European Commission - Fact Sheet

State of the Union 2016: Questions and Answers on the Communication on Capital Markets Union - Accelerating Reform

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What is the Capital Markets Union?

The Commission's top priority is to strengthen Europe's economy and stimulate investment to create jobs. The EUR 315 billion Investment Plan for Europe helped to kick-start that process. To strengthen investment for the long term, we need stronger capital markets. These would provide new sources of funding for business, help increase options for savers and make the economy more resilient. That is why President Juncker set out as one of his key priorities, the need to build a true single market for capital – a Capital Markets Union for all Member States.

The free movement of capital is a long-standing objective of the European Union — a fundamental freedom at the heart of the single market. Despite the progress that has been made, Europe's capital markets remain fragmented along national lines and European economies remain heavily reliant on the banking sector for their funding needs. This makes them more vulnerable should bank lending tighten, as happened during the financial crisis.

The Action Plan published in September 2015 sets out the priority actions needed to put in place the building blocks of a Capital Markets Union by 2019, removing barriers to cross-border investment and lowering the costs of funding. As part of the third pillar of the Investment Plan for Europe, the Capital Markets Union should help businesses tap into more diverse sources of capital from anywhere within the EU, make markets work more efficiently and offer investors and savers additional opportunities to put their money to workin order to enhance growth and create jobs.

Why is the Commission publishing a new Communication on the CMU?

In the current political and economic context, developing stronger capital markets in the EU is crucial to make Europe's financial system even more stable. It will give businesses access to alternative, more diverse sources of funding so they can thrive. It will allow capital to move more freely across borders in the Single Market so that it can be put to good use to support our companies and offer Europeans more investment opportunities.

This Communication calls for the rapid completion of the first measures proposed in the Action Plan. It also sets out how the Commission will accelerate the next phases of other key CMU actions.

What are the benefits of a Capital Markets Union (CMU)?

The CMU will complement Europe's strong tradition of bank financing, and will help to:

- **Unlock more investment from the EU and the rest of the world:** the CMU should help mobilise capital in Europe and channel it to all companies, including SMEs, and infrastructure projects that need it to expand and create jobs. It will provide households with better options to meet their retirement goals.
- **Connect financing more effectively to investment projects across the EU:** the CMU is a classic single market project for the benefit of all Member States. Those Member States with the smallest markets and high growth potential have a lot to gain from a better channelling of capital and investment into their projects. More developed market economies will benefit from greater cross-border investment and saving opportunities.
- **Make the financial system more stable:** by opening up a wider range of funding sources and more long-term investment, reduce the vulnerability of EU citizens and companies to banking shocks such as those they were exposed to during the crisis.
- **Deepen financial integration and increase competition:** more cross-border risk-sharing, deeper and more liquid markets and diversified sources of funding should deepen financial integration, lower costs and increase European competitiveness.

How will the Commission ensure that the CMU Action Plan remains fit for purpose?

The Commission will continue to closely monitor developments and identify further actions that are necessary to develop the CMU. This will ensure that our priorities evolve in tandem with political, economic and technological developments. A mid-term review of the CMU is planned for 2017.

Does this Communication entail new legislative proposals?

A strong focus of the Communication is on accelerating the delivery of initiatives in the CMU Action Plan. These include the securitisation package, the modernisation of the prospectus rules, the revision of legislation on venture capital and social entrepreneurship funds, and the establishment of a Structural Reform Support Programme.

As announced in the CMU Action Plan, the Commission will also come forward with several new and substantive proposals by the end of 2016. The first of these will be on business restructuring and insolvency to speed up recovery of assets and give companies a second chance if they fail the first time around.

In a bid to knock down tax barriers that are hampering the development of capital markets, the Commission will encourage Member States to remove withholding tax barriers and encourage best tax practices in promoting venture capital, such as increasing equity financing over debt. The Commission will also put in place measures to encourage insurers to invest in infrastructure projects by amending the Solvency II rules so as to reduce capital charges.

