

## **A Single Supervisor and a Single Rule-Book for the European Capital Market: time for action**

**Index**

<b>1. The underdevelopment of the European capital markets</b>	<b>3</b>
<b>2. The negative implications on EU growth and innovation</b>	<b>8</b>
<b>3. A new paradigm for a single EU Capital Market</b>	<b>14</b>
Single European Supervisor for capital markets	14
Single European Rule Book	15
Reducing the regulatory burden	16
Better regulation	17
The urgency of starting from the Italian market	18

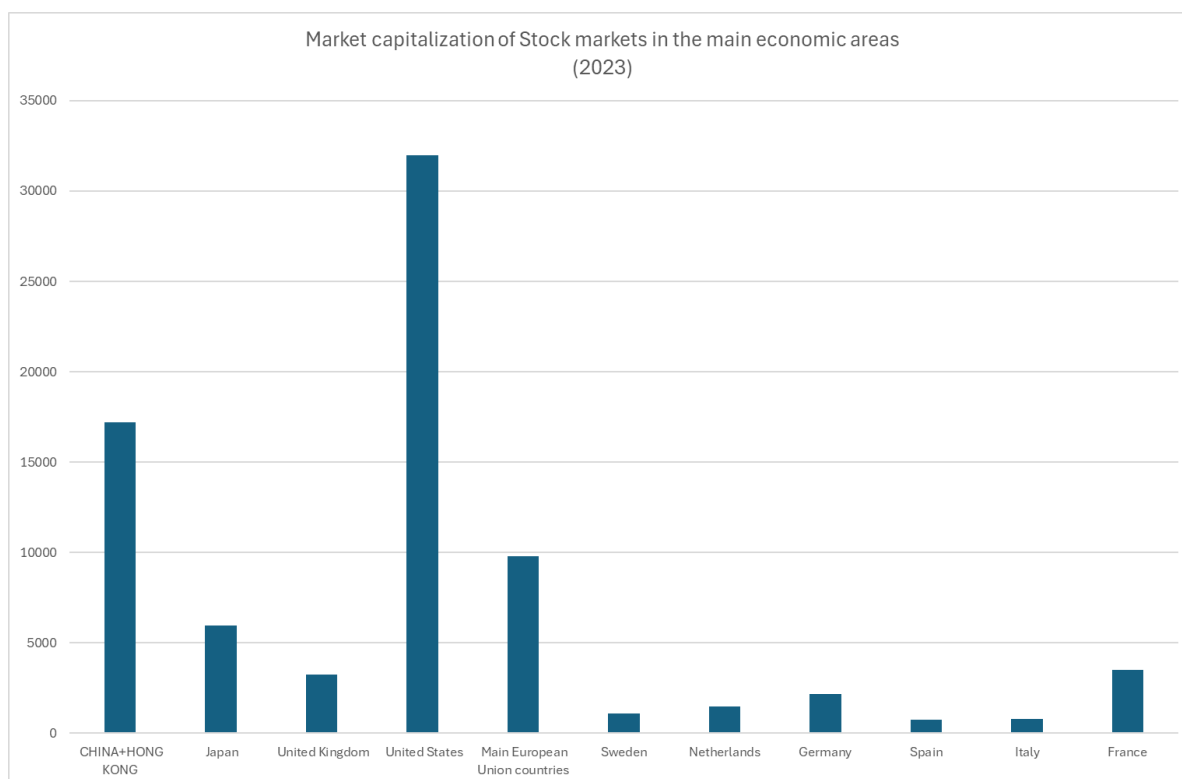
## 1. The underdevelopment of the European capital markets

The underdevelopment of the capital market is one of the main weaknesses of the European Union's economy, as it significantly affects its ability to grow, innovate and support the environmental and digital transition.

The gap with the capital markets of the world's other main economic areas is relevant and growing, even though the problem of the underdevelopment of the European Union capital market has been a long-standing priority of European policymakers.

*The first key marker of the underdevelopment of the EU capital market is the small size of their relative stock exchanges, both in absolute terms and in relation to the domestic GDPs, especially if compared to the same market capitalisation/GDP ratio in other main economic areas.*

*Considering individual countries, the largest European Union Stock Exchange by market capitalisation, Euronext Paris, is about one tenth of the US Stock Exchange, about one fifth of the Chinese Stock Exchange and half of the Japanese one. Also, considering the EU Stock Exchanges as a whole, their size is still about one third of the US Stock Exchanges and two third of the Chinese one.*

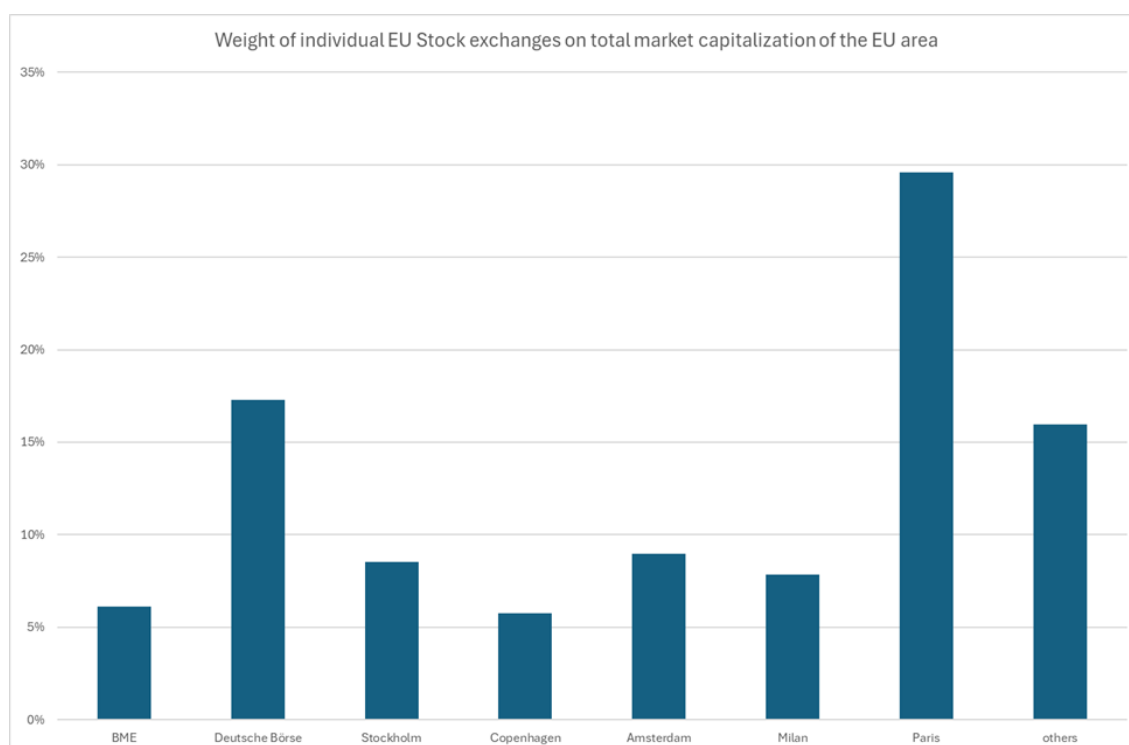


One of the fundamental causes of the underdevelopment of the European capital market is its fragmentation, highlighted by the persistence of essentially national market infrastructures and by their low degree of integration.

