13.09.2023

A French-German roadmap for the CAPITAL MARKETS UNION

Private investment is key in unlocking economic growth. The green and digital transition of Europe's economy requires private capital. By improving the financing conditions of EU businesses, we can make our economy more resilient, strengthen labour markets and increase the prosperity of Europe's citizens.

To this end, we need capital markets to play a bigger role in the financing mix of European businesses. Economies with deeper capital markets create more innovation and exhibit more growth. Having deeper capital markets also improves the availability of long-term funding.

The Capital Markets Union agenda is a cornerstone initiative in our collective efforts to promote the EU's strategic autonomy in an open economy, global competitiveness and capital-market based financing of our economy. The adoption of the 2020 CMU agenda has been a milestone in this journey. Nevertheless, EU capital markets still have significant room to grow.

In a comment in major European newspapers in March 2023, five presidents of EU institutions – EU Commission, European Council, Eurogroup, European Central Bank, and European Investment Bank – highlighted the importance of a strong and deep Capital Markets Union. On the initiative of the president of the Eurogroup, EU finance ministers are regularly discussing the Capital Markets Union at their meetings in order to provide guidance for the next legislative cycle. Strengthening the Capital Markets Union is a shared priority for France and Germany. Despite substantial recent progress on the CMU agenda, for the EU to start catching up with markets such as the UK or the US, we need further efforts that we should focus on three first-order priorities:

Promoting Europe's position as a global financial trading hub: European businesses should not have to turn to non-EU financial centers for investment or financial services. A stronger EU financial sector is a cornerstone of our economic sovereignty, giving Europe a greater say in shaping the global financial system.

Cutting red tape: By easing disproportional regulatory requirements, we can make capital markets more attractive for institutional investors and retail investors, as well as EU businesses – in particular SMEs – seeking investment.

Strengthening shareholder culture: Capital markets provide useful, yet sometimes underutilized options for EU citizens in their saving decisions. A stronger shareholder culture with a broader retail investor base can help EU citizens better build up wealth and provide for retirement.

Unlocking the potential of European capital markets within the current CMU agenda

In that spirit, Germany and France are determined to coordinate closely on the CMU-files that are being discussed currently.

Particular attention should be given to:

- Enhancing SMEs and innovative firms access to equity and marked-based debt financing

Public markets can be an important additional funding source for businesses and offer high level of liquidity and transparency for investors. However, companies are often reluctant to go public: Many lack experience to tap the capital markets for funding and are deterred by additional burden of the initial public offering-process and the costs of additional requirements imposed on public companies. The Listing Act is a not-to-be-missed opportunity to reduce these barriers preventing companies accessing public markets, to better calibrate disclosure obligations of public companies and to modernize market rules to make market financing more efficient also for SMEs. As such, we welcome the agreement found within the Council to reduce prospectus requirements for listings and compliance effort for issuers. We will keep coordinating closely on this key file. **We urge the European Parliament and the Spanish Council Presidency to aim for substantial and fast progress in 2023.**

As a next step and to complement the current focus on equity, we should investigate further measures that could be taken to help smaller companies raise debt via the market.

We salute the adoption of the European Single Access Point (ESAP) regulation which will enhance the visibility of European firms to investors, including foreign investors, by providing a centralized access to financial and extra-financial information.

- <u>Strengthen securitization for financing of the real economy</u>

Securitization is an excellent tool for the risk and liquidity management of banks, it is key to allow banks to provide sufficient credit to companies by freeing up new lending capacities with the help of the capital market. Drawing on the lessons from the great financial crisis, the EU as further enhanced its regulatory framework, but some regulatory imbalances might curtail the full potential of this tool for financing the economy. Our effort in the context of **CRR review resulted in targeted amendments to the prudential framework of securitizations in the short run**.

This is a significant achievement but more is necessary: We should also use the opportunity of the still ongoing Solvency II review to adopt further targeted amendments of the prudential rules for securitisation within this legislative cycle. A **more comprehensive reform of the regulatory framework of securitizations might be necessary,** in the longer run, in order to foster this critical tool that contributes to the financing of Europe’s economy. In that perspective, France and Germany will jointly identify areas where amendments are appropriate and possible and will promote these measures vis-a-vis the Commission and other stakeholders.

- <u>Attractive and dynamic trading venues, competitive clearing infrastructure</u>

We underline the importance of efficient, liquid, transparent and resilient capital markets and will **continuously monitor** functioning of trading rules and potential obstacles to the development of equity, bonds and derivatives markets.

The EU clearing strategy is an important element to ensure strong EU capital markets and competitive clearing facilities that **we aim to agree upon within this legislative cycle**. We underline that the further development of clearing infrastructure in the EU is essential if we want to increase the attractiveness of our financial sector.

