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GREEN PAPER

Building a Capital Markets Union

{SWD(2015) 13 final}

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Foreword

The Commission's priority – Europe's priority – is jobs and growth. To get Europe growing again, our challenge is to unlock investment in Europe's companies and infrastructure. The €315bn investment package will help to kick start that process. But to strengthen investment for the long term, we need to build a true single market for capital – a Capital Markets Union for all 28 Member States.

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.

In essence, our task is to find ways of linking investors and savers with growth. There is no single measure that will deliver a Capital Markets Union. Instead there will be a range of steps, some individually modest, but whose impact will cumulatively be significant. We need to identify and remove the barriers which stand between investors' money and investment opportunities, and overcome the obstacles which prevent businesses from reaching investors. We also need to make our system for channelling those funds – the investment chain – as efficient as possible, both nationally and across borders.

Why is this worth doing? A few examples illustrate the potential benefits. Compared with the US, medium-sized companies, the engines of growth in many countries, receive five times more funding from capital markets than they do in the EU. If our venture capital markets were as deep, as much as €90 billion of funds would have been available to finance companies between 2008 and 2013. If SME securitisations could be returned – safely – even to half the levels they were in 2007 compared with today, this could be equivalent to some €20bn of additional funding.

It is true that many of the issues at stake – insolvency and securities laws, tax treatments – have been discussed for many years. The need to make progress is, however, more pressing than ever. While this will be a long term project, requiring sustained effort over many years, that should not stop us making early progress. Therefore, in the next months, we will:

- develop proposals to encourage high quality securitisation and free up bank balance sheets to lend;
- review the Prospectus Directive to make it easier for firms, particularly smaller ones, to raise funding and reach investors cross border;
- start work on improving the availability of credit information on SMEs so that it is easier for investors to invest in them;

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- work with the industry to put into place a pan European private placement regime to encourage direct investment into smaller businesses; and

- support the take up of new European long term investment funds to channel investment in infrastructure and other long term projects.

This Green Paper marks the beginning of a three month consultation. We want to hear from parliamentarians, member states, those who work in capital markets and from all groups concerned about jobs, growth and the interests of European citizens. That feed-back will help us to develop an action plan to put in place the building blocks for a fully functioning Capital Markets Union by 2019.

The direction we need to take is clear: to build a single market for capital from the bottom up, identifying barriers and knocking them down one by one, creating a sense of momentum and helping to spark a growing sense of confidence in investing in Europe's future. The free flow of capital was one of the fundamental principles on which the EU was built. More than fifty years on from the Treaty of Rome, let us seize this opportunity to turn that vision into reality.

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Section 1: Building a Capital Markets Union

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. Our equity, debt and other markets play a smaller role in financing growth and European businesses remain heavily reliant on banks, making our economies vulnerable to a tightening of bank lending. There is also insufficient investor confidence, and European savings may not always be being put to the most productive use. . European investment levels are well below their historical norm and European capital markets are less competitive at the global level.

To support a sustainable return to growth and job creation, alongside other reforms to the business environment, capital markets need to play a larger role in channelling financing to the economy. In practice this means ensuring that obstacles to the movement of capital between investors and those who need funding are identified and broken down, whether they be within a Member State or cross border.

Building a Capital Markets Union is a key initiative in the work programme of the Commission. It would ensure greater diversification in the funding of the economy and reduce the cost of raising capital, particularly for SMEs. More integrated capital markets, especially for equity, would enhance the shock-absorption capacity of the European economy and allow for more investment without increasing levels of indebtedness. A Capital Markets Union should enhance the flow of capital - through efficient market infrastructure and intermediaries - from investors to European investment projects, improving allocation of risk and capital across the EU and, ultimately, making Europe more resilient to future shocks.

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.

A Capital Markets Union should move the EU closer towards a situation where, for example, SMEs can raise financing as easily as large companies; costs of investing and access to investment products converge across the EU; obtaining finance through capital markets is increasingly straightforward; and seeking funding in another Member State is not impeded by unnecessary legal or supervisory barriers. While these changes will help to reduce reliance on bank financing, as lenders to a significant proportion of the economy and intermediaries in capital markets, banks will still play a central role in Capital Markets Union and will continue to play a vital part in the European economy.

Not all of these challenges are new, but the EU's need for growth makes them pressing to solve. It also provides the momentum needed to make progress. The purpose of this Green Paper is to begin the debate at EU and national levels, involving the co-legislators, other EU institutions, national Parliaments and all those interested, on the possible short and longer-term measures to achieve these objectives.

A Capital Markets Union will differ from Banking Union: deepening capital markets requires steps that will be distinct from the key elements of Banking Union. However, the Banking Union's focus on breaking the link between bank failures and sovereigns in the euro area will provide a platform of stability to underpin the development of a Capital Markets Union across all EU Member States. Likewise, well integrated capital markets will contribute to the resilience of the Economic and Monetary Union.

A Capital Markets Union should be based on the following key principles:

- it should maximise the benefits of capital markets for the economy, jobs and growth;
- it should create a single market for capital for all 28 Member States by removing barriers to cross-border investment within the EU and fostering stronger connections with global capital markets;
- it should be built on firm foundations of financial stability, with a single rulebook for financial services which is effectively and consistently enforced;
- it should ensure an effective level of consumer and investor protection; and
- it should help to attract investment from all over the world and increase EU competitiveness.

1.1 Delivering a Capital Markets Union

Building a Capital Markets Union is a long-term project. Work is already underway to establish a single rulebook, with a large number of key reforms[1] in the process of being implemented. The Commission's approach will be based on an assessment of the outstanding priorities, both in terms of likely impact and feasibility, underpinned by thorough economic analysis, impact assessment and consultation.

On the basis of the outcome of this consultation, the Commission will seek to identify the actions that are necessary to achieve the following objectives:

- improving **access to financing** for all businesses across Europe (in particular SMEs) and investment projects such as infrastructure;
- **increasing and diversifying the sources of funding** from investors in the EU and all over the world; and
- making **markets work more effectively and efficiently**, linking investors to those who need funding at lower cost, both within Member States and cross-border.

The Commission is consulting widely on the nature of the problems, possible measures and their prioritisation. Legislation might not always be the appropriate policy response to these challenges, and the onus in many cases will be on the market to deliver solutions. Non-legislative steps and the effective enforcement of competition and single market laws might offer the best way forward in other areas. The Commission will support market-driven

[1] Such as the legislation on markets in financial instruments (MIFID II), market abuse (MAR/MAD), Alternative Investment Fund Managers (AIFMD), European market infrastructure (EMIR) and central securities depositories (CSDR)

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solutions when they are likely to be effective, and regulatory changes only where they are necessary.

