EUROPEAN
COMMISSION

Brussels, 24.9.2020
COM(2020) 590 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

A Capital Markets Union for people and businesses-new action plan

INTRODUCTION

In her opening statement to the European Parliament, Commission President Ursula Von Der Leyen said: "Let's finally complete the Capital Markets Union". This action plan sets out key measures to deliver on that commitment.

The European Parliament and Member States have frequently expressed and reiterated their support for a CMU. In December 2019, Member States agreed Council Conclusions[1] on how to deepen the CMU. In its own initiative report (INI)[2] of September 2020, the European Parliament calls on the Commission and Member States to take decisive action to deliver on the CMU.

The Commission adopted the first CMU action plan in 2015.[3] Since then, the EU has made significant progress on putting the building blocks in place. However, deepening the CMU is complex and no single measure will complete it. Therefore, the only way to progress is to move steadily in all areas where barriers to the free movement of capital still exist. A lot still remains to be done and it is now time to step up the level of ambition.

Strong political support is now needed more than ever. The CMU can speed up the EU's recovery from the COVID-19 pandemic. It can also provide the funding needed to deliver on the European Green Deal,[4] make Europe fit for the digital age, and address its social challenges. For this to happen, strong political will is needed to support the measures necessary to deliver on the CMU. However, EU institutions alone cannot achieve the desired results; market participants and all Europeans need to make use of the opportunities offered by the CMU for it to reach its objectives.

In November 2019, the Commission brought together 28 senior industry executives, experts, consumer representatives and scholars in a high-level forum on the CMU. In June 2020, the forum published its final report[5] with 17 recommendations to the Commission and Member States for advancing the CMU. A call for feedback on this final report has provided the Commission with views from a wider range of stakeholders. The Commission considered this input in developing the measures presented in this action plan.

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[1] Council Conclusions on the deepening of the Capital Markets Union (5 December 2019) – 14815/19

[2] European Parliament report on 'Further development of the Capital Markets Union (CMU): improving access to capital market finance, in particular by SMEs, and further enabling retail investor participation', 2020/2036(INI).

[3] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Action Plan on Building a Capital Markets Union', COM/2015/0468 final.

[4] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions 'The European Green Deal', COM/2019/640 final.

[5] Final report of the high-level forum on the Capital Markets Union 'A new vision for Europe's capital markets' https://ec.europa.eu/info/files/200610-cmu-high-level-forum-final-report_en.

I. CAPITAL MARKETS UNION: WHY AND WHY NOW

What is the CMU about?

The CMU is the EU's plan to create a truly single market for capital across the EU. It aims to get investment and savings flowing across all Member States, benefitting citizens, investors and companies, regardless of where they are located. A fully functioning and integrated market for capital will allow the EU's economy to grow in a sustainable way and be more competitive. An economically stronger Europe will better serve its citizens and help the EU play a stronger role on the global stage.

The CMU is essential for delivering on all of the EU's key economic policy objectives: post-COVID-19 recovery, an inclusive and resilient economy that works for all, the transition towards a digital and sustainable economy, and strategically-open autonomy in an increasingly complex global economic context. Meeting these objectives requires massive investment that public money and traditional funding through bank lending alone cannot deliver. Only well-functioning, deep and integrated capital markets can provide the scale of support needed to recover from the crisis and power the transition. The CMU is not a goal in itself, but a fundamental policy to progress on key European priorities.

The CMU has become more urgent in light of the crisis induced by COVID-19. Public support and bank loans have helped households and businesses stay afloat by addressing the short-term liquidity squeeze caused by lock-downs. In order to stay solvent in the medium- and longer-term, however, businesses need a more stable funding structure. The EU's industry, in particular SMEs that are the backbone of our economy, needs more equity to recover from the economic shock and become more resilient.

Building the CMU takes time. Efforts to put in place a single market for capital started with the Treaty of Rome, but this objective has not yet been achieved. The 2015 action plan sets out some of the necessary measures to establish a CMU, and many of them have now been agreed and are being implemented. This is, however, not enough. Progress on some controversial issues has been slow. There are still significant barriers to a well-functioning CMU in many areas, including supervision, taxation and insolvency laws. These barriers are driven by history, customs and culture. They are deep-rooted, and will take time to tackle.

There is no single measure that will complete the CMU. **The only way to progress is to move step by step, in all areas where barriers to the free movement of capital still exist**. This requires commitment and determination from all parties. Since building the CMU is a gradual process, based on making many small but important changes, it is important not to lose sight of the global CMU vision.

