Recapitalising EU companies - An innovative way towards sustained and inclusive recovery

Equity funding. Policy framework and challenges

- Dear EESC members and participant, thank you for inviting me today to speak about the policy framework and challenges to the equity funding.
- Speaking as a member of the CMU team within Commission's DG FISMA, I will start by saying why capital markets union is important for recapitalising EU companies.
- In the face of geopolitical tensions, making Europe stronger on the global stage has become a top priority. This will make the EU more resilient to future shocks – whatever they might be and wherever they might originate.
- CMU is essential if we are serious about delivering on our economic policy objectives: to recover from the recent shocks, mobilise the enormous investment required to tackle the climate and environmental challenges and support the digitalisation of our companies, so they remain competitive globally.
- By fostering cross-border investments and mobilising private capital for the benefit of European companies, the CMU supports economic growth as well as financial stability. In doing so, it contributes to deepening the Economic and Monetary Union and supports a stronger international role of the euro.

[Where do we stand?]

- The CMU project started in 2015 and, since then, the fundamental policy objectives have not changed despite Brexit, Covid and the energy price shock. We want companies of all sizes to have access to capital markets at all stages of their development. We want investors, in particular retail investors, to make the most of efficient capital markets and thus be equipped for their life projects. We want to grow national capital markets and integrate them in a large and efficient single market for capital.

- The Commission periodically assesses progress on the CMU against a set of benchmarks and indicators. The most recent figures send a positive message, and show – among others – the increases in IPOs, private equity, venture capital and insurers' holdings of equity that materialised in 2021.

- It also seems that the CMU has led to a structural change in the way the EU economy is being financed as well as in the EU investors' behavioural pattern (e.g. continuously reduced home-bias in equity investment, shift from bank lending to bonds in corporate funding) that allowed the EU – among other factors – to better weather the most acute period of the Covid crisis (also compared to the previous crises).

- That said, the ongoing geopolitical and macroeconomic challenges that Europe is facing call for stepping up our efforts and ambitions to make sure this positive trend persists and that, despite bumps on the road, it remains positive over the longer term.

[The 2020 Action Plan - examples]

- As to the current situation of equity funding in the EU and possible solutions to ease access to capital among EU companies, especially SMEs – the first 6 actions of our 2020 CMU Action Plan focus on measures to support a green, digital, inclusive and resilient economic recovery by making financing more accessible to companies

- Since the adoption of the 2020 CMU Action Plan, we have been relentlessly working on its implementation, and have already delivered 9 out of 16 actions. Seven legislative proposals are now being negotiated.

- These include the ambitious legislative proposals that the Commission tabled in 2021, with a focus on enhancing companies' access to finance at all stages of their development and address fragmentation in capital markets:
    - The proposal on a **European single access point** for companies' financial and sustainability data aims at making it easier for companies to attract investors. This will be particularly valuable to attract cross-border investors.
    - A second proposal aims at making the framework for **European long-term investment funds** more appealing for investors, helping companies in need of long-term financing, in particular of venture capital and private equity.
    - A third proposal seeks to harmonise in the **Alternative Investment Fund Directive** the rules around loan-originating funds (debt funds), in order to facilitate lending to the real economy.
    - Adjustments to the trading rules under the **markets in financial instruments regulation** aim at ensuring more transparency for all parties trading on capital markets including by creating a consolidated tape of trading data on secondary markets.
    - Moreover, prior to the November package, the Commission had proposed changes to capital requirements for banks (**Basel III** – in October) and insurance regulation (**Solvency II** –in September) that seek to align incentives for large investors, such as insurance companies and banks, to make long-term equity investments in companies.

- In addition, following the adoption of the InvestEU Regulation, we have been moving forward with the negotiations with the European Investment Fund (EIF) on the SME IPO Fund. As a reminder, the Fund will be managed by private fund managers and will target companies at pre-IPO, IPO and post-IPO stages to ensure they remain listed.

- The call for expression of interest of fund managers has been published mid-April and the EIF, together with the Commission is in the process of analysing the applications. It is an open call for expression and applications will be analysed on ongoing basis.

- The Fund should be seen as one of the steps that the EU will take to support SMEs' access to public markets.

[Outlook and next steps going forward]

- CMU is a long-term project. The Commission's ambition is to ensure that, by the end of its mandate in 2024, the development and integration of EU capital markets has improved tangibly, and that co-legislators will have adopted most of the measures the Commission proposed, while having considerably progressed on more structural issues.
- Let me sketch out for you how we will continue to deliver on the outstanding actions of the 2020 Action Plan. We still have some plans for the near future. Some of these measures may touch on national sensitivities.
- First, we will propose, still this year, an initiative on **corporate insolvency**. Insolvency is a complex structural and also politically sensitive issue that cross-border investors often name as a main cause of fragmentation. Our legislative proposal will seek to harmonise targeted aspects of the corporate insolvency framework and procedures to make it easier for cross-border investors to recover value in insolvency. It will also make insolvency proceedings less burdensome for SMEs.
- Second, also still this year, we will propose a **Listing Act** to improve access to public markets for companies, by making the listing of securities easier and less burdensome, especially for smaller companies.
- **Central clearing capacity** is an important dimension of the Capital Markets Union. Before the end of the year, we will come forward with a package of legislative measures to make EU-based central counterparties even safer and more attractive to market participants.
- We are also working intensively on a **strategy for retail investments**, which we plan to adopt in early 2023. We want to make sure that consumers across the EU have adequate protection, that they receive bias-free advice and are treated fairly while benefiting from competitive and cost-efficient products and services and having access to transparent, comparable and understandable product information.
- We plan to address in the first half of 2023 another structural issue which many stakeholders have called on us to make progress on. This initiative will address complex and non-harmonised **withholding tax procedures**, which are a burden for companies and investors and stifle cross-border capital flows. We will come forward with a targeted legislative action on withholding tax procedures in the first half of 2023.

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