

EUROPEAN UNION



Committee of the Regions

ECON-VI/001

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DRAFT OPINION

Commission for Economic Policy

Green Paper *Building a Capital Markets Union*

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Mayor of Białystok

This document will be discussed at the meeting of the **Commission for Economic Policy to be held from 11 a.m. to 2 p.m. on 7 May 2015**. To allow time for translation, any amendments must be submitted through the online tool for tabling amendments (available on the Members' Portal: <http://cor.europa.eu/members>) **no later than 3 p.m. (Brussels time) on Thursday 23 April 2015**. A user guide is available at: <http://toad.cor.europa.eu/CORHelp.aspx>.

References

Green Paper *Building a Capital Markets Union*
COM(2015) 63 final

Draft opinion of the Commission for Economic Policy — Green Paper *Building a Capital Markets Union*

I. GENERAL REMARKS

THE COMMITTEE OF THE REGIONS

1. as a representative of the local and regional authorities of European Union Member States, welcomes the initiative set out by the European Commission in the Green Paper *Building a Capital Markets Union*, the key element of which is creating a single capital market;
2. points out that the European Union is a community of values, at the heart of which are private ownership and entrepreneurship;
3. stresses the importance of creating a common, unified market which enables the free flow of capital;
4. praises the actions to eliminate barriers that prevent providers and recipients of capital from entering into and maintaining relations;
5. underlines the need to take further structural and anticyclical initiatives in the field of financial markets so as to impact all EU Member States and also benefit regions with less developed financial markets;
6. recognises the need to diversify sources of financing the EU economy and for mechanisms which bring in new investments as factors which bring stability and promote development;
7. is specifically interested in those elements within a capital markets union which could boost regional and local development;
8. expresses particular interest in and strongly supports all actions aimed at:
 - a) strengthening the potential of SMEs, recognising their local role in promoting entrepreneurship, creating innovation, and shaping society based on the value of work;
 - b) financial feasibility support for important and long-term investment projects with key regional significance which create conditions for effective local and regional development;
9. points out that a capital markets union contributes to more diverse sources of financing for large investment projects which require many financial entities to be involved due to their specific characteristics and scope;
10. welcomes the change of course towards increasing the involvement of individual investors in the capital market;

11. agrees that the creation of a capital markets union will require particularly extensive analyses and consultations to identify barriers and possibilities and then to undertake various regulatory, institutional and educational measures;

II. PRINCIPLES AND GOALS OF THE CAPITAL MARKETS UNION

12. welcomes the first comprehensive document on the need to create a capital markets union as a project of key significance to a united Europe;
13. praises the plan to speed up the flow of capital in the European market which could stimulate the European economy and ensure sustainable, cohesive and stable economic growth and increased employment¹;
14. believes that a single capital market within the European Union will be another tool to improve resilience against asymmetric shocks resulting from varying speeds of development of the European Union's individual regions. The Committee observes that deeply rooted factors of the lack of aggregate demand such as unevenness of regional development are also a source of weakness of capital markets;
15. welcomes the preparation of a set of priorities for further work covering such things as: lowering barriers to accessing the capital market, making it easier for capital holders and SME-type entities to enter into relationships, security on the capital market, support and financing for long-term investments, development of non-public issuance and other forms of financing throughout the EU and decreasing administrative burdens;
16. states that the capital markets union has the potential to integrate fragmented capital markets in Europe by supporting cross-border flows of capital which would consequently increase the scale of investment in European businesses and infrastructure projects;
17. welcomes programmes and funds such as EFSI to make investments with significant public interest;
18. fears that the current objectives are too general, which could lead to failure to achieve a satisfactory level of diversification of sources of financing for SMEs;
19. considers that the emerging capital markets union should above all contribute to development of SMEs;
20. welcomes the change of course towards increasing the involvement of individual investors in the capital market. Individual investors within the EU have amassed significant savings in bank accounts. The passivity of capital deposited in this way is not conducive to growth of the European economy and does not bring the expected benefits to the savers themselves, not least due to low interest rates;

¹ http://ec.europa.eu/polska/news/150218_unia_pl.htm.