The CMU vision

The CMU should bring value to all Europeans, wherever they live and work. It should bring benefits already being enjoyed in the larger established financial centres to people in the smaller Member States. Businesses, including small- and medium-sized ones, should be able to access funding and investors should be able to invest in projects across the EU. Capital should flow to where it can be most useful and help meet long-term societal needs, in particular in view of the green and digital transition. Market participants should benefit from competitive and transparent markets. Access to information and infrastructure should be efficient and non-discriminatory.

Consumers should have more choice as regards their savings and investments and should be well informed, including on sustainability aspects, and appropriately protected wherever they are. The choice of financial products and services should not depend on traditions or market power but be the result of a competitive choice. There should be no explicit or implicit barriers to cross-border investment. Obstacles due to national differences in laws and law enforcement, taxation and supervision should be reduced and not impede the free flow of capital. Investment decisions should be governed by a single rulebook – the same set of rules applicable directly and in the same manner to all market operators, irrespective of where they are located.

<u>Why is the CMU even more important now?</u>

1. **Recovery**

Today, the EU's top priority is to recover from the unprecedented economic crisis caused by the COVID-19 outbreak. The Commission has put forward Next Generation EU[6] - an emergency temporary recovery instrument to help repair the immediate economic and social damage brought by the COVID-19 pandemic, kick-start recovery and prepare for a better and greener future for the next generation. In addition, European institutions and Member States have taken extraordinary measures and injected public funds on an unprecedented scale to tackle the public health emergency, protect people's jobs and incomes, and keep businesses afloat. Banks have so far broadly continued lending to businesses. However, this financing – despite being absolutely essential for Europe's short-term recovery – will not be sufficient given the magnitude and expected duration of financing needs. **Market financing will be the lifeblood that sustains the recovery and future growth over the long-term**.

The CMU is also important for the EU recovery plan. Deep and liquid capital markets will be needed for the Commission to raise the necessary funding for the EU. At the same time, such a large issuance is an opportunity for the EU financial system: it can attract more investors and issuers globally to euro denominated financial instruments, thereby promoting the international role of the euro.

Governments, regions and municipalities will also need deep and liquid markets to raise the funds they need to support the economy, invest in public infrastructure and address the social needs arising from the crisis.

The CMU is also essential for mobilising private investment in companies and complementing public support. It brings a variety of funding alternatives, reduces dependence on a single source or single provider of financing and reduces the funding gap. Companies of all sizes – and in particular SMEs – need solid market-based funding sources. This was already the case before COVID-19, but will be even more important for the recovery when bank lending may no longer be sufficient. COVID-19 is likely to lead to the restructuring of many companies. Insufficient and inadequate financing and the lack of equity

[6] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions 'Europe's moment: Repair and Prepare for the Next Generation', COM/2020/456/final.

in the funding structure weakens companies and will slow down recovery, putting Europe at a disadvantage compared to other economies with more diversified funding structures.

Finally, the **CMU is essential for building resilience against future asymmetric shocks** affecting only a few Member States. By laying down strong foundations for better and more geographically spread private risk sharing, the CMU supports the functioning of the Banking Union and the Economic and Monetary Union. Completion of the Banking Union will also support a more rapid integration of European capital markets.

2. Green transition and digital transformation

Tackling the climate and biodiversity emergencies and rising to broader environmental challenges requires enormous investments that the CMU can help mobilise and channel. The European Green Deal is the EU's new growth strategy and the roadmap for making the EU's economy sustainable. It is estimated that, compared to the previous decade, an additional EUR 350 billion of energy-related investment will be necessary each year to meet the target of reducing greenhouse gas emissions by 55% in 2030.[7] The European Green Deal Investment Plan aims to boost sustainable investment. But public funds will not be sufficient to meet these financing needs. An efficient single market for capital is needed to mobilise the necessary funds and to ensure that sustainability considerations are rigorously incorporated in financing decisions. The Commission will put forward a renewed **sustainable finance strategy** to increase private investment in sustainable projects and activities. Backed by deep capital markets, this strategy will support the actions set out in the European Green Deal to manage climate and environmental risks and integrate them into the EU's financial system.

