



Council Conclusions on the Deepening of the Capital Markets Union. International Bulletin of February 2020.

On 5 December 2019, the Council adopted conclusions on the deepening of the Capital Markets Union (CMU). The CMU is an European Union (EU) initiative which, implemented through an Action Plan launched by the European Commission in 2015 and subject to several subsequent revisions, aims to achieve a greater degree of financial integration, facilitate access to the financing of European companies in the different phases of their growth through capital markets, broaden the spectrum of investments to which investors can have access and improve the stability of the European financial system.

The Council states in its conclusions that the measures taken have contributed to strengthening the EU's financing capacity and financial stability. However, it also highlights that there is still a heavy reliance on bank funding. Therefore, the Council deems it essential to continue with the CMU project, especially given the current geopolitical, economic and social context.

In its opinion, the existence of developed and integrated capital markets which complement the Banking Union would increase the funding supply for European enterprises, thus contributing to a better absorption of economic shocks by distributing risk through private and even cross-border channels. Consequently, the financial system would have greater strength that favours financial stability.

In order to establish a road map to deepen and eliminate the obstacles identified for the free movement of capital of the CMU, the conclusions set out the following five main objectives and principles:

1. Enhanced access to finance for EU businesses, especially SMEs.
2. Remove of structural and legal barriers for increased cross-border capital flows.
3. Provide incentives and remove obstacles for well-informed retail savers to invest, particularly in long-term investment products.
4. Support the transition to sustainable economies.
5. Embrace technological progress and digitalisation.

Additionally, the Council considers as a principle the need to strengthen the competitiveness of EU capital markets worldwide and thus boost the international role of the euro. It also recognises the importance of local markets and ecosystems as central parts of an integrated, open, deep and liquid European Capital Market.

The Council expects the Commission to assess the measures presented in relation to the objectives and principles indicated previously, assessing the measures to be implemented and those already implemented. It also expect the Commission to collaborate with the Member States and stakeholders for the adoption of such measures, to report based on key performance indicators (KPIs) on the progress made and facilitate the discussion on CMU topics where the Member States are called upon to take action.

The five principles and objectives outlined above are developed below:

1. Increased access to equity and debt finance for EU enterprises, notably SMEs

The Council proposes to assess in a comprehensive and cross-sectoral manner existing capital markets regulation. The objectives are as follows:

- a) Determine in which areas further harmonisation of standards at the EU level would be justified and in which areas the compliance costs and administrative burden could be further reduced. In addition, assess how proportionality, homogeneity and consistency of the legal framework could be guaranteed, especially with respect to SMEs.

- b) Define the possibility of a European Electronic Access Point for financial information of companies which increases transparency for participants.
- c) Identify how to reduce listing costs and incentivise listing for SMEs; how to boost availability, standardisation and comparability of SME-related information; how to create large pan-European private - cross-over (pre- and post-IPO) equity funds targeting SMEs and, if necessary, ways to channel EU funds into priority areas (for example, through InvestEU and co-investment).
- d) Assess the appropriateness and consistency of existing SME definitions.
- e) Ensure risk adequate regulatory treatment of long-term investments.
- f) Assess the measures aimed at developing local financial ecosystems.
- g) Analyse the benefits and consequences of long-term investment in illiquid asset classes (such as venture capital).
- h) Evaluate the appropriateness of establishing EU labels associated with SMEs with a view to improving their funding conditions.

2. Removal of structural and legal barriers for increased cross border capital flows

The Council proposes to carry out the definition of effective and feasible solutions contributing to the convergence and effectiveness of national regimes, based on a comprehensive and cross-sectoral comparative assessment exercise, identifying best practices in the areas of insolvency laws, securities laws, corporate laws and withholding tax procedures.

It also provides the following specific measures to facilitate cross-border capital flows by:

- a) Supporting the establishment of EU-wide investment fund vehicles for financing start-ups and scale-ups.
- b) Strengthening of the EU corporate bond markets.
- c) Reviewing and amending the securitization regime.
- d) Promoting cross-border transferability of and access to financial products.
- e) Considering a single point of entry for investor information.
- f) Ensuring the provision for consolidated trading data.
- g) Fostering supervisory convergence and increased supervisory cooperation through existing tools.
- h) Ensuring adequate investor protection.