This paper is structured as follows. **Section 2** describes how European capital markets are currently structured and provides a preliminary analysis of some of the barriers to deeper and more integrated capital markets. Further analysis is provided in the accompanying Staff Working Document. **Section 3** seeks views on the early policy priorities we intend to take forward, building on the Commission Communication "*An Investment Plan for Europe*"[2] including issues such as the implementation of the European Long-term Investment Funds (ELTIF) Regulation, high quality securitisation, credit information on SMEs, private placement and the review of the Prospectus Directive. **Section 4** seeks views on the barriers to access to finance, widening sources of funding and making markets work more effectively and where work may be taken forward on the basis of the feedback received. Obstacles to cross border capital flows include issues such as insolvency, corporate, taxation and securities laws, where further analysis and feedback is needed to identify the scale of the challenge in each area, and the appropriate solutions and degree of prioritisation.

By further opening national markets for investors, issuers and intermediaries, promoting the free flow of capital and sharing best practices, the Capital Markets Union should also be seen as a way to help markets develop at national level. Given the diverse levels of development of capital markets across the EU and the existence of specific challenges in different Member States, policy responses may require appropriately tailored action at national level, based, *inter alia* on the country specific recommendations of the Commission in the context of the European Semester. The Commission invites Member States to consult on specific challenges to the development of their capital markets and to feed their conclusions into the debate.

[2] COM(2014) 903 final, 26.11.2014

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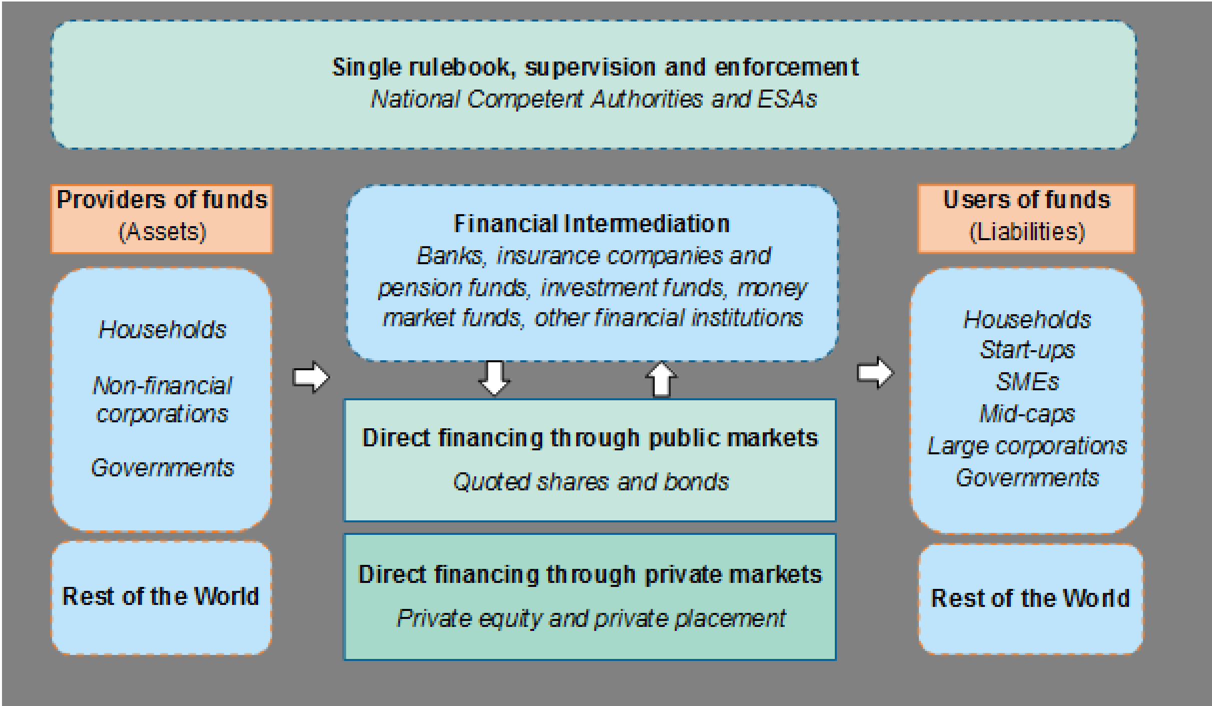
Section 2: Challenges in European Capital Markets today

2.1 Current state of capital markets in Europe

Apart from direct bank lending, capital markets are the principal mechanism through which potential investors can meet those looking for funding, and provide a range of diversified funding sources for the economy. Chart 1 illustrates a simple view of the flow of funds in an economy. Whilst capital markets are predominantly concerned with direct financing, they are also closely interlinked with financial intermediaries who often channel funds from savers to investors.

Chart 1. Stylised view of capital markets in the broader financial system

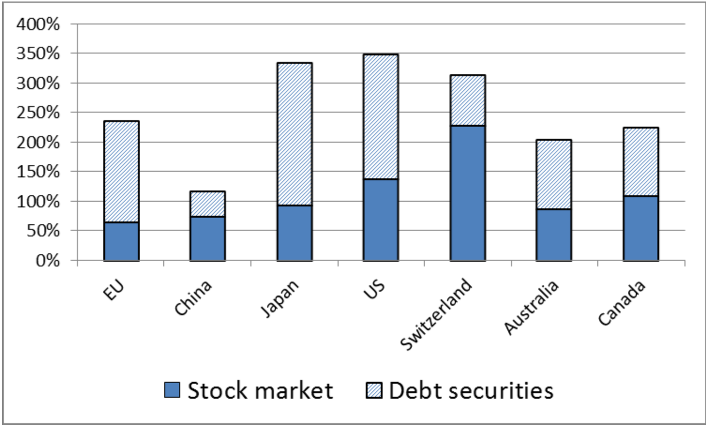


Capital markets have expanded in the EU over recent decades. Total EU stock market capitalisation, for example, amounted to €8.4 trillion (around 65% of GDP) by end 2013, compared to €1.3 trillion in 1992 (22% of GDP). The total value of outstanding debt securities exceeded €22.3 trillion (171% of GDP) in 2013, compared to €4.7 trillion (74% of GDP) in 1992[3].

Nonetheless, markets remain underdeveloped in comparison with other jurisdictions. Public equity markets in the US are almost twice the size of those in the EU (as a percentage of GDP) and are three and a half times bigger in Switzerland (chart 2).

[3] ECMI Statistical package 2014

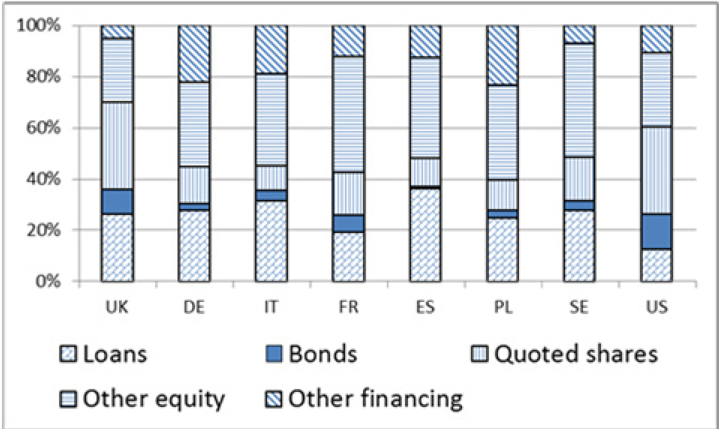
Chart 2: Stock market capitalisation and debt securities (% of GDP)



Source: ECMI statistical package

Private equity markets in the US are also around twice the size of those in the EU, whilst private placement markets for bonds are up to three times bigger in the US. At the same time there is wide variation in capital market development across EU Member States. For example, domestic stock market capitalisation exceeded 121% of GDP in the UK, compared to less than 10% in Latvia, Cyprus and Lithuania.