Digitalisation will also continue to require significant private investment if the EU's economy is to remain competitive globally. As already stated in the EU strategy on 'shaping Europe's digital future', innovative companies need funding that only capital markets can provide. This is partly because many of these companies lack the physical collateral required for bank loans. This adds to the urgency of deepening the CMU. Mastering technological advancement is also critical for the EU's financial sector to gain in efficiency, to improve access to capital and to be able to better serve Europe's people, as well as to remain competitive globally. The Commission is putting forward a **digital finance strategy**[8] that seeks to harness the potential of digital finance in terms of innovation and competition, while mitigating risks.

SMEs must be supported in their efforts to meet the objectives of the green and digital transitions. The CMU will improve the opportunities for SMEs to access funding and thus will contribute to meeting the objectives of the EU's March 2020 **SME strategy for a sustainable and digital Europe**.[9]

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[7] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Stepping up Europe's 2030 climate ambition', COM(2020)562 final.

[8] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions ' Digital Finance Strategy for Europe', COM(2020)591

[9] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'An SME Strategy for a sustainable and digital Europe', COM(2020)103 final.

The strategies on CMU, sustainable finance, digital finance and SMEs are all mutually reinforcing. They are a joined-up package of measures to strengthen Europe's economy and make it more competitive and sustainable, and to better serve its people and companies.

3. A more inclusive economy

The CMU is also important for creating a more inclusive and resilient economy and society. The ability to make the economy work for the people relies on integrated capital markets and on adequate incentives to promote investments in socially and environmentally sustainable activities. Deep and integrated markets facilitate an efficient allocation of capital and play a useful role in times of societal change. They support growth and employment and thus contribute to people's financial well-being.

The CMU can also help meet the challenges posed by Europe's ageing populations. Strong market-based pension systems have the potential to supplement public pensions and better cater for the needs of ageing populations, provided they are designed in a broad and inclusive manner. They would thereby contribute to an adequate and sustainable income at old age. The more developed the capital markets are, the easier people's access to financial products and solutions that match their needs and preferences. The CMU aims to put capital markets at the service of people, offering them both sustainable investment opportunities and strong investor protection.

The **retail investment strategy,** which the Commission will present in the first half of 2022, should focus on the interests of individual investors. It will seek to ensure that retail investors can take full advantage of capital markets and that rules are coherent across legal instruments. An individual investor should benefit from: (i) adequate protection, (ii) bias-free advice and fair treatment, (iii) open markets with a variety of competitive and cost-efficient financial services and products, and (iv) transparent, comparable and understandable product information. EU legislation should be forward-looking and should reflect ongoing developments in digitalisation and sustainability, as well as the increasing need for retirement savings.

4. EU's global competitiveness and open strategic autonomy

A CMU allows smaller capital markets to catch up with larger and more developed ones and local firms to grow into global players. It has the potential to make Europe's economy more innovative and competitive so that it can face global competition head on. Larger and more integrated markets contribute to making the EU a larger and deeper market for capital overall, benefitting domestic investors and making it more attractive to foreign investors. This serves not only large firms that are already active on global markets. It also presents significant opportunities for smaller local firms with promising business models, who can thus attract global investors and receive the necessary capital to scale up and build brand recognition. A large and truly integrated single market for capital, supported by adequate taxation rules[10], will be the ground on which EU financial firms can grow and strengthen to become truly competitive globally.

A CMU is a precondition for a stronger international role of the euro and Europe's open strategic autonomy. A widely used currency in international transactions relies on the

[10] The Commission will adopt a legislative proposal updating VAT rules on financial services in 2021.

existence of large, liquid, deep and dynamic domestic financial markets underpinned by credible and sustainable monetary, fiscal and regulatory policies. A vibrant, integrated and deep capital market will make Europe more attractive to global investors and foster the inflow of foreign capital. It will increase the weight of euro-denominated securities in global finance and strengthen the resilience of EU market infrastructure.

Brexit has a significant impact on the CMU. It further strengthens the need for the EU to have well-functioning and integrated capital markets. EU capital markets consist of multiple financial centres of a varying size and specialisation. An enhanced single rulebook and effective supervision will be crucial to prevent regulatory arbitrage, forum shopping, and a race to the supervisory bottom.

EU influence in shaping international rules and standards also depends on the development of strong domestic markets. The EU needs to develop its own critical market infrastructure and services. Well developed markets are a necessary condition for the EU's financial and economic autonomy. This goes hand-in-hand with the promotion of a stronger international role for the euro. At the same time, it is important that the EU stays open to global financial markets, to attract investors and support the global competitiveness of European firms.

