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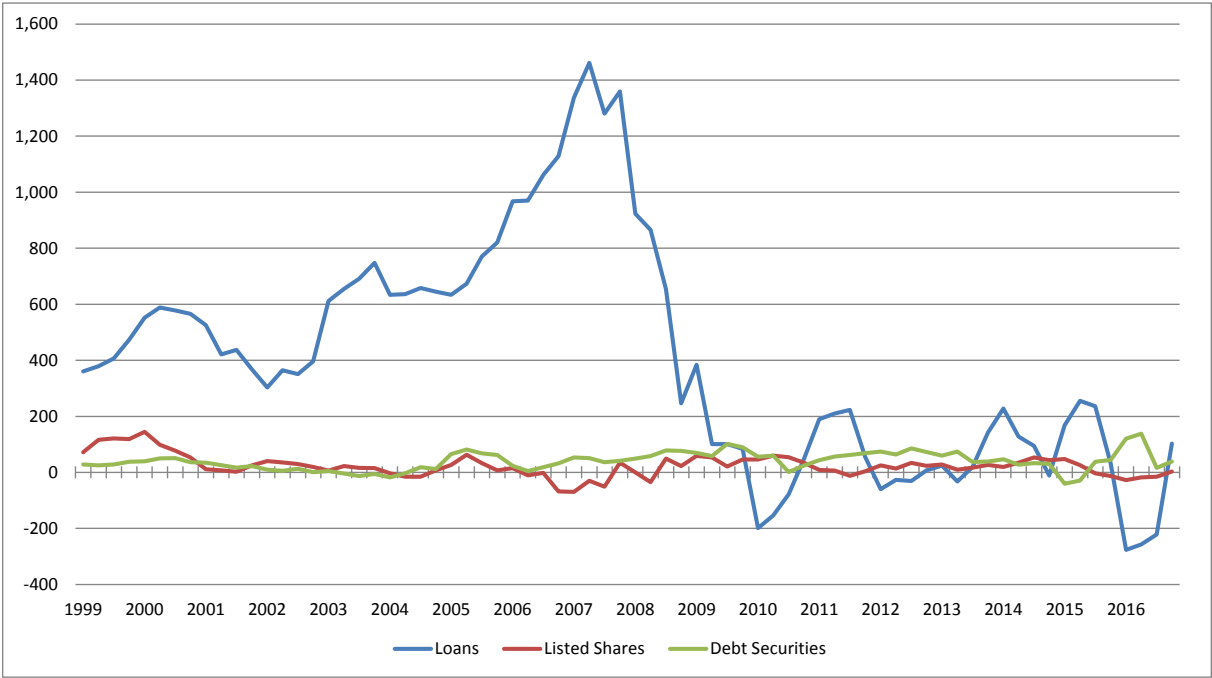
Completing the Capital Markets Union by 2019 - time to accelerate delivery

Introduction

On 22-23 March 2018, the European Council will take stock of progress in delivering, inter alia, the Capital Markets Union (CMU) Action Plan¹. This is an important priority for the European Union and part of the Investment Plan for Europe. A single capital market benefits the EU as a whole, but has particular relevance for those Member States that share the euro as our common currency.

Deep and integrated capital markets foster cross-border private risk-sharing in the euro area and beyond, thereby boosting the productive and innovative use of private capital, broadening and diversifying the sources and means of funding to the real economy, and reducing the need for public sector risk-sharing. Alongside other factors the Commission has worked on, such as an integrated and fair labour market and a transparent tax system which is protected from abuse, and the reduction of non-performing loans, this is crucial for the EU economies' capacity to stabilise and absorb economic shocks that affect particular Member States, regions or sectors. Lack of financial diversification exposes the system to further instability caused by the volatility of some financial flows when there is a structural shock (see Figure). If European savings are invested in a diverse portfolio of financial products provided by a diverse range of actors across different Member States, their returns will be less subject to volatility and to the state of one individual economy.

Figure – Financial flows to non-financial corporations (EUR billions, net flows)



Source: European Central Bank and Commission Services calculations

¹ Communication "Action Plan on Building a Capital Markets Union", COM(2015) 468, 30.9.2015

Note: Data refer to yearly moving averages of quarterly net flows between the fourth quarter of 1999 and the third quarter of 2017.

A successful Capital Markets Union, complementing the EU's Banking Union, also needs to open-up markets to give better access to finance for EU businesses and more and innovative investment opportunities for savers, who today have greater means to understand how their investments are used and a greater appetite for investor choice. That is why the transformation of capital markets needs to provide the tools to harness new opportunities offered by financial technology and sustainable finance, and to facilitate the transition to a cleaner, more resource-efficient, circular economy.

