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A European Securities and Exchange Commission (SEC) is on the cards

Karel Lannoo*

Creating a European SEC is now firmly on the cards in Brussels, 10 years after the single supervisor for banking began its work. Compared to the attractiveness of the US capital market, also the case for European investors, Europe has failed to create an environment to stimulate its own competitiveness and innovation. Europe sits on an enormous savings glut, which – because of fragmentation and inefficiency of its financial markets – does not often find its way into the domestic capital market.

The crucial role of capital markets has been recently featured prominently in several high-level reports on Europe's economic priorities. There is no doubt, a more developed and attractive capital market could greatly contribute to the EU's competitiveness. The eternal question, however, remains how to get there. Its role has been discussed ever since the birth of the euro 25 years ago but the EU has still not found the silver bullet… or policymakers and relevant actors just simply do not want to bite the bullet.

How to successfully operate a capital market is what many countries desire but few manage to achieve. Unlike supervising institutions, where it is a matter of setting capital standards and enforcing them, it is creating the ecosystem where the expectations of issuers and investors in securities meet. This requires the presence of many different actors over different layers in securities markets, in well-regulated financial infrastructures and market intermediaries, as well as in effective self-regulatory organisations and government institutions. The US experienced many booms and busts before enacting federal securities legislation in the 1930s, which took another 40 years to become prominent, with the rise of the US securities markets in the 1970s.

* ***Karel Lannoo*** *is General Manager of ECMI and CEO of CEPS.*

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The EU has advanced a lot from the time that the role of stock markets differed or when insider trading was not a criminal offence in several of its Member States. It has enacted many laws and created the European Supervisory Authorities, albeit with limited powers. To advance, a combination of strong enforcement of existing and new EU legislation will be required, mutual recognition ensured, and combined with the vigilance of competition policy authorities to ensure openness and interoperability.

The recent reports by Irish Minister Paschal Donohue for the Eurogroup and the former Italian Prime Minister Enrico Letta on the single market, rightly emphasise the crucial role of retail investors, through user friendly, attractive and cost-efficient long-term savings products, and the promotion of a 'capital markets culture'.

To translate this into reality will be a big challenge, especially when one looks at the huge fragmentation of the mutual fund markets in Europe and providers' strong resistance to more price competition in these markets.

A more integrated supervisory structure should be created to allow for a SEC-like environment where investors are protected on an equal footing across the EU. The problem is similar as with the financial crisis – regulatory arbitrage undermines confidence in the single capital market and open competition is not sufficiently at play among capital market intermediaries.

Thinking ahead, and building upon the current system, European supervisors will need to have the structure and capacity to ban the mis-selling of investment products and they will need to have the powers to subpoena national regulators. To do this, their governance will need to be revised or an entirely new structure created from scratch.

To be particularly frank, if EU legislation were to have been originally enforced well – and this concerns for example the conflict of interest rules as contained in the market rules (MiFID I, the EU version of RegNMS) of 2004, or the interoperability of securities depositories rules (in the CSDR) of 2014 – market integration and consolidation would have happened and we would not have the problems we are once again discussing today.

Now, even more supervisors will have to be engaged, as we also did when the single banking supervisor began its work in 2014, to tackle such 'hard fragmentation'. Or new rules will need to be adopted, which will make the maze even more complex and difficult to escape. But a hard design will have to be found sooner rather than later to make Europe's capital markets finally work together effectively as one.

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