



CEPS-ECMI TASK FORCE

REBRANDING CAPITAL MARKETS UNION: Status quo and back to the drawing board

Prospectus

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“The direction we need to take is clear: build a single market for capital from the bottom up, identifying barriers and knocking them down one by one, creating a sense of momentum and helping to spark a growing sense of confidence in investing in Europe’s future.”

Green Paper “Building a Capital Markets Union” (February 2015)

1. Background

One of the key elements of President’s Juncker Investment Plan, announced in November 2014, was the creation of a true single market for capital – a Capital Markets Union (CMU) – for all 28 EU Member States by 2019. As highlighted by the CMU Green Paper of February 2015, European firms are over reliant on banks for funding, and relatively less on capital markets. Thus capital markets should be strengthened in such a way that will: i) unlock more investments for all companies and infrastructure projects, ii) attract more investment into the EU from the rest of the world; and iii) stabilise the financial system by offering a wider option of alternative funding sources.

By September 2015, an Action Plan (AP) was adopted setting six specific areas of intervention:

- Expanding the financing options available to European firms (and SMES in particular);
- Easing access to public markets for firms;
- Encouraging long-term and sustainable investment;
- Fostering greater participation of retail and institutional investors;
- Enhancing banking capacity; and
- Facilitating cross-border investments.

The formal announcement of Brexit in March 2017 triggered the mid-term review of July 2017, which prioritised the strengthening of supervision and greater enforcement across the EU.

Four years after its launch, opinions on the success of the CMU project are mixed. Awareness of the importance of well-functioning capital markets and the need for an alternative financing channel to the banking sector have grown. However, capital markets have neither significantly developed nor become more integrated. The initiatives launched by the European Commission have had only a piecemeal effect. It is only since Brexit that some more far-reaching proposals were made, with the Pan-European Personal Pension Product (PEPP) and the review of the European Supervisory Authorities, which may not be ready for adoption under the current legislature.

With the current legislature coming to an end, it is necessary to revamp CMU strategy for the EU-27 post-2019. However, before setting priorities for the future, it is necessary to take a critical look backwards on what has been achieved. While a rebalancing of EU’s economic structures towards a more market-based finance is necessary, CMU has not been particularly successful in integrating nationally fragmented capital markets. Despite the huge demand for capital, innovative companies and small enterprises still tend to prefer staying private longer or not going public at all.

Although the Commission is committed to unlocking the full potential of sustainable finance, current Environmental and Social Governance (ESG) investment represents a very niche part of the total fund market. Capital markets across Europe, and particular in the Central and Eastern Europe (CEE), remain significantly less developed, both in terms of size and liquidity. Global technological developments raise

concerns of a regulatory and commercial nature. How can the regulatory framework be properly and proportionally adapted to absorb innovations such as blockchain and robo-advice?

The need for fundamentally revisiting the European capital markets programme, and launching a structured debate is more urgent than ever. This Task Force will attempt to address, among others, the following matters:

1. Objectives of CMU: What are the criteria to evaluate success in implementing the consecutive phases of the project towards its ultimate goal of a fully integrated European capital market?
2. Which model for Europe's capital markets? The Commission seems to be unsure about a top-down or a bottom-up approach? Can a top-down process function effectively across such widely differing markets? How far should harmonisation go?
3. Status-quo: What is the cost of market vs. bank financing? Are capital markets really an alternative for retail investors? Why are European SMEs so market averse?
4. The ESA review and in particular the role of ESMA. A building block for CMU is the increase in the competences of ESMA. But this seems to have been ill-prepared and unbalanced. Which competences can be better exercised centrally and which better at local level?
5. Adapting capital markets rulemaking to different degrees of market development. With the single rulebook, is the EU model sufficiently adaptable to stimulate markets in less developed countries?
6. Shock absorption capacity of capital markets. Well-functioning and more integrated capital markets will provide additional shock absorption capacity by increasing private-sector risk sharing, lowering economic volatility via geographic diversification of equities and bonds, and enabling households/firms to lend/borrow from other economies. How can national differences in supervisory, regulatory, tax and legal practices be eliminated?
7. Does Europe need a common safe asset? Are sovereign-bond backed securities (SBBSs) the right option? What are the alternatives (European Safe Bonds, national tranching, E-bonds, etc.)?
8. Brexit will lead to even more fragmentation in the short term, and thus add costs to capital markets financing. Will some key financing and refinancing markets have sufficient critical mass post-Brexit? What will be the effect on Europe's capacity to finance its economies? How should the EU respond?
9. Technological developments in capital markets (e.g. Artificial Intelligence, Distributed Ledger Technology, ICOs, crypto-assets, cloud computing). How should capital markets respond to the challenges and concerns regarding consumer protection, cyber risks, illegal activities, money laundering, tax avoidance and financial stability risks?

