



Last call for the Capital Markets Union (CMU)

Proposal for a CEPS-ECMI Round Table

February 2022



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“Competitiveness is essential to make the European Union a more attractive location. A location for people, for investors. This includes the principle that the economy has to serve the people and not the other way round. The economy must serve the people.”

Jean-Claude Juncker - ‘A new start for Europe’ (15 July 2014)

1. Introduction

Seven years into the launch of the project to create a Capital Markets Union (CMU), capital markets in the EU have neither significantly developed nor become more integrated. On the contrary, the largest capital market has left the Union through Brexit, the remaining markets have become more fragmented, while market financing have not developed significantly. This matters, as the EU is losing out against its competitors in providing a developed and diverse financial system, where users of debt and equity capital can choose between different forms of bank and market financing.

A market finance system is often seen to be complex and costly to put in place, but once set up, it can be a significant driver for growth of enterprises. It requires an attractive environment where investors’ and issuers’ interests meet, with strong investor protection and disclosure on the one hand, and a deep and liquid market on the other.

The functioning of market finance is often insufficiently understood: it is the market that judges on the viability of the firm, provided that markets are efficient and certain rules are met, and not a credit committee. Hence, once a firm is listed, the ‘funding escalator’ can provide more rapidly the means for a firms’ growth.

For the EU financial markets to be developed and integrated, much remains to be done, on the internal and external front. Hence this proposal.

2. The Capital Markets Union project

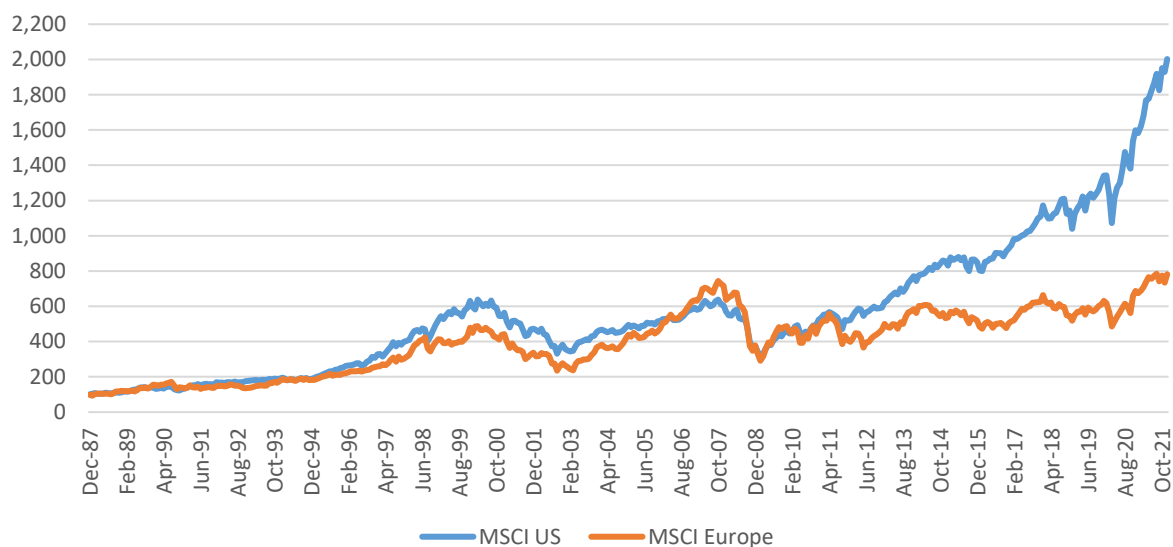
The CMU project was launched more than six years ago in September 2015. Its main goal is to create a single market for capital, in which companies, also small and medium-sized enterprises (SMEs), will have better access to non-bank finance and where local capital markets will be deepened and better integrated.

