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## CAPITAL MARKETS UNION

College of Europe
Collège d'Europe
Brugge Natolin

In partnership with
Deloitte.

18 March 2016 # SEVENTH BRUGES EUROPEAN BUSINESS CONFERENCE

Seventh Bruges European Business Conference

# "Capital Markets Union"

# Conference Report

# #7BEBC Team

**College of Europe:**
Gil Stein, +32.50.47.72.27
gil.stein@coleurope.eu

Gibran Watfe, +32.50.47.72.26
gibran.watfe@coleurope.eu

**Deloitte:**
Valentina Staveris, +32.27.49.59.66
vstaveris@deloitte.com

**Logistics:**
Sarah Spanoghe +32.50.47.72.21
sarah.spanoghe@coleurope.eu

Jessie Moerman, +32.50.47.72.21
jessie.moerman@coleurope.eu

**IT Services:**
Kim Kesteloot, +32.50.47.71.77
kim.kesteloot@coleurope.eu

**Graphic Design:**
Benedikt Laloo, +32.50.47.71.25
benedikt.laloo@coleurope.eu

**Webmaster:**
Maarten Demol, +32.50.47.71.24
maarten.demol@coleurope.eu

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With the collaboration of the College of Europe Business Club, a student initiative driven primarily by students specializing in European Economic Integration and Business. The Business Club strives for a mutual exchange of knowledge between top students of the College of Europe and business institutions (firms, chambers, etc.). It aims at developing and disseminating managerial and entrepreneurial skills within the students of the College and ultimately, to spread innovative and entrepreneurial thinking across Europe.

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# Capital Markets Union and the Financing of SMEs

## College of Europe, Bruges, 18 March 2016

On 18 March 2016, the College of Europe (Bruges) and Deloitte organized a one-day conference on Capital Markets Union (CMU). Participants were policy makers, regulators, and financial institutions including the European Investment Bank (EIB), entrepreneurs, advisers and academics. They gathered to discuss the development of capital markets and the financing of small- and medium-sized enterprises (SMEs). The financing needs of SMEs deserve special attention since SMEs account for the overwhelming majority of enterprises in the European economy, and are the main source of innovation, job creation, and economic growth.

The development of a Capital Markets Union (CMU) has progressed significantly since the publication of the European Commission Green Paper (February 2015). The public consultation that followed and the definition of a firm time-table in October 2015 have set well-defined targets for this ambitious project that will complement the Banking Union. The Conference took stock of what has been achieved so far and what is in the pipeline for the next 12-18 months.

**The present report has been prepared by the following College of Europe students from the European Economic Integration and Business (EEIB) specialisation:**

Olga Chilat
Vitaline Copay
Chiara Di Michele
Laura Doumbouya
Eleni Exarchou
Jules Landrieu
Cornelia Lobnig
Jeyran Mammadli
Irina Popa
Sina Timm
Fabio Vidal
Hale Yildiz

**Disclaimer:**
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The twitter coverage of the conference is available under the hashtag - #7BEBC

**Keynote speech: Capital Markets Union: Where do we stand? Where are we going?**
**Lord Jonathan Hill (EU Commissioner for Financial Stability, Financial Services, and Capital Markets Union)**

The main priority for the Commission is supporting growth and creating jobs in "a Europe that's open for business and trading with the rest of the world," with modern infrastructure for the single market, and better developed and more integrated financial markets.

Growth is essential for Europe, but economic activity is not as strong as it should be. Forecasts for GDP growth in 2016 are around 2%, unemployment around 10% across the European Union (EU) and one in five young people is still out of work. Growth is also slowing in China and in other emerging markets, global trade is weak and Europe also faces pressure on its external borders due to the refugee crisis.

European capital markets are half the size of those in the United States (US), the corporate bond market is a third of the size in the US and the Venture Capital (VC) market is a fifth of the US market. This is especially important given that the European and U.S. economies are of equivalent size. American SMEs get five times more funding from capital markets than SMEs in Europe, and the United States has twice as many small company IPOs in comparison to those initiated in Europe. Moreover, European SMEs receive 75% of their funding from banks and European companies are four times more reliant on banks than American ones. Finally, Europeans save at least three times more in bank accounts than they invest in capital markets.

