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signed by Mr Jordi AYET PUIGARNAU, Director

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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN
CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE
AND THE COMMITTEE OF THE REGIONS**

**Capital Markets Union: time for renewed efforts to deliver for investment, growth and a
stronger role of the euro**

1. INTRODUCTION

In his 2018 State of the Union address, President Juncker stressed that “[r]ecent events have brought into sharp focus the need to deepen our Economic and Monetary Union and build deep and liquid capital markets. The Commission has made a series of proposals to do just that – most of which now await adoption by Parliament and Council.”

Capital Markets Union¹ is a key priority for the European Union. In light of the upcoming December European Council and the Euro Summit in inclusive format, full commitment and action by all parties to complete the Capital Markets Union is now becoming urgent.

The Union needs well developed and integrated capital markets to **strengthen and support the Economic and Monetary Union and the international role of the euro.** Efficient capital mobility makes the Union economy stronger by supporting economic convergence. It allows Member States to benefit from additional sources of funding for investment in jobs and growth. A fully-fledged Capital Markets Union enhances private risk sharing and helps mitigate economic shocks in the euro area and beyond, by enabling investors and companies from a country experiencing a downturn to access investment and funding opportunities in unaffected countries.

Moreover, market-based finance can fill the gap left by a temporary reduction in bank lending. For example, during the crisis, loans to companies plummeted, while funding through shares and bonds remained stable. A successful Capital Markets Union, with effective and consistent supervision, complements the Banking Union, and **contributes towards a stable financial system.** This Communication is complementary to the Third Progress Report on the reduction of non-performing loans and further risk reduction in the Banking Union, also adopted today.

A successful Capital Markets Union is also needed to **develop local capital markets and to improve access to finance for businesses.** Alternative market-based sources of financing are particularly important to finance innovation, entrepreneurship and start-ups, which are main engines of job creation. A successful Capital Markets Union will enable companies to seek more funding from across the Union, for instance by listing on a stock exchange in another Member State.

The Capital Markets Union **provides more investment opportunities.** It allows retail investors to access rewarding investment products that help them meet their medium and long term financial needs, including saving for retirement. For example, today only 27% of Union citizens have a personal pension product. The Capital Markets Union will give more opportunities to enable more citizens to prepare for their retirement. And just over a third of retail investment funds² are sold in more than three Member States due to regulatory barriers. Therefore, the Capital Markets Union will allow citizens to buy cheaper and better investment products.

Thanks to strong and liquid capital markets, institutional investors can operate more easily on a Union-wide scale and finance innovation, the transition to a low-carbon, more

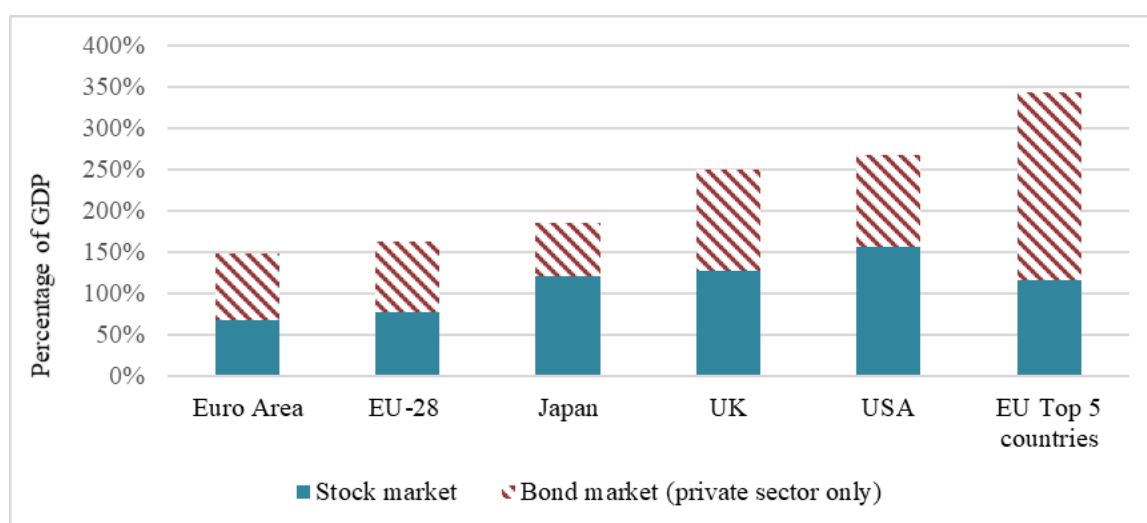
¹ Communication "Action Plan on Building a Capital Markets Union", COM(2015) 468, 30.9.2015; Communication "On the Mid-Term Review of the Capital Markets Union Action Plan", COM(2017) 292, 8.6.2017.

