



# Capital Markets

**BRIEFING**  
October 2015

## The European Commission published an Action Plan on building a Capital Markets Union

On 30 September 2015 and following the public consultation it had launched in February 2015, the European Commission published its Action Plan on building a Capital Markets Union (CMU), an initiative which is expected to appear in the Commission's legislative work for the following years and until 2019.

The Action Plan evolves around four main principles and mainly aims at mobilizing capital in Europe, not only in the form of bank-funding, but also in the form of private investments, diverse alternative financing sources and mechanisms,

paying specific attention to long-term infrastructure investments, which are necessary for the economic activity and growth in the EU. In this respect, the Commission has already put forward five key early actions by proposing specific legislative provisions concerning securitisation and the promotion of investment in infrastructure. In this initiative, the Commission launched two public consultations, on Venture Capital Funds and on Covered Bonds. It also launched a call for evidence on the cumulative impact of financial legislation.

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On 30 September 2015 the European Commission published its Action Plan on building a Capital Markets Union (CMU). The Action Plan describes the benefits of such CMU, the main axes on which its actions towards achieving the CMU will be focused, and the first steps for its completion. The Action Plan is the result of the public consultation on the measures needed to unlock investment in the EU and to create a single market for capital, which was launched in February 2015 by means of issuing a relevant Green Paper on the Building of the CMU, and closed on 13.05.2015. The Green Paper which the Commission issued in February described the meaning, the content of the CMU and its necessity alongside the Banking Union. It also sought views from interested parties on the early policy priorities which the Commission intended to proceed with. In this second phase of the building of the CMU, the Commission, after assessing all the input it received, reached a conclusion on which policies should be followed, and described exactly what needs to be done, in order for the target of a genuinely single market for capital to be accomplished. Apart from the early actions described herein, the Commission is expected to take further towards the CMU.

The establishment and proper functioning of the CMU is one of the main pillars of the Investment Plan and is expected to have a significantly positive impact on the European economy altogether. More specifically, the CMU will support investment in Europe by unlocking financing for the European undertakings by means of providing financing resources complementary to bank-funding. This would be particularly the case for SMEs and start-ups, which, although being the backbone of the European economy, are not able to access the traditional funding tools easily.

Apart from these undertakings, the CMU should provide both retail and institutional investors with additional and more diverse investment opportunities, more transparency and larger potential returns. Taking into account that all the measures described in the Action Plan have as common denominator the breaking down of any national regulatory or other barriers which block

cross-border investment, should the CMU become reality, all market participants would be benefiting from a unified, more competitive single European capital market with great scale and depth. Moreover, the establishment of a genuine single market for capital would be a significant step towards the completion of the Economic and Monetary Union.

### Key principles of the Action Plan

The Action Plan for the CMU is construed around four (4) key principles.

The **first key principle** is relevant to the need to **unlock more investment** from the EU as well as from third countries. The aim of the CMU is to mobilize capital in Europe and channel it to investments in all undertakings, including SMEs, infrastructure and long-term sustainable projects, which are in need of funding and also have the ability to expand and, thus, create jobs and growth.

The **second key principle** explores the need for **better connection between financing and investment projects across the EU**. An **information gap** has been recorded between undertakings (especially SMEs) and investors, which significantly elevates the search costs and prevents potential investors from identifying and assessing attractive companies in which to invest. The Commission intends to undertake actions to minimize such obstacles and reinforce cross-border investment and saving opportunities, which would benefit Member States with currently small markets and high growth potential, as well as developed Member States.

The **third key principle** refers to the **stability** of the EU financial system, which is necessary for growth. The Commission explicitly states that the creation of **alternative funding sources, complementary to bank-funding**, would result in a stronger financial system which would be more resilient to extraordinary circumstances. By creating and promoting more diverse funding sources, the financial risk would be allocated between more market participants and, as a result, the financial system would be less vulnerable to any crisis in the banking sector.



The **fourth** and final principle refers to the benefits of the **deeper integration** of the financial markets for the European economy and people in general, i.e. additional to those in need of funding. The integration is expected to enhance the competition between the different funding sources and mechanisms and lead to lower costs.

### Key early actions

The Commission acknowledges that it will be necessary to adopt several legislative measures for the CMU to realize. Along with the Action Plan, the Commission published five (5) significant first initiatives in the context of building the CMU:

#### 1. New rules on securitisation

When referring to a process that is enabling a lender (often a bank) to (re)finance a set of loans/assets by converting them into securities and making them available for purchase by investors, such a process enables the lender to transfer certain risks to external agents and also free up capital for new lending, thus enhancing the liquidity in the market. The Commission has released on 30.09.2015 a proposal for a Regulation laying down common rules on securitisation, with the aim of creating a pan-European set of rules making the process simple, transparent, standardised and subject to adequate supervisory control. This is the second step in the effort for the development of an effective EU legal framework for securitisation, after the relevant public consultation which was launched along with the whole project of the CMU on February 2015 (along with the Commission's Green Paper on the CMU).

#### 2. Actions to facilitate investment in long-term projects – insurance companies

A key factor for economic growth in Europe is **investment in infrastructure projects**, which constitutes long-term and sustainable funding sources. The Commission had recognized this need since February and included a relevant chapter in its Green Paper. At the current stage of preparation, and after the input it received during the public consultation, the Commission focuses on the **insurance industry and its ability to**

**provide long-term financing** in infrastructure projects. In order for insurance undertakings to be able to do so, the Commission, on the basis of a respective advice from EIOPA, has published a **draft Delegated Regulation** amending the already existing legislation and creating incentives for insurance companies to proceed with such investments, specifically by reducing the amount of capital which insurers must hold against debt and equity of qualifying infrastructure projects.

