



EUROPEAN CENTRAL BANK

EUROSYSTEM

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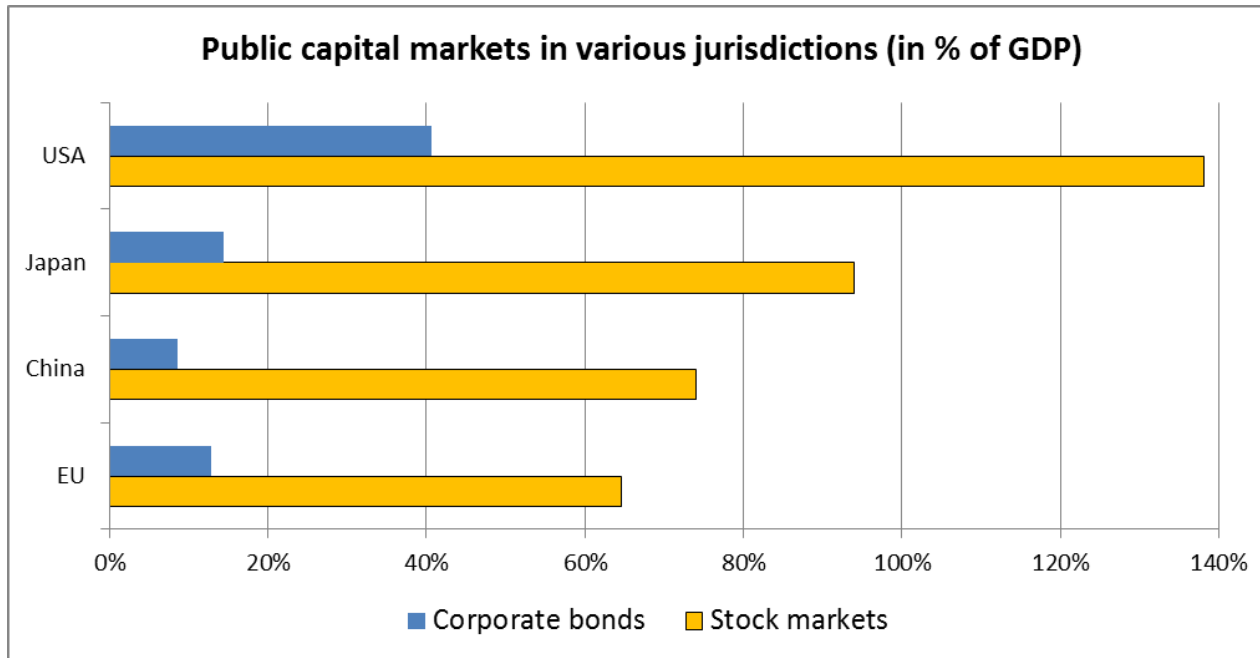
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What is the Goal of the Capital Markets Union?

ILF conference, Frankfurt am Main
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Capital markets in Europe are less developed than markets in other major jurisdictions

In particular, there are **major differences in the financial structure** in Europe and in the US

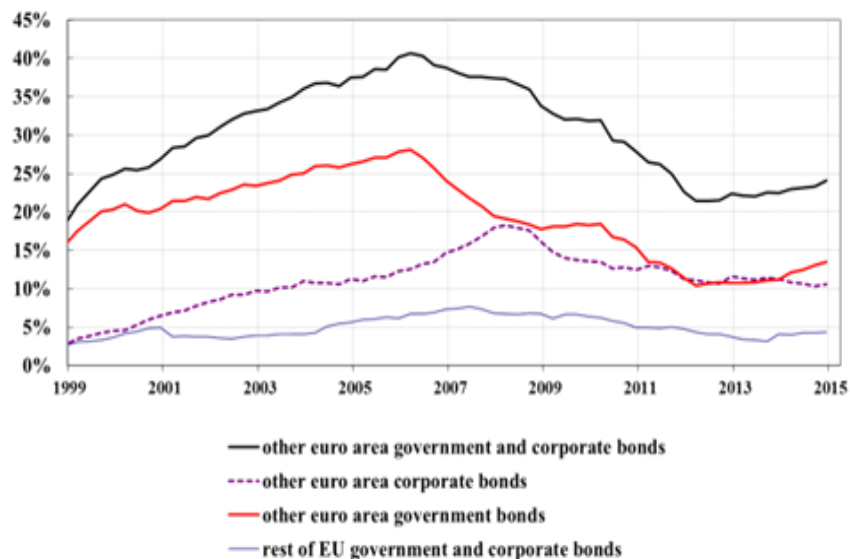


The crisis impacted a process towards more integration of capital markets in Europe