2. Main objective

The Task Force will engage with a diverse group of stakeholders to think through the priorities for the next European Commission and Parliament. It will focus on three main topics:

- Taking stock of what has been achieved so far since the adoption of the CMU Action Plan in September 2015;
- Identify areas to which priority should be given by the next Commission;
- Put forward a list of concrete policy recommendations and actions that can contribute towards the completion of CMU.



3. Agenda and timeline

MEETING 1 – DECEMBER 2018

Status Quo: What has been achieved?

Three key building blocks, 6+1 key areas of priority, 33+9 policy actions. Has the CMU project being successful in delivering deeper and more integrated capital markets in the EU?

- Have firms, particularly SMEs, being successful in entering and raising capital on public markets?
- Has retail investors' participation in capital markets been fostered? Does the current supply of products meet their needs?
- Does the current regulatory framework (at national and EU level) provide adequate incentives for long-term, sustainable investment, on a cross-border basis?
- Can start-ups, innovative firms and non-listed companies access finance? Are institutional investors encouraged to invest in these companies?

MEETING 2 – JANUARY/FEBRUARY 2019

Back to the drawing board: Which way ahead?

Europe's flagship CMU project is desperately in need of re-branding, re-focusing, new energy and momentum, as well as political support. Despite the progress so far, European capital markets are still highly fragmented along national lines and continue to lag well behind the US. Four years on, it is clear that CMU remains a very useful project, and that it is more relevant than ever. But with the current pace and focus, it risks becoming merely a distant objective and highly unlikely to be in place by 2019.

We need to consider: harmonising of insolvency laws, improving market infrastructure by removing Giovannini barriers, harmonising taxation, attracting and incorporating household and corporate sector savings, technology, Brexit, etc.

Policy recommendations

A final report will be prepared by the CEPS-ECMI research staff, proposing a series of policy recommendations. The report and policy recommendations will be discussed in detail with the members of the Task Force before we proceed to publication and presentation.

Launch of the final report

The final report will be launched at a public event in Brussels, open to the press, in the presence of high-level policymakers and market participants. Additional launch events in Europe may be organised.

4. Organisation and methodology

The **Chairperson** is an external expert appointed by CEPS-ECMI.

The **Rapporteurs** (CEPS-ECMI staff) will organise the meetings, conduct research independently and draft the final report.

The **Task Force** members – a group of stakeholders: industry representatives and observers (academics, policymakers, regulators, supervisory authorities, consumer/investor associations, etc.) – will steer the research agenda of the meetings and actively participate at the discussion, together with the chairman; review the final report and comment on the list of recommendations.

All participants (except for the special guests) are required to attend (or designate another person) at least two (2) out of the three (3) closed-door meetings and will be invited to the public event dedicated to the launch of the final report.

The roles are described in detail in the **ANNEX**.

Based on the research agenda outlined in this prospectus, CEPS and ECMI will organise three meetings that will be held under the Chatham House rule and be closed to the press. Participation is limited to members of the Task Force, observers and selected invitees. The Chairperson will make sure that multiple interests are represented and taken into account. A detailed agenda will be distributed prior to each meeting.

Each meeting will consist of 2 sessions (opening address, panel debates, presentations, roundtable discussions, wrap-up). Post-meeting reports will be prepared and circulated. Based on these discussions and its own independent research, CEPS-ECMI will publish a final report drafted by the Rapporteurs.

CHAIRMAN



Vítor Constâncio was Vice-President of the European Central Bank from June 2010 to May 2018. In the Portuguese Government, he was Secretary of State for the Budget and Planning in 1974 -76 and Finance Minister in 1977-78. At the central bank of Portugal, he was Director of the Economics Department, Deputy Governor and then Governor of the Banco de Portugal from February 2000 to May 2010, becoming thereby a member of the ECB's Governing Council.

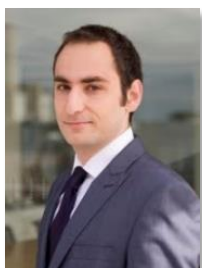
Before having been appointed as Governor of the Banco de Portugal, he was Executive Director of the Banco Português de Investimento (1995-2000).