This reliance on financing from banks has in itself exacerbated the problems caused by the recent financial crisis. As the banking sector deleveraged, the liquidity needed to keep the European economy growing disappeared. This meant companies, especially SMEs, could no longer get the necessary funding to invest, to launch new products and to compete. Moreover, the reliance on banks has slowed the EU's recovery. Due to the size of the shock, bank balance sheets could not be rebuilt quickly. Cross-border lending declined, limiting the sharing of risk across sectors as well as undermining the capacity of the capital markets to absorb shocks. In contrast, alternatives to bank financing helped the US economy bounce back quicker after the crisis.

The biggest objective, therefore, of the Capital Markets Union (CMU) plan is to increase financial resilience, ensure that capital is put to productive use, connect savings more efficiently to growth, channel investments to projects that need financing and give companies greater choices for funding. The Commission's approach is to proceed gradually in the implementation of the action plan and to build confidence and momentum from the bottom up. Based on public consultation, the CMU plan tackles the issues and barriers identified by the stakeholders with a mix of interconnecting measures that will together help create a stronger and deeper single market.

To further support start-ups and entrepreneurs with innovative ideas, the CMU aims to strengthen the VC markets by amending existing legislation governing VC funds, by channelling public and private investment through a Pan-European VC fund of funds, and by promoting crowdfunding and equity capital as sources of SME financing.

The Action Plan also aims to free up bank lending to SMEs through restarting securitisation markets that produce 'simple, transparent, [and] standardised' (STS) securities, operating within reduced bank capital requirements for securitisations. In this regard, the Commissioner emphasised that following the Council's agreement to free the supply of bank lending, the ball is now in the Parliament's court, stating that "every extra day it takes is one more day of a missed opportunity for growth".

The Commission is in the process of overhauling the Prospectus Directive, to create a simpler, faster and cheaper prospectus regime. It will also streamline the process for companies, which have already issued a prospectus and want to raise capital again (70% of all prospectuses). Furthermore, the Commission proposes that companies aiming to raise small amounts of capital (under 500,000 euros) will be exempt from prospectus requirements completely.

In order to deepen the capital markets for firms of all sizes, it is necessary to identify and remove barriers for cross-border investment, and improve the passport system to facilitate cross-border competition among financial service providers. To this end, the Commission will launch a consultation to identify the main barriers to funds operating in other countries than their own. Other important areas to tackle are: reduction of the differences between national insolvency regimes, smoothing of existing uncertainty and fragmentation on restructuring operations, and simplification of the reclaim of withholding tax.

Reflecting on recent discussions regarding the United Kingdom (UK) and EU relations, the Commissioner's view was that the UK greatly benefited from being part of the EU single market, particularly when it came to financial services—the most important export of the UK. Over the past decade, the surplus from Britain's trade in financial services has more than doubled, from £23 billion in 2004 to £58 billion in 2014. Last year, London was once again rated as the world's most competitive financial centre by the Global Financial Centres Index.

The Commissioner stated that the settlement reached recently at the European Council helps address competitiveness, proportionality and subsidiarity. In the area of economic governance, the settlement recognises the need of the euro area to integrate further and for the deepening of economic and monetary union. It also enshrines for the first time the principle of non-discrimination against businesses on grounds of currency, as well as confirms the integrity of the single market, giving both the euro "ins" and "outs" the assurances that their companies will be able to compete on a level playing field.

The Commissioner further stated that if the UK were to leave the EU, it would be a "fantasy" to suggest it could quickly secure access to the single market on the same terms as it has today. If it followed the existing models for countries outside the EU, the UK would still have to pay to have access to the single market, it would still have to accept free movement of EU migrants, and it would still have to comply with EU rules. The difference would be that it would have no say over the rules it would have to obey. Alternatively, it could ask the EU to have its rules recognised as being equivalent—a long and uncertain process.

The Commissioner concluded by noting that the task of achieving CMU is neither quick nor easy, as it requires tackling many barriers. However, given the wide political support the project receives from all sides, the CMU remains an opportunity to make Europe's economy more stable, giving businesses more choices of funding and helping them to expand.