21. encourages the adoption of broad capital market reform implementing and disseminating innovative forms of financing and financial intermediation which will be conducive to popularising financial innovations and increase the competitiveness of the European financial system;
22. encourages carrying out more extensive consultations concerning securitisation processes, taking into account conclusions taken from the financial crisis. Securitisation should avoid high-leverage instruments and dependence on short-term financing;
23. points out the significant cultural, historical and legal variation of individual markets of Member States. The complexity of the task requires more extensive ex ante analysis of the establishment and impact of a capital markets union in each Member State;
24. is convinced that many of the initiatives concerning the capital markets union will have to be implemented concurrently and then supported by multilevel education programmes due to social barriers resulting from factors such as traditions and customs;
25. points out the low level of financial knowledge and investment culture among retail investors and owners of micro-enterprises and small businesses. These are structural factors which hinder development of a Europe-wide capital market. The role of local and regional authorities in promoting financial education may turn out to be crucial;
26. believes it is appropriate to consider financial and institutional participation of the public sector in areas that directly contribute to development of the capital market where private sector initiatives will be insufficient. In such cases, public sector involvement should be based on economic analysis and have a clear plan for divestment after the desired effect has been achieved;
27. believes that in areas covered by the capital markets union plan, many countries have good practices that are worth promoting;
28. emphasises that local and regional government institutions can play a significant and varied role in capital markets as investors offering long-term start-up capital and their liabilities could be traded on markets;
29. emphasises that local and regional authorities are responsible for promoting the development of SMEs and micro-enterprises and development of infrastructure in Europe, which is why they will support the European Commission's actions and wish to actively participate in future changes;

III. HARMONISATION OF LAW

30. agrees on the need to create a uniform set of rules on capital markets. These provisions should be respected in all Member States;

31. considers it appropriate to assume that creating transparent frameworks for the functioning of a single capital market and unifying the collateral system should increase credibility among investors, leading to more effective allocation of capital;
32. expresses concern that actions aiming to harmonise selected legal aspects (concerning the capital markets union) in all countries will be sufficiently effective in the foreseeable future and suggests the alternative of considering consensuses, i.e. allocation of areas, instruments or entities subject to community requirements²;
33. considers it important to create new legal categories enabling investment and raising of capital regardless of nationality within the European Union;
34. is convinced that new market initiatives can be introduced by further increasing public transparency of available financial information and eliminating reasons why financial information might not be comparable between Member States;
35. reiterates its call to increase comparability and availability of data on the risk of financing businesses from the SME sector throughout the EU, as expressed in previous Committee of the Regions opinions;
36. suggests setting up a common European database of credit information which would help investors assess investment risk;
37. considers it appropriate to establish simplified International Financial Reporting Standards (IFRS) which could ensure comparability of businesses and increase their ratings. Using these kinds of standards could also encourage investors to invest funds in businesses that apply transparent and generally acknowledged principles;
38. sees a need for systematic work on harmonising insolvency law and to reconcile financial restructuring process frameworks, and acknowledges how complicated this matter is, particularly the various ways in which social groups and certain groups of creditors are privileged;
39. supports the review of legislative frameworks including prudential rules with the aim of eliminating barriers to securitisation of assets invested in the SME sector and which hinder the functioning of non-bank entities offering financing and less restrictive treatment of long-term involvement in infrastructure projects;
40. points out the potential problem of lack of harmonisation of financial markets because certain Member States are not part of the banking union;
41. emphasises that the capital markets union must be open and competitive internationally and only regulated to the extent of ensuring the credibility of institutions reporting the need for

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The interbank settlement system TARGET 2 was created on similar principles and is working well.

capital. Attracting international investment requires high standards to be maintained in the EU through such things as ensuring the integrity of the market and financial stability of investors;

IV. DIVERSIFICATION OF SOURCES OF FINANCING FOR SMES

42. would like to highlight the significance of the SME sector for the European economy and regional development. There are over 20 million SMEs in the EU27, making up approximately 67% of jobs and 58% of gross value added. Furthermore, there are almost 19 million SMEs employing up to 10 people, which provide 1/5 of the jobs in the EU. During the crisis in 2008-2011, SMEs were better able to stabilise employment than large companies, but at the same time their share in GDP creation underwent a relative decrease³;
43. finds it regrettable that the actions of the European Commission so far have focused on the banking sector which, despite numerous regulations, was the source of the economic crisis in European Union Member States;
44. points out that it is more difficult for SMEs to access diversified sources to finance their activities. Over 80% of external financing sources for SMEs in the EU are bank loans and 40% of companies make use of leasing, usually offered by entities associated with banks;
45. notes that SMEs have more problems accessing bank loans in periods of economic downturn, so intrabank processes are more pro-cyclical than anti-cyclical;
46. notes that increased competition for the banking sector is a necessary step towards decreasing its domination in providing sources of financing in the EU, particularly for the SME sector. There should be strong support for eliminating the barriers that limit this competition on the part of non-banking entities and financial instruments, new players and innovation from outside the financial sector, as well as for legislative initiatives in this area;
47. believes that the objective of the capital markets union is not to replace banks in the European economy. They play a key role and are the main source of financing for SMEs after own resources. However, the Committee considers it essential to maintain an appropriate balance between actions promoting investment banking and non-bank financing, on the one hand, and financing in the form of traditional bank loans, on the other;
48. welcomes the actions Member States have taken so far, such as financial support programmes for SMEs (guarantees, grants, accelerating commercial payments, seed capital);
49. points out key factors enabling SMEs to develop, such as a business-friendly environment, modern infrastructure, the existence of technologically advanced sectors of the economy and a highly qualified workforce. In light of the above, capital markets union initiatives should be prepared in such a way as to reach the micro-enterprises group, which is both the largest and the one with the weakest links to capital markets;

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Annual Report on European SMEs 2012/2013; EC, October 2013.