The landscape of the EU capital market is characterised by the persistence of national Stock Exchanges, despite the establishment of two main network of markets: Euronext, including five EU Stock Exchanges (Amsterdam, Brussel, Dublin, Milan and Paris) and one non-EU European exchange (Oslo), and Nasdaq Nordic, which includes six EU Stock Exchanges (Copenhagen, Helsinki, Riga, Stockholm, Tallinn and Vilnius) and one non-EU Stock Exchange (Reykjavik). Even within the two networks, the rules for listing and trading have been only partially consolidated; therefore, their effects on market integration in the EU have been modest.

*The EU capital market is still fragmented with seven main Stock Exchanges representing together about 85% of total market capitalisation of the EU area. There are two main Stock Exchanges (Euronext Paris and Deutsche Boerse) but no single leading market able to assume a key role at continental level, as they attract mainly domestic companies.*

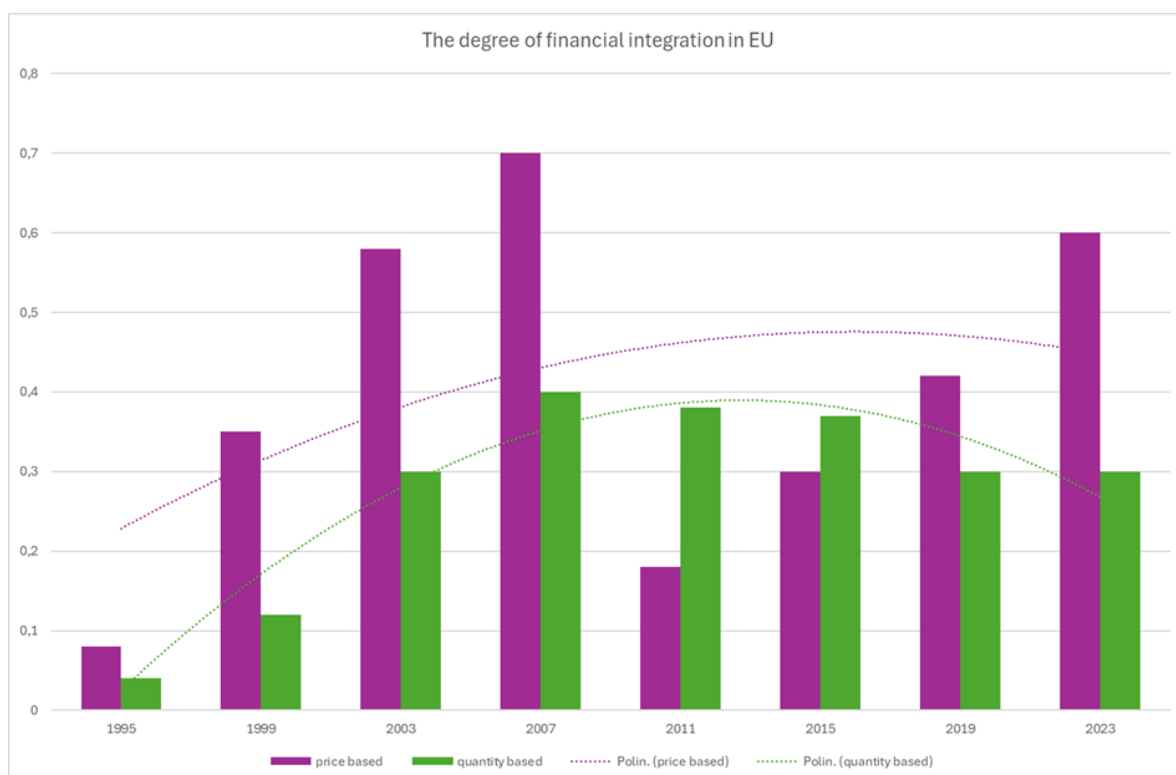
*Considering the Euronext Stock Exchanges, the weight of domestic companies is about 90% in terms of number of companies, and 96% in terms of market capitalisation).*



The fragmentation of the EU equity market is just one tile in the complex mosaic of rules and practices that concretely hampers the establishment of an integrated financial market. The degree of integration of the EU financial markets grew significantly in conjunction with the introduction of the euro until 2000 but stagnated in the following years, thus remaining at a level that is far from satisfying.

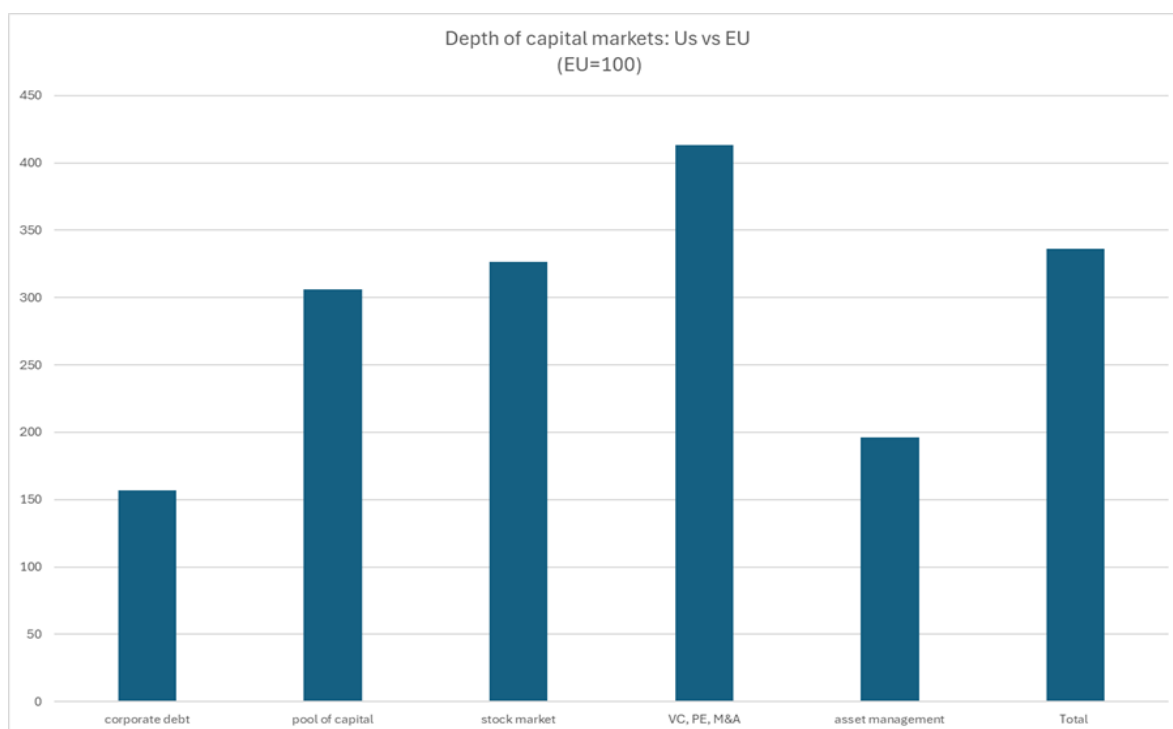
Considering the different segments of the EU financial markets, both the money and the banking markets have significantly improved in the integration process, while this has not been the case for the capital markets segments, as well as the bond and equity markets, which show an even trend in the level of integration in the last 30 years and an absolute level of integration significantly lower than in other financial market segments.

