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A Capital Markets Union for people and businesses (new action plan)

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
A Capital Markets Union for people and businesses – new action plan
[COM(2020) 590 final]

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1. Conclusions and recommendations

1.1 The EESC welcomes the Commission communication on *A Capital Markets Union for people and businesses-new action plan*. This is a much-needed continuation of what has been achieved through the first 2015 plan and its mid-term review of 2017, which the Committee endorsed in its opinions *Action Plan on Capital Markets Union*[1] and *Capital Markets Union: mid-term review*[2] The Committee has also in the last two years published several opinions on matters closely linked to the CMU, including the own-initiative opinions *Towards a more resilient and sustainable European economy*[3] and *A new vision for completing the Economic and Monetary Union*[4].

1.2 The initial goals of the action plan, which are to help mobilise capital in Europe and channel it towards companies, infrastructure and long-term projects, which would have positive effects on employment, remain fully relevant. These goals are of the utmost importance to enabling the EU-27, its companies and its citizens to make decisive progress on reinforcing its financial and economic geostrategic sovereignty and on the essential climate, social and digital transitions. The EESC also stresses that the CMU can only achieve the intended targets if financial stability and consumer protection remain priorities in order to avoid a severe negative impact on companies, workers and consumers and the economy as a whole.

1.3 The unexpected and violent COVID-19 crisis calls for a strengthening and acceleration of the action plan. European companies of all sizes have been forced to increase their indebtedness and will need in the coming months and years to raise equity or their own funds to be able to invest for the future, while generating employment.

1.4 The agreement reached on Brexit at the end of December 2020 is another key reason for making a new push for the CMU. EU-27 financial centres will have to be able to provide services that have up to now been provided through the City of London. Highly integrated, functional and fair financial and capital markets must be developed in the EU-27 and the EESC believes that a more common rule-book will be necessary to avoid both loopholes and constraints leading to diseconomies of scale.

1.5 Approving all of the 16 actions proposed by the Commission, the Committee stresses the importance of prioritising and coordinating the initiatives (with concrete milestones to measure progress), emphasises those that it deems most essential and makes targeted complementary proposals.

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1 OJ C 133, 14.4.2016, p. 17.

2 OJ C 81, 2.3.2018, p. 117.

3 OJ C 353, 18.10.2019, p. 23.

4 OJ C 353, 18.10.2019, p. 32.

1.6 While recognising the importance of public funding, better use should clearly be made of the high level of savings in Europe compared with other regions. An overarching prerequisite for achieving this goal is to improve the financial education of Europeans (Action 7). The EESC recommends best national practices and experiences from teaching and learning be identified and promoted. The EESC also recommends that all stakeholders, including representatives of workers and consumers, be involved in the development and implementation of financial education measures across Europe, making solid protection rules more efficient and reducing information asymmetries between providers of financial services and citizens. The EESC recommends, in particular, including financial literacy in the future revision of the key competences framework.

1.7 To develop the EU's strategic autonomy in key sectors and capacities, the Committee agrees with the Commission's approach to propose technical measures: (i) simplifying listing rules for SMEs (Action 2), (ii) enabling cross-border shareholders to better exercise their rights (Action 12), (iii) improving cross-border settlement services (Action 13), (iv) creating a consolidated tape for equity post-trades (Action 14) and a properly targeted Invest EU portal (Action 15). A first additional and positive action would be for the Commission to assess the feasibility of permitting European Investment Funds to benefit from an ".eu" ISIN code, thereby increasing their availability across borders.

1.8 The EESC concurs with the European Court of Auditors, which has noted that the new securitisation legislation, although a positive step forwards, has not in practice helped banks to increase their lending capacity, especially to SMEs. There is thus room for improvement (Action 6), provided there are effective controls to prevent the resurgence of systemic risks.

1.9 It is important to take into account the principle of subsidiarity where retail investors are concerned, as specific savings habits are deeply entrenched in national patterns. Therefore, the EESC recommends that, in its very welcome work on improving the quality of financial advice (Action 8), the Commission should consider the benefit provided by each different model, keeping in mind that the availability of advice, as well as comparable and adequate/meaningful information, are key to engaging citizens in investing.

