



29 September 2015

## **‘A Progressive Capital Markets Union’ Supporting Europe’s real economy and SME’s**

### **PES ECOFIN Ministers Declaration**

On February 18<sup>th</sup> 2015, European Commissioner Jonathan Hill (ECR, UK) brought forward a plan for creating a Capital Markets Union (CMU) allowing businesses to tap capital from the financial sector in order to promote growth and the creation of jobs. The initiative’s objective is to give businesses the opportunity to also use other forms of financing rather than relying primarily on bank financing. To achieve this the Commission aims at creating “a single market for capital for all 28 Member States by removing barriers to cross border investment within the EU and fostering stronger connections with the global market”<sup>1</sup>. In order to get feedback on the plan, the Commission launched a public consultation that was concluded with a public hearing on the ‘Next Steps to build a Capital Markets Union’ on June the 8<sup>th</sup>. The Commission aims at putting in place a Capital Markets Union by 2019.

As Socialists and Democrats Finance Ministers we want to make sure that this ambitious plan is materialized in a progressive manner, taking due account of market failures, including externalities and social spillovers. Our core aim is to stimulate investment in Europe and make the financial sector serve the real economy. The recent proposal for developing a European Fund for Strategic Investment is a step in the right direction. In combination with the plan for a Capital Markets Union Europe can take a step further to ensure that all sectors are mobilized to effectively bridge the investment gap and boost the growth of the real economy, especially of SMEs. Although the objectives set out by the Commission can be constructive for mobilizing funding, the plan falls short of outlining in detail the framework that will be used to mobilise the capital means of the financial sector. The financial crisis has taught us many lessons with regards to the management of the financial sector. Most importantly, we have learned that it cannot be left uncontrolled to over inflate, nor can it be built on weak collateral that render its foundations unstable.

#### **1. The Capital Markets Union must be built on the following principles:**

- Completing the Banking Union to strengthen financial stability: The Single Supervisory and Resolution Mechanisms have to be supplemented, inter alia, by an effective **Banking Separation Regulation** in order to protect depositors and to address the problem of too-big-to-fail. In parallel, shadow banking should be effectively regulated.
- We need to effectively tax the financial industry, by using all available tools, such as a the Financial Transaction Tax or a Financial Activities Tax, where the Financial Transaction Tax

<sup>1</sup> European Commission Green Paper ‘Building a Capital Markets Union’, 18 February 2015



can minimize the risks of high frequency trading and shrink financial market activities which do not serve real economy

- **Transparency and strong financial regulation for the sound functioning of the financial sector:** The free flow of capital and liquidity cannot be applied at the expense of effective regulation. Transparency of financial activities and information is key for a well-functioning financial sector. Opaque financial activities must be avoided. This is essential for regaining investor trust and participation and for rendering the financial sector stable and credible.
- **We want the CMU to foster growth in the real economy, in particular SMEs:** Our core aim is to maximize the funding opportunities for business and infrastructure investments as well as SMEs. To do so, progressive sources of financing that promote values such as sharing and inclusion must be explored.
- **The framework for investor and consumer protection must be strengthened:** The success of the CMU relies heavily on restoring investor trust. In order to reestablish confidence in the financial sector investor and consumer protection is essential.
- **We call for rendering the financial sector socially responsible:** The CMU can be essential for combatting the development of an unregulated shadow banking sector. It must provide a framework that limits information asymmetry and conflict of interest, by shedding greater transparency, monitoring and supervision over unregulated financial entities and activities that can cause systemic risks. Moreover its efficient functioning can prove constructive for promoting green growth and fighting against environmental change.

## 2. We call on the implementation of the following measures:

### 1. To regulate the financial sector:

- Ensuring that the EU financial regulation agenda is properly enforced and all delegated and implementing acts are finalized is pivotal. Moreover, greater **monitoring on how securitizations are structured and allocated, how they are refinanced and the duration of their maturities is needed.**
- **Private risk sharing and diversification** must appear prominently in the framework of the Capital Markets Union, in order to minimize the risk of centralized financial shocks, create a safer and more robust financial sector and avoid market manipulation.

### 2. To use innovative mechanisms for financing:

- We support the development of **innovative financing mechanisms** such as **crowdfunding and peer to peer lending, as well as the development of venture capital.**

### 3. To protect investors and consumers:

- **Simple, transparent financial products** that are **easy to compare** is essential for attracting interested investors.
- All stakeholders must have **access to unbiased information** regarding the different products. The availability of fair and balanced advice should be the norm.
- The creation of well-regulated user-friendly trading platforms that guarantee minimum consumer protection standards, such as **visibility of risk notices, disclosure requirements, the right to cancelation** can enhance the across border investment potential and effectively contribute to the success of this project.
- Property rights should be well protected, in particular through sound and effective framework for securities, company and insolvency laws.

### 4. To render the financial sector socially responsible:

- Integrating more sustainable and stakeholder friendly **criteria in rating reports, risk analyses and investment products.**
- Ensuring that the CMU serves the collective current and future needs of society, including social and economic sustainability and environmental responsibility.



The development of a Capital Markets Union can be a constructive step for enhancing the funding potential of projects in the European Union. Together with the completion of the Banking Union, it is a change to ensure high degrees of financial stability and credibility, while protecting citizens. Creating a robust Deposit Guarantee Scheme and protecting retail banking from excessive risks caused by trading activities and proprietary trading are instrumental to ensure a more transparent and efficient system, with an effective ring-fencing of the financial sector, and safeguards for citizen's deposits.

We want to develop a Capital Markets Union that can provide the opportunity to redress the balance between society and finance. Where the financial sector serves society's needs and not the other way around. It is not only a matter of fairness, but also of economic necessity. A progressive CMU can ensure that the financial market fully play their role to support the real economy, by increasing internal demand and consumption, promoting investments, fostering growth, and creating new jobs.

### Signatories

Michel Sapin, Minister of Finance, France.

Carsten Schneider, Vice-Chairman of the SPD Parliamentary Group responsible for budget, finance and Euro policy, Germany.

Pier Carlo Padoan, Minister of Economy and Finance, Italy.

Rimantas Sadzius, Minister of Finance, Lithuania.

Edward Scicluna, Minister of Finance, Malta.

Eugen Orlando Teodorovici, Finance Minister, Romania.

Peter Kazimir, Minister of Finance, Slovakia.

Magdalena Andersson, Minister of Finance, Sweden.

