



New Action Plan of the European Commission to complete a Capital Markets Union for people and businesses. International Bulletin, March 2021.

On 24 September 2020 the European Commission (EC) published a Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions in which it informed them of a new Action Plan to complete a Capital Markets Union (CMU) for people and businesses.

This proposal is a continuation of the first Action Plan published by the EC in 2015 to build a CMU. Although it is considered that the application of this initial Plan was a success, given that the number of measures adopted in its execution has served to lay the foundations of this Union, the EC considers that now is the right moment to adopt additional measures that deepen it and that, in addition, serve to support some of the main strategic lines of its mandate such as the economic recovery after the pandemic caused by COVID-19 and providing the financing required by the European Green Deal and the transition to the digital age.

Also, in the EC's view, the CMU is an essential element to achieve a more inclusive economy in the EU that allows Union citizens to access financial products that meet their needs, such as market-based pension systems to supplement public pensions. The EC also announces in this Communication, as a measure to achieve a more inclusive economy, the publication of a retail investment strategy during the first half of 2022.

Additionally, the EC affirms that the CMU will both improve the competitiveness of the EU and reinforce the international role of the euro and the influence of the EU in the configuration of international standards, the latter being an especially relevant objective for the Union following the UK's departure.

It is also important to mention that in the preparation of this Plan, the EC has taken into account the Final Report with 17 recommendations for advancing the CMU published in June 2020 by the high-level forum established at the initiative of the EC (see the article on this topic published in the International Bulletin of November 2020). In December 2019 the Council also published Conclusions on the next steps that, in its opinion, should be taken to deepen the CMU (see the article on this topic published in the International Bulletin of February 2020) and in December 2020 some more on the EC's new Action Plan.

The new CMU Action Plan contains 16 actions, with different legislative and non-legislative measures, centered around three key objectives:

1. Support a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies

Action 1: Making companies more visible to cross-border investors

One of the objectives of the EC is to increase the number of cross-border investments, but it considers that this requires an improvement in the visibility of EU companies. Consequently, it proposes the creation of an EU-wide platform as a single point of access that allows investors to access financial and sustainability-related information disclosed by companies.

Action 2: Supporting access to public markets

The EC recognises that listings are very expensive in the EU, especially for small and medium-sized enterprises (SMEs), which limits their growth possibilities. In addition, it states that this situation has been made worse by the pandemic. Therefore, with the aim of promoting and diversifying SME and innovative companies' access to funding, it proposes to simplify the listing rules for public markets.

Action 3: Supporting long-term investment vehicles

With the aim of channelling more funding towards companies and long-term infrastructure projects, the EC announces a review of the regulatory framework for long-term investment funds, particularly for projects that contribute to smart, sustainable and inclusive growth. In addition, the EC points out that, as a result of the COVID-19 crisis, the smallest and most innovative companies in expansion require additional support when it comes to financing, particularly in strategically important sectors, for which it proposes the creation of an SME IPO fund.

Action 4: Encouraging more long-term and equity financing from institutional investors

The EC proposes as an objective that businesses improve their capital position, in particular when it comes to innovative companies with rapid growth in their early stages and companies in expansion that intend to compete globally. It also recommends that sustainable projects that require long-term investments be financed by capital. To do this, it considers it essential to encourage institutional investors to make more long-term investments, and therefore proposes a review of several regulations. Specifically, the EC announces that this review will aim to eliminate regulatory obstacles to enable insurance companies to invest in the long term, as well as a revision of the prudential treatment applicable to banks in order to encourage long-term investments in the capital of SMEs. Lastly, it will evaluate the possibilities of promoting market-making activities by banks and other financial institutions.

Furthermore, the EC proposes to revise the tax incentives for debt financing as against equity financing.

Action 5: Directing SMEs to providers of alternative financing

With a view to making better use of customer databases, the EC proposes to assess the feasibility of requiring banks, when they turn down a loan application from an SME, to refer them to a provider of alternative funding. Furthermore, it announces that it will take as a starting point the work already carried out in this area within the framework of the previous plan.

Action 6: Helping banks lend more to the real economy

The EC recognises that securitisation allows banks to transfer credit risk and free up capital to grant loans to businesses, and that this in turn can be a key instrument in the green transition. Consequently, the EC announces a review of the legal framework for securitisation to facilitate the granting of bank credits to EU businesses, in particular SMEs. It will also assess the possibility of introducing a "European guaranteed promissory note".

2. Making the EU an even safer place for individuals to save and invest long-term

Action 7: Empowering citizens through financial literacy

In the EC's view, only people with solid financial knowledge can benefit from the investment opportunities offered by the capital markets. For this reason, in order to improve the financial literacy of EU citizens, it proposes to assess the viability of establishing a European framework of financial competence as well as the possibility of obliging Member States to promote training measures in this area, in particular in relation to responsible and long-term investment.