## How to achieve deeper financial integration?

**Chair:** Prof Christian de Boissieu (College of Europe)
**Speakers:** Verena Ross (Executive Director, ESMA)
Diego Valiante (Head of Financial Markets and Institutions Unit, CEPS)
Niall Bohan (Head of Unit CMU, DG FISMA, EU Commission)

The speakers elaborated on the various ways of achieving a deeper financial integration. The CMU action plan is built on a mix of financial integration and more competition. By definition, the concepts of integration and globalization are opposite to fragmentation. And so, a Capital Markets Union is an instrument against fragmentation. During the past few years, the economic crisis and the euro-crisis have contributed to the fragmentation in the EU.

Emphasis was placed on the need for a consistent application and supervision of the rules across the EU market in order to make sure that there is a genuine and consistent enforcement of the single rule book and that the remaining barriers are removed. Since the outbreak of the financial crisis, many technical standards have been issued. In a way, this has also helped to create common views on nature of necessary regulation.

In order to promote convergence in supervision and effective implementation of the rule book there is a need to issue guidelines, opinions, and Q&As. Secondly, supervisors should adopt consistent practices through ex-ante tools and powers, such as increased allocation of resources towards convergence projects, a supervisory project plan, and a systemic process with extensive dialogue including national authorities. This approach would lead to solutions which are in the common interest. At present, enforcement is least consistent as it is not in the supervisors' hands.

In the future, it is important to prioritize investors' protection by facilitating diversification of funding sources without harming confidence. There is a need for more involvement of retail investors and investors in general. To do that, there should be higher level of investor protection to build trust and confidence among investors.

The process of financial integration has been based on an interbank integration. In essence, this is the source of a larger price convergence of financial assets without, however, risk convergence. The best mechanisms to deal with asymmetric shocks are not fiscal transfers since they have capacity to absorb only 20% of economic shocks. An absorption capacity of up to 60% can come from cross border banking. In fact, our markets today are hardly integrated and price convergence is still mainly induced from cross border interbank flows. Moreover, risk sharing in the EU is actually negative at present. If a shock occurs, it will actually be enhanced rather than contained.

If we examine investment flows in the EU, we see that the economy is mainly debt driven and that equity flows in the EU represent about 30% of GDP, while in the US and Canada they amount to about 70%. A non-diversified financial system could render the whole area financially unstable. Effective transmission of monetary policy, more innovation and bank restructuring should be at the core of the action plan.

Moreover, 33% of households' financial assets are in cash and deposits instead of being invested more profitably, while the equity markets are very fragmented. The securities markets turnover is one fifth of the corresponding amount in the US and the efficiency, calculated as the ratio of turnover to market capitalization, is scoring below Japan and China. Venture capital is underdeveloped because the exit opportunities and fiscal policies are not harmonized in the EU.

The CMU should be treated as an integration plan and not as an investment plan. The combination of financial stability and investment policies with integration policy is a huge mistake because they can be contradictory. The integration plan should also look at the investment side, in other words, markets should become more efficient so as to easily issue equity rights.

Another issue that requires attention is discoverability and data comparability. Balance sheets cannot be compared between countries unless one hires several lawyers and accountants. In practice, accounting rules are most efficient in countries where the enforcement mechanism is stronger and a central body is responsible for this enforcement. Enforcement is still the weakest link across the EU capital markets.

Banking is the first source of funding despite the credit crunch. Bank finance is available for working capital, but what is missing is the expansion of VC and an increase in the share of equity in the financial system.

It has become necessary to adopt a network approach for Capital Markets based on common supervisors. This should contribute to an efficient CMU. In the past, the Commission mainly worked on regulation of the financial markets. Now the CMU action plan aims to help in the deployment of public financial instruments by developing regulatory frameworks. The money raised by these instruments could then be used to fix market failures in, for example, to support the "business angel" community and venture capital markets. Indeed, as far as venture capital is concerned, 90% of the total European venture capital originates from or is invested in 8 Member States.

The session was closed with the note that the CMU is just another step on the road towards closer integration, not the beginning and not the end of the road. Nevertheless, it is an important step because of the opportunities that it entails for European business.

## Improving SME access to financing: What do they need?

**Chair**: Richard Doherty (Global Lead Client Partner for EU Institutions, Deloitte)
**Speakers**: Gert Wehinger (Senior Economist, OECD)
Helmut Kraemer-Eis (Head of Research, European Investment Fund)
Sachin Patel (Global co-head of Capital Markets, Funding Circle)
Antonio Garcia del Riego (Head of Corporate Affairs in the EU, Santander Bank)

SMEs are the backbone of the European Economy. There are more than 22.3 million SMEs in the European Union, which represent more than 99.8% of non-financial enterprises. They employ around 90 million people and generate 58% of total value-added. These numbers from 2014 underpin the importance of SMEs in the European economy.

