# Stocktaking and challenges of the EU Financial Services Regulation: impact and the way forward towards a more efficient and effective EU framework for financial regulation and a capital markets union

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PURPOSE: to launch a debate on building a Capital Markets Union (Commission Green Paper).

BACKGROUND: the free movement of capital was enshrined in the Treaty of Rome more than fifty years ago. It is one of the fundamental freedoms of the European Union and should be at the heart of the single market. Yet despite the progress that has been made, **capital markets today remain fragmented** and are typically organised on national lines. Following a period of deepening, the degree of financial market integration across the EU has declined since the crisis, with banks and investors retreating to home markets.

Compared with other jurisdictions, **capital market based financing in Europe is relatively underdeveloped**. Compared to other parts of the world, European businesses remain heavily reliant on banks for funding and relatively less on capital markets. **Stronger capital markets** would complement banks as a source of financing, and would:

- unlock more investment for all companies, especially SMEs, and for infrastructure projects;
- attract more investment into the EU from the rest of the world; and
- make the financial system more stable by opening up a wider range of funding sources

The Commission has therefore committed to **put in place the building blocks of a well-regulated and integrated Capital Markets Union**, encompassing all Member States, **by 2019**, with a view to maximising the benefits of capital markets and non-bank financial institutions for the wider economy.

CONTENT: the purpose of this Green Paper is to **launch a debate at EU level on the necessary measures to build a single market for capital - a Capital Markets Union**. Interested parties are invited to send their contributions by 13 May 2015.

**Objectives**: on the basis of the consultations, the Commission should develop an action plan to put in place the building blocks for a fully functioning Capital Markets Union by 2019, and on possible measures which could be taken to achieve this objective. The main areas that the Green Paper seeks to address are:

- **improving access to financing** for all businesses across Europe and investment projects, in particular start-ups, SMEs and long-term projects;
- **increasing and diversifying the sources of funding** from investors in the EU and all over the world; and
- **making the markets work more effectively** so that the connections between investors and those who need funding are more efficient and effective, both within Member States and cross-border.

**Priorities for early action**: the Green Paper seeks views on the early policy priorities we intend to take forward, building on the Commission Communication "An Investment Plan for Europe" such as:

- **revision of the** Prospectus Directive: the prospectus is a detailed document setting out company information, and the terms and risks of an investment. It is crucial that it does not act as an unnecessary barrier to the capital markets. The Commission will review the current prospectus regime through a specific public consultation launched in parallel to this Green Paper, with a view to making it easier for companies (including SMEs) to raise capital throughout the EU;
- **widening the investor base for SMEs**: access to finance by SMEs has suffered more than that by larger companies in the crisis. Improving credit information would help build an efficient and sustainable capital market for SMEs. The development of a common minimum set of comparable information for credit reporting and assessment could help to attract funding to SMEs;
- **building sustainable securitisation**: a sustainable EU high quality securitisation market relying on simple, transparent and standardised securitisation instruments could bridge banks and capital markets. For investors, an EU-wide initiative would need to ensure high standards, legal certainty and comparability across securitisation instruments. The Commission will consult on specific measures to meet these objectives;
- **European Long-Term Investment Funds** (ELTIFs) **regulatory framework**: the recently finalised European Long-Term Investment Funds (ELTIFs) regulatory framework will allow investors to put money into companies and infrastructure projects for the long term. Views are welcome on what further role the Commission and Member States could play in supporting the take up of ELTIFs, including the possible extension to ELTIFs of advantages currently available for national regime;
- **developing European private placement markets**: the Commission considers that one way for firms to raise funds is via private placements, where a company makes an offering of securities to an individual or small group of investors not on public markets. These can provide a more cost effective way for firms to raise funds, and broaden the availability of finance for medium to large companies and potentially infrastructure projects. As a first step towards developing European private placement markets, a consortium of industry bodies have established a market guide on common market practices, principles and standardised documentation for private placements, compatible with a diversity of legal frameworks. The Commission welcomes this market-led approach, which could help to facilitate the creation of a European private placement market in the short term.

**Measures to develop and integrate capital markets**: the Green Paper also seeks views on how to overcome other obstacles to the efficient functioning of markets in the **medium- to long-term**, including:

- the barriers to access to finance, widening sources of funding and making markets work more effectively;
- facilitating the development of standardised, transparent and accountable ESG (Environment, Social and Governance) investment, including green bonds;
- improving access to finance, including to risk capital, notably for SMEs (for example innovative and high growth start-ups);
- boosting the flow of institutional and retail investment into capital markets;
- boosting the scale of venture capital funds;
- impediments to increasing both bank and non-bank direct lending safely to companies that need financing;
- how to further develop venture capital and private equity; whether targeted measures in the areas of company, insolvency and securities laws as well as taxation could materially contribute to CMU; and the treatment of covered bonds, with a specific consultation in 2015 on a possible EU framework.

During the consultation process, the European Commission will engage with the European Parliament to get direct feedback from its Members.