CENTRE FOR EUROPEAN REFORM

Press release

The capital markets union: Should the EU shut out the City of London

by Joanthan Faull and Simon Gleeson

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Brexit means Europe's largest financial centre will be outside the European Union. Rather than trying to develop its own large-scale capital market, the EU should work with British regulators to keep capital flowing between the bloc and the City of London, including formal structures to govern supervision of institutions active in both markets. That's the key conclusion of a new Centre for European Reform policy paper entitled, 'The capital markets union: Should the EU shut out the City of London?' by Sir Jonathan Faull, former director-general for financial services at the European Commission, and financial regulation expert, Simon Gleeson.

The EU's capital markets union, launched in 2014, aimed to wean European companies off bank lending and encourage more cross-border capital market flows. This would help make the European economy more stable by allowing the costs of economic shocks that affect one region or country to be borne by investors across the EU. But progress has been slow, and now the UK's imminent exit has probably ended the prospect of the development of a global-scale capital market within the EU. That raises a big question: should the EU keep London at arm's length and develop its own internal capital market, or open up the EU's market to London and the rest of the world?

A closed market would allow the EU greater control, but it would not fully protect the EU from global market fluctuations. EU-only capital markets would also be smaller and less liquid, which would raise the cost of capital for businesses. An open market would keep capital costs down, but the EU – justifiably – wants control over the risks taken by financial institutions serving its market. Faull and Gleeson argue that the UK offers the EU involvement in the formulation and implementation of regulation in London markets. They propose a joint policy-making forum between the UK and EU regulatory authorities, with formal structures governing supervision of institutions working in both markets.

"*If the EU seeks to retreat from the global capital markets in pursuit of regulatory sovereignty, the outcome will – paradoxically – be increased reliance by EU industry and savings institutions on markets over which they will have no control at all. In order to preserve a degree of regulatory control, the EU must adopt and champion multilateralism in global financial regulation – and that cannot be done from behind locked doors*," said Simon Gleeson, partner at Clifford Chance and co-author of the report.

"*A fully-fledged capital markets union requires the harmonisation of many policies, including major areas of national policy-making such as insolvency, corporate and tax laws, in which resistance from national governments to harmonisation is formidable. It is therefore not surprising that there has been little progress on these important building blocks of a unified capital market. There's still a lengthy to-do list before it even starts on harmonisation of taxation, corporate and insolvency laws,*" said Sir Jonathan Faull, Chairman, European Public Affairs, Brunswick Group and co-author of the report. Sir Jonathan is a member of the CER's advisory board.

Note for editors: For further information on the report and to request an interview with Jonathan Faull or Simon Gleeson, please contact Nick Winning in the CER press office on pressoffice@cer.eu or + 44 (0) 20 7233 1199.
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Sir Jonathan Faull joined Brunswick Group after a distinguished career at the European Commission working at the highest level on a wide range of policies including competition, justice and home affairs, transport and financial services. As the Commission's most senior British official his recent roles included Director-General Financial Stability, Financial Services and Capital Markets Union, as well as Director-General of the Task Force for strategic issues related to the UK Referendum.

Simon Gleeson specialises in banking and financial markets law and regulation, clearing, settlement and derivatives at Clifford Chance. His experience includes advising governments, regulators and public bodies as well as banks, investment firms, fund managers and other financial institutions on a wide range of regulatory issues. He is described by all of the major legal directories as one of the world's leading experts in financial services and banking regulation, capital markets and derivatives.