What is the Goal of the Capital Markets Union?

18 March 2015
Capital markets in Europe are less developed than markets in other major jurisdictions

In particular, there are major differences in the financial structure in Europe and in the US.

![Bar chart showing public capital markets in various jurisdictions (in % of GDP)]
The crisis impacted a process towards more integration of capital markets in Europe

Chart 1
Share of MFI cross-border holdings of debt securities issued by euro area and EU corporates and sovereigns

(percentage of total holdings, excl. the Eurosystem)

Source: ECB.
Note: Outstanding amounts are classified by the residency of the issuer. Eurosystem holdings are excluded.

Chart 2
Cross-border holdings of equity issued by euro area residents

(percentage)

Sources: IMF, Thomson Reuters and ECB calculations.
Note: Intra-euro area is defined as the share of equity issued by euro area residents and held by residents of other euro area countries (excluding central banks). The sample includes 12 euro area countries. Extra-euro area is defined as the share of euro area equity held by non-euro area residents of the euro area (excluding central banks). Last observation: 2013.
By pursuing the CMU agenda, integration of the financial markets needs to go beyond convergence.

Capital markets are starting again to show some signs of de-fragmentation. Looking forward, the objective of CMU should be to support **qualitative integration**, rather than **quantitative convergence**.
The goal of CMU

- Essential for the functioning of the Monetary Union
- Complementary to the Banking Union
- Needed for the completion of the Single Market for EU-28
CMU as an EU-28 agenda to complete the Single Market

Completing the single market in capital by increasing capital markets’:

- **Effectiveness**
  - matching supply and demand (diversification)

- **Efficiency**
  - increasing competition and lowering costs

- **Size**
  - lowering barriers between Members States
**CMU to improve economic resilience of EMU**

**Composite indicators of the cost of borrowing for non-financial corporations from MFIs (% per annum):**

---

**Improving diversification:** enhancing cross-border risk-taking to allow capital markets to play a role in cushioning asymmetric shocks.

**Enhancing the functioning of monetary policy within EMU** by providing the ECB with alternative channels for monetary policy transmission.

Sources: ECB and ECB calculations.

---

(a) Includes Greece, Ireland and Portugal. Calculated as a simple average of volatility of these countries' consumption growth.
**CMU as a complement to the Banking Union**

- **Efficient and diversified capital markets** to continue *severing the bank-sovereign nexus* and getting rid of the location bias in Europe
- **Heading towards cross border banks** large enough to operate across borders and diversify risks but small enough to be resolvable
- **SSM and CMU** as reinforcing each other

**Share of euro area MFI holdings of debt securities issued by MFIs by residency of the issuers**

(percentage of total holdings, excl. Eurosystem)

Source: ECB.
Note: Outstanding amounts are classified by the residency of the issuer. Eurosystem holdings are excluded.
Concretely, how do we get there?
How far we will get depends on how ambitious we are

Fostering individual market segments

Legislative action

Common institutional structures
Some examples

Fostering individual market segments

• **Supporting the development of certain market segments** (e.g. Securitisation, covered bonds, private placement, equity and venture capital markets) through:
  – Market-led initiatives
  – **Standardisation, increased transparency** (e.g. credit registers)
  – Public support
Some examples

- **Common regulatory standards** (e.g. regulatory treatment of high quality securitisation – a European framework for securitisation)
- **Legislative proposals** (e.g. a Commission proposal on a Securities Law Directive, on a European framework for the recovery and resolution of CCPs)
- **Harmonisation in key areas** for the functioning of cross-border markets (e.g. securities law, insolvency law, taxation, accounting) at the EU level or through national interventions

→ Towards a **single rulebook for European Capital Markets**

→ Should not lead to more financial activity developing outside of the regulated sector (e.g. FSB work on developing macro-prudential tools for the shadow banking sector).
Some examples

- **Effective implementation and consistent enforcement** of the rules and standards for CMU (i.e. a single rulebook for EU capital markets complemented with a common interpretation and enforcement)
- Enhanced **supervisory convergence**
Concluding

• The Commission’s Green Paper is very welcome
• The CMU will play a key role in improving:
  – Allocation of capital
  – Diversification of sources of financing
• It remains to be seen how ambitious Europe wants to be in developing a genuine capital markets union. While some low hanging fruit should be quickly picked, we need to be bold in our objectives and give ourselves the tools which will ensure that the European Capital Market Union is a reality rather than a name.