



How to create an effective European Capital Markets Union

A position paper to inspire further actions by European Institutions and national measures by Member States based inter alia on the Nordic experience.

This paper has been put together with input from Nasdaq, SEB, Investor, Nordea, EQT, Avanza, Nordnet, Swedbank, Danske Bank, ImpactEurope and Stockholm Chamber of Commerce.



On a global level, the European Union's competitiveness is declining, and Member States are not fully equipped to regain it. A major obstacle for restoring competitiveness is the lack of a well-functioning European capital market – where both large and small firms can grow, citizens can invest to cater for their financial needs, and investments can be carried out where they are needed the most. Achieving these objectives requires implementing a number of measures, but the key objective must be to encourage more of Europe's citizens to invest their savings into the equity market, thereby unlocking European capital and fostering increased investments across Member States.

The need for a well-functioning capital market is particularly accentuated today, as our society is experiencing two fundamental transformatory developments that require massive investments – the green and the digital transitions. A better functioning European capital market would reduce the pressure on public funding, which by itself will not be able to cater for all investments needed. It would also reduce the pressure for increasing state subsidies to match those in other geographies.

A fundamental step towards a more unified capital market in Europe is to further advance market development on both local and regional levels, where initiatives by EU institutions can amplify Member States' own efforts to develop their financial markets. **The EU Capital Markets Union (CMU), launched in 2015, needs to materialise. For that to happen, measures are needed on both national and EU levels.**

A key role of capital markets is to provide citizens with adequate opportunities for planning and saving for their long-term financial needs such as pensions. This could be improved by reforming pension regimes and creating stronger incentives to make long-term changes to the debt-to-equity ratio in the EU, which for a long-time favoured bank savings and deposits. We believe that the Nordic region could serve as inspiration here.

The incoming European Commission could therefore make it its mission to ensure that all EU Member States take measures to advance the CMU, by i) establishing a CMU monitoring mechanism to counter fragmentation and monitor progress, ii) agreeing upon updated CMU KPIs to measure competitiveness, and iii) forming a platform of CMU experts (similar to the EU Platform on Sustainable Finance) to update the Commission on market developments and try to find solutions on controversial matters.

This paper presents 11 key policy recommendations on how to develop markets to strengthen the European capital market, the European economy, and most importantly ensure that European citizens and institutions have the confidence and mandate to invest and contribute to this growth – with the aim of strengthening European competitiveness.

The need for a well-functioning capital market is particularly accentuated today, as our society is experiencing two fundamental transformatory developments that require massive investments – the green and the digital transitions.

Suggested actions at national level



1. Allow and encourage retail investors to participate in the capital market through improved financial literacy and tax reforms to stimulate savings.

Evidence shows that the issue is currently not a lack of capital but rather a lack of risk-prone capital in the EU. Retail investors need to be activated and participate in the capital market, for example through tax incentives like the Swedish Investment Savings Account reform (ISK) which successfully also has been implemented in most of the Nordic and Baltic countries. For individuals to be active partners in the financial market, Member States need to ensure a higher level of financial knowledge and incentives among citizens. This would encourage individuals to save and invest wisely and helps them to avoid falling into financial pitfalls. The OECD and European Commission's financial competence framework for adults released in 2022 can be used in this context and serve as a basis for national and EU initiatives to increase financial literacy levels in the EU. Therefore, during the next five years, we call for broadening the CMU towards areas other than direct capital market interventions.



2. Allow institutional investors and pension funds to invest in capital markets – and in particular in SMEs.

Deep pools of long-term capital such as pension funds, insurance assets, and direct retail investment are the starting point for deep and effective capital markets. One difference between the EU and comparable markets is the modest size of pension assets. This creates a dual problem: first, EU citizens face uncertain futures with inadequate retirement incomes; and second, Member States' economies are missing out on a large potential supply of domestic capital that could be put to work to finance innovation, jobs, and growth. Shifting more savings from bank deposits to investments would deploy more capital to support the economy, jobs, and growth. Private savings channelled into for instance equities, can create a large pool of capital for venture capital, IPO issuances, private equity, and especially providing capital to SMEs.



3. Use active public investment to inspire and kick-start private investment.

Public sector vehicles that invest directly in high potential companies help kickstart market growth and encourage private sector investment. There is a danger in assuming public money can solve the problem, but examples such as targeted initiatives in certain Member States¹ show that active public sector investment can galvanise activity. By moving ahead, public money also has the potential to alleviate risk and lower the barriers for private capital to invest in projects of societal importance that would otherwise have been perceived as too risky, such as new green technology.