3. Increasing retail participation

In order to remove barriers and seek incentives for retail retail savers to invest in capital markets (especially in the long term), while ensuring a high level of investor and consumer protection, as well as high and convergent supervisory standards, the Council proposes the following measures to be assessed and explored:

- a) Promote financial literacy (for both retail investors and SMEs) and facilitate the exchange of best practices and views on national measures in this regard.
- b) Ensure transparency with high information standards of investment products and issuers.
- c) Assess current disclosure rules with a view to eliminating incoherent or incomprehensible information.
- d) Ensure that information is clear, concise, understandable, proportionate and not excessive or overlapping in quantity or content.
- e) Study how to further reduce costs for retail clients to participate in capital markets.
- f) Promote increased suitability, comparability and accessibility of different investment products.
- g) Ensure high supervisory standards and enforcement of supervisory measures and sanctions, in particular with respect to the investor and consumer protection rules.
- h) Examine whether investor protection could be disproportionate in relation to existing risks. If so, consider introducing new categories of professional or semi-professional investors and optimising requirements for simple financial instruments, when appropriate.
- i) Assess the need and method of promoting an employee benefits system.

4. Transition to sustainable economies

The measures presented for the promotion of the CMU in relation to the transition to a sustainable economy are as follows:

- a) Consider an approach for developing and promoting green bonds.
- b) Consider the development of an European non-financial reporting standard, in particular for climate-related disclosures and taking into account international initiatives (such as the Paris Agreements).
- c) Assess the introduction of a framework for sustainability ratings.

d) Facilitate long-term investments in the transition to a sustainable economy.

5. Technological progress and digitalisation

In order to take advantage of the benefits and opportunities that technological developments and digitalisation bring to capital markets by making them more effective, inclusive and competitive, the conclusions reached by the Council envisage the following measures:

- a) Respect the principle that similar activities should be subject to the same standards.
- b) Ensure that existing and new regulation is technology neutral and does not hinder the development of technological solutions.
- c) Reduce the disclosure and reporting burden, in addition to increasing the supervisory efficiency, both by taking advantage of technological developments and digitalisation.
- d) Support the digitalisation of financial services to open up new cross-border access channels to businesses and investors.
- e) Strive for global coordination on crypto-assets, including so-called 'stable cryptocurrencies'.

Finally, and given that the CMU is an absolute priority for the EU and its members, different high-level working groups have been set up to provide independent strategic reflection on existing strengths and weaknesses. In addition, these working groups seek also to identify areas requiring further development or adjustment, and long-term trends as a result of, inter alia, technological development, Brexit and sustainability.

• **The Next CMU High-Level Group** (16 May, 2019): An initiative proposed by the Ministers of Finance of Germany, France and the Netherlands and composed by high-level experts from Germany, France, the Netherlands, Italy, Spain, Poland and Sweden. Its final report of 30 September 2019 stresses that the rationale behind the launching of the CMU is still very valid (reduction of internal cross-border barriers, diversification of financing sources and complement to the Banking Union) but progress to date has not been sufficient, despite the legislative effort made by the Commission and the priority status set by the European Parliament. In consequence, the Next CMU Group identify four absolute priorities (which includes twenty recommendations) for achieving significant progress in the CMU at EU and national level:

1. Generate more Long-Term Savings and Investment opportunities.
2. Massively develop Equity Markets.
3. Increase financial flow fluidity between EU financial market places.
4. Develop Debt, Credit and Forex financing tools in a manner that increases the international funding currency role of the Euro.

The report concludes that the CMU should be refocused to respond to the citizens' needs and to the investment in the real, digital and sustainable EU economy. In this regard, it is proposed that the CMU should be renamed as the Sustainable Savings and Investment Union. Finally, it is suggested that the European Commission formulate the implementation of KPIs on efficiency and heatmaps to monitor the actual functioning of measures taken at EU and Member State level, in order to optimise assessment of the achievement of EU objectives.

• **High Level Forum on Capital Markets Union** (10 October, 2019): The group's tasks are to propose targeted policy recommendations for future possible actions in the CMU area. In turn, three subgroups have been set up within it to focus on these areas:

1. The creation of an ecosystem enabling greater cross border capital raising, with special focus on innovative SMEs.
2. How to develop a European capital market architecture, with special focus on how new financial technologies can support this process.
3. Investment choice and accessibility to capital markets services to promote greater retail investors' participation.

The composition of the group, its chair and the chairs of the subgroups are appointed by DG FISMA of the European Commission and the initial maximum term is 8 months (extendable by a maximum of 2 months). On 18 November 2019 the Commission announced the final composition of the High Level Forum.

The publication of a Final Report is expected in May 2020, which includes the specific policy recommendations identified by the subgroups. In addition, an interim report is expected in February 2020.

Links of interest:

- [Press release on the Capital Markets Union: Council sets objectives for the deepening of the project](#)
- [Council conclusions on the Deepening of the Capital Markets Union](#)
- [Final report published by The Next CMU High-Level Group](#)
- [Call for applications for the selection of members of the High-Level Forum on Capital Markets Union](#)
- [List of members of the High-Level Forum on Capital Markets Union](#)