Opinion **Financial & markets regulation**

Smarter rules will unlock the funds needed to pay for Europe's security

Complicated regulations have burdened businesses and deterred investment for too long

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The skyline in Frankfurt's financial district. A vibrant European capital market should be based on a single rule book, not the highest common denominator of 27 national rule books © Alex Kraus/Bloomberg

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Europe is at a critical moment in its history. Our challenges — geopolitical, demographic, ecological, digital — demand a quick, effective response. We must deliver solutions swiftly to ensure freedom, security and prosperity for citizens and businesses in the future.

These challenges will all require large amounts of financing. Europe is awash with cash that sits idly with no productive use. It is time to turn those savings into investments. As the leading place for Europe's capital markets, Luxembourg wants to be at the forefront of that common project.

When European leaders meet this week, we must focus on solutions that will deliver immediate results in making our economies more competitive. This means mobilising financial savings, creating investment opportunities and adjusting course on regulation where needed.

To develop deeper capital markets, we must build on Europe's many financial success stories. Specialised EU investment products, such as UCITS and AIFs, have mobilised trillions of euros to finance companies, creating jobs and growth. Many of the ingredients for success already exist. We have the tools to create a vibrant savings and investment landscape. But we need to make the right choices, and we need to make them now.

First, we should make better use of existing frameworks and expertise. Ambitious enhancements to pension products and the securitisation framework can make a decisive difference.

Second, fostering financial literacy and creating labels for easily understandable long-term products will help citizens turn savings into productive money. It would be a win-win: creating more wealth for citizens, allowing them to finance their own projects or create their own business, while giving companies financing for development.

Third, to facilitate access to capital markets, we need to eliminate national laws that hinder the free flow of capital. A vibrant European capital market needs to be based on a single rule book, one that provides smart solutions, avoids complexity and is not simply the highest common denominator of 27 national rule books.

The EU has successfully built the single market on the subsidiarity principle, without centralisation and complexity. The same can be done with capital markets. Our national authorities can be enablers of vibrant capital markets, in a co-ordinated manner, through convergent approaches — a network of supervisory centres of excellence.

A decentralised European supervisory system leverages national authorities' expertise and avoids unnecessary bureaucracy. Convergence should be enhanced by a more efficient use of the European supervisory authorities' existing tools and resources. A new supervisory framework on its own would not turn savings into investments. To truly make a difference, our agenda needs to go beyond the savings and investment union. For any investment to occur, there first needs to be a business opportunity, now too often stifled by onerous regulations.

I know from personal experience in business and finance that Europe has taken regulation too far. Europe's harmonised regulatory framework has been a pillar of the single market's success, but its complexity deters investment and overburdens businesses, especially the 25mn small and medium-sized enterprises that form the backbone of our economy.

We must take bold steps to cut unnecessary regulation and complexity across all sectors to regain competitiveness and create investment opportunities. I am convinced it can be done without compromising on our objectives and values. The European Commission's first simplification omnibus package is a welcome first step. But it won't be enough. More simplification is needed.

Take one example directly linked to capital markets. Two texts, the Markets in Financial Instruments Directive (Mifid II) and its accompanying regulation, have led to more than 80 delegated regulations and 100 soft law texts. That is but a fraction of all the directives and regulations holding back capital markets, precisely when they must contribute to our immense financing needs, including for Europe's security.

This is not about deregulation but better and smarter regulation, ensuring that our rules are proportionate, clear and easy to implement for businesses. Our citizens and businesses do not call for more centralisation or complexity. They will not measure our success by the structure of supervisory authorities or the volume of regulation but by the degree of simplification we achieve, the financing we unlock and the economic decisions we take to boost their welfare and security.

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