II. ACTIONS

The Commission has largely delivered on the actions announced in the 2015 CMU action plan and the 2017 mid-term review of the action plan.[11] The European Parliament and Member States agreed on 12 out of 13 legislative proposals, although not all of them have maintained the level of ambition proposed by the Commission.

At the same time, some barriers to a single market remain and will still exist after all of the already proposed legislative measures start to apply. Therefore, the initial set of CMU actions needs to be complemented by new measures, including the ones that address the new challenges that have emerged. The transition towards a CMU remains a long-term EU-wide structural reform that requires time, effort, resources and – above all – unwavering political commitment.

With this new action plan, the Commission sets out a list of measures to make decisive progress towards completing the CMU. These take into account and build on the measures proposed by the Commission on 24 July to make capital markets work for the economic recovery.

The Commission commits to **16 actions** to achieve the three key objectives:

(1) support a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies;

(2) make the EU an even safer place for individuals to save and invest long-term;

[11] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Mid-Term Review of the Capital Markets Union Action Plan', COM(2017) 292final.

(3) integrate national capital markets into a genuine single market.

The annex to this document provides additional, more technical information on the actions described below.

1. Measures to support a green, digital, inclusive and resilient economic recovery by making financing more accessible to companies

The strength of the post-COVID-19 economic recovery will crucially depend on the availability of sufficient funding for EU companies. European banks are now better capitalised than before the last financial crisis. Furthemore, the EU has put forward measures to improve their ability to channel funds to companies and households. However, the corporate sector will enter the recovery with higher debt levels and will need more equity investment. The high level of domestic savings and openness of the EU financial system to global investors should help to provide this funding.

Funding for companies through bonds and private equity has increasingly played an important complementary role to bank lending in recent years. This is also thanks to measures taken under the first CMU action plan. Nevertheless, access to some forms of funding, such as public equity, remains limited. The new measures put forward by this action plan aim to further facilitate the use of market funding and to help companies make use of all available funding sources.

To **make companies more visible to cross-border investors, better integrate national capital markets and facilitate their access to market funding**, the legal environment needs to deliver the right balance between providing relevant information about investment opportunities to investors, on the one hand, and minimising the burden for companies to report this information, on the other.

The Commission will tackle the lack of accessible and comparable company data for investors. Fragmented access to scattered company information and lack of corporate credit ratings dissuade cross-border and global investment and puts in particular smaller national capital markets at a disadvantage. Seamless, EU-wide access to company data in comparable digital formats will reduce information search costs for cross-border investors and will widen the investor base for companies. At the same time, it will contribute to better integration of smaller local capital markets and will support recovery. The information to be covered should reflect the needs of investors and the interests of a broader range of users. Therefore, this should also improve the availability and accessibility of sustainability-related data, steer more investments towards sustainable activities and contribute to meeting the objectives of the European Green Deal.

Action 1: *The Commission will propose to set up an EU-wide platform (European single access point) that provides investors with seamless access to financial and sustainability-related company information.*

Public listing is too cumbersome and costly, especially for SMEs. Targeted simplification of existing listing rules will **reduce compliance costs for SMEs and remove a significant obstacle that holds them back from tapping public markets.** High administrative burden, high costs of listing and compliance with listing rules dissuade many companies from accessing public markets. This limits the range of available funding options for companies willing to scale up and grow. This is all the more relevant in a post-crisis context, where in particular smaller companies need to have unimpeded access to equity funding. Building on the measures already taken under the first CMU action plan to further promote SME growth markets, well-calibrated simplification of existing rules will allow for a more proportionate treatment of SMEs without impairing market integrity and investor protection.

Action 2: *In order to promote and diversify small and innovative companies' access to funding, the Commission will seek to simplify the listing rules for public markets.*

To complement the action on listing rules, the Commission will continue its work on **creating an SME IPO fund** to make it easier for small and high-growth companies, in particular in sectors of strategic importance to the EU, to raise capital and finance their growth. The COVID-19 crisis severely altered the EU's economic landscape and there is therefore a need for renewed ambition to support the financing of smaller companies and innovative scale-ups. This makes the case for the urgent creation of an ambitious SME IPO fund even more compelling.

The Commission will also continue its work on supporting the development of local public markets, notably by looking into **how stock market indices** can support liquidity in SME equity.

There is a need to further **support investment vehicles that channel financing to long-term investment projects**. European long-term investment funds (ELTIFs) are specialised vehicles that provide such long-term financing to unlisted companies, listed SMEs, and sustainable energy, transport and social infrastructure projects in order to support green growth. Since only very few of these pan-European funds currently exist, it would be appropriate to review the legislative framework to facilitate their uptake. Changes to the legislative framework and increased incentives to use the ELTIF fund structure could promote the introduction of pan-European long-term investment funds and ultimately channel more funding, including from retail investors, into the EU's real economy.