Action 8: Building retail investors' trust in capital markets

One of the issues of concern to the EC is the possibility of conflicts of interest arising between the creators of investment products and the payment of inducements to distributors. Therefore, in order to ensure that retail investors receive adequate financial advice and clear and comparable product information, it proposes a review of the rules applicable to inducements and also of those relating to financial advice and disclosure obligations. Further, since the information needs of experienced retail investors are lower, the EC proposes to reduce the information that is made available to them. Lastly, in order to ensure that financial advisers have similar levels of qualification and knowledge throughout the EU and can compete on an equal footing, the EC will assess the feasibility of setting up a pan-European certificate for the provision of financial advisory services, among others.

Action 9: Supporting people in their retirement

Another major concern of the EC is the ageing of the EU population due, among other factors, to its longer life expectancy. In order to ensure that citizens receive adequate retirement income, the EC considers it advisable to supplement their public pensions through professional retirement schemes. For example, the recently created pan-European personal pension product (PEPP) responds to this objective.

Furthermore, the EC will develop pension dashboards with indicators showing detailed information on professional retirement schemes that will allow Member States to assess the adequacy of their pension systems and make the necessary adjustments if deemed appropriate. It will also identify best practices for setting up individual pension tracking systems for citizens, to provide them with an overview of their future retirement income. Lastly, the EC will study the best auto-enrolment practices of Member States as well as professional retirement schemes that

supplement citizens' public pensions.

3. Integrating national capital markets into a genuine single market

Action 10: Alleviating the tax associated burden in cross-border investment

One of the obstacles that in the opinion of the EC is restricting cross-border investment is the tax burden that this type of investment entails, mainly because taxes on returns on investment must be paid both in the Member State of the investment and in that of the investor. However, the EC recognises that in order to overcome this obstacle it is not essential to harmonise the tax rate and prefers to opt for a common, standardised, EU-wide system for withholding tax relief at source that speeds up tax refunds, in line with the EU initiative on the code of conduct on withholding tax or the OECD's Treaty Relief and Compliance Enhancement (TRACE) system.

Action 11: Making the outcome of cross-border investment more predictable as regards insolvency proceedings

Another obstacle that, in the EC's view, restricts cross-border investment is the lack of harmonisation on insolvency proceedings. Consequently, the EC will take a legislative or non-legislative initiative for increased convergence in targeted areas of non-bank insolvency regulations. The EC and the European Banking Authority will also analyse the possibility of improving the exchange of information among Member States on the periodic evaluation of the effectiveness of their national loan enforcement systems.

Action 12: Facilitating shareholder engagement

In the opinion of the EC, Europeans, particularly the younger generations, are increasingly demanding greater participation in the management of the companies in which they invest. Consequently, the EC aims to make it easier for shareholders to exercise their voting rights as well as to improve the efficiency of cross-border corporate transactions. To this end, the EC will study the possibility of introducing an EU-wide, harmonised definition of 'shareholder', as well as further clarifying and harmonising the rules governing the interaction between investors, intermediaries and issuers. It will also investigate whether there are national barriers to the use of new digital technologies in this area.

Action 13: Developing cross-border settlement services

The EC considers that post-trading in the EU remains fragmented and proposes, in order to promote greater integration, to study a regulatory amendment to improve the cross-border provision of settlement services the functioning of the cross-border passport for central securities depositories. It believes that this will improve the competitiveness of settlement service providers, leading to increased cross-border investment.

Action 14: Consolidated tape

The EC considers that capital markets integration requires a register that provides consolidated data on the prices and volume of securities traded in the EU, for which it proposes the creation of a consolidated tape.

Action 15: Investment protection and facilitation

The EC considers it appropriate to update and strengthen the framework for the protection and facilitation of cross-border investments in the EU by adopting measures such as improving dispute resolution mechanisms at national and EU level and collecting information on investors' legal rights.

Action 16: Supervision

In the opinion of the EC, integrated and convergent supervision is an indispensable condition for the proper functioning of the CMU. In addition, it considers that it should be based on two conditions: i) there will be a single rulebook for capital markets and ii) greater collaboration between the NCAs and ESMA in order to ensure that national supervision takes into account the European dimension of the market. Consequently, it proposes to continue with its work of harmonising standards where appropriate, as well as to follow up on the level of convergence in supervision. Furthermore, in the fourth quarter of 2021 it will carry out a study on these aspects and, depending on the result, assess the appropriateness or otherwise of adopting measures to strengthen the coordination of supervision or the direct supervision entrusted to the ESAs. It will carry out the appropriate regulatory amendments to correct the deficiencies detected in the Wirecard case, basically in relation to compliance with the financial disclosure obligations of listed companies.

Lastly, the EC expresses its intention to complete the periodic reports that it has been publishing on the evolution of the CMU, particularly in relation to legislative progress, by creating a set of specific indicators that measure the level reached.

Useful links:

[Communication by the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Capital Markets Union for people and companies: a new action plan](#)

[Final Report of the High Level Forum on the Capital Markets Union](#)

[Council Conclusions on the Deepening of the Capital Markets Union \(5 December 2019\)](#)

[Council conclusions on the European Commission's Action Plan in relation to the Capital Markets Union \(3 December 2020\)](#)