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SAVINGS AND INVESTMENT UNION: FOSTERING INTEGRATION, SCALE AND EFFICIENT SUPERVISION IN THE SINGLE MARKET

EUROPEAN COMMISSION'S CALL FOR EVIDENCE

AMAFI's answer

AMAFI is the trade association representing financial markets' participants of the sell-side industry located in France. It has a wide and diverse membership of more than 170 global and local institutions notably investment firms, credit institutions, broker-dealers, exchanges and private banks. They operate in all market segments, such as equities, bonds and derivatives including commodities derivatives. AMAFI represents and supports its members at national, European and international levels, from the drafting of the legislation to its implementation. Through our work, we seek to promote a regulatory framework that enables the development of sound, efficient and competitive capital markets for the benefit of investors, businesses and the economy in general.

Since its inception in 2015, the initiative to establish a Capital Markets Union has been a core priority for AMAFI. Developing deeper and more liquid capital markets is critical for the financing of EU economy as highlighted by the Letta and Draghi reports[1] with the latter estimating additional investment needs **at €750-800 billion per year by 2030,** on top of which the European Commission estimates that investments in defence could reach **at least € 800 billion over the next four years[2].**

In this context, the Association welcomes the recent political momentum on a renewed CMU through the Savings and Investment Union Strategy[3]. However, delivering on this ambition requires tackling long-standing structural issues with deep political roots. Political commitment of the Member States now needs to materialise into decisive actions in order to overcome national political hurdles.

Against this background, AMAFI encourages the European Commission to limit regulatory initiatives to what is strictly necessary to achieve tangible progress and to adopt an outcome-driven approach, one that is firmly aligned with the sense of urgency and the objectives set out in the Letta and Draghi

[1] The future of European Competitiveness, M. Draghi, link ; Much more than a market, E. Lette, link
[2] European Defence Readiness 2030, European Commission, White Paper, link
[3] Savings and Investments Union Strategy, European Commission, link

reports. In particular, this entails systematically **assessing policy proposals with a cost benefit analysis that demonstrate their ability to grow EU financial markets, enhance their attractiveness to both institutional and retail investors, including those from outside the Union, and strengthen the global competitiveness of their core participants**. Importantly, policy options must address the needs of **both retail and institutional investors**, combining a **consumer-oriented perspective** with an **industrial policy approach** aimed at fostering the competitiveness of EU financial ecosystem.

In our answer to this Call for evidence on the "*Savings and Investments Union Fostering integration, scale and efficient supervision in the single market*", we first define what we mean by "integrated markets" (I.), before outlining what we consider as the necessary changes in trading (II.), post-trading (III.) and supervision (IV.), as per our answer to the European Commission's consultation on the integration of EU capital markets[4].

Executive summary

Efficient financial markets that can effectively support the substantial financing needs of strategic sectors are essential to strengthen the Union's economy and global standing. We encourage the European Commission to adopt, in defining the necessary regulatory changes, an outcome-driven approach focused on **growing EU financial markets, increasing their attractiveness to both institutional and retail investors, including those from outside the Union, and strengthening the global competitiveness of their core participants.**

Integrated EU capital markets: key features

- **Deep liquidity pools that EU companies can tap in,** supported by a diverse ecosystem of firms operating under various business models, able to accommodate for the needs of a broad spectrum of investors.
- **Wholesale markets governed by fully harmonised rules and a bottom-up approach for local markets to enable them to grow**.
- **Interoperability,** the ability of different systems and platforms to work together seamlessly.
- **Efficient and consistent regulatory processes along with strengthened EU supervision.**

Trading landscape

Existing best execution rules ensure fair access to EU markets through competing trading venues for all types of investors:

- **Fair:** limited market participation is primarily due to insufficient **demand**, stemming notably from the current allocation of EU savings, **rather than to structural barriers**. Lower return expectations vs the US and the lack of readily available information on

[4] European Commission, Targeted consultation on integration of EU capital markets, link

small and mid-cap stocks are bigger hindrances. There is no lack of interconnection between market players.
- **Competitive**: EU capital markets today offer a variety of business models through which investors can access trading venues, at different cost depending on the chosen broker.

