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Commission

A NEW VISION FOR EUROPE'S CAPITAL MARKETS

*Interim Report
of the High Level Forum
on the Capital Markets Union*

Banking and
Finance

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European Commission

Directorate-General for Financial Stability, Financial Services and Capital Markets Union

European Commission

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Belgium

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A new Vision for Europe’s capital markets

Interim Report of the High Level Forum on the Capital Markets Union

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Preface

Over decades, the European economy has been relying on traditional lending to finance businesses and savings accounts to remunerate savers.

But times are changing.

Demographics clearly show that pay-as-you-go pensions will increasingly need to be supplemented by life-long intelligent saving and investing.

If low interest rates persist in the long-term, savings accounts will no longer be a mechanism to increase the value of one's savings. This will only be achieved through a large-scale switch to equity investments.

Financing requirements of our economy have also changed.

Whilst debt finance from banks remains the appropriate financing for numerous firms, many SMEs need access to the full range of funding sources, including private and public equity, to finance innovation and growth over the long-term. If finance through capital markets is not available or the terms on which it is offered are not balanced, growth for these firms, and for the wider economy, will be scaled back. It is also clear that capital markets will play a significant role in achieving sustainable finance and, ultimately, the ambitious EU climate goals.

27 national capital markets have steadily become more integrated over the past - a project known as Capital Markets Union. However, they still do not function as one, and their main centre - London - is now outside the EU. Just as critically, many of these national markets are not as deep and liquid as they could be, and should be, to meet the challenges of coming years and decades.

This adds urgency to the question of whether we are willing to take the necessary steps to ensure that the companies and projects that do not yet exist, find the financing that lets them grow and create jobs. And to the question of whether we are willing to take the steps that are required so that savers can be encouraged to provide that finance through balanced, diversified investment portfolios. Providing cross-border access to simple, comparable, cost-efficient and transparent products that provide sustainable value for money is key for savings, and key for investments.

Much has been done in recent years, but the project is by no means close to completion. There is no one-single measure that will bring this about. Our High Level Forum will try to identify, before this summer, the next important measures that will bring down some of the barriers that inhibit our markets from growing, and growing together.

In the past, we have heard many political leaders strongly support the Capital Markets Union. What we now need is to channel that strong political support into an agreement between competent legislators at the European and national levels on the sometimes rather arcane and technical measures that will help us grow, over time, towards a capital market of all, and for all.

Thomas Wieser

Chair of the High Level Forum

The High Level Forum on Capital Markets Union

The initiative for a Capital Markets Union was launched in 2015, with the objective of putting in place its building blocks by 2019. As President of the European Commission Ursula von der Leyen said in her opening statement to the European Parliament: *“Let’s finally complete the Capital Markets Union.”*¹

It is against this backdrop that the European Commission set up a High Level Forum (HLF) in November 2019. Its mandate is to review what has been done to date and propose new targeted actions to further advance the Capital Markets Union initiative. The Forum brings together 28 high-level capital markets “wise women and men” from across the EU. With members from banking, insurance, asset management, trading, civil society and academia, the Forum is a multi-stakeholder initiative focused on making progress on the Capital Markets Union and ultimately bringing prosperity to European citizens and businesses.

Working towards a well-functioning Capital Markets Union is one of the top priorities of Europe. Without it, and strong support from the highest political level, Europe and the Member States will not be able to tackle the huge challenges of sustainable transition and ageing of our societies. For that, markets need to be highly integrated for capital to flow freely, both domestically and cross-border, without distorting competition to the benefit of both citizens and businesses.

Since its first meeting in November 2019, the HLF has been focusing on identifying the main challenges of the Capital Markets Union and ways to deal with them. The HLF’s objective is to go further than any report published so far²: many of these reports converge in terms of broad policy recommendations but often lack granularity or precision of the proposed measures. However, the goal of the HLF is not only to put forward concrete and detailed recommendations, but also to set out the method and process necessary to see them through. In doing so, the HLF will seek to propose only those policy measures that will produce the maximum impact on the ground or will be *the game-changers*.