We will propose to expand the favourable capital treatment for loans to SMEs and to reduce the capital requirements attached to banks' investments in infrastructure, as part of the review of the Capital Requirements Regulation and Directive.

New legislative initiatives may also be warranted in the future for other priorities, for which the Commission needs to carry out further analysis and consultations with all relevant actors. These include a possible framework for an EU personal pension product, further analysis on legislative changes which may be needed to support the development of covered bond markets, barriers to cross-border distribution of investment funds, a legislative proposal on the laws governing securities ownership, or legislation to review the macro-prudential framework.

What is the calendar for the implementation of the CMU Action Plan?

The calendar for all the measures is set out in the Action Plan. Today's Communication calls for rapidly finalising the first wave of proposed measures and accelerating the delivery of the next set of actions, in order to make sure the CMU has a tangible impact on the ground as soon as possible.

By the end of 2016, the Commission is calling on Parliament and Council to finalise measures on securitisation, prospectus and capital. In addition, the Commission will bring forward further measures on business restructuring and insolvency, the preferential tax treatment of tax over equity, loans to SMEs and capital requirements for infrastructure investments. It will take forward work on retail financial services (insurance, loans, payments, etc.). Further measures will be taken forward in 2017 and 2018. More precise details and a timetable are set out in this table.

What is the current status of the new rules on securitisation?

To support bank financing of the wider economy and open up investment opportunities for a wider set of non-bank investors, in September 2015 the Commission presented a proposal to create a new regulatory framework to restart markets for Simple, Transparent and Standardised (STS) securitisations and a proposal to revise the relevant capital calibration for banks. STS securitisations will free up capacity on banks' balance sheets and provide investment opportunities for investors. If EU securitisations could be revived – safely – to pre-crisis levels, it could fuel the economy with EUR 100 billion and boost financial stability.

This proposal was agreed in record time by the Council of the European Union in December 2015 (see here). The legislation now awaits the opinion of the European Parliament where committee votes are scheduled for November 2016. In this context, the Commission has also announced its intention - once the STS Regulation is politically agreed by the co-legislators - to revise capital charges for insurers' investments in STS securitisations under Solvency II.

What is the current status of the new prospectus rules?

To reduce the costs for companies accessing capital markets, in particular for smaller companies, in November 2015, the Commission issued a proposal to modernise the Prospectus Directive. This has the potential to simplify corporate capital-raising by reducing the cost of issuance and streamlining the approval process, whilst maintaining investor protection. A European Parliament plenary debate will be held in September 2016. The Council reached a general approach in June 2016.

What is the current status of the measures to strengthen venture capital markets?

The Commission is now in the process of implementing a package on venture capital. This includes the proposal to revise the European Venture Capital Fund and European Social Entrepreneurship Fund Regulations, which was presented in July 2016 (see here). The proposal aims to boost investment into venture capital and social projects and make it easier for investors to invest in small and medium-sized innovative companies by opening up the regulation to fund managers of all sizes and by expanding the range of companies that can be invested in. To make the cross border marketing of funds cheaper and easier, the proposal explicitly prohibits fees levied by Member States. In addition the Commission will promote the establishment of one or more Venture Capital Fund-of-Funds to support innovative investments in Europe and continue to work on a set of other measures to support venture capital. A call for expression of interests from private sector asset managers is expected for the autumn.

What does the Commission plan to do to address the preferential tax treatment of debt over equity?

The preferential tax treatment of debt over equity represents an obstacle to efficient capital market financing. It also has a negative impact on growth and investment. The Commission will propose to reduce the debt-equity bias in the context of the legislative proposal to re-launch the initiative for a Common Consolidated Corporate Tax Base (CCCTB), which will be adopted this autumn. This will spur equity investments and benefit financial stability because companies with a stronger capital base would be less vulnerable to shocks.

What does the Commission plan to do on insolvency, and why does it matter?

