



# European Capital Markets Union False promises of growth and risks to financial stability?

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**A new financial reform in the European Union (EU) is being proposed for implementation the following years: the Capital Markets Union (CMU). This briefing paper provides a critical assessment of the proposals and raises many unanswered questions. It explains what the CMU project is about, what the Commission's stated intentions and reasons are and how it ties in with previous European legislative initiatives (Section 1). It provides a critique of CMU by questioning its effectiveness as well as the Commission's motives for embarking on this project, and by discussing a number of risks and concerns (Section 2). It concludes with an overview of the policy process ahead and the options for non-governmental organisations (NGOs) and social movements (Section 3).**

## Why a critical analysis is needed

The 'Jobs, Growth and Investment' agenda of the European Commission under President Jean-Claude Juncker, who took office in November 2014, included the Capital Markets Union (CMU). The CMU is presented as a way of stimulating lacklustre economic growth in the EU and overcoming the problem of persistently high unemployment in many member states by improving the financing conditions for non-financial corporations (NFCs) – especially small- and medium-sized enterprises (SMEs) – as well as for infrastructure projects. This promise is based on the assumption

that, on the one side, there are large amounts of money capital desperately seeking profitable investment while, on the other, there are businesses that would like to invest and create jobs but cannot do so because banks are not giving them loans. Therefore, the Commission's reasoning goes, if banks are unwilling or incapable of bringing these two sides together, the capital markets should do the job, but the right conditions need to be put in place first.

However, serious doubts are more than warranted. Not only is the CMU project based on unconvincing arguments and assumptions, as this paper will show/discuss. A closer look also reveals that by stimulating growth and investment to alleviate the current economic malaise through the CMU, the Commission want to actually achieve long-term structural change of Europe's financial system(s) based on capital markets. Moreover, under current economic circumstances – sluggish demand and an excessively large financial sector (also known as 'financialisation') – expanding the share of market-based financing would create or exacerbate economic and financial risks without creating any corresponding benefits.

The Commission's financial reform agenda's apparent focus on economic growth marks a turning point from the immediate post-financial crisis years. Back then the most

important goal of financial sector regulation was to minimise and contain the risk of financial crises, for example by requiring banks to take measures to become more resilient to financial turmoil. The new Commission seems to have concluded that such reforms have gone too far and are now stifling growth by reducing the flow of finance to the real economy, and is therefore a factor behind weak growth in the EU. This is, of course, something that the financial industry has claimed for a long time whenever new restrictive measures were being discussed. CMU might therefore signal a shift to a new, even less restrictive stance in the field of financial sector regulation in the European Union.

## 1 What is CMU?

### 1.1 The official goals of CMU: stimulating investment by integrating and enhancing European capital markets

The CMU project was launched with Jean-Claude Juncker's opening statement before the European Parliament on 15 July 2014 where he declared that to 'improve the financing of our economy, we should further develop and integrate capital markets. This would cut the cost of raising capital, notably for SMEs, and help reduce our very high dependence on bank funding.'<sup>1</sup> Further discussions followed,<sup>2</sup> and in February 2015 the Commission presented the first results of this work in the form of the *Green Paper Building a Capital Markets Union*. (The Green Paper was accompanied by a more technical *Staff Working Document: Initial reflections on the obstacles to the development of deep and integrated EU capital markets*.)<sup>3</sup> This opened a phase of public consultation that ended in May 2015.<sup>4</sup> The Commission announced an action plan on the CMU and announced that it would be unveiled on 30 September 2015, soon to be followed by the first concrete legislative proposals.

The CMU projects is the name given to a bundle of proposals that would change EU capital markets in two ways:

First, it aims to create a single integrated market for trading company shares (equity capital) and bonds (debt capital) that covers all 28 EU member states. This single market would have a common regulatory regime. It would not just extend to shares or bonds that are publicly traded on a stock exchange, but also shares or bonds that are not issued or traded on exchanges but are instead sold directly to a select group of (usually large investors (i.e. 'private equity' or 'private placement'<sup>5</sup> The idea is to make it equally easy for European businesses to sell their shares or bonds to non-domestic investors as it is to sell them to investors in their home country. Conversely, from an investor's point of view it should not make any difference whether the share

they intend to buy is from a domestic company or from another European country. This is already possible today, but different national frameworks and regulatory regimes make it more difficult in practice. Areas of difference include, for example, tax treatments of financial products, national differences in company insolvency law, or simply different information standards and requirements that prevent direct comparison of the creditworthiness of, say, an Austrian and a Lithuanian company. Moreover, investment funds are to be allowed to market their services equally in all EU member states.<sup>6</sup>

Second, the CMU proposal goes beyond the mere addition of national capital markets. It also aims to deepen them. In other words, apart from geographical integration, it also to expand trading and emission volumes on the resulting common market by expanding the range of companies whose shares or bonds are publicly traded or privately issued. By changing the regulatory framework, the Commission wants to encourage European companies to raise more capital on the markets, i.e. through issuing shares or bonds, and resort to bank loans. This concerns SMEs in particular because, unlike large corporations, they rarely raise finance on capital markets and tend to rely on bank loans.<sup>7</sup> As a complementary measure, the Commission wants to make it easier for investors not just to invest outside their own home country, but specifically to buy the shares of SMEs.

#### List of acronyms

<b>ABS</b>	asset-backed securities
<b>AIFMD</b>	Alternative Investment Fund Managers' Directive
<b>CDO</b>	collateralised debt obligations
<b>CMBS</b>	commercial mortgage-backed securities
<b>CMU</b>	Capital Markets Union
<b>ECON</b>	Economic and Monetary Affairs Committee of the European Parliament
<b>ELTIF</b>	European Long-term Investment Funds
<b>ESG</b>	environmental, social, corporate governance
<b>ESMA</b>	European Securities and Markets Authority
<b>EU</b>	European Union
<b>GDP</b>	gross domestic product
<b>IORP</b>	Institutions for Occupational Retirement Provision Directive
<b>NFC</b>	non-financial corporation
<b>NGO</b>	non-governmental organisation
<b>PPP</b>	public-private partnership
<b>RMBS</b>	residential mortgage-backed securities
<b>SME</b>	small- and medium-sized enterprise
<b>SPV</b>	special purpose vehicle
<b>WBS</b>	whole business securitisations

Another proposed measure that will try to use capital markets to improve the financing conditions for SMEs is the revival of the market for loan securitisations. This is in fact a priority area for the Commission, but it is also easily the most controversial part of the CMU package. (More on this and other measures in Section 1.2.)

Finally, what are the ultimate official goals of CMU? It is presented by the European Commission as a means of overcoming the problems of lacklustre growth and high unemployment in many EU countries.<sup>8</sup> It promises to stimulate capital investment in the non-financial private sector by making additional sources of finance available to European businesses that tend to rely on bank lending. This reliance, it is claimed, has become problematic at a time when credit supply is restricted because banks are reducing their lending to reduce the level of risk they carry on their balance sheets. This is done, so the argument goes, because banks need to comply with stricter capital requirements that were introduced after the financial crash of 2008 to make the banking system safer and more resilient. Moreover, based on data on the lending decisions of banks, the Commission argues that this credit squeeze affects SMEs in particular because they are typically seen as more likely to default than larger companies. Higher risk aversion among banks following the crisis then means that they restrict SME lending most strongly.<sup>9</sup> Jonathan Hill, the European Commissioner in charge of banking and finance, frequently frames the choice for financial regulation in terms of a trade-off between reducing risk and encouraging growth and claims that the balance between these two goals needs to be adjusted.<sup>10</sup> The clear implication is that regulation needs to be relaxed to foster growth.

CMU also aims to stimulate investment in infrastructure by making it more attractive for private financial investors. Infrastructure projects require long-term financing, therefore the Commission particularly wants to attract institutional investors like insurance companies or pension funds. Unlike short-term traders, these investors need to have a more long-term investment horizon because they also have long-term liabilities that they need to fund, such as the obligation to pay pensions at some distant time in the future to people who are still of working age at the moment.

