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ECMI Roundtable on the Mid-Term Review of the Capital Markets Union Action Plan

4 July 2017 | 13:00 to 14:30

On 8 June 2017, the Commission reported on the progress made so far in implementing the 2015 CMU Action Plan. The Mid-Term Review also sets out nine new priority actions with the timeline to be unveiled in the coming months. At present, capital markets are at different stages of development in Europe, and matching the supply and demand on a cross-border basis is still impaired. Strengthening the long-term savings and investment channel through well-functioning, deeper and highly integrated capital markets remains a priority. This would then lead to more alternative financing sources for companies, better options for retail/institutional investors, and enhanced market-based, private risk-sharing mechanisms.

With the participation of:
Niall Bohan, Head of Unit, Capital Markets Union, DG FISMA, European Commission

Discussants:
Georg Ringe, Director, Institute of Law & Economics, University of Hamburg
Vincenzo Bavoso, Assistant Professor in Commercial Law, University of Manchester

Moderated by:
Fabrice Demarigny, Global Head of Financial Advisory Services, Mazars and Chairman of ECMI

Note: This report was drafted by Dr Apostolos Thomadakis (Researcher, European Capital Markets Institute). This event report is not a transcript of the speakers' interventions; rather it should be understood as an interpretation of their views by the author.

Summary of the discussion

At present, capital markets have attained different stages of development throughout Europe, and matching of supply and demand on a cross-border basis is still uneven. Strengthening the long-term savings and investment channel through well-functioning, deeper and highly integrated capital markets remains a priority. This would then lead to more alternative financing sources for companies, better options for retail/institutional investors, and enhanced market-based, private risk-sharing mechanisms.

The ambition to form a Capital Markets Union (CMU) was Europe's response to the challenges it faced in the wake of the financial crisis, which left a legacy of underfunded investment deficit. There is a well-documented infrastructure deficit, which prompted the EFSI initiative from President Juncker, as well as other regulatory responses from the Commission in an effort to facilitate and mobilise the supply of capital to fund infrastructure investment. However, we still have a bank-centric financial system on which we cannot rely exclusively to meet the funding needs of firms (especially SMEs) in Europe.

Although there are some signs of change in internal markets, notably in debt instruments (corporate bond issuance and private placement of small debt), which are very useful for project financing and longer-term maturities for corporates, Europe is still struggling with equity issuance (pre-IPO and IPO). IPO numbers and volumes (excluding the UK and Scandinavian countries) are thinner than they were before the crisis, and there is a clear lack of successful junior market in Europe.

The CMU and the original Action Plan focused on risk capital with the aim of improving the pre-IPO and IPO machinery to make it work better. The European Commission launched many initiatives, especially for venture capital and asset managers. However, we still need to make it rewarding and interesting for the suppliers of capital (especially for institutional and retail investors). Retail investors do not find capital markets investment particularly rewarding at the present time due to low returns and high charges (management and distribution). There is a structural problem in the way in which capital market investments are made accessible to retail investors, which needs to be addressed so as to make them more attractive to this market.

There is also an issue with product design, which could be addressed by tapping into the investment knowledge and experience of the insurance and fund industries well-known problems (e.g. the need to households to put money aside for retirement). The proposed Pan-European Pension Product (PEPP) is a good example and a promising starting point.

We also need to make capital markets useful to banks in terms of meeting refinancing needs, for example using covered bonds and other instruments to fund their loans and bank balance sheet management (through securitisation). A big chunk of the Commission's work is dedicated to the development of a secondary market for non-performing loans, as well as other ways to help banks use capital markets solutions to reduce pressure on their balance sheets and manage their capital more efficient. Various frictions, such as tax and legal barriers, however, inhibit progress.

In short, although the Commission has delivered 2/3 of the measures that it undertook to implement in September 2015, there remain a couple of important outstanding issues to be addressed (e.g. securities law and conflicts of law).

As we approach the end of the initial pipeline, however, fresh challenges await us. Brexit poses many new questions and concerns, as the largest reservoir of liquidity management, risk management and equities and capital markets is going to be decoupled from the rest of the market. The structural breaks and challenges will require new thinking and the development of new approaches but importantly, will also require one or two member states to step up to the plate and demonstrate leadership ahead of EU27.

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In conclusion, Capital Markets Union will not be completed in the next few years; there is no finish line in capital markets construction and there always be a next step. CMU is a more complex and challenging process that Banking Union: it is more eclectic, more diffuse and a lot harder to communicate and sell.

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List of Participants

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