Chart 1

Share of MFI cross-border holdings of debt securities issued by euro area and EU corporates and sovereigns

(percentage of total holdings, excl. the Eurosystem)

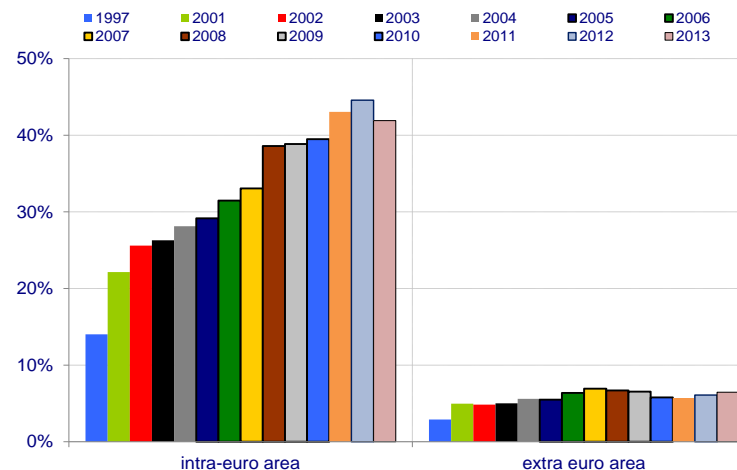


Source: ECB.
Note: Outstanding amounts are classified by the residency of the issuer. Eurosystem holdings are excluded.

Chart 2

Cross-border holdings of equity issued by euro area residents

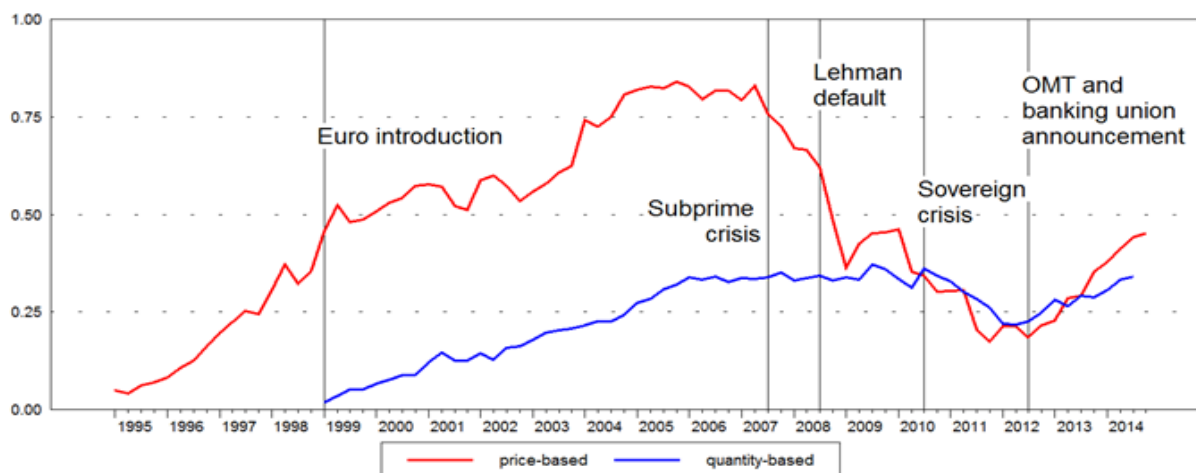
(percentages)



Sources: IMF, Thomson Reuters and ECB calculations.
Note: Intra-euro area is defined as the share of equity issued by euro area residents and held by residents of other euro area countries (excluding central banks). The sample includes 12 euro area countries. Extra-euro area is defined as the share of euro area equity held by non-euro area residents of the euro area (excluding central banks). Last observation: 2013.