² Undertakings for collective investment in transferable securities (UCITS).

resource-efficient circular economy and infrastructure investments, which are essential to strengthen the Union's competitiveness.

The Capital Markets Union will also enable financial services providers to scale up and offer their services to a wider range of customers in different Member States. There are already 13 484 financial institutions making use of 359 953 passports to provide financial services in the Union. Thanks to the Capital Markets Union, financial institutions would be able to offer their products and services more easily in other Member States, without compromising on investor protection. There is no single measure that delivers the Capital Markets Union as it entails a profound structural change of the financial system. The impact of the measures put forward by the Commission will cumulatively be significant but it takes time for the full benefits to materialise. **The upward potential is there (see figure below) and now is the time to take resolute action.**

Figure - Size of capital markets in selected regions (*amounts outstanding at the end of 2017 as a percentage of GDP*)



Source: European Capital Markets Institute and own calculations

Notes: While the EU and US markets are not entirely comparable, the figure shows that capital markets in the EU-28 represent around 160% of the GDP of the Union whereas they represent 260% of the GDP in the United States; stock market capitalisation and bonds issued by financial and non-financial corporations; the average of the top 5 markets in the European Union was obtained as a GDP-weighted average for Netherlands, Sweden, Denmark, Ireland and Luxembourg with weights of 40%, 26%, 16%, 16% and 5%, respectively

President Juncker recalled in the 2018 State of the Union address that “*at the beginning of this mandate, we all collectively promised to deliver a [...] Capital Markets Union*”. With the elections for the European Parliament in May 2019 approaching, the **Commission stresses the need for the co-legislators to accelerate the work on the pending proposals and to show the necessary political ambition to make sure that all proposals are completed by the end of the mandate.** The need to progress is made even more urgent by the future departure of the United Kingdom. The Commission stands ready to increase its support to the co-legislators in delivering the key building blocks of the Capital Markets Union.

2. ACHIEVEMENTS OF THE CAPITAL MARKETS UNION SO FAR

The Capital Markets Union Action Plan of September 2015 and the June 2017 Mid-term review set out a comprehensive programme to put in place the building blocks for the Capital Markets Union by 2019.

The programme includes 13 legislative proposals tabled by the Commission to put in place the key building blocks of the Capital Markets Union. In addition, the Commission has proposed three legislative proposals to enable the financial sector of the Union to lead the way to a greener and cleaner economy.³ However, the European Parliament and the Council have so far only agreed on three of them:

1. The **Prospectus Regulation**⁴, adopted in June 2017, cuts red tape for companies seeking financing opportunities by making a prospectus simple to produce and clear for investors to understand.
2. The **Regulations on European venture capital and social entrepreneurship funds**⁵, adopted in October 2017, aim to boost investment into venture capital and social projects. They make it easier for investors to invest in innovative small and medium-sized enterprises by opening up the regulation to fund managers of all sizes and by expanding the range of companies that can be invested in. In addition to the new rules, the Commission has established **Venture Capital Fund-of-Funds** to support innovative investments and will continue to work on other measures to support venture capital.
3. Finally, the **Regulation on Simple, Transparent and Standardised (STS) securitisations**⁶, adopted in December 2017, helps to build confidence in the securitisation market and frees up the balance sheets of banks. If the market would go back to pre-crisis average issuance levels, banks would be able to provide an additional €157 billion of credit to the private sector.⁷ In addition to the Regulation on STS securitisations, the Commission amended the implementing rules of the Solvency II regulatory framework⁸ to **facilitate investments by insurers in STS securitisations and infrastructure**.

