



# Leibniz Institute for Financial Research SAFE

Dear Marius Luta,

In this edition of the digital newsletter of the Leibniz Institute SAFE, we present a new study on policy options for achieving a European Capital Markets Union. We also discuss research on popular misconceptions of meritocracy.

We hope you enjoy reading about our research and welcome your feedback at [newsletter@safe-frankfurt.de](mailto:newsletter@safe-frankfurt.de).

## Paths to a Capital Markets Union



**In a new white paper, SAFE researchers illuminate the difficulties that pervade the integration of European capital markets – and explore viable paths forward.**

Although ten years have passed since the European Commission unveiled its ambitious plan for a Capital Markets Union (CMU), the road to integration remains fraught with challenge. Europe's financial landscape remains fragmented, impairing the effort to usher in a digital and green economy. What are the obstacles to achieving a truly unified capital market in Europe, and how can they be overcome? In a new white paper, a SAFE team of economists, lawyers, and political scientists identifies the hurdles to integration as well as promising policy options:

- **Divergent paths:** [Florian Heider](#), [Jan Pieter Krahenen](#), [Katja Langenbucher](#), [Vincent Lindner](#), [Jonas Schlegel](#), and [Tobias Tröger](#) consider two different CMU options: (1) the establishment of a

single, supranational regulatory and supervisory authority, or (2) competition between national regulatory and supervisory regimes that are mutually recognized by member states. Each option is associated with divergent challenges and opportunities.

- **Political hurdles:** According to the researchers, the primary obstacle to CMU progress is political rather than economic. The reluctance of EU member states to cede national regulatory and supervisory powers underscores the inherent tension between national sovereignty and supranational integration. However, a fully integrated capital market would generate clear benefits, including considerable economies of scale, enhanced economic sovereignty, and increased resilience to geopolitical turmoil.
- **Implementation models:** The paper explores potential models for the implementation of a European supervisory body. Regardless of whether a CMU is achieved through a centralized solution or regulatory competition between member states, the ultimate challenge is to overcome political opposition and vested interests resistant to relinquishing national control. When addressing this hurdle, policymakers must avoid half-measures that only cause more bureaucracy without reducing market fragmentation.

As European policymakers renew their commitment to advancing the CMU in the run-up to the European elections in June 2024, the paper reminds us of the complexities involved and the need for bold, decisive action in this moment of geopolitical change. Only by confronting entrenched interests and embracing a shared vision of European financial integration can the continent unlock the full potential of its capital markets.

[Read the full paper here](#)

## Notable Research: Shallow Judgments of Merit



### Shallow Meritocracy

By Peter Andre, Assistant Professor of Behavioral Finance at SAFE

In “Shallow Meritocracy,” a forthcoming paper in the *Review of Economic Studies*, Peter Andre critically examines perceptions of meritocracy, which holds that individuals should be rewarded based on merit rather

than the circumstances of their birth. Based on experiments with more than 9,000 people, he finds that individuals often have a “shallow” conception of merit, for they are quick to assign blame for choices even when these choices are significantly driven by unequal circumstances.

In the experiments, participants were asked to judge how much workers should earn. Despite awareness that unequal circumstances discouraged some workers from working hard, the participants tended to reward effort equally.

Further analysis revealed that the participants were aware of how circumstances could influence decisions, but lacked certainty regarding specific counterfactuals. This led them to base their judgments solely on observed effort while disregarding underlying circumstances.

Interestingly, the participants held different views of fairness, with some advocating that individuals should be compensated for the effects of adverse circumstances. By contrast, others believed that individuals should be rewarded solely based on actual choices, regardless of circumstance. These differing views underscore the complexities of meritocratic fairness as a touchstone for social policy and practice.

By apportioning blame while failing to consider underlying hardship, shallow meritocracy can disadvantage individuals who face adverse circumstances, the study concludes. This finding has implications for policies that seek to address inequality, such as affirmative action.

[Read the full paper here](#)

## #SAFEHappenings



### Call for papers

SAFE is now accepting paper submissions for two academic conferences: the 8th SAFE Market Microstructure Conference and the 11th SAFE Asset Pricing Workshop. The submission deadline for this year's SAFE Market Microstructure Conference is 1 June 2024. The conference will be held on 20 September 2024 at LMU Munich. The submission deadline for this year's SAFE Asset Pricing Workshop is 31

May 2024. The workshop will be held on 24 September 2023 at the House of Finance, located at Goethe University's Westend Campus in Frankfurt. For more information on both events and submission requirements, click [here](#) and [here](#).

### **Leibniz Lab on Systemic Sustainability**

The Leibniz Labs interdisciplinary research initiative aims to develop practical solutions to major societal challenges. SAFE is proud to announce its participation in the new Leibniz Lab on Systemic Sustainability, which is dedicated to issues surrounding biodiversity, climate change, agriculture, and nutrition. Research will focus in particular on solutions for protecting biodiversity and the climate that also promote resilient agriculture and food security. A [SAFE White Paper](#) examines voluntary biodiversity reporting by 359 European blue-chip companies, assessing the compliance of this reporting with recommendations set forth by the Task Force on Nature-related Financial Disclosures (TNFD). [Read more about Leibniz Labs here](#).

## **Handpicked Podcast Episode**

**Alexander Hillert, Professor for Finance and Data Science and Program Director of the SAFE Data Center, recommends an episode of the Wall Street Journal's podcast *The Journal* that discusses AI-generated deepfakes and their implications for markets:**



“Why has artificial intelligence generated so much media attention? One answer is that we are experiencing in real-time just how disruptive this technology can be – for better or worse. Podcast host Ryan Knutson and WSJ reporter Robert McMillan highlight the disruptive potential of AI by showcasing voice clones that are already delivering stunning quality and are readily available to anyone. The hosts discuss a notorious incident that took place in Hong Kong in which an employee transferred \$20 million to criminals who cloned the voice of the company's CEO. This incident and the entire podcast episode are deeply compelling because these technologies could have major implications for financial markets. It is easy to see how a fake audio message from a CEO or a fake conference call with analysts could trigger a positive or negative investor reaction. Criminals could benefit by front running positive fake news or short selling

prior to negative fake news. The podcast rightfully notes that as more fake news of better technical quality enters circulation, the more difficult it will become to distinguish the real from the fake. Fake audio and video pose a particularly acute problem, for the faked voice of a CEO is far more convincing than a faked email, and thus more capable of triggering adverse market reactions. In short, a new era of market manipulation has arrived.”

[You can find the podcast episode here](#)

## Further Content

- **News:** [A blueprint for Ukraine’s post-war reconstruction](#)
- **Video:** [SAFE Data Seminar: An introduction to the tidyverse in R](#)
- **SAFE Finance Blog:** [Can you trust ESG ratings? A deep dive into trust, transparency, and regulatory challenges \(Monica Billio, Aoife Claire Fitzpatrick, Carmelo Latino, and Loriana Pelizzon\)](#)
- All [upcoming events](#) and [SAFE publications](#)



### About SAFE

The Leibniz Institute for Financial Research SAFE (“Sustainable Architecture for Finance in Europe”) promotes interdisciplinary research and independent policy advice about the international financial system with a focus on Europe. The institute aims to contribute to a sustainable, crisis-proof financial architecture that stimulates innovation and serves economic and civil needs. Researchers from the fields of economics, law, and political science collaborate at SAFE on questions in the areas of Financial Intermediation, Financial Markets, Household Finance, Macro Finance, and Law & Finance.

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