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**NOTE**

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From: General Secretariat of the Council  
To: Permanent Representatives Committee  
Subject: Letter by the HLG Chair on the Capital Markets Union:  
Competitiveness and access to finance aspects

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Delegations will find annexed to this Note a letter of the Chair of the High-Level Working Group on Competitiveness and Growth (HLG) to the Chair of the Permanent Representatives Committee.

This letter includes the outcome of the HLG discussion on 13 October 2015 on the Capital Markets Union.

**HIGH LEVEL WORKING GROUP  
ON COMPETITIVENESS AND GROWTH**

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**Chair**

Dear Ambassador,

I should like to inform you of the outcome of the debate by the High Level Working Group on Competitiveness and Growth (HLG) on 13 October 2015 about competitiveness and access to finance aspects of the Commission's Action Plan on building a Capital Markets Union (CMU)<sup>1</sup>.

This discussion followed in the wake of the call of the European Council in March 2014<sup>2</sup> to systematically mainstream industrial competitiveness concerns across all EU policy areas. It also connects with the 18-months work programme of the HLG, which was endorsed by COREPER on 20 February 2015<sup>3</sup>, inviting the Group "*to discuss and exchange views on major Commission initiatives, covering a range of issues within the responsibilities of various Council formations affecting EU's competitiveness.*"

The HLG as one of the preparatory bodies of the Competitiveness Council has examined the Commission's CMU proposal and would like to contribute to the success of this proposal, notably by (1) identifying the principal issues for competitiveness and access to finance, in particular for SMEs, and (2) gathering intelligence and understanding of individual financing markets in Member States and of the needs of SMEs.

The HLG supports the CMU as a major step in tackling some of the key problems faced by EU businesses, especially SMEs, in accessing the finance and investment that they need.

Kind regards,

Zaiga Liepina

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<sup>1</sup> Doc. 12263/15.  
<sup>2</sup> Doc. EUCO 7/1/14 REV 1.  
<sup>3</sup> Doc. 6188/15

## OUTCOME OF THE HLG DEBATE AND KEY MESSAGES

1. It is essential that the **CMU focusses on small and medium-sized enterprises (SMEs)**, which account for 85% of job creation (they employ 2 out of 3 people) and produce 58 cents of every Euro created in Europe. While SMEs continue to report **problems with access to finance**, they are often the hardest stakeholder group for governments to reach, as they are diffuse, diverse and often do not engage in existing communication channels. Part of the CMU objective should be to bring capital markets closer to SMEs, including high-growth potential and innovative SMEs, as many SMEs lack the institutional capability to engage with financial institutions.
2. Where the CMU Action Plan would lead to financial regulation at the EU level, the HLG called on the Commission **for simple and pragmatic rules that could be easily understood and applied, both by retail investors and by industry, and in particular by SMEs** ("Think Small First"). **Financial literacy** was considered crucial: Information to and training of potential investors in SMEs and financial intermediaries was thought to be crucial for greater engagement with non-bank finance.
3. The CMU will be **an essential element of the future Single Market**. A capital markets union will be a crucial complement to the Single Market for goods and services, a new Commission strategy which is expected by the end of this month.
4. The CMU has the **potential to make a real difference to the European economy**: it will free capital and increase cross-border investment possibilities, thereby supporting industry's competitiveness vis-à-vis third countries (notably the US) which already benefit from a unified capital market with a wide range of non-banking financing instruments (venture capital, crowdfunding, business angels, investment funds etc.).

5. **Many of the initiatives outlined in the CMU Action Plan should improve the competitiveness of the EU**, in particular:
- a. **Restarting the securitisation market** to free up space on bank balance sheets for further lending to the real economy, in particular SMEs. HLG delegations commented that **securitisation** could indeed be used to stimulate SME financing, but this was not the only way of supporting bank financing for SMEs.
  - b. **Promoting alternative and non-bank financing**, such as crowdfunding, business angels, venture capital, etc. HLG delegations emphasised the all-out importance of a unified **European venture capital market** unhampered by national obstacles to cross-border venture financing. While venture capital was a flourishing funding instrument in the US, it was not equally well developed in Europe, which put European industry at a distinct investing disadvantage. The 2013 EU Regulation on European Venture Capital Funds is being reviewed in the framework of the CMU Action Plan. **Equity funding** was thought to be another instrument that should be developed more for the benefit of Europe's competitiveness, for example by addressing the debt-equity tax bias.
  - c. **Reviewing the Prospectus Directive:** HLG delegations supported the forthcoming review of the 2003 Prospectus Directive in the context of the CMU Action Plan in order to lower the barriers to accessing capital markets, which are currently beyond the reach of many SMEs.
  - d. **Supporting the listing activities of small firms** and explore targeted IFRS (International Financial Reporting Standards)-based accounting solutions for SMEs.
  - e. **Reviewing asset management legislation** to better support non-bank finance and ensure fund passports operate as efficiently as possible.
  - f. **Supporting the development of industry-led initiatives in EU private placement markets** to identify best practices and promote them across the EU.

- g. Investigating how to **develop or support SME information systems** that link national systems to bring together finance-seeking SMEs and finance providers. HLG delegations from small Member States emphasised the need for **robust financial intermediary systems** in order to strengthen the capitalisation of SMEs, *inter alia* through EU funding from COSME and Horizon 2020.
6. HLG delegations recalled the importance of **subsidiarity** in regulating capital markets, pointing out that national powers over financing rules and mechanisms should not be affected by the CMU more than was necessary to achieve a capital markets union. Whereby it is important to preserve momentum also in the long-term with a concrete and ambitious agenda for further on-going action, a capital markets union in Europe should be **introduced step by step** based on a thorough analysis, take into account **national market-size differences**, and **not lead to the lowest common denominator in regulation**, while respecting well performing frameworks.
7. Building upon the existing acquis, it is essential that the **CMU takes into account the particular stages of development of capital markets in Member States**. In order to achieve this, a range of options could be considered, including sharing best practices and well performing frameworks, business education initiatives and technical assistance where appropriate and possible, as well as legislative initiatives where unjustified barriers warrant such intervention. HLG delegations commented that indeed **all markets ought to be taken into consideration** in setting up the CMU: not only big capital markets but also small ones.
8. A number of Member States asked the Commission to look at its competition rules for State Aid in the light of promoting private investment.