the Central Securities Depository of Poland

1. Which are currently the most competitive global financial centers / markets in the world? What would be the crucial elements for their success?

The most competitive global financial centers, according to the latest report by The Global Financial Centres Index, are New York, London, Hong Kong, Singapore, Shanghai and Tokyo, followed by Toronto, Zurich, Beijing and Frankfurt.

Their competitiveness results from a favourable environment for conducting business (among others: political, economic and regulatory stability, sustainable and business-friendly tax solutions), access to human capital (educated staff prepared for operation on global markets – foreign languages, cultural diversification, flexible labour market, good living conditions), access to infrastructure (transport, local, IT), developed financial market (access to capital, Headquarters of international institutions, liquidity and depth of the financial market covering a wide range of instruments and investment opportunities), high innovation and openness to new technologies.

These centres are concentrated in major cities and are supported by local authorities, who participate actively in building their brand in the world and ensure their competitiveness through the creation of favourable legal solutions and the expansion of infrastructure. Each of these centres operates within a defined uniform legal regime. In most cases they have long been large trading centres of more than national nature. They are also linked to large economic operators with a large scale of business turnover, hence the essence of the financial turnover scale.

2. Do you believe an EU 27 CMU will be able to compete on an equal footing with such global financial centers / markets? Has an EU 27 CMU sufficient access to global capital markets on its own, both on the sell side and on the buy side? Can you identify any significant strengths and/or weaknesses? Please specify.

It should be noted that EU 27 CMU is not a single legal and business environment, hence it is difficult to treat it as a single financial center, rather a group of competing financial centers with varying levels of tax, local Regulations, as well as different currencies. The main objective of these centers is to provide funding at local or regional level, rarely when pan-European. Compared to regulations on non-European markets, EU regulations are stringent, very detailed and often less flexible than on other continents, which can result from the length of the legislative process and the need to take into account the needs of many Individual local markets. That does not mean that there is no chance of creating the conditions for the construction of the 27 CMU, according to the size and importance of the European economy. It is necessary to reflect on the supervisory and tax procedures, while preserving the transparency of the rules and strengthening the powers of investors.

3. Do you believe an EU 27 CMU develops the appropriate diversity of: financial products (Cash, derivatives, investment vehicles...)? Markets segments (Regulated, OTC)? Market infrastructures (Trading, Post-trading)? Financial intermediaries? Service providers? What priorities would you set to achieve such diversity?

Taking into account the whole EU financial market and taking into account the offer of its respective financial centres, it is possible to find a very wide range of investment products, while looking at individual EU markets, only a few of the largest ones (e.g. Frankfurt) has most of these elements, and some specialize in particular segments of the financial market (e.g. Investment funds). It seems necessary to create a pan-European offer of instruments, in particular the need for smaller markets and to respond to the needs and opportunities of faster growing economies and requiring more efficient access to capital and financial instruments.

4. Do you believe an EU 27 CMU can be seen as an integrated deep and liquid financial market with sufficient critical mass? Have you identified obstacles to a fluid Single Market? What priority measures could overcome fragmentation (corporate tax, insolvency laws…)? How do you assess the potential of digital technologies, infrastructures and in particular platforms to overcome the fragmentation of European financial markets?

The EU financial market is not a fully integrated market and is not perceived externally as such, rather the markets are globally visible, e.g. London, Frankfurt, Paris. Fragmentation of European markets result from legal and tax differences between Member States, including differences in civil law, Company and insolvency law, among others or differences in the process of handling withholding tax (from revenues obtained by the investor with dividends or interest). Liquidity is fragmented between different markets, there is no single market that would offer access to the full range of investment in the European market, or even most of them.

Different rules for access to markets and their operation increase the costs of investing in European companies and discourage investors.

In addition, in the case of international mergers between securities depositories which allow the settlement of cross-border transactions between different European markets, the rules for their construction and operation included in European Regulations (CSDR) have been outlined in a very restrictive manner, hindering and raising the costs of their construction and operation, in particular they are disadvantageous for smaller local markets and Entities operating in these markets. These provisions may lead to the preservation of the current structure of capital market infrastructures.

In addition, a relatively large market share has local investment firms that are well acquainted with the specificities of individual markets and are focused on the local client, while demonstrating a slight interest in international activity. On the other hand, large international actors are not willing to enter smaller markets or operate smaller transactions that are specific to the European economy, particularly in the new Member States. It also seems that economic policy, which is to halt the creation of large transnational actors in EU 27, hampers the acquisition of an appropriate scale on the capital market (e.g. negative opinions on mergers of large companies).

5. Have you identified obstacles to financial markets consolidation in the EU 27? What would be the benefits? What steps could be taken to encourage more connections and cross border activity? Would this preserve/create a dense and varied EU wide Ecosystem?

The consolidation of the European financial market is a very difficult process for political and economic reasons. The functioning of local markets with their specificities is necessary in view of the differences in the level of economic development of each Member State, the legal, fiscal and cultural differences, as well as the need to maintain diversification and sustainable development of the different areas and regions of the EU. It is difficult to imagine a consolidated market that could meet the needs of such a diversized economic environment.

On the other hand, the actual consolidation of the European financial market around one center would create a global financial center, based on the investment and capital potential of the EU economy as a whole and constituting Investment center of the European economy, presenting a full range of opportunities for both investors and those seeking capital.

However, the establishment of such a centre in one of the Member States would require political support from all Member States, for the reasons set out in the first subparagraph, to be difficult to achieve. It would also be difficult to ensure consensus on the impact of individual Member States on the establishment of the law applicable to that centre or oversight of its activities.

