

The new Capital Markets Union Action Plan



By **Daniel Mendes**

Introduction

The Capital Markets Union (CMU) project was launched more than six years ago to establish a true single market for capital across EU Member States and underwent a [mid-term review in June 2017](#).

On 24 September 2020, the European Commission (EC) announced a [new CMU Action Plan](#). ICMA published its [preliminary thoughts](#) on the new CMU Action Plan on 1 October.

The new Action Plan

The new CMU Action Plan is driven by three key objectives: (i) to support a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies; (ii) to make the EU an even safer place for individuals to save and invest long-term; and (iii) to integrate national capital markets into a genuine single market.

At first glance, these objectives are expected to be achieved through 16 actions, clustered into three categories: Small and Medium-Sized Enterprises (SMEs); Retail; and Single Market. In fact, a careful inspection of the [Annex](#) to the CMU Action Plan reveals that many of these initiatives are likely to unfold into around 20 concrete actions, many of which relate to developing EU equity markets, particularly for SME funding. (Please refer to the Box on anticipated CMU deliverables and deadlines below for a summary of these initiatives.)

These initiatives were inspired by the EC's High-Level Forum (HLF) [Final Report](#). Where the HLF recommendations made their way into the new Action Plan, the EC adopted broader language than the HLF Final Report, allowing policy makers more flexibility when designing concrete legislative and non-legislative measures. A small number of HLF recommendations, however, were not incorporated into the new Action Plan. These include HLF's recommendation 7 on crypto/digital assets and recommendation 10 on cloud services.

Perhaps inconsistently with its first objective ("support a green, digital, inclusive and resilient economic recovery"), the new CMU Action Plan does not set out measures in relation to Sustainable Finance or Digital Finance. Instead, policy makers have opted to promote both as standalone policy areas. According to the new CMU Action Plan, "the strategies on CMU, sustainable finance, digital finance and SMEs are all mutually reinforcing. They are a joined-up package of measures". The EC therefore published a [Digital Finance Package](#) alongside the CMU Action Plan and is expected to unveil a [Renewed Sustainable Finance Strategy](#) in due course.

Finally, the new CMU Action Plan outlines three actions that, while mentioned by the HLF in its [Final Report](#), had not been put forward in the form of recommendations. These are: directing SMEs to alternative providers of funding (Action 5); consolidated tape for equity and equity-like instruments (Action 14); and investment protection and facilitation (Action 15).

The way forward

The full extent of the CMU is yet to be seen. This is because many of the actions proposed by the EC are not yet tangible; many consist of rounds of feasibility assessments that will, eventually, lead to legislative proposals. These will, in turn, be subject to amendments and political compromises. For instance, the EC will consider whether sectoral legislation should be amended to include requirements on financial education of consumers by Q1 2022.

Furthermore, with many of these assessments planned to unwind into concrete measures only in the years to come, it is possible that the relevance of some of the drivers underlining this project will eventually dissipate.

Indeed, while recovery from COVID-19 is a real concern at present, it may be overshadowed by other issues in the near future. In fact, even recent events have shown that politically sensitive issues may be prioritised by co-legislators as opposed to COVID-19 concerns. For instance, a controversy

around position limits for commodity derivatives associated with [proposed amendments to MiFID II](#) under the [EU Capital Markets Recovery Package](#) has resulted in the European Parliament's Committee on Economic and Monetary Affairs (ECON) rejecting a proposal to commence trilogues between the co-legislators¹, notwithstanding the urgency of this file.

While the outcome of the new CMU Action Plan may not entirely reflect its original objectives in the long-run, policy makers and co-legislators will want to ensure that, ultimately, any measures do not unintentionally have a negative impact upon the international bond market. This is because of the fundamental role that the international bond market plays in funding the EU's larger businesses².

This is particularly the case if the EU wants to achieve a truly competitive position globally. Indeed, a [study](#) from the European Capital Markets Institute based on BIS and IMF data has found that the European debt securities market is about half the size of that in the US.