SMEs constitute a heterogeneous group of companies with inter-country differences. In terms of business climate, the SME economic sentiment has been improving. However very recent data from 2016 point to an increase in uncertainty (due to geopolitical pressures, etc.) which might jeopardize the development of SMEs. Indeed, as highlighted by Commissioner Hill, uncertainty is the enemy of investment.

SMEs in Europe rely on bank financing and receive twice as much bank credit than their American counterparts. Although the size of the European and American economy is similar, the majority of SME funding comes from banks.

Undisputedly, bank financing has been decreasing since 2009 due to the crisis. The volume of outstanding loans declined from 4.6 trillion in 2009 to 4.1 trillion in 2015. The evolution of loans from banks in the Euro-zone is still below the long term trend. The funds available are thus significantly lower in size than in the pre-crisis period.

The European Central Bank (ECB) lending survey shows increasingly relaxed credit provisions for SMEs. This situation has, however, been impacted by the current monetary policy which distorted the risk pricing by banks. While access to funding is a relatively small concern, the problem appears to be the identification of solvent clients. This in turn implies that banks can only accept moderate risk profiles. Banks are thus not equipped to finance start-ups without a proven business model and a track record. The Capital Markets Union is therefore a solution to the problem that SMEs have in accessing financing for long-term projects or for projects that depend on risk sharing.

Yet, the consensus among the panellists was that defining the needs of SMEs was not straightforward. This is because SMEs are heterogeneous companies with significant differences in size, age, sector, growth phase, age, market sector or ambition. Furthermore, disparities exist in the borrowing costs of non-financial companies. The largest such disparity is between Luxembourg and Greece. In addition, there are not enough data about SMEs, which is a weakness for researchers. Indeed, there is a lot of information about companies in general but there is little information on lending types and volumes by SMEs. Loan sizes can be used as a proxy rather than company sizes but accurate data are not available.

The panel agreed that the slump in bank lending during the crisis shows that it is critical to complement bank lending with other diversified funding opportunities, especially with equity financing. Alternative instruments, such as business angels, venture capital, crowdfunding etc. also need to get more attention.

Venture capital has recently been positive with a strong focus on life sciences, and computer and consumer electronics. However, the fact that exits happen via trade sales rather than IPOs highlights the underdeveloped state of the IPO market. This is another evidence that equity markets in the EU today are not as thriving as in the United States.

It is crucial to create an equity culture and financially literate entrepreneurs. There is a need to foster an environment for the creation of start-ups with a technological and innovative component to secure employment and technology innovation. To achieve this, it is necessary to have financial education and access to capital markets, the latter facilitated via increased transparency of credit information, and eased regulation and tax incentives that allow the deductibility of dividends.

Additional support has been made available via the European Fund for Strategic Investments (EFSI) under the Juncker Plan. In this Plan, financing is unlocked via venture capital funds or the provision of guarantees. 110,000 SMEs were already supported by the EFSI in 2015. Nevertheless while data show a shift away from traditional bank lending, these data are often biased towards large corporations that drive the market (especially through corporate bonds).

Moreover, the panellists argued that financial technology would be a major development. Innovative financial platforms would allow for the disintermediation of the financial markets by offering innovative, quick and cheap alternatives to the provision of loans. In this regard reference was made to "Funding Circle", a digital peer to peer lending platform founded in 2010, which helped businesses borrow around € 1.5 billion across five operating markets (US, UK, Netherlands, Spain and Germany are the five biggest markets).

In spite of the need for more diversified sources of funding and an increased importance given to equity, banks will likely remain the major financing option for many SMEs in the EU. Access to capital markets is a good option for certain types of enterprises, but many are still financed by banks. Nevertheless, the panellists identified the persistent differentiation of insolvency laws in Europe as having a negative effect on cross-border investments. This fragmentation was identified as a crucial issue to address in order to further develop capital markets in Europe.

Securitization was seen as another way to facilitate bank loans to the real economy, as long as it remained simple, transparent and safe (STS) to avoid the labelling of securitized assets as "toxic." Banks are interested in securitization to achieve relief from regulatory capital constraints. Currently, the EU securitization market is much smaller than the US market and lacks real primary market activity.

