European Commission´s Green Paper: Building a Capital Markets Union. March 2015.

On 18 February 2015, the European Commission (hereinafter "EC") published a consultation document (Green Paper) on its project to create a Capital Markets Union (hereinafter "CMU") for all 28 Member States of the European Union (hereinafter "EU"). The CMU, included in the guidelines of the current President of the EC Jean-Claude Juncker, is one of the landmark projects of the EC to foster economic growth and job creation. The aim of this consultation is to identify the barriers for the creation of an integrated capital market in the EU, which allows companies seeking funding to access non-bank funding, mostly start-ups, small and medium-sized companies (SMEs) and long-term projects including infrastructures, through capital markets. This non-bank funding complements and at the same time reduces reliance on classic bank financing, thus diversifying the sources of funding of the economy.

The EC public consultation proposes a series of priorities on which to adopt both short-term and long-term measures for development and integration of capital markets.

The actions to be carried out in the **short term** are the following:

– Lowering barriers to accessing capital markets. The prospectus, as a requirement to make public offerings or to request admission to trading on a regulated market, should not constitute a barrier to access capital markets in the EU. The EC consultation reviews the current prospectus regulation, in order to reduce the administrative burden, review the obligation to publish a prospectus and its authorisation procedure and simplify the information included in the prospectus.

– Widening the investor base for SMEs. The EC is working in the development of standardised and comparable public information for SMEs, so that investors are able to know the credit scoring of SMEs. This information would facilitate the development of refinancing instruments such as loan securitisation for SMEs.

– Building a sustainable high-quality securitisation structure. Securitisation is an effective mechanism for transferring risk, through grouping and transferring credits from one bank to another, which then issues securities to be placed with institutional investors, thus allowing banks to lend more to the economy. The public consultation of the EC proposes a comprehensive regulatory approach as well as simple, transparent and standardised issuances of securities.

– Boosting long-term investment. The EC has established an Investment Plan for Europe and a new European Fund for Strategic Investments (EFSI). Furthermore, the future European Long-Term Investment Funds (ELTIFs) regulation, in its final processing stage, will boost the funding of long-term projects.

– Developing European private placement markets. Private investments allow SMEs, and also potentially infrastructure projects not traded on public markets, to access funding provided by an investor or small group of investors. The industry will soon make public an initiative establishing a guide on common practices, principles and standardised documentation for private placements, compatible with a diversity of legal frameworks. The EC believes that this initiative could help to facilitate the creation of a pan-European private placement market in the short term.

The **long-term measures** for capital market development and integration in the EU are the following:

– Improving access to financing. The development of a simplified, common accounting standard, different from the International Financial Reporting Standards (IFRS), could help SMEs to have better access to funding. The creation of a central EU-level website with infrastructure project information from the EU and the Member States would benefit infrastructure investment. Investment in corporate bond markets would be facilitated by standardisation, with particular emphasis on the category of green bonds (issued for social or corporate

governance purposes). Other alternative means of financing (crowdfunding, peer to peer lending) have great potential but, for the time being, limited practical relevance.

– Developing and diversifying the supply of funding. Institutional investors, mainly Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs), insurance companies, public authorities and banks; the latter continue to be the main participants in capital markets. The European social entrepreneurship funds and venture capital funds have not evolved as expected, and the EC suggests that the lack of exit opportunities for investors in venture capital may be an obstacle to its development. Retail investment, mainly channelled through UCITS, represents a small percentage of global investment and, in order to boost it, it is necessary to improve financial literacy and to enhance cross-border competition in financial services. To attract international investment, the EU needs high standards to ensure integrity, stability and investor protection. The EC actively contributes to international work on free movement of capital, including, for example, on the implementation of the OECD Codes of Liberalisation of Capital Movements.

– Improving market effectiveness – intermediaries, infrastructures and the broader legal framework. The development of a single rulebook can help to achieve a level playing field for cross-border investment within the EU, but its success depends on supervisory convergence, i.e. on the effective implementation and supervision of EU financial rules. Requirements to improve the efficiency of markets: standardisation of public data and reports (for example, consolidated information in post-trade transparency); complete implementation of the legal framework for market infrastructures; harmonisation of legislation relating to investors' rights that allows them to correctly assess the risk of their investments; and greater convergence in law (companies, corporate governance, insolvency and taxation) in the EU Member States. The development of new technologies has factually driven the integration of capital markets including, for example, through electronic trading platforms, high-frequency trading and "FinTech" companies (which provide innovative financial services and raise capital through the use of new technologies, such as crowdfunding).

Relevant links:

Consultation document on the European Commission's Green Paper for building a Capital Markets Union in the EU:

European Commission's consultation document on the review of the Prospectus Directive

European Commission's consultation document on high-quality securitisation in the EU

European Commission staff working document of initial reflections on the obstacles to the development of a deep and integrated EU capital market

An Investment Plan for Europe

Jean-Claude Juncker's Guidelines