In September 2020, the European Commission announced a new CMU Action Plan. This is primarily driven by three key objectives: First, to support a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies. Second, to make the EU an even safer place for individuals to save and invest long-term. Third, to integrate national capital markets into a genuine single market. The Commission has made significant progress on putting the building blocks in place, the European Parliament and Member States agreed on 12 out of 13 legislative proposals put forward by the 2015 CMU Action Plan, although not all of them have maintained the level of ambition proposed by the Commission.

Nevertheless, the European capital markets still lag a lot behind the US. Looking at the equity market side and the MSCI, the US has advanced enormously, while Europe has remained flat (see Figure 1). Forms of market finance, such as crowdfunding, VC and PE, are of very limited use in Europe (see Figure 2). The issuance of equity and bonds is not the preferred option and is rarely been considered, crowdfunding – which is very limited in size – did not live up to expectations post-crisis, while business angel financing is usually under the radar of innovative firms. VC investments in Europe, although have

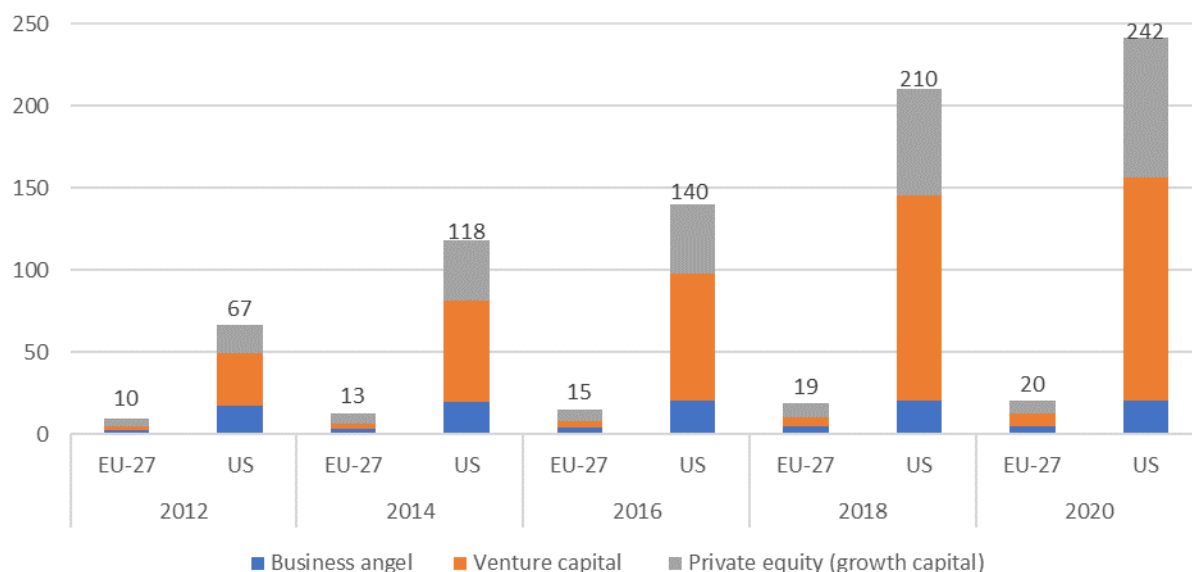
increased over the last years, they are still behind US and China (EU attracts 10% of global VC, while US & CA 42%, and China 36 %). Finally, PE is the most preferred risk capital source of funding for more mature companies at the growth stage.

Figure 1: Performance of equity indices in Europe and the US (Dec-87=100)



Notes: The graph plots the value of the MSCI Europe (excluding the UK) index and the MSCI US index for the period December 1987 to December 2021. The MSCI Europe captures large and mid-cap representation across 14 developed markets countries in Europe (i.e. AT, BE, DK, FI, FR, DE, IE, IT, NL, NO, PT, ES, SE, and CH). December 1987 index values were set to 100.
Source: authors' own calculations based on MSCI data.

Figure 2: Pre-IPO risk capital investment by asset class (EU-27 and US, EUR billion)



Notes: Venture capital includes equity investments made for companies at their seed (launch), start-up (early development) or later stage (expansion) of business. Private equity includes only growth capital and not later investment stages (e.g. replacement capital, rescue/turnaround and buyouts).
Sources: European Business Angel Network (EBAN), Invest Europe, National Venture Capital Association (NVCA), Center for Venture Research (University of New Hampshire).

