



COMMISSION EUROPÉENNE

SECRÉTARIAT GÉNÉRAL

SEC(2015) 78

Bruxelles, le 23 janvier 2015

OJ 2113

DEBAT D'ORIENTATION SUR L'UNION DES MARCHES DE CAPITAUX

Note de cadrage de
M. KATAINEN et Lord HILL

Destinataires : Membres de la Commission
Directeurs généraux et chefs de service

TOWARDS A CAPITAL MARKETS UNION

This note provides a short overview of the state of play of the Capital Markets Union project and suggests some areas for the discussion.

1. The challenges

The Commission's priority – Europe's priority – is jobs and growth. To get Europe growing again, we need to unlock investment in our infrastructure and in our companies. The €315bn Commission Investment Plan will help to kick start that process. But to help investment for the long term we need to build a single market for capital - a Capital Markets Union for all 28 Member States.

The free flow of capital was one of the fundamental principles on which the EU was built. More than fifty years later, the single market is far from complete. Although we have put in place many elements of a single rule book, the market for capital remains underdeveloped and fragmented along national lines. The challenges facing Europe make the task of building a single market for capital urgent.

In Europe, most business funding traditionally comes from the banks with little from capital markets or via risk finance. In some other jurisdictions, the balance is the other way around. Bank based financing has some obvious strengths, and banks will continue to play a key role in financing the economy, but an overdependence on it means that risk can be concentrated, leaving the economy more exposed to shocks with the results that we have seen in recent years.

Stronger capital markets would not replace banks, but they would:

- create more financing opportunities for SMEs and infrastructure projects;
- make Europe more attractive to inward investment;
- spread risk more effectively to those who can bear it;
- deepen integration across borders within the EU, increasing competition.

As part of the project, we should identify and remove the barriers to getting investors' money to investment opportunities; overcome the barriers preventing those who need financing from reaching investors; and make our system for channelling funds as efficient as possible, both nationally and cross border within the EU.

Capital markets will not function effectively unless investors are confident and there is a high degree of trust. Many of the reforms undertaken over the past five years will help to provide a platform of investor protection and financial stability upon which a Capital Markets Union can be built.

Capital Markets Union will be different from Banking Union: deepening capital markets requires steps that will likely be different from the key elements of Banking Union. However, the Banking Union's focus on breaking the link between bank failures and sovereigns in the

euro area will provide a platform of stability and confidence to underpin the development of a Capital Markets Union across all EU28 Member States.

2. The way forward

The Commission will shortly launch a Green Paper to identify the obstacles and the solutions to overcome them, both at the EU level and nationally. As a first step towards more concrete policy decisions, the Green Paper should delineate the contours that a well-functioning Capital Markets Union might take. This will require feedback from all 28 Member States, the European and national parliaments, industry participants and users of markets.

Many of the issues at stake – insolvency laws, tax treatments – have been discussed for many years. However, the need to make progress is more pressing than ever. We should therefore be ready to look again at all aspects of the European capital markets. Since capital markets involve many different systems and players, the creation of a Capital Markets Union will necessarily be a cross-Commission project.

Following the consultation, the Commission will develop a roadmap by the summer to set out the path towards putting in place the building blocks for a fully functioning Capital Markets Union by 2019.

While this will be a long term project requiring sustained effort over many years, we can already see how to make early progress in encouraging investment and overcoming obstacles.

The Green Paper should include **short-term initiatives** that were identified as priorities in the recent investment plan for Europe and mentioned in the communication on long-term financing adopted in 2014. So in the next months, we propose to:

- bring forward proposals to encourage high quality securitisation and free up bank balance sheets to lend;
- review the Prospectus Directive to make it easier for firms, particularly smaller ones, to access markets and reach investors cross border;
- start work on access to credit information about SMEs to help bring loans to smaller firms;
- encourage take up of the new European long term investment funds to channel investment in infrastructure and other long term projects and
- work with the industry to develop a pan European private placement regime to encourage direct investment into businesses.

The Green Paper should also include a variety of possible areas for further work that could be pursued over the **medium to long term**. These include measures to improve investor participation in capital markets through reforms to the legal framework for asset management or pension funds and measures to boost household investment into capital markets. New tools could be considered to facilitate the financing of companies and the efficiency of the 'investment chain' which brings investors and companies together, which covers but is not limited to market infrastructures, exchanges, intermediaries, and the supervisory framework.

Investment levels in the EU are €230 to €370 billion below the historical norm. If we could spur small changes in our own equity, bond and other markets, they could lead to significant benefits over time.

3. Timing and related work

The green paper is scheduled for college adoption on 18 February. The consultation period will be followed by an action plan in q2-q3 2015. Parallel work is ongoing at service level on high quality securitisation and the review of the prospectus directive. The aim is to publish more technical consultation papers as regards those issues as soon as possible.

4. Questions for discussion

The College is invited to comment on the following questions:

- 1) Do you agree with the general approach?
- 2) What should a Capital Markets Union look like by 2019? Does Europe need more capital-market based financing models whilst maintaining a strong role for bank financing?
- 3) Beyond the short-term actions identified above, which initiatives and in what sectors (e.g. financial markets, company law, taxation, insolvency law) should be pursued as a matter of priority over a medium to long term horizon, bearing in mind the need to balance ambition and political realism?