



European Economic and Social Committee

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Capital Markets Union: Mid-Term Review

OPINION

European Economic and Social Committee

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Mid-Term Review of the Capital Markets Union Action Plan

[COM(2017) 292 final]

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Consultation	European Commission, 05/07/2017
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Section responsible:	Economic and Monetary Union and Economic and Social Cohesion
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Preamble

This opinion is part of a wider package of four EESC opinions on the future of the European economy (Deepening of the Economic and Monetary Union and Euro area economic policy, Capital Markets Union and The future of EU finances)¹. The package comes in the context of the White Paper process on the future of Europe launched recently by the European Commission and takes into account the 2017 State of the Union speech by President Juncker. In line with the EESC resolution on the Future of Europe² and previous opinions on completing EMU³, this package of opinions underscores the need for a common sense of purpose in the Union governance, which goes far beyond technical approaches and measures, and is first and foremost a matter of political will and a common perspective.

1. Conclusions and recommendations

- 1.1 As the CMU is essential both for further and deeper European integration and progress generally and for the Member States individually, and given that account needs to be taken of the changing international context, the EESC is strongly in favour of this union and is ambitious regarding its implementation. For the Committee, it is important for every effort to be made to make it a success. It is important to make progress and achieve results quickly in order to provide the EU economy with a new impetus and dynamism in the short term.
- 1.2 Indeed, the Committee has always been very supportive of and explicitly called for the further deepening and completion of the EMU. Today, the Committee does so once again, issuing a urgent call for the same in the interests of the CMU. The CMU, together with the banking union, should ensure a financial union, and its implementation should therefore also contribute to ensuring the establishment of the EMU, as it is one of the latter's fundamental components. The first stages of implementing the CMU are now complete and several steps have already been taken regarding the banking union, with the development of the first and second pillar and proposals for the third pillar. It is now important to continue work in both areas and to achieve the final objectives as quickly as possible.
- 1.3 The CMU can also make a substantial contribution to consolidating the economic recovery, thereby helping to ensure growth, investment and jobs. This will benefit both the individual Member States and the EU as a whole. In structural terms, the associated broadening and diversification of financing sources should help to ensure greater integration. This in turn should contribute to the desired increase in stability, security and resilience of both the economic and the financial system. Continuing to pursue fragmented action is not an option, since this leads to many missed opportunities.
- 1.4 Similarly, given the various international and global power shifts currently taking place as well as Brexit closer to home, it is vital for the EU to prepare itself effectively and to strengthen its

¹ The package includes EESC opinions [Euro area economic policy 2017](#) (additional opinion), [Capital Markets Union: Mid-term Review](#), [Deepening EMU by 2025](#) and [EU finances by 2025](#). Not yet published.

² EESC Resolution on ["The Commission's White Paper on the Future of Europe and beyond"](#), 6 July 2017. Not yet published.

³ [OJ C 451, 16.12.2014, p.10](#) and, [OJ C 332, 8.10.2015 p. 8](#).

position economically. The resilience and dynamism that the US economy demonstrated after the crisis could serve as an example to the EU in this respect.