**Keynote speech: Addressing SME needs: EIB products**
**By Jonathan Taylor (Vice-President, EIB)**

The European Investment Bank (EIB) has a balance sheet of around € 550 billion, with 90% of its lending activity taking place within the EU to support the policy aims of the European Union. One of these policy objectives is the financing of SME's. Nevertheless an ECB study found that 11% of SMEs still identify financing opportunities as their main problem. In 2015, € 28 billion were invested in SME support of which € 25.6 billion were invested within the EU where it contributed to the creation of 4.1 million jobs. Institutional financing support for SMEs in the sense of private equity or venture capital investment is mainly conducted by the European Investment Fund (EIF), which has been involved since 1994 with more than 500 equity funds, financing successful ventures such as Skype, Shazam, and Skyscanner.

The main issue at the moment is that the risk-bearing capacity in the EU has suffered after the crisis. There is a market failure in risk taking today, for instance, governments are not able to take on too many risks in public-private-partnerships. Additionally, the risk-bearing capacity of the private sector has diminished. A solution to that problem was to incentivise risk-taking by providing guarantees and securitization for projects. The provision of guarantees constitutes a paradigm shift of the European Commission and the EIB.

The EIB is implementing several initiatives to improve access to finance. "InnoFin", for example, is a joint initiative of the EIB and the European Commission under Horizon 2020 that, through a wide range of financial instruments, directly or indirectly supports lending to innovative companies. The support can range from € 25,000 to € 3.5 million. Another support scheme is the SME initiative. This joint scheme of the EIB, EIF, the European Fund for Strategic Investments (EFSI) and the Commission allows higher risk taking by investors using guarantee schemes and securitization. In Spain, projects worth € 3.5 billion have already been financed by this initiative, and it has been also active in Bulgaria and Malta.

EFSI, the European Fund for Strategic Investments, aims to reach funding operations of around € 315 billion. With contributions of the EU and the EIB in the range of € 21 billion, the targeted global multiplier effect is therefore 15. Lending under EFSI may go to higher risk projects. So far € 10.6 billion have been approved under the EFSI scheme. The thematic investment focus so far has been in renewable energy, energy efficiency and transport.

As banks often perceive smaller companies as riskier businesses, the EIB wants to overcome this perception by providing guarantees and funds. To finance projects it frequently works with intermediaries such as normal commercial banks. 116,000 companies are expected to benefit from the "SME financing window". The SME window is currently one year ahead of schedule, with half of the funding already realized. Moreover, under this framework, the Competitiveness of Enterprises and SMEs (COSME) programme was established, aiming to double the amount of loans and guarantees to SMEs.

A new feature of the EIB's operations is its advisory services, which the Bank plans to strengthen. As many smaller companies simply do not know which financing options exist and which suit their business model, the EIB wants to establish advisory hubs, i.e. local presences, in different Member States. Frequently, investors in companies do not even know what funding opportunities are available via the EIB and EIF.

Regarding the need to speed up the technical process for the provision of funds by the EIB group, several problems were raised. The speeding up of the financing procedure is slowed down by the need to find "bankable" projects, a process that may require a long time. Furthermore, since part of the EIB funds come from the EU budget, the projects have to be assessed by an investment committee, adding a bureaucratic layer to the financing procedure.

**Equity financing for SMEs: How to combine traditional means with new funding sources?**

**Chair:** Ernesto Lanzillo (Partner, Deloitte, Italian Family Business Leader)
**Discussants:** Marta Testi (Head of Corporate Advisors, London Stock Exchange Group)
Luigi Amati (CEO and Co-Founder, META)
Korstiaan Zandvliet (CEO and Co-Founder, Symbid)
Andrea Beltramello (Policy Officer CMU Unit, DG FISMA, EU Commission)

During the crisis, 30% of SMEs could not get the loans they needed. It is essential to ensure that in the case of a future crisis the EU financing market is better prepared. Diversifying SMEs' sources of funding is a priority (even though banking will probably remain the main source). And indeed, the financial conditions are better now than they were before – the access to finance by SMEs has been made easier with the slow recovery from the financial crisis. It is nevertheless essential to promote alternative equity funding and continue to fill in the missing links in the SME finance environment.