As the Commission set out in June 2017 with the Mid-term review of the Capital Markets Union Action Plan², we need to step up the level of ambition, to address the obstacles but more importantly to take advantage of those new opportunities.

This is why the Commission is also presenting an Action Plan on Financial Technology (FinTech) and an Action Plan on Sustainable Finance.

Drawing on the conclusions from the public consultation in March-June 2017, and taking account of the initiatives already presented, the Commission considers that a number of targeted initiatives are necessary at EU level to harness the opportunities presented by technology-enabled innovation in financial services. The FinTech Action Plan sets out clear and concrete steps to enable innovative business models to scale up, support the uptake of new technologies, and increase cybersecurity and the integrity of the financial system. It will ensure that the European financial sector remains innovative and competitive, without compromising financial stability and investor protection.

The Sustainable Finance Action Plan aims to create the conditions for more sustainable economic growth and development by reorienting capital flows towards more sustainable investments, such as the clean energy transition and the transition to a circular economy. Mainstreaming sustainability factors in risk management and fostering transparency and long-termism in public and private governance are also important objectives for this plan to channel more public and private investments towards sustainable development, in line with global commitments like the Paris Agreement and the 17 UN Sustainable Development Goals.

The need to progress with Capital Markets Union is made even more urgent by the future departure of the United Kingdom, as the EU's largest financial centre will leave the Single Market. As a consequence of this, we need an even stronger push for more developed, integrated and better supervised capital markets.

The European Council of June 2016 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 Capital Markets Union agenda." The ECOFIN Council has stressed the importance of completing the Capital Markets Union by 2019 on several occasions and most

² Communication "On the Mid-Term Review of the Capital Markets Union Action Plan", COM(2017) 292, 8.6.2017.

recently in July 2017, where it renewed its commitment to the Capital Markets Union, and in particular to the full set of actions put forward in the Mid-term review, including the nine priority initiatives. The European Parliament Resolution of 19 January 2016 acknowledged the important role capital markets can play in addressing the financing needs of Member State economies and underlined that Capital Markets Union must place greater focus on the end-users of capital markets, i.e. companies and investors.

The Commission is committed to put in place all building blocks of Capital Markets Union by mid-2019. While first achievements and major milestones have already been reached (see table in annex), it is now the time to move ahead and make sure that all pending legislative proposals are completed by the end of the mandate. In addition, the Commission is today proposing further measures to develop and integrate EU capital markets, and the remaining proposals will be presented by May 2018 so that, with the necessary political will, legislation can be adopted before the European Parliament elections in 2019.

Going forward, the effective functioning of Capital Markets Union needs to be given a strong impetus by placing the building blocks around three mutually reinforcing dimensions: the EU Single Market, clear and proportionate rules, and efficient supervision.

1. Making the most of the Single Market through new European products, labels and passports

New pan-European products, labels and passports will ensure that investors, consumers and businesses can reap the full benefits of the Single Market (scale up in Europe and compete globally). New rules are already in place to boost European venture capital funds (EuVECA) investment in start-ups and small and medium-sized companies and to promote a safe and deep market for Simple, Transparent and Standardised (STS) securitisation. If EU securitisation issuance was built up again to the pre-crisis average, it would generate up to EUR 150 billion in additional funding for the economy. The Commission has also proposed a new pan-European personal pensions label (PEPP) to empower consumers to save for retirement and to inject more savings into capital markets and hence channel additional financing to productive investments. **The Commission calls on the co-legislators to finalise quickly their work on this proposal**, so that all European citizens have access to a wide set of options to save for their retirement while benefitting from solid consumer protection.

To make progress also in other areas, the Commission is today proposing additional measures to develop new products and labels and to integrate capital markets:

- A European label for investment-based and lending-based crowdfunding platforms ('European Crowdfunding Service Providers for Business') that enables cross-border activity and addresses risks for investors in a proportionate manner. It will help crowdfunding service providers scale up across the Single Market, thereby increasing access to finance for entrepreneurs, start-ups and small and medium-sized companies in general. This is also a first concrete deliverable of the FinTech Action Plan, which aims to create an environment where innovative products and solutions can easily emerge and

scale-up across the EU, without compromising financial stability and consumer protection.

- An EU enabling framework for covered bonds - Covered bonds proved a stable and cost-effective source of financing during the financial crisis and should be further developed, drawing on the good practices of existing national systems. This framework will support the funding of the economy while giving investors a wider and safer range of investment opportunities and preserving financial stability.
- Measures to reduce the regulatory barriers to the cross-border distribution of investment funds in the EU. This will reduce the cost of going cross-border and support a more integrated single market for investment funds. Increased competition will give investors more choice and better value, while safeguarding a high level of investor protection.