- 1.5 For the EESC, it is clear that the CMU is not a voluntary exercise for the benefit of the few, but needs to become a reality in all EU Member States. This is an absolute necessity. This calls for the political will at European level and in the Member States to make all necessary efforts and to establish all of the relevant conditions required. The outcome needs to be a CMU that stands for integration across the EU, while at the same time paying attention to existing needs and ambitions, including those of particular regions and areas. A coherent and consistent policy is needed across all areas, and initiatives that are not in line with the stated objectives should be excluded.
- 1.6 For the EESC, it is extremely important to maximise the CMU's chances of proving successful. It is therefore expressly proposed to make provision for the tools needed in order to be able to assess and measure the effective efforts to implement the CMU and the progress made in all Member States. More specifically, the Committee is strongly in favour of establishing a system to regularly assess the progress with and implementation of the CMU in the Member States, using both qualitative and quantitative measures, with the results of this to be made publicly available. There should also be appropriate measures and action in the event of shortcomings.
- 1.7 The ultimate success of the CMU will depend on the extent to which the suggested building blocks are transformed into an effective reality and the single market actually comes into being and is used effectively by all relevant stakeholders, first and foremost by financial service providers, businesses, investors and savers. The EESC therefore welcomes the current rapid mid-term review and recommends that such exercises should in future take place on a regular basis. The aforementioned stakeholders should have an active role and should be closely involved in this.
- 1.8 The further steps to be taken in order to lay the building blocks for the CMU require that choices be made. In the Committee's view, preference should be given to action and measures that achieve the greatest convergence and that leave the least room for the Member States to go beyond what is strictly necessary. It is important to keep the REFIT approach in mind, in order to make things easier, while avoiding unnecessary administrative burden and keeping costs down.
- 1.9 The Commission document contains 38 building blocks for the CMU that are (still) to be delivered by 2019. While the large number of measures to be delivered in the short term may raise questions as to the approach, for the Committee it is important to ensure that the foundations of an irrevocable and irreversible CMU are laid down as quickly as possible.
- 1.10 In this connection, the EESC calls in particular for all due attention to be given to the financing of SMEs, for which bank financing remains an extremely important issue. As well as the existing measures provided for in the original Action Plan for the benefit of SMEs (including STS securitisations and the Prospectus Directive), efforts should be made to develop all initiatives in the present Communication that can further improve their situation. In addition,

other avenues for SMEs should be developed and encouraged, such as alternative financing and the promotion of other policy tools.

- 1.11 Furthermore, the EESC welcomes the focus on the strengthening of sustainable investments and the leading role that the EU should play in this field. The Committee supports the idea that sustainability considerations should be taken into account in up-coming legislative reviews of financial legislation (priority action 6).
- 1.12 Finally, the Committee is pleased that supervision will be a key part of efforts to develop the CMU. Supervision at European level has a crucial role to play, both as regards safety and stability and when it comes to achieving the desired market integration and eliminating obstacles, barriers and inequalities in the single market.

2. Background

- 2.1 When it took office, the Juncker Commission set the stimulation of growth, investment and jobs as one of its top priorities. In order to achieve this, it immediately started work on developing an *Investment Plan for Europe* made up of a number of pillars.
- 2.2 Among other things, this plan includes efforts to achieve a single Capital Markets Union. The first steps towards this were taken at the end of September 2015 when the Commission published its Action Plan on Building a Capital Markets Union⁴, setting out the building blocks for putting a well-functioning and integrated Capital Markets Union, encompassing all Member States, in place by 2019.
- 2.3 Less than a year later, the European Council called for "swift and determined progress" on the plan, "to ensure easier access to finance for businesses and to support investment in the real economy by moving forward with the Capital Markets Union agenda"⁵, and shortly after that the Commission adopted a communication also calling for the reforms to be accelerated⁶.
- 2.4 In addition, a number of new challenges for financial integration have recently emerged, such as the imminent departure from the EU of its biggest financial centre (Brexit).
- 2.5 All of this recently⁷ led to the publication by the Commission of a Communication on the mid-term review of the Capital Markets Union Action Plan⁸. This mid-term review not only (a) describes the state of play regarding implementation of the original action plan and (b) sets out a number of new legislative initiatives based on outstanding measures, but in particular (c) announces a number of new priority actions.

4 [COM\(2015\) 468 final.](#)

5 <http://www.consilium.europa.eu/en/press/press-releases/2016/06/28-euco-conclusions/>

6 [COM\(2016\) 601 final.](#)

7 On 8 June 2017.

8 [COM\(2017\) 292 final.](#)

2.5.1 The aim of the mid-term review is to respond more specifically to the challenges that have emerged and are evolving, and also to take account of the results of the public consultation held in spring 2017.

2.5.2 Of the (33) measures proposed in the original plan⁹, more than half (20) have been implemented at Commission level in accordance with the original timetable. The proposals presented relate *inter alia* to developing venture capital markets, making it easier and cheaper for companies to access public markets by revising the rules on prospectuses, removing the preferential tax treatment of debt over equity, promoting a safe and liquid market for securitisation, and giving honest entrepreneurs the opportunity to restructure or a second chance in the event of bankruptcy.