However, there is also another, more long-term or structural goal that is only tacitly admitted, as explained below: to shift the European economy with its traditionally strong reliance on bank financing to a more market-financed economy similar to the Anglo-American model.

## 1.2 The measures proposed under the CMU project

### 1.2.1 Integration and harmonisation

As an idea, CMU is not entirely new and can be seen as part of the single market project with its 'four freedoms': the free movement of goods, capital, services and people. CMU can also build on more recent directives, such as the new Markets in Financial Instruments Directive and Regulation, which aim to harmonise European markets for financial instruments, or the Alternative Investment Fund Managers' Directive (AIFMD), which aims to create a unified European regulatory regime for hedge funds and private equity funds. Moreover, CMU bundles into one project a number of initiatives that preceded the Juncker Commission, especially the March 2014 initiative on Long-Term Financing of the European Economy.<sup>11</sup> The Commission can further draw on the regulatory framework for European Long-term Investment Funds (ELTIF), which aims to stimulate the creation of funds that provide patient capital to companies or projects in need of long-term commitments, such as infrastructure projects.<sup>12</sup>

However, creating the kind of deep and unified capital market envisaged by the Commission still requires action in a wide range of areas, amounting to an ambitious legislative agenda. So what are the measures envisaged under CMU? As mentioned above, CMU aims to integrate and deepen European capital markets. This requires the introduction of Europe-wide frameworks, or harmonisation of national rules and standards, in a range of legal and regulatory fields that affect how companies raise their financing on the capital markets as well as the information and guarantees given to investors in shares or bonds.

Among the legal areas that would require changing are company insolvency law, company law and taxation. National differences in how company insolvencies are treated, for example, can make it less attractive for an investor located in country A to buy shares or bonds of a company from country B because the investor does not know – or will have to make an effort to find out – how their claims to that company's economic resources will be treated in case it goes bankrupt. Another example of regulatory harmonisation would be corporate governance rules, which determine things like company board structure or the rights of minority shareholders. Given that foreign investors are usually minority shareholders, the Commission reasons that convergence on this issue will make cross-border investment more attractive because investors will know what their rights are. To supervise and implement this harmonised legal framework, the Commission also suggests expanding and strengthening the role of European supervisory institutions like the European Securities and Markets Authority (ESMA). Another aspect of integration is the

European-wide standardisation of information about companies and other investment opportunities. The Commission proposes, for example, the introduction of common financial accounting rules, at least for large SMEs, standardising information about the creditworthiness of SMEs, or creation of a standardised and centralised register for infrastructure projects across the EU. This would facilitate cross-border investment in the EU because financial investors could compare investment opportunities in different member states more easily.<sup>13</sup>

### 1.2.2 Deepening the capital markets

National capital markets are not merely to be made into one EU market. That market is also to be deepened, that is, expanded quantitatively in terms of the volumes issued or traded on it. In other words, European businesses (and providers of infrastructure services) are to be encouraged to raise more capital through bonds or shares and less through bank loans. According to the Commission, integration would make Europe's capital markets deeper and more liquid simply because of the economies of scale involved. Integration makes it easier for companies based in one member state to get access to investment-seeking money capital in other member states. This may make raising capital on the market more attractive. For investors, on the other hand, a larger market makes buying shares or bonds more attractive because they can more easily sell them on again on the same market. Having an exit-option is very important for contemporary, impatient investors.

Beyond these economies of scale, which would expand capital markets indirectly, more direct measures for expanding the markets are also planned. The flow of private household savings into the capital markets through institutional investors is to be increased. According to the Commission's own figures, bank deposits (and currency) made up a third of the financial assets of EU households in 2012, while 35 per cent were invested in insurance and pension funds, 10 per cent directly invested in bonds and shares, and another 7 per cent in mutual investment funds.<sup>14</sup> The role and share of the latter, pension funds in particular, is therefore to be expanded, and the Commission has invited suggestions on how this can be achieved.<sup>15</sup> With regard to occupational pension funds, the Juncker Commission can already draw on proposals made by the previous Commission. These proposals, which were part of the Long-Term Financing agenda, aim to change the rules that govern these funds to make it easier to provide such services across EU member states (Institutions for Occupational Retirement Provision Directive, IORP 2).<sup>16</sup>

Reviving the European market for company loan securitisations is another means of directly expanding the role and share of capital market financing in the EU. In the case of loan securitisations a company does not access the capital market directly, it simply takes out a regular bank loan. However, the bank does not keep that loan to earn the income from interest payments over several years until it is paid off. The bank pools and repackages the loan together with other, similar loans into a kind of fund and puts it up for sale to financial investors. (These funds are mostly based in tax havens and are therefore connected to the problem of shadow banking – see Section 2.2.1). By buying these bundles, or rather certain slices of them, investors obtain the right to receive interest and repayments, or they can themselves sell the paper on to other investors.<sup>17</sup>

The benefit for the bank that makes and sells the loan is that it also passes on credit risk, i.e. the risk that a borrower misses payments or goes bankrupt, to the buyer. The Commission argues that securitisation will increase bank lending, especially to SMEs, because it reduces the overall level of risk associated with the assets on a bank's balance sheet, which will allow the bank to lend again. In other words, securitisation uses financial markets to restart allegedly sluggish bank lending to the non-financial sector. This would benefit SMEs in particular because: (1) accessing capital markets directly through issuance of bonds or shares is often not worth the effort for smaller companies; and (2) SMEs are considered riskier borrowers even in good economic times (see Section 1.1 above).

Securitisation of company loans is not new, but it has suffered from a reputational problem since the great financial crisis of 2008 because securitisation of so-called subprime mortgages (mortgage loans to home buyers with low creditworthiness) played a crucial role in transmitting shocks throughout the financial system. Rating agencies – private service providers that assess the creditworthiness of corporations, states, but also financial instruments – gave excellent grades to these products that were bought by banks across the whole world. When it became clear that these were in fact toxic assets, panic ensued because no one knew which bank was sitting on how many of these worthless pieces of paper. To avoid a repeat of this and to re-establish trust in securitisation, the Commission wants to define standards for 'high quality', i.e. simple, transparent and standardised securitisation.<sup>18</sup>



## 2 Risks and concerns

From the point of view of progressive civil society and social movements, CMU raises a number of concerns that will be discussed in more detail below. Generally, in arguing for CMU the Commission makes many points that are unconvincing. They are in short:

- ❑ The promise of growth, jobs and investment is unlikely to be kept; the only growth that is reasonably certain is in the revenues of investment banking and other capital market actors.<sup>19</sup>
- ❑ Under current circumstances, expanding the share of capital market financing would create or exacerbate financial and economic risks without any corresponding benefits.
- ❑ The goal seems of long-term structural change, i.e. the market-oriented restructuring of the EU's financial system(s). is masked by the rhetoric of growth.
- ❑ The Commission's intention of re-directing household savings towards capital market through institutional investors exposes citizens in particular to financial risks without any corresponding gains.
- ❑ There are glaring omissions in the Green Paper with regard to sustainability criteria and the question of impact on non-European countries.

### 2.1 Promised growth unlikely to materialise

The Commission assumes that businesses are not investing because they cannot get loans from banks that have restricted their lending. In other words: because the mechanism of financial intermediation is broken. However, it is widely acknowledged that the main predicament of European economies, and the Eurozone in particular, is a weakness of aggregate demand, which is in turn connected

to weak wage development, rising inequality and austerity policies.<sup>20</sup>

With regard to Eurozone SMEs, a recent survey by the European Central Bank found that “‘finding customers” remained the dominant concern [...] while “access to finance” was considered the least important concern’.<sup>21</sup>

To address these problems, policies that support domestic demand and complement the easing of monetary policy in the Eurozone and other member states with fiscal policy stimuli, are more appropriate. Moreover, the Commission's own business surveys consistently show that demand, not financial constraints, are the main factor impeding non-financial businesses (see Figure 1).

