

Informal Meeting of Economic and Financial Affairs Ministers **27-28 April 2018**

PRESIDENCY ISSUES NOTE

Working Session I: Further reducing fragmentation within the Capital markets union (competition/cooperation among financial centres within the Capital markets union)

I. Context

1. Capital Markets Union (CMU) is a key initiative for the European Union to broaden financing options for business and increase the opportunities for investors, but also to make Economic and Monetary Union more resilient to shocks through private risk sharing. CMU requires significant change across a range of complex interconnected issues, both regulatory and structural. By mid-2019, the European Commission intends to deal with all the main measures for the ambitious agenda of the Capital Markets Union (CMU).

With the departure of the United Kingdom – currently the deepest capital market in the EU – a new paradigm of how capital markets in different Member States will shape and interact among each other and with third countries will have to emerge. This could involve elements both of competition and cooperation between different financial centres within the single market, based on a single rulebook and supervisory convergence. CMU can broaden the geographical reach of capital markets so that all Member States can reap the benefits of deeper and more integrated capital markets.

2. While substantial progress has already been made, the Commission put forward further priority initiatives to strengthen the CMU action plan in its CMU Mid-term Review¹ published in June 2017.

The ECOFIN Council endorsed in May 2017 a joint Commission-Member States roadmap on removing national barriers to capital flows² based on the Report³ mapping the barriers discussed in the expert group set up for that purpose.

The European Council of 22-23 June 2017 welcomed the Commission's mid-term review of the CMU Action Plan and noted that timely implementation and better enforcement of existing legislation are also key to reaping the benefits of Europe's Single Market⁴.

The ECOFIN Council in its conclusions of 11 July 2017 on the Commission Communication on the mid-term review of the Capital Markets Union Action Plan⁵ supported the inclusion of the new priority initiatives proposed by the Commission, which aim to further strengthen the Capital Markets Union as it is faced with new challenges.

3. In its Communication on completing the CMU by 2019 - time to accelerate delivery⁶, adopted in March 2018, the Commission invites the European Parliament and the Council to accelerate work on pending CMU legislative proposals to ensure their adoption before the elections to the European Parliament in mid-2019. In the context of that Communication, the Commission adopted further CMU legislative initiatives: a proposal for harmonising the market for covered bonds; a proposal for reducing the barriers for the cross-border distribution of investment funds; a proposal on European Crowdfunding Service Providers for Business (as part also of the FinTech action plan); and a proposal on assignment of claims in a cross-border context.

¹ ST10082/17

² ST 9430/17

³ ST 7757/17

⁴ EUCO 8/17

⁵ ST11170/17

⁶ ST7219/18

The Commission will present additional CMU actions in May 2018.

4. In order to put all building blocks for CMU in place by 2019, progress could be made on the three main dimensions of CMU:

- (i) **Making the most of the Single Market through new European products, labels and passports.** This includes laying down the foundations for a safer, more cost-efficient and transparent market in affordable and voluntary personal pension savings through the proposal on pan-EU pension product (PEPP).
- (ii) **Supporting businesses and entrepreneurs through clearer and simpler rules.** This includes enhancing the proportionality of rules applicable to investment firms.
- (iii) **A more efficient supervision of EU capital markets.** This includes:
 - a. enhancing the effectiveness of supervision by the revision of the European System of Financial Supervision (ESFS Review) in order to accelerate market integration;
 - b. strengthening the framework for the supervision of CCPs to ensure financial stability, and the safety and soundness of CCPs.

In addition to regulatory measures in various areas of banking, insurance and securities markets, the Commission set up expert groups in different areas, including on sustainable financing and on removing remaining barriers to free movement of capital. The Final report by the High-level Expert Group on sustainable finance from January 2018 submitted 30 recommendations on which the Commission reflects in its March 2018 Action Plan on Financing Sustainable Growth⁷. 5. On 22 March 2018, the European Council called for increased efforts to deliver on the Capital Markets Union before the end of the current legislative cycle.⁸

⁷ ST 7216/18

⁸ EUCO 1/18

II. Possible starting points for discussion

1. All EU initiatives delivered so far under the CMU project, both regulatory and non-legislative, aim at providing the building blocks for the realisation of the CMU in the Union, the rapid establishment of which is of utmost importance.

2. On the third pillar of CMU, shaping the institutional framework in order to achieve a fully functioning CMU is essential. In this context and considering the undoubted support for reducing the financial markets fragmentation and for enhanced supervisory convergence, the Union should have a clear view on how to shape the institutional framework. At the same time, the Union should bear in mind the underlying logic that has led to the creation of the ESAs and acknowledge the progress achieved since their creation. The current institutional framework could be improved by ensuring more convergence in supervision.

More effective and consistent supervision would contribute to eliminating barriers to cross-border investment and to reducing compliance costs for firms, it would also enhance investor protection and preserve financial stability.

Additionally, the focus should remain on creating a level playing field for the EU financial service providers and the providers from outside the Union. This would only be possible if the rules and supervision in force in third countries have the same effectiveness as those in the EU.

3. The fast developments in FinTech present opportunities to harness technology-enabled innovation in financial services. EU businesses and investors can make most of the advantages offered by the Single Market in this sector. At the same time, FinTech raises important questions like cybersecurity, data, consumer and investor protection issues, as well as market integrity that are not only relevant at national level or Union level, but also global in scale. To ensure that effective regulatory frameworks are developed to benefit from the opportunities offered by financial innovation while

addressing the challenges, close monitoring of the processes is essential and the Commission is proposing to follow this approach in the its FinTech Action Plan.

4. A remaining challenge of the CMU project is to make it easier for SMEs to tap capital markets by making rules more proportionate and by removing unnecessary regulatory requirements in a way that does not undermine investor protection and market integrity. The integration of the capital markets in the Union should be compatible with the developments of local markets in different parts of the Union.

III. Questions for discussion

- How do you see the future paradigm of capital markets in the EU-27? What institutional framework should underpin CMU?
- Do you consider the initiatives proposed by the Commission so far on the three key dimensions of CMU as sufficient to develop EU capital markets and to tackle existing capital markets fragmentation?