*The level of financial integration, measured in terms of quantity of financial assets, was close to zero in 1995 and started to increase in the late 1990s with progress in the monetary union and peaked in 2008, with a value (40%) still far from full integration. After the financial crisis the level of integration remained quite stable, with a slow decline in the last years. We have a similar picture if we consider the integration on the basis of prices of financial assets, even if the scale of movements is much more prominent and the level of integration higher.*



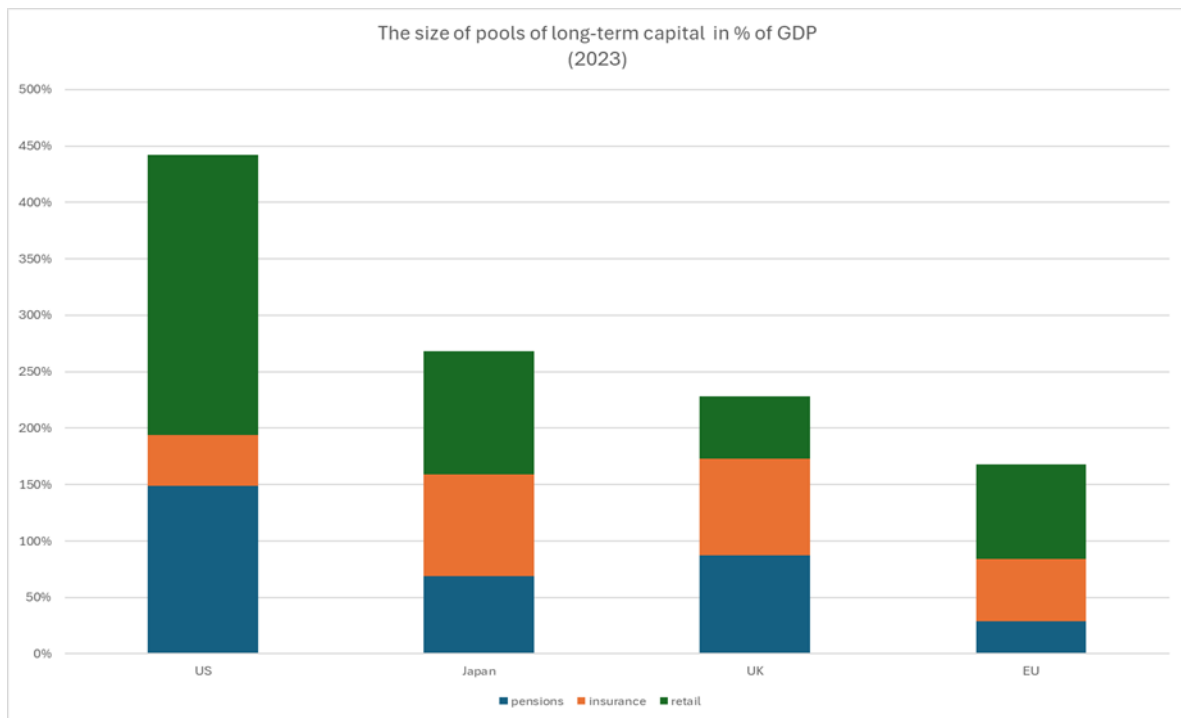
The underdevelopment of the EU capital markets is also due to structural weaknesses in the main elements of the eco-system where capital markets operate and which plays a key role in determining their development.

*The depth of capital markets, measured by combining the size of the main elements of both the demand and the supply of capital and of the market infrastructure, is still significantly lower in the EU than in the US. The gap is considerable in all the different components of the capital markets eco-system, being particularly relevant in those more connected to equity capital.*



The lack of long-term capital available for investments in capital markets (pool of capital) is the most relevant weakness of the EU eco-system in a strategic perspective, as it is a sign of an inefficient allocation of savings. Overall, the EU has less long-term capital in the form of pensions, insurance, and direct retail investment available than other comparable economies, with the most striking difference being the size of pension assets. At the same time, as pointed out in the Letta Report, a “concerning trend is the annual diversion of around €300 billion of European families’ savings from EU markets abroad, primarily to the American economy, due to the fragmentation of our financial markets.”

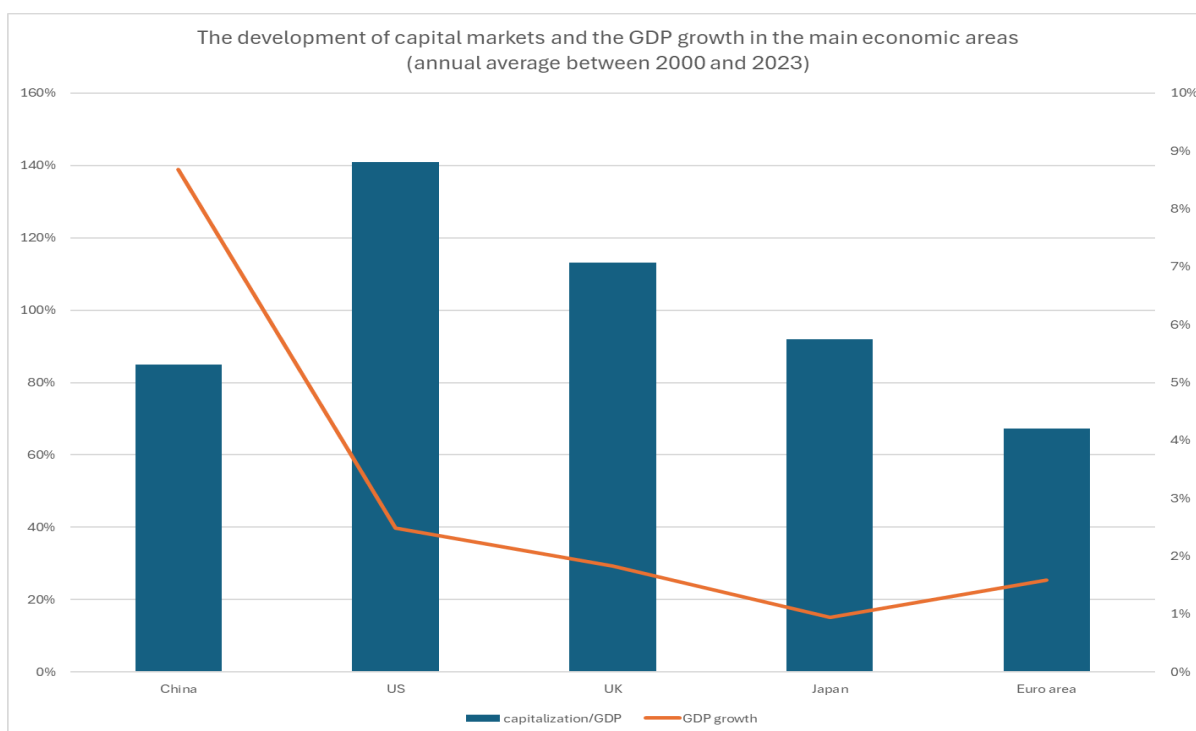
*The EU shows a gap in the pool of capital available for investment as a percentage of GDP not only with respect to the US but also to Japan and the UK. The weakest component of the EU pool of capital is the size of the pension asset, whose value in percentage of GDP is less than one fifth of that in the US, one third of that in the UK and less than half if compared to Japan.*