Chart 3: Financing patterns corporates (in % of total liabilities)



Source: Eurostat, OECD. Note: Loans include bank loans and intercompany loans.

Europe has traditionally been more reliant on bank finance, with bank lending playing a significantly larger role in the financing of the corporate sector than the issuance of debt securities in the market (Chart 3). In aggregate, this greater dependence on bank lending makes the European economy, especially SMEs, more vulnerable when bank lending tightens, as happened in the financial crisis.

Access to capital markets differs greatly across firms and across EU Member States. There has been a notable increase in the issuance of corporate bonds by non-financial corporates in the EU, partly reflecting a favourable market environment for bond issuers due to low interest rates. Bonds have, however, mainly been issued by large firms as opposed to small and medium-sized enterprises (SMEs). Bond issuance has also been concentrated in larger markets, rather than markets where corporate funding problems have been most severe.

Although capital markets in the EU became more integrated prior to the crisis in terms of cross-border holdings of financial instruments, the crisis revealed that part of this integration was driven by debt-based wholesale banking flows which were prone to sudden reversals in the face of shocks. Equity markets in the EU remain characterised by a home bias, meaning

that potential risks and rewards are not shared across borders. Cross-border holdings of debt securities also remain lower than would be expected in a fully integrated market. Even the best performing national markets in the EU lack critical size, leading to a smaller investor base and fewer financial instruments to choose from.

2.2 Challenges and opportunities of building a Capital Markets Union

There are a range of different obstacles to the integration and development of EU capital markets, originating in historical, cultural, economic and legal factors, some of which are deep-rooted and difficult to overcome. These include, for example, the historical preference by business for certain means of financing, the characteristics of pension provision, the application of prudential regulations and administrative hurdles, aspects of corporate governance and company law, data gaps and features of many tax systems, as well as inefficient market structures. Even in well-integrated capital markets, some of these differences will remain. In order to achieve the benefits of a fully integrated single market for capital, it is necessary to overcome challenges in particular in the following three key areas.

First, on the demand side, **improving access to finance, including to risk capital, notably for SMEs (for example innovative and high growth start-ups)**, is an important priority. Success over time will depend on overcoming information problems, the fragmentation of key market segments and lowering the costs of access to capital markets. In addition, there are specific impediments to the financing of long-term projects, including infrastructure investment.

Second, on the supply side, the development of capital markets in the EU will depend on the flow of funds into capital market instruments. **Boosting the flow of institutional and retail investment** into capital markets would promote the diversification of funding sources. Growing occupational and private pension provision in Europe could result in an increased flow of funds into a more diverse range of investment needs through capital market instruments and facilitate a move towards market-based financing. Enhancing the confidence of retail investors in capital markets and financial intermediaries could increase the flow of household savings into capital market instruments which are now largely held in home equity and bank deposits. Increasing the global competitiveness and attractiveness of European capital markets in this way could also boost the flow of investment.

Third, achieving bigger, more integrated and deeper capital markets will depend on overcoming the barriers that are fragmenting markets and holding back the development of specific market segments. **Improving the effectiveness of markets** would enable the EU to achieve the benefits of greater market size and depth. These include more competition, greater choice and lower costs for investors as well as a more efficient distribution of risk and better risk-sharing. More integrated capital markets, especially for equity, would enhance the shock-absorption capacity of the European economy and allow more investment without increasing levels of indebtedness. Well-functioning capital markets will improve the allocation of capital in the economy, facilitating entrepreneurial, risk-taking activities and investment in infrastructure and new technologies.

Section 3: Priorities for early action

The Commission has identified a number of areas where the need for progress is widely recognised, that have potential to bring early benefits. This section outlines these possibilities and seeks views from interested parties on specific elements of each area.

3.1 Lowering barriers to accessing capital markets

The prospectus is a detailed document setting out company information, and the terms and risks of an investment. It is the gateway into capital markets for firms seeking funding and most firms seeking to issue debt or equity must produce one. 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[4] and to boost the take-up of SME Growth Markets. The review will look at when a prospectus is required, streamlining the approval process, and simplifying the information included in prospectuses.

3.2 Widening the investor base for SMEs

Access to finance by SMEs has suffered more than that by larger companies in the crisis. Typically, information on SMEs is limited and usually held by banks, and some SMEs struggle to reach the broader investor base of non-bank investors that might suit their funding needs. 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. In addition, standardised credit quality information could help the development of financial instruments to refinance SME loans, such as SME securitisation.

Work on credit scoring has started and received broad support from Member States. Credit scoring provides investors and lenders with information on the creditworthiness of SMEs. However, in Europe around 25% of all companies and around 75% of owner-managed companies do not have a credit score. Possible action in this area could help diversify the financing of innovative and high growth start-ups. As a first step, the Commission plans to hold workshops on SME credit information in 2015 to take forward this work.

3.3 Building sustainable securitisation

Securitisation, the process by which assets such as mortgages are pooled together for investors to invest in, can provide a powerful mechanism for transferring risk and increase capacity for banks to lend. However, since the crisis, activity has remained impaired, despite low loss rates in European securitisations. Securitisation issuance in Europe in 2014 amounted to some €216 billion, compared to €594 billion in 2007.[5] A sustainable EU **high quality securitisation market** relying on simple, transparent and standardised securitisation instruments could bridge banks and capital markets.

With the Solvency II and Liquidity Coverage Ratio delegated acts published recently, work has already started to ensure a comprehensive and consistent prudential approach for simple,

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[4] Part of the REFIT (Regulatory Fitness and Performance) programme

[5] SIFMA/AFME European Structured Finance Data Tables (4th Quarter 2014)

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transparent and standardised securitisation. In addition to these initiatives, central banks, regulators, national authorities and private sector representatives have advocated a more comprehensive approach to rebuilding securitisation in the EU.

For investors, an EU-wide initiative would need to ensure high standards, legal certainty and comparability across securitisation instruments. This framework should increase the transparency, consistency and availability of key information, particularly in the area of SME loans, and promote the growth of secondary markets to facilitate both issuance and investments. **The Commission will consult on specific measures to meet these objectives in parallel with this Green Paper.**

3.4 Boosting Long Term Investment

Investment levels in the EU have fallen significantly from their 2007 peak and remain below their historical norm. The European Commission has already announced an Investment Plan that will unlock public and private investments in the economy of at least €315 billion over the next three years with the establishment of the new European Fund for Strategic Investments (EFSI)[6] and published a Communication on long term financing of the European economy setting out a range of measures to boost investment. 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. ELTIFs should have particular appeal to investors such as insurance companies or pension funds which need steady income streams or long term capital growth.

