Speech by Commissioner Mairead McGuinness at the ECB/European Commission Conference on European financial integration, 'An EU financial system for the future'

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I'm going back in history, to 65 years ago, when the Treaty of Rome was signed, laying the very foundations for today's European Union.

And at that very beginning, the founders set out the building blocks for a common market, and that was based on what we known – the four freedoms: goods, people, services, and capital.

And really we have spent the past 65 years working to integrate Europe and European financial markets, step by step, but based on those very four freedoms I've mentioned.

So twenty-two countries joined the original six signatories – but as we know one country has since voted to leave the European Union.

And over that history of 65 years we have had crises, we have had missteps and failures along that journey.

But there has also been considerable progress and determination to continue to build a better European Union. And I think we have learned from our mistakes - and sometimes that is the best learning because you hopefully will not repeat them.

So a more financially integrated European Union means that companies have more opportunities to get funding, from a variety of sources.

It means also that investors have more opportunities to invest in the whole of the single market, and not just in their home Member State.

And of course for consumers, there is greater access to more products and services from different providers.

And really I want to thank the team at the European Central Bank and the Commission for organising today's event perhaps even more timely given the geopolitical situation in which we live.

So if I look over the last decade we've spent a lot of time – and rightly so – responding, if you like, to fixing the things that we got wrong in the past or indeed, that went wrong in the past.

So now is the time to look ahead in my view and build a financial system for the future and for that sustainable future that we're all trying to build.

And one of the main ways we can do that is by deepening the Capital Markets Union, which also means building up key financial infrastructures within the European Union, in particular our central counterparties.

[Why now]

So already a new European financial landscape has emerged and is continuing to emerge.

After Brexit, a multi-hub structure replaced a system focused on just one city.

The European headquarters of many financial firms have moved to Paris, Luxembourg, Dublin, Frankfurt, Amsterdam, Madrid, Milan, to name a few.

And not all parts of the industry picked the same new home.

Many banks went to Paris or Frankfurt, while asset management companies chose Dublin or Luxembourg. And indeed, Amsterdam saw an increase in trading.

We've seen one large finance cluster replaced by several, and each has a clear focus on a particular activity in the financial system.

So as EU policy-makers of course, we monitor these shifts very closely, especially their potential impact on financial stability and indeed, financial integration in the European Union.

So let me talk about this issue of financial stability and here we have to ensure that financial service providers and key financial infrastructure fall under our own regulation.

And that isn't just because we believe our regulation is necessarily better or more sophisticated than in other jurisdictions.

But rather because when these activities are there to serve the European economy and European citizens, it is our duty to make sure we have European oversight.

So the multi-hub structure also challenges us to think hard about what financial integration actually means and in particular in a digital era.

Today, the focus is no longer on establishing links towards one financial centre.

So instead, several centres need to be connected to each other, and into the economies across the 27 Member States and local systems.

Financial integration doesn't necessarily require a central market for an entire currency area.

And a clear example is the US, where finance is spread across various cities including New York, Chicago, Boston and San Francisco.

[CMU agenda]

So in the EU, it's the Capital Markets Union that can help that multi-hub structure work as a coherent whole.

And it has many other benefits, too.

A strong Capital Markets Union is really vital to sustain the recovery from the COVID crisis – not to mention the impact of the war in Ukraine.

It can also help mobilise the enormous investment needed for the green and digital transitions, including the digitalisation of the financial sector.

So a genuine CMU – Capital Markets Union, will help FinTechs to raise the capital they need to grow and scale up their activities within the single market.

And that's why the CMU project goes hand in hand with the European Commission's Digital Finance Strategy which aims to harness all of the opportunities offered by the use of technologies in finance while also addressing the risks to financial stability or investor protection that these technologies can pose.

We also need to broaden opportunities for individuals to save and invest over the long term and I'm really determined on this.

