

Assembly of the Republic (Portuguese Parliament)
European Affairs Committee
Opinion

Green paper on building a Capital Markets Union
COM (2015) 13

Part I — INTRODUCTION

In accordance with Article 7 of Law No 43/2006 of 25 August, on the monitoring, examination and pronouncement by the Assembly of the Republic in the context of the process of European Union construction, as amended by Law No 21/2012 of 17 May, as well as the methodology for scrutinising European initiatives approved on 8 January 2013, the European Affairs Committee received the green paper Building a Capital Markets Union [COM(2015)13].

Given its subject, the above-mentioned paper was forwarded to the Committee for Budgetary and Financial Affairs and Public Administration, which analysed it and approved the report which is attached hereto and forms an integral part of this opinion.

Part II — BACKGROUND

This initiative relates to the Green Paper on Building a Capital Markets Union.

In this initiative, the Commission's priority – Europe's priority – is jobs and growth. Thus, if Europe is to return to growth, the challenge is to unlock investments in Europe's companies and infrastructure.

The €315bn investment package will help to kick start that process.

The paper also states that, to boost long-term investment, Europe needs to create a true single market for capital — a Capital Markets Union for all 28 Member States of the European Union.

In this context, it is noted that, compared to other regions of the world, European businesses remain heavily reliant on banks for funding and relatively less on capital markets.

Stronger capital markets would complement banks as a source of financing, and would:

- unlock more investment for all companies, especially SMEs, and for infrastructure projects;
- attract more inward investment to the EU; and
- make the financial system more stable by opening up a wider range of funding sources.

The Green Paper marks the beginning of a three month consultation.

Thus, the Commission says:

'We want to hear parliamentarians, Member States, those who work in capital markets and from all groups concerned about jobs, growth and the interests of European citizens. That feed-back will help us to develop an action plan to put in place the building blocks for a fully functioning Capital Markets Union by 2019'.

In this regard, see Annex V to the report of the responsible committee.

It is also stated that the way forward is to build a single market for capital from the bottom up, identifying barriers and knocking them down one by one, creating a sense of momentum and

a growing sense of confidence in investing in Europe's future.

The free flow of capital is one of the fundamental principles on which the EU was built. More than fifty years on from the Treaty of Rome, let us seize the opportunity to turn that vision into reality.

It should be noted that the report presented by the Committee for Budgetary and Financial Affairs and Public Administration was approved and reflects the tenor of this proposal in detail.

The opinions attached to the report include the opinion of the Bank of Portugal, sent to the rapporteur on 6 May, and the opinion of the *Ordem dos Técnicos Oficiais de Contas* (Order of Chartered Accountants), received on 12 May.

Part III — OPINION

In the light of the information set out above and the report of the relevant committee, the European Affairs Committee's opinion is as follows:

- it does not need to assess the principle of subsidiarity as it is a non-legislative initiative.
- with regard to the initiative under consideration, the scrutiny process has been completed.

São Bento Palace, 12 May 2015

Rapporteur
(Carlos Costa Neves)

President of the Committee
(Paulo Mota Pinto)

Part IV — ANNEX

- Reports of the Bank of Portugal and the Order of Chartered Accountants
- Report issued by the Committee for Budgetary and Financial Affairs and Public Administration.

Opinion of the Bank of Portugal

The Bank of Portugal considers it strategically relevant for the Portuguese economy to build a Capital Markets Union (CMU) that is inclusive, efficient and comprehensive, serving as a platform for the collection and allocation of savings from the EU and third countries in European investment projects of multiple dimensions, thus complementing the banking sector.

CMU is of strategic importance in the establishment of an effective financial union at European level, the Banking Union is a decisive building block. In particular, the implementation of the CMU will allow the development of more integrated and efficient financial markets, with better risk diversification.

Full and effective financial integration at European level is a necessity.

However, in order for the CMU to effectively move forward, ambitious measures are needed that can create a European platform with a single legal framework applicable to financial instruments traded and the whoever supplies/issues them, that is accessible to all operators on the market who meet a predefined set of requirements and that favours the involvement of institutional investors.

In this context, although the Bank of Portugal agrees in general with the short-term measures included in the Green Paper, it believes that it will be necessary from the outset to establish an ambitious vision for the CMU project, accompanied by a roadmap for implementation and integration of the various initiatives, aspects which are missing from the Green Paper.