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 regimes.

3.5 Developing European private placement markets

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.

Medium-sized European companies have been accessing the US private placement market for many years, raising $15.3 billion in 2013.[7] Since the onset of the financial crisis, the popularity of private placements has accelerated in Europe and some Member States have developed private placement markets. In particular, the German and French domestic private placement markets provided some €15 billion of debt in 2013. Barriers to the development of pan-European markets include differences in national insolvency laws, lack of standardised processes, documentation and information on the credit worthiness of issuers.

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 guide was recently published andthe first issuances should follow soon. The

[6] Proposal for a Regulation of the European Parliament and of the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013, COM(2015)10

[7] See ICMA Q3 2014 report

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Commission welcomes this market-led approach, which could help to facilitate the creation of a European private placement market in the short term.

Questions

1) Beyond the five priority areas identified for short term action, what other areas should be prioritised?

*2) What further steps around the availability and standardisation of **SME credit information** could support a deeper market in SME and start-up finance and a wider investor base?*

*3) What support can be given **to ELTIFs** to encourage their take up?*

*4) Is any action by the EU needed to support the development of **private placement** markets other than supporting market-led efforts to agree common standards?*

Section 4: Measures to develop and integrate capital markets

In order to achieve the benefits of a fully integrated single market for capital, it is necessary to overcome challenges in particular in the following three key areas:

- improving **access to financing** for all businesses across Europe (in particular SMEs) and investment projects such as infrastructure;
- **increasing and diversifying the sources of funding** from investors in the EU and all over the world; and
- making **markets work more effectively**, linking investors to those who need funding more efficient and less costly, both within Member States and cross-border.

4.1 Improving access to finance

Ultimately, given their size and importance, well-functioning equity and bond markets will be crucial to ensuring an effective Capital Markets Union and the widest access to finance. There are, however, important frictions in the flow of finance, especially for smaller or more medium sized companies, and for longer term projects such as infrastructure, both of which are critical for increasing productive capacity and economic growth. These funding problems are particularly pronounced in Member States that have been most affected by the crisis.

SMEs have historically been primarily dependent on bank finance. In the crisis, bank lending decisions inevitably became more selective, on the grounds of both banks' own balance sheet constraints and the rising default probabilities of borrowers. While capital markets can complement the role of bank lending for SMEs, their diversity and scant credit information is often better suited to relationship based lending.

Alternative funding sources can, however, play an important role, in particular for **start-ups and small but rapidly growing firms in innovative industries**. These firms typically display initially low levels of cash flows and are dependent on external finance to grow their business. Bank finance, as well as other financing tools such as leasing and factoring, are often difficult to access or insufficient for companies with significant intangible assets that cannot easily be used as collateral to obtain bank loans.

Access to public capital markets is costly not only for SMEs, but also for **mid-sized firms** that may well be more likely than SMEs to tap public markets to raise funds. Equity issues and debt underwriting are characterised by the substantial fixed costs of due diligence and regulatory requirements. This includes the costs of disclosing information required by investors or regulators, meeting other corporate governance requirements and commissioning external ratings. In addition, companies at an early stage of development may have a commercial interest in not disclosing detailed information about their business plan. They may be reluctant to give up control or face greater external scrutiny. These features often preclude small and mid-sized companies from obtaining access to public equity and debt markets, leading them mainly to private debt and equity markets that are generally less standardised, more complex, and often more costly.

Large corporates generally have sufficient size to warrant the fixed costs of tapping capital markets and are big enough so that each individual issuance is sufficiently large to attract the

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attention of underwriters, investors and analysts. However, while issuance of corporate bonds has increased significantly over recent years, partly compensating for the decline in bank lending, issuance of quoted shares has remained subdued in Europe. More effective and efficient markets can help to reduce the costs of accessing those markets and would be of benefit to all corporates.

Finally, the EU requires a significant amount of **new infrastructure investment** to maintain its competitiveness. The flow of funds to such projects is, however, restricted by short-termism, regulatory barriers and other factors. Also, many infrastructure projects display characteristics of public goods, implying that private financing alone may not be appropriate to deliver the optimal level of investment. While the EFSI will make an important contribution to boosting investment in infrastructure projects[8], the Commission welcomes views on other means of achieving this goal.

Addressing information problems

In Europe, most SMEs only approach banks when seeking finance. Although almost 13% of these applications are rejected, it is often because they do not meet the banks' desired risk profiles, even if they are viable. Although banks sometimes refer SMEs on to alternative finance providers, this does not always work: sometimes, neither banks nor SMEs are sufficiently aware of the existence of alternatives. Banks could be encouraged to provide better feedback to SMEs whose credit applications are declined and to raise awareness about alternative financing opportunities for SMEs whose credit was declined.

International Financial Reporting Standards (IFRS) have played a key role for promoting a single accounting language in the EU, making it easier for large listed EU companies to have access to global capital markets. Imposing full IFRS on smaller companies, in particular those wanting to access dedicated trading venues, would, however, be a source of additional cost. The development of a simplified, common, and high quality accounting standard tailored to the companies listed on certain trading venues[9] could be a step forward in terms of transparency and comparability, and if applied proportionally, could help those companies seeking cross-border investors to be more attractive to them. The standard could become a feature of SME Growth Markets, and be available for wider use.

The **transparency of infrastructure projects or pipelines** could increase their attractiveness for private investment as well as help regulators adopt a more tailored prudential regime for infrastructure investments. The Investment Task Force Report of December 2014 suggested the creation of a central EU-level website to provide links to Member State projects/pipelines and include EU project information (e.g. under the Connecting Europe Facility and European Structural and Investment Funds). Building upon the Investment Task Force Report, the Commission has proposed the creation of a European Investment Project Pipeline in order to facilitate access to information for investors on investment opportunities across the EU and maximise investor participation in financing[10]. This will include the creation of a dedicated

[8] In the context of infrastructure investments, the European Structural and Investment Funds (ESIF) can also play an important role, provided that the relevant eligibility criteria are met

[9] Such as Multilateral trading facilities (MTFs)

[10] See COM(2015)10 final, Article 9

website and common standards for the presentation of the information. The creation of such a pipeline of projects will build upon the work that has already begun in some Member States.

Standardisation as a mechanism to kick start markets

Although standardisation is not without drawbacks, some markets can be kick-started with a common set of market rules, transparency on product features and consistent supervision and enforcement. A certain degree of standardisation may attract more investors and increase market depth and liquidity. This is particularly the case in smaller Member States where markets cannot reach minimum efficient size if restricted to domestic pools of capital. Where common standards are not necessary or difficult to achieve, policy efforts may instead be directed to establishing best practices across the EU to promote the development of certain financial instruments.

The development of a more **integrated European covered bond market** could contribute to cost-effective funding of banks and provide investors with a wider range of investment opportunities. The success of covered bonds as funding instruments is closely linked with the development of specific national legal frameworks. The Commission will consult in 2015 on the merits and potential shape of an EU covered bond framework and present policy options to achieve greater integration in covered bond markets, based on experience gained from well functioning national frameworks. The Commission will also reflect on whether investors should be provided with more information about the collateral underlying covered bonds and other structured debt, similar to loan data disclosure requirements on structured finance instruments.