Transaction costs are mainly made of post-trade costs. Mandating interconnections between trading venues or intermediaries would fail to meaningfully reduce overall transaction costs while likely inflating trading costs. Instead, **the supervision (i) of the best execution principle**, which does not rely solely on price and is well-suited to EU market, and (ii) **of the market transparency rules, should be reinforced** to ensure consistent application.

Post-trade environment: common processes and interoperability

The post-trade environment remains a barrier to a cost-efficient integrated capital market. We suggest adopting an **approach** focused on **promoting standardisation** and **operational efficiency**:

- Harmonising **market practices** that are key for efficient post-trade environment.
- Encouraging cross-border investments with a **withholding tax process that should be seamless and effectively neutral for retail investors**, meaning they should not be exposed to its complexity and not be discouraged from receiving the income they are rightfully owed. This requires a fully harmonised, simplified and digital relief-at-source framework that the FASTER Directive fails to deliver.
- **Promoting common tools with the improvement of T2S and its full adoption**, which is still not used by all CSDs, and **interoperability** between clearing and settlement systems.

ESMA's governance and market supervision

While not sufficient on their own to achieve market integration, reforms should be pursued in these areas:

- **Embedding competitiveness in ESMA's regulatory mandate** to spur a cultural shift.
- **Reforming ESMA's governance** to enhance its independence and agility.
- **Moving towards a unique supervision for market infrastructures (CCPs, TVs, CSDs) that are significant at EU level or have pan-European activities.**
- Enhancing **supervisory convergence** through more effective use of **existing tools, such as the breach of Union law procedure,** with the reform of ESMA's governance carried out in parallel.
- **Broadening the scope of the no-action letter,** a critical tool given the length and rigidity of the EU legislative process.
- **Enhancing ESMA's proximity with market participants.**

I. MAIN FEATURES OF INTEGRATED EU CAPITAL MARKETS

AMAFI considers that integrated capital markets in the context of the SIU hinge on four main characteristics:

(i) Deep liquidity pools that EU companies can tap in, supported by a diverse ecosystem of firms operating under various business models, able to accommodate the needs of a broad spectrum of investors.
This dimension is closely tied to the challenge of attracting not only retail but also institutional investors to commit funds to EU companies, in which we do not dwell in the present paper (for earlier proposals on this matter, please refer to: *AMAFI / 23-88*).
It is also contingent on capital markets' ability to meet the financial needs of all types of companies and investors. Achieving this requires a rich and resilient ecosystem of market professionals, whether local or global, small or large, capable of serving this diversity and of developing sustainable, profitable business models that allow them to grow and scale over time.

(ii) **Wholesale markets governed by fully harmonised rules and a bottom-up approach for local markets to enable them to grow**.
While the top-down harmonisation of EU wholesale markets has delivered important benefits, particularly for large corporates and international investors, it must be complemented by a bottom-up approach to support the development of efficient local markets. The needs of some economic players such as SMEs can only truly be addressed by a national offer. The local markets who are central to such an offer should hence operate under an adequate regulatory framework, co-existing with the more standardised features of a larger pan-European wholesale market. Local best practices should be encouraged and disseminated for potential wider adoption.

(iii) Interoperability, i.e. the ability of different systems and platforms to work together seamlessly.
Due to the diversity of Member States' securities laws, tax regimes and overall strategic interest, an effective interoperability of clearing and settlement systems is needed.

(iv) Efficient and consistent regulatory processes along with strengthened supervision.
Increasing the agility and efficiency of the EU legislative process is essential for the competitiveness of its markets and market players vis-à-vis third-country jurisdictions. Equally important is avoiding unnecessary regulatory constraints on EU actors. AMAFI supports in this respect the proposals made in the "Less is more" report.
Consistent supervision across the EU is also essential to ensure the effective application of EU regulations and to secure a genuine level playing field. While enhanced convergence can support this objective, some form of centralised supervision is necessary in the longer term. Such a development needs however to be accompanied by a fundamental reform of ESMA's governance framework.

