



CAPITAL MARKETS

The Capital Markets Union

by **David Williams**

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9th April 2015 | by David Williams

The European Commission (the Commission) recently launched a consultation process on a Capital Markets Union (CMU). The CMU is a plan to create deeper and more integrated capital markets in the 28 EU Member States.

One of the primary aims of the CMU is to provide businesses with easier access to diverse sources of funding or capital from anywhere in the EU, instead of being heavily reliant on bank funding, which is the current situation. In addition to diversifying the available sources of finance, the Commission is looking to boost growth, attract investment and remove barriers to cross-border investment whilst ensuring an effective level of consumer and investor protection. A CMU should also encourage growth in the securitisation market, an area that has been slow to recover from the financial crisis.

The Commission's consultation process has been launched with the publication of a Green Paper, which is intended to stimulate debate, and the feedback received from interested parties and stakeholders will be distilled into official proposals. The Commission has also launched another consultation in conjunction with the Green Paper on the creation of a high-quality securitisation market. And finally, the Department of Finance in Ireland has also initiated a related consultation process. These are discussed in more detail below.

1. Green Paper on building a CMU

The Commission's [Green Paper](#) is entitled "Building a Capital Markets Union". The Commission is proposing a single market for capital which it hopes will be to the benefit of investors, companies (Small Medium-sized Enterprises (SMEs) in particular) and the entire financial system by increasing stability.

The Green Paper focuses on a number of different areas on which the Commission is seeking the feedback of interested parties. The Green Paper outlines the following short-term priority actions for the CMU:

- Lowering barriers to accessing capital markets.
- Widening the investor base for SMEs.
- Building sustainable securitisation.
- Boosting Long Term Investment by way of the European Long-Term Investment Funds (ELTIFs) regulatory framework. ELTIFs allow investment in companies and projects requiring long-term capital. ELTIFs are managed by an Alternative Investment Fund Manager and are aimed at increasing non-bank finance across the EU.
- Development of the European private placement markets to enhance finance options.

The Green Paper also takes a more long term view and indicates that in the future the Commission will look at proposals for high quality securitisations, review the Prospectus Directive and continue its focus on SMEs by making SMEs easier to invest in.

Responses to the Green Paper should be received by the Commission by 13 May 2015.

2. Consultation Document: An EU framework for simple, transparent and standardised securitisation.

The Commission published a consultation document in conjunction with the Green Paper entitled "[An EU framework for simple, transparent and standardised securitisation](#)" (the Consultation Document). The purpose of the Consultation Document is to seek industry feedback on a number of proposals for improving European securitisations.

One of the main proposals of the Consultation Document is the creation of a high quality securitisation market. Such securitisations are described in the Consultation Document as being "simple, standard and transparent" in terms of creation of the securitisation and the underlying credit quality of the assets involved. In order to develop high quality securitisations, the Consultation Document proposes eligibility criteria to identify sound instruments for securitisation followed by an adjustment of the regulatory framework to produce a more risk-sensitive approach.

Among the other areas being discussed in the Consultation Document are:

the possible development of short-term securitisations;
the possible alternatives to credit ratings as assurances on asset quality and risk management; and
structural barriers which prevent long-term institutional investors from participating in the securitisation market.

Responses to the Consultation Document are sought by 13 May 2015.

3. Department of Finance Consultation on European Commission Green Paper on Capital Markets Union

The Irish Department of Finance has also invited submissions on the CMU, the Green Paper and the potential impact for Ireland of the CMU. The Department of Finance consultation will be used to assist the Department in preparing their response to the Green Paper. The Department of Finance has set out a number of sample questions of interest which include questions on:

- potential opportunities for Ireland resulting from a high quality securitisation market;
- possible changes to the current Prospectus regime to encourage SMEs to issue debt on the capital markets;
- how equity markets could assist in financing Irish SMEs;
- how the European private placement market could be developed to make it more attractive; and
- what should represent appropriate regulation for crowdfunding initiatives with an option to passport regulated initiatives across the EU.

The Department of Finance is looking for responses to its consultation by 21 April 2015.

If you would like further information on the proposals for a Capital Markets Union, please contact David Williams at dwilliams@kshields.ie.

About the Author



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