This interim report sets out a new vision for the future of the Capital Markets Union and will guide the work of the Forum in the coming months. This report does not put forward any specific policy proposals, yet. The final report with concrete and targeted policy recommendations to the European Parliament, Member States, European Commission, and other stakeholders will be published in May 2020.

¹ Opening Statement in the European Parliament Plenary session, Strasbourg, 16 July 2019.

² See, for instance, the report published by NextCMU High-Level Group in October 2019.

Introduction: Seizing the moment

Why the Capital Markets Union has not been completed yet?

Following the financial crisis, and building on previous progress in working towards a truly integrated internal market for financial services and capital, the European Commission launched in 2015 the Capital Markets Union initiative.

The Capital Markets Union was seen as a necessary step to complement the Banking Union and complete the Economic and Monetary Union (EMU). A genuine Banking Union relies on more risk sharing that only a genuine Capital Market Union can deliver. Robust risk sharing in the EMU requires both.

Despite some progress with the Capital Markets Union in the first five years, however, there is a feeling that much still needs to be done. Why?

First, the creation of a European Capital Markets Union aims to overcome deep-rooted, structural and long-term obstacles both at the national and at the European levels. Such an endeavour takes time and requires repeated efforts.

Second, the Capital Markets Union is a dynamic initiative that requires constant adjustment to keep it abreast of a changing economic, social and geopolitical environment.

Finally, completing the Capital Markets Union requires significant political will and courage to change that which has existed for decades. This is perhaps the most important reason why the Capital Markets Union has not been completed yet.

Up until now, Member States have expressed *strong support in principle* for the Capital Markets Union but have shown limited appetite to translate this into actual support during technical negotiations. In many cases, protecting Member States' national rules and structures has prevailed over the objective of improving capital markets' efficiency and integration. **These dynamics must be reversed if Europe wants to complete the Capital Markets Union.**

Completing the Capital Markets Union will require full and unwavering political backing at all levels of the political *machina* – including, and especially, in technical negotiations with the Council and European Parliament. **This requires ambition from all parties:** from the European Commission to put forward bold but practical proposals; from the Member States and European Parliament to deliver on that ambition when agreeing on those proposals; from national governments and parliaments to supplement these proposals with ambitious measures; and, finally, from the industry to see beyond purely sectoral or firm level interests.

Only by acting together can a genuine Capital Markets Union be built. Only by committing upfront and jointly, the European Commission, European Council and European Parliament, to a bold and precise package of reforms and a joint delivery timetable, monitored and enforced by the institutions at the highest level, will progress be ensured. Agreed measurement metrics should accompany the process.

The Council Conclusions of last December³ are a first step in that direction.

Why Europe needs the Capital Markets Union now?

Today, Europe faces new challenges. The continent has reached a critical junction, as economic and social models need to adapt to large shifts of our strategic environment. If Europe wants to provide citizens, businesses and society at large with the tools to turn these challenges into opportunities, it needs a vibrant single market for financial services. There cannot be such a market without the Capital Markets Union.

The challenges are numerous.

Financial stability and economic resilience remain a concern. The European financial system continues to rely heavily on traditional bank lending, which limits its capacity to absorb economic shocks. The size and fragmented nature of European equity and bond markets, exacerbated by the absence of a euro area safe asset, reduces the capacity of Europe to protect itself from economic shocks.

Economic prosperity needs proper financing. Yet, European businesses, in particular small and medium companies, lack **access to capital to fund innovation and growth** in some regions more than others. In search of risk capital, some of the most promising start-ups or scale-ups decide to relocate outside Europe or scale down their ambition, harming Europe's growth potential and productivity.

The **departure of the United Kingdom** creates an unprecedented sense of urgency about completing the Capital Markets Union, which will provide the EU-27 with the full range of financial products, services and infrastructures for the well-functioning of its economy. The European Union is in the process of seeing some of its market infrastructure moving off-shore. This will affect the efficiency and intensity of financial integration between the EU and UK, and underlines the importance of well-functioning EU market infrastructures. It also calls for **strengthening the EU supervisory architecture**, and its ability to ensure an adequate level playing field within the single market.