Action 3: *The Commission will review the legislative framework for European long-term investment funds*[12] *with a view to channelling more long-term financing to companies and infrastructure projects, in particular those contributing to the objective of smart, sustainable and inclusive growth.*

The re-equitisation of funding structures should put EU firms on a structurally sound footing and help avoid overreliance on debt, which could cause financing issues for companies in the future. Corporate debt levels were already high before the crisis, and the COVID-19 pandemic caused a considerable loss of revenue and led to further debt accumulation. Therefore, companies need to improve their equity position. Equity is particularly important for fast-growing innovative companies in their early stages and scale-ups willing to compete globally. The role of equity will also have to be stronger to foster the sustainable transition, as projects pursuing sustainable objectives require financing over a long duration. In addition, the debt bias in taxation needs to be addressed to remove undue fiscal incentives for debt financing.

[12] Regulation on European long-term investment funds (EU) 2015/760.

Incentivising institutional investors to make more long-term investments will be instrumental to supporting re-equitisation in the corporate sector. Insurers are among the largest institutional investors. They have, however, been retrenching on long-term assets over the last fifteen years, and the share of their investments in the real economy and infrastructure remains limited. The participation of insurers in long-term investments, in particular equity, can be supported by ensuring that the prudential framework appropriately reflects the long-term nature of the insurance business and mitigates the impact of short-term market turmoil on insurers' solvency. In addition, the role of banks as institutional investors can be further increased by facilitating their investment and enhancing their ability to build on their large customer bases. Banks and investment firms should be able to invest and 'make markets' (or support liquidity) in company equity, while being subject to adequate prudential treatment.

Action 4: *The Commission will seek to remove regulatory obstacles for insurance companies to invest long-term, without harming financial stability and policyholder protection. It will also seek to provide for an appropriate prudential treatment of long-term SME equity investment by banks. Furthermore, it will assess possibilities of promoting market-making activities by banks and other financial firms.*

With their wide customer base, banks have the potential to play an even bigger role in providing financing to companies - beyond traditional lending or equity participation. Where banks do not have the capacity or willingness to provide credit, they **can instead direct SMEs to alternative providers of funding**. Currently, if a bank refuses a loan to an SME, it has to explain the reason for its refusal if that SME requests an explanation. If the bank were to pro-actively refer rejected SMEs to alternative providers of funding, it would allow these companies to save on the costs of searching for alternatives, and raise general awareness about market-based financing. Such referrals could build on the work already conducted under the previous CMU action plan to help banks strengthen the feedback they give when declining SME credit applications.

Action 5: *The Commission will assess the merits and feasibility of introducing a requirement for banks to direct SMEs, whose credit application they have turned down, to providers of alternative funding.*

Capital markets can also help banks grow their capacity to lend to the economy. Banks can offload some of their loans to institutional investors by turning them into marketable securities. This process - known as securitisation - allows banks to transfer credit risk and free up capital to lend to companies. It is especially relevant in recovery, when banks come under pressure to extend credit to, in particular, SMEs and thus expand their balance sheets. It can also mobilise funding for the green transition through green securitisation. Since securitisation implies the creation of financial instruments that bundle individual assets, it provides investors with significant diversification gains. As overheated and overly complex securitisation markets contributed to the last financial crisis, this activity needs to be adequately regulated. The Commission recently proposed targeted amendments to securitisation rules to enable banks to expand their lending and to free their balance sheets of non-performing exposures. Building on this, further adjustments to rules could make EU securitisation markets more conducive to credit provision, while preserving the EU's financial stability.

Action 6: *In order to scale-up the securitisation market in the EU, the Commission will review the current regulatory framework for securitisation to enhance banks' credit provision to EU companies, in particular SMEs.*[13]

2. Make the EU an even safer place for individuals to save and invest long-term

Europe has one of the highest individual savings rates in the world. However, the **level of retail investor participation in capital markets remains very low** compared to other economies. This deprives EU companies, and the EU economy in general, of much needed long-term investment. It also fails to serve the interests of people whose savings generate low or even negative real interest rates. The individual investors who nevertheless invest in the EU capital markets should, in many cases, be able to receive higher returns than is currently the case. **At present, retail investors do not benefit sufficiently from the investment opportunities offered by capital markets** and cannot adequately address their retirement needs.