Similar to the adjustment for STS securitisation and infrastructure, the Commission intends to propose adjustments to insurers' investment in equity and private placements of debt.

³ The Commission has also proposed a number of non-legislative measures to strengthen capital markets of the Union and make them more resilient.

⁴ Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, OJ L 168, 30.6.2017.

⁵ Regulation (EU) 2017/1991 of the European Parliament and of the Council of 25 October 2017 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds, OJ L 293, 10.11.2017.



⁶ Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, OJ L 347, 28.12.2017.

⁷ Commission Staff Working Document “Impact Assessment accompanying the document Proposal for a Regulation of the European Parliament and of the Council laying down common rules on securitisation and creating a European framework for simple and transparent securitisation [...]”, SWD/2015/0186 final, 2015/0226 (COD), 30.9.2015.

⁸ Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 12, 17.1.2015.

3. CAPITAL MARKETS UNION INITIATIVES ON WHICH FURTHER SWIFT PROGRESS IS NEEDED

The effective functioning of the Capital Markets Union needs to be given a strong political impetus. To reap the full benefits of the Single Market, businesses and investors need to have new opportunities to scale up Union-wide and compete globally, clear and proportionate rules, and efficient supervision. Strong and liquid capital markets also play a crucial role in strengthening the leadership of the Union in financing the necessary transition towards a low-carbon, more resource-efficient and circular economy.

POLICY DESCRIPTION	 European Parliament	 Council of the European Union
Pan-European personal pension product (PEPP)	●	●
Covered bonds	●	●
Crowdfunding	●	●
Cross-border distribution of collective investment funds	●	●
Investment firms review	●	●
Preventive restructuring, second chance and efficiency of procedures	●	●
Promotion of SME Growth Markets	●	●
Third-party effects on assignment of claims	●	●
European Supervisory Authorities review, including reinforced anti-money laundering rules	●	●
European market infrastructure regulation (Supervision)	●	●
Sustainable finance: Taxonomy	●	●
Sustainable finance: Disclosure	●	●
Sustainable finance: Low carbon Benchmarks	●	●

● SWIFT AGREEMENT POSSIBLE BY FOLLOWING NORMAL PROCEDURES

● AGREEMENT POSSIBLE IF STRONG POLITICAL COMMITMENT FROM ALL EU INSTITUTIONS

3.1. Making the most of the Single Market through new Union-wide products and services

The Commission presented in June 2017 a proposal for a Pan-European Personal Pension Product. A Union-wide personal pension product would give citizens more options for their retirement savings, including in a cross-border context. It would also create economies of scale that would benefit savers by giving them access to better products at lower cost. Personal pensions can help addressing the demographic challenges of ageing populations by complementing state-based and occupational pensions, for citizens that wish to do so.

The Commission adopted in March 2018 a proposal for a covered bonds framework. Covered bond markets are among the largest private debt markets in the Union and an important channel for longer term financing. They are instrumental for credit institutions to efficiently channel finance to the real estate market and for publicly guaranteed instruments including some loans to small and medium-sized enterprises.

The Commission put forward in March 2018 a proposal for a framework on crowdfunding, as part of the FinTech Action plan.⁹ The market for crowdfunding is underdeveloped in the Union compared to other major world economies. One of the biggest hurdles faced by crowdfunding platforms seeking to offer their services across borders is the lack of common rules across the Union. The proposed rules should improve access to this innovative form of finance for businesses in need of funding, particularly start-ups, while ensuring that investors benefit from strong protection and safeguards.

In March 2018, the Commission also made a proposal facilitating cross-border distribution of collective investment funds. Barriers such as national marketing requirements and regulatory fees are detrimental to cross-border distribution of funds. The proposal aims to make cross-border distribution of funds simpler, quicker and cheaper. More cross-border distribution should lead to more opportunities to invest in investment funds pursuing social or environmental goals. The proposed rules should improve the transparency of national requirements, remove burdensome requirements and harmonise diverging national rules.