If these demand problems are not addressed first, deepening capital markets will only create new business for investment banks, rating agencies and the like and ultimately lead to the kind of financial growth that is correlated with weak real investment and low gross domestic product (GDP) growth.<sup>22</sup>

As stated above, the Commission claims that SMEs in particular lack access to bank loans and that securitisation could help alleviate that squeeze because it would allow banks to put aside less capital buffers and use the freed money for new loans.. Regardless of whether or not securitisation is a good thing or not, there are also serious doubts whether there would even be a significant amount of additional SME loans and related securitisation. The financial risks for the typical SME are too specific to be easily assessed by financial investors using their standard assessment tools. . SME risks depend a lot on highly specific local business contexts and other factors that cannot be readily understood by looking at financial

### Box 1 Important actors in the capital markets

Investment banks are among the most important actors on the capital markets. Unlike commercial banking, investment banking is not about taking deposits and making loans. Investment banks act primarily (although not exclusively) as intermediaries and make money from the fees they charge to their clients (corporations or governments) for helping them to raise money through the issuance of bonds or shares.

When, for example, a company decides to ‘go public’, i.e. sell its shares to investors, the investment bank provides many services that accompany this process, such as valuing the company, fixing a share price and – most importantly – finding buyers for the share or

bond, advising clients on buying shares or doing transactions.

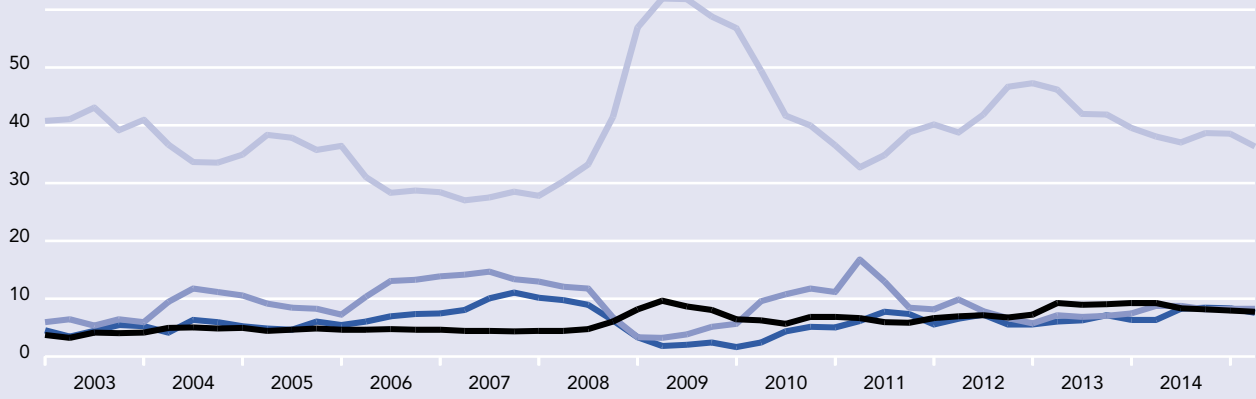
On the investor side of the capital market there is a whole range of different kinds of funds – essentially pools of private money – that invest this money by buying tradable financial instruments. These funds include hedge funds, mutual funds and pension funds. The latter essentially administer the savings of regular working and middleclass households.

For further information please consult Corporate Watch's guide ‘Demystifying the Financial Sector: A Nuts & Bolts Guide’, February 2012.

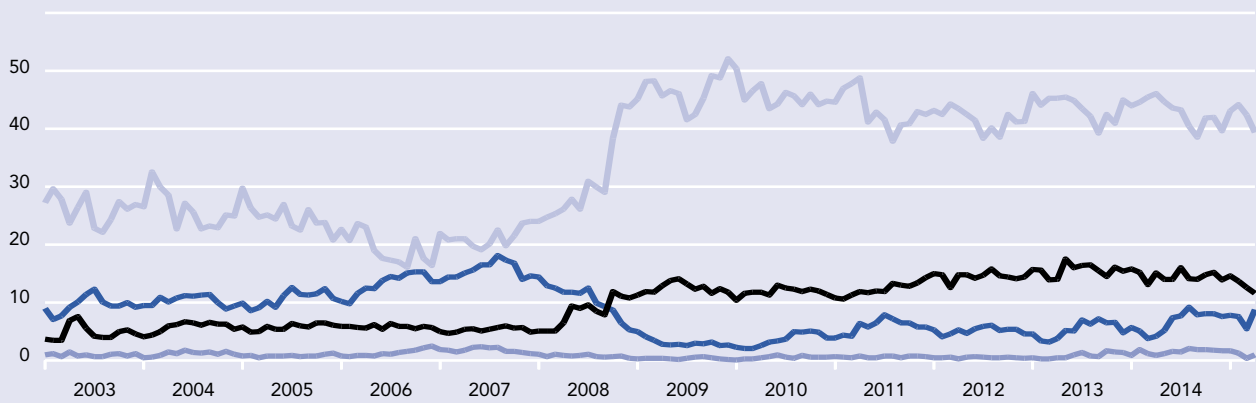
**Figure 1 Factors limiting production/activity in non-financial sectors in the EU, 2003-2015<sup>24</sup>**

■ insufficient demand ■ shortage of material/equipment ■ labour shortage ■ financial constraints

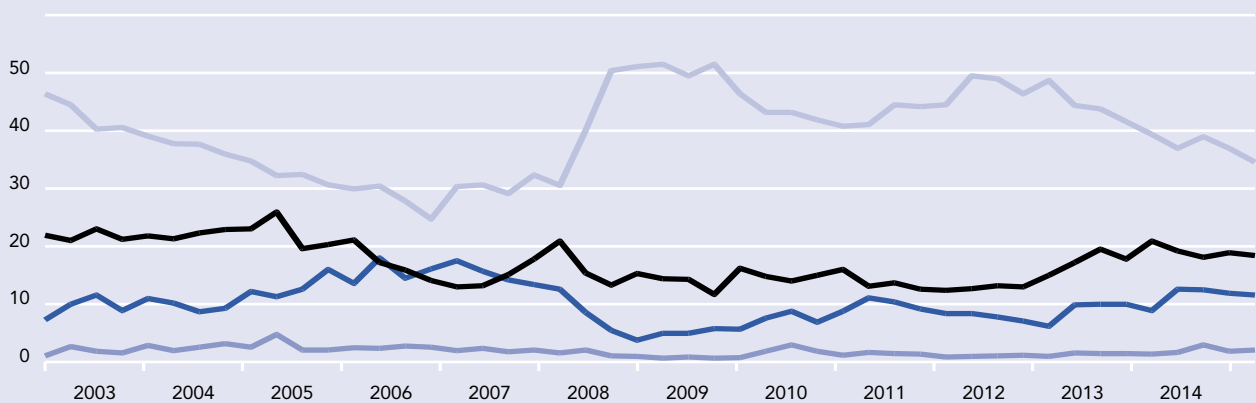
**Manufacturing**



**Construction**



**Services**



statements. This makes securitising SME loans costly and cumbersome. It is therefore unlikely to be a profitable activity for a bank, unless it is publicly subsidised.<sup>23</sup> Moreover, at the moment European banks tend not to use SME loan securitisation to 'free up' their balance sheets to lend more. The securities that are created are 'retained', rather than 'placed', which means that they are not sold to investors on the market. Instead the issuing banks keep them on their balance sheets and use them as collateral<sup>25</sup> to get money from the European Central Bank.<sup>26</sup>

Academic research on the connection between financial structure and economic growth casts further doubt on the Commission's promises. All economies combine bank- and market-finance, but they do so in different proportions, and that proportion is called 'financial structure'. A lively debate has been on-going about whether financial structure matters to economic growth, that is, whether having a more market-based financial system is preferable to a more bank-based one (or the other way round), or whether financial structure does not matter to growth as long as a country has a well-developed and efficient financial system. The Commission seems to assume that more market-based finance is better for growth, but this view is not supported by the literature.<sup>27</sup>