## 2. The negative implications on EU growth and innovation

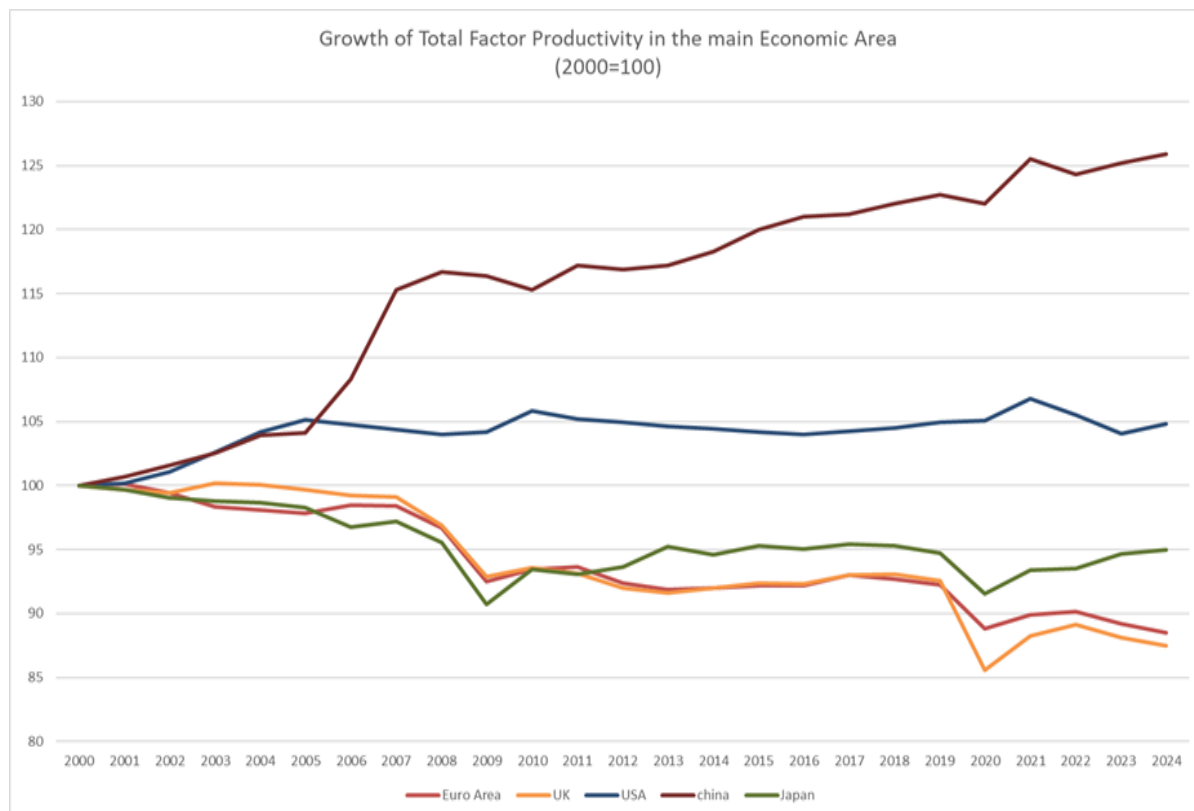
As capital markets play a relevant role in fostering economic growth at macroeconomic level, by enabling efficient savings and capital allocation, the underdevelopment of EU capital markets is among the factors that have contributed to the lower level of economic growth in the last decades, if compared to most of the world's main economic areas.

*In the last two decades, the average annual GDP growth in EU has been one sixth of that in China, but also lower by 60% than that in the US and by 25% than that in the UK. Japan is the only economic area among the main ones with GDP growth lower than the EU's.*



The underdevelopment of EU capital markets reflects on the evolution of total factor productivity of the European economy, as the predominance of banking financing has privileged traditional sectors, less open to innovation and less profitable, with a substantial misallocation of capital: the EU retains the negative record as in the last two decades have had lower productivity than other main economic areas, with the only exception of the UK.