2.5.3 With regard to the outstanding measures¹⁰, the Commission intends, among other things, to move forward with *three legislative proposals* that are seen as key to implementing the CMU: a proposal on a Pan-European Personal Pension Product (PEPP) (published on 29 June 2017), a proposal specifying conflict of laws rules for third-party effects of transactions in securities and claims (Q4 2017), and a proposal for an EU framework for covered bonds (Q1 2018).

2.5.4 In order to respond to the evolving challenges, nine new priority actions¹¹ will be taken to strengthen the CMU:

- greater powers for the European Securities and Markets Authority (ESMA) to promote the effectiveness of consistent supervision across the EU and beyond;
- a more proportionate regulatory environment to support SME listing on public markets;
- a review of the prudential treatment of investment firms;
- looking into the possibility of a European licensing and passporting framework for FinTech activities;
- measures to support secondary markets for non-performing loans, and a study on a possible legislative initiative to strengthen the ability of preferential creditors to recover value from secured loans to corporates and entrepreneurs;
- following up on the recommendations of the High Level Expert Group on Sustainable Finance;
- facilitating the cross-border distribution and supervision of UCITS and alternative investment funds (AIFs);
- guidance on existing EU rules for the treatment of cross-border EU investments, and an adequate framework for the amicable resolution of investment disputes;
- a comprehensive EU strategy looking into measures to support local and regional capital market development.

2.6 The aim is still to make a decisive and lasting contribution to laying the foundations for a true CMU by 2019. This will be reflected in the Commission's 2018 work programme.

⁹ [COM\(2017\) 292 final](#), point 2.

¹⁰ Ibid. footnote 9.

¹¹ [COM\(2017\) 292 final](#), point 4.

3. Observations and comments

- 3.1 Firstly, the Committee reaffirms¹² its support in principle and draws attention to its previous opinion in support of the CMU, the implementation of which is indispensable for further financial and economic integration within the EU. The current momentum should not be ignored, particularly now that a number of global power shifts are currently taking place between East and West. The EU must prepare itself effectively.
- 3.2 The CMU is a key part of a larger programme that is supposed to contribute to generating more growth, investment and jobs. A sustainable and sound economic revival should remain high on the agenda and should be further pursued without delay. Indeed, the challenge is to consolidate the economic recovery and get more people into steady work.
- 3.3 The CMU should also make it possible to mobilise capital in Europe on a large scale and channel it towards all businesses, infrastructure and sustainable long-term projects, in a more unified environment. The goal of broadening and diversifying financing sources – in which both banking and market financing have a major role to play – should make the economy more dynamic and robust. The US model, which showed a higher degree of resilience after the crisis, may serve as inspiration in that regard, alongside other new ideas in which non-bank lenders, among others, play a more important role.
- 3.4 At the same time, the challenge is to pursue economic and social convergence and thereby bolster economic and financial stability within the EU. A qualitative approach should be adopted, characterised by sound and sustainable growth and prosperity. Businesses, investors and savers should also be able to benefit from the CMU but, at the same time, this should not mean that they have to bear excessive risk.
- 3.5 The CMU is also vital for the further deepening and completion of the EMU and its implementation is indispensable¹³. The Committee reaffirms its established position in this regard¹⁴. Together with a fully-fledged banking union, the CMU should lead to a real financial union, one of the four fundamental pillars¹⁵ of the EMU¹⁶. Several steps have already been taken in this area and it is important to maintain these efforts.
- 3.6 Moreover, all Member States will benefit from the CMU. As recently pointed out, it has "[a]nother major benefit, (...) the contribution to convergent growth among member countries, resulting from the improved circulation and allocation of savings across the Union". Weaker economies should therefore be able to catch up more quickly with those that are performing

¹² [OJ C 133, 14.4.2016, p. 17.](#)

¹³ [OJ C 451, 16.12.2014, p. 10,](#) point I

¹⁴ See also the EESC opinion on "[Deepening EMU by 2025](#)". Not yet published.