Inefficiencies and differences in national insolvency frameworks generate legal uncertainty, obstacles to recovery of value by creditors, and barriers to the efficient restructuring of viable companies in the EU, including for cross-border groups.At the same time, allowing honest entrepreneurs to benefit from a second chance after bankruptcy is crucial for ensuring a dynamic business environment and promoting innovation.

The Commission will present shortly a proposal on business restructuring and second chance to facilitate restructuring of viable businesses and enable entrepreneurs to make a fresh start. The Commission is also conducting a benchmarking review of loan enforcement (including insolvency) regimes to establish a detailed and reliable picture of the outcomes that banks experience when faced with defaulting loans in terms of delays, costs and value-recovery.

How can the CMU support the delivery of the Paris agreement on climate change and ensure an orderly transition to a low-carbon economy?

The Commission supports alignment of private investments with climate, resource-efficiency and other environmental objectives, both through policies and by strategic public investments. The Commission is working in the context of the G20 to further these objectives. Work is ongoing to increase the availability of green funds through the European Fund for Strategic Investment, by earmarking at least 20% of the EU 2014-2020 budget available for climate action, and by setting up a platform for financing the circular economy. The need to support EU green bond standards was highlighted in the CMU Action Plan. The Commission will develop a comprehensive European strategy on green finance, including through the establishment of an expert group.

More broadly, in respect of environmental, social and governance issues (ESG), the EU has adopted mandatory disclosure requirements for certain large companies (see here) and will also adopt non-binding guidelines on the methodology for reporting such information to investors and consumers. It is also assessing the follow-up to the recent consultation on long-term and sustainable investment which emphasised the importance of ESG issues.

What is the role of financial technology (FinTech) in the CMU?

Technology is driving rapid change throughout the financial sector and has the power to transform capital markets, and bring them closer to companies and investors. It can bring benefits to consumers by offering a wider choice of services and convenient and innovative payment solutions. At the same time, the rapid development of FinTech poses new challenges in terms of managing risks and ensuring consumers have adequate information. In a number of Member States, regulatory authorities are developing new approaches to support the development of FinTech. The Commission will continue to promote the development of the FinTech sector and ensure the regulatory environment strikes an appropriate balance between promoting fintech and ensuring confidence for companies and investors.

Will the Commission take forward work on the Call for Evidence?

As part of its better regulation agenda the Commission will continue to pursue an ambitious programme to identify and remove unnecessary regulatory constraints. The Commission's Call for Evidence has identified key areas within financial services legislation where improvements can be implemented. These refer to the need to address impediments to the flow of finance to the economy, to enhance the proportionality in the regulatory framework to better balance financial stability and growth objectives, to reduce unnecessary regulatory burdens and address the remaining risks in the financial system. The Commission will present its follow-up to the Call for Evidence in the coming months.

What actions will the Commission take to ensure effective and consistent supervision of capital markets for the benefit of investors?

Effective and consistent supervision is essential to ensure investor protection, promote the integration of capital markets and safeguard financial stability. The role of the European Supervisory Authorities (ESAs) is fundamental in building a deeper and more integrated single market. The European Securities and Markets Authority (ESMA) has already increased the focus of its work on supervisory convergence to ensure consistency in the application of capital markets rules and the oversight of market participants. However, further work will be needed to reinforce the European dimension of supervision in areas where it can bring benefits. For example, work is ongoing in the area of governance and financing of the ESAs, and the Commission will publish a white paper on these issues. In addition, a public consultation was launched in August 2016 as part of the review of the EU macro-prudential framework. Based on the results of the consultation, the Commission will adopt a legislative proposal in this area in 2017.

The Five Presidents' Report highlighted the need to strengthen the supervisory framework in order to ensure the solidity of all financial actors, which should lead ultimately to a single European capital markets supervisor. The Commission will consider, in close consultation with the European Parliament and the Council, the further steps in relation to thesupervisory framework that are necessary to reap the full potential of CMU.

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