EU Capital Markets Union

In November 2014 a new team of Commissioners took charge of the European Commission under the leadership of former Luxembourg Prime Minister Jean-Claude Juncker. The new Commission's priority is the promotion of jobs and growth. They recognise the need to unlock investment to get Europe growing again. The Commission hopes that the first step in this process will be the €315 billion Commission Investment Plan. But their big idea to help investment for the long term is the need to build a single market for capital – a Capital Markets Union for all 28 EU Member States.

A further issue is that European businesses remain overly reliant on bank funding, which makes the economy vulnerable to a tightening of bank lending. To help support a sustainable return to growth and job creation, EU policy makers believe that capital markets need to play a larger role in channelling financing to the economy.

A Capital Markets Union would ensure greater diversification in the funding of the economy and reduce the cost of raising capital. The Commission hopes that it will:

- Enhance the flow of capital from investors to European investment prospects in need of financing, notably start-ups, SMEs and long-term projects;
- Ensure that market infrastructures and intermediaries can channel funds across borders to companies that want to finance their growth efficiently, at reasonable cost and on the same terms as nationally;
- Improve risk transfer and allocation of capital across the EU to those better able to bear it; and
- Diversify sources of funding by expanding risk finance and making Europe less reliant on bank lending and more resilient to shocks.

The European Commission plans to publish an Action Plan in September 2015 that will set out the path towards putting in place the building blocks for a fully functioning Capital Markets Union by 2019. This Action Plan is likely to comprise proposed new EU legislation; reviews of existing EU regulation; action by EU Member States and regulators; and suggested industry-led initiatives.

We welcome the development of a Capital Markets Union as a logical step towards further completing the EU Single Market. The project must focus on outcomes by growing markets, reducing costs and offering more financing options for businesses across Europe.

Right now policy makers are calling for the industry to develop new products that could help to further spur on the development of this project. BNY Mellon supports a vision of a Capital Markets Union in which all European issuers have access to all European investors and vice-versa. This vision focuses attention on key obstacles to cross-border investment, including access problems and those associated with exercising rights. It will require a very high degree of harmonization with respect to core issuance, settlement and custody processes.

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BNY Mellon has come together with our industry partners to suggest the Commission focus on three complementary objectives for the development of an effective Capital Markets Union that will build into opportunities that directly contribute to the growth of business for BNY Mellon and our clients.

a. Developing more efficient and liquid markets for issuance of financial instruments

Policy makers should enact a range of reforms to promote the issuance of capital market instruments, particularly by SMEs and midcap firms and for infrastructure projects, in order to expand the capital markets and increase the choice for issuers and investors. Industry initiatives on high quality securitisation and private placement should be complemented by review of applicable regulations, especially capital requirements, as well as the Prospectus and Takeover Directives; and by review of the tax regime for SME equity, in order to promote greater equity issuance by European firms.

b. Harnessing long-term savings to promote investment

Capital Markets Union should improve the incentives for both institutional and retail investors to make long-term investments in Europe's capital markets. The priority reforms will be to:

– Appropriately calibrate the capital framework for institutional investors;

– Achieve greater harmonisation of EU insolvency rules;

– Maintain an economically viable model for capital markets research; and

– Widen product choice for investors.

c. Promoting open, integrated capital markets infrastructure

Market infrastructure is a key enabler of Capital Markets Union, supporting pan-European issuance, investment, trading and risk management. The initiative should focus on practical steps to reduce cross-border transaction costs and widen access to key market infrastructure. The priority reforms will be to:

– Achieve closer integration of clearing and settlement systems;

– Pass a new securities law to clarify collateral ownership;

– Remove barriers to cross-border collateral use; and

– Ensure broad and affordable access to market data.

BNY Mellon is invested in creating new opportunities for economic growth and progress – this is what we do and we have been involved in the financial and capital markets for over 230 years. BNY Mellon is determined to exercise thought leadership in the capital markets space and we will be engaged and forward-looking in doing so.

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