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CMU: a key opportunity for the EU to recover and compete

Completing the Capital Markets Union (CMU) is an essential milestone to create a true Single Market in financial services that provides businesses with a greater choice of funding, offers new opportunities for investors and makes the financial system more resilient.

While Europe is facing its most severe crisis since decades, and with the UK leaving the Union, a new impetus based on a renewed narrative and a strong political commitment is more than ever needed. A few key principles should guide all forthcoming initiatives aimed at completing the CMU. There are not new but they have taken a more acute relevance over the last months in light of the Covid19 crisis.

Boosting European equity markets should be a central focus of the CMU. European firms will need to have access to capital in the recovery phase. IPOs by issuers of all sizes should be facilitated, as well as recapitalizations for issuers seeking to rebalance their debt / equity ratio. Retail investors' savings should be channeled more into equity investment. The long-awaited consolidated tape for equity instruments must be established in the forthcoming review of MiFID.

There is no CMU without safe and efficient cross-border investments and services. The EU passport regime must be enhanced, and so should relations between 'home' and 'host' supervisors. Regulatory arbitrage should be avoided and, in absence of a centralized supervision, regulated firms should not elect a 'home' jurisdiction in a Member State where they do not intend to conduct their business in practice. On another front, the architecture of asset management regulation should be revisited to clarify the framework applicable to cross-border activities and address divergent implementation across Member States.

The long-term needs and interests of EU investors must be at the heart of all initiatives under the CMU flagship. This entails making sure that retail investors receive proper advice before making their investment decisions and that all pre-contractual information delivered to clients (prospectuses, key information documents, marketing materials) are fit for purpose, coherent and not prone to mislead them. This also implies fostering long-term savings and investments by creating a pan-European vehicle for employee share-ownership and revisiting the EU framework for existing long-term vehicles (ELTIF).

Resilient financial markets rely on competitive infrastructures and players. In a fragmented landscape, fostering the competitiveness of the EU27 markets should be recognized as a core component of the renewed CMU. To that end, in future legislation, the impact of any proposed measure on the competitiveness of the EU, its markets and stakeholders - and its relations with third countries - must be taken into account, without affecting market integrity and financial stability. In the long run, this is key to ensure Europe's financial autonomy and economic sovereignty.

With a major financial hub at its doorsteps, enjoying full legislative autonomy, the EU will have no choice but to improve its legislative agility. The shortcomings of the EU rulemaking are well-known (regulatory inflation, excessive level of detail at level 1, lack of proportionality, unrealistic timetables, ambiguities in wording, too many national options ….). To compete on a global scale, the EU must have the ability to amend its rules swiftly, in response to market developments or when rules prove to be inapplicable or inappropriate. The EU cannot postpone any longer establishing the necessary forbearance tools that are respectful of the prerogatives of EU co-legislators.

Enhanced supervision at EU level is another cornerstone of a well-functioning Single Market. Taking stock of the fact that ambitious proposals towards more integrated European supervision have not received the necessary political support from most Member States, other ways should be explored to ensure the supervisory convergence that is crucial for all financial market players. For instance, the EU should strive to systematically legislate by way of regulations (as opposed to directives) and ban national options and scope for national gold-plating. In any case, if no further direct supervisory task is to be given to the ESAs, we must avoid any overly burdensome and costly administrative processes. ●