1.10 Where pensions are concerned, beyond the PEPP, which is a positive tool for cross-border workers and will be a success if easy-to-implement level 2 legislation is adopted and if consumers understand the key features of the products marketed under this denomination, one-size-fits-all additional pan-European rules on funded schemes complementing pay-as-you-go systems would not be beneficial, as retirement provisions are deeply embedded in national social laws. The EESC therefore welcomes the Commission's proposal (Action 9) to collect, share and promote best practices.

1.11 The energy transition is rightly high on the Commission agenda, in order to fight climate change. The EESC recommends that environmental, social (with a stronger focus) and governance (ESG) considerations be taken into account, while at the same time promoting economic recovery and the preservation and generation of jobs. The green and social agendas should become, in terms of competition, an advantage for Europe. It would be important, as a second additional action, for investors to be able to access reliable ESG data, moving away from their current dependence on concentrated non-EU vendors, index providers and rating agencies.

1.12 The EESC recommends that the CMU take full account of the different forms of social impact investment, especially those in the field of the "social economy" thereby contributing positively to the general interest and the common good. The European Social Entrepreneurship Funds (EuSEF) should be strongly supported, possibly through a review of Regulation (EU) No 346/2013, which created them.

1.13 In addition to the measures already mentioned, the Committee argues in favour of two types of priorities that, if adopted through this action plan and enacted in the Member States (a monitoring programme would be welcomed) would permit a socially and environmentally responsible European financial system, enabling it to play its role as intermediary between supply and demand more effectively, being more competitive and resilient to shocks.

1.14 A first priority is to **improve the efficiency of the Capital Markets Union** through three key actions: (i) by creating the European Single Access point, which will help, among other things, investors in the selection of issuers (Action 1); (ii) by applying a single rule-book, based on close supervision and preventing arbitrage and loopholes, permitting market participants throughout Europe (no single financial centre will become dominant) to benefit from economies of scale (Action 16); (iii) by simplifying withholding tax relief at source procedures, while making them more effective against fraud (Action 10).

1.15 A second priority is to **help shift long-term savings towards long-term investments**. The high level of savings in Europe – which is an asset for the EU-27 – does not sufficiently benefit companies or citizens. The Committee supports three key actions to change gear: (i) the European Long Term Investment Fund (ELTIF) review should make it easier to invest institutional and retail savings in SMEs' and mid-caps' listed and non-listed shares and infrastructure projects (Action 3); (ii) the planned review of the insurance prudential framework will be an opportunity to strengthen the role of insurers in capital markets by taking better account of the long-term and stable nature of their investments in equity (Action 4); (iii) developing employee shareholding would be a welcome third complementary element in the action plan, as clearly set out in the Benjumea own-initiative report of the European Parliament of October 2020. Indeed, widespread employee share ownership, as well as employee participation in profits, would - if implemented in a fair way - contribute to social cohesion and economic efficiency. The CMU new action plan could be an opportunity to encourage such schemes, in line with the social agenda.

1.16 The EESC would finally recommend that, in terms of policy achievements, any new regulation linked to the building of the CMU would be submitted to four tests, additional to the necessary "traditional" ones ("is it good for building a single market?" and "is it protecting European Consumers?").

– "is it having positive effects on the competitiveness of European financial companies in the world, strengthening the strategic geopolitical autonomy of the EU?"
– "is it safeguarding financial market stability?"
– "is it positive for the long-term financing of European companies, especially SMEs and mid-caps, and employment?"
– "is it positive for the climate, social and digital transitions?"

2. Background

2.1 The Capital Markets Union (CMU) aims to create a truly single market for capital across the EU and facilitate investment and savings flowing across all Member States. A well-functioning and integrated European capital market would contribute to sustainable growth, increase the competitiveness of Europe and strengthen the EU's role on the global stage.

2.2 The CMU is also essential for delivering on several key EU objectives, such as creating an inclusive and resilient economy, supporting the transition towards a digital and sustainable economy and a strategically open autonomy in an increasingly complex global economic context and contributing to the post-COVID-19 recovery. These objectives require massive investment beyond the abilities of public funding and traditional bank financing.