The initiatives launched so far by the European Commission have had only a piecemeal effect or their impact is still to be seen. The EU financial market continues to be too fragmented and consolidation is hindered by the classic factors: inertia, home bias, culture, tax, company law, etc. The absence of deep,

unified and liquid EU capital markets make it particularly difficult for EU firms to attract funding by international investor.

3. Round Table

In this context, CEPS-ECMI propose to start a very focused Round Table with industry leaders to discuss the state of play and to come up with a limited series of key recommendations to move forward. CMU is undoubtedly a valid initiative, but a clear focus is missing and the priority has waned.

The composition of the group should reflect the variety of interests involved in CMU, which is often missing in the debate in EU policy circles. It is composed of market operators and infrastructures, banks an asset manager and a corporate. The proposed composition is as follows:

- Lieve Mostrey, CEO, Euroclear (Chair)
- Philippe Bordenave, Former COO & advisor to the CEO, BNP Paribas
- Jos Dijsselhof, CEO, SIX & Chair of the board, BME
- Luca Garavoglia, Chairman, Campari Group
- Jose Maria Linares, Global head of Corporate and Investment Banking, Grupo Santander
- Allan Pollack, CEO, PKA
- David Schwimmer, CEO, LSEG
- Bjørn Sibbern, CEO, Nasdaq Europe

On the side of CEPS and ECMI, the meetings and the report will be prepared by Niamh Moloney (Professor of Financial Markets Law at LSE) and Karel Lannoo (CEO of CEPS and General Manager of ECMI).

4. Focal questions to be addressed

Some of the questions that will be discussed are the following:

- How can CMU serve Europe's strategic autonomy and allow for a strengthening of the competitive position of the European financial sector?
- What is missing from the CMU project in order to achieve its ultimate goal of a fully integrated European capital market?
- How can national differences in supervisory, regulatory, tax and legal practices be eliminated?
- Are there market segments where fewer obstacles exist and where high levels of integration can be achieved quickly?
- How can Europe better prioritise its actions ex ante, and monitor them ex post? Is there a need for a monitoring framework with selected priorities and indicators?
- Is the CMU a decisive lever towards Europe's twin transformation? How this can be achieved?

5. Objectives and Proposed Methodology

The Round Table will focus on three main topics:

- Identify key areas to which priority should be given by the Commission.
- Discuss the main obstacles to achieve the priorities identified during the first meeting, as well as how to overcome these obstacles.

- Put forward a list of policy recommendations and actions that can contribute towards making European capital markets more competitive and help with the completion of CMU.

To accomplish the above-mentioned objectives, we propose to use a mix of literature review, data collection, round table discussions, and analysis. In particular, we will perform a targeted literature review of the most up-to-date policy and academic research, as well as a thorough collection of data available through various sources (e.g. BIS, ECB, AFME, EFAMA, ESMA, FESE, OECD, WFE, etc.).

Should this proposal be accepted, the methodology will be further refined and discussed with all members of the Round Table at the first meeting.

6. Organisation and governance

The **Chairperson** is an external expert appointed by CEPS-ECMI. He/She will be invited by CEPS-ECMI and will chair the meetings and moderate the discussions.

The **Rapporteurs** will organise and set the agenda for the meetings, follow-up on the discussions, conduct research independently and draft the final report, in close cooperation with the chair.

The **Round Table** members will steer the research agenda of the meetings and actively participate at the discussion and, together with the chairperson review the final report and comment on the list of recommendations.

