

EUROPEAN COMMISSION

Brussels, 9.7.2015
C(2015) 4701 final

Dear Lord Boswell,

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

The Commission will take full account of the House of Lords' input when developing an action plan to put in place the building blocks for a fully functioning Capital Markets Union by 2019.

The Commission agrees with the House of Lords on the importance of an effective impact assessment. Alongside the Green Paper the Commission published a detailed analytical study to help identify the priority areas on which our efforts should concentrate. The Commission will seek to deepen this analysis before publishing its action plan later this year. Moreover, detailed Impact Assessments will accompany specific legal proposals.

The Commission welcomes the support of the House of Lords for some of the short term measures it is proposing to take forward namely the review of the Prospectus Directive and in relation to the EU securitisation market. By taking action to review the Prospectus Directive the Commission is aiming to reduce barriers to accessing markets and improve the quality of the information given to consumers and investors. Building a sustainable securitisation market can help broaden the investor base, free up bank balance sheets to lend and increase Europe's ability to finance its economy.

The Commission agrees with the House of Lords that improving access to finance for all businesses, including SMEs, is of critical importance. The SME category includes a very diverse range of firms and challenges in accessing finance differ across type of companies, sectors and Member States. SMEs have not been equally affected by the crisis in all Member States and not all have struggled to access finance. Measures could be taken to improve all SMEs' access to market finance. These include lowering barriers through the Prospectus Directive and work on SME credit information. For the funding of small-sized enterprises and start-ups in particular, the Commission is keen to support and encourage the development of venture capital markets, which are underdeveloped in

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the EU. The Green Paper also seeks views on peer-to-peer lending and crowdfunding, which is a growing source of SME financing.

Well-known issues touched on in the House of Lords' Opinion and in the Green Paper relating to securities law, tax and insolvency are also important, and are areas where differences exist for good reasons, but that can also deter investment or create uncertainty. These are complex issues and the Commission will be looking to identify the steps that would make a practical difference 'on the ground'.

As regards supervision, the Commission agrees that the European supervisory authorities have an important role to play in fostering greater supervisory convergence. This should continue. To the extent that national supervisory regimes result in differing investor protection standards, barriers to cross-border operations and financing, there may be a further role for the European supervisory authorities to play in supporting supervisory convergence among national regulatory authorities.

The Commission acknowledges that the EU has traditionally been much more dependent on the banking system than the United States. Capital markets remain fragmented along national lines and comparatively underdeveloped in Europe. For example, medium-sized companies in the United States receive five times as much funding from capital markets as they do in the EU. The Commission agrees that while we should learn from it, we should not seek to copy the US model. No financing model is perfect, but if we can combine the best of different models, our system will be stronger.

A single market for capital would make it more attractive for investors from all over the world to invest in the EU, as the cost of doing business across borders in the EU would fall and overseas investors would benefit from more opportunities from European capital markets and more options to diversify their risks. With regard to promoting investment from the United States and other growing markets, the Commission agrees with the House of Lords that a key potential benefit of the TTIP would be through enhanced regulatory cooperation, and is keen to strengthen the arrangements we currently have and develop a more structured framework for such cooperation.

The Commission shares the House of Lords' view that the Capital Markets Union should not be about reducing bank financing in favour of capital markets. Developing market financing does not mean reducing bank financing – in fact, revitalising securitisation on a more sustainable basis could provide scope for banks to lend more where they transfer risk safely off their balance sheets. Banks also play a key role in offering intermediation services in capital markets.

The Commission acknowledges that the state of development of capital markets varies considerably between Member States. This is a challenge for all 28 Member States. Once in place, a fully functional single market for capital should allow businesses in any Member State to access capital markets in other financial centres in order to finance their growth and create jobs.

Capital Markets Union is also about developing capital markets where they are least developed – for those Member States with small markets, there are potentially the biggest gains to be made. The Commission hopes to create new opportunities for investors and companies seeking funding through the development of new funding mechanisms such as

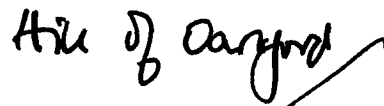
private placements. Countries with small markets overall but with strengths in particular areas will be able to further develop these strengths, and perhaps diversify into other areas.

The Commission hopes that this reply has addressed the issues raised by the House of Lords. In taking forward the Capital Markets Union, the Commission will look at the range of tools available, rather than simply the tabling of new legislation. There will need to be more focus on the bedding-in of rules and checking that they are properly implemented. The Commission will certainly take the findings of the House of Lords' Opinion into account in the development of the Capital Markets Union action plan and looks forward to continuing our dialogue on that basis later in the year.

Yours sincerely,



*Frans Timmermans
First Vice-President*



*Jonathan Hill
Member of the Commission*