Despite the recent growth in **corporate bond** issuance, it is characterised by low levels of standardisation and price transparency. Although in recent years new electronic bond trading platforms aimed at retail investors have emerged in some Member States, a lack of standardisation may inhibit the development of bond trading venues and of a liquid secondary market. Greater standardisation of corporate debt issuances could allow for a more liquid secondary market for corporate bonds to develop. The Commission would welcome views on whether the possibility of developing a more standardised corporate debt market should be explored further, and whether this can best be achieved by a market led initiative or regulatory intervention.

Another emerging investment category with potential to provide further access to finance is **environmental, social and corporate governance investments,** such as green bonds. The proceeds of green bonds are directed towards projects and activities that promote climate or other environmental sustainability related purposes. The rapid growth in this market is being assisted by a market-driven standardisation process that takes into account criteria for green bond selection developed by, among others, the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development. Market participants are currently developing voluntary guidelines, known as 'Green Bond Principles', that recommend transparency and promote integrity in the development of the green bond market by clarifying the approach for issuing green bonds.

Enabling alternative means of financing to develop

Although the online nature of mechanisms such as peer to peer lending and crowdfunding would suggest great potential to contribute to the financing of the economy across national borders, there is limited evidence of cross-border or pan-European activity. As a follow-up to

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the Communication on Crowdfunding[11], the Commission is gathering information on industry approaches to information disclosure and Member State approaches to regulation. The preliminary results suggest that the diverse national approaches in these areas may encourage crowdfunding activity locally, but may not be necessarily compatible with each other in a cross-border context.

Questions

5) What further measures could help to increase access to funding and channelling of funds to those who need them?

6) Should measures be taken to promote greater liquidity in corporate bond markets, such as standardisation? If so, which measures are needed and can these be achieved by the market, or is regulatory action required?

7) Is any action by the EU needed to facilitate the development of standardised, transparent and accountable ESG (Environment, Social and Governance) investment, including green bonds, other than supporting the development of guidelines by the market?

8) Is there value in developing a common EU level accounting standard for small and medium-sized companies listed on MTFs? Should such a standard become a feature of SME Growth Markets? If so, under which conditions?

9) Are there barriers to the development of appropriately regulated crowdfunding or peer to peer platforms including on a cross border basis? If so, how should they be addressed?

4.2 Developing and diversifying the supply of funding

The size of capital markets ultimately depends on the flow of savings into capital market instruments. Thus, for capital markets to thrive, they need to **attract institutional, retail and international investors**.

Boosting institutional investment

The role of long-term institutional investors in capital markets has been growing significantly. Regulatory barriers and other factors can, however, restrict the flow of long-term institutional investment to long-term projects, including investment in infrastructure.

With assets under management of more than €17 trillion, the **European asset management industry** plays a pivotal role in channelling investors' money into the economy. A great deal of this success is the direct result of Europe's investment funds frameworks. The UCITS (Undertakings for Collective Investment in Transferable Securities)[12] framework for mutual funds is a recognised international standard, while the Alternative Investment Fund Managers

[11] COM (2014) 172
[12] Directive 2014/91/EU

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Directive (AIFMD)[13] has created a framework within which European alternative investment managers are able to operate.

The regulatory cost of setting up funds, becoming authorised managers and selling them across borders, currently varies between Member States. Reducing costs for setting up funds, and cross border marketing more generally, would lower barriers to entry and create more competition. Alongside new entrants, it is also important that funds can grow and benefit from economies of scale. The Commission would welcome views on what further policy measures could incentivise institutional investors to raise and invest larger amounts and in a broader range of assets, such as long-term projects, start-ups, and SMEs.

The **pensions and insurance** sectors also hold significant assets of around €12 trillion which can help to fund investment. The new prudential regime that will apply to **insurers** from 1 January 2016, Solvency II[14], will allow companies to invest more in long-term assets by removing national restrictions on the composition of their asset portfolio.[15] Furthermore, the Commission has ensured that the standard formula to calculate insurers' capital requirements does not impose obstacles to long-term investment and matching long-dated liabilities with long-dated assets[16]. While this effort was welcomed, some have called for a tailored treatment of infrastructure investments, in relation to the calibration of the capital requirements of insurers and banks. Further work is needed to identify lower-risk infrastructure debt and/or equity investments, with a view to a possible review of prudential rules and the creation of infrastructure sub-classes.

Capital-based schemes for **pension provision** are playing an increasing role in some Member States. Such schemes, prudently managed and in a way that reflects their societal function, can contribute to the sustainability and adequacy of pension systemsand are increasingly important investors in the European economy. New rules on occupational pensions which are currently under discussion could remove barriers to pension schemes investing more in long-term assets. Moreover, the exchange of best practices could also increase the compatibility of national systems.

On personal pensions, providers are subject to a number of different pieces of EU legislation. This raises the question of whether the introduction of a standardised product, for example through a pan-European or '29th' regime, removing obstacles to cross-border access could potentially strengthen the single market in personal pension provision. Any changes would need to ensure an effective degree of consumer protection, whilst at the same time improving coverage and take up and appropriate security of savings.

As an alternative form of funding to traditional bank loans or issuing debt or equity, **private equity and venture capital** play an important role in the European economy. But risk-capital markets can often lack scale; this is the case not only for the stock exchanges specialised in financing high-growth companies, but also for risk-capital investment at the start-up or development stage of new enterprises or in high-technology companies. There is also a wide

[13] Directive 2011/61/EU and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010

[14] Directive 2009/138/EC

[15] Separately, in the area of bank prudential regulation, the Commission Delegated Act on Liquidity Coverage Ratio (LRC) provides increased incentives for investments in infrastructure and SMEs that would facilitate investments into SMEs

[16] http://europa.eu/rapid/press-release_MEMO-14-578_en.htm

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variation in the development of risk capital markets among Member States: around 90% of all venture capital fund managers are concentrated in eight Member States.[17]

In some Member States, venture capital funds face problems reaching the scale they need to spread their portfolio risk. The absence of an equity investment culture, lack of information, a fragmented market and high costs seem to be among the main reasons for this.

In an effort to promote the provision of risk capital in the form of equity participation or loans under certain conditions to start-ups and social business, the EU put in place in 2013 the EuVECA (European Venture Capital Funds)[18] and EuSEF (European Social Entrepreneurship Funds)[19] Regulations. Take up to date has been encouraging, but there is scope for further growth. There are likely to be a range of barriers prevent more widespread take up. A particular concern that has been raised is that managers whose portfolio exceeds €500 million cannot apply to set up and operate such a fund, nor can they use these designations to market the funds in the EU. Widening the range of market participants could potentially increase the number of EuVECA and EuSEFs available.