4. Ensure that online brokers and banks are ready to service retail clients.

By facilitating access to and use of financial services, financial institutions can help increase retail clients' participation on financial markets and enhance their user experience, helping to bridge the gap to many professional investors. In this respect, the ban on payment for order flow, introduced by the MiFID review, is welcome as it ensures that retail investors, through e.g. internet brokers, can make investment decisions directly and support the financing of the economy.

¹ Example of such member state initiatives are ALMI Invest in Sweden, Bpifrance in France, or High-Tech Gründerfonds in Germany.



5. Swiftly implement plans of reforms to boost capital markets in national jurisdictions, based on measures that have worked in other Member States.

Each EU Member State should be encouraged to draft a plan determining national measures to develop its capital market, including inter alia on tax policies, increasing financial knowledge, and relating to online brokers and pension funds. The measures taken could be based on best practices that proved useful in other Member States. This would ensure consistency of measures taken at EU level. When it comes to implementation of EU legislation, Member States should not add extra requirements and avoid the practice of gold-plating. This would preferably be coordinated by the EU to ensure consistency and an adequate sharing and uptake of best practices.



Suggested actions on EU level

Below are additional policy recommendations the EU could take to further support the development of strong and vibrant markets on Member State level:



1. Reduce cross border barriers – reducing the costs associated with cross border investments, such as transaction costs and administrative burdens on post-trade services and differences in taxation (including withholding taxes) across Member States.

Post trade in European securities is a complex and fragmented landscape with duplicate layers to post trade, clearing and settlement. The complex post-trade structure has led to higher costs, making European markets uncompetitive. The number of operators involved and the complex settlement links between them generate establishment and maintenance costs as well as unfavorable pricing practices that are bound to blunt the appeal of European financial markets for foreign investors.



2. Facilitate national capital markets strategies – share best practices for Member States to inspire and encourage one another.

Different national capital markets differ in terms of matureness, investment culture and financial literacy. It is important that the EU ensures that all Member States take measures to advance the CMU and support in sharing experiences and best practices with the objective to bring national markets closer to par and contribute to a common and harmonized European agenda.



3. Streamline investor protection.

Ensure that the retail investment strategy proposed by the Commission delivers on the goal to facilitate consumer investment in financial markets. Ensure that the participation of retail investors in financing the “real” economy is taken into account in capital market regulation and policy, while ensuring a higher degree of predictability for retail investors to take risks with their pension savings. The EU retail investment strategy should focus on bringing investment opportunities with suitable safeguards to retail investors, not risk insuring them to passivity. The purpose should be to increase the comprehensibility and proportionality of information on available retail investment products, provide additional and better guidance with regards to opportunities and risks, and facilitate simpler and more accessible products, with effective investor protection.



4. Cut red tape for investors and companies accessing capital by reducing and harmonising regulations – including tax rules and national insolvency regimes.

A. Reduce and simplify disclosure regulations

Adequate reporting and disclosures are essential for sound risk management and investor protection. However, some of the obligations have proven to be overly complex and inconsistent. This hampers their applicability and usefulness to financial institutions, supervisors and investors, whilst redirecting resources and focus from the core business.

B. Harmonize tax rules

A stable and predictable tax regime is key to foster development and hence competitiveness. However, EU directives are often implemented differently across Member States, creating multiple layers and divergencies of tax rules which lead to an unlevel playing field. The conditions for cross-border investments, especially in SMEs, should be facilitated by harmonizing and streamlining the rules for management of withholding tax as well as VAT at the EU level.

C. Reinforce effectiveness of insolvency regimes across the EU

The lack of harmonisation of insolvency regimes across the EU is a key obstacle to the freedom of capital movement in the EU. The liquidation processes, and the value that can eventually be recovered, differ greatly between Member States. These and other divergencies represent a particular problem for cross-border investors, who must potentially consider 27 different insolvency regimes when assessing an investment opportunity outside their home country. Efficient insolvency laws are one of the key criteria for investors when they decide whether to invest across borders.



5. Support multiple voting share structures.

It is important to enable entrepreneurs to control the business direction and incentivize long term ownership by not restricting the use of multiple vote-right shares on regulated markets, i.e. beyond Multilateral Trading Facilities (MTFs). This possibility is already covered by the Listing Act scope but needs to be safeguarded to continue to allow for flexible structures that fit the national corporate governance and company laws.



6. Create a better functioning supervisory structure to achieve supervisory support for consolidation, scale and efficiency.

Supervision is, and will remain, a competitive factor in financial markets. Financial institutions cannot innovate without efficient supervisors. The internal market and the level playing field can therefore only be ensured with high quality and consistent supervision. The competitiveness of the European capital market and its participants depends on the supervisors and the supervision as cornerstones. EU supervision is a balancing act as all markets have their own characteristics and market practices. National competent authorities must therefore also have the powers and capabilities to ensure the management of well-functioning and orderly domestic financial services that are critical to a nation's economy.