2.3 The European Commission adopted the first CMU action plan in 2015. Since then, the EU has made some progress in putting in place the building blocks. However, significant barriers to a single market remain. Furthermore, the initial set of CMU actions needs to be complemented by new measures that are able to address the new challenges, such as the digital and environmental transformations and the much-needed recovery efforts as a result of the COVID-19 pandemic.

2.4 With this new action plan[5], the Commission has set out a list of 16 new measures to make decisive progress towards completing the CMU and to achieve three key objectives:

- support a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies;
- make the EU an even safer place for individuals to save and invest long term;
- integrate national capital markets into a genuine single market.

2.5 The EESC has been actively involved in the creation of a common European capital market since its inception. The Committee published its first opinion on the subject on the Green Paper on a Capital Markets Union[6], then expressed its view on both the original Capital Markets Union action plan[7] and its mid-term review[8], as well as on numerous legislative proposals stemming from these action plans. In this opinion, the EESC will put forwards its recommendations on the new CMU action plan, both building on the previous work done by the Committee and taking into account the new priorities and challenges in Europe.

3. General comments

3.1 The EESC welcomes the new CMU Action Plan as a needed continuation of what has already been achieved through the first 2015 plan. The continuation of the plan is even more urgent in the context of the unexpected COVID-19 crisis, a crisis which, due to its magnitude, somewhat changes the diagnostic underpinned by very good work undertaken by the next CMU high-level

5 COM(2020) 590 final.

6 OJ C 383, 17.11.2015, p. 64.

7 OJ C 133, 14.4.2016, p. 17.

8 OJ C 81, 2.3.2018, p. 117.

expert group and by the High-Level Forum (HLF) on the CMU, and which would justify some adjustments and reinforcements. The EESC regrets the slow pace in implementing the 2015 action plan, due largely to a lack of positive support from some Member States. Another major project under way, the Banking Union, is also suffering from delays. The EESC considers that a strong political will on the part of the Member States is needed to support (the European Semester review process could perhaps be used as a tool to monitor progress) the measures necessary to deliver on the CMU, which is not intended to be a goal in itself. A safe and properly functioning CMU is crucial to support economic recovery and restructuring in the wake of COVID 19 and to support relevant capital, infrastructural and social investment across the EU, as well as the European Green Deal and digital transformation. In this context, the EESC also acknowledges the importance of public funding, which also plays a vital role by attracting private investment and reducing uncertainty. Foreign investment could also play a meaningful role, complementing European savings.

3.2 In addition, as also mentioned by the EC, "there is a risk that the crisis will widen disparities within the Union threatening the collective economic and social resilience". In this context, the EESC would stress the importance of prioritising and coordinating initiatives. The CMU Action Plan identified 16 measures of action, which is quite a large programme. Due to the burden on economies and the increasing indebtedness of both Member States and private companies, together with a quite different level of impact between EU countries and between different economic sectors, the CMU Action Plan must be given very careful consideration and scrutiny, to which the EESC is providing its inputs through this opinion, with the aim of enabling a socially responsible European financial system to play its role as intermediary between supply and demand more effectively, while being more resilient to shocks.

3.3 Measures that can address systemic risks linked to the high level of public and private debt should be favoured. In parallel, support should be granted as a matter of priority to crisis-impacted but viable companies and to newly created ones in order to develop employment and the competitiveness of the EU economy, all the more so since the COVID-19 impact on Asian economies seems to be lower than in Western countries. External dependency in terms of economic funding may also entail systemic risks and the CMU Action Plan should aim at greater reliance on European savings. Better use should be made of the high level of savings in Europe compared with other regions. An overarching prerequisite in order to achieve such a goal is an improvement in the financial education/literacy of Europe's citizens (Action 7). In this field, the EESC recommends identifying best national practices and experiences from teaching and learning in this subject, in order to promote them across Europe, making solid investor protection rules more effective and reducing information asymmetries (adequate information is key) between providers of financial services and citizens. The EESC recommends including financial literacy in the future revision of the key competences framework. The EESC further recommends that all stakeholders be involved in the development and implementation of financial education measures, including representatives of workers and consumers.