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II. An efficient and competitive trading landscape

In the post MiFID context of competing trading venues, the **existing best execution rules ensure fair and competitive access** to European markets for all types of investors:

- **Fair:** Where market participation remains limited, this is primarily due to insufficient **demand**, stemming notably from the current allocation of EU savings, **rather than to structural barriers**. Lower return expectations, with EU stocks underperforming US equities or arguably crypto assets, and the lack of readily available information on small and mid-cap stocks, largely due to insufficient research coverage, are more plausible explanations than infrastructure issues. Claims of insufficient interconnection between investment firms or trading venues do not, in our view, reflect the reality of current market conditions.
- **Competitive**: EU capital markets today offer a variety of business models through which investors can access all trading venues, each with its own cost structure. Some intermediaries are tailored to retail clients, focusing on cost minimisation and streamlined access; others operate on an institutional model, where retail flows are integrated but not central. The choice to connect directly to a trading venue or to route orders through a broker is a strategic decision aligned with the intermediary's model. **In a competitive environment, this should not be forced upon financial market participants**. Importantly, the current structure of market intermediaries does not preclude investors from accessing a given market, albeit at different costs depending notably on the chosen broker (and its trading volume).

In this context, AMAFI **does not support imposing interconnection obligations** between trading venues or intermediaries as a remedy to limited demand or as a way to reduce **transaction costs. Execution costs represent only a small fraction of total transaction costs, the bulk of which stems from settlement (60 to 80% depending on the market).**

Mandating interconnections would create new barriers for investment firms due to the significant costs this will generate, which would anyway be ultimately borne by end-investors. Without addressing the underlying sources of post-trade costs, such measures would fail to reduce overall transaction costs.

However, AMAFI considers that **the supervision** of the best execution principle, as well as the rules on market transparency, **should be reinforced** to ensure that the same rules are consistently applied to the same types of services.

III. Post-trade environment: common processes and interoperability

Unlike in the trading environment, AMAFI considers that **the post-trade landscape in Europe** remains a barrier to the development of an integrated capital market due to the cost and operational complexities it creates. Addressing these obstacles is essential to achieving more **efficient, seamless post-trade processes** across the EU.

Given that the post-trade fragmentation stems from deeply rooted differences, notably in domestic securities laws, tax regimes and considerations of national sovereignty, **consolidation in the hands of a few actors is neither realistic nor desirable from a competition viewpoint**. Instead, the focus should be on **promoting standardisation** and **operational efficiency** across existing infrastructures, with specific emphasis on the ones which are lagging behind.

AMAFI identifies three priority areas where such a **bottom-up approach** could deliver tangible improvements and, over time, drive structural transformation of the post-trade environment:

- **Market practices**: Diverging operational standards and settlement conventions, as recently highlighted in ESMA's consultation on amendments to the RTS on settlement discipline, remain a key obstacle. Harmonising those practices that are key for efficient post-trade processes (e.g. recalls, partial settlements, etc.) would be a step forward.
- **Common tools**: To support the development of a unified post-trade ecosystem, priority should be given to the **full adoption of an improved T2S** and to **enhancing interoperability** between clearing and settlement systems, with a specific focus on settlement, an area where there are more opportunities to reduce costs than in clearing of cash transactions.
- **Withholding tax**: WHT creates significant uncertainty for investors regarding the actual income they will receive from investments made outside their domestic markets. This uncertainty acts as a strong disincentive to cross-border investment and has a financial impact that far exceeds that of transaction costs. As a first and essential step, WHT should at least be made effectively neutral and seamless for retail investors, meaning they should not be exposed to its complexity and be discouraged from receiving the income they are rightfully owed. This requires a fully harmonised, simplified and digital relief-at-source framework for WHT. However, the FASTER directive falls short of delivering this level of simplification by leaving too many implementation options to Member States and prioritising anti-abuse measures. To truly remove this tax barrier, the most effective solution would be the full abolition of WHT within the EU. In addition to being fully consistent with the logic of the Single Market, it would eliminate the need for refund or relief mechanisms (which are currently lengthy, costly and burdensome), thereby improving the competitiveness of EU capital markets and reducing compliance costs for both taxpayers and administrations.

