and ECMI staff
- Organisational, logistical and other costs of all meetings
- Web access and documentation
- Launch of the final report in Brussels at a public event
- Editing and printing of the final report
- Distribution of the final report to key stakeholders in the industry and among policy circles
- Press release and communications of final report

The fee does not cover travel and accommodation costs for Task Force members to attend the meetings.

Fee Structure (+21% VAT)	
CEPS Member - Corporate Premium	Free of Charge*
ECMI or ECRI member CEPS Corporate and Association Member	EUR 1,500*
CEPS Institutional (Premium) Member	EUR 1,000*
Academics and Civil Society	EUR 400*
Non-Members: - Corporates and industrials associations - Institutions (organisations that do not fit into the corporate/industrial association category).	EUR 5,000 EUR 2,500
European Institutions and Agencies and Policy Observers (policymakers, regulators, supervisors)	Free of charge

* Members can participate with up to two representatives per meeting.

To join the Task Force, please fill in the application form on our webpage. If you have any questions do not hesitate to contact us:

For further questions, please do not hesitate to contact: Beatriz Pozo or Laura Nicolas by email at: beatriz.pozo@ceps.eu or laura.nicolas@ceps.eu, or by phone on +32 222 93 911

ANNEX

Principles and Guidelines for the Task Force

This appendix offers guidance to members of the Task Force and other parties wishing to understand the functioning of the initiative and the drafting process of the final report. Task Forces represent structured dialogues among industry representatives, policymakers, academics and other relevant stakeholders who discuss topics in dedicated meetings. The final report is the result of the research carried out independently by CEPS-ECMI Rapporteurs.

Participants

The **Chair** is an expert appointed by CEPS to steer the dialogue during meetings and advise as to the general conduct of the activities of the Group.

The **Rapporteurs** are CEPS researchers who organise the task force meetings, conduct the research independently and draft the final report.

The **Members** are any individuals, such as academics, policymakers, regulators, supervisors, representatives of commercial companies, trade associations, consumer interests' groups, investors' associations, who participate in the activities of the Task Force in a personal capacity. They must have expertise in the topics discussed and provide input to the discussions through presentations and relevant material for the final report.

1. The role of the Task Force members

The Task Force members will:

- Steer the research agenda of the meetings and the content of the active discussions;
- Contribute to meetings with active input, including targeted presentations;
- Support the research of the Rapporteurs and comment on the various drafts of the reports, including the possibility to produce written contributions (subject to the Rapporteurs' approval and editing);
- Ensure that the research behind the final report adheres to the highest standards;
- Have access to all the documents and presentation made during the meetings;
- Contribute to the recommendations that will be discussed and added to the final report.

2. The role of the Observers

A group of policymakers, academics, consumer/investors' associations and independent experts may attend the TF meetings. They will attend in an observer capacity, so they will not be required to provide a contribution (unless agreed otherwise). This group will also include speakers invited by CEPS to provide individual contributions to one or more meetings.

The lists of members of the Task Force and the Observers will be featured in the final report and on the CEPS websites. All members attend the meetings in a personal capacity and do not necessarily endorse the recommendations of the final report.

Objectives of the final report

- The report is meant to contribute to the policy debate by presenting a balanced set of arguments, based on the discussions among participants and internal desk research.
- The report seeks to provide readers with a constructive basis for discussion. The authors will not seek to advance a single position or misrepresent the complexity of any subject matter.
- The report also fulfils an educational purpose and is therefore drafted in a manner that is easy to understand, with technical jargon fully defined.

Drafting of the main text

- In the main text, rapporteurs detail the results of the research carried out independently in the framework of the Task Force. This part of the report will refer to the discussions during the meetings but also to available data and literature.
- Scientific literature may be cited in this part of the report. Members are not expected to endorse any reference to this literature. A general disclaimer is inserted to clarify this aspect.
- The conclusions of each section will be clearly presented.

Use of data

- The final report features data that are considered both relevant and accurate by the Rapporteurs.
- Task Force members are encouraged to contribute with any data or propose any source of data that Rapporteurs consider as relevant.
- Task Force members may question either the relevance or accuracy of any given data. After consultation with the Chairman, the Rapporteurs may decide either to exclude this data or to mention these concerns in the main body of the text.

Drafting of conclusions and recommendations

- The final report will feature a set of policy recommendations, drawn up by the Rapporteurs, which are meant to reflect the Task Force's discussions during the process. For a recommendation to be featured in the report, there needs to be enough information being discussed in the open debates among the TF members. In all cases, the report will seek to identify the points where there is some sort of common understanding of market issues.
- Both policy recommendations and the content of the final report will be summarised at the beginning of the report in the form of an 'executive summary'.
- TF Members will be given ample opportunity to review the final report and provide their input on a draft version. Nevertheless, the authors (Rapporteurs) will be solely responsible for the content of the final report.

Sample disclaimer

"The findings presented in this Final Report do not necessarily reflect the views of all the members of this Task Force. However, the members were involved during the drafting of the Final Report and provided input to the discussions through presentations and the provision of data and other materials, which have been used in this Final Report. A set of principles has guided the entire drafting process to allow all of the interests represented in the Task Force to be heard. The Rapporteurs are solely responsible for its content and any errors contained therein. The Task Force Members, or their respective companies, do not necessarily endorse the conclusions of the Final Report."