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Time to deliver on the Capital Markets Union

25 September 2020, By Pablo Portugal

The European Commission has unveiled its long-awaited new Action Plan for Capital Markets Union (CMU). Featuring 16 sets of actions with their respective timelines, the Action Plan outlines the strategy for the next phase of the CMU and expected legislative initiatives on capital markets through 2023.

The current juncture provides a renewed sense of purpose and urgency to the CMU. EU capital markets must be fit for the challenge of promoting long-term economic growth and a recovery from the severe impacts of the Covid-19 crisis. The new CMU strategy should also respond to the implications of Brexit and support the EU's competitiveness on the global stage.

Importantly, the Action Plan has also reinforced the link between the CMU agenda and the digital and green transitions. Strong capital markets must play a central role in mobilising the investments to advance the EU's digital strategy and fulfil ambitious climate change targets.

Promoting investment and re-equitisation

A re-equitisation of Europe's companies and financial landscape is one of the immediate priorities in the face of the Covid-19 crisis.

It is important to see a commitment from the Commission to apply the flexibility embedded in Basel III to ensure the appropriate prudential treatment of long-term SME equity investments by banks, , together with a pledge to assess possibilities for promoting market-making activities. More generally, we hope that the forthcoming CRR3 proposal will reflect the CMU objectives in promoting liquid capital markets, such as the implementation of the FRTB, the CVA, and SA-CCR.

The review and simplification of listing rules, on the basis of careful analysis, will be another fundamental workstream to promote access to public markets, particularly for SMEs.

Another key project will be the establishment of a European Single Access Point (ESAP) to improve access to company financial information across the EU. Further work should be undertaken to ensure synergy and compatibility between reporting obligations at the EU and national levels and the information to be submitted to the ESAP.

Enhancing efficiency, connectivity and competitiveness in securities markets

There are several work areas envisaged in the Action Plan to improve the functioning of EU securities markets. European authorities must redouble efforts to bring to fruition aspirations such as the introduction of a common EU-wide system for withholding tax relief at source and the

Association for Financial Markets in Europe

London Office: 39th Floor, 25 Canada Square, London E14 5LQ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 788 3971

Frankfurt Office: Bürohaus an der Alten Oper, Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany

T: +49 (0)69 153 258 967

www.afme.eu

establishment of an EU-wide definition of “shareholder”, as well as other actions intended to improve legal and operational consistency in the single market.

The upcoming review of the MiFID 2/R framework will also be fundamental in advancing the CMU objectives. A strong and competitive equities trading ecosystem is clearly essential to promote re-equitisation and enhance the attractiveness of EU capital markets.

It is encouraging that the Commission intends to take forward the establishment of an effective post-trade consolidated tape for equity instruments. While there are challenges to address, a well-designed infrastructure has the potential to democratise access to European markets by providing all investors with a comprehensive and standardised view of the European trading environment.

There will be other major issues to consider in Europe’s securities markets structure, not all mentioned in the Action Plan. A central guiding principle of the future MiFID 2/R review should be supporting positive outcomes for EU investors who, let us not forget, are the ultimate beneficiaries of capital markets. A diverse and well-regulated capital market, with a range of trading mechanisms and not reliant upon one category of trading venue, better supports the needs of investors and consumers’ pensions and savings.

The Action Plan notes that the EU needs to develop its own critical market infrastructure and services while remaining open to global financial markets. It will be important to see how the concept of “open strategic autonomy” is applied in future workstreams. We should recall that international investors and firms headquartered outside the EU can also play an important role in generating investment and growth opportunities for EU stakeholders.

Restoring a well-functioning European securitisation market

It is very positive to see the Commission’s intention to carry out a comprehensive review of the EU securitisation framework for both simple, transparent and standardised (STS) and non-STs securitisation in order to scale-up the securitisation market in the EU.

Securitisation can be a vital mechanism to support the financing of the real economy, particularly for SMEs, and the management of the expected increase in levels of NPLs, among other functions. It can also be an important tool in supporting ESG investment.

The CMU High-Level Forum provided well targeted and prudentially sound recommendations to adjust the securitisation framework. They should be implemented to their full extent.

Policymakers must seize the opportunity

The importance and urgency of the CMU project has never been more obvious.

While this is a long-term project, the combined challenges of Covid-19, Brexit and the green and digital transitions should focus minds and provide momentum towards achieving far-reaching measures in this EU legislative cycle.

Policymakers should now take advantage of the unique political context to work towards a fully-fledged and globally-competitive CMU with the potential to support growth, sustainability and transform the EU capital markets landscape.