2. Supporting businesses and entrepreneurs through clearer and simpler rules

The Commission has proposed, in November 2016, a Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures. This important proposal aims to facilitate the efficient restructuring of viable companies in financial difficulties to avoid insolvency and destruction of going concern value. For natural persons, including sole entrepreneurs, the proposal provides for a second chance through debt discharge, in order to enable them a fresh start and incentivise entrepreneurship. This will also increase confidence that companies meet their payment obligations, for example with regard to their bank loans. In harmonising these procedures, the initiative would remove barriers to cross-border investment and thus foster capital market development in the EU. It will also contribute to reducing the build-up of future non-performing loans by banks and tackle existing stocks. By improving the possibility for entrepreneurs and companies in financial difficulty to adopt a successful restructuring plan, more companies could be able to avoid insolvency and turn non-performing loans into loans entrepreneurs and companies can pay back. **The Commission calls on the co-legislator to accelerate adoption of these important rules.**

The Commission has also proposed, as part of the common consolidated corporate tax base (CCCTB) proposal, to address the bias in the tax system towards debt over equity, by providing an allowance for equity issuance. A set rate, composed of a risk-free interest rate and a risk premium, of new company equity will become tax deductible each year. Under current market conditions, the rate would be 2.7%. This will encourage companies to seek more stable sources of financing and to tap capital markets. It would also provide benefits in terms of financial stability, as companies with a stronger capital base would be less vulnerable to shocks. **The Commission calls on the Council to accelerate adoption of these important rules.**

The Commission is today proposing new rules to facilitate cross-border transactions by providing legal certainty on who owns a financial claim, thereby eliminating legal risk and potential negative systemic consequences. The assignment of claims is a mechanism used by big and small companies to obtain liquidity and have access to credit and by financial

institutions to optimise the use of their capital. Moreover, the Commission is providing further guidance in a separate Communication as concerns which law applies to determine who owns the underlying assets in security transactions.

New rules on prospectuses have already been adopted to support companies raising money on the public markets for equity and debt³. For small companies and mid-caps who want to raise money across the EU, a new EU growth prospectus will be created. However, more needs to be done, in particular to ensure that the SME Growth Market label created by MiFID II strikes the right balance between providing sufficient investor protection and avoiding unnecessary administrative burden. This is why the Commission will present further measures by May 2018 to deliver a more proportionate regulatory environment to support listing of small and medium-sized companies on SME Growth Markets.

3. A more efficient supervision of EU capital markets

More financial integration requires more integrated and effective supervision. Cross-border activity will be facilitated by consistent regulation and supervision, both for financial institutions and for consumers and businesses using financial services. And though financial integration and capital market-based finance can bring great benefits, they may also give rise to new risks. This is why it is important to avoid regulatory arbitrage, ensure a level playing field, and consistent investor protection and financial stability.

In particular for the success of Capital Markets Union it is necessary to strengthen the ability of the European Securities Markets Authority (ESMA) to ensure consistent supervision and enforcement, and directly supervise certain capital markets. Therefore, **the Commission stands ready to actively discuss with the European Parliament and Council ideas to accelerate current negotiations in order to ensure the final adoption of the Review of the European Supervisory Authorities before the European Parliament elections in 2019.** This is crucial for the success of Capital Markets Union.

Post-trade market infrastructure plays a crucial role in integrated capital markets. This is why it is also important to ensure further supervisory convergence and closer cooperation among authorities for a more pan-European approach to the supervision of EU central counterparties (CCPs). **The Commission has proposed reforms to strengthen the supervision of CCPs, and calls on the co-legislators to accelerate the adoption of these important rules.**

Conclusion

The Commission is delivering on its commitment to put in place the building blocks of Capital Markets Union by 2019. The Commission has presented eight legislative proposals, of which only three have so far been adopted by the co-legislators, and is presenting four

³ Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, OJ L 168, 30.6.2017, p. 12–82

additional legislative proposals today. By May 2018, the Commission will have presented all the legislative initiatives that were announced in the 2015 Capital Markets Union Action Plan and in the 2017 Mid-term review. The Commission stands ready to engage actively with the European Parliament and the Council on all the pending proposals relevant for Capital Markets Union.

Reforming the EU's capital markets cannot be achieved by the Commission alone. All stakeholders at the national and European level must also do their part and the Commission will continue to support these efforts. As an immediate next step, the Commission looks forward to the discussion in the European Council on 22-23 March and calls on the European Parliament and the Council to accelerate work on all pending legislative proposals relevant for the completion of Capital Markets Union, to ensure their adoption before the elections to the European Parliament in mid-2019 at the latest.