The **climate emergency**, now at the top of the political agenda, requires mobilising trillions of euros of investments in new technologies and infrastructures. Public resources will not be enough to cope with this. Mobilising sufficient private investment will not be possible without efficient and integrated capital markets.

Inequality is increasing. There is a widespread perception in Europe that financial markets are not serving citizens fairly. There is little trust and little investment in financial products. Capital markets fail to fulfil their role as a source of a supplementary income to a fast-aging population. This has become a political and budgetary challenge for Member States, further exacerbating pension inadequacy in Europe.

On the global stage, **protectionist trade policies** are testing Europe's economic resilience. Global markets are changing fast, and other regions are catching up in terms of economic weight and attractiveness for global investors.

³ <http://data.consilium.europa.eu/doc/document/ST-14815-2019-INIT/en/pdf>

Failure to act now to address these challenges will deny Europe the possibility to lead on sustainable development and climate change, damage its long-term global competitiveness and put its citizens and businesses at a disadvantage for generations to come.

1. Embracing new opportunities in a fast-changing environment

Capital markets play a fundamental role in the economy. By bringing together those who need capital with those who can offer it, capital markets provide for new investment opportunities and more diversified funding. They create effective price discovery mechanisms for assets and enable economic adjustment. The Capital Markets Union seeks to integrate and grow Member States' capital markets, making them deeper, broader, more liquid and efficient. By boosting competition in the financial industry, it leads to more cross-border activity and creates greater opportunities for European businesses and citizens, irrespective of their geographical location.

Over the past decade, the pace of change in the financial system has increased dramatically. To seize the momentum, the Capital Markets Union must create an institutional and regulatory framework that supports the European economy taking account of new opportunities and challenges, by:

- ✓ Building **resilience** through a sounder financial structure, more private risk sharing, integration and financial stability;
- ✓ Fostering **economic competitiveness and growth**, by providing more diverse sources of financing for innovation, and hence boost productivity;
- ✓ Promoting **transition** of our economy by channelling private investments to more sustainable goals;

Increasing resilience of the EU economy

Well-developed and integrated capital markets promote greater cross-border investments, contribute to wider risk distribution and increase the ability of an economy to withstand shocks. Through diversification and wider risk distribution, the Capital Markets Union increases economic resilience by protecting the financial system against volatility of financial flows.

Geopolitical tensions are increasingly jeopardising multilateralism and becoming one of the dominant factors influencing global markets. Ensuing uncertainty leads to an increasingly unfavourable environment for investments and higher volatility in global financial flows. The heightened risk of imbalances is also a risk to European financial resilience and calls for a well-diversified financial system able to withstand external pressures.

As the internal political landscape has become more polarised over the last years, Europe is also put under significant internal pressure. The departure of the United Kingdom from the European Union brings about **new challenges to the functioning and autonomy of European capital markets**. Europe needs to rethink how to preserve its economic sovereignty, remain attractive to foreign investments and ensure competitiveness of its businesses, including the financial industry.

While banks are, and will remain, an essential element of the European financial system, overreliance by European businesses on traditional bank lending carries risks. As bank lending dries up during periods of financial distress, businesses, in particular, small and medium-sized companies are not able to rely on alternative funding. With little funding diversity, economies have little capacity to withstand shocks in times of crisis. This also affects the speed of recovery. Under these circumstances, investment

and consumption are likely to be seriously impaired. This is why the recovery from the last financial crisis was considerably slower in Europe than in economies with better-diversified financial structures, such as the United States and Japan.

Insufficient depth of European capital markets, due to **fragmentation along national lines**, further reduces the ability of capital markets to absorb shocks. This fragmentation is the result of multiple economic, historical and cultural factors, as well as important differences in legal systems. Divergences in the quality of implementation, national transposition, enforcement and supervision of applicable rules from one Member State to another further aggravates the problem. The ensuing complexity of procedures, and uncertainty of judicial and supervisory outcomes **drive up the costs** of cross-border financing for businesses.