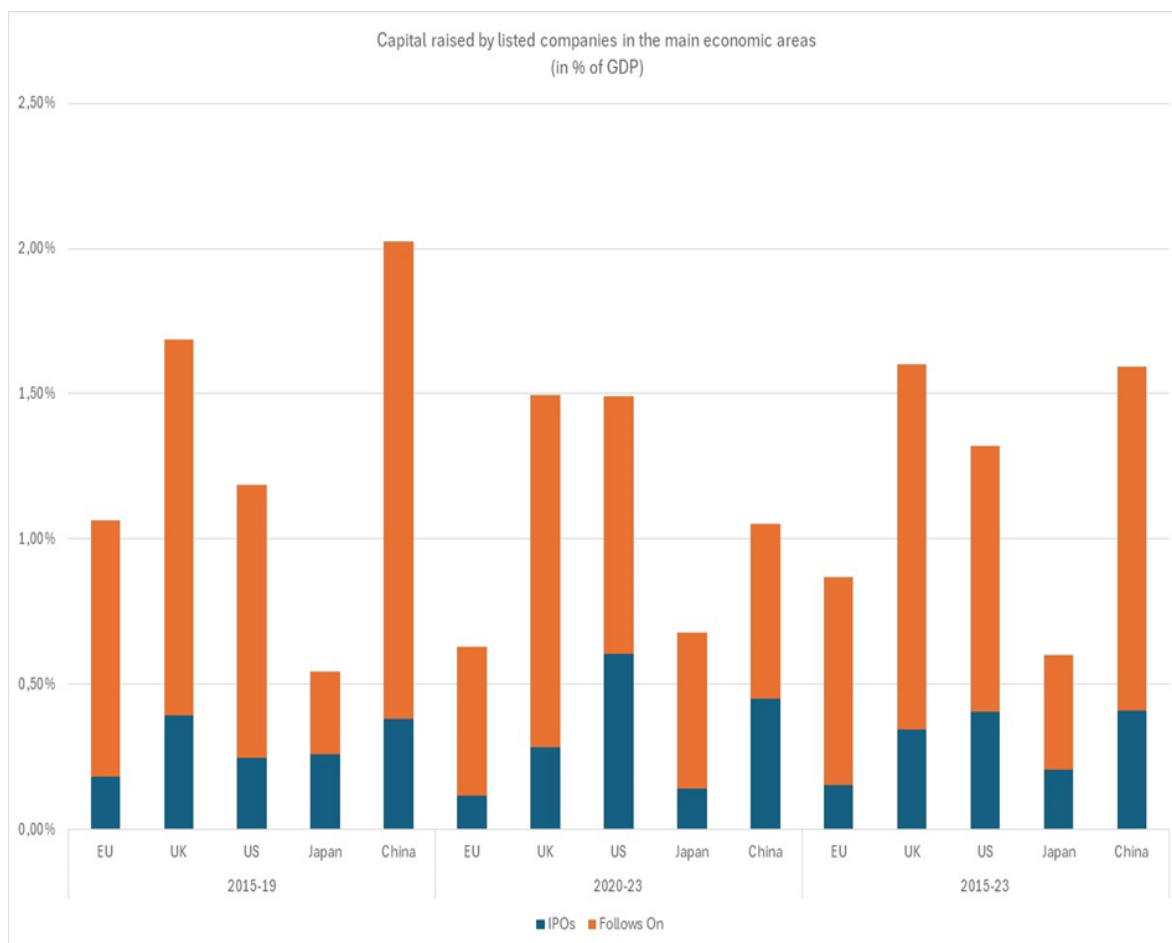
*Total factor productivity grew in the US and, very rapidly, in China, while it declined in the other main economic areas, with the EU performing worse than the other areas, except for the UK, in particular in the last five years.*



One of the main effects of the underdevelopment of the EU capital markets consists in its structural and growing inability to finance the growth of companies, especially in the fundamental phase of “first access” to the market. The raising of fresh equity capital by listed companies, which is the primary function of a capital market, compared to the size of the economy is significantly lower in Europe than in the other main economies and the gap has worsened in the last 4 years. The market actors that appear to be mostly affected on the EU market are the newly listed companies, namely those who access the market for the first time with an IPO. Also in this case, the situation has worsened in the last 4 years.

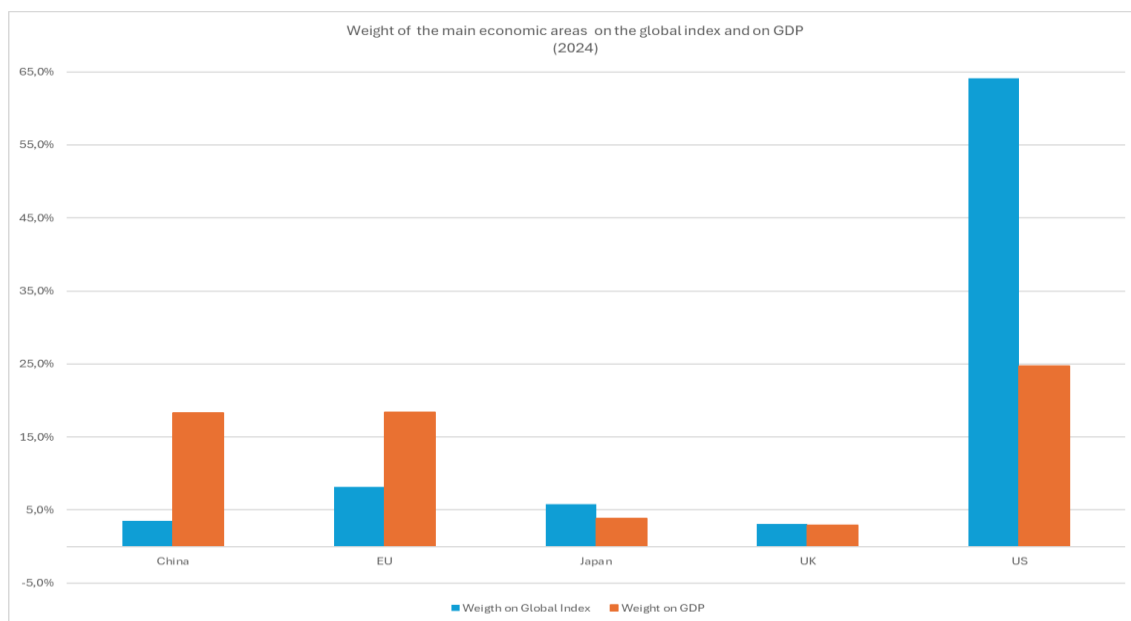
*Between 2015 and 2023, the ratio of capital raised by listed companies to GDP in Europe was approximately half of that in the UK and China, 60% lower than that in the US, and only higher by 40% than that in Japan. In the last 4 years the ratio in the EU has been the lowest among the main economic areas, with the gap strongly increasing in particular with respect to the US. By considering the ratio of capital raised in IPOs to GDP, the weakness of the EU capital market is even more relevant: between 2015 and 2023 the ratio in the EU was about one*

*third of that in the US and China, half of that in the UK, and lower by 30% than that in Japan. In the last 4 years the gap has reached one fifth with respect to the US, one fourth with respect to China.*



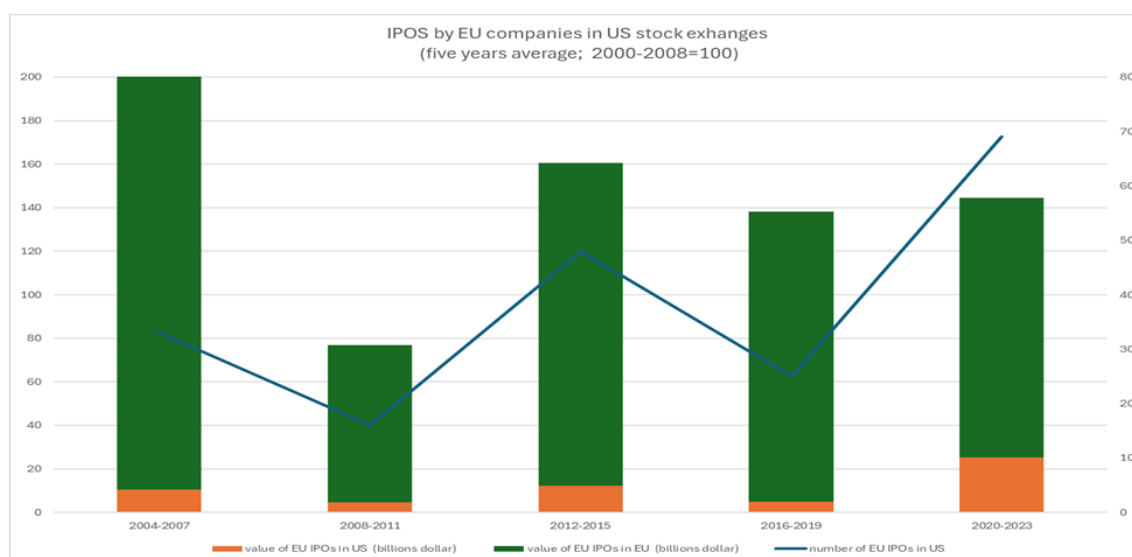
The small number of EU listed companies and their limited size are reflected in their underrepresentation (with respect to the size of the EU economy) on global stock market indices, which are increasingly relevant for investment decisions, in particular due to the growing weight of passive investment strategies which replicate such indices.