1. Institutional framework at European level

In the view of the Bank of Portugal the greatest obstacle to the development of an integrated, efficient and complete CMU is the lack of a regulatory regime common to all EU Member States. Thus, some of the measures which the Green Paper identifies as steps in the medium/long term — such as standardisation of tax, regulation, supervision and insolvency law and company law (idiosyncratic factors that foster fragmentation and tend to significantly restrict international capital flows) — are necessary conditions for the creation of a true CMU. For instance, the Bank of Portugal encourages efforts and expresses its readiness to participate, within the framework of its competence and within the Eurosystem, in finding effective ways to overcome current obstacles of institutional framework. In this context, the Bank of Portugal considers that there are two options: (i) the path of harmonisation (partial or total) for all the Member States of the EU or (ii) the way of an alternative regime for economic agents' voluntary scheme.

The Green Paper is essentially based on the idea of harmonisation, considering it as an objective to be pursued in the longer term. Harmonisation among Member States in the above areas is very difficult, if not impossible, to achieve as soon as possible. However, many obstacles hindering harmonisation based on national idiosyncratic aspects could be circumvented through the creation of a European platform that meets the above conditions

2. Other points which, in the view of the Bank of Portugal should be taken into account in the development of the CMU.

— **financial stability:** the banking sector will remain the main source of financing in the EU. That does not mean, however, that the development of other forms of financing is not seen as a positive factor. The CMU could become a countercyclical buffer, affording companies access to higher levels of funding when the restrictions at banks become tighter. Also the importance for economies in which the indebtedness of non-financial corporations is high

(such as the Portuguese economy) of promoting capital instruments that contribute positively to balancing companies' financial structures must be emphasised.

It is necessary, however, to take into account the potential reduction of systemic risk inherent in the banking sector, coupled with the development of alternative forms of financing i.e. to safeguard financial stability, the CMU will imply that macro-prudential authorities have the tools needed to deal with the potential accumulation of systemic risks on the capital markets. It should also ensure that the levels of financial literacy of potential investors are adequate taking into account that in some cases these may not have at their disposal analytical tools that allow them to make an accurate risk analysis of the projects in which they invest,

SMEs. One of the aims of the scheme is to improve the access to financing for all companies in the EU, particularly for SMEs. However, it must be borne in mind that SMEs are very dependent on financing from the banking sector. The banks are in a better position than the financial markets to develop a closer relationship with SMEs/business. SMEs are highly heterogeneous (especially between countries in terms of business models and risk). Information asymmetries could be addressed, including through a number of initiatives proposed in the Green Paper.

Thus, the positive impact of the CMU on SMEs will be felt mainly indirectly. Initiatives such as the promotion of a market for simple, transparent and standardised securitisation, could have a significant impact at this level.

Securitisation. The securitisation process has seen intervention by several European institutions, including the Commission in the consultation document on 'An EU framework simple, transparent and standardised securitisation', on which the European Central Bank and the Bank of England have already provided a joint response, with which the Bank of Portugal agrees in general. Equally, the efforts by regulatory authorities to provide regulatory conditions that are more favourable to strengthening this market based on principles of simplicity and transparency, based on real assets and the proper alignment of incentives between the different participants to ensure and maximise the advantages of this financial instrument deserve mention. Securitisation based on real credits constitutes a financial instrument that can re-orient savings outside the banking system (insurance, pension funds and other investors) for financing economic activity. This runs in parallel with other measures related to the establishment of CMU that aim to generate less dependence by non-financial enterprises on the funding capacity of the European banking system. With a view to financial stability, the principles mentioned also include the proper alignment of interest between the banking sector — which plays the role of credit originator— and investors outside the banking system.

It should be noted that the acquisition of bonds which meet the above-mentioned principles is an integral part of the expanded asset purchase programme of the Eurosystem.

In this context, the Bank of Portugal has been advocating in the various fora in which it participates the much-needed promotion of this market, based on the principles listed above and highlighting the importance of this financial instrument as one way of attracting external funds to the Portuguese economy.

Banco de Portugal, 5 May 2015

To the President of the Committee for Budgetary and Financial Affairs and Public Administration

The Order of Chartered Accountants hereby issues this opinion on the Green Paper on Building a Capital Markets Union with particular reference to the areas it the Order concerned with.

