



Odile Renaud-Basso

Director General, French Treasury,
Ministry of Economy and Finance, France

A CMU rooted in the European economy

This article is written as the CoVID 19 health crisis is hitting European nations and their economies hard and in an unprecedented manner. No one can predict the consequences of the crisis but surely, immediately after the crisis, we will need to mobilize all the driving forces of our economies and, above all, we will undoubtedly need to act with redesigned economic tools. The day after the crisis will not be the same as the day before the crisis. The world will need even more cooperation between Europeans and a Europe capable of mobilizing its economy in a strong way to start rebuilding and reorganizing its economy.

The central contribution of CMU to the macro-economic stabilization of the European Economy is to provide a private risk-sharing mechanism. The CMU reflects Europe's design for its capital markets, both domestically and in relation with other markets worldwide. As Europe has the most open markets in the world, it is crucial to ensure the competitiveness of its financial services providers. The CMU will bring a decisive contribution into shaping the European sovereignty. It is clear, that in the long-term growth innovation and the green transition will require significant additional capital in the European economy. A significant part of this investment gap needs to be filled by equity rather than debt, in order to provide an adequate financing to these projects. As emphasized by the ECB, long term sources of financing are required as these investments have a long term or even very long-term horizon.

In a context of increased capital requirements for banks and taking into account the structural differences with their peers, relying on the sole channel of bank financing would limit our collective ability to raise the deeply-needed capital and would make us lag behind our peers. US banks benefit to a greater extent from the possibility to securitize and deconsolidate the mortgages on their balance sheet. Even if bank financing is the preferred financing mechanism in Europe, improving the functioning of our capital markets thus appears to be a necessity. In order to tackle this existential challenge for the European economy, it is paramount that the European Commission delivers on a realistic and proactive action plan as early as possible in 2020. Based on the Ecofin Council conclusions from the 5th of December 2019 and on the numerous recent reports on this topic, in particular the Next CMU report, the High-Level Forum (HLF) still has to put forward concrete realistic proposals. If allegedly the previous 2015 action plan from Commission was somewhat watered down at the legislative phase, no one would understand that the Commission does not

seize the opportunity to build upon the Council's ambitious conclusions.

As for concrete priorities, first the CMU must adapt to the green and digital transition, both in its means and objectives. Non-financial reporting and taxonomy require to build upon robust common standards to avoid market fragmentation which would arise from diverging labels and definitions. New technologies offer opportunity to revisit existing financial functions but need at some point a regulation based on the «same activity, same risk, same rules» principle.

Second, the CMU requires strong, efficient and demanding participants. On the one hand, we need capital on the European Capital markets. This means that there will not be any CMU without the active implication of resilient CIB, nor without the investment of insurers into equity. Thus, a careful transposition of Basel III and an adjustment of Solvency II are uppermost needed. On the other hand, companies and especially SMEs deserve to access this financing more easily. The increase of financial transparency and any measure to facilitate IPOs would be welcome here. Last, -and this, surely, will be critical in the post CoVID 19 context- we must improve the level of trust among market participants, so that the benefits of the retail flow to the markets remain. There is still room to enhance the training of financial advisors, deliver more concise and adequate information to the costumers and take advantage of new technologies to improve European customers' experience. ■



Harald Waiglein

Director General for Economic Policy,
Financial Markets and Customs,
Federal Ministry of Finance, Austria

Priorities and factors of success for the next CMU-initiative

Deeper integration of EU-Capital Markets should enable easing the access to capital and liquidity for EU companies as well as to diversified investment opportunities for investors in line with their risk appetite and needs. The Capital Market Union-Initiative 2015 - 2019 has shown that a comprehensive approach enables progress in capital market integration. However, further steps are needed to accomplish the ambitious goals of the initiative.

The Capital Market Union 2015 - 2019 was characterized by an evolutionary approach. Room for improvement was identified and legislative and non-legislative measures expedited by the Commission and adopted by Member States and the European Parliament. I anticipate that the Next Capital Market Union will again follow this approach thus moving forward towards a truly integrated, liquid and competitive capital market.

In my view, a holistic approach is needed thus addressing also obstacles outside the financial and capital market regulation, e.g. in the insolvency law to advance in the spirit of the CMU. Furthermore, it will be of importance to have a close look to some of the applicable legislation as well as on international standards to be implemented in due time. With regard to existing legislation we should change elements associated with excessive bureaucracy thus limiting the investment opportunities for customers and the competitiveness of EU-markets and enable up-to-date-solutions for existing and arising deficiencies. When transposing international standards, e.g. Basel IV, we should keep the supervisory standards achieved after the financial crisis but prevent competitive disadvantages by using a pragmatic approach which sufficiently respects EU-specificities and business models.

It is not the time to restrict priorities for the Capital Market Union. Additional game changers have arisen. Covid-19, BREXIT and climate change policies will have to complement effective digitalization-policies within the Next Capital Market Union. We will have to mitigate the negative impacts of Covid-19 and BREXIT on Capital and Financial Markets and on the real economy in a decisive manner while not disregarding effective measures to address climate change and the transformation to a more digitalized EU. The next CMU has to incorporate reactions to game changers to achieve progress.

The reactions to the spread of Covid-19 throughout the EU has shown the positive effects of an advanced digitalized environment as well as remaining deficiencies to

be overcome. We could all monitor to what extent Covid-19 hit financial and capital markets as well as the coordinated responses of EU-institutions. We are also looking forward to an European Union without the United Kingdom and the challenges to be overcome when the most liquid and progressive market stays outside the EU. Also in this regard we should aim for a pragmatic solution. Climate change remains one of our main and urgent challenges. We have to act to contain social and economic costs for future generations.

I am convinced, that the EU is capable of finding good and effective solutions to these challenges. In my view, it will be of key importance to demonstrate openness by acting and not only reacting to these challenges. In particular, the continent should learn from more advanced financial and capital markets and incorporate an open and progressive approach to ensure the competitiveness and efficiency of EU-markets also in the medium and long-term perspective. ■