3.2. Simpler, clearer and more proportionate rules for businesses

The Commission put forward in May 2017 a proposal to simplify rules and reduce regulatory burdens for market participants in the over-the-counter derivatives market. Initiatives based on a global agreement in the G20 to mitigate the risks related to derivatives transactions that are traded over-the-counter have contributed significantly to improving the stability of the derivatives market. However, the current rules apply to all market participants, from large banks to small financial firms and corporates, in a way that is not always fully proportionate. Against this background, the proposed rules aim to reduce regulatory burdens for market participants. If adopted, the rules could save market participants significant costs without compromising financial stability.

The Commission presented in December 2017 a proposal on more proportionate and effective rules for investment firms. The proposal seeks to establish a more

⁹ Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions “FinTech Action plan: For a more competitive and innovative European financial sector”, COM/2018/0109 final, 8.3.2018.

proportionate prudential and supervisory framework for investment firms, calibrated to their size and nature. The new rules would ensure a level playing field between the large and systemic financial institutions while introducing simpler prudential rules for non-systemic investment firms.

The Commission presented in May 2018 a proposal to make it easier for smaller businesses to get financing through capital markets. Small and medium-sized enterprises are often faced with disproportionate regulatory barriers that prevent them from accessing market-based finance. The proposal aims to cut red-tape for small and medium-sized enterprises trying to access 'SME Growth Markets', a new category of trading venue dedicated to small issuers. The proposed rules aim to introduce a more proportionate approach to support the listing of small and medium-sized enterprises while at the same time safeguarding investor protection and market integrity.

In November 2016, the Commission adopted a proposal on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures. Allowing honest entrepreneurs to benefit from a second chance after overcoming bankruptcy is crucial for ensuring a dynamic business environment and promoting innovation. For honest entrepreneurs, the proposal therefore provides for a second chance through debt discharge, in order to give them a fresh start and incentivise entrepreneurship. Moreover, the proposal aims to facilitate the efficient restructuring of viable companies in financial difficulties to avoid insolvency and destruction of going concern value.

The Commission presented in March 2018 a proposal on the law applicable to the third-party effects of assignments of claims. The proposal would significantly enhance legal certainty by determining which national law is applicable to the effects on third parties where a claim is assigned cross-border.

The Commission adopted in October 2016 a proposal for Common Consolidated Corporate Tax Base (CCCTB). The proposal addresses the existing debt-bias in taxation that distorts financing decisions, makes companies more vulnerable to bankruptcy and undermines the stability of the overall economy. The proposal aims to increase tax fairness in the Single Market and level the playing field as well as increase investment into growth-friendly activities such as research and development. Moreover, in light of the difficulties that Member States have to come to unanimous agreement in the Council on major tax proposals, the Commission will shortly present a Communication exploring the possibility of moving to qualified majority voting for certain tax matters.¹⁰

3.3. A more efficient supervision of capital markets

The Commission presented in September 2017 a proposal for a review of the European Supervisory Authorities. The proposal was amended in September 2018 to strengthen the supervisory framework in the area of anti-money laundering and terrorist financing. More financial integration requires more integrated and effective supervision. The aim of the proposals is to enhance supervisory convergence and strengthen enforcement - this promotes consistent and more effective supervision. It is therefore important that a meaningful reform of the European Supervisory Authorities and enhanced tasks for the European Banking Authority to contribute to the fight against

¹⁰ See also the Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions "The Single Market in a changing world - A unique asset in need of renewed political commitment", COM 2018(772), 22.11.2018.

money laundering and terrorist financing are adopted together during the current legislature. More independent governance, strong convergence powers and a sustainable funding framework, as proposed in the review of the European Supervisory Authorities, are equally key to remedy current deficiencies and enhance the efficiency of anti-money laundering supervision.