Section 4 — Barriers to access to finance — information problems — standardisation as a mechanism to kick start launching markets:

International Financial Reporting Standards (IFRS) have played a key role in promoting a single accounting language in the EU, making it easier for large listed EU companies to have access to global capital markets. Imposing full IFRS on smaller companies, in particular those wanting to access dedicated trading venues, would, however, be a source of additional cost. The development of a simplified, common and high quality accounting standard tailored to the companies listed on certain trading venues could be a step forward in terms of transparency and comparability, and if applied proportionally, could increase the attractiveness of enterprises to foreign investors. The standard could become a feature of SME growth markets, and be available for wider use.'

And related questions:

'8) *Is there value in developing a common EU level accounting standard for small and medium-sized companies listed on MTFs? Should such a standard become a feature of SME Growth Markets? If so, under which conditions?*

In this context, whereas:

- the professionals registered with the OTOC are responsible for planning, organising, coordinating and implementing businesses' accounts;
- they are the professionals with regulated qualifications in Portugal for preparing and presenting financial statements (in line with the accounting rules in force);
- this model of professional regulations offers express normative guarantees for actors/stakeholders in accounting information;
- the reliability of the actions and outcome of the work produced by the TOC is reflected, for example, through observation of the established, verifiable practices of financial bodies (essentially banks), which require for their analyses and guarantees the financial statements signed by TOC and/or delivery of copies of the IES (the document which always ensures the intervention of the TOC).

The OTOC hereby submits to the Committee for Budgetary and Financial Affairs and Public Administration its opinion:

- It agrees with the usefulness of, and interest in, setting up new accounting standards, (allowing for the effective establishment of the standard)
- The entities and/or professionals responsible for the implementation/enforcement of that standard should be defined/identified.

In particular, it is important to express the importance of:

Accompanying the creation of dedicated rules for the construction of a Capital Markets Union, and EU authorities' attention must be drawn to the case for entrusting the implementation of such standards to accounting professionals with recognised specific qualifications (or to be recognised in the different jurisdictions of the Member States), which enable them to be involved and take responsibility when preparing and presenting financial

statements (in the case of Portugal's jurisdiction this corresponds to the TOC) — as a pillar of an accounting information system and business sustainability (specifically small and medium-sized enterprises) that increases the reliability and guarantees available to society in general and of direct capital market actors in particular.

OTOC, Lisbon, April 2015

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Relevant aspects

Given the importance of the subject, the Committee scrutinised the Green Paper *Building a Capital Markets Union*.

In the Green Paper the European Commission takes the view that :

- promoting economic growth and employment should be a key priority in Europe's future;
- investment is an essential tool in order to ensure economic growth and sustainable job creation;
- a genuine single capital market should allow a more efficient flow of capital between investors and companies;

Given the importance of the issue, the Committee asked for opinions from the following entities:

- The Bank of Portugal
- The Portuguese Securities Market Commission
- The Supervisory authority for insurance and pension funds
- The Portuguese Banking Association
- The Portuguese Investment, Pensions and Portfolio Funds Association
- Bodies promoting crowdfunding
- The Order of Chartered Accountants.

The European Commission should give due consideration to the contributions of the entities that submitted their opinions (Portuguese Banking Association, Portuguese Investment, Pensions and Portfolio Funds Association, Securities Market Commission and PPL Crowdfunding Portugal).

Principle of subsidiarity

As this is not a legislative initiative, it is not for the Committee to assess its compliance with the principle of subsidiarity.

Part 111 — Opinion of the rapporteur

The rapporteur reserves the right to give his views.

CONCLUSIONS

In view of the foregoing, the Committee for Budgetary and Financial Affairs and Public Administration concludes as follows:

As this is a European Commission Green Paper it does not fall to the Committee to consider the principle of subsidiarity;

The subject does not come under the legislative power conferred on the Portuguese National Assembly, and Article 2 of Law No 43/2006 of 25 August 2006, as amended by Law No 21/2012 of 17 May 2012 does not apply as such.

The Committee considers its examination of this initiative to be complete. Pursuant to Law No 21/2012 of 25 August 2006, as amended by Law No 43/2006 of 17 May 2012, this opinion must be forwarded to the European Affairs Committee for the appropriate purposes.

ANNEXES

Written contributions from the following bodies are annexed to this opinion¹:

- The Portuguese Banking Association
- The Portuguese Investment, Pensions and Portfolio Funds Association
- The Portuguese Securities Market Commission
- PPL crowdfunding Portugal

São Bento Palace, 22 April 2015

¹ Translator's note: Two of these contributions are so voluminous and detailed that they cannot be summarised. Full translation may serve your purposes better.