He was Assistant Professor at the Lisbon School of Economics and Management (ISEG), University of Lisbon, from 1968 to 1973 and later, teaching coordinator of the Master's degree on Monetary Policy from 1989 to June 2010. He is now President of the School Council at ISEG and Professor at the Master's Degree in Banking and Financial Regulation at the School of Economics, University of Navarra, Madrid, and member of the respective Advisory Board.

RAPPORTERUS



Karel Lannoo is CEO of CEPS and General Manager of ECMI. He has published numerous books and articles in newspapers, specialised magazines and journals on general European public policy, and specific financial regulation and supervision matters. His latest book is 'The Great Financial Plumbing, From Northern Rock to Banking Union', published in 2015. Karel is a regular speaker at hearings for national and international institutions (European Commission, European Parliament and related), at international conferences and in briefings for executives. He is also the rapporteur for many CEPS task forces, chaired by senior European officials and business leaders (including Helmut Schlesinger, Tommaso Padoa-Schioppa, Jose-Maria Roldan, Thomas Huertas). He is also the General Manager of the European Capital Markets Institute (ECMI) and the European Credit Research Institute (ECRI), both operated by CEPS. Karel is also an independent director of BME (Bolsas y Mercados Espanoles), the listed company that manages the Spanish securities markets. He is also a member of the Euribor Steering Committee, the European Money Markets Institute (EMMI) and a non-executive director of Lannoo Uitgeverij Group.



Dr. Apostolos Thomadakis is a Researcher at the European Capital Markets Institute (ECMI). His research focuses on issues related to capital markets (access to capital, SMEs financing, CMU, financial instruments, financial regulation) and financial markets (stock markets, derivatives, identification of regimes, contagion and predictability). Prior to joining CEPS, he was a Visiting Scholar at the Applied Macroeconomic Research Division at the Bank of Lithuania (BoL) and at the Foreign Research Division at the Austrian National Bank (OeNB). Apostolos has held academic positions and taught Econometrics and Finance courses at the University of Warwick, the London School of Economics, the University of Bath and the University of Surrey. He has also completed a Traineeship in the Capital Markets and Financial Structure (CMT) Division of the European Central Bank (ECB) and a PhD Internship in the Country and Financial Sector Analysis Division of the European Investment Bank (EIB). He holds a PhD in Economics and an MSc in Business Economics and Finance from the University of Surrey, and a BSc in Physics from the Aristotle University of Thessaloniki.

5. Call for participation

Participation in the Task Force is subject to a fee to cover organisational expenses. CEPS and ECMI members are entitled to a discounted fee and non-members (with a commercial interest) pay the full fee.

The fee covers:

- Research carried out by CEPS and ECMI staff
- Organisational, logistical and other costs of all meetings
- Web access and documentation
- Launch of the final report in Brussels at a public event
- Editing and printing of the final report
- Distribution of the final report to key stakeholders in the industry and among policy circles
- Press release and communications of final report

| Fee Structure (+21% VAT) | |
|---------------------------|--|
| ECMI or CEPS Member | €500* |
| Non-Members | €4,000** |
| Academic/Policy Observers | free of charge (academics, policymakers, regulators, supervisors, independent experts, consumer/retail investors associations) |
| Industry Observer | €250 (per meeting) |

* Members can participate with up to two representatives per meeting.

** Discount available if non-members decide to join ECMI, namely the participation in the task force at the reduced rate (€500) and 1-year ECMI membership at a preferential rate (€3,000). More information about the ECMI membership base is available [here](#).

For further questions, please do not hesitate to contact: **Apostolos Thomadakis** by email at: apostolos.thomadakis@ceps.eu or by phone on +32 222 93 914

REGISTRATION FORM

CEPS/ECMI members – check the applicable box (+21% VAT)

ECMI Member | EUR 500 CEPS Member | EUR 500

PLEASE INDICATE THE NAME AND POSITION OF THE MEMBER YOU PROPOSE (and attach a CV)

| | |
|-------------|------------|
| First name: | Last name: |
| Job title: | |
| E-mail: | Telephone: |

Non-members - check the applicable box (+21% VAT)

Full Fee | EUR 4,000 My organisation is interested in becoming a member of ECMI

PLEASE INDICATE THE NAME AND POSITION OF THE MEMBER YOU PROPOSE (and attach a CV)

| | |
|-------------|------------|
| First name: | Last name: |
| Job title: | |
| E-mail: | Telephone: |

OBSERVERS

Free or charge (Academic/Policy observes ONLY) EUR 250 (Industry observers ONLY)

PLEASE INDICATE THE NAME AND POSITION OF THE MEMBER YOU PROPOSE (and attach a CV)

| | |
|-------------|------------|
| First name: | Last name: |
| Job title: | |
| E-mail: | Telephone: |

Billing information (only for industry participants)

Company/Association

Department:

Tax register number (VAT for Europe):

Postal address:

Postcode:

City:

Country:

Contact person:

Date:

Signature:

Please return the registration form to Ms. **Maarja Kuusik**, at maarja.kuusik@ceps.eu, Tel: +32 2 229 39 82.

