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Capital Markets Union: fewer action plans, more action!

Improving European capital markets has been a long-standing goal of the European Commission and the European legislator. Even before this policy objective has been officially christened "Capital Markets Union", the idea was very much part of the EU's financial services agenda. Yet, progress has been frustratingly slow. If you look at metrics such as stock market capitalisation as percentage of GDP, the European Union lacks far behind countries such as the US and the UK and even many Asian jurisdictions such as Japan, Hong Kong or Singapore. At the same time, the European Union's corporate financing model remains heavily skewed towards bank financing while many European retail investors keep having fundamental reservations against equity investments despite fewer and fewer attractive investment alternatives in times of ultra-low interest rates and bond yields.

The United Kingdom, arguably the most liquid and most highly developed capital market in Europe, leaving the EU has dealt another blow to the EU's attractiveness as a financial centre. In the absence of equivalence decisions, the European Union has cut itself and its businesses off from an attractive financing hub - at least for the foreseeable future. In this sense, Brexit highlights that the Capital Markets Union project is needed more than ever.

The general recipe is clear and the most recent Capital Markets Union action plan presented by the European Commission in September 2020 contains many of the right ingredients. Improving cross-border access to company information, facilitating access to public markets for small and medium sized companies and retail investors alike, making long-term investments more attractive and reducing uncertainty in relation to cross-border investments through tax and insolvency harmonisation are no-brainers in theory.

However, a lack of progress on the CMU is not attributable to a lack of good ideas, but to a lack of execution. Many of the core ideas in the most recent Capital Markets Union action plan are old friends from previous iterations. **What is more needed than ever is not yet another rehash of the same ideas in a new action plan, but meaningful execution** of those ideas. Unfortunately, many of the sensible ideas, the Commission and the European Parliament have been consistently calling for have been frustratingly hard to implement in practice, often due to fundamental resistance by the Council that stubbornly refuses to touch delicate subjects such as insolvency law and taxation.

Brexit can be the wake-up call that is needed. The Council's "Next CMU" working group that came up with a few very sensible proposals is an encouraging sign that a more pragmatic approach might finally take shape. The upcoming reviews of MiFID II and Solvency II as well as the Basel III implementation package can be the first litmus test if the Council actually means business in relation to a more ambitious approach to the CMU. It would definitely be time.