An alternative would be to create a multi-centre financial hub, comprising a group of local markets operating internationally, between which there would be strong connections, in practice ensuring full interoperability between them. It would be necessary to ensure uniform rules on the functioning of all interconnected markets – including uniform regulations, market practices, tax rules, common technology, uniform interface to the system, rules on participation, fees – and smoothly real-time connections between them – so that the investor has a sense of access to a single market. The creation of a polycentric market would also require close cooperation between the various market-making markets on clear, transparent principles and the equitable distribution of benefits, so that rivalry between the different centres is not its steady development.

The first step to making the European market more attractive would be to establish and impose uniform rules on market access, operational and regulatory requirements and to reduce barriers to access to markets within the Union, in a way that ensures equal treatment and the possibility of acting on smaller entities.

6. Does an EU 27 CMU provide an appropriate range of financing facilities for startups, upscaling businesses, SMEs and midsized companies?

The project to ensure adequate funding for new, small and medium-sized enterprises, which is a priority of the Capital Markets Union project from 2015, is currently in the implementation phase, the solutions planned under the Project. The outcome of these actions will only be assessed after a while.

However, it seems that the solutions currently being discussed may not adequately support financing, scale-up and the development of small and medium-sized enterprises, given the increasing and disproportionate regulatory burden to issuers and investment firms.

7. Do you consider Green (Climate neutral) finance is a priority? Which incentives would help promoting such kind of finance?

For countries that have declared achievement of specific climate objectives, the development of climate-neutral financing can be an important way to promote and provide measures to achieve these objectives. It is worth supporting initiatives related to the issuance and operation of the so- called Green bonds that could be a pan-European financial instrument.

8. What are the real break-through technologies that are likely to significantly change your business and created opportunities? How are you preparing for this?

   Blockchain, RegTech, Cloud Computing and Artificial Inteligence are technologies and innovations that can change the capital market infrastructure model in the medium term.

In this respect, we work to use, as defined business cases, some elements of these technologies.

9. Do you believe EU and national supervisors promote a more integrated CMU? In your area, how is supervisory efficiency best achieved (national, convergent, integrated)? Have you identified specific obstacles to more EU wide supervision?

It is necessary to conduct close cooperation between local supervisors, in particular as regards the interpretation of Community rules relating to the financial market.

Due to the wide range of international securities depositories in the EU, in our view the highest value is supervised by supervisory cooperation (convergence), in particular as regards the requirements on authorisation and periodic review in the case of deposits of activities in another Member State in order to harmonise the requirements of individual supervisors.

10. What obstacles do financial intermediaries already engaged in cross-border activities meet, and what can be done to remedy this?

The problem is the legal differences between countries (ownership of financial instruments, company law, bankruptcy) and differences of interpretation concerning Community law and, consequently, differences in supervisory requirements, e.g. regarding authorisation and compliance with regulatory requirements.

In addition, different technical standards (e.g. interfaces to trading systems, reports), different market practices and different requirements and procedures for the discharge of taxes on investment revenues and dividends are present in each market (Withholding tax).

11. Will societal trends and evolutions, like ageing and digitalization, be disruptive and change your business? How are you preparing for this?

The generation entering the financial market seems to be less interested in investing and accumuling assets in the long term.

Moreover, in prosperous societies, purely financial benefits are becoming less important than before – hence the greater interest in ecological or social aspects of investment. It seems that the classic capital market, which is based on the principle of maximising profit by companies, may be somewhat wasted in favour of the growing role of direct investment, crowdfunding. Such markets can grow faster than classic capital markets, also through technological development, which can facilitate direct investment and promotion of closer contact between the investor and the company.

These trends may change the requirements of post-trade infrastructure institutions and increase the need to extend the scope of services provided to individual customers.

12. Which wider policy areas need further attention from a EU 27 CMU perspective (tax, insolvency, (financial) education…)?

Company law, civil law, ownership and functioning of financial instruments are crucial for issuers looking for capital – without harmoniating these areas, it is not possible to speak of equal access to capital on EU markets.

While tax and insolvency law is important for investors, differences in these regulations can increase the attractiveness of some markets towards others. In particular, the variety of tax-related procedures may hinder investment in certain markets.

It can generally be said that the multitude and variety of regulatory and market practices hamper access to the European market for external participants and cross-border exchanges between markets, increasing the containment Individual local markets.

13. EU households hold a large part of their financial wealth in the form of bank deposits. Accordingly, the demand for capital market products (shares, bonds, insurances, etc.) is (too) low. How can this change?

The rules for investing in bank deposits are simple and understandable for most societies, and the revenue from the deposit is predictable at the time of conclusion of the contract, giving the investor a sense of security. Capital market investment rules are more complicated, require more activity (e.g. tracking changing market conditions), greater risk of loss of funds or negative return on investment. The multiplicity of investment products is advantageous for professional investors, but it can make the embarrassment of individual investors. Banks are more trusted institutions than stock exchanges, and the deposit protection system gives people a sense of security. In the case of capital market investments, the investor protection system protects them only from the loss of funds as a result of embezzles, while the risk of adverse market developments and unrealised investments is borne by the investors themselves.

14. How can and should progress towards an efficient and competitive EU 27 CMU be measured? Would this help review measures already agreed?

It can be measured by analysing changes in raising capital, handling transactions and changing the scale of the European market, against the background of the observation of global markets. A free measure is the share of financing by the capital market compared to bank financing. Measures should be carried out against all EU countries. Merely observing the most developed markets can be confusing.

15. Did we fail to ask something, you nevertheless find important to bring to our attention?

The aim of the CMU beyond creating the conditions for strengthening the role of the capital market in Europe and enhancing its importance in the global arena is to compensate for market access within the Union. With particular emphasis on access by small and medium-sized enterprises and access to different investor groups. Including improving the conditions for forms of collective investment. In addition, it is clearly necessary to emphasize the need for equitable access to capital market instruments and institutions in all Member States.