By pursuing the CMU agenda, integration of the financial markets needs to go beyond convergence

Price-based and quantity-based financial integration composites (FINTECs)



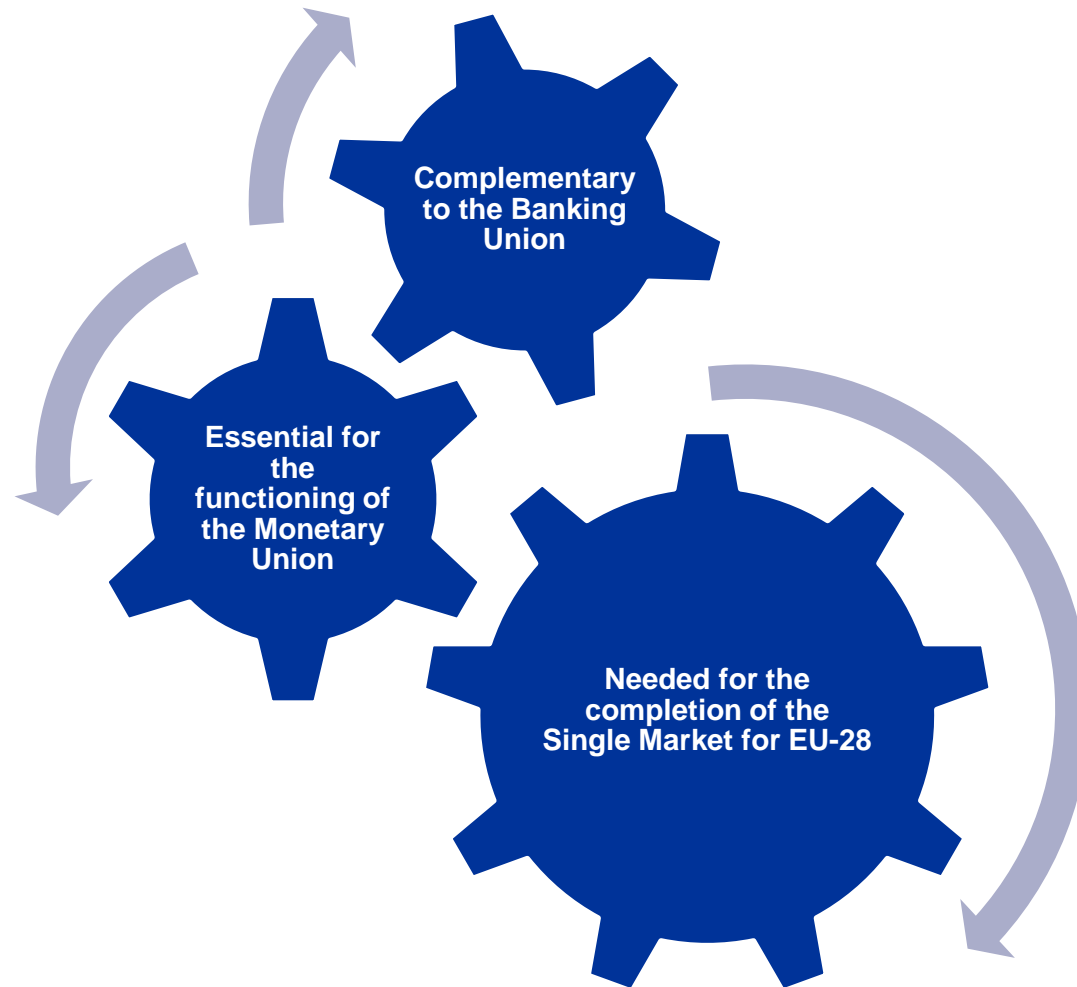
Source: ECB and ECB calculations.

Notes: The price-based FINTEC aggregates ten indicators covering the period Q1 1995 – Q4 2014, and the quantity-based FINTEC aggregates five indicators covering the period Q1 1999 – Q3 2014. The FINTEC is bounded between zero (full fragmentation) and one (full integration).

Increases in the FINTEC signal higher financial integration.

Capital markets are starting again to show some signs of de-fragmentation. Looking forward, the objective of CMU should be to support **qualitative integration**, rather than **quantitative convergence**.