These doubts about the promised growth effects raise the questions about the officially stated motives and what the real drivers of the CMU project (see also Section 2.3). With regard to securitisation in particular there are reasons to believe that the CMU will not really stimulate SME lending through loan securitisation, but will stimulate securitisation of all kinds of assets, not least mortgage loans. Figure 2 shows that the overall level of outstanding securitisations

remains high compared to pre-crisis levels. Moreover, they show that SME loan securitisations have indeed decreased after the crisis, but also that SME securitisations represent only a relatively small share of all securitisations. Mortgage loan securitisations are the most important part and their decrease accordingly explains most of the decrease of the overall stock. Any measure taken to stimulate securitisation issuance is therefore likely to affect mortgage securitisations more than SME securitisation.<sup>28</sup>

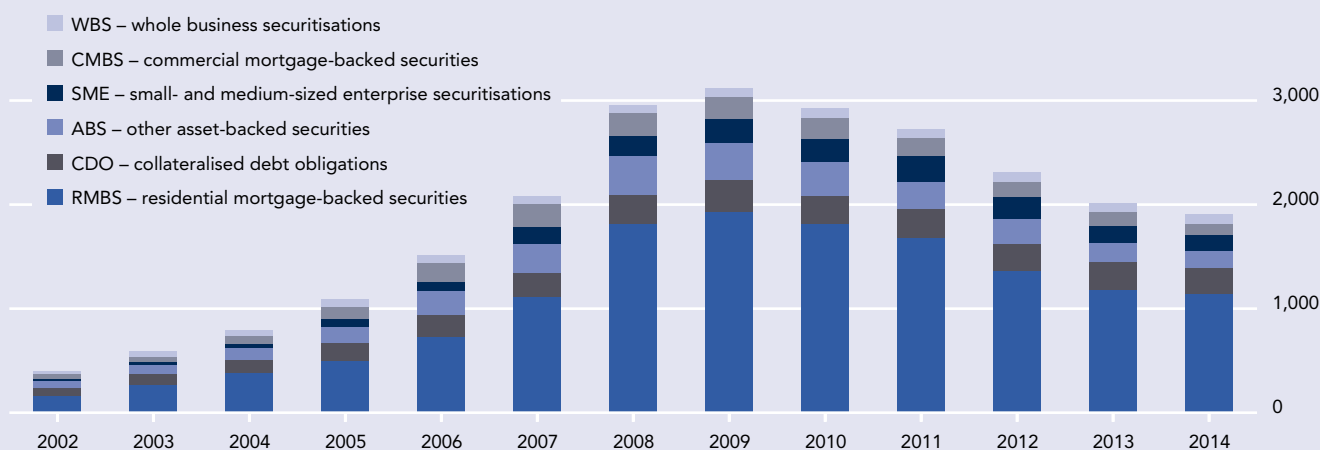
As for the possibility of SMEs accessing capital markets directly through share or bond issuance: this also seems unlikely because this would require considerable preparatory work, such as creating a detailed prospectus to inform potential investors, registration with relevant authorities etc. In most cases, such efforts are not warranted for businesses of this size. Moreover, SMEs, especially family-owned ones, often prefer debt capital to shares because they do not want to share control over the company with other shareholders.

## 2.2 Exacerbating financial and economic risks

### 2.2.1 Systemic risks in the financial sector and the Commission's refusal to learn from the crisis

A 2012 report on trends in the financial system concluded that 'total financial assets are nearly 10 times the value of the global output of all goods and services', and that 'markets will generally continue to grapple with an environment of capital superabundance'. The report warned that large financial flows create excess capital in some places, while cutting off access in others where risk premiums are too high. This increases the risk of 'asset bubbles, which have moved from being relatively isolated events to

Figure 2 European securitisation outstanding<sup>30</sup> (in US\$ billions)



system-shaking crises claiming trillions of dollars in losses'.<sup>29</sup> In the current financial environment investors flush with cash are inclined to invest short term searching globally for the promises a return.

Loan securitisations are the kind of instruments that played an important role in the 2008 financial crisis. This alone is cause for concern about systemic risk and financial instability, but in this financial environment the inherent risks of loan securitisation are further amplified. The Commission seems aware of the issues, and the Green Paper solicits input on how to make securitisation 'simple, transparent and standardised'. However, so far the Commission has failed to rule out the 'tranching' of loans, a technique that creates opacity, not transparency.<sup>31</sup>

There are also concerns that stimulating securitisation will contribute to the growth of shadow banking, a less regulated or unregulated, but sizable, niche of the financial system.<sup>32</sup> The financial markets and institutions that make up this sector perform regular banking functions like lending, but do so outside of the traditionally regulated banking sector. However, that does not mean that shadow banking is unconnected to the non-shadow part of finance. Shadow banking adds considerably to the complexity, opacity and risk in the financial system as a whole and played an important role in the 2008 financial crisis. Moreover, because a large part of the shadow banking system is legally based in offshore financial centres (i.e. tax havens) it has been linked to large-scale tax avoidance. The so-called special purpose vehicles (SPVs) that are created by banks to securitise loans are important players in the shadow banking sector. Unless the risks that emanate from it are taken care of – which has not happened yet<sup>33</sup> – stimulating securitisation is therefore also likely to stimulate the build-up of systemic risk in the shadow sector.

Interestingly, the approach towards securitisation and shadow banking taken by the Commission in the Green Paper on CMU differs from its own approach in the 2012 Green Paper on Shadow Banking.<sup>34</sup> Whereas the latter focused on tighter regulation of shadow banking activities in order to reduce the risks associated with them, the emphasis is now shifted towards facilitating such activities. The term 'shadow banking' has been replaced by the more acceptable sounding 'market-based finance'.<sup>35</sup>

Historical experience provides additional reasons to be sceptical. Prior to the crisis, a belief in the manageability of complex financial markets and the beneficial effects of innovative financial instruments was widespread, and this thinking still appears to guide the CMU proposals.<sup>36</sup>

Indeed, the Commission appears to adhere to a one-sidedly optimistic view of the functioning of capital markets that is

oblivious to the risks that emanate from them. This thinking pervades both the Green Paper and staff working document, but is most clearly seen in Section 2 of the latter. It presents a rose-tinted, textbook view of financial markets in which they appear as wholly beneficial to the economy. Obstacles to their proper functioning can then only come in the form of exogenous constraints, often of a regulatory nature. For example, capital markets are credited with fulfilling the function of asset valuation and price discovery, ignoring that these markets are also characterised by herd behaviour, which leads to mispricing and swings that are not justified by fundamental economic data. The Commission, it appears, has failed to learn the lessons from the financial crisis, especially lessons about systemic risk. This may partly explain why concerns over financial stability and other risks related to market finance are treated so nonchalantly.

