



EUROPEAN COMMISSION

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Dear President,

The Commission would like to thank the Bundesrat for its Opinion concerning the Commission Green Paper on Building a Capital Markets Union {COM(2015) 63 final}, and is grateful for the Bundesrat's support for the Commission's approach.

The Commission's starting-point is to build a single market in capital from the bottom up. That is why the Commission has launched a Green Paper seeking to identify the existing barriers and obstacles. To perform this analysis properly the Commission needs input from all interested parties including Member States, parliamentarians, consumers, industry and others. The Bundesrat's feedback helped us to develop the action plan to put in place the building blocks for a fully functioning Capital Markets Union by 2019 which we presented in September.

The Commission agrees with the Bundesrat's points on the importance of a level playing field and the careful assessment of remaining barriers to the free movement of capital. The Commission will look at the full range of tools available, including alternatives to legislation. More generally, the Commission recently set out its Better Regulation agenda - a new approach to regulation that will increase transparency in the EU decision-making process, improve the quality of new laws through better impact assessments and promote a more effective review of existing EU laws.

The Commission is interested in learning more about financing instruments that work well, such as private placements, in order to identify best practices. It also hopes to build on the successes of national frameworks, such as Germany's Schuldschein markets.

*Mr Stanislaw TILLICH
President of the Bundesrat
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The Commission has registered the importance which the Bundesrat attaches to investments with environmental, social and governance criteria and the market-led initiatives designed to develop principles for 'green bonds'. The Commission has taken note of the Bundesrat's concerns regarding an International Financial Reporting Standards-based accounting regime or any other possible new regime for SMEs as well as the importance that the Bundesrat attaches to proportionality and subsidiarity. The Commission accepts that particular care is necessary before deciding on any EU level action in the fields of insolvency, company or securities law including rules on financial collateral given the particular challenges associated with any change to established national law in these areas, and it will ensure that initiatives are prepared by appropriate consultation and underpinned by impact assessments.

The Commission has also noted the concerns of the Bundesrat about not repeating the mistakes of the past as well as the clear statement of the Bundesrat that financial stability remains paramount. The Commission agrees with the Bundesrat's view that the Capital Markets Union is not a substitute for necessary structural reform within Member States. The Capital Markets Union will be complementary to reforms undertaken to improve economic performance.

The Commission fully understands the significance of small, regional banks for SME financing and shares the Bundesrat's view that the Capital Markets Union should not restrict bank financing in favour of capital markets. Bank loans will remain a key financing mechanism for many of our micro- and smaller firms. The Capital Markets Union is primarily about expanding the options available to those companies that are ready and willing to pursue other funding channels. The Commission also notes that developing market financing does not mean reducing bank financing – for example, revitalising securitisation on a more sustainable basis could provide scope for banks to lend because they can transfer risk safely off their balance sheets. Finally, many banks will also play a key role in offering intermediation services in capital markets.

The Commission will take the findings of the Bundesrat's Opinion into account as it prepares the Capital Markets Union Action Plan and looks forward to continuing our dialogue on this and other issues. Building a Capital Markets Union will be a sustained effort over the whole lifetime of this Commission, and the Commission looks forward to the continued engagement with the Bundesrat and other national Parliaments as the work progresses.

Yours faithfully,

*Frans Timmermans
First Vice-President*

*Lord Hill
Member of the Commission*