ANNEX

Principles and Guidelines for the Task Force

This appendix offers guidance to members of the Task Force and other parties wishing to understand the functioning of the initiative and the drafting process of the final report. Task Forces represent structured dialogues among industry representatives, policymakers, academics and other relevant stakeholders who discuss topics in dedicated meetings. The final report is the result of the research carried out independently by CEPS-ECMI Rapporteurs.

Participants

The **Chairman** is an expert appointed by CEPS-ECMI to steer the dialogue during meetings and advise as to the general conduct of the activities of the Group.

The **Rapporteurs** are CEPS-ECMI researchers who organise the Group, conduct the research independently and draft the final report.

The **Members** are any individuals, such as academics, policymakers, regulators, supervisors, representatives of commercial companies, trade associations, consumer interests' groups, investors' associations, who participate in the activities of the Task Force in a personal capacity. They must have expertise in the topics discussed and provide input to the discussions through presentations and relevant material for the final report.

1. The role of the Task Force members

The Task Force members will:

- Steer the research agenda of the meetings and the content of the active discussions;
- Contribute to meetings with active input, including targeted presentations;
- Support the research of the Rapporteurs and comment on the various drafts of the reports, including the possibility to produce written contributions (subject to the Rapporteurs' approval and editing);
- Ensure that the research behind the final report adheres to the highest standards;
- Have access to all the documents and presentation made during the meetings;
- Contribute to the recommendations that will be discussed and added to the final report.

2. The role of the Observers

A group of policymakers, academics, consumer/investors' associations and independent experts may attend the TF meetings. They will attend in an observer capacity, so they will not be required to provide a contribution (unless agreed otherwise). This group will also include speakers invited by CEPS and ECMI to provide individual contributions to one or more meetings.

The lists of members of the Task Force and the Observers will be featured in the final report and on the CEPS and ECMI websites. All members attend the meetings in a personal capacity and do not necessarily endorse the recommendations of the final report.

Objectives of the final report

- The report is meant to contribute to the policy debate by presenting a balanced set of arguments, based on the discussions among participants and internal desk research.
- The report seeks to provide readers with a constructive basis for discussion. The authors will not seek to advance a single position or misrepresent the complexity of any subject matter.
- The report also fulfils an educational purpose, and is therefore drafted in a manner that is easy to understand, with technical jargon fully defined.

Drafting of the main text

- In the main text, rapporteurs detail the results of the research carried out independently in the framework of the Task Force. This part of the report will refer to the discussions during the meetings but also to available data and literature.
- Scientific literature may be cited in this part of the report. Members are not expected to endorse any reference to this literature. A general disclaimer is inserted to clarify this aspect.
- The conclusions of each section will be clearly presented.

Use of data

- The final report features data that are considered both relevant and accurate by the Rapporteurs.
- Task Force members are encouraged to contribute with any data or propose any source of data that Rapporteurs consider as relevant.
- Task Force members may question either the relevance or accuracy of any given data. After consultation with the Chairman, the Rapporteurs may decide either to exclude this data or to mention these concerns in the main body of the text.

Drafting of conclusions and recommendations

- The final report will feature a set of policy recommendations, drawn up by the Rapporteurs, which are meant to reflect the Task Force's discussions during the process. For a recommendation to be featured in the report, there needs to be enough information being discussed in the open debates among the TF members. In all cases, the report will seek to identify the points where there is some sort of common understanding of market issues.
- Both policy recommendations and the content of the final report will be summarised at the beginning of the report in the form of an 'executive summary'.
- TF Members will be given ample opportunity to review the final report and provide their input on a draft version. Nevertheless, the authors (Rapporteurs) will be solely responsible for the content of the final report.

Sample disclaimer

"The findings presented in this Final Report do not necessarily reflect the views of all the members of this Task Force. However, the members were involved during the drafting of the Final Report and provided input to the discussions through presentations and the provision of data and other materials, which have been used in this Final Report. A set of principles has guided the entire drafting process to allow all of the interests represented in the Task Force to be heard. The Rapporteurs are solely responsible for its content and any errors contained therein. The Task Force Members, or their respective companies, do not necessarily endorse the conclusions of the Final Report."

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.