The Commission's failure to acknowledge systemic risk in the financial sector stands in stark contrast to the keen awareness found in the pronouncements of other international bodies. The Outcome Document of the United Nations' July 2015 Third International Conference on Financing for Development in Addis Ababa.<sup>37</sup> for instance, stresses the need 'to strengthen financial and economic stability' and 'dealing with risks from large and volatile capital flows' through 'macroprudential and, as appropriate, capital flow management measures' (paragraphs 104, 105). The European Commission would do well to take on board the document's pledges:

*'We commit to pursuing sound macroeconomic policies that contribute to global stability, equitable and sustainable growth and sustainable development, while strengthening our financial systems and economic institutions.'* (paragraph 105)

*'We will hasten completion of the reform agenda on financial market regulation, including assessing and if necessary reducing the systemic risks associated with shadow banking, markets for derivatives, securities lending, and repurchase agreements. We also commit to addressing the risk created by "too-big-to-fail" financial institutions, and addressing cross-border elements in effective resolution of troubled systemically important financial institutions.'* (paragraph 109)

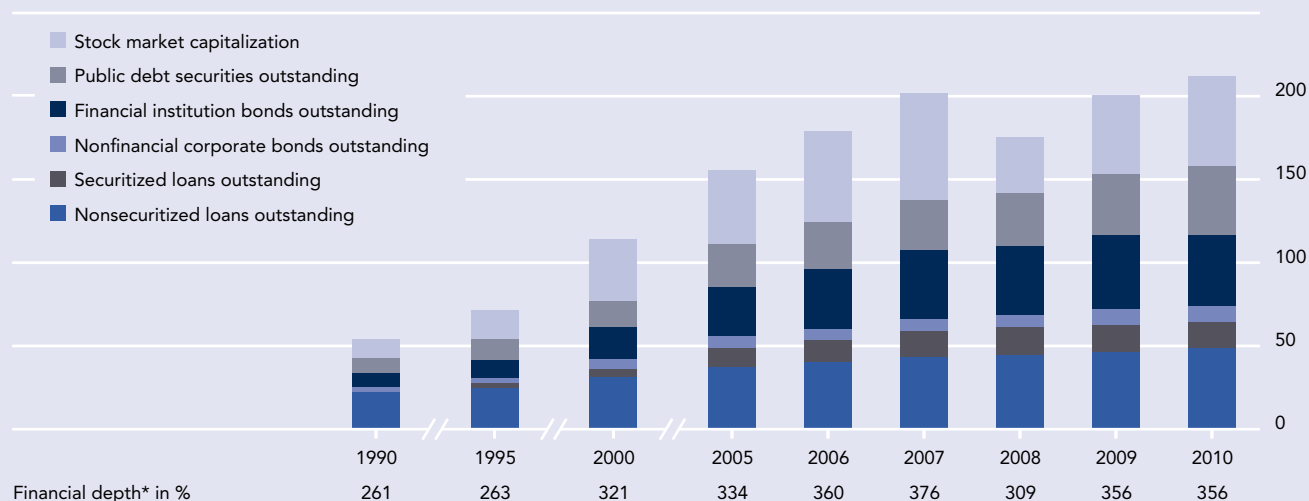
These worthy and important goals should also guide the Commission's work on financial regulation and reform – not the perceived trade-off between growth and financial stability.

## 2.2.2 Risks to economy and society

Apart from creating a more risk-prone financial sector, the implementation of CMU would also potentially create or exacerbate risks to the wider economy. Increasing reliance



**Figure 3 Global financial assets (in US\$ trillions) and financial depth<sup>38</sup> (as % of global GDP)**



Based on a sample of 79 countries.

\* Calculated as global debt and equity outstanding divided by global GDP.

on capital market financing exposes the economy to the volatility and pro-cyclicality that characterises these markets. These traits would be further amplified if tranching loan securities and related greater reliance on collateral were to create an even more interconnected financial system. The supply of bank loans may also be subject to fluctuations, but those are hardly of the same magnitude.

These problems are even more marked in the case of private financing for infrastructure investment, which the Commission intends to stimulate through measures that make such investment easier and financially more attractive.<sup>39</sup> Private portfolio flows are strongly pro-cyclical. Increasing reliance on them also increases exposure to the economic cycle, which, in times of down swings or crises, can make a bad situation even worse. Public finance, on the other hand, is in principle capable of compensating for cyclical funding shortfalls. This makes private financial flows a relatively unreliable source of funding for what are often long-term goals or projects.

Not just in the EU, but across the world, there is now virtual consensus that the construction or renewal of infrastructure facilities is a crucially important task for developing and developed countries alike, which requires huge financial resources.<sup>40</sup> There is also now a strong view that this task is too big for the public sector alone and that private sector actors need to be involved more, both at the level of constructing and operating facilities as well as in their financing. CMU is not about directly increasing the involvement of private companies in constructing and operating

infrastructure. It is about increasing capital market involvement in the financing of it as part of an agenda that aims to move infrastructures away from the public and more into the private sector. This can mean anything from public-private partnerships (PPPs) to full privatisation. In any case, it probably means that facilities will be run more or less along commercial lines, and that means either user fees (as in toll roads) or the government guaranteeing a predictable income stream to private providers.

The CMU is unlikely to boost GDP growth (see above), but it may well boost financial sector growth, especially in the capital markets. The richer countries have seen tremendous growth of the financial sector in the last two to three decades, especially of capital and other financial markets. Their economic importance – which is measured, for example, in terms of market capitalisation (the market value of all stocks on the market taken together) – as percentage of GDP, has generally increased. Figure 3 clearly demonstrates the growth of finance, both in absolute numbers and in relation to global GDP. It also shows that this growth was only briefly dented by the financial crisis, only to reach a new record in 2010.

There has also been an increase in the size and power of financial and other service providers whose business it is to keep the financial markets going and add more fuel to them, especially investment banks, rating agencies and the global accounting/consultancy firms. Moreover, share prices have become more important to large NFCs as a point of strategic orientation and measure of success, for example

by making CEO compensation dependent on the development of share prices. The shareholder value doctrine, according to which a company's most important goal is to increase the net worth of its shareholders, stands for this reorientation.<sup>41</sup>

These developments – which in recent years have been discussed under the rubric of financialisation<sup>42</sup> – have not been related to vigorous investment in the non-financial sector, nor to sustained GDP growth, but they are related to financial instability and frequent crises that have thrown entire societies into economic turmoil. At the most general level, one can therefore question the wisdom of increasing an over-sized market-focused financial sector whose net contribution to social and economic well-being is questionable.

### 2.3 The semi-hidden agenda of CMU

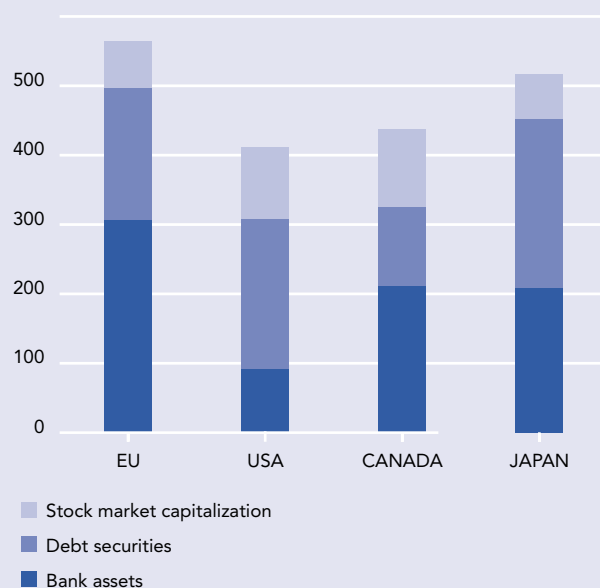
Among the many questionable arguments in the Commission's CMU proposal is what could be called the financial underdevelopment hypothesis. Both the Green Paper and the Staff Working Document claim that European capital markets are underdeveloped in comparison to their US counterparts. To support this, they point to the undisputed fact that financial structures differ between Europe and the US. Figures 4 and 5 show that bank finance plays a larger role in Europe than in the US, and that conversely capital market financing, especially financing through shares, is stronger in the US. Figure 4 shows this by expressing bank assets, share stock values and bond values as percentage of GDP, while Figure 5 looks more closely at the financing mix of non-financial corporations, i.e. how much they rely on loans, shares or other forms of financing.

The US shows higher ratios of capital market financing, which the Commission interprets as indication of underdeveloped capital markets in Europe, but these ratios can be interpreted in different ways. They could also indicate that US capital markets have grown too much and are in fact over-developed. Or they could simply reflect different cultures of doing business. Neither of these is inherently better or worse. Interestingly, the staff document does provide a glimpse of an alternative interpretation: 'Industry structure may provide some explanation to the observed differences between the EU and the US: e.g. there is a higher share of large firms in the US, which tend to rely on public capital markets more than smaller companies.'<sup>43</sup> Europe's capital market financing ratio may be lower because a larger share of its GDP is produced by firms that are not normally active on capital markets. Not because of regulatory structures but because their size makes non-market financing more economic. If SMEs are still the backbone of Europe's economy they cannot have done so badly despite their limited access to – or desire to access – market finance. However, alternative interpretations are not given due consideration.