The goal of CMU



CMU as an EU-28 agenda to complete the Single Market

Completing the single market in capital by increasing capital markets':

Effectiveness

- matching supply and demand (diversification)

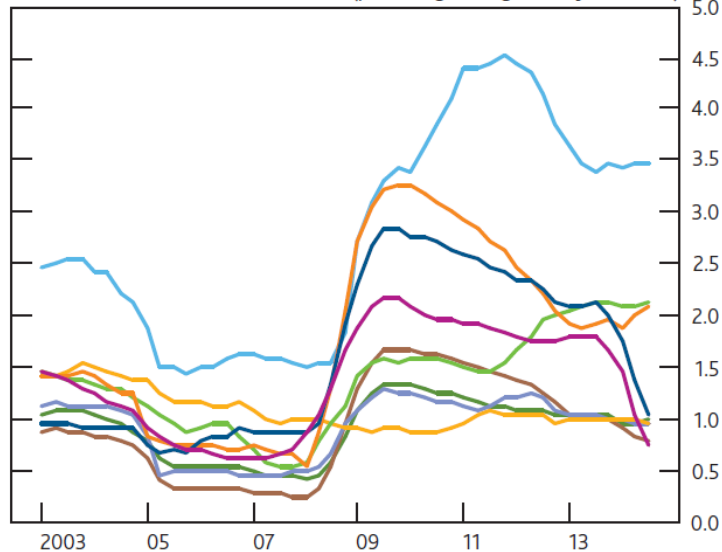
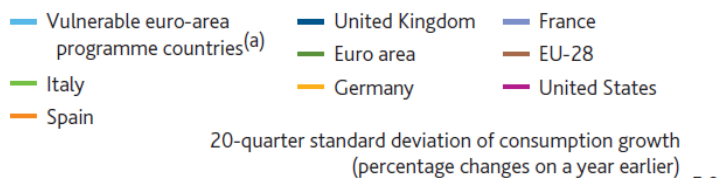
Efficiency

- increasing competition and lowering costs

Size

- lowering barriers between Members States

CMU to improve economic resilience of EMU



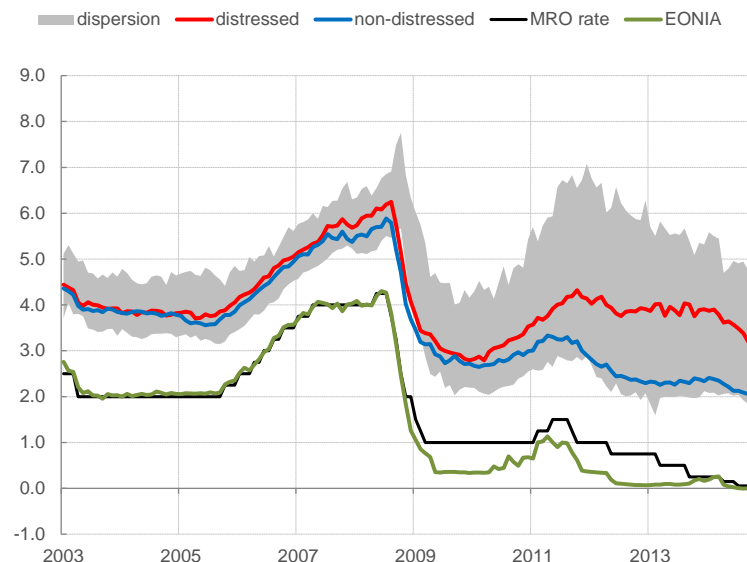
Sources: Eurostat, Thomson Reuters Datastream, US Bureau of Economic Analysis and Bank calculations.

(a) Includes Greece, Ireland and Portugal. Calculated as a simple average of volatility of these countries' consumption growth.

Improving diversification: enhancing cross-border risk-taking to allow capital markets to play a role in cushioning asymmetric shocks.

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Composite indicators of the cost of borrowing for non-financial corporations from MFIs (% per annum):



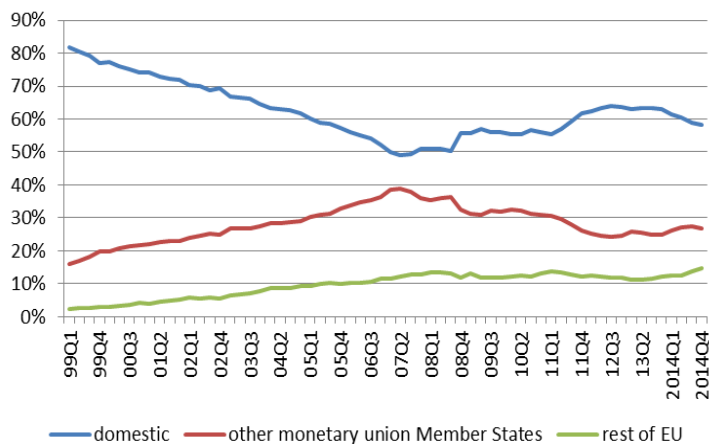
Sources: ECB and ECB calculations.