Beyond fragmentation along national lines, there is also fragmentation of the **financial intermediation landscape itself** (corporate and investment banks). The subsequent impaired liquidity further reduces the supply of the necessary products and services to investors, issuers and businesses.

Finally, fragmentation also stems from the **bifurcation of the European economy** into either very large or very small businesses. In Europe, capital markets are still perceived as serving the financing needs of larger businesses - often being seen as unsuitable for the smaller ones. Europe needs capital markets that would support both national financial players able to cater for the needs of smaller businesses, and larger pan-European ones to support the funding needs of European champions. Without access to capital markets and suitable financial operators, small businesses end up being affected disproportionately during crises, damaging the overall resilience of the European economy.

Supporting innovation and competitiveness

The Capital Markets Union stimulates private investments in an environment of low public investments. It also supports an ecosystem that fosters the necessary competition for small businesses and innovation to thrive.

Technology is disrupting entire industries, including the financial sector. **European businesses find it increasingly challenging to adapt to the new environment and to stay competitive in the global economy.**

However, **investments in technology or research and development (R&D) in Europe remain alarmingly low**. In the euro area, R&D investments are just above 1% of GDP, compared to well above 3% in Japan and above 2.5% in the US.⁴

Lower investments lead to **lower realised technological potential for Europe**. If the number of patent applications is any indicator of the technological strength of Europe today, the EU27 has roughly three times less applications than Japan or the US, and more than ten times less applications than China.⁵

⁴ Source: OECD database.

⁵ Source: World Bank database.

While overall there is a **growing number of high-value technological companies** in Europe (174 of them being unicorns, i.e. private companies with a valuation above USD 1 billion),⁶ none of them is in the global top 10 unicorns, and only 8 of them in the top 100.⁷

Limited financing opportunities significantly affect the ability of European businesses to grow and adapt to technological progress. This, coupled with low public investments,⁸ reduces European long-term economic growth potential, as the innovation gap between the EU and other global economies keeps widening. In search of cheaper capital, greater market visibility, and a more vibrant ecosystem of investors, businesses decide to relocate outside Europe.

Traditional lending alone is often not suitable to meet the needs of high-tech and digitalised service providers whose activity implies – at least at the beginning – higher risk taking. **Market-based finance is better suited for innovative businesses** with limited collateral and irregular cash flows, such as innovative technological start-ups or scale-ups.

European businesses need access to financing at **all their stages of development, starting with bank lending and smoothly transitioning towards venture capital, business angels, private equity and public markets.** Nonetheless, venture capital, private equity and stock market capitalisation are still too low in Europe. Venture capital investments in European technological companies are roughly 3 times lower than what they are in the US⁹. **Equity, notably listed equity, continues to play a much smaller role in the funding of businesses than it does in other countries.**

An active and well-developed market for risk capital is, therefore, essential to provide innovative and high-tech companies with a more adequate funding toolkit, as it brings:

- ✓ Higher rates of new business creation;¹⁰
- ✓ More high-tech start-ups growing into industrial leaders;¹¹
- ✓ Higher rates of patented innovation;¹²
- ✓ Higher productivity growth;¹³ and
- ✓ Faster transition to a low-carbon economy via the development and adoption of green technologies.¹⁴

⁶ See Atomico, 2019 State of the European Tech Companies.

⁷ Source: CBInsight, available at <https://www.cbinsights.com/research-unicorn-companies>

⁸ Public instruments should effectively complement and ensure full synergy with private instruments. See, on public investment decline, EIB (2019), Investment Report 2019/2020: Accelerating Europe's Transformation, p. 41.

⁹ Source: Atomico, 2019 State of the European Tech Companies.

¹⁰ See, among others, e.g. Samila, S., and Sorenson, O. (2011). Venture capital, entrepreneurship, and economic growth. *Review of Economics and Statistics*, 93(1), 338–349; Popov, A. & Roosenboom, P. (2013). Venture capital and new business creation. *Journal of Banking & Finance*, 37(12), 4695–4710.