Two initiatives are key from the perspective of ICMA's secondary market members. First, this community considers that, in pursuing deep and liquid markets as part of Action 4, co-legislators should reconsider the [mandatory CSDR buy-in provisions](#)³ and assess the impacts of regulatory capital on fixed income market makers, including related hedging and financing activity. Second, developments associated with Action 14 would help support confidence and efficiency in the European bond market if they are to consider a consolidated tape for bonds, not only for equity instruments⁴.

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Also, ICMA's Asset Management and Investors Council (AMIC) considers it to be essential that, consistent with the anticipated review of Solvency II under Action 4, the impact and potential procyclical effects of capital charges for downgraded bonds are assessed in light of portfolio adjustments that can be undertaken by institutional investors ahead of a credit rating downgrade.

Finally, from a repo and collateral perspective, policy makers should tackle remaining barriers to the cross-border flow of collateral if they wish to achieve a non-fragmented post-trade environment in Europe⁵.

We invite our members and observers to follow our dedicated CMU [webpage](#) for updates on ICMA's work in this area.



Contact : Daniel Mendes
daniel.mendes@icmagroup.org

1. This decision was overruled in a European Parliament plenary session in November 2020.

2. For further information, please see the article *The role of the Eurobond markets in pan-European capital markets*, published as part of [ICMA's Quarterly Report for the Fourth Quarter 2020](#).

3. Please refer to ICMA's 2019 CSDR mandatory buy-in market [impact study](#) for further information.

4. For further information, please refer to [ICMA's report to the EC](#) of April 2020.

5. ICMA's European Repo and Collateral Council (ERCC) contributed to the findings of the [2017 Report](#) by the European Post-Trade Forum (EPTF), established by the EC.

Anticipated CMU deliverables and deadlines

- Legislative proposal establishing the European Single Access Point (Q3 2021)
- Assessment and potential simplification of the listing rules for public markets (Q4 2021)
- Review of the European Long-Term Investment Fund Regulation (Q3 2021)
- Assessment of Solvency II and potential amendments (Q3 2021)
- Appropriate prudential treatment of long-term SME equity investments by banks to feed into the Basel III implementation through the review of CRR/CRD (Q1 2021)
- Feasibility assessment on the existing bank referral schemes (Q4 2021)
- Review of the EU securitisation framework for both STS and non-STS securitisation (Q4 2021)
- Feasibility assessment for a dedicated EU financial competence framework (Q2 2021)
- Assessment and a potential amendment to sectoral legislation (MiFID II, IDD, PEPP, UCITS, PRIIPs) setting out requirements on financial education of consumers (Q1 2022)
- Assessment and potential amendments to the applicable rules in the area of inducements and disclosure associated to MiFID II (Q4 2021) and IDD (Q1 2023)
- Legislative proposal amending MiFID II to reduce information requirements for a subset of retail investors (Q4 2021/Q1 2022)
- Call for advice on national tracking systems and pension dashboards (Q4 2021) as well as an external study on auto-enrolment practices in occupation pension schemes (Q3 2020)
- Legislative proposal to alleviate the tax burden in cross-border investment (Q4 2022)
- Legislative or non-legislative measures for harmonisation in targeted areas of insolvency (Q2 2020)
- Assessment (Q1 2021) and potential legislative proposal (Q4 2021) to allow the EBA to regularly update the Commission on the effectiveness of loan enforcement in Member States
- Assessment and legislative proposal to facilitate shareholder engagement (Q4 2021/Q3 2023)
- Review of the Central Securities Depositories Regulation (Q4 2021)
- Legislative proposals establishing a consolidated tape (Q4 2021)
- Legislative proposals to increase investor protection and increased enforcement (Q2 2021)
- Potential measures for stronger supervisory coordination or direct supervision by the European Supervisory Authorities (Q4 2021).

Source: [Annex to the new CMU Action Plan](#)