LUX CMA
Luxembourg Capital Markets Association

EUROPEAN COMMISSION´S CALL FOR EVIDENCE

THE SINGLE MARKET STRATEGY 2025

WORKING GROUP

Legal & Regulatory Watch

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Luxembourg Capital Markets Association (LuxCMA) inputs to the European Commission's call for evidence on the Single Market Strategy 2025

LuxCMA recognizes the pivotal role that the Single Market plays in fostering economic growth, enhancing competitiveness, and creating opportunities for both businesses and investors. The seamless integration of markets across European Union (EU) Member States not only facilitates the free flow of goods, services, capital, and people but also drives innovation and efficiency within economies.

In this respect, we are grateful for the opportunity to contribute to the European Commission's call for evidence on the Single Market Strategy 2025 and to provide our perspective on the most effective ways to support and advance the principles of the Single Market.

1. Full centralization of supervision is not a desirable way forward

The three reports by Mario Draghi, Enrico Letta, and Christian Noyer are key contributions to building a stronger and more integrated Capital Markets Union (CMU) in the EU. The reports highlight the need to tackle the current fragmentation in financial markets supervision and suggest gradually moving towards centralized supervision.

LuxCMA highlights that a complete shift towards a fully centralized supervision would not necessarily be advantageous for the EU markets, notably as national competent authorities (NCAs) possess a deep knowledge and understanding of their domestic markets and associated regulations, and are best qualified to provide guidance and perform supervision under this legal framework. Furthermore, a shift towards a fully centralised supervision could encourage a one-size-fits-all approach, which may prove counterproductive and not suitable for the diverse landscape made of various types of financial products across EU Member States[1].

[1] Refer to NASDAQ CMU Paper 2024 stating that "National competent authorities must [..] have the powers and capabilities to ensure the management of well-functioning and orderly domestic financial services that are critical to a nation's economy".

As alternative, LuxCMA proposes exploring further the coordinated supervision policy framework, ensuring that NCAs continue to support their domestic markets, while aiming at enhancing and harmonising outcomes, i.e. providing identical outcomes to identical situations across different legal jurisdictions.

2. Consolidation of financial market infrastructure remains vain amid national disparities

The reports by Mario Draghi and Enrico Letta advocate for the consolidation of financial market infrastructures (FMI), particularly central counterparty clearing houses (CCP) and central securities depositories (CSD) at EU level. Christian Noyer's report adopts a more cautious stance, suggesting that the convergence of securities laws is a necessary and more appropriate approach to facilitate the consolidation of infrastructures.

LuxCMA understands that the legal fragmentation and national market divergences are also present in the post-trade sector, with multiple registered CSDs across Member States. This fragmentation is further reflected in the custody, asset servicing and tax-related processes, which remain subject to different national approaches. These different national realities may put into question the synergies to be expected from a cross-border combination of financial market infrastructures.

In addition, LuxCMA believes that consolidating FMIs should not be viewed as a universal solution to make European capital markets more efficient and safer, as, it is also likely to increase systemic risks by creating a single point of failures. LuxCMA believes that a practical alternative to consolidation is to foster and accelerate interoperability between FMIs, both within the same layer (e.g. at the CSD level) and across different layers (e.g. between CSDs and CCPs, or between CSDs, CCPs and trading venues), making the entire European capital markets infrastructure more robust and resilient to shocks.

3. Robust capital markets through smart and better regulation

In LuxCMA's view, the major obstacle faced by the industry is the lack of regulatory harmonisation across EU Member States, which leads to cross-border barriers and inefficiencies. Insolvency regime, fiscal frameworks and securities laws as key areas that would benefit from coordination and streamlining to address fragmentation.

LuxCMA appreciates the regulatory efforts made over time to improve the functioning and competitiveness of the capital markets within the EU. Nevertheless, some regimes might be too challenging and negatively impact financial markets participants, sometimes deterring non-European market participants to avoid bringing business to the EU.

1. **Market Abuse Regulation (MAR).** The requirements of MAR with regard to debt securities are unduly burdensome considering the risk of market abuse they seek to reduce. Since the last update of MAR, there has been a sustained trend among non-EU issuers of debt securities to de-list from EU markets due to the administrative costs and efforts required to comply with MAR, in comparison to other competing third-country financial centers (e.g. USA, Singapore). Furthermore, MAR employs a one-size-fits-all approach, applying the same requirements to all asset classes, regardless of the relative risk of market abuse associated with the nature of the instrument. This is particularly significant for issuers of debt instruments, which are unlikely to be impacted by or contribute to market abuse.

2. **Sustainable Finance**. The reporting obligations mandated by the Corporate Sustainability Reporting Directive (CSRD) may extend to non-EU issuers with securities listed on EU regulated markets, therefore discouraging their listing within the EU. Additionally, these reporting obligations present a significant impediment for small and medium-sized enterprises (SMEs) considering initial public offerings (IPOs) within the EU, due to the increased regulatory burden. The announced European Commission's initiatives that aim at streamlining the EU sustainable finance framework are welcome. Specifically, the various sustainable finance reporting requirements (including those stipulated by the CSRD, EU Taxonomy Regulation, Corporate Sustainability

Due Diligence Directive) could be combined in an effort to reduce bureaucracy.

3. **Anti-Money Laundering (AML).** Finally, the EU AML regulatory framework is notably strict and fragmented, with certain obligations potentially disproportionate, discouraging competitiveness. For instance, according to their different regulatory classifications and authorizations, some trading venues might need to comply with more stringent EU AML regulations (e.g. EU beneficial owner registration for foreign issuers), while other trading venues may remain exempt, therefore highlighting regulatory inconsistencies and potential competitive disadvantages.

4. **Prospectus regime**. Exemption from prospectus publication for third-country sovereign and other supranational (non-Public International Bodies) issuers (to match what is being offered in the UK).

5. **Incentives**. The EU should consider grant schemes being offered by competing jurisdictions (e.g. Hong Kong, Singapore) to attract issuance and listing of debt instruments (e.g. sustainable bonds and/or digital bonds) to their financial centers. The European Commission should integrate this reflection around incentives for markets to make use of EU infrastructures and relevant regimes (e.g. EU GBS Regulation) rather than US or Asian ones.

In conclusion, more and better need to be done to enhance the attractiveness of EU markets for the listing of both equities and bonds, which serve different corporate financing objectives and meet different investor needs regarding risk and reward for the success of the Single Market.

About the LuxCMA – Luxembourg Capital Markets Association
Created on 1 March 2019, the LuxCMA is a not-for-profit association (a.s.b.l.), registered at the RCSL (F12205), whose registered office is 6 rue Jean Monnet, L-2180 Luxembourg. The LuxCMA today represents memberships detailed on LuxCMA's website, which is composed by banks, law firms and services providers, amongst others.

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The main purpose of the Legal & Regulatory Watch Working Group is to monitor legislative and regulatory developments, both at national level and on the broader European and international level.

Our work also involves interacting with entities and associations that are involved or consulted in the policy decision making and legislative process.

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