3.4 The core task of a socially responsible financial system is to fulfil its intermediary function between the supply and demand of financial assets, while being resilient to shocks, as a fragile financial sector has severe negative impacts on companies, workers and consumers and the economy as a whole. The EESC therefore stresses that the CMU can only achieve the intended objectives if financial stability and consumer protection remain priorities in the CMU action plan. In particular, retail investor protection must not be diminished. When deepening the CMU, regulatory arbitrage and regulatory loopholes must be avoided.

3.5 As also mentioned by the European Commission, there is a "strategic interest for internal market supply chains to develop the EU's strategic autonomy in key sectors and capacities". In this respect, several technical proposals within the new CMU Action Plan should be supported, such as simpler listing rules for SMEs (Action 2), dissemination of electronic voting, and progress towards an EU definition of "shareholder", which will enable cross-border shareholders to better exercise their rights (Action 12), the improvement of cross-border settlement services (Action 13), and the creation of a consolidated tape for equity post-trades (Action 14). An additional positive action would be for the European Commission to assess the merit and feasibility of permitting European investment funds to benefit from an ".eu" ISIN code, improving their availability across borders. Through these measures, the CMU will also play a crucial role in supporting SMEs, and also companies of all sizes in their green and digital transitions, improving their opportunities to access funding through complementary channels to the banking sector.

3.6 Regarding the securitisation legislation, the EESC concurs with the European Court of Auditors (ECA)'s assessment that this legislation, although a positive step forwards, has not yet produced the anticipated recovery in the European securitisation market after the financial crisis, and has not helped banks increase their lending capacity, inter alia, to the benefit of SMEs. Transactions remain concentrated within a small number of asset classes (such as mortgages and car loans) and this also only in certain Member States. The securitisation market should indeed be improved (Action 6), with effective controls, to prevent the resurgence of systemic risks through the weakening of regulation.

3.7 Deeper financial integration is a cornerstone of the CMU. However, it is important to maintain a pragmatic and realistic approach when considering some of its aspects. Where retail investments are concerned, national preferences and specific patterns often prevail, deriving from the need for proximity when looking for financial advice. The language barrier must also be taken into consideration when addressing the markets of individual savings. In addition, uniformity is not necessarily synonymous with efficiency regarding distribution models of retail financial products. The Commission should, in its very welcome work to improve the quality of financial advice (Action 8), consider the benefit provided by each different model, keeping in mind that the availability and quality of advice, as well as comparable and clear information, including sustainability information, together with solid and confidence-building rules, are key to engaging citizens in investing.

3.8 Where pensions are concerned, beyond the PEPP concept, various national patterns embedded in social law should be preserved when they are satisfactory, though not all identical. The EESC thus fully supports the CMU proposal of sharing best practices, such as auto-enrolment, national tracking systems accessible to all citizens and national dashboards with indicators. Availability of advice and greater involvement of representatives of savers, workers and pensioners should be added. In any event, the aim should be to complement, and not weaken, pay-as-you-go schemes (Action 9).

3.9 The EESC recommends that the CMU take full account of the different forms of social impact investments, especially those in the field of the "social economy" contributing positively to the general interest and the common good. The European Social Entrepreneurship Funds (EuSEF) should be strongly supported, possibly through a review of Regulation (EU) No 346/2013, which created them..

3.10 Environmental considerations and energy transition had quite rightly been put very high on the EU and Commission agenda prior to the COVID-19 crisis. In the new pandemic context, the EESC recommends the environmental, social (with an increased focus) and governance (ESG) agenda to remain a top priority and be considered in congruence with economic recovery, employment restoration and preservation, and financial stability. In this exercise, the EU will have also to keep in mind the competition side in order to maintain the green and social agenda as an advantage for Europe. Among other things, it will be important to rely on European providers of information and ratings based on converging and reliable standards, while acting in the international scene in favour of consistency across the world. In addition, specific regulation on ESG data and rating agencies could be welcome, be it as an amendment to the Credit Rating Agencies regulation (No 462/2013) or as a separate regulation, in line with the Digital Market Act.