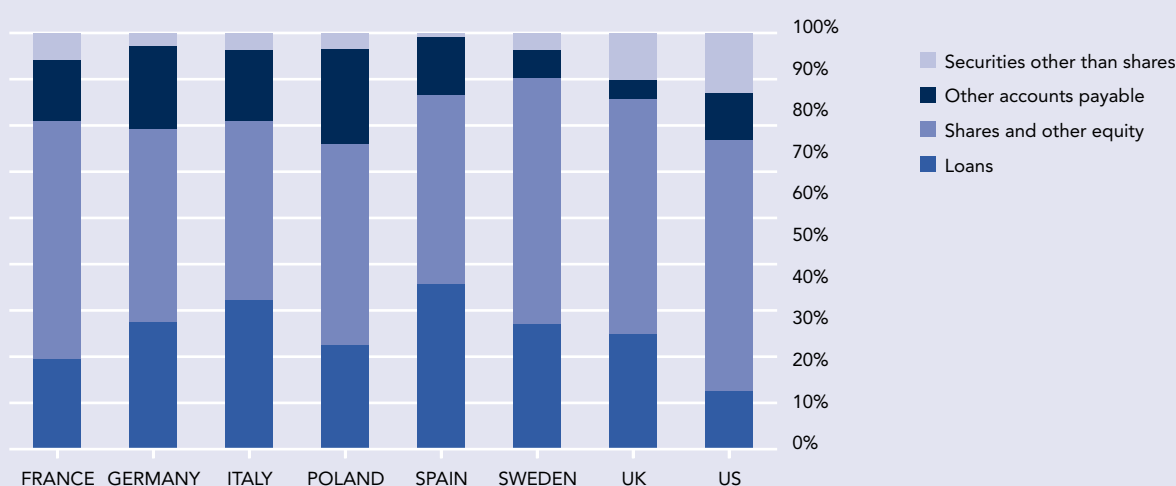
The Commission's constant reference to the needs of SMEs also seems rhetorical, especially because, as noted above, SMEs are not likely even to be significantly affected by the changes brought about under CMU.

Even if positive effects on growth were probable, they would still be a long way off because the legislative framework for CMU is only expected to be in place by 2019. Add to this the time it would take for such stimulus to have real consequences in terms of investment, and it might easily take about five years at least before any positive growth effects are felt. The fact that the concerns about growth and jobs are unlikely to be urgently addressed and the Commission compares the EC capital market structure with that of the US, reveals the Commission's pursuit of a more long-term agenda: the market-oriented restructuring of European financial systems. That this is in fact a goal has amongst others been clearly stated by the influential pro-CMU scholars Nicolas Véron and Guntram Wolff.<sup>44</sup> However, it has recently been denied by Commissioner Hill, who claims that CMU is not meant to displace banks, but complement them.<sup>45</sup> Hill's denial was probably motivated by critics who lamented what they saw as copying the Anglo-American model. However, the Staff Working Document is quite open about the wish to redirect a larger part of household savings towards capital markets rather than bank deposits.<sup>46</sup> Of course, banks would not disappear, but they would administer a shrinking share of the same pool of savings. At the same time, investment banks or investment banking branches of universal banks, will gain

**Figure 4 Banking sector and capital markets in EU and other jurisdictions<sup>47</sup>**  
(in % of GDP)



**Figure 5 Financing patterns of non-financial corporations<sup>48</sup> (2012)**



thanks to increased demand for underwriting services, advising investors and creating securitised or other capital market products. CMU would therefore entail an intra-sectoral shift of power and income towards the capital markets-focused branches of the banking industry.

## 2.4 Re-directing household savings into higher-risk investments

This shift towards capital market finance and more investment banking is closely connected to another intended, but not always openly declared, shift. As noted in Section 1.2.2, the Commission is also looking into ways of increasing the share of household savings that go to the capital markets rather than the credit system. There are entrenched preferences across many households regarding the use of their savings and widespread risk aversion. Given the fact that public pay-as-you-go pensions still also play an important, albeit diminishing role, in European pension systems,<sup>49</sup> the goal of redirecting household savings towards capital markets would require changing deeply rooted social patterns.

That is why the Commission brings up improving 'financial literacy' again, in the assumption that consumers who have a slightly better understanding of capital market instruments will invest in them more willingly, either directly or through an intermediary.<sup>50</sup> In practice, the really savvy investors will always understand and play the game a lot better than even the most 'financially literate' consumer, making the financial markets anything but a level playing field.-) If successful, such measures would lead to a reduction in the share of household savings administered by the banking system and public pension provision.

Savings accounts and public pensions may not be particularly lucrative, but they do not expose citizens and their pensions

to the risks and vagaries of financial markets. Moreover, by putting their money into funds that look for a maximum return on investment, citizens would contribute to the financialisation of the economy, which could potentially hurt their own interests in the long run.

## 2.5 Glaring omissions

The fact that CMU is unlikely to stimulate growth has the advantage of mitigating another flaw in the Commission's thinking: that it completely fails to mention that economic growth is not good per se, but only when it is socially and ecologically sustainable. In an age of man-made climate change and serious ecological challenges, and growing inequalities, this amounts to a mind-boggling sin of omission. Considerations of social and ecological sustainability are virtually absent from the Commission's discourse in the Green Paper. Some token consideration is given to green bonds and ESG investment (Environmental, Social, Corporate governance), but no meaningful action is proposed.<sup>51</sup> This raises the issue of policy coherence because the CMU proposal falls short of sustainability goals and standards that have become internationally recognised, such as the United Nations' Sustainable Development Goals.

The CMU Green Paper also fails to take into account, or even mention, possible impacts on non-European countries, despite the fact that the Commission has in theory committed itself to conducting economic, social and environmental impact assessments for all legislative proposals, initiatives or acts and also to include the international dimension, i.e. likely impacts on third countries.<sup>52</sup> These omissions contrast strongly with the detailed attention given to the concerns of the financial industry.

### 3 The policy process and the task of the opposition

CMU will not be implemented through one big directive, but rather as amendments to existing regulations and directives. Unfortunately, this will make it more difficult to follow and comment on the political process. By August 2015, Commissioner Hill had identified some areas for concrete legislative proposals.<sup>53</sup> These are:

- A 'comprehensive package on securitisation'. This will set out the framework for 'simple, transparent and standardised' securities. It will also include amending the Solvency II framework for insurers<sup>54</sup> as well as the Capital Requirements Regulation (CRR),<sup>55</sup> with the aim of lightening the capital requirements for qualifying securities and thus make investing in them more attractive.
- Integrate a definition of infrastructure as an asset class for insurers into Solvency II to entice them to invest more in long-term assets. Investments into ELTIFs (see Section 1.2.1 above) are also to be included in Solvency II. There will probably also be changes to the capital requirements for investments into infrastructure to make them more attractive.
- Proposals for a review of the Prospectus Directive.<sup>56</sup> These will aim at reducing the administrative and financial effort associated with drawing up a prospectus, a document that is legally required of companies that want to list shares or bonds on an exchange. It will probably suggest to introduce exemptions from this requirement, or a slimmed-down version of it, for certain companies, including SMEs.
- A Green Paper on retail financial services later in 2015 will discuss ways of enticing citizens to invest more in the stock market and make it easier for them to buy investment products across national borders. It will also outline more stringent consumer protection requirements to increase their confidence in capital market products.

The Commission also announced to have a more concrete plan for legislative action on CMU out by 30 September 2015. This will set out the legislative agenda for the next four years. Apart from the areas just mentioned it will also outline actions that aim at removing obstacles to cross-border investment, especially the existing national differences in areas like taxation and insolvency law, as well as supervision.