50. is concerned that new EU banking sector regulations (CRD IV/CRR) could also limit SME's access to bank financing and therefore recommends cyclical studies of the impact of the abovementioned regulations on changes to SME's access to bank financing in individual countries;
51. stresses that regional and local banks have an important role to play in financing SMEs because they have better knowledge of the local and regional economies and unique methods of assessing credit risk of local businesses;
52. agrees that besides access to capital, SMEs must also demonstrate involvement in obtaining it and responsibility when using it;

V. STIMULATING COMPETITION ON THE CAPITAL MARKET

53. hopes that the single capital market can contribute to the development and spread of alternatives to traditional forms of credit and investment intermediation. These forms have important potential to provide investment capital to local economic operators;
54. encourages the European Commission to promote good practices in alternative forms of financing which are well developed in some EU Member States;
55. considers it desirable, within discussions and work on the capital markets union, to ensure an environment that is conducive to the parallel development of the banking system and crowdfunding. They are still relatively small in scale but have a significant growth rate⁴;
56. welcomes the idea of creating a generally accessible virtual space which would contain information on projects requiring additional financing;
57. acknowledges that alternative offers of financing directed at SMEs, particularly high investment risk instruments, work out better in the case of innovative ventures;
58. takes the view that the regulatory environment should be stimulating and not limit the accessibility of new instruments and forms of capital distribution;

VI. FINAL REMARKS

59. welcomes the EC's increased interest in the problem of access to non-bank financing;
60. acknowledges that the Green Paper *Building a Capital Markets Union* is the first step to creating a single capital market;

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The European Alternative Finance Benchmarking Report, Cambridge University, February 2015.

61. is willing to take part in further work, acknowledging that a diverse regional and local perspective makes it possible to create provisions which take the needs of all parties into account;
62. encourages discussion on a detailed work programme which should ensure the appropriate momentum needed to keep to the planned deadline for creating a single capital market;
63. stresses the need to integrate different environments with the aim of drafting an entirely satisfactory document which takes into account needs which vary by area and sector;
64. points out the need to step up programmes to improve knowledge of financial issues and educate the public on investment possibilities and needs. National initiatives and Europe-wide projects such as Consumer Classroom need to be amended and harmonised;
65. warns against excessive regulation when creating the single capital market;
66. encourages broad public debate on the Green Paper *Building a Capital Markets Union* and the accompanying review of the directive on the prospectus and securitisation;
67. supports the European Commission's actions, pointing out the ultimate goals of this initiative which are to facilitate development of small and medium-sized enterprises and speed up the implementation of large infrastructure projects, which is highly important for local and regional communities;
68. acknowledges that establishing a capital markets union, together with the banking union, may lead to better functioning of the market, and in particular to sustainable growth of the EU as a whole.

Brussels,...

VII. PROCEDURE

Title	Green Paper <i>Building a Capital Markets Union</i>
References	Green Paper <i>Building a Capital Markets Union</i> COM(2015) 63 final
Legal basis	Article 307 TFEU
Procedural basis	Rule 41 b) i) of the Rules of Procedure
Date of Council/EP referral	N/A
Date of Commission letter	
Date of Bureau/President's decision	5 March 2015
Commission responsible	ECON
Rapporteur	Tadeusz Truskolaski (PL/EA)
Analysis	Sent on 20 March 2015
Discussed in commission	7 May 2015
Date adopted by commission	Scheduled for 7 May 2015
Result of the vote in commission (majority, unanimity)	
Date adopted in plenary	Scheduled for 8-9 July 2015
Previous Committee opinions	<ul style="list-style-type: none"> – Long-Term Financing of the European Economy Rapporteur: Mr Witold Krochmal (PL/EA) COR-2014-03235 – ECOS-V-59 – Structural reforms of EU banks and transparency in shadow banking Rapporteur: Mr Henk Kool (NL/PES) COR-2014-01321 – ECOS-V-55 – European Long-term Investment Funds Rapporteur: Ms Simone Beissel (LU/ALDE) COR-2013-06862 – ECOS-V-49 – Green Paper on the long-term financing of the European economy Rapporteur: Mr Uno Silberg (EE/EA) CDR3303-2013 – ECOS-V-44
Date of subsidiarity monitoring consultation	-