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PRESIDENCY NOTE
Capital Markets Union – way forward:

Informal ECOFIN, April 5-6 2019

1. INTRODUCTION

The Capital Markets Union (CMU) was launched in 2015, with the aim to boost European economic growth by creating deeper, more diversified and more liquid capital markets, as well as removing barriers to cross-border investment. In order to have in place the key building blocks of the CMU by the end of October 2019, European Commission has put forward a range of measures including legislative, procedural and market-led initiatives.

Significant steps have been made towards achieving the CMU's objectives. With 7 months until the deadline, most of the legislative proposals included in the CMU Action Plan (a total of 13 plus 3 dedicated to a greener economy) are agreed or already adopted.

In March alone, this substantial progress has translated into agreements being found between the co-legislators on the European system of financial supervision, the supervision of central counterparties, the promotion of SME growth markets, and disclosures relating to sustainable investment and sustainability risks.

Statistics in different sectors of the financial industry support the argument that these measures have stimulated positive developments: the availability of pools of capital for investment have improved in many EU Member States during the last five years; the EU is emerging as one of the global leaders in the growing field of sustainable finance; overall, EU capital has shown an increasing level of integration.

However, there is still room for development. For CMU to better reach its ambitions and further transform them into an economic reality, given the challenges the European financial markets are facing now, 2019 should not be the end of the road.

The effectiveness of the CMU depends significantly on the behavior of private actors (individuals and companies) and/or the efficiency of the incentives. Thus, the legislative initiatives will provide the momentum, but it will be for the economic agents and the financial community to transform it into a lasting trend.

This is one of the many reasons why the efforts of the European institutions and the commitment of the Members States have to continue and the CMU should be an important topic on the agenda of the future legislative term. It is more vital now than ever to have strong and integrated European capital markets, particularly when considering the UK decision to leave the European Union.

The CMU has already been complemented with measures to respond to the perspective of Brexit during the Mid-term review in 2017. Still, a look at the new environment and of the progress made so far in regards to the resilience, integrity and market supervision is a prerequisite for building open and competitive capital markets.

It is necessary that the CMU measures allow the further development of capital markets across the Europe, for the benefit of all Members States, considering that there are significant differences between the countries in terms of capital markets development. The CMU objective is to create a framework to better connect the financing to investment projects in the small, but high growth potential markets and to create greater cross-border investment opportunities for the more developed countries.

The main trigger for launching CMU was the slow recovery pace of the European financial sector that followed the global financial crisis. Financial stability considerations were not the primary driver, although integrated financial markets were expected to improve Europe's shock-absorbing capacity through cross-border risk sharing. After the contagion risk exposed during the financial crisis, there was a need to carefully look at how more integrated and deeper capital markets can bring the benefits to investors and companies, without compromising the system stability.

Even if important steps were taken to address the vulnerabilities manifested during the recent financial crisis, new kind of challenges for financial stability emerged in the years: an increasing systemic relevance of the non-bank financial intermediation, especially related to asset management industry, the concentration of risks in Central Counterparties (CCPs), and in general more interconnectedness between institutions and segments of the financial system.

2. ISSUES FOR DISCUSSIONS

The following issues could be taken up as a starting point for further reflections:

a) **How CMU embraces innovation in a more digitized economy while within the EU the financing still relies heavily on the banking sector?**

b) **Do you think that European capital markets and banking sector are better equipped today than 2008 to face another potential financial crisis?**

c) **Are the firms and the financial sector ready to disrupt their own business model and transform in order to accommodate the requirements of the green economy and embedding more ethical and customer-centric behaviors?**

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