¹¹ See, among others, Popov, A. (2014). Venture capital and industry structure: Evidence from local US markets. *Review of Finance*, 18(3), 1059–1096;

¹² See, among others, E.g. Hsu, P., Tian, X. & Xu, Y. (2014). Financial development and innovation: Cross-country evidence. *Journal of Financial Economics*, 112(1), 116–135; Kortum, S. & Lerner, J. (2000). Assessing the contribution of venture capital to innovation. *RAND Journal of Economics*, 31(4), 674–692

¹³ See, among others, Kremer, M. & Popov, A. (2018). Financial development, financial structure, and growth: Evidence from Europe. in ECB, *Financial Integration in Europe, Special Feature A*, Frankfurt am Main, May;

¹⁴ See De Haas, R. & Popov, A. (2019). Finance and carbon emissions. ECB Working Paper 2318.

The Capital Markets Union achieves this by deepening and better integrating EU capital markets, supporting *developing* capital markets, and by making them more accessible as sources of funding for small, innovative and high-tech businesses. In supporting investment in fast-growing and technologically advanced companies, the Capital Markets Union will contribute to **attracting, training, and retaining the best talent from Europe and abroad.**

Promoting a sustainable transition

Larger European capital markets are necessary to mobilise the private investments needed to achieve 2030 sustainable goals.

Responding to the climate emergency is the defining task of this generation. It requires an unprecedented level of investments. According to estimates, the investments necessary to reach ambitious climate and energy targets by 2030 are EUR 260 billion per year.¹⁵ Additional annual investments of EUR 100 to 150 billion are necessary to cater for environmental protection and better resource management within a more circular economy. Ensuring other long-term objectives, such as affordable housing, health, and long-term care with a fast-ageing population, education and life-long training, would require an additional EUR 140 billion per year. Overall, to achieve the 2030 sustainable goals, Europe needs a staggering estimated amount of almost half a trillion euros in annual investments in the next decade.

Because public resources are limited, private capital is critical to achieving those goals. Well-functioning capital markets are essential, in particular for attracting private investments and channelling them to sustainable activities. Better transparency of sustainable features of financial products allows investors to identify viable sustainable investments. Better-integrated capital markets, with interconnected infrastructures and more efficient distribution channels, facilitate access to those products across Europe and enhance their liquidity.

2. Giving people a better financial future

Well-developed and integrated capital markets provide opportunities for citizens to provide for medium to long-term needs, such as retirement, health and education. However, in order to benefit from these opportunities, citizens should be able to adequately plan their financial resources, including through easier access to specialised and truly independent expertise.

Inadequate lifelong financial education of citizens, insufficient competition among financial service providers, unequal development of financial markets across Member States, and state guarantees in pay-as-you-go pension systems have led to structural inertia of European savers.

By deepening the single market for capital, the Capital Markets Union aims at building a better and more sustainable financial future for European citizens and entrepreneurs by:

¹⁵ See European Commission, Communication on the Sustainable Europe Investment Plan and the European Green Deal Investment Plan, Brussels, 14.1.2020 COM (2020).

- ✓ Offering opportunities to better provide for long-term financial needs, such as planning for an **adequate retirement income**;
- ✓ Enabling citizens to make better informed investment decisions, including by improving financial literacy, and providing **access to investment products** suited to their needs;
- ✓ Creating an **ecosystem that promotes entrepreneurship** and knowledge-transfer between specialised investors and companies; and
- ✓ Supporting **consumer confidence and market integrity**.

Providing for an adequate retirement income

The Capital Markets Union offers cost effective and sustainable investment instruments for a more adequate retirement income in challenging demographic circumstances.

While Europeans have, on average, high savings rates, a large part of households' wealth is placed in deposits with negative real returns, reflecting the current monetary policy reality. Another part is placed in potentially costly or unsuitable financial products. European households, on average, hold roughly only 15% of their financial assets in instruments traded on capital markets, including units of investment funds.

Pension inadequacy is an important problem in today's society, with more than 18% of citizens at risk of poverty and/or social exclusion in older age.¹⁶ The extent of the issue is, however, not homogenous across Europe. The development of supplementary pensions, including occupational pensions, is characterised by pronounced regional patterns.

