European Parliament

# The Capital Markets Union package

Despite the fact that the free movement of capital is one of the 'four freedoms', the integration of European capital markets is not complete and has even regressed during the latest financial crisis. Furthermore, European businesses remain heavily reliant on banks (about 80% of their financing comes from banks) and much less on capital markets (whereas in the US, the ratio is the opposite).

While both systems are complementary and each has its own merits, in the current European context of weak bank lending − a consequence of banks being more prudent, as well as shrinking their balance sheets to comply with increased regulation − it results in companies (in particular SMEs), not having enough access to capital. Thus, the Juncker Commission announced that one of its priorities was to put in place, by 2019, a Capital Markets Union, encompassing all Member States, with a view to 'unlock[ing] liquidity that is abundant, but currently frozen, and putting it to work in support of Europe's businesses, and particularly SMEs'.

## The Commission Green Paper

In February 2015, the European Commission published a Green Paper to launch debate at EU level on the necessary measures to build a single market for capital. As priorities for further action, the Green Paper identified: revising the Prospectus Directive; improving the reporting of credit information of SMEs; building a sustainable, high-quality securitisation market; examining what role the Commission and Member States could play in supporting European long-term investment funds; developing European private placement markets which can provide a more cost-effective way for firms to raise funds, and broaden the availability of finance for medium to large companies, and potentially also to infrastructure projects.

In reaction to the Green Paper, the European Parliament adopted a resolution on Building a Capital Markets Union. This stressed that: proposals should be made to review the current legislation, notably regarding credit rating agencies and audit firms, in order to increase and complete investor protection; existing barriers to cross-border financing − especially for SMEs − should be eliminated, to foster benefits for businesses of all sizes in all regions; an environment should be developed in which more household and corporate savings go to entities that invest in capital markets and where investors are encouraged to allocate capital across the borders of Member States; the common framework for ensuring comparability and transparency among the different financial instruments should be strengthened; and an appropriate regulatory environment should be created to enhance cross-border access to information on companies looking for credit, *quasi*-equity and equity structures, in order to promote growth of non-bank financing models, including crowd-funding and peer-to-peer lending.

## Consultations and follow-up steps

In parallel to the Green Paper, the European Commission launched three consultations: 'Building a Capital Markets Union', 'An EU framework for simple, transparent and standardised securitisation' and 'Review of the Prospectus Directive' which ran until mid-May. The Commission took account of the over 700 responses received from stakeholders and developed an action plan for a Capital Markets Union. According to this Action Plan, steps must be taken in six areas.

*Financing for innovation, start-ups and non-listed companies*

As far as the company start-up phase is concerned, the Commission proposes to gather best practices and to monitor the expansion of crowdfunding; for the early expansion phase, it proposes to amend the legislation regarding European Venture Capital Funds (EuVECA) and Social Entrepreneurship Funds (EuSEF). Finally, to support SMEs seeking finance, the Commission proposes to structure the feedback given by banks declining SME credit applications; to provide information on alternative funding options; and to further develop

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private placements, through developing standardised processes and draw on best practices from work done by the International Capital Market Association (ICMA) and from the German *Schuldscheine* regime.

*Making it easier for companies to enter and raise capital on public markets*

The Commission proposes to modernise the Prospectus Directive so as to streamline the information required and the approval process. In addition, it is proposed to review the regulatory barriers to small firms seeking admission to trading on public markets and to develop specialist markets (such as the SME Growth Markets) to ensure that the regulatory environment for these markets is 'fit for purpose'. Finally, it is proposed to review the functioning of EU corporate bond markets, focusing on how market liquidity can be improved, and on the potential impact of regulatory reforms.

*Investing for the long term, infrastructure and sustainable investment*

Here, it is proposed to improve the regulatory framework (Solvency II and the Capital Requirements Regulation), to support long-term and infrastructure financing through the European Fund for Strategic Investments (EFSI), to develop further and monitor the development of standardised, transparent and accountable environmental, social and corporate governance investments, such as green bonds (the proceeds of which are directed towards projects and activities that promote climate or other environmental sustainability related purposes) and to evaluate the cumulative impact of financial reforms on the investment environment.

*Fostering retail and institutional investment*

For retail investors, the Commission proposes to publish a Green Paper on retail financial services, in which it will undertake a comprehensive assessment of European markets for retail investment products and assess the case for a policy framework to establish a successful European market for simple and competitive personal pensions. For institutional investors, the Commission proposes to assess whether changes are warranted and, if so, to prepare amendments to be brought forward in the context of the Solvency II review and to eliminate (through legislation) key barriers to the cross-border distribution of investment funds.

*Leveraging banking capacity to support the wider economy*

The Commission intends to explore the possibility for all Member States to authorise credit unions operating outside the EU's bank capital requirements framework; to publish a proposal for an EU framework for simple, transparent and standardised (STS) securitisation, together with new prudential calibrations for banks in the Capital Requirements Regulation; and to publish a consultation on the development of a pan-European framework for covered bonds, building on national regimes that work well without disrupting them, and based on high-quality standards and best market practices.

*Facilitating cross-border investing*

With regard to the market infrastructure for cross-border investing, it is proposed to publish a communication reviewing the progress in removing barriers to cross-border clearing and settlement identified by the Giovannini group. Furthermore, it is proposed to remove national barriers, through principles-based legislation on business insolvency and early restructuring. Finally, a code of conduct should be developed with Member States on withholding-tax-relief principles, and quick and standardised refund procedures must be established.

In the areas of promoting financial stability and supervisory convergence, the Commission intends to collaborate with the Financial Stability Board, the European Supervisory Authorities and the European Systemic Risk Board to assess possible risks to financial stability arising from market-based finance (e.g. market liquidity, interconnectedness in the financial system) and the need for additional macro-prudential instruments. The Commission will also: work with the European Securities and Markets Authority to develop and implement a strategy to strengthen supervisory convergence and to identify areas where a more integrated approach can improve the functioning of the single market for capital; develop a strategy for providing technical assistance to Member States − through the newly created Structural Reform Support Service − so that they reinforce specific capacities of national capital markets; and work closely with EU Member States in international fora such as the Financial Stability Board and the International Organization of Securities Commissions to develop convergent policy responses to support the development of global capital markets.

As well as publishing annual progress reports on the implementation of the aforementioned measures, the Commission proposes to prepare a comprehensive stock-take in 2017 as the basis for deciding on any additional measures that may be required.