The panel identified several sources of financing for start-ups and SMEs that need to be prioritised:

- Crowd-funding was suggested as a very promising source of funding, and the Commission plans to publish a report about crowd-funding and its regulatory arrangement. While crowd-funding is still a very small source of funding in Europe, it is on the rise in some countries such as the UK where it is considered a new and dynamic source of funding.
- Venture capital should expand across European countries. Currently 90% of all venture capital is concentrated in eight Member States. There is a clear need to revise legislation to promote cross-border investment.
- Removing information barriers between SMEs and potential investors. It is important to make it easier for potential investors to have more information about investment opportunities across Europe and informing SMEs that there are alternative funding sources.
- Revision of the Prospectus Directive in order to simplify the process of raising capital in financial markets by SMEs.

It is likely that SMEs know their business very well, but they are familiar only with one source of finance—banks. They need alternatives such as private equity and private debt, but also private partnerships and joint ventures. SMEs need support to learn how they can reach investors or potential partners.

Entrepreneurship is important. Financing is just a tool for the entrepreneur. It is necessary to develop entrepreneurial skills and spirit just as much as there is a need to develop finance alternatives for SMEs. Entrepreneurship, defined as a "pursuit of a business opportunity beyond the resources controlled by the entrepreneur" was claimed to be "missing from the DNA sequence of Europeans." Nonetheless, we can see more entrepreneurship in Europe now than 15 years ago. Innovative entrepreneurs are the ones creating jobs in the economy, as suggested by the fact that 1% of new firms end up creating 10% of new jobs. A well-developed entrepreneurial environment is key to economic development and growth.

The problem is not in public financing, but the fact that we are missing private investors who are willing to put money and business expertise in order to promote growth. In this regard, it is interesting to look at business angels which are the engine behind many successful SMEs and start-ups. For business angels funding to develop in the EU, there is need for leadership and further initiative in this field. It would appear that the main obstacles here are cultural. SMEs and investors need to learn to identify the right financial instrument. Entrepreneurs may suffer from financial illiteracy, and may need to be guided towards the best and appropriate source of funding. In addition, promoting a transparent financial communication with bank institutions is necessary for fostering a common language for negotiating financing sources in a trusted way.

Crowd-funding was seen by the panellists as being very relevant, with many potential benefits such as the ease with which retailer investors could invest. But there is still the unavoidable truth that some budding entrepreneurs will fail. Promoting crowd-funding has to go hand in hand with more protection. More protection means investors should be able to make more informed decisions about investment opportunities. Protection should not offset losses, but should ensure that the investors have access to all the relevant information when investing. Investor protection mechanisms have to be adapted.

Nevertheless, fragmented Member State regulations create barriers for crowd-funding platforms. There is a need to harmonize regulation in order to break through these kinds of barriers, to open up the market and enable efficient risk taking. The issue of a fiscal passport for business angels which would facilitate cross-border operations was raised, but the idea was rejected due to the fact that fiscal policy is at the heart of Member State competences. Nonetheless, tax incentives and harmonized regulation for business angels should be available across the EU, in order to foster better incentives.

The panellists stressed that the heterogeneity of the EU market was a main problem from the perspective of the entrepreneurs. When start-ups want to grow, they need low barriers, easily accessible financial resources and a big consolidated market. Unfortunately, despite its name, many barriers remain in the EU's Single Market, leading to high costs for SME development and growth.

**Who regulates, how to integrate without excluding and how to take into account UK concerns?**

**Chair:** Phedon Nicolaides (College of Europe)
**Discussants:** Nicolas Veron (Senior Fellow, Bruegel; Visiting Fellow, Peterson Institute for International Economics, Washington DC)
Johannes Lindner (Head of the Division EU institutions and Fora, ECB)
Jean-Pierre Casey (Head of Investment Solutions, UK & Luxembourg, PMB, Edmond de Rothschild)
Raoul Ruparel (Co-Director, Open Europe)

Full capital market integration has not yet been achieved in the EU. For example a financial service provider that starts cross-border operations has to hire additional lawyers, accountants, and consultants to deal with the fragmented market. Faced with many different authorities in different Member States, the degree of enforcement is also likely to vary. Hence, regulatory arbitrage arises. One speaker argued Capital market integration can be achieved in three ways: through mutual recognition with minimum harmonisation; through mutual recognition with maximum harmonisation (e.g. Basel III); and through total harmonization.

