Communication on Capital Markets Union- Accelerating reform. October 2016.

The European Commission (hereinafter, EC) published 16 September a **communication** addressed to the European Institutions (The European Parliament, The Council, The European Central Bank, The European Economic and Social Committee and The Committee of the Regions) in order **to accelerate the reform which allows stepping up the creation of the Capital Markets Union** (hereinafter, CMU). The CMU seeks to better connect savings to investment and to strengthen the European financial system by providing alternative sources of financing. To set up implementation, the EC passed 30 September 2015 the CMU Action Plan setting out a comprehensive programme of actions to put in place the building blocks for the CMU by 2019. The European Council of 28 June 2016 also called for "swift and determined progress to ensure easier access to finance for businesses and to support investment in the real economy by moving forward with the CMU agenda".

The EC published in April a Status Report on the actions adopted during the first six months since the adoption of the CMU Action Plan. The EU´s recent communication, of 16 September 2016, expounds the implementation of necessary measures to guarantee the CMU has a significant impact on the real economy as soon as possible, given that in the current political and economic context ("*Brexit*"), developing stronger capital markets in the EU is even more important, as the European Commissioner in charge of financial services *Valdis Dombrovskis* states. The Communication distinguishes three types of actions: a) finalising rapidly the first wave of CMU initiatives; b) accelerating delivery of next phase of the CMU legislative proposals; and c) developing further priorities need to take into account economic and technological developments, such as the rapid growth of FinTech.

Finalizing quickly the first wave of CMU measures comprises the following:

.- Urgent European Parliament (hereinafter, EP) approval of the Council´s Proposal for a Regulation laying down common rules on securitisation and creating a European framework for **simple, transparent, and standardised securitisation**, on which the Council has already reached a general approach, to ensure that its rapid implementation has the potential to quickly generate additional funding in the real economy, hence, freeing the balance sheets of banks to provide additional financing, as well as providing investment opportunities for investors.

.- The modernisation of the **Prospectus rules** will increase access to capital markets, in particular for smaller companies (SMEs). The EC will do its utmost to support the co-legislators in finding an agreement before the end of the year. The modernisation of the Prospectus implies the need to be simple to produce, clear for investors and approved quickly, so as to help generate more and less costly financing opportunities for companies, especially SMEs.

.- The Proposed revised **European Venture Capital Funds** and **European Social Entrepreneurship Funds** Regulations shall be approved by the EP and the Council by the end of 2016. The new proposal will open up the regulation to fund managers of all sizes to boost investment into venture capital and social projects and make it easier for investors to invest in small and medium-sized innovative companies. In addition, the EC will promote the establishment of one or more Venture Capital Fund-of-Funds to support innovative investments in the European Union (hereinafter, EU).

.- The EC seeks to support the **development of national and regional capital markets** by developing capacity to provide technical assistance to Member States. To that end, the co-legislators need to rapidly conclude the negotiations on the EC´s proposal for a Regulation on the establishment of a Structural Reform Support Programme for the period 2017-2020.

Accelerating delivery of the next phase of CMU actions comprises the following:

.- The EC will present, shortly, a proposal on business **restructuring and insolvency**, to speed up the recovery of

assets and give companies a second chance -such are key elements of an appropriate insolvency framework to try to overcome differences in national insolvency frameworks, which for a long time have been generating barriers to EU capital markets-. The EC is also conducting a benchmarking review of loan enforcement regimes (including insolvency, delays, costs and value-recovery) to establish a detailed and reliable picture of the outcomes that banks experience with its balances.

– The EC will encourage Member States to eliminate **tax barriers** which impede capital markets´ development, as for example, regarding withholding tax refund procedures, as well as to encourage best tax practices in promoting venture capital and "business angel" investment into "start-ups". Conversely, addressing the preferential tax treatment of debt over equity would encourage more equity investments and create a stronger equity base in companies. It would also provide benefits in terms of financial stability, as companies with a stronger capital base would be less vulnerable to shocks. The EC intends to issue a proposal on the debt-equity bias in November, in the context of its proposal on the Common Corporate Tax Base (CCTB), and calls on the Council to adopt that measure as rapidly as possible.

– The EC will adopt an amendment to the banking and insurance regulations before the end of the year, as a proposal to expand the favourable capital treatment for loans to SMEs and to reduce the capital requirements attached to investments in infrastructure.

The **next steps: developing further priorities** comprise:

.- The EC will consider proposals which aim to put consumer savings to better use, i.e., development of personal pension plans markets, and other retail financial services markets.

.- The EC will establish an expert group to develop a comprehensive **European strategy on sustainable finance**, both to support investment in green technologies and to ensure that the financial system can finance growth in a way that is sustainable.

.- The EC will work with the European Supervisory Authorities (ESAs), and other standard setting bodies, to develop a co-ordinated policy approach that supports the **development of FinTech** in an appropriate regulatory environment. Additionally, the EC believes FinTech has the power to increase the role of capital markets, bringing closer companies and investors, as well as benefiting consumers, whilst offering a wider range of products.

.- The EC will boost the **Covered bond market** -an important channel for longer-term-financing-, will promote a **cross-border distribution of investment funds** and will work to remove remaining barriers to a fully integrated market. It will also accelerate its work to **remove barriers in the post-trading environment**. For the latter objective, an expert group has been established to assess the extent to which the Giovannini barriers have been removed and identify any new or emerging barriers. In 2017, the Commission will launch a public consultation based on the results of the group´s work to determine the most appropriate way forward in this area. The EC will propose a future legislative initiative to determine with legal certainty which national law shall apply to security ownership and to third party effects of the assignment of claims.

.- The EC signals the role of the European Supervisory Authorities (hereinafter, ESAs), especially of ESMA thanks to its annual Work Programme on **Supervisory Convergence**, to ensure effective and consistent supervision, **investor protection,** promote the **integration of capital markets** and safeguard f**inancial stability**. The EC shall assess in close consultation with the EP, and the Council new measures regarding the Supervisory framework which is fundamental in building a deeper and more integrated single market. Some noteworthy measures: the EC will publish a white paper on these issues- governance and financing of the ESAs. In addition, a public consultation was launched as part of a review of the EU macro-prudential framework.
In any event, the EC will continue to monitor such situation and identify additional measures which the CMU may need to develop, and will adopt a legislative proposal in this area in 2017.

Useful links:

Communication from the Commission on Capital Markets Union- Accelerating Reform (16.09.2016).

Commission Staff Working Document: Capital Markets Union: First Status Report (25.04.2016).

Action plan to develop the Capital Markets Union (30.09.2015).