The legislative framework should underpin a fair investment outcome for retail investors, contribute to building trust and confidence in capital markets and drive their participation. Increased retail investor participation will make it possible to channel long-term savings to companies, improving their access to financing, speeding up economic recovery and the green and digital transition.

The **pandemic and ensuing stock market volatility affected individual investors' trust in capital markets**, which has an impact on long-term investment. It steered risk-averse households back to bank deposits. At a time when further pressure on public spending weakens the sustainability of statutory pensions, recourse to privately funded retirement pools becomes more important.

There are several reasons for the limited participation of retail investors’ in capital markets. **Limited comparability of similar investment products** that are regulated by different legislation and are hence subject to different disclosure requirements, prevents individual investors from making informed investment choices. At the same time, the current structure and features of retail distribution systems are often insufficiently competitive and cost-effective.

Financial literacy is an essential skill for making good decisions about personal finances, but many people have not yet mastered it. Sound financial literacy is the foundation of people's ability to make good financial decisions and their financial well-being. People who are financially literate are also more likely to take advantage of possibilities provided by capital markets, including on sustainable investments.

Action 7: *The Commission will conduct a feasibility assessment for the development of a European financial competence framework. It will also assess the possibility of introducing a requirement for Member States to promote learning measures supporting financial education, in particular in relation to responsible and long-term investing.*

[13] In addition to strengthening the securitisation market, the Commission will continue to assess the possibility of introducing a dual-recourse instrument named European Secured Notes. As set out in Directive (EU)2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision, it will submit a report to the European Parliament and the Council by 8 July 2024.

While financial literacy is essential for effective decision-making, **retail investors should also be appropriately shielded from the complexities of the financial system**. EU rules have already put safeguards to protect investors, including through disclosure of information on financial products. The documents produced under different rules are however often perceived as long, complex, difficult to understand, misleading and inconsistent, therefore not providing retail investors with a good basis for their decisions.

These documents may also result in information overload for sophisticated investors who may not need the same information and safeguards as inexperienced investors. It is unnecessarily burdensome for financial service providers to produce these documents. Furthermore, there are concerns that inducements paid by investment product manufacturers to distributors may create conflicts of interest that negatively affect the quality and objectivity of financial advisors despite the existing safeguards.

Financial advisors play a critical role as gatekeepers to the financial system. However, their level of qualifications, knowledge and skills continues to differ across Member States. In order to reduce the risk of mis-selling, including in relation to sustainability, increase individual investors' confidence in advice and create a level playing field for market operators offering advice in different Member States, certain professional standards for advisors should be set or further improved.

Action 8: *The Commission will assess the applicable rules in the area of inducements and disclosure and, where necessary, propose to amend the existing legal framework for retail investors to receive fair advice and clear and comparable product information. It will also propose how to reduce information overload for experienced retail investors, subject to appropriate safeguards. Finally, it will seek to improve the level of professional qualifications for advisors in the EU and assess the feasibility of setting up a pan-EU label for financial advisors.*

The EU's population is ageing.[14] **With longer life expectancy, people increasingly need to invest long-term** so they get higher sustainable returns and a suitable complementary income for their retirement. By offering consumers a new pan-European option to save for retirement, the pan-European personal pension product (PEPP) is already a major step in that direction. Complementing the existing monitoring tools with more detailed information on occupational pension schemes, pension dashboards will provide Member States with a more comprehensive view of the adequacy of their pension systems, encouraging them to address shortcomings and share best practices. Individual pension tracking systems will provide citizens with an overview of their future retirement income, based on their entitlements in all the pension schemes they participate in or the expected return of long-term products they invest in. People should be encouraged to supplement public pensions with life-long saving and investment, including through more active participation in occupational pension schemes. This will enable them to benefit from more adequate retirement income and make it possible to finance the long-term growth of the real economy, as well as its green and digital transition.

[14] See European Commission report on the impact of demographic change, 2020.