3.11 The COVID-19 pandemic has also aggravated disparities between Member States, due in particular to its dramatic impact on many sectors, such as tourism or transport. Anything that can mitigate these economic disparities must also be considered a priority, such as favouring cross-border funding for less developed European countries. The creation of the Invest EU portal could ease such funding provided that it is carefully targeted (Action 15). European competitiveness and convergence is also key and Europe needs strong actors of all sizes able to compete at global level, pulling other actors along in their wake. In order to achieve this, European policymakers must ensure a level playing field with other markets in the world.

3.12 The EESC acknowledges that the CMU Action Plan has not led to a breakthrough as regards resolving the main barriers impeding cross-border capital flows and that some Member States continue to apply ring-fencing policies to capital and liquidity, preventing the proper allocation of resources, fragmenting the market and slowing economic recovery.

3.13 Brexit is another disruptive factor that has to be taken into consideration. Continental financial markets appear quite fragmented, with unequal levels of liquidity. . Because of this, the EU 27 could run a real risk of further dependency on external financial markets that are more integrated, with a number of European companies having chosen in the past to be listed in the UK or the US. The EESC concurs with the ECA's statement that the Commission (and indeed in our opinion, the European Parliament and the Council) should recommend that all Member States with less developed capital markets implement relevant reforms. It must be also stressed that the constitution of a developed market infrastructure for the EU is vital for financial and economic autonomy and could lead to a stronger international role for the euro.

3.14 To summarise the EESC view beyond the technical measures already mentioned, we would argue in favour of two types of priorities among the Action Plan's 16 proposals:

- **Enhancing EU financial markets in order to improve efficiency**. This should be facilitated by three key actions (i) by the creation of the European Single Access Point, which will help, inter alia, investors in the selection of issuers (Action 1), (ii) by the enforcement of the single rule book, especially regarding market venues, CCPs (central counterparties) and data providers. In general, supervisory convergence and stronger cooperation would be crucial in order to prevent regulatory arbitrage and loopholes (Action 16), and (iii) by simplifying cross-border investment and introducing a common, standardised EU-wide system for withholding tax relief at source, preventing tax fraud and tax arbitrage.(Action 10).
- **Shifting long-term savings towards long-term investments**. The high level of savings in Europe – which is the EU-27's strong point – does not sufficiently benefit the real economy. The European Long-Term Investment Fund (ELTIF) review must allow for the renewed framework of this long-term type of fund, which will in particular ease the investing of institutional and retail long-term savings in SMEs' and midcaps' listed and non-listed shares and infrastructure projects (Action 3). A better prudential regime for insurers' and banks' investments in equity, enhancing and not diminishing the effectiveness of prudential rules (Action 4). Additionally, as stressed in the EP's own-initiative report on 'Further development of the Capital Markets Union (CMU)[9]', Member States should work toward rebalancing the debt/equity bias in taxation. However, in so doing, the objective should not be to undermine the amount of tax revenues as a whole. Favouring employee shareholding, which is a missing element in the Action Plan, is another important topic that the Commission could push again, as it did before. In fact, Employee Share Ownership, as well as Employee Participation in Profits, would, if implemented in a fair way, contribute to social cohesion and economic efficiency. In order not to impose undue risks on workers, the involvement of their representatives and solid investor protection is crucial.. The CMU should be a new opportunity to encourage these schemes, in line with the social agenda and with the call made in the European Parliament's own-initiative report.

3.15 These last measures would provide a welcome first and significant quick push in favour of the CMU while making progress on key but more difficult objectives such as increased convergence on targeted areas of insolvency laws (Action 11) or a more integrated set of European exchanges and trading venues.

3.16 Beyond the considerations of the present advice, the EESC would recommend that, in terms of policy achievements, any new regulation should weigh up the potential positive or detrimental competitive effects for European entities, in order to strengthen EU financial companies in the world, reinforcing the strategic geopolitical autonomy of the EU on its path towards the much-needed climate, social and digital transitions.

Brussels, 24 February 2021

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9 REPORT on further development of the Capital Markets Union (CMU): improving access to capital market finance, in particular by SMEs, and further enabling retail investor participation

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