Although pension adequacy already gives rise to concern, it is likely to deteriorate further in the future.¹⁷ Young generations, which are starting to save today, will most likely receive lower retirement income compared to what they would have received had they retired now with the same career path. Member States will not be in a position to sustain the financial costs of future pensioners, as public finances increasingly come under strain. This creates a massive political and budgetary challenge. Managing these risks means finding a solution to generating more adequate retirement income for future retirees, on the one hand, and harnessing opportunities for the entire economy and society by putting more financial resources into long-term investments, on the other. Pan-European solutions, such as a pan-European personal pension product, can help achieve this objective by allowing future retirees to benefit from the economies of scale of deeper, more liquid and more integrated European market for capital.

Improving access to investment products for long-term needs

The Capital Markets Union must create conditions to offer seamless access to investment products by citizens, including through digital tools, to help them achieve their long-term financial goals.

While many citizens face a problem of inadequate retirement income, some also need to make investment decisions for their savings. Today, **household savings in Europe are barely allocated to cost**

¹⁶ Pension Adequacy Report 2018, Volume 1, European Commission; Study by the insurer Aviva and Deloitte of 2016.

¹⁷ Pension Adequacy Report 2018, European Commission.

effective long-term investment products, with a large pool of savings not generating sufficient future income for citizens. This problem is further amplified by the ongoing prolonged period of negative real interest rates.

Citizens need to be able to access competitive and cost-effective distribution systems for suitable retail investment products, in order to channel funds towards investments generating sufficient income for future personal goals. They also need to be able to exercise their legitimate rights as shareholders, which at the same time would help support their engagement. Cross-border investments should not be associated with **burdensome taxation procedures** for investors or **complex marketing rules** for financial service providers. Investors should be able to choose products and solutions that match their risk and investment preferences and horizon, including preferences on the environmental and social impact.

Supporting entrepreneurship

Well-developed and integrated capital markets extend funding possibilities for entrepreneurs, thereby contributing to job creation and better social welfare.

European citizens are also entrepreneurs who create jobs and economic prosperity. For fast-growing small and medium enterprises, access to capital markets – and in particular to public equity markets – remains costly and burdensome. This applies to both pre-Initial Public Offering (IPO) and IPO stages.

Limited financial literacy of and lack of research on small businesses, fragmented market infrastructures, and non-comparable or poor public disclosures affect access to capital markets for businesses. This reduces their positive impact on the economy and on society at large. Cross-border frictions and structural barriers, like cumbersome withholding tax procedures, fragmented primary and secondary markets, increase costs of access to market-based finance for businesses. Divergent insolvency proceedings also weigh on cross-border investments.

Fostering investor confidence

By seeking to integrate capital markets further and make them more inclusive, the Capital Markets Union promotes consumer and investor confidence in financial services.

The integrity of capital markets is key to meet the urgent challenges identified above. While much has been done in recent years to increase transparency of public markets, transparency alone is not sufficient to engage European citizens in financial markets or to steer them to the most suitable investment solutions. If citizens are to benefit from higher returns offered by capital markets, they need to understand the importance of managing risk well.

A number of cases involving mis-selling of financial products in the last decade have harmed the trust of European citizens in financial markets. Recent money laundering scandals have put the integrity of capital markets in doubt. According to the European Consumer Markets Scoreboard,¹⁸ personal pension products and securities score the lowest out of 25 sectors in terms of comparability of products and

¹⁸ See European Commission (2018), Consumer Markets Scoreboard, Making markets work for consumers; 2019 Edelman Trust Barometer for Financial Services, summary.

second lowest in terms of, for example, choice, expectations and trust. **A more integrated market for capital with adequate investor protection will enhance competition among cross-border market operators and improve further price and product transparency, boosting consumers' trust in capital markets.**

3. Leading globally

Global markets are changing fast, creating more opportunities, but leaving little time to harness them.

Europe already assumes an important role in global capital markets, but has the potential for becoming even more influential than other mature markets. National capital markets on their own are, however, too small to attract global investors and are often seen by foreign operators as too different and fragmented. Diverging rules and supervisory practices, as well as fragmented infrastructures and distribution channels across Member States, prevent European capital markets from attracting foreign investments to take advantage of the opportunities offered by a globalised economy. These shortcomings may become all the more prominent after Brexit.