- <u>Improve benefit for retail investors</u>

Retail investors need access to diversified financial products in order to build up wealth. Today, households’ financial assets show a strong bias towards highly liquid and over time poorly remunerating products. The Retail Investment Strategy should strengthen access to a better remunerating allocation of the retail investors’ savings under adequate protection, and coherent rules, and through transparent and understandable information (including on costs). In particular, Germany and France support review of the PRIIPs Regulation on Level 1 to improve transparency and comparability of financial products, as well as to explore how to ensure that retail investors get a proper return for their investment.

- Sustainable Finance

We need to further promote Sustainable Finance in Europe and globally in order to ensure that financial markets contribute to sustainability goals and manage risks stemming from transition. We see a number of issues we should address **swiftly**: We see the need of complementing the EU Taxonomy with economically important activities related to transition, which have been neglected so far. More generally, the sustainable finance framework should foster the allocation of financial flows to transition efforts. The EU Taxonomy framework could be extended to achieve this aim. In view of current market practices for financial products, France and Germany also consider that the current European regulatory framework cannot entirely prevent the risk of greenwashing in the marketing of financial products. Moreover, there is a justified call for more clarity. France and Germany believe that a solution can only be found at the EU level, and call for a swift action. In our view, amendments to the SFDR at level 1 and 2 would be the right approach addressing this issue. Furthermore, France and Germany welcome the presentation of the Commission's proposal on ESG Ratings. The regulation should ensure the transparency and integrity of financial markets. Finally, in light of the rapid regulatory expansion in recent years, we must take a closer look at consolidating and, where necessary, correcting the existing framework – without compromising its objectives. Different regulatory approaches – for example, in the requirements for transition planning – should be streamlined.

- European Scale-up Initiative

We believe it is of utmost importance to mobilize private capital of long-term investors, in order to improve the competitiveness of the European economy. The European tech champion initiative (ETCI) is a major step in that regard. The mandate of the Fund of fund has been approved by the EIF Board in November. We are delighted with the first investments. However, ETCI can only be the first step. We need to make sure we can keep these Scale-ups in Europe in the long run – without permanent public financial support. We should therefore use the tested format of collaboration developed for ETCI and the excellent French-German cooperation during the past year as a basis to work together on finding and developing a joint European approach with regard to European Exit routes for our Scale-ups. In the short term, organizing a workshop with representatives of the other Contributing Partners, the EIB-Group and the European Commission would be a good starting point.

- Insolvency

We recognize that harmonization of insolvency laws has the potential to make significant contributions to the CMU. We take note of the Commission's proposal to that end and will work constructively on solutions that are compatible with the demands and needs of efficient capital markets and banking.

Exploring the potential of a bottom-up approach to the CMU

So far, the CMU agenda has been focusing on harmonization. Going forward, it might be beneficial to improve buy-in and ownership at domestic levels by both private and public stakeholders as well as to cater to the heterogeneity of capital market structures and the domestic specificities of funding sources in each member state.

Complementing the current CMU agenda in this respect, France and Germany suggest to explore a more bottom-up approach where best practices sharing and peer-to-peer learning could be organized in order to foster national innovation. Under this format, domestic regulation changes might also be presented at ministerial level so that member states are aware of the progress and plans of their neighbors in developing their capital markets. It could then inform the Commission's regulatory agenda.

At the same time, we must be able to regularly evaluate and monitor at political level the progress of the CMU agenda together with the effect of our legislative initiatives on key performance indicators. The European Commission already produces a list of indicators that can be used. We should select the most important ones and institute a regular monitoring at the ministerial level.

Promoting agile regulatory and supervisory response

Capital markets are adapting quickly to new circumstances and need to be matched by reactive and agile rulemaking. This is even more important as neighboring jurisdictions have made clear their intention to adapt swiftly their domestic regulatory framework in order to be more attractive and competitive. The EU 27 need to develop a truly European approach that fosters competitiveness and can set the pace instead of react, while preserving the singular benefits and inclusiveness of our single market.

In such a context, France and Germany would like to encourage the Commission to explore ways to improve the regulatory and supervisory process for capital markets, for example through the following steps:

- For each legislative piece under preparation, presenting a comprehensive competitiveness check, for example by including comparisons to highly developed international markets with a view to improve European competitiveness.
- Assessing options to make financial market regulation more adaptable to the high pace of capital market developments, without compromising decision making powers of the co-legislators.
- Assessing ways to improve the analytical basis informing the legislative decision-making process and to test potential impact of legislative proposals systematically, on the basis of an effective use of data, without increasing reporting requirements.

Laying the groundwork for an ambitious new CMU agenda

Looking beyond this legislative cycle, France and Germany call for a new CMU agenda that is centered on delivering private investment for the EU economy. We believe that Europe needs fresh ideas to push EU capital markets to the next level. France and Germany will work together to ensure that the current work stream of the Eurogroup in inclusive format yields an ambitious to-do-list and to provide further input to the next Commission.