All in all, the Capital Markets Union will foster a more inclusive and resilient economy, which we need more than ever in these turbulent times.

So let's look back – when did we start real work on CMU? Well, that was 2015.

And the idea was to make the free movement of capital – part of that original vision of the Treaty of Rome – a reality.

Our first Capital Markets Union action plan has delivered concrete results, like:

- regulation on SME listings,
- a framework for simple, transparent and standardised securitisation,
- revised rules for venture capital funds,
- and an EU-wide regulation on crowdfunding.

I think the departure of the United Kingdom from the European Union has made these efforts even more important.

We needed a European response to maintain an efficient, safe and integrated financial system, underpinned by financial stability and strong supervision.

So we adopted a new CMU Action Plan in 2020 to step up our work.

And last year we tabled a number of really ambitious legislative proposals to see that plan put into action.

For example, to address the shortcomings in the trading and post-trading landscape, the Commission tabled a proposal for a consolidated tape to remedy the issue of fragmented trading data.

And we tabled another proposal here, to better integrate the market for settlement services.

And work is also ongoing to make capital markets more accessible to citizens.

This includes work on financial literacy, pensions and an ambitious retail investment strategy.

And the Commission is laying the groundwork on more complex structural issues which need to be addressed.

These are the ones that cross-border investors often identify as the root cause of fragmentation,

They are also politically more difficult – and I'm talking here about corporate insolvency and withholding tax as examples.

The Commission is working on targeted action to address divergent rules in these areas for example, just last week we launched a public consultation on the issue of withholding tax.

And we do aim to come forward with legislative proposals in these areas next year.

Now to succeed with the CMU, we need the right supervisory framework.

The European Supervisory Agencies need strong supervisory convergence power to allow financial centres to compete on their respective merits.

And our supervisory framework should be balanced.

So it must take into account the need for a level playing field for financial firms operating within the single market, across borders

While allowing national competent authorities to take into account the characteristics of their own financial ecosystems.

And in the coming months, as was envisaged in the CMU Action Plan, we will report on the functioning of the European Supervisory Authorities.

And this report will also assess the need for more harmonisation of our rules at EU level and also to monitor progress towards supervisory convergence.

I would say that CMU is a long-term project.

And by the end of this Commission's mandate in 2024, I want to see tangible progress in the integration of our EU capital markets.

And that is even more vital if we consider the geopolitical context and the need to step up our investments in renewable energy and sustainability more generally.

The CMU is key in supporting the international role of the euro and our open strategic autonomy.

Open strategic autonomy is vital if we are really serious about Europe's resilience and Europe's global leadership.

It is about standing on our own two feet, about being confident of our place in the world, while remaining open and competitive.

Because we benefit from openness and competition.

But I think here, we shouldn't be naïve.

We do need to watch out for areas where we are vulnerable to decisions made outside the European Union, and therefore, beyond our control.

So energy is the most prominent and urgent example of that vulnerability right now.

But we also need to watch for vulnerabilities in capital and financial services.

We need our financial markets infrastructure to be resilient.

Let's just look at the market turbulence for commodities and commodity derivatives, in energy, agriculture and raw materials, due to the war in Ukraine.

[Clearing agenda]

So this brings me now to the EU's clearing agenda.

This is a market segment that is very technical, that operates below the surface.

But it is critical for our capital markets to function.

And I think we need to be clear that a systemic problem in clearing would be a problem – and potentially a very big problem - for all of us.

That is why we put in huge efforts to ensure the financial stability of EU financial market infrastructures, in particular central counterparties (CCPs).

Well-developed and resilient CCPs are key for capital markets to function well.

They support trading and ensure good management of risks that stem from derivative trading.

But we are still too dependent on some clearing houses beyond our borders.

That's a concern because of just how vital CCPs are to the entire financial system.

If there are major stresses in CCPs – then there would be a significant risk to financial stability.

And EU regulators wouldn't be in the driving seat for decisions that would be fundamental to European financial stability.