The Commission put forward in June 2017 a proposal to strengthen the supervision of central counterparties. Central counterparties play a crucial role in integrated capital markets, by mitigating the risks relating to the default of a counterparty to a transaction. In doing so, central counterparties concentrate risks and can become systemically important for the financial system. The systemic importance of central counterparties will continue to grow as requirements for market participants to clear their transactions via a central counterparty phase-in and voluntary clearing increases. The proposed rules would ensure that the supervisory framework of the Union is sufficiently robust to anticipate and mitigate risk from Union central counterparties and from systemic third-country central counterparties servicing Union clients.

In November 2016, the Commission presented a proposal to complete the supervisory regime for central counterparties with a harmonised recovery and resolution framework. This proposal, if adopted, would ensure that both central counterparties and national authorities in the Union have the necessary means to act decisively in extreme situations where central counterparties face severe disruptions. The proposed rules aim to preserve the continuity of the central counterparties' critical functions while maintaining financial stability. The proposal thus ensures the proper functioning of capital markets, provides certainty for market participants and reduces potential costs associated with the restructuring and the resolution of central counterparties for taxpayers.

3.4. Sustainable finance

Capital markets need to transform and innovate to develop convincing answers to the challenges ahead, including the fight against climate change and addressing resource depletion. To this end, the Commission adopted in March 2018 its **Sustainable Finance Action Plan¹¹** and has already delivered three concrete legislative proposals, namely on taxonomy, disclosures relating to sustainable investments and sustainability risks and low carbon benchmarks. The objective is to enable the financial sector of the Union to lead the way to a greener and cleaner economy. The proposals should help to reorient private capital flows towards more sustainable investments, such as clean transport and energy, and help finance the transition to a low-carbon, more resource-efficient and circular economy. These initiatives confirm the **global leadership of the Union in fighting climate change and promoting sustainability** in line with the Paris Agreement and the 17 Sustainable Development Goals of the United Nations.

4. DEVELOPING LOCAL CAPITAL MARKETS

The Commission has also **supported the Capital Markets Union by developing local capital markets through non-legislative measures.** Local capital markets need to be developed and well-connected into financial centres to bring the benefits of the Capital

¹¹ Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions "Action Plan: Financing Sustainable Growth", COM/2018/097 final, 8.3.2018.

Markets Union to all Member States. This requires an adequate balance of scale benefits with local presence to make the best use of domestic savings and attract international investors in order to respond to the financing requirements of local entrepreneurs. The Commission is following up on the work of the **Vienna Initiative Capital Markets Union Working Group**.¹² Several Member States have prepared capital market strategies, created dedicated schemes to support the listings of small and medium-sized enterprises, including with public funds, and some Member States, in particular Central, Eastern and South-eastern Europe countries, have decided to strengthen their capital market supervisory capacity. **The Structural Reform Support Service of the Commission has been providing tailor-made technical and financial support to numerous initiatives related to the Capital Markets Union so far, on the request of Member States.** This is important to implement capital markets reforms.

5. CONCLUSION

The Capital Markets Union is essential to make the economy of the Member States and the Economic and Monetary Union more resilient and to foster convergence, to safeguard financial stability and to strengthen the international role of the euro. **The Commission calls on the co-legislators to act now, before the European Parliament elections in 2019, to put in place all the necessary key building blocks for a complete Capital Markets Union.**

The European Council is invited to renew its commitment to the Capital Markets Union and endorse these efforts, which are essential not only for the Economic and Monetary Union and the Banking Union, but also for the Single Market.

Alongside the legislative reform agenda, the Commission is also committed to delivering the remaining **non-legislative actions** announced in the Mid-term review of the Capital Markets Union. These actions provide key contributions towards deep and liquid capital markets by addressing important areas such as the distribution of retail investment products, institutional investment, corporate finance for entrepreneurs and start-ups and a better use of financial technologies.

The Commission will also continue engaging with Union citizens, social partners and businesses on the importance of the Capital Markets Union through relevant communication activities.

Reforming the capital markets cannot be achieved by the Commission alone. **All stakeholders at the national and Union level must also step up their commitment and do their part.** The Commission will continue to support these efforts.

¹² In March 2018 the Working Group on Capital Markets Union published its report, <http://vienna-initiative.com/wp-content/uploads/2018/03/VI-CMU-Working-Group-Final-Report-March-2018.pdf>.