¹⁵ As well as steps to implement a financial union, it is also necessary to create a genuine economic union, a fiscal union and a political union. Five Presidents' Report, "[Completing Europe's Economic and Monetary Union](#)", June 2015.

¹⁶ See also "[Completing Europe's Economic and Monetary Union](#)", Five Presidents' Report, June 2015.

better¹⁷. Moreover, "in this perspective, Brexit makes it more crucial that the CMU is effectively implemented and that European growth can avail itself of the services of an integrated financial system¹⁸".

- 3.7 As a result, the Committee deems it highly desirable for rapid progress to be made. It endorses the European Council's conclusions of June 2016¹⁹ and other statements²⁰ to the same effect.
- 3.8 With this rapid²¹ mid-term review of the Action Plan, the finger is kept on the pulse and action is taken early. The Committee welcomes the fact that this allows for a stronger and more targeted response to the various future challenges that are arising in ever changing political and economic circumstances. Furthermore, it is desirable to make provision for such mid-term reviews to be carried out at regular intervals in future. The Committee believes that the various stakeholders should have an active role and should be closely involved in this. That is all the more important since the ultimate success of the CMU will depend on the extent to which the foundations laid are genuinely transformed into reality and the single market is actually created and effectively used by the largest possible number of financial service providers, businesses, investors and savers.
- 3.9 In order to implement the CMU, preference should be given to measures that make the biggest contribution to convergence²² and that leave the least room for the Member States to go beyond what is strictly necessary. Differences in the transposition of European legislation into national legislation, as well as differences in application in practice, should be avoided. Furthermore, the REFIT approach should be adopted as far as possible.
- 3.10 For the Committee, the CMU cannot be a voluntary exercise that will only benefit some countries but, on the contrary, must become a reality in all EU Member States. This is an absolute necessity. It is therefore extremely important for there to be the (political) will at European level and in each Member State to establish the relevant conditions and provide the necessary incentives to make it possible to secure such success and make it a reality.
- 3.11 There can be no compromise on the absolute necessity to establish the CMU in all Member States (see 3.10 above). It is therefore necessary to make provision for tools that make it possible to assess the efforts actually being made to achieve the objectives set as well as the genuine progress made in all Member States. In that regard, the Committee is strongly in favour of establishing a system to regularly assess the progress with and implementation of the CMU in the Member States, using both qualitative and quantitative criteria. The results of this should be

17 This will also mean that the asymmetric effects of economic shocks are better absorbed.

18 See, *inter alia*, Vítor Constâncio, Vice-President, European Central Bank, Effectiveness of Monetary Union and the Capital Markets Union, Malta, 6 April 2017. <http://malta2017.eurofi.net/highlights-eurofi-high-level-seminar-2017/vitor-constancio-vice-president-european-central-bank/>

19 See point 2.3 of this opinion.

20 See footnote 13.

21 Less than 2 years after the publication of the Action Plan.

22 Where possible, therefore, preference should for example be given to regulations over directives.

made public. Provision should be made for appropriate action and measures in the event of shortcomings.

- 3.12 The outcome needs to be a CMU that stands for integration across the EU, while at the same time paying attention to existing needs and ambitions in individual Member States, without this leading to renewed fragmentation. In that context, it is clear that the development of regional capital markets for certain regions and economic operators established within them is very important (Priority action 9). This could also help stimulate cross-border trade and service provision, which are often more expensive and more complicated than local trade.
- 3.13 Moreover, further successful implementation of the CMU will require consistent, coherent policy at all levels. And it is important to reject initiatives that are not in line with the CMU and/or are liable to create fragmentation, obstacles or other barriers.
- 3.14 As it stands, the full overview of building blocks for the CMU (still) to be put in place by 2019, as listed in the Commission document²³, contains no fewer than 38 measures and actions. With a view to keeping the aforementioned chances of success as high as possible, one wonders whether the Commission is trying to do too much in too short a space of time, and whether it might not be better to focus on a limited number of priorities²⁴. Irrespective of the response, it is, in any event, important to work within the proposed timetable, focusing as much as possible on results, and to lay the foundations of an irreversible capital union.
- 3.15 As the Committee stated in its original opinion on the action plan, the financing of SMEs, which constitute the driving force of Europe's economy and are of major importance for employment, is a matter close to the Committee's heart. Following this mid-term review, the Committee still has questions²⁵ concerning the relevance and effectiveness of the CMU for SMEs.
- 3.16 With specific regard to SMEs, particularly small SMEs, every effort should be made to make both local and cross-border bank financing easily accessible and attractive, and/or to maintain it²⁶. Possibilities for alternative financing for SMEs should also be encouraged and enhanced. The proposals concerning securitisation (simple, transparent and standardised (STS) securitisation), on which the EESC has previously published a favourable opinion²⁷, certainly