Removing these obstacles would **pave the way for a common set of practices and interoperable tools**, enhancing both **market efficiency and attractiveness** across the European post-trade environment.

IV. Reforming ESMA's governance and supervisory mandate

Increasing ESMA's direct supervision is not central to achieve the integration of EU capital markets and should not divert efforts to simplify the financial services regulatory framework. However, in the longer term, a form of centralised supervision if properly designed would bring benefits.

We believe structural reforms of the governance of ESMA and of the supervision of markets should be undertaken to contribute to enhancing the attractiveness and competitiveness of EU capital markets:

- **Embedding competitiveness in ESMA's regulatory mandate**, given the central role played by the Authority in shaping and implementing EU regulation. Comparable authorities, such as the CFTC and SEC in the United States or the PRA and FCA in the United Kingdom, already integrate this dimension into their regulatory approach. A change of mandate of ESMA EU would provide the necessary impetus for a broader **cultural shift** that is essential to adapting to today's rapidly evolving and competitive geopolitical environment. If such a transformation cannot be achieved through a formal revision of ESMA's mandate, **operational changes** must nonetheless be introduced to embed this cultural shift into the Authority's working methods and decision-making processes. **Reforming ESMA's governance by:**
  - Changing the **voting modalities of the Board of Supervisors** to reflect the heterogeneous weight of financial markets as well as the different areas of expertise of NCAs.
  - **Establishing an Executive Board**, based on the design of the one designed for the AMLA, replacing the existing Management Board. This would enhance **independence** and **agility** in ESMA's decision-making process.

  It should be underlined that **ESMA's governance should encompass both its regulatory and supervisory functions**, while acknowledging that the modalities for exercising these roles may differ.
- **Moving towards a unique supervision for market infrastructures (CCPs, TVs, CSDs) that are significant at EU level or have pan-European activities.** It is important that such actors who are key to EU capital markets be supervised independently from domestic considerations and that they can benefit from a supervision not fragmented across multiple NCAs. This evolution should avoid creating a duplicative supervisory layer generating additional costs. From a competitiveness perspective, it is essential to ensure a level-playing field in supervision between infrastructures offering the same services.

  While we would not recommend a specific supervisory model at this stage, the expertise of NCAs in their daily supervision of market actors and proximity with the industry should be considered fundamental in its future design. Supervisory models, which are distinct from governance, should be decided later and may differ slightly depending on the type of actor supervised, but this should not hinder progress towards direct supervision of market infrastructures at EU level. In the longer term, a central supervision of investment service providers could be envisaged depending on the progress made on serval aspects (governance, skills building, proximity with market participants, etc.).
- **Enhancing supervisory convergence** through more effective use of **existing tools, such as the breach of Union law procedure.** To that end, reforming ESMA's governance is a key prerequisite to overcome national interests and reinforce ESMA's capacity to act in the general interest of the Union.

  We also note that supervision is not only about ensuring financial market participants' compliance with regulation but also safeguarding market integrity. In this respect, the role of ESMA in market monitoring and the structure and use of transaction reporting should be reconsidered to ensure consistency and an efficient allocation of resources across the Union.

- **Broadening the scope of the no-action letter**, which is a critical tool given the length and rigidity of the EU legislative process. No-action letters are essential in situations where existing rules prove inadequate or misaligned with rapidly evolving market conditions or regulatory developments. More generally, **AMAFI also supports the proposals made by the "Less is more"** report **aiming at improving the EU regulatory processes**.
- **Ensuring ESMA's policy making is firmly anchored in the operational realities of market participants,** with a deeper and more systematic dialogue. This is essential to build the trust necessary for any future shift towards more centralised supervision. To this end, the existing consultation process should be enhanced by (i) systematically engaging with the industry ahead of policy development (Level 2 and 3 texts), (ii) ensuring that Standing Committees meet more frequently and issue written and public contributions on key issues where industry expertise would provide meaningful value. Moreover, dedicated recruitment schemes should be put in place to not only facilitate the secondment and transfer of staff from NCAs but also to establish a certain turn-over between ESMA and the private sector, while maintaining high conflict of interest management standards, following best practices observed in jurisdictions such as the UK and the US.