#### 3. Public consultation on venture capital

As SMEs often encounter obstacles when requesting bank-funding, the Commission mentions two new types of collective investment funds, the European Venture Capital (EuVECA) and the European Social Entrepreneurship Funds (EuSEF) as possible alternative solutions for financing by private investors. In this respect, the Commission launched a public consultation (currently running until 06.01.2016) with the aim to gather input as to whether certain amendments to the existing legislation concerning the above two types could further promote their use and their role in the single market. Such amendments relate to the rules concerning who is able to manage the funds, the level of minimum investments, whether non-EU managers should be able to offer EuVECA or EuSEF, et al.

#### 4. Public consultation on covered bonds

Covered bonds, facilitate the issue by credit institutions of debt obligations, which offer a so-called "double-recourse" protection to bondholders: if the issuer fails, the bondholder has a direct and preferential claim against certain designated assets and an ordinary claim against the issuer's remaining assets. Covered bonds constitute another financing mechanism, which the Commission has decided to examine during the current phase of the CMU. Although the European credit institutions have in total a major presence in the markets of covered bonds globally, there are significant fluctuations among the Member States. The Commission launched a public consultation (running until 06.01.2016) on a pan-European framework for covered bonds, in order to decide whether EU action is needed in this sector.





## 5. Cumulative impact on financial legislation

Over the past years a significant amount of European legislation has been adopted and entered into force in the sector of financial services. The Commission launched a “call for evidence” with the aim to gather feedback and measure the cumulative impact of these new financial rules. The Commission particularly wishes to identify possible inconsistencies, incoherence and gaps between the different rules, as well as unnecessary regulatory burdens and factors negatively affecting long-term investment and growth.

### Next steps

Apart from the above, the Action Plan mentions certain actions which the Commission plans to undertake by the end of 2015, as well as long term ones. More specifically, by the end of 2015 and following the relevant public consultation which was launched in February, along with the consultation on the CMU, the Commission intends to propose amendments to the Prospectus Directive, with a view to create a genuinely proportionate regime for SMEs to draw up a prospectus and access capital markets.

Within the same period a Green Paper is expected on retail financial services, intending to boost consumer choice and competition in cross-border retail financial services and insurance.

**The Commission acknowledges that the main barriers to a genuine single market for capital arise from national legislation, especially the provisions regulating insolvency, taxation and securities ownership issues.** The more long-term planned actions of the Commission in the context of building the CMU include a report on **crowd funding** to decide on the best means for the development of this new funding channel; an assessment for a **policy framework to establish European personal pensions**; and initiatives in

the sector of taxation, for example in the form of tax incentives used to support equity financing. Moreover and with respect to insolvency law, the Commission intends to consult on the main barriers and initiate a legislative proposal on business insolvency. As part of its long-term intentions, the Commission wishes to address any issues relating to uncertainties around securities ownership and pursue improvements in the arrangements for clearing and settlement of cross-border securities transactions, with the ultimate object of removing any remaining barriers the Giovannini group had noted back in 2001.

The Commission’s goal is to establish the building blocks of the CMU by 2019. The steps discussed are intended to be the primary steps of a long-term process, expected to develop rapidly and bring significant changes in the European financial legislation. Pursuant to the Commission’s Action Plan, all the achievement will be assessed in 2017, in order to monitor whether the priorities mentioned in it shall be re-evaluated.

It is clear that the Commission is dedicated to identifying any barriers hindering the free flow of capital between the EU Member States, as well as to establish mechanisms which will allow the emergence and development of more flexible, alternative funding mechanisms. Nevertheless, the capital controls regime currently in force in Greece creates skepticism as to the efficiency of the actions taken towards establishing the CMU. Although it is true that such national measures are adopted after consultation and in cooperation with the EU institutions, it should be taken into account in the planning of the CMU, whether specific mechanisms should be provided to ensure the alignment of any future national restrictions of this kind with the objects and the principles of the CMU.

6.740	6.740	6.320	6.308	6.808	6.874	6.320	6.308	6.874	6.320	6.308
5.084	5.084	6.340	5.984	5.984	24.574	6.084	6.084	24.574	6.320	6.320
5.670	5.670	6.328	5.670	5.670	4.570	4.570	4.570	4.570	6.328	6.328
3.454	3.454	3.570	5.454	5.454	6.074	3.570	5.454	2.324	6.074	3.570
0.650	0.650	7.512	0.650	0.650	20.764	7.512	0.650	20.764	7.512	7.512
6.350	6.350	4.420	4.420	6.350	6.350	6.350	6.350	6.350	6.350	6.350
6.537	6.537	6.034	6.034	6.537	6.537	6.034	6.537	6.034	6.537	6.034
5.476	5.476	6.036	6.036	5.476	5.476	6.036	5.476	6.036	6.036	6.036
4.708	4.708	3.500	3.500	4.708	4.708	3.500	4.708	3.500	4.708	3.500
8.734	8.734	8.734	4.708	4.708	7.705	8.734	4.708	8.734	7.705	8.734
0.683	0.683	0.683	6.088	6.088	34.705	0.683	6.088	0.683	34.705	0.683
0.650	0.650	6.560	6.560	0.650	0.650	24.705	6.560	6.560	24.705	6.560
6.703	6.703	6.703	6.703	6.703	47.054	6.703	6.703	6.703	47.054	6.703
6.760	6.760	6.760	6.760	6.760	6.760	6.760	6.760	6.760	6.760	6.760



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