Enhancing the functioning of monetary policy within EMU by providing the ECB with alternative channels for monetary policy transmission.

CMU as a complement to the Banking Union

Share of euro area MFI holdings of debt securities issued by MFIs by residency of the issuers

(percentage of total holdings, excl. Eurosystem)



Source: ECB.

Note: Outstanding amounts are classified by the residency of the issuer. Eurosystem holdings are excluded.

- Efficient and diversified capital markets to continue **severing the bank-sovereign nexus** and getting rid of the **location bias in Europe**
- **Heading towards cross border banks** large enough to operate across borders and diversify risks but small enough to be resolvable
- **SSM and CMU** as reinforcing each other

Concretely, how do we get there?



How far we will get depends on how ambitious we are



Fostering individual market segments

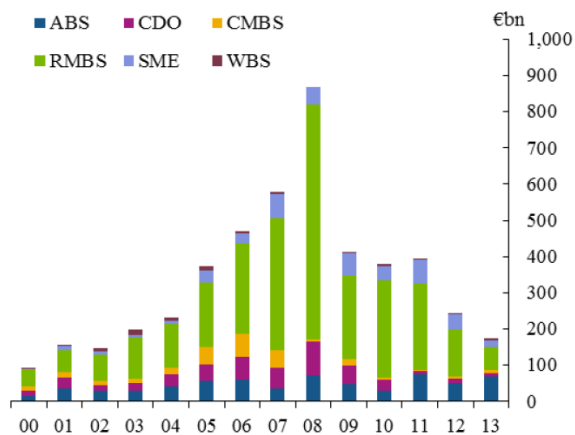
Legislative action

Common institutional structures

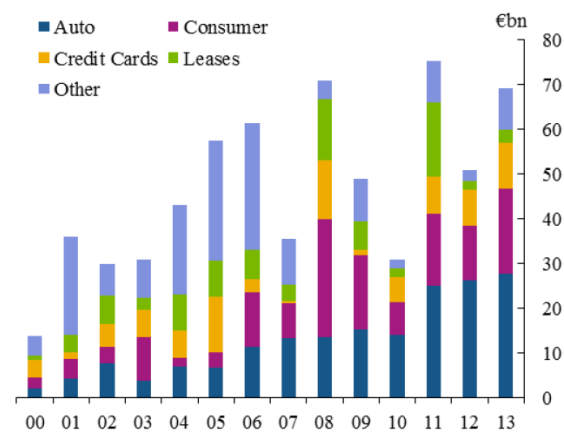
Some examples

Fostering individual market segments

- **Supporting the development of certain market segments** (e.g. Securitisation, covered bonds, private placement, equity and venture capital markets) through:
 - **Market-led initiatives**
 - **Standardisation, increased transparency** (e.g. credit registers)
 - **Public support**



Sources: SIFMA and Bank calculations.
(a) Includes retained issuance



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(a) Includes retained issuance

Some examples



Legislative action

- **Common regulatory standards** (e.g. regulatory treatment of high quality securitisation – a European framework for securitisation)
 - **Legislative proposals** (e.g. a Commission proposal on a Securities Law Directive, on a European framework for the recovery and resolution of CCPs)
 - **Harmonisation in key areas** for the functioning of cross-border markets (e.g. securities law, insolvency law, taxation, accounting) at the EU level or through national interventions
- ➔ Towards a **single rulebook for European Capital Markets**
- ➔ Should not lead to more financial activity developing outside of the regulated sector (e.g. FSB work on developing macro-prudential tools for the shadow banking sector).

Some examples



Common institutional approach

- **Effective implementation and consistent enforcement** of the rules and standards for CMU (*i.e.* a single rulebook for EU capital markets complemented with a common interpretation and enforcement)
- Enhanced **supervisory convergence**

Concluding

- The Commission's Green Paper is very welcome
- The CMU will play a key role in improving:
 - Allocation of capital
 - Diversification of sources of financing
- It remains to be seen how ambitious Europe wants to be in developing a genuine capital markets union. While some low hanging fruit should be quickly picked, we need to be bold in our objectives and give ourselves the tools which will ensure that the European Capital Market Union is a reality rather than a name.