

TETRALERT – CORPORATE

THE PREMISES FOR A TRUE CAPITAL MARKETS UNION IN THE EUROPEAN UNION

The free movement of capital is one of the fundamental principles that, since 1957, have governed construction of the European Union. In spite of various initiatives and developments in financial law,¹ the free movement of capital within the European Union still has not been fully achieved: the capital markets are still characterised by serious fragmentation and continue to be organised along national lines.

Therefore, on 18 February this year, in the framework of its investment plan, which is intended to encourage employment and growth in Europe,² the European Commission (the “**Commission**”) officially launched a project aimed at creating a single capital market covering all of the 28 Member States.

I. CONTEXT

At the present time, the context in relation to finance remains a difficult one for European businesses, especially SMEs.

SMEs are still mainly financed by credit institutions and, to a lesser degree, the capital

markets. This dependence on banks makes the European economy vulnerable, particularly in the event of a tightening of bank credit.

Furthermore, investor confidence levels are insufficient and the enormous level of savings in Europe is probably still not being used wisely.

Because the capital markets are the principal mechanism by which potential investors and businesses looking for finance can meet and because they represent a very important source of finance, their European harmonisation would allow diversification of the economy’s methods of finance and reduce the cost of capital (particularly for SMEs).

II. OBJECTIVES

The objectives of the single capital market that the Commission is looking for are as follows:

- to free up liquidity in order to put it to work for European businesses, especially SMEs;
- to improve and facilitate access to finance, including venture capital, for all

¹ The legislation on markets in financial instruments (MiFID II), market abuse (MAR/CSMAD), alternative investment fund managers (the AIFM Directive), the infrastructure of European financial markets (EMIR) and central securities depositories (CSDs).

² Communication by the European Commission of 26 November 2014 to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, COM (2014) 903.



European businesses and all infrastructure projects;

- to broaden the range of investors accessible to SMEs;
- to set up a true single capital market in the EU, allowing investors to freely invest their funds abroad and allowing businesses to mobilise the funds they need from a broad range of sources, regardless of their location.

The creation of such a capital markets union has the wider ambition of boosting growth in all the Member States and developing investment without pushing up levels of indebtedness.

III. IMPLEMENTATION

To achieve these objectives, the Commission has laid out the essential step that needs to be taken.

First, before setting down an action plan, the Commission has decided to put in place a three-month consultation round, called a Green Paper.³ This sets out the overall objectives, the stakes and the principles on which capital markets union is based, together with the various steps necessary for achieving it. It also poses questions to the various players and parties concerned, whose responses, expected by 13 May 2015, will feed into the debate on the essential measures for setting up a true single capital market.

The Green Paper is also aimed at gathering opinions on the means for reducing the cost of creating and marketing investment funds in the European Union, how to promote the development of venture capital and investment capital, and the utility of taking targeted measures in the field of company law, insolvency law and securities law.

Thereafter, setting up a capital markets union will, in the Commission's view, require revision of the Prospectus Directive in order to make it easier for businesses to raise capital whilst ensuring effective investor protection, on the one hand, and creation of a stable securitisations market, on the other. Two complementary consultation procedures, which should not be overlooked, are also now being launched in this regard.

Finally, after gathering comments from the European Parliament and the Council, the other EU institutions, national parliaments, business, the financial sector and all interested parties, the Commission will set out a road map and specific timetable for setting in place, by 2019, the constituent elements of a capital markets union.

So, watch this space.

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³ Green Paper: Building a Capital Markets Union, COM(2015) 63, 18 February 2015.



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