Rapporteurs



Niamh Moloney is Professor of Financial Markets Law at the London School of Economics. She was elected a Fellow of the British Academy in summer 2018. Niamh specializes in EU financial market regulation and consumer financial protection and has written several books on these subjects (*The Age of ESMA: Governing EU Financial Markets*; *Brexit and Financial Services: Law and Policy*; *EU Securities and Financial Markets Regulation*; *The Regulatory Aftermath of the Global Financial Crisis*; *How to Protect Investors: Lessons from the EU and the UK*). She has been a Visiting Professor in several leading Law Schools internationally, including Columbia Law School, New York and is a member of the Editorial Boards of a number of internationally-recognised journals.

Niamh is currently a Member of the Central Bank of Ireland's Commission, and Member of the Board of Appeal of the European Supervisory Authorities. She has previously been a member of the Securities and Markets Stakeholder Group of the European Securities and Markets Authority, Chair of the Central Bank of Ireland's Consumer Advisory Group, and a Member of the UK Financial Conduct Authority's Financial Services Consumer Panel.



Karel Lannoo is Chief Executive of the CEPS and General Manager of ECMI. He is specialised in financial regulation, economic governance and single market issues and his recent publications cover EU health care sector policy, anti-money laundering and crypto-currency regulation.

Karel is a regular speaker at hearings of EU, national and international institutions and in executive programmes, as well as a participant in studies for national,

multilateral and private sector organisations. He writes regularly op-eds and appears in media (FT, WSJ, Le Monde, Bloomberg, NRC, Financieel Dagblad, De Tijd, etc.). He is a member of company and foundation boards, and of advisory councils.

Karel Lannoo holds a baccalaureate in philosophy (1984) and an MA in history (1985) from the University of Leuven, Belgium and obtained a postgraduate in European studies (CEE) from the University of Nancy, France (1986). He is fluent in Dutch, English, French and Spanish, with good notions of German.

7. Deliverables and Timeline

Based on the agenda outlined above there will be three Round Table meetings and public webinar to launch the report organised. A detailed agenda will be distributed prior to each meeting. Meetings will take place in zoom format and last approximately 90 minutes.

- A **first meeting** will be organised in April 2022. In this meeting the group will identify key areas to which priority should be given by the Commission. Seven years on, it is clear that CMU remains a very important project, and that it is more relevant than ever. But with the current pace and focus, it risks becoming merely a distant objective.
- A **second meeting** will be organised in May 2022. In this meeting the main obstacles to achieve the priorities identified during the first meeting as well as options to resolve these obstacles will be discussed.
- A **third meeting** will be organised in July 2022. In this meeting the group will propose a series of policy recommendations.
- A **fourth meeting** will be organised in September 2022. In this meeting the group will discuss and comment on the final draft.
- A **webinar** will be organised in October/November 2022. In this meeting the final report will be launched and presented, and followed by a moderated panel discussion in which policymakers and market participants will debate on the topic.

All deliverables will be drafted in accordance with the highest professional standard, observe the highest academic integrity and contain clear findings and recommendations for decision makers, supported by essential data. All the materials will be submitted in English. The report will be proof-read by a native English speaker and professional editor who is a member of the CEPS Editorial Team. Further details on quality control measures are provided below. The final report will be published and promoted by CEPS-ECMI and its normal channels.

European Capital Markets Institute

ECMI conducts in-depth research aimed at informing the debate and policy-making process on a broad range of issues related to capital markets. Through its various activities, ECMI facilitates interaction among market participants, policymakers and academics. These exchanges are fuelled by the various outputs ECMI produces, such as regular commentaries, policy briefs, working papers, statistics, task forces, conferences, workshops and seminars. In addition, ECMI undertakes studies commissioned by the EU institutions and other organisations, and publishes contributions from high-profile external researchers.



Centre for European Policy Studies

CEPS is one of Europe's leading think tanks and forums for debate on EU affairs, with an exceptionally strong in-house research capacity and an extensive network of partner institutes throughout the world. As an organisation, CEPS is committed to carrying out state-of-the-art policy research that addresses the challenges facing Europe and maintaining high standards of academic excellence and unqualified independence and impartiality. It provides a forum for discussion among all stakeholders in the European policy process and works to build collaborative networks of researchers, policy-makers and business representatives across Europe.