### Conclusion

The CMU is not likely to stimulate growth and investment (let alone sustainable growth), but it will stimulate investment banking and other capital market business, make the financial system riskier, and increase the risks for the wider economy, society and individual consumers. It is also likely to contribute to the economically and socially harmful financialisation of our economies. Ultimately, it increases the power of capital by increasing its mobility and fluidity. After all, financial globalisation is a key part of globalisation, which has done so much in recent decades to shift the balance of forces to the detriment of labour and people power.

Therefore social movement activists, NGOs, trade unions and everyone who is interested should follow the CMU process and voice their fundamental and principled opposition to it whenever the opportunity arises. However, it is clear that the Commission has already made up its mind about the desirability of CMU, and that the financial industry has strong support from Commissioner Jonathan Hill who seems much less inclined to listen to more critical views.<sup>57</sup> As a result there is now considerable momentum for CMU to go ahead, which makes it difficult to create widespread popular resistance on such a technical topic. Interventions that target specific points should therefore also be considered, for example where it seems possible to create significant public attention and pressure at the national level through parliamentary questions, debates and the like.<sup>58</sup>

The Commission has failed to set out a progressive and convincing way forward for European economies and societies. Such an agenda would have to rest on the following pillars:

- Stimulate demand, not credit supply, to foster economic growth in the short term.
- Growth is not an end in itself. It must create decent jobs, be ecologically sensible and reduce social inequalities.
- Stimulate investment in infrastructure facilities that are needed to move Europe towards a renewable energy system as well as facilities to cope with the increased requirement for care services in European societies. Where private sector providers or financiers come in, safeguards must be in place to ensure that the public is not saddled with all the risks while private businesses take away all the gains.
- Instead of trying to shift the European financial system towards market finance, measures must be taken to ensure that it is up to the task of channelling resources towards a socially just and ecologically sensible transformation. This requires shrinking an already bloated financial sector, especially the financial markets, and reducing systemic risks, financial pro-cyclicality and the risks posed by financial instability to the wider economy and society.

## Endnotes

- 1 See [http://ec.europa.eu/priorities/docs/pg\\_en.pdf](http://ec.europa.eu/priorities/docs/pg_en.pdf)
- 2 See [http://ec.europa.eu/internal\\_market/conferences/2014/1106-finance-growth/index\\_en.htm](http://ec.europa.eu/internal_market/conferences/2014/1106-finance-growth/index_en.htm)
- 3 For the Green Paper: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52015DC0063>. For the Staff Working Document: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52015SC0013>.
- 4 Consultation documents and responses (together with some very revealing statistics about the composition of respondents) can be accessed here: [http://ec.europa.eu/finance/consultations/2015/capital-markets-union/index\\_en.htm](http://ec.europa.eu/finance/consultations/2015/capital-markets-union/index_en.htm).
- 5 This refers to shares or bonds of a company that are not issued or traded on an exchange (i.e. 'publicly' listed/traded). Instead they are sold directly to a select group of (usually large) investors.
- 6 Individuals who want to invest their savings usually do not do so directly on the stock or bond markets. They use the services of investment funds, large pools of money that are professionally managed to achieve the optimal return for the savers.
- 7 According to the Commission's definition an SME has between 10 and 250 employees ([http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm)).
- 8 Green Paper: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52015DC0063>
- 9 See Green Paper, p. 24.
- 10 See for example his speech 'Finance at your service – capital markets union as an instrument of sustainable growth,' Brussels 4 February 2015 ([http://europa.eu/rapid/press-release\\_SPEECH-15-4144\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-15-4144_en.htm)).
- 11 See [http://europa.eu/rapid/press-release\\_IP-14-320\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-14-320_en.htm?locale=en)
- 12 See [http://ec.europa.eu/finance/investment/long-term/index\\_en.htm](http://ec.europa.eu/finance/investment/long-term/index_en.htm)
- 13 This is not a comprehensive list of the market-making measures envisaged by the European Commission. See Green Paper pp. 13-27 for more.
- 14 Staff paper, p. 28: The 10 per cent of private households' financial assets that are invested directly in bonds and shares are invested without the intermediation of some form of asset management fund. The remaining 15 per cent are not explained there.
- 15 Green Paper, p. 17.
- 16 See [http://ec.europa.eu/finance/pensions/iorp/index\\_en.htm](http://ec.europa.eu/finance/pensions/iorp/index_en.htm); [http://europa.eu/rapid/press-release\\_MEMO-14-239\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-239_en.htm). For information on the on-going discussion: <http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2014/0091%28COD%29&l=en>: vote in European Parliament (ECON committee) foreseen in December 2015.
- 17 In reality, securitisation is more complex than that. A good explanation can be found in Finance Watch, 'A missed opportunity to revive 'boring' finance?,' December 2014, pp. 29-34 (<http://www.finance-watch.org/iframe/Publications/Reports/FW-report-LTF-dec-2014.pdf>).
- 18 There was a separate but connected public consultation on securitisation: [http://ec.europa.eu/finance/consultations/2015/securitisation/index\\_en.htm](http://ec.europa.eu/finance/consultations/2015/securitisation/index_en.htm).
- 19 For further information please consult Corporate Watch's guide 'Demystifying the Financial Sector: A Nuts & Bolts Guide', <https://corporatwatch.org/publications/2012/demystifying-financial-sector-nuts-and-bolts-guide>, February 2012.
- 20 See for example IMF, "World Economic Outlook," April 2015, chap. 4; or OECD, "Interim Economic Assessment," 18 March 2015, esp. p. 4 ([www.oecd.org/eco/outlook/Interim-Assessment-Handout-Mar-2015.pdf](http://www.oecd.org/eco/outlook/Interim-Assessment-Handout-Mar-2015.pdf)).
- 21 European Central Bank, "Survey on the access to finance of enterprises in the euro area: October 2014 to March 2015," June 2015, p. 3 ([https://www.ecb.europa.eu/pub/pdf/other/SAFE\\_website\\_report\\_2014H2.en.pdf?0b8b95ddc52c86145f91c8d2a566e3f8](https://www.ecb.europa.eu/pub/pdf/other/SAFE_website_report_2014H2.en.pdf?0b8b95ddc52c86145f91c8d2a566e3f8)).
- 22 There is an impressive body of literature from a broad range of economists, which suggests that the growth and increasing importance of the financial sector (and capital markets in particular) in recent decades is negatively related to investment, innovation and growth. Just a few examples: Magdoff, Harry/Sweezy, Paul, "Stagnation and the Financial Explosion," New York: Monthly Review Press, 1987; Van Treeck, Till/Hein, Eckhard/Dünhaupt, Petra, "Finanzsystem und wirtschaftliche Entwicklung: Tendenzen in den USA und in Deutschland aus makroökonomischer Perspektive," IMK Studies, Nr. 05/2007; Cecchetti, Stephen/Kharroubi, Enisse (2015): "Why does financial growth crowd out real economic growth?," BIS Working Paper No. 490, February 2015.
- 23 Finance Watch, "A missed opportunity to revive boring finance?," 2014, pp. 19-20 (<http://www.finance-watch.org/iframe/Publications/Reports/FW-report-LTF-dec-2014.pdf>).
- 24 Source: Responses to the European Commission's regular (monthly or quarterly) business surveys. Percentage of respondents who confirm that the respective factor limits their production/activity. Time series not seasonally adjusted. Categories 'none' and 'other' are not included here. Time span covered is 2003Q1 for manufacturing, 2003M1 for construction, and 2003Q3 for services until most recent quarter or month in 2015 for which data was available in May 2015.
- 25 An asset 'pledged' by a borrower to provide security to the lender. In case of default, the latter has a right to seize the pledged asset
- 26 Véron, Nicolas/Wolff, Guntram, "Capital Markets Union: A vision for the long term," Bruegel Policy Contribution 2015/05, April 2015 (<http://www.bruegel.org/publications/publication-detail/publication/878-capital-markets-union-a-vision-for-the-long-term/>), p. 7. Véron/Wolff support CMU.
- 27 The argument is not decided yet, but it is clear that proponents of market finance cannot draw on it for support. See Beck, Thorsten/Levine, Ross, "Industry growth and capital allocation: does having a market- or bank-based system matter?," Journal of Financial Economics 64, 2002, p. 147-180; Hein, Eckhard, "Finanzstruktur und Wirtschaftswachstum. Theoretische und empirische Aspekte," IMK Studies 1/2005; Gambacorta, Leonardo/Yang, Jing/Tsatsaronis, Kostas, "Financial structure and growth," BIS Quarterly Review, March 2014.
- 28 See Engelen, Ewald (forthcoming), "How Shadow Banking became Non-Bank Finance: Blame the Conjuncture," Review of International Political Economy.
- 29 Harris, Karen/Schwedel, Andrew/Kim, Austin, "A world awash in money: Capital trends through 2020," Bain Report, November 2012.