Public funding can also play a role, with regional authorities being significant funders of venture capital in several Member States. EU financial instruments such as the Competitiveness and Innovation Framework Programme (CIP), European Structural and Investment Funds (ESIF)[20] and equity based financing supported by Structural Fund programmes have been successful in mobilising venture capital for SMEs. The EU programme for competitiveness of SMEs (COSME)[21] and Horizon 2020 programmes will build on this. Moreover, in July 2014, state aid rules were modified in order to allow for more State intervention, where appropriate, in the development of the risk finance market and to improve access for SMEs and small or innovative mid-caps.[22] The challenge is how to increase the scale of venture capital funds, and how public and private funding together could contribute to this.

The lack of exit opportunities for investors may also be an obstacle to the development of venture capital funding. The Commission is interested to know whether measures can be taken to create a better environment for business angels[23], venture capital and initial public offerings to ensure better exit strategies for investors and boost the supply of venture capital to start-ups.

Banks are likely to remain key actors and participants in capital markets, as issuers, investors and intermediaries, and will continue to play a major role in credit intermediation through their role in funding and information provision. At the same time, new technologies and business models are emerging, such as peer-to-peer lending or other types of non-bank direct lending, which seek to offer funding to SMEs and start-ups. The Commission welcomes views on whether there are significant barriers to entry to providing and growing these services alongside bank lending.

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[17] UK, Germany Sweden, Denmark, Finland Netherlands, France and Spain

[18] Regulation (EU) No 345/2013

[19] Regulation (EU) No 346/2013

[20] Regulation (EU) No 1303/2013

[21] Regulation (EU) No 1287/2013

[22] 2014/C 19/04

[23] Business angels are individual investors, usually with business experience, who provide capital for start-ups

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Questions

10) What policy measures could incentivise institutional investors to raise and invest larger amounts and in a broader range of assets, in particular long-term projects, SMEs and innovative and high growth start-ups?

11) What steps could be taken to reduce the costs to fund managers of setting up and marketing funds across the EU? What barriers are there to funds benefiting from economies of scale?

12) Should work on the tailored treatment of infrastructure investments target certain clearly identifiable sub-classes of assets? If so, which of these should the Commission prioritise in future reviews of the prudential rules such as CRDIV/CRR and Solvency II?

13) Would the introduction of a standardised product, or removing the existing obstacles to cross-border access, strengthen the single market in pension provision?

14) Would changes to the EuVECA and EuSEF Regulations make it easier for larger EU fund managers to run these types of funds? What other changes if any should be made to increase the number of these types of fund?

15) How can the EU further develop private equity and venture capital as an alternative source of finance for the economy? In particular, what measures could boost the scale of venture capital funds and enhance the exit opportunities for venture capital investors?

16) Are there impediments to increasing both bank and non-bank direct lending safely to companies that need finance?

Boosting retail investment

Retail investors' appetite for investing directly into capital markets is generally small across the EU, being predominantly channelled through collective institutional investments. However, European households have significant savings held in bank accounts that in some cases could be used more productively. Declining deposit rates may provide some incentives for households to shift more of their financial wealth from banks into market securities.

Mutual funds products such as UCITS are popular vehicles for retail investors to invest in capital markets. Despite this, the rate of direct retail participation in UCITS remains relatively low: private households only accounted for 26% of investment fund ownership in the euro area in 2013[24]. To ensure a wider choice among investment fund products and increased competition, the Commission would be interested in views on ways in which cross-border retail participation in UCITS could be increased.

Retail investors will only be attracted to invest in capital markets if they trust them as well as the financial intermediaries operating in them, and believe they can safely secure a better return on their savings. Restoring the trust of investors is a key responsibility and challenge for the financial sector. Strengthening financial literacy would also enable consumers to

[24] Fact Book 2014, European Fund and Asset Management Association

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choose financial products more effectively and easily, and compare products. There are a number of national programmes in place to improve financial literacy and education, as well as the EU project "Consumer Classroom." In some cases more standardised or simple financial products, which are available in some Member States, might also be useful.

Regulation and supervision can contribute to building investor confidence. The European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) have been given increased powers on investor protection through MIFID II[25] and other regulations. As mentioned in the recent Commission review of the European Supervisory Authorities (ESAs)[26], their mandates in the area of consumer/investor protection could be clarified and enhanced where necessary.

Enhancing cross-border competition in retail financial services could bring greater choice, lower prices and better services. Financial services provided by electronic and mobile tools have potential to contribute in this regard, provided that concerns over guarding against fraud, hacking and money laundering can be addressed while maintaining ease of use for customers. The Commission will begin preparatory work on how the single market for retail financial services can deliver more benefits to consumers.

Questions

17) How can cross border retail participation in UCITS be increased?

18) How can the ESAs further contribute to ensuring consumer and investor protection?

19) What policy measures could increase retail investment? What else could be done to empower and protect EU citizens accessing capital markets?

20) Are there national best practices in the development of simple and transparent investment products for consumers which can be shared?

Attracting international investment

European capital markets must be open and globally competitive, well regulated and integrated to attract foreign investment, which means maintaining high EU standards to ensure market integrity, financial stability and investor protection. Given the global nature of capital markets, it is important that the Capital Markets Union is developed taking into account the wider global context.

While the post-crisis downscaling of gross capital flows affected all regions, the EU (and the euro area in particular) has undergone the most sizeable decline in the magnitude of gross capital inflows and outflows as a percentage of GDP. All components of gross capital inflows (portfolio investment, foreign direct investment, and bank intermediated claims) were lower in 2013 than in 2007.

[25] Directive 2014/65/EU and amending Directive 2002/92/EC and Directive 2011/61/EU
[26] COM(2014) 509

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According to International Monetary Fund (IMF) data, at the end of 2013 the global total stock of cross-border portfolio investments was €25 trillion. The total stock of cross-border portfolio investments between EU Member States was €9.6 trillion, whereas portfolio investments coming from outside the EU amounted to €5 trillion. Therefore, there is still a wide scope for attracting additional equity and debt investment from third countries.

The EU's international trade and investment policy[27] has an important role to play in supporting international investment. International trade and investment agreements liberalise the movement of capital, regulate market access and investment, including for the supply of financial services, and can help to achieve both an appropriate level of protection for investors in Europe and a level playing field across the EU[28]. In addition, the Commission is contributing to international work on free movement of capital, including, for example, on the OECD Codes of Liberalisation of Capital Movements.

Direct marketing of EU investment funds and other investment instruments in third countries should be facilitated. This could be achieved by reducing barriers for EU financial institutions and services to access third country markets, including, where appropriate, by opening markets for cross border asset management in future trade agreements.

In light of these trends, the Commission is interested in views on measures that could be taken to increase the attractiveness of EU markets to international investors.

Questions

21) Are there additional actions in the field of financial services regulation that could be taken ensure that the EU is internationally competitive and an attractive place in which to invest?

22) What measures can be taken to facilitate the access of EU firms to investors and capital markets in third countries?