*In 2024, the weight of EU listed companies on the global index was about 8%, which was half of its weight on global GDP. The global index is dominated by US companies, which represent about 65% of its composition, more than twice the weight of the US on global GDP. Japan and the UK are more fairly represented in the index, while China is still far behind.*



As a consequence of the underdevelopment of the EU capital markets, there is a growing trend by EU companies to move their primary listings to the US Stock Exchanges in order to benefit from the higher market depth and a broader investor base in that country.

*In the last 20 years, both the number of EU IPOs in the US and their value has increased by 50%. Even more relevant has been the increase of the weight of the value of such IPOs on the total value of EU IPOs: in the last five years it has accounted for almost 20%, while it was about 5% in 2004-2008.*

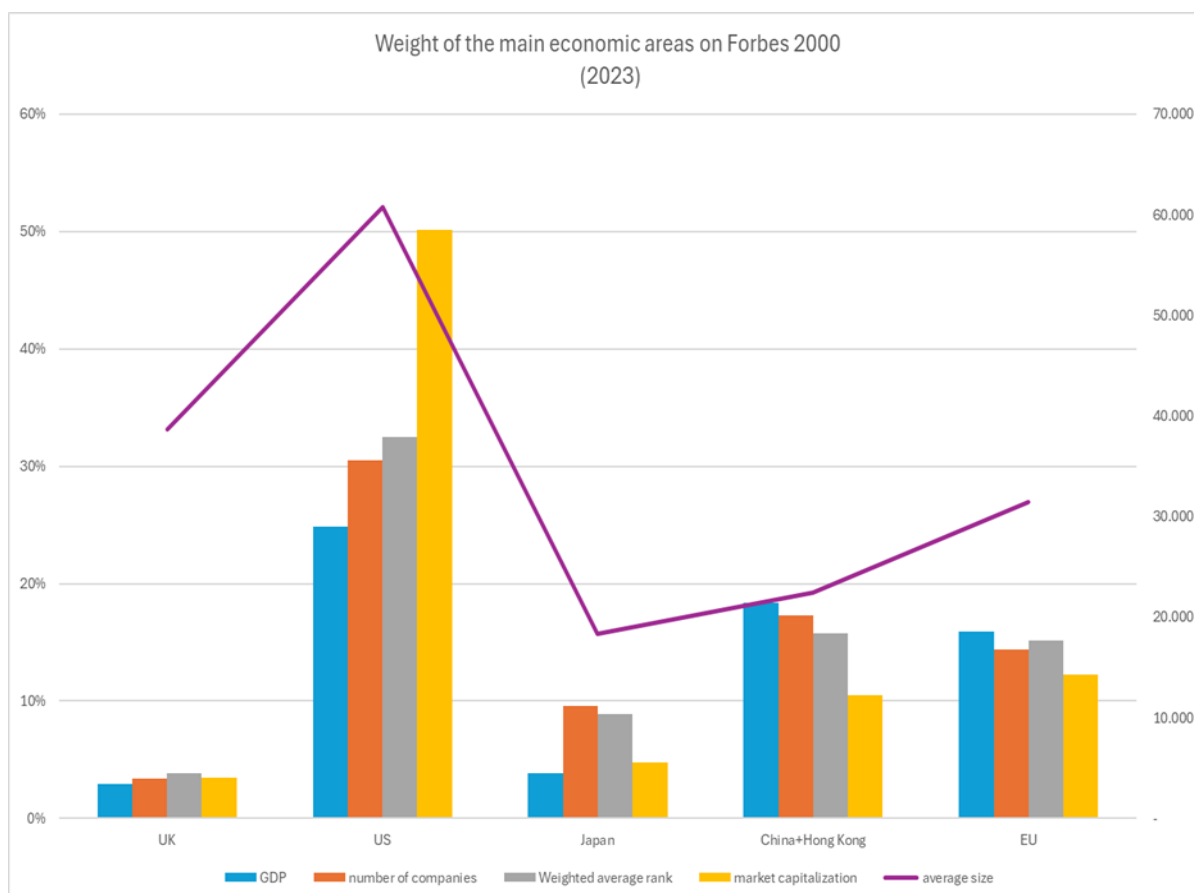


The choice of going public on the US markets could be convenient for some individual EU companies but it is far from being a valid alternative for the European company system as a whole, as it is not easily viable for all companies that need to access capital markets: this is true not only for smaller companies but also for larger ones, since this choice entails extra-costs that go beyond the listing procedure, namely facing negative impacts due to the fact that the US markets show a domestic bias both in price performance and in the composition of market indices.

As the underdevelopment of EU capital markets hinders the growth of EU companies, the presence of those companies among the largest companies at global level (represented by the Forbes 2000 list) is not in line with the size of the EU economy. This is particularly true for the top component of the list, which includes the 100 largest companies at global level, where EU companies are the most underrepresented among those of the main economic areas. In general, the size of EU companies included in the list of largest companies is much smaller than that of US companies.

