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A step-by-step approach will ensure best progress on deepening the CMU

The corona pandemic and the impact of containment measures impede the access to capital markets for small and medium sized enterprises as well as for large corporates. This counteracts the significant steps towards the development of the Capital Markets Union, which the EU has taken over the last years. More than ever, we need to work on ensuring future-proof financial markets in the Union. Further steps are required to promote capital market-based financing, to integrate and strengthen the European capital market further and to make it internationally competitive. Together with France and the Netherlands Germany has therefore taken the initiative and set up a working group of acknowledged European experts in the area of capital markets from various Member States to provide recommendations to deepen the Capital Markets Union (NextCMU).

In its final report, the NextCMU group has outlined some of the key issues we need to address. First, in order to further develop financial markets, in particular equity markets, the listing burden for SMEs should be reduced in a proportionate manner (this could be achieved, for instance, by reviewing the MAR), investments in Venture Capital should be promoted (e.g. through creating EU-wide funds-of-funds schemes) and retail investment in financial markets should be increased (e.g. through introducing a new category of semi-professional investor). Second, in the interest of long-term savers and investors, it needs to be ensured that a wide range of long-term financial products is offered – also in a low yield environment. This objective should be appropriately reflected in the regulatory framework (Solvency II). In addition, savers should be further incentivized to turn into investors (e.g. through encouraging workplace equity investments and improving financial education), while at the same time ensuring adequate investor protection. Third, to ensure the free flow of capital between EU financial market places, remaining barriers in the internal market need to be removed (in particular in the area of post-trade), further consolidation of intermediaries and infrastructures should not be hampered and an EU wide Digital Finance Action Plan should be adopted. Last but not least, the EU financial markets will only flourish when they are liquid and competitive. To further develop EU financial markets, sovereign green bonds should be established, securitization markets need to be revitalized and a pan-European payment market should be created.

Building on the work of the NextCMU group Finance Ministers agreed at the ECOFIN meeting under the Finnish Presidency in December 2019 on key priorities for the

Capital Markets Union. These include better access for small and medium-sized companies to Europe-wide, cost-effective, capital market-based sources of finance, improved Europe-wide range of diversified, long-term and sustainable pensions, savings and investment opportunities, increasing retail investor participation in financial markets, removing remaining barriers to cross-border financial flows and a digital financial market union. These priorities may not be implemented overnight, but require a step-by-step approach.

It is now up to the European Commission to translate the NextCMU recommendations and the ECOFIN priorities into specific proposals for legislative amendments. The European Commission has established a High Level Forum of European experts to provide further input into their work and to inform their Action Plan. An important first step to bring forward the CMU would be the short-term revision of the core regulatory framework for financial markets in the EU (MiFID II and MiFIR). A market consultation conducted by the German Federal Ministry of Finance last spring has shown a clear need for targeted improvements, which since then has been reinforced by the Brexit. The European Commission should therefore intensify its work on the MiFID II/MiFIR review and prepare a legislative proposal with high priority.

The incoming German Presidency is looking forward to appropriate legislative proposals from the European Commission to overcome the negative effects of the corona pandemic and the containment measures on the access to capital markets by deepening the Capital Markets Union. ■