The benefits of unlocking that potential and creating more integrated EU capital markets cannot be realised by any Member State on its own. The EU should be a single market with harmonized, predictable and transparent rules, and truly convergent supervision, where access by foreign financial operators is facilitated through a single point of entry. To show global leadership, the EU needs to reinvent itself to become a more attractive marketplace for businesses and investors alike, to compete successfully with third countries and continue setting the global agenda. The Capital Markets Union is critical to achieve those goals. It requires:

- ✓ Speaking with a single voice commensurate to the EU's economic weight;
- ✓ Strengthening the international role of the euro; and
- ✓ Consolidating a leading role in sustainable investments.

Speaking with a single voice

Becoming a large integrated market would not only create conditions for attracting global investors, it would also give the EU more weight on the global scene. It would better promote the objectives set by Europe in key areas, like sustainability and protection of citizens and businesses' from the misuse of their data. **Integrating national markets would help align national interests with European objectives and allow Europe to more effectively promote these objectives with a single voice in global fora, including in multilateral financial institutions.**

Strengthening the euro as international currency

While the euro remains unchallenged as the second most important currency in the international monetary system, there is a potential to further increase its relevance in global trade, and hence reinforce Europe's global leadership. **Deeper, more integrated and efficient European capital markets are critical to protecting European economic sovereignty, encouraging the use of the euro in third countries and attracting foreign investors.** This would further improve access of European businesses to

stable funding, helping them to compete at global level. A stronger role for the euro would give Europe the power and tools to assert its political stance and preserve its economic and financial autonomy.

Leading globally on sustainability

Europe is at the forefront of the global fight against climate change and should preserve its leadership. Financial actors across the world use European capital markets to access sustainable financial products. European market-based mechanisms, such as the EU Emissions Trading Scheme, already fulfil an important role in reducing CO2 emissions.

A transfer of wealth to more socially and environmentally attentive investors foreseen in the next years is an extraordinary opportunity to attract more private investments and consolidate Europe's position as a global leader on green finance. **Better integrating EU capital markets and making them more efficient is an essential pre-condition to continue to lead on sustainability objectives.**

4. Building future priorities on EU's strengths

The variety of working methods and ways of thinking brought about by Europe's diversity is one of its biggest assets. What other regions of the world try to create by attracting people and businesses from abroad, Europe has naturally. **Whenever the EU has created the necessary conditions for people across Member States to meet, exchange ideas and best practices, the internal market has become a powerful driver of growth.**

Europe's Single Market is unique

There are many examples of the benefits of well-integrated capital markets that could indicate the path to follow when looking ahead.

One example is the introduction of an **EU passport in financial services**. An EU passport enables EU firms to sell products and services across EU borders on the same basis as if they were offered domestically. This allows EU firms to compete more effectively with each other, looking for new clients and creating new products or services. As a result, citizens benefit from more diverse products better tailored to their needs and at more competitive prices.

Another example is the establishment of the **European Supervisory Authorities (ESAs)**. ESAs brought to the same table national financial authorities from all Member States, which has been essential to further integrating and developing EU capital markets. The ESAs were meant to increase trust in the EU capital markets, by giving citizens the comfort of relying on a coherent application of EU rules and supervisory practices across the EU and by allowing financial operators to compete on a level-playing field. While the creation of the ESAs was an important step in achieving these objectives, today the ESAs, however, still lack sufficient powers to ensure what is enshrined in their mandate. The role of ESAs is likely to further increase in the post-Brexit environment.

Finally, the success of **Undertakings for the Collective Investment of Transferable Securities (UCITS)** demonstrates how a harmonised EU product label can become a champion not only in the internal

market, but also abroad. Given their well-established and trusted legal framework, UCITS have become the most popular EU financial product sold worldwide.

What is still needed?

