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Answers to the public questionnaire on next CMU

2- From a forward-looking perspective, how do you view strengths and weaknesses of the Capital Market Union in its current state and when made of 27 Member States? From the perspective of companies (all sizes and at each stage of their growth), consumers, (wholesale and retail) investors and other market players? How do you view the role of EU's and national supervisors? How does Brexit change the prospect for a financial integration in the EU?

Since the launch of the CMU project in 2015, 20 out of the 33 envisaged measures have been completed. However, in terms of outcomes, progress has not been very significant. Measures on financial integration based on quantities, such as the ones computed by the ECB in its Financial Integration Report, show that the current level of financial integration is still below the pre-crisis level.

Although there has been progress in terms of developing new indicators, we need more information about the aggregate financial integration at the EU level and, especially, about how particular markets are reacting to the new initiatives. It should permit to monitor the advances in the CMU project more carefully.

As regards the role of supervision, the strengthening of European supervisory authorities can help the integration of European capital markets.

With regard to Brexit, as the UK is the most developed capital market in the EU-28 in several measures, the objective of a deeper EU financial market will be moved further away. For example, stock market capitalization is three times higher in the UK in terms of GDP than in the remaining 27 economies. This fact implies a lower starting point for the CMU and an increased need for a CMU. However, in the short to medium term, the UK capital markets would have an important role for the functioning of capital markets in the remaining 27 economies. In the long-run, a new financial landscape might emerge, depending on the future relationship with the UK, the final destination of financial institutions and the degree of success of the CMU project on promoting bigger and more integrated capital markets.

An in-depth look at the different initiatives allows us to identify three main obstacles of Brexit for the CMU. First, given that the UK is the deepest capital market in the EU-28, the possibilities for the creation and nurture of startup companies might be harmed. Some of the unfinished initiatives, such as the development of markets for crowdfunding and private placement, relate to markets that are deeper in the UK, and, as a consequence, their growth post-Brexit in the EU-27 should be prioritized. Second, the EU-27 will have worse access to the financial services of London, which might lead to higher inefficiencies and transaction costs. Moreover, UK is a key origin and destination of foreign direct investment. A reduction in FDI can lead to negative effects on growth and risk-sharing through capital markets. Finally, the review of the regulatory environment, including the role of ESA's, is crucial.

3- Is European SME's financing satisfactory beyond bank finance? Why is access to capital markets (debt and equity) so difficult? Are there relevant differences between national financial markets in this respect? How could access to market financing facilities be improved for all size companies in each stage of their growth?

Access to capital markets by SMEs is difficult. The main obstacle is related to asymmetric information problems. To overcome this problem more quantity and quality of information on SMEs is needed.

To make the CMU a reality eventually, the project should continue to recognize the necessity to interact with and on-board market participants (sell-side, intermediaries and buy-side alike) in this overall political project. The example of the European Post Trade Forum is a welcome initiative.

Regarding national specificities, it is important to highlight that in some EU member states, the markets for venture capital, private equity, business angels and crowdfunding are more developed. Here the UK, Ireland, Estonia and Denmark are leading, whereas Belgium, Hungary, Croatia and Italy these markets are less developed. We should examine carefully best practices in these economies.

4- Home bias in investments still characterizes the EU landscape. What would you say are the main issues limiting cross border flows and what steps could be taken to encourage more cross border activity?

Retail investors normally gain access to capital markets through institutional investors. Different pieces of research suggest that the internationalization of large institutional investors (possibly through cross-border mergers) is critical to increase the volume and stability of their cross-border flows. Therefore, the removal of barriers to cross-border mergers in the euro area would contribute to reducing home bias in the portfolios of institutional investors and their clients.

5- Are there obstacles for households to invest their long-term savings into capital market instruments (directly or through dedicated financial vehicles, like investment firms, pension funds, insurers ...)? What can be done to overcome these impediments? Who should take such measures?

Direct access to capital markets (especially cross-border investment) by retail investors is not a realistic option and it is possibly, not optimal. Indirect access through financial intermediaries such as investment funds or pension funds makes more sense. In this regard the promotion of paneuropean investment products, such as paneuropean pension funds, would be a promising avenue.

The lack of financial literacy is another obstacle for the development of capital markets.

6- Digital transformation and artificial intelligence are both causes for disruption and opportunities for innovation. How should the Capital Markets Union develop to provide a welcoming environment for startups and scale ups? and in the financial sector for FinTech? How to develop a dynamic ecosystem of financial innovation? Do you find the "sandboxes" and related initiatives useful? How can new technology support an efficient and sustainable functioning of Europe's capital markets? What are best practices?

Having a dynamic ecosystem of financial innovation depends largely on the existence of an adequate legal framework that strikes a right balance between promoting innovation and guaranteeing consumer protection and the stability of the financial system. Several principles should be followed in order to achieve this, e.g. it should be ensured that the legal framework does not unduly limit new technologies, that it is flexible enough to adapt to new developments, that it grants a level playing field, etc.

Against this light, technology-intense innovation stands out as a significant driver to improve and speed up the flow of capital across Europe and towards all types of companies and entrepreneurs in need of funding. In particular, appropriate steps could be taken to facilitate a wider adoption of AI-related tools by the financial sector whilst ensuring their neutrality, an appropriate right of recourse by affected parties as well as providing adequate comfort to the authorities in the fulfilment of their mandates. Over and above, measures to promote a wider and more efficient circulation of non-sensitive data could furthermore broaden the potential of the above tools. In addition, measures such as the adoption of sandboxes, where both new entrants and incumbents could test new products, services and business models, may also help to boost innovation, since they could reduce the time to market of new ideas. Moreover, they may help authorities to get a deeper insight into new developments, which could result in better policies and regulations. In this regard, greater coordination and consistency in their application within the Union could bring about significant benefits and help gain scale faster.

8- What are crucial elements for a well-functioning deep and liquid financial market within the EU27? How should the EU27 Capital Markets Union be structured to be a globally competitive and attractive financial market? How should the relations with financial markets in third countries be strategically shaped?

In a complete CMU, any firm should be able to tap the market of another country to find better opportunities to raise funds. However, different regulations, market practices and industry standards among countries in the EU prevent this from happening as regularly as it might be expected.

Rather than developing new national markets it should be encouraged the development of pan-European platforms which would pool all liquidity in a single market.

9- What should be the 3 key priorities for the next phase of CMU?

First, the legal framework: insolvency regimes vary widely across jurisdictions for financial and non-financial corporations, as a result of cultural traditions and legal frameworks. It is a great obstacle for cross-country investments and one that involves several layers of the public administration.

Second, the strengthening of European supervisory authorities. As European markets become more integrated and technologically complex, this is becoming a more essential element that policy makers need to address, especially in the case of Brexit.

Third, more needs to be done in terms of improving taxing procedures. There is some low-hanging fruit in this regard, such as simplifying and unifying the various regimes for withholding taxes, with more than 90 types of forms in different languages, according to the European Post Trade Forum. It will be also important to make advances in terms of the Common Consolidated Corporate Tax Base or the difference of treatment between debt and equity.