4.3 Improving market effectiveness – intermediaries, infrastructures and the broader legal framework

Single rulebook, enforcement and competition

The development of a single rulebook in recent years has been a major step towards a more harmonised regulatory framework for capital markets in which firms can compete cross border on a level playing field. The success of the single rulebook also depends on the effective implementation and consistent enforcement of the rules. There are still some key pieces of EU legislation which allow for the addition of requirements, so-called 'gold-plating' by Member States, and issues of divergent interpretations of rules have also arisen. The

[27] COM (2010) 343

[28] The EU also seeks to ensure in its trade and investment agreements appropriate guarantees to safeguard appropriate protections in areas such as safety, health, environmental protection or cultural diversity

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Commission, in cooperation with Member States and the ESAs, is working to ensure that EU financial legislation is correctly implemented and enforced on the ground.

Competition plays a key role in ensuring that consumers get the best products and services at adequate prices, and that investment flows are channelled towards the most productive uses. Entry barriers for competitors should be removed where possible and access to financial market infrastructure needs to be assured. To support more efficient and well-functioning capital markets, the Commission has pursued several cases in recent years using its competition powers. The Commission will continue to ensure that competition law is rigorously applied to avoid restrictions or distortions of competition affecting the emergence of integrated and well-functioning capital markets.

The principle of free movement of capital should also be enforced to tackle unjustified barriers to investment flows within the EU. For instance, requirements imposed by host Member States on market operators with a European marketing passport granted by their home Member State could in some cases constitute an unjustified barrier to the free movement of capital. A more stable, transparent and predictable framework for investors could contribute to building confidence and enhancing the attractiveness of the Single Market as a place to invest for the long term.

Supervisory convergence

Although regulatory frameworks for capital markets have largely been harmonised, the success of reforms also depends on the implementation and consistent enforcement of the rules. The ESAs play a key role in promoting convergence. The Commission recently published a report on the operation of the ESAs and the European System of Financial Supervision (ESFS)[29] that identified a number of areas where possible improvements could be made in the short and medium term. The Commission will continue to review the functioning and operation of the ESAs, as well as their governance and financing.

The ESAs have an important role to play in continuing to foster greater supervisory convergence, increasing the focus on and use of peer review and appropriate follow-up. Furthermore, use of dispute settlement where it is needed and investigatory powers in relation to alleged breaches of EU law could facilitate consistent implementation and application of EU law across the single market.

Further consideration could be given to the role played by the ESAs in this context. To the extent that national supervisory regimes may result in differing investor protection levels, barriers to cross-border operations and discouraging companies seeking financing in other Member States, there may be a further role for the ESAs to play in increasing convergence.

Data and reporting

The development of common data and reporting across the EU could help to support closer capital market integration. For example, in the equity markets a "consolidated tape" is essential to ensure the quality, availability and timeliness of post-trade information. Should market-led efforts prove to be insufficient to deliver a consolidated tape which is easily accessible and usable for market participants on a reasonable commercial basis, consideration

[29] COM(2014) 509

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may need to be given to other solutions, including entrusting the operation of a consolidated tape to a commercial entity. The Commission will also seek to ensure that the dissemination of consolidated information at commercially reasonable terms takes place unhindered.

More efficient approaches towards supervisory and market reporting involving national authorities or ESMA, for example in relation to common IT approaches for certain reporting requirements, could also be helpful for market participants. Views would be welcome as to whether and what further work is needed to improve data and reporting in the EU.

Market infrastructure and securities law

Market infrastructure and securities law – the 'piping' which channels investments and the laws under which it is treated – are key determinants of the efficiency and ease by which investment can be made. The regulatory framework applying to market infrastructures is in the process of being put into place, with legislation to ensure the robustness of central counterparties (CCPs) and central securities depositories (CSDs) and the Target2Securities (T2S) project run by the Eurosystem. As announced in the Commission Work Programme, the Commission intends to bring forward a legislative proposal to create a European framework for the recovery and resolution of systemically relevant financial institutions such as Central Counterparties. There are, however, some aspects relating to market infrastructures supporting trading where there may be potential to make further improvements.

Collateral is a vital part of the financial system as it underpins a large number of transactions in the market and provides a safety net in case there are problems. The fluidity of collateral throughout the EU is currently restricted, preventing markets from operating efficiently. Since the financial crisis, the demand for collateral has increased, driven by market demand for more secured funding as well as new regulatory requirements, such as set out in the European Market Infrastructure Regulation (EMIR)[30] and Capital Requirements Regulation (CRR).[31] With demand for collateral rising, there are risks that the same securities are being reused to support multiple transactions as was the case pre-crisis and work is underway internationally to look at these issues. Views are welcome as to whether work should be undertaken to facilitate an appropriately regulated flow of collateral throughout the EU.

Also, while there has been considerable progress in harmonising rules needed for the transparency and integrity of securities markets, **legislation relating to investors' rights in securities differs across Member States**. As a result, investors have difficulties assessing the risk of capital investments in different Member States. Discussions on this issue date back more than a decade starting with the Second Giovaninni Report in 2003. This issue is, however, complex as it touches on property, contract, corporate and insolvency law, as well as the laws on holding of securities and conflict-of-laws. Opposing views hold that harmonisation at EU level and a single EU definition of securities would not be necessary. Furthermore, it is argued that the launch of Target 2 Securities in mid-2015 will remove the legal and operational risks associated with the transfer and holding of securities across jurisdictions, reduce costs and could increase cross-border investment. In light of these constraints, views would be welcome as to whether any targeted changes to legislation on securities ownership rules that could materially contribute to more integrated capital markets within the EU are feasible and desirable.

[30] Regulation (EU) No 648/2012

[31] Regulation (EU) No 575/2013 and amending Regulation (EU) No 648/2012

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Another important aspect in developing a pan-European market in securitisation and financial collateral arrangements, and also of other activities such as factoring, is achieving greater legal certainty in cases of cross-border transfer of claims and the order of priority of such transfers, particularly in cases such as insolvency. A report identifying the problems and possible solutions will be published by the Commission in 2015.

Banks play a key part not only in lending but also in capital market intermediation, notably by providing liquidity through market making. Some research indicates signs of liquidity decreasing in some market segments, but also that liquidity may have been under-priced in the run-up to the crisis. The decline in liquidity is attributed by some to a necessary market correction as well as a decline in market confidence in the aftermath of the crisis, and by others to global post-crisis regulatory measures. The Commission is interested in views on how to achieve better priced and robust liquidity conditions, notably whether measures could be taken to support liquidity in vulnerable segments and whether there are barriers to entry for new market participants who can play a role in matching buyers to sellers.

Company law, corporate governance, insolvency, and taxation

EU legislation exists in the area of **corporate governance** (e.g. on corporate governance statements[32], on the cross-border exercise of shareholder rights[33]), but corporate governance often remains the preserve of domestic law and standards. After the financial crisis a review of the EU corporate governance framework was undertaken through two consultations.[34] The revision of the shareholder rights directive which is underway aims to encourage institutional investors and asset managers to provide more long term capital to companies.

The protection of **minority shareholder rights improves corporate governance and the attractiveness of companies for foreign investors**, since these may often be minority investors. Another aspect of sound corporate governance is the efficiency of company boards in terms of controlling company managers. As company boards protect the interests of investors, efficient and well-functioning company boards are also key to attracting investment.