- 30 Source: Bank of England, "A European Capital Markets Union: implications for growth and stability," Financial Stability Paper No. 33, February 2015 ([http://www.bankofengland.co.uk/financialstability/Documents/fpc/fspapers/fs\\_paper33.pdf](http://www.bankofengland.co.uk/financialstability/Documents/fpc/fspapers/fs_paper33.pdf)).
- 31 Tranching means that the securitising institution sells more than just one type of security that is backed by the underlying pool of loans. The various tranches differ in terms of their riskiness. The one with the lowest investment rating, which is the most profitable, is also the most risky investment because it is the first to suffer losses in case the interest payments and repayments on the underlying loans falter. The highest, so-called senior tranches, on the other hand, enjoy excellent credit rating and can therefore also be purchased by risk-averse investors. This adds another layer of complexity and partly explains why these instruments proved so toxic in 2008.
- 32 Gabor, Daniela/Vestergaard, Jakob, "Capital markets union: The systemic issues buried deep in the market's infrastructure plans," Foundation for European Progressive Studies, Policy Brief April 2015, <http://www.feps-europe.eu/assets/5bde9495-c510-4609-a94e-a7a1b665c4d4/cmu-brief-gabor-vestegaard-marketsinfrastructure-formattedd.pdf>; Fernandez, Rodrigo, "Shadow banking and European offshore financial centres: the blind spot in EU policy debates," Foundation for European Progressive Studies, Policy Brief April 2015, <http://www.feps-europe.eu/assets/f5e0182c-647d-4fbf-bcda-a9e6e0414fca/cmu-brief-fernandez-formattedd.pdf>.
- 33 For some of the reasons behind this, see Henn, Markus, "Financial lobby puts down shadow banking regulation," 2014, <http://www.somo.nl/dossiers-en/sectors/financial/eu-financial-reforms/newsletter-items/issue-23-march-2014/financial-lobby-puts-down-shadow-banking-regulation>.
- 34 See [http://ec.europa.eu/internal\\_market/bank/docs/shadow/green-paper\\_en.pdf](http://ec.europa.eu/internal_market/bank/docs/shadow/green-paper_en.pdf).
- 35 See Engelen (forthcoming), as in footnote 25.
- 36 One example: Prior to the crisis, the argument was often heard that securitisation and tranching in particular would contribute to a safer financial system because they would spread the risks inherent in any loan across the financial system and ensure that the risks are borne by those actors who are best able to bear it. More risk-averse investors such as pension funds could buy the senior tranches, while those with a higher risk appetite, say hedge funds, could buy the riskier and more profitable tranches. However, it turned out that spreading risk did not make it disappear; instead it infected the system in its entirety, sparing no one from the financial fallout.
- 37 See [http://www.un.org/ga/search/view\\_doc.asp?symbol=A/CONF.227/L.1](http://www.un.org/ga/search/view_doc.asp?symbol=A/CONF.227/L.1)
- 38 Source: Roxburgh, Charles/Lund, Susan/Piotrowski, John, "Mapping Global Capital Markets," McKinsey Global Institute, 2011 ([http://www.mckinsey.com/insights/global\\_capital\\_markets/mapping\\_global\\_capital\\_markets\\_2011](http://www.mckinsey.com/insights/global_capital_markets/mapping_global_capital_markets_2011)).
- 39 One such proposal by the Commission is the 'tailored treatment' of infrastructure investments by insurers and banks with regard to their capital requirements (see Green Paper, p. 17).
- 40 For just one of many examples see the OECD's position on <http://www.oecd.org/investment/fostering-infrastructure-investment.htm>.
- 41 See for example: Aglietta, Michel/Rebérioux, Antoine, "Corporate Governance Adrift: A Critique of Shareholder Value" (Cheltenham: Edward Elgar, 2005); Lazonick, William/O'Sullivan, Mary, "Maximizing shareholder value: a new ideology for corporate governance," *Economy and Society*, 2000, 29(1), pp. 13-35; Froud, Julie/Haslam, Colin/Johal, Sukhdev/Williams, Karel, "Shareholder value and Financialization: consultancy promises, management moves," *Economy and Society*, 2000, 29(1), pp. 80-110.
- 42 See for example: Krippner, Greta, "The financialization of the American economy," *Socio-Economic Review*, 2005, 3(2), pp. 173-208; Boyer, Robert, "Is a Finance-led growth regime a viable alternative to Fordism? A preliminary analysis," *Economy and Society*, 2000, 29(1), pp. 111-145; Lapavistas, Costas, "Profiting Without Producing: How Finance Exploits Us All (London/New York: Verso, 2013); Stockhammer, Engelbert, "Financialization, income distribution and the crisis," *Investigación Económica*, 2012, 71(279), pp. 39-70.
- 43 Staff Working Document, p. 22.
- 44 See their 2015 paper on CMU.
- 45 Hill, Jonathan, "Presentation of Green Paper on Capital Markets Union," Brussels 24 February 2015 ([http://europa.eu/rapid/press-release\\_SPEECH-15-4494\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-15-4494_en.htm)).
- 46 Staff Working Document, pp. 28-31.
- 47 Source: Staff Working Document, p. 11. Sadly, neither year nor a further breakdown of the data are provided.
- 48 Source: OECD National Accounts Statistics (Financial balance sheets – non-consolidated, annual). 'Shares and other equity' includes quoted and unquoted shares as well as 'other equity'.
- 49 In a pay-as-you-go pension plan, current payments to beneficiaries are financed directly from the current contributions to the plan. The money is therefore neither saved nor invested; it bypasses the financial system.
- 50 Green Paper, p. 20.
- 51 Green Paper, p. 15-16.
- 52 See e.g. [http://ec.europa.eu/smart-regulation/impact/index\\_en.htm](http://ec.europa.eu/smart-regulation/impact/index_en.htm).
- 53 Hill, Jonathan, "Next Steps to Build a Capital Markets Union," Brussels, 8 June 2015 ([http://europa.eu/rapid/press-release\\_SPEECH-15-5137\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-15-5137_en.htm)).
- 54 For more information on Solvency II: [http://ec.europa.eu/finance/insurance/solvency/solvency2/index\\_en.htm](http://ec.europa.eu/finance/insurance/solvency/solvency2/index_en.htm).
- 55 For more information on CRR: [http://ec.europa.eu/finance/bank/regcapital/legislation-in-force/index\\_en.htm](http://ec.europa.eu/finance/bank/regcapital/legislation-in-force/index_en.htm).
- 56 For more information on the Prospectus Directive: [http://ec.europa.eu/finance/securities/prospectus/index\\_en.htm](http://ec.europa.eu/finance/securities/prospectus/index_en.htm).
- 57 For instance, the way questions were asked at the public consultation on CMU was obviously directed at representatives from the capital market-oriented sections of the financial industry who were given the opportunity to express their wishes and desires for the new project..
- 58 More detailed analyses and recommendations on, for example, standards for securitisation can be found on the Finance Watch website here <http://www.finance-watch.org/our-work/dossiers?fid=175>. See also their July 2015 webinar on securitisation (<http://www.finance-watch.org/hot-topics/webinars>).

## Colophon

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