One speaker raised the point that there is no such thing as a free market without rules and institutions. The question is at which level the rules should be applied. The decision of the European Commission to propose CMU on an EU-wide basis, instead of for the Eurozone members only, was largely supported by the panel. There is no good reason to artificially distinguish between the single market and Economic and Monetary Union (EMU), and it would add a layer of inconsistency to the single market if CMU were limited to the Eurozone. One speaker noted that the discussions regarding capital market integration are mostly focused on the supply side while the demand side is largely neglected.

Furthermore, it was argued that CMU and Banking Union are mutually reinforcing. CMU makes the Eurozone more resilient against adverse shocks. One speaker made the distinction between public and private risk sharing. For the letter CMU plays and important role.

Capital market supervision is still very patchy in the EU. For example ESMA alone has 52 organisations as members. This complexity leads to inconsistent interpretation and implementation and, therefore, uncertainty, which are damaging for the European economy. However, ESMA has already supervisory functions for two types of market participants, i.e. credit rating agencies and clearing intermediaries. From this perspective, it would not be revolutionary to extend the scope of ESMA's supervisory powers to other types of financial institutions. Nevertheless, due to concerns about fiscal implications of the "euro-outs", banks and CCPs are not supervised at EU level by ESMA. This point was supported by another speaker who suggested that it would be politically challenging to extend the scope of supervision for ESMA.

It was argued that the Commission's approach towards CMU was strongly driven by the UK. Without the UK, financial market integration would be a much less salient topic for the EU. What should be dealt with at EU level is securitisation, the Prospectus Directive and the issue of double taxation of capital gains. A more ambitious CMU could jeopardise political support in the UK. Harmonisation of tax law and insolvency legislation is considered in the UK as unacceptable interference in national prerogatives.

Hence a more ambitious CMU could in fact put the whole of the CMU in peril one speaker argued. Instead of intending to harmonise in these areas, regulatory competition based on market pressures should be allowed.

The agreement between the UK and the EU on a new settlement for the UK was welcomed and judged to be balanced and relevant. While emphasising the need for a single rulebook for the EU, it recognised the need for deeper integration in the euro area. The City of London is disenchanted with the EU because of three reasons, according to one speaker. In terms of the implementation of commonly adopted rules, the UK performs well because it quickly transposes EU legislation into national law and enforces it correctly. This was not the case for all Member States. Secondly, since the Treaty of Maastricht in 1992, financial services were supposed to be integrated. This was followed by the Financial Services Action Plan with 42 pieces of legislation introduced at EU level. Still, capital markets are far from being integrated. Lastly, national champions are too often being protected by other Member States while the UK generally strives for more competition.

Each speaker discussed the possibility of Brexit and its potential impact both on the UK and the EU. One speaker argued that, in the event of Brexit, New York would gain at the expense of EU financial centres, let alone London itself. The latter would lose its comparative advantage of being in the EU. In this respect, the EU faces a lose-lose situation. Another speaker emphasised the significance of the UK both globally and within the EU. The UK has the second-largest FDI inflows in the world. London's GDP is equal to the GDP of Belgium.

Opinions were split with respect to the impact of Brexit. One speaker used historical precedents of independence movements arguing that in all cases the exchange rates did not move around the days of the decision to stay or to leave. On this basis, it was argued that Brexit is already fully priced in financial assets. Another speaker noted that the impact is highly uncertain. British businesses would be very much unprepared. Generally, businesses could not possibly grasp how Brexit would affect them. The public would also largely not know what CMU is and how it could benefit the UK. It was argued by one speaker that British multinationals listed in London could benefit from Brexit as they are mainly export-oriented businesses. Generally, making predictions regarding the impact of Brexit is very difficult.

The audience raised the question whether or not negative effects of Brexit would outweigh benefits if the UK would lose access to the single market. One speaker responded that the actual costs and benefits critically depended on the negotiations following an eventual vote in the referendum in favour of withdrawal from the EU. One speaker said that, regardless of the outcome, we should expect further debate on the EU after the referendum.

The students of the master's programme in European Economic Studies with a specialisation in 'European Economic Integration and Business' receive an extensive training in economic integration, business strategy, quantitative analysis and EU affairs, and develop expertise on topics such as innovation, trade, energy, lobbying, standardization, and the banking union.

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