Despite several directives on company law[35], businesses still face important obstacles to their **cross-border mobility and restructurings**. Further reforms to company law may be helpful in overcoming barriers to cross-border establishment and operation of companies.

Divergent national **conflict-of-law rules** regarding the internal functioning of a company can cause legal uncertainty, as they may lead to a situation where a company is subject to the laws of various Member States at the same time, for instance, in cases where a company is incorporated in one Member State but operates mainly from another Member State.

While the discussion around harmonising substantive **insolvency legislation** has been slow over the past 30 or so years due to its complexity, there has been considerable progress in the area of conflict-of-laws rules for cross-border insolvency proceedings.[36] However, underlying national insolvency frameworks are still divergent in their basic features and in their

[32] Directive 2006/46/EC
[33] Directive 2007/36/EC
[34] COM(2010) 284 and COM(2011) 164
[35] For example Council Regulation 2157/2001 and Directive 2005/56/EC
[36] Regulation 1346/2000 on insolvency proceedings will be replaced by an improved legal instrument in 2015

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effectiveness.[37] Reducing these divergences could contribute to the emergence of pan-European equity and debt markets, by reducing uncertainty for investors needing to assess the risks in several Member States. Furthermore, the lack or inadequacy of rules enabling early debt restructuring in many Member States, the absence of "second chance" provisions, and the excessive length and costs of formal insolvency proceedings can lead to low recovery rates for creditors and discourage investors. With a view to achieving progress on insolvency, the Commission adopted a Recommendation on a new approach to business failure and insolvency[38] in which it urges Member States to put in place early restructuring procedures and 'second chance' provisions. The recommendation also invites Member States to consider applying the principles to consumer over-indebtedness and bankruptcy. An evaluation of the Recommendation is planned for 2015.

Differences in **tax regimes** across Member States can impede the development of a single market for capital. For example, they can create obstacles to cross-border investments such as pensions and life insurance. As a follow-up to the White Paper on Pensions[39], the Commission conducted a study on discriminatory rules relating to pension and life insurance capital, contributions, and pay-outs. The Commission will take action as necessary if any discriminatory rules are found and discriminatory tax rules on cross-border investments by life insurance companies and by pension funds in real estate at a later stage. Work is also continuing on **simplifying withholding tax relief procedures related to post-trading.**

In addition to the tax treatment for different market participants across Member States, there are also differences in the tax treatment of different types of financing, which may create distortions. For example, differences in the tax treatment of debt and equity financing might increase the reliance of companies on debt and bank funding. Furthermore, differences across Member States in the definition of debt and equity and their respective tax treatment, including in relation to regulatory capital instruments, may hamper a level-playing field, fragment markets and create opportunities for profit-shifting.

Finally, obtaining finance is especially difficult for start-ups as they lack collateral and a proven track record that can provide certainty to suppliers of financing. Start-up companies are, however, more likely to bring innovations that challenge the market position of large incumbent firms. A recent study commissioned by the European Commission[40] concluded that targeting **tax incentives for R&D expenditure** at young innovative companies is an effective practice.

Technology

An important driver of the integration of capital markets is the rapid development of new technologies, which have contributed for example to the development of electronic trading platforms, high frequency trading and so-called "FinTech" companies. "Fintech" can be defined as the combination of innovative financial services and the availability of capital through the use of new (digital) technologies, such as crowdfunding. According to a recent report, since 2008 global investment in FinTech ventures has tripled to nearly $3 billion in

[37] Commission Staff Working Document (2014) 61 final

[38] Commission Recommendation C(2014) 1500

[39] The White Paper "An Agenda for Adequate, Safe and Sustainable Pensions" was adopted on 16 February 2012, building on the 2010 Green Paper consultation. The White Paper takes stock of the challenges to adequacy and sustainability of pension systems and puts forward a range of policy measures at the EU level

[40] CPB (2014), "Study on R&D tax incentives", Taxation papers No 52

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2013; this trend is set to continue, with global investment on track to grow to up to $8 billion by 2018.[41]

European and national company law has not kept pace with technological development, for example by insufficiently **integrating the benefits of digitalisation.** Exchanges of information between companies, shareholders and public authorities are often still paper-based. For example, in many companies, shareholders still cannot vote electronically and there is no Europe-wide on-line registration of companies. Use of modern technologies in these areas could help reduce costs and burdens, but also ensure more efficient communication, particularly in a cross-border context.

Questions:

23) Are there mechanisms to improve the functioning and efficiency of markets not covered in this paper, particularly in the areas of equity and bond market functioning and liquidity?

24) In your view, are there areas where the single rulebook remains insufficiently developed?

25) Do you think that the powers of the ESAs to ensure consistent supervision are sufficient? What additional measures relating to EU level supervision would materially contribute to developing a capital markets union?

26) Taking into account past experience, are there targeted changes to securities ownership rules that could contribute to more integrated capital markets within the EU?

27) What measures could be taken to improve the cross-border flow of collateral? Should work be undertaken to improve the legal enforceability of collateral and close-out netting arrangements cross-border?

28) What are the main obstacles to integrated capital markets arising from company law, including corporate governance? Are there targeted measures which could contribute to overcoming them?

29) What specific aspects of insolvency laws would need to be harmonised in order to support the emergence of a pan-European capital market?

30) What barriers are there around taxation that should be looked at as a matter of priority to contribute to more integrated capital markets within the EU and a more robust funding structure at company level and through which instruments?

31) How can the EU best support the development by the market of new technologies and business models, to the benefit of integrated and efficient capital markets?

32) Are there other issues, not identified in this Green Paper, which in your view require action to achieve a Capital Markets Union? If so, what are they and what form could such action take?

[41] http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Rise-of-Fintech-New-York.pdf

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SECTION 5: NEXT STEPS

On the basis of the outcome of this consultation, the Commission will consider the priority actions needed to put in place by 2019 the building blocks for an integrated, well-regulated, transparent and liquid Capital Markets Union for all 28 Member States. In addition to supporting market-led initiatives where possible, EU action could take the form of non-legislative measures, legislation, competition enforcement action and infringements, as well as country specific recommendations to the Member States in the context of the European semester. Member States are encouraged to consider whether barriers and obstacles created by national legislation and practices exist and how best to overcome them.

Interested parties are invited to send their answers to the questions in this Green Paper by 13 May 2015 through the **online questionnaire**:

http://ec.europa.eu/finance/consultations/2015/capital-markets-union/index_en.htm During the consultation process, the European Commission:

- will engage with the European Parliament to get direct feedback from its Members;
- invites Member States to organise consultations and events with the public and national parliamentarians to promote discussion on Capital Markets Union at national level; and
- will organise in a transparent and balanced manner workshops to consult those with specific technical expertise (such as academics, market participants) to reach an informed view on specific issues.

The Commission will organise a conference in the summer of 2015 to draw the consultation to a close. An Action Plan on Capital Markets Union will be published later in 2015.

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