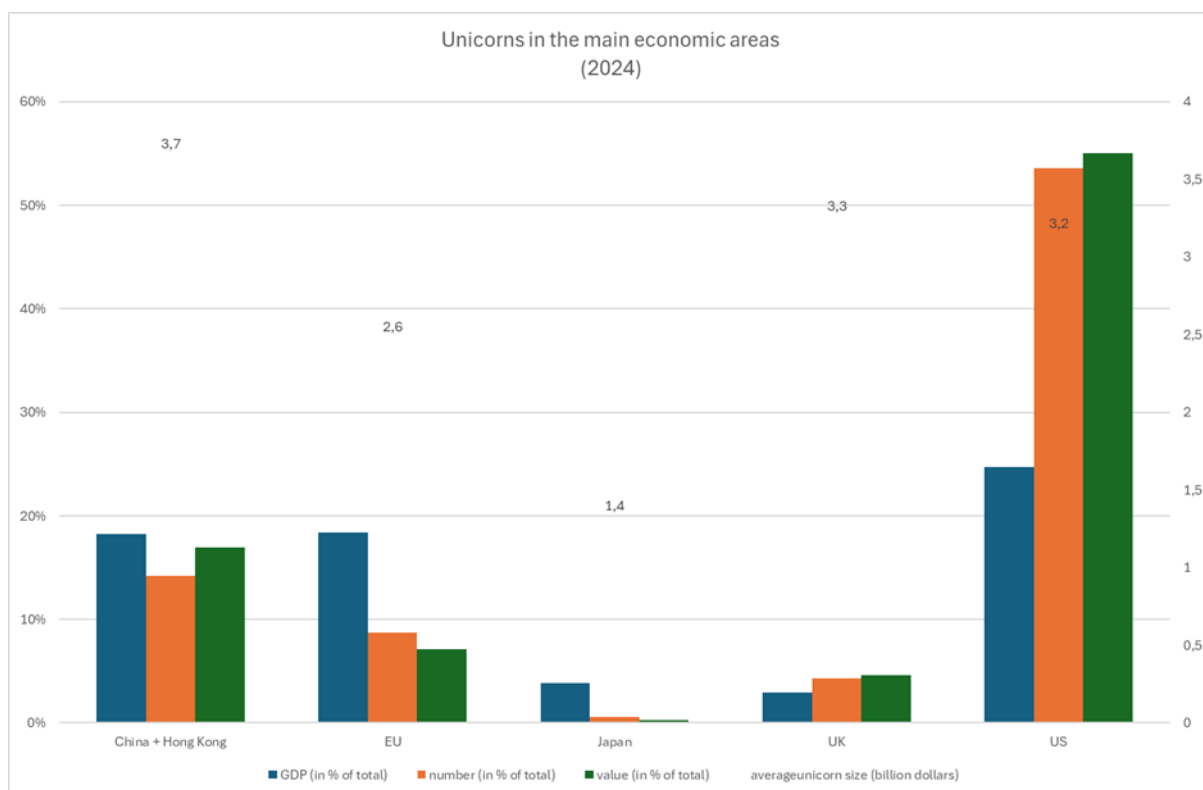
*EU companies represent 14% of Forbes 2000 in terms of number of companies and 12% in terms of market capitalisation, while US companies represent, respectively, 31% and 50%.*

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At the EU level, the lack of support by capital markets for the growth of companies has a particularly relevant impact on the presence of ‘unicorns’, namely a start-up company that faces a very rapid growth, usually after going public. The EU is the economic area with the lowest presence of unicorns with respect to the size of the economy, but Japan. Also, the average size of EU unicorns is the lowest with respect to other main economic areas, but Japan. Within the EU, all the main countries are underrepresented in the unicorn sector, but Sweden, with Italy and Spain being in the weakest positions.

*The presence and the size of unicorns is affected by the development of capital markets also within the EU Member States. Indeed, EU unicorns represent less than 10% of unicorns at global level, about half of the weight of the EU economies on the global one. Most unicorns are US-based (more than 50%). The average size of EU unicorns is about 50% lower than that in the US, China and the UK.*



### 3. A new paradigm for a single EU Capital Market

Fragmentation and underdevelopment are the long-standing and correlated problems of the European Capital Market: recommendations provided by the Draghi and Letta Reports clearly identify the shortcomings of the Capital Markets Union and therefore the need for a global reform of the EU framework.

In spite of the number of initiatives that have been set under the Capital Market Union Action Plan, their attempt failed mainly due to two main reasons: firstly, no harmonisation could really be achieved with legislative instruments that still provide for a wide discretion in the national implementation or, even when harmonised, offer margins of interpretation, thus leading to more or less diversified application of EU rules; secondly, differentiated enforcement practices of National Competent Authorities actually undermine the harmonisation goal and amplify the fragmentation of practices.

Despite the policy priorities announced in the Capital Markets Union Action Plan, they remain largely unresolved in terms of both establishing an effective EU Supervisor and rule maker and creating a Single Rule Book for the European Capital Market.

#### Single European Supervisor for capital markets

A key element of our proposal is moving toward the establishment of ESMA as the Single European Supervisor for capital markets.

In order to ensure ESMA's role as Single Supervisor, we suggest enhancing its capacity to act effectively by amending its governance structure and its powers of intervention, and, at the same time, broadening the scope of its direct supervision.

As the predominance of National Competent Authorities in ESMA's highest governance bodies clashes with the aim of reaching full harmonisation and, in particular, the pursuit of single EU supervision, we suggest starting ESMA's reform by reinforcing its independent stance and thus amending the composition of its highest bodies. To make ESMA's governance fit for purpose, we propose amending the Management Board composition, taking stock of the ECB governance structure, and, consequently, rebalancing the composition of the Supervisory Board.

Concerning ESMA's power of intervention, the current regulatory framework is clearly unfit for the establishment of single pan-European supervision of the capital markets and therefore needs to be strengthened starting from ESMA's founding Regulation.

The effectiveness of ESMA's enforcement shall be ensured through the enhancement of ESMA's powers, as well as the robust engagement with NCAs. As a starting point, ESMA's founding Regulation should be redrafted in order to clearly identify the basis of its intervention and complement the scope of its mandate by introducing a guiding principle that entrusts ESMA also with the goal of ensuring the competitiveness of the EU financial market.

The first necessary step is to enlarge the area in which ESMA should act as Single Supervisor. This step could be reached through a radical yet gradual approach that should be based on differentiated criteria, taking into account the nature and the EU-systemic relevance of market actors and the level of harmonisation that is or can be efficiently reached in the level 1 regulation.

This radical shift could be coupled with a milder provision that entrusts “large and systemic” market actors to ultimately decide to *opt-out* from ESMA’s single supervision regime and thus choose for the supervision of the competent NCA; in the same fashion, also “smaller and less significant” market actors could be enabled to *opt-in* and thus benefit from ESMA’s single supervision.

For the market infrastructure (e.g. operators of trading and post-trading venue) and investment firms, where the level of harmonisation is more advanced, we suggest the introduction of ESMA’s direct supervision of all or of ‘significant’ market participants, taking into consideration the nature and the systemic relevance of each market actor.

Due to their systemic role in the establishment of the CMU, the single supervision model should embrace all central counterparties (CCPs) and all operators of EU regulated markets and SMEs growth markets.

Some criteria of “significance” should apply to investment firms (both EU and non-EU) that operate on the EU market. For this purpose, we suggest following the same dimensional and significance criteria as those set for significant banks falling under the SSM.

For issuers, if the harmonisation is far from being complete, we suggest a gradual adoption of the same substantial approach by applying ESMA direct supervision on “large issuers”, defined as those included in the “blue-chip” index of an EU regulated market and having a market capitalisation exceeding a certain threshold. In the first phase, the threshold could be set at 25 billion € (about 100 companies) for being gradually lowered to 5 billion € (about 250 companies).

### Single European Rule Book

The introduction of a sound single supervision model based on ESMA’s regulatory and surveillance authority also needs substantial improvement of the regulatory framework, where the goal of establishing a single Rulebook becomes a reality and not only an aspiration principle.