Action 9: *The Commission will facilitate the monitoring of pension adequacy in Member States through the development of pension dashboards. It will also develop best practices for the set-up of national tracking systems for individual Europeans. Finally, it will launch a study to analyse auto-enrolment practices and may analyse other practices to stimulate participation in occupational pension schemes, with a view to developing best practices for such systems across Member States.*

3. INTEGRATING NATIONAL CAPITAL MARKETS INTO A GENUINE SINGLE MARKET

The scale of Europe's capital markets does not match the significance of its economy, and there is ample room to increase the euro's role as an international currency. Moreover, European capital markets remain fragmented along national lines. This locks out actors on smaller local markets from the benefits of integration, notably access to a large investor base. As the benefits of larger-scale markets remain underexploited, EU financial actors are disadvantaged compared to their global peers. The departure of the UK from the EU entails a relocation of parts of the financial industry and leads to a multi-centre financial architecture. Ensuring the optimal flow of information and capital across the EU is therefore essential.

With the measures announced in this section, the Commission aims to tackle key remaining obstacles to market integration. Building on progress made under the previous action plan, these measures seek to address barriers related to legal frameworks or barriers driven by long-established national practices. This is in particular the case in the area of taxation, non-bank insolvency and company law. In these areas, the Commission proposes targeted actions, focusing on the most important barriers that cause market fragmentation and deter cross-border investment.

Taxation can present a serious obstacle to cross-border investment. Yet **alleviating the tax associated burden in cross-border investment** does not necessarily require harmonisation of tax codes or rates. A significant burden ascribed to taxation is caused by divergent, burdensome, lengthy and fraud-prone refund procedures for tax withheld in cases of cross-border investment. These procedures lead to considerable costs that dissuade cross-border investment where taxes on the return on investment need to be paid both in the Member States of the investment and of the investor, to be reimbursed only afterwards, after a lengthy and costly process. The existing OECD 'treaty relief and compliance enhancement' (TRACE)[15] system and other EU initiatives in this area, such as the code of conduct on withholding tax, already provide orientation on what a mechanism, that would make easier and faster tax refunds possible, could look like.

Action 10: *In order to lower costs for cross-border investors and prevent tax fraud, the Commission will propose a common, standardised, EU-wide system for withholding tax relief at source.*

The stark divergence between national insolvency regimes is a long-standing structural barrier to cross-border investment. Divergent and sometimes inefficient national regimes

[15] https://www.oecd.org/ctp/exchange-of-tax-information/aboutthetracegroup.htm

make it difficult for cross-border investors to anticipate the length and outcome of value recovery proceedings in cases of bankruptcy, rendering it difficult to adequately price the risks, in particular for debt instruments. Harmonisation of certain targeted areas of national insolvency rules or their convergence could enhance legal certainty. Furthermore, regular monitoring of the efficiency of national insolvency regimes would allow Member States to benchmark their insolvency regimes against those in other Member States and encourage the Member States with underperforming regimes to reform them. The results of the monitoring could also feed into the European Semester process.

Action 11: *To make the outcomes of insolvency proceedings more predictable, the Commission will take a legislative or non-legislative initiative for minimum harmonisation or increased convergence in targeted areas of non-bank insolvency law. In addition, together with the European Banking Authority, the Commission will explore possibilities to enhance data reporting in order to allow for a regular assessment of the effectiveness of national loan enforcement regimes.*

Europeans, especially young people increasingly want to have a say in how companies are being run, notably as regards sustainability issues**.** Shareholder engagement must therefore be further facilitated by making voting easier for all investors and corporate actions more efficient, in particular in a cross-border context. Because of differences in national company laws, many cross-border investors – in particular smaller ones – are unable to exercise their voting rights. Managing complex and divergent corporate action processes, for example to organise companies' general meetings or send information between issuers and investors, is unnecessarily difficult and costly. Targeted legislative changes coupled with the use of new digital technology should improve this situation.

Action 12: *To facilitate cross-border investor engagement, the Commission will consider introducing an EU definition of 'shareholder' and further clarifying and harmonising rules governing the interaction between investors, intermediaries and issuers. It will also examine possible national barriers to the use of new digital technologies in this area.*

The European post-trade landscape remains fragmented along national lines, impairing cross-border investment. Amendments to the rules under which central securities depositories (CSDs) can provide cross-border settlement services and the functioning of the CSD cross-border passport could contribute to the development of a more integrated post-trading landscape in the EU. The subsequently enhanced competition among providers of settlement services would lower the costs incurred by investors and companies in cross-border transactions and strengthen cross-border investment.

Action 13: *The Commission will consider amending rules to improve the cross-border provision of settlement services in the EU.*

A true single market cannot exist without a more integrated view of EU trading. A consolidated tape will provide consolidated data on prices and volume of traded securities in the EU, thereby improving overall price transparency across trading venues. It would also improve competition between trading venues. Together with the single entry point for company information (Action 1), it would give investors access to considerably improved information at a pan-European level.