So the EU needs reliable arrangements for central clearing that serve EU interests in all circumstances, not just in fair weather.

Third party CCPs – particularly those based in the UK – are important for EU market participants.

But I need to state very clearly, we are over-reliant on UK-based CCPs.

And this current position of the EU being heavily dependent on a third country for clearing is unprecedented and it is not sustainable in the medium term.

We do not rely this strongly on other jurisdictions in any other area.

It is a risk for the European Union, and that risk must be addressed.

So I'll go back to last February, we adopted an extension of the equivalence decision for UK CCPs for three more years, so that's until June 2025.

I think rightly, we announced this extension early, avoiding potential risks to financial stability if EU banks abruptly lose access to UK CCPs.

Again, really important for financial stability in the short term.

But in the medium term, we need to build up capacity in the EU and reduce our over-dependence on UK-based CCPs.

Again, as I said – it's vital for financial stability.

But central clearing capacity is also an important dimension of the Capital Markets Union – those deep, liquid, integrated capital markets that we are working to build through our CMU action plan.

I think we cannot be serious about the Capital Markets Union without competitive critical infrastructure in the European Union.

For those reasons, we launched a public consultation and that consultation asked questions so…

- how to improve the attractiveness of the EU clearing landscape,
- how we would encourage infrastructure development,
- and also reform supervisory arrangements for EU CCPs.

The consultation has just closed two weeks ago and we received more than 70 responses, those responses will contribute to our reflections.

And again our appreciation and thanks to those who actively contributed by putting forward ideas and feedback.

There are various options to achieve our goal of developing clearing in the EU.

And over the coming months, we will assess what is the best in terms of those options.

We may need initiatives targeting both the demand and the supply of clearing services.

So on the supply side, for instance, we may look into how to encourage a broader offer of services by EU CCPs.

We've listened to stakeholders and we hear from them that it can be easier for CCPs in other jurisdictions to expand their business than it is for CCPs in the European Union, because in the EU they need to go through much longer and more complex procedures.

Now if you look at the demand side, we are also assessing various options.

They range from measures to disincentivise clearing in systemic third-country CCPs…

to measures imposing more specific obligations on market participants to increase the share of clearing in EU CCPs.

In the consultation we asked for views, for example, on the possible role of bank capital requirements in favouring a reduction of exposures to systemic CCPs…

or the possibility for clearing members to have an active account at an EU CCP.

We will look into how best to achieve our goal of reducing over-reliance, while also boosting our own competitiveness.

And I think really importantly, we will also assess how to ensure that the supervisory framework for EU CCPs is robust and fit for the future.

The Commission will look at how to improve the efficiency of supervision, in view of a deeper EU clearing market.

So if the European Union is to increase capacity for central clearing, then the related risks must be appropriately supervised within the EU.

We plan to come forward with a legislative proposal on our clearing agenda in the second half of the year.

[Conclusion]

So, as you've heard, we have big ambitions for the European financial system: we have huge opportunities because we have an incomplete single market for capital….

- It is important that the 65-year-old promise of the free movement of capital is finally met.
- That the financial system remains and is fit for the future.
- And that future will be both green and digital.

And in one sense, the future is here and now.

Brexit, Covid-19 and the ongoing war in Ukraine are reminders of our vulnerabilities and the need to build a more resilient European economy.

This is vital for people and businesses in Europe.

But it is also a big part of why Europe is strong at the global level.

I want to stress that a resilient economy relies on a resilient financial sector.

And the Capital Markets Union will underpin a strong and resilient financial system in Europe, and one that is fit for the future.

The CMU in turn will be underpinned by solid market infrastructures, including CCPs, which is why our clearing agenda for the coming months is so vital.

I look forward to working with all the relevant stakeholders and to engage with you to make our ambitions a success.

Thank you for your attention and I look forward now I think to both comments and questions. Thank you.

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