This means that EU rules should be, as much as possible, directly and homogeneously applicable in all EU jurisdictions. In order to reach this goal, the whole set of EU rules on capital markets should have the following features:

- “self-executing”, having the juridical status of EU Regulations that are immediately applicable as they do not require, differently from EU Directives, their implementation in the national legislation. This means that all new rules

should be elaborated as Regulations and that the existing Directives should be redrafted in the form and the content of Regulations;

- “completeness”, which means covering all the aspects necessary for their implementation, including the enforcement regime that should provide for an EU-level identification of the liability regime for the competent authorities, starting from ESMA, and market actors and the sanctioning system. These issues are traditionally left to national systems, on the ground of generic principles of effectiveness and proportionality, which instead fuel fragmentation and forum shopping;
- “entirety”, which means that no implementing options or flexibility should be left to national jurisdiction to avoid regulatory arbitrage;
- “full mandatory harmonisation”, i.e. precluding Member States from any deviation from the defined standards or any imposition of additional measures which go beyond what is set in the EU rules (gold plating). This means ensuring that one uniform set of rules applies to the whole EU, thereby contributing to legal certainty and reducing barriers in the internal market.

As the transition to the single Rulebook can be gradual, considering the need to tackle a number of already existing rules that currently do not meet the features specified above, a complementary approach could be the creation of a specific EU discipline to be applied on a voluntary basis by market actors in the form of the so-called 28<sup>th</sup> regime. This approach could be followed for selected areas of EU rules, where the current harmonisation is particularly weak both for the nature of those rules (directive with many options) and for diverging implementing practices at national level. Possible candidates for the creation of a 28<sup>th</sup> regime are the Takeover regulation and the Prospectus regulation.

#### Reducing the regulatory burden

Both the Draghi and Letta Reports highlight that the excessive regulatory and administrative burdens hinder the competitiveness of companies as they negatively affect productivity and increase companies’ operational costs. They raise barriers to entry for new companies, deter competition and may lead to higher prices for consumers. The Reports underline that the regulatory burden on European companies is high and continues to grow faster than in other economies.

The Commission should conduct a “stress test” of the entire legislation on capital markets, propose significant simplifications, and pursue the codification and consolidation of EU legislation into a “Single Rule Book”.

Stress testing the legislation should aim at detecting inconsistencies and overlaps, as well as streamlining definitions and the scope of application. Moreover, it should be the occasion to identify significant areas of possible simplification.

While simplification should be performed on the whole set of rules involving, in particular, listed companies (e.g. exploring the possibility to provide for a simplified discipline for new listed companies and for particular categories of companies, like the

innovative ones, as suggested in the Letta Report), we focus on the area of sustainability regulation whose implementation is still in progress and currently represents a reason for major concerns about its effects on the competitiveness of the EU economy.

The Draghi Report mentions the sustainability reporting and the due diligence framework as a major source of regulatory burden. We encourage the European Institutions to deeply reconsider such a framework, starting from the Omnibus package announced by the European Commission, which is intended to cover the CSRD, the CSDDD and the Taxonomy Regulation.

As for the Corporate Sustainability Reporting Directive, the application to large companies (other than PIE) should be postponed for 2 years (to 2027). In the medium term, the reporting standards (ESRS) shall be significantly simplified and rationalised, focusing only on relevant information and the digitisation obligations shall be reduced or eliminated. In particular, it could be envisaged to reduce and keep mandatory the data relevant for the investors and make all the other data points voluntary. Furthermore, to achieve full interoperability, the international standards should be automatically recognised in the EU; and the European standard should be built on the international standard, adding information only when duly justified. Moreover, the adoption of the sector's specific standards shall be postponed and their role reconsidered.

As for the Corporate Sustainability Due Diligence Directive, we recommend suspending the implementation of the CSDDD and considering modifying the definition of “chain of activities” which should cover only the activities of the business relationship which are significant and consolidated. To increase coordination, this definition of “chain of activities” should also be used in the CSRD. Moreover, the obligation to “suspend and terminate” a business relationship even when the business relation is indispensable and irreplaceable could engender massive harm for companies and for the EU economy.

As for the Taxonomy Regulation, we suggest reviewing the formulation of the criteria for defining eco-sustainable activities and include, in the evaluation of the “Do No Significant Harm” principle, the positive contributions promoted by companies in terms of decarbonisation, and energy and environmental transition. Moreover, introducing a materiality filter aligned with the CSRD would allow companies to focus reporting only on relevant information, thus enhancing the usability of the EU Taxonomy.

### Better regulation

While it is important to reduce and simplify the legislation accumulated in the past, it is equally important to avoid repeating the same mistakes in the future. Therefore, a set of principles should be incorporated in the mandate or practices of the institutions and technical bodies.

The objective of fostering competitiveness shall be adopted by all the legislative institutions and technical bodies (e.g. ESAs, EFRAG), at European and national level. It could be integrated in their mandate or in an Interinstitutional agreement.

Impact assessment should be performed not only by the European Commission when adopting legislative proposals but also by the other co-legislators (EP and the Council) on the main amendments they propose (i.e. amendments creating significant new obligations for companies and authorities).

The implementation of the “One-in one-out” principle should be improved in the estimation of costs and in making mandatory for the DG “leading” the proposal to offset the new costs reducing other costs even in the accumulated stock of legislation.

The “Think Small First” principle should assume a leading role, as the legislation should be designed for small-mid cap companies first, and then, if needed, on specific points be “reinforced” for the big ones. This calibration for the large companies shall remain limited, and will not deter small-mid ones from growing.

The legislation should always provide sufficient time for companies to apply the new rules, both at level 1 and 2. Therefore, the legislation should include general provisions establishing that level 1 legislation is not applicable until a certain time has elapsed from the publication of the level 2 legislation; moreover, sanctions related to obligations not yet completed with level 2 should be suspended until all the needed provisions are in place for a sufficient laps of time.

#### The urgency of starting from the Italian market

The problems identified at EU level show an even higher level of complexity on the Italian domestic market, where the fragmentation problems are amplified by extensive country-specific rules that widen the gap with EU and non-EU legislative frameworks, thus experiencing a growing problem in the efficiency and the competitiveness of the capital market. In the perspective of fostering the efficiency and competitiveness of the EU capital market, we also urge the Italian legislator to act swiftly in order to fill the main gaps with the EU rules in the forthcoming reform of the capital markets law.

Following the principles of simplification and rationalisation, we particularly ask the legislator to stress-test the Italian framework in order to identify and remove all areas of gold plating and all country-specific provisions, which do not find a common EU harmonisation basis and further increase the detachment of the Italian framework from EU and global standards. In doing so, we suggest enhancing the role of statutory autonomy and self-discipline, which are inherently flexible enough to permit an alignment with international standards, in particular for board nomination and composition. On this occasion, concerning the EU level, it is of utmost importance to provide for a comprehensive reform, which necessarily entails the enforcement framework, in order to make it more efficient, clear and open to soft-instruments.