In order to complete the Capital Markets Union, the High Level Forum is convinced that a comprehensive set of measures must be put forward and implemented through a staged approach. The first CMU Action Plan was criticised for addressing only “low-hanging fruit”. **For the completion of the CMU, it is now essential to target the measures that may be politically difficult, but that will lead to tangible results.**

Building on Europe’s successful experience, the Capital Markets Union needs to tackle cross-border and domestic barriers and other obstacles that lead to capital markets’ fragmentation, inadequate access of businesses to market-based financing, and lack of long-term investment by citizens and institutional investors.

For the measures to be successful, they need to have a clear delivery timetable and be monitored over time against a set of indicators. Some of the measures, due to their political sensitivity or complexity, might require a staged approach. Continuous and pro-active communication on the delivery of the proposed measures to all stakeholders will be paramount to keeping the process under control and the stakeholders - accountable.

The HLF will propose priority measures, which will address the identified barriers to the achievement of the Capital Markets Union, taking into account the new challenges. Each individual proposed measure will produce a significant tangible impact on the deepening and integration of capital markets in Europe. While other *auxiliary* measures might be relevant, the Forum will only focus on the true *game-changers*.

In a nutshell, the Forum will put forward policy recommendations, which:

- Produce significant and tangible impacts or are the so called ‘*game-changers*’;
- Require urgent action;
- Tackle the problem that cannot be resolved by industry’s efforts alone;
- Are sufficiently concrete;
- Strive to achieve simplification of the regulatory landscape to the extent possible;
- Can be delivered within the proposed timetable;
- Progress can be clearly monitored.

While the work of the Forum is still on-going, the following broad categories are emerging in discussions:

Financing for businesses

- measures enhancing **transparency and comparability of company data** for investors;
 - to foster single pan-European access by investors to comparable company data;
- measures supporting the development of cross-border **long-term investment vehicles**;
 - to widen capital supply for businesses through adequate capital instruments;
- measures supporting **institutional investor participation** in equity;
 - to increase risk appetite of institutional investors.

- measures to improve the efficiency of public markets;
 - to facilitate listings of companies.
- measures to support more financing for businesses by strengthening the **tools available to financial intermediaries, including securitisation**;
 - to ensure that businesses can access all sources of funding starting with bank lending and transitioning towards market-based financing.

Market infrastructure

- measures enhancing **better integration** and **efficiency of trading and post-trading**;
 - to ensure a better quality of trading, and wider use of passports in post-trading for a more efficient and competitive capital market landscape.
- measures improving **liquidity of secondary markets**;
 - to support liquidity in products needed by investors, issuers and businesses, enhance the role of European intermediaries in achieving that, including via better functioning securitisation, and improve the effectiveness of European financial markets.

Retail investment

- measures tackling demographic challenges by enhancing engagement of retail investors in capital markets through **adequate occupational and personal pension products**;
 - steer citizens towards suitable, long-term investment products, assisted by professional intermediaries;
- measures developing **financial literacy and equity culture** of retail investors and their access to **high-quality advice**;
 - to improve access to simple and transparent investment products, as well as trustworthy financial advice, including genuinely independent advice;

Cross-cutting issues

- measures addressing the **tax-related obstacles** in cross-border investment;
 - to tackle the issue of withholding tax for cross-border investors;
- measures enhancing **legal certainty** for cross-border investment;
 - to ensure converging outcomes in national insolvency proceedings;
- measures seeking **convergence of supervisory outcomes** across Europe.
 - to create a level-playing field for financial players and remove regulatory arbitrage.

The Forum is also reflecting on how to address wider cross-cutting issues related to financial technical innovation and the ongoing transition towards sustainable investment. In addition, the Forum is looking into possible synergies between public and private instruments, where the former can serve as an effective catalyst for the latter.

Conclusion

The Capital Markets Union embodies and promotes multiple objectives that are at the core of the European Union Treaties. This makes it a structural reform that Europe needs in times of great transformation. The Capital Markets Union can deliver on its promises only with strong and immediate political support at the highest level, as well as coordination among all the European institutions to push bold reforms forward. The window of opportunities is closing, as other jurisdictions are gradually assuming a bigger role in global markets. The EU cannot miss this opportunity.