Action 14: *The Commission will propose the creation of an effective and comprehensive post-trade consolidated tape for equity and equity-like financial instruments.*

Investors' confidence in the rules protecting their cross-border investments, as well as in the effective enforcement of these rules, is key to encourage them to invest in another Member State. The debate triggered by the termination of the intra-EU Bilateral Investment Treaties[16] has shown the importance of reviewing the system of investment protection and facilitation within the EU. When cross-border investors exercise one of the fundamental freedoms guaranteed by EU law, they benefit from the protection of EU law, including the EU charter of fundamental rights. Improving, modernising and harmonising as much as possible the rules contributing to the protection of cross-border investments is warranted to further encourage cross-border investment within the EU. More consistent protection of investment vis-a-vis State measures will support the free flow of investment across Europe and contribute to financing recovery, in particular in countries that have been most hit by the crisis and where the investment needs are therefore the largest. Improved dispute resolution mechanisms at national and EU level and other measures such as, for example, gathering information on investors' legal rights, will further facilitate cross-border investment.

Action 15: *The Commission will propose to strengthen the investment protection and facilitation framework in the EU.*

Truly integrated and convergent supervision is needed to ensure a genuine level-playing field for all market players. It **is an essential condition for a well-functioning CMU.** This will be particularly relevant in a post-Brexit world with multiple financial centres across the EU. Gradual progress towards more integrated capital markets supervision will be indispensable. In a single market, the impact of a national supervisory failure extends far beyond the borders of a single Member State. National as well as European supervisors need to have the right tools, skills and powers to oversee complex value chains and group structures as well as to investigate possible cases of fraud or abuse, in particular when it comes to publicly listed companies and auditors' responsibilities. The transition towards more convergent and integrated EU supervision should start by working towards a capital markets' enhanced **single rulebook -** a single set of rules applicable directly throughout the EU and then look at ways to ensure that national authorities and ESMA work together to ensure that national supervision also takes into account the European dimension of the market.

Action 16: *The Commission will work towards an enhanced single rulebook for capital markets by assessing the need for further harmonisation of EU rules and monitoring progress towards supervisory convergence. It will take stock of what has been achieved in Q4 2021 and consider proposing measures for stronger supervisory coordination or direct supervision by the European Supervisory Authorities.*

The Commission will also carefully assess the implications of the Wirecard case for the regulation and supervision of EU capital markets and act to address any shortcomings that are identified in the EU legal framework.

[16] https://ec.europa.eu/info/publication/200505-bilateral-investment-treaties-agreement_en

CONCLUSION

Establishing the capital markets union is essential for supporting a resilient and inclusive economic recovery and the green and digital transition. It is a project for the long-term, which requires continuous and determined efforts. Advancing on the CMU requires overcoming obstacles posed by national differences, entrenched habits and legal traditions. The CMU cannot be built in a single stroke. This is why this action plan does not set a single priority, but rather flags a number of urgencies and structural challenges.

The EU has made significant progress in implementing the first CMU action plan: most legislative proposals were agreed, and the non-legislative measures were completed. The benefits of these measures on the ground are not yet fully measurable, but the groundwork has been completed. **The measures announced in this action plan will further transform the EU financial system and contribute to addressing the political and economic challenges ahead.** Individually, each action represents one more piece of the puzzle: a step forward in areas where progress has been slow or where further work is necessary to achieve CMU. Taken together, they move the EU closer to the CMU vision: a single market for capital across the EU that works for all Europeans, wherever they live and work.

This requires support from the European Parliament and Member States at the highest level and from technical experts in public administration. It also requires that market participants make good use of the measures. The EU can offer tools and put in place supporting conditions, but it is primarily for national authorities to implement them on the ground, and for private actors to take the initiative, seize business opportunities and innovate.

The Commission will start work on the actions announced in this action plan by launching public consultations on the legal framework for European long-term investment funds and non-bank insolvency shortly.

In its future work on the actions, the Commission will act in full compliance with better regulation rules and the simplification objective (the 'one-in-one out' rule), and will keep discussions inclusive, giving sufficient room for all voices to be heard. It also aims to analyse legislative changes not in isolation, but in the context of economic, political and societal needs. Finally, now that the path towards the CMU is firmly established and the impact of the first action plan is expected to show up in data, the Commission will complement its regular reporting of progress on legislative action with monitoring of how EU capital markets are evolving, based on a set of targeted indicators.