²³ See the Annex to Commission Communication [COM\(2017\) 292 final](#).

²⁴ At the Eurofi High Level Seminar 2017, held in Malta on 5, 6 and 7 April 2017, participants were polled on a number of issues. One of the questions was "how may the CMU be significantly accelerated?" 37% of respondents answered "focusing on a few key priorities", while 29% felt it required "building political momentum for lifting domestic barriers". 12% of respondents opted for "building one financial hub in EU27", and the same percentage said that it was "not possible to significantly accelerate CMU". The fourth and fifth most popular responses were "increasing supervisory convergence" (8%) and "further adapting banking regulation to EU financial market specificities" (3%).

Another question was "what are the two key priorities in EU27 for achieving CMU objectives?" The three most popular answers were "improving the consistency of insolvency and securities laws" (21%), "developing equity financing" (16%), and "being successful with the short term priorities (securitisation, prospectus,...)" (15%).

For more information on the Eurofi High Level Seminar (including the results of the polls, see https://www.ecb.europa.eu/press/key/date/2017/html/sp170406_2.en.html.

²⁵ [OJ C 133, 14.4.2016, p. 17](#), point 1.6.

²⁶ The situation varies across the Member States.

²⁷ [OJ C 82, 3.3.2016, p. 1](#).

constitute a step in the right direction, but they are not the end of the road. The development of a secondary market for non-performing loans (Priority action 4), and a regime for covered bonds can also play a leading role, as does the promotion of policy instruments that exist for SMEs.

4. Specific observations and comments

- 4.1 Without seeking to be exhaustive, below are a number of observations and comments on some priority actions²⁸ announced in the Commission document that the caught the Committee's attention.
- 4.2 The Committee is extremely pleased that supervision will be central to the efforts to develop the CMU (Priority action 1) and hopes that this will be given priority attention. Supervision at European level has a crucial role to play, both concerning the safety and stability of the financial and economic system as well as in achieving the desired market integration and eliminating inequalities and other barriers in the single market, whatever they may be.
- 4.3 The quest for more proportionality in the rules to support initial public offerings and investment firms (Priority action 2) is extremely worthwhile and definitely merits attention but, at the same time, continued attention needs to be paid to the interests and protection of small savers and investors.
- 4.4 It is entirely legitimate to wish to strengthen the leading role of the EU with respect to sustainable investments (Priority action 6). Indeed, it is important for Europe to play a leading role when it comes to "good" and sustainable growth. A qualitative approach must be adopted in this respect. It is also important for savers and investors to have relevant information at their disposal, for example information covering a sufficient time period. For example, in the case of the investment impact, no data are kept for more than 3 years. It should be examined whether this period could be extended.
- 4.5 Furthermore, the EESC supports the EC²⁹ when considering that private capital, EFSI funding and other EU funds should be combined in an efficient manner to shift investments towards those SMEs that show positive social and environmental externalities, thereby also contributing towards meeting the United Nations Sustainable Development Goals (SDGs) and in particular the objectives of the recent European Pillar of Social Rights.

Brussels, 19 October 2017

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The president of the European Economic and Social Committee

²⁸ Where these have not been specified elsewhere in this opinion.

²⁹ [COM\(2017\) 292 final](#), point 4.5