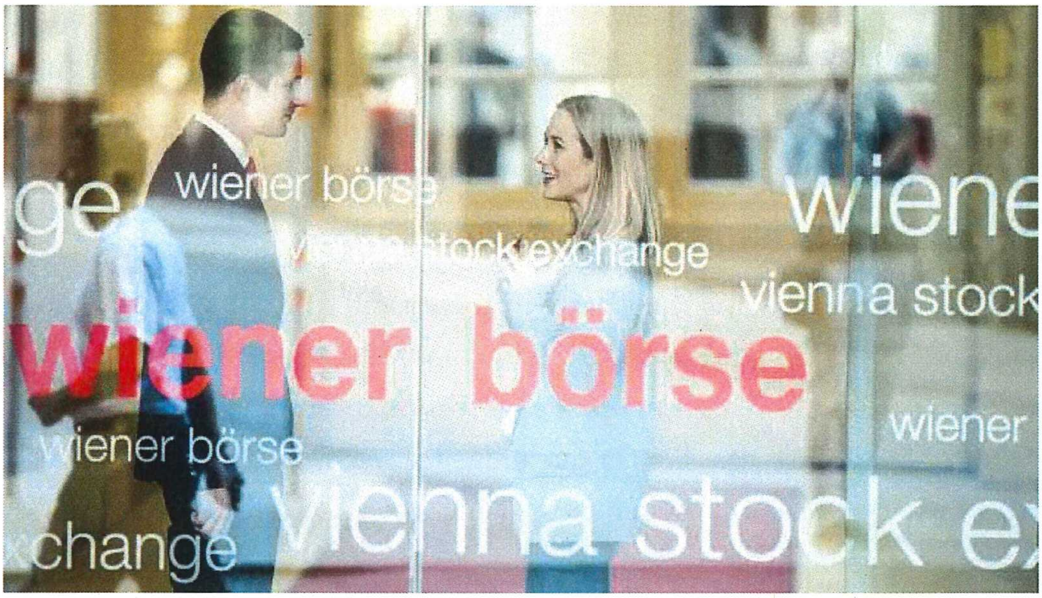
Best of this week's opinion

Opinion **EU Capital Markets Union**

We must resurrect EU Capital Markets Union

Recovering from Covid-19 requires deep markets

THOMAS WIESER



A functioning capital market was vital before coronavirus and is now even more important © Wiener Börse

Thomas Wieser JUNE 10 2020

The writer chairs the EU's High-Level Forum on capital markets union

When I moved from Brussels to Vienna two years ago, I knew I wanted to invest my pension plan money in a mix of specific government bonds and some investment funds. But my Austrian bank was unable to source them. I ended up keeping my pension funds in a savings account for much longer than I had planned and watched it steadily lose value.

That is the practical consequence of the EU's segmented small national capital market for millions of citizens: limited choice and not the best advice. This must change.

Bringing about more unified EU capital markets that work for everybody is a higher priority than ever for those who want to make Europe stronger, resilient and dynamic. The need to rebuild European economies after Covid-19 has only increased the urgency of harnessing a well-functioning capital market. This comes on top of financing needs for ecological transition and securing decent retirement income for citizens. These require sums way beyond what governments can achieve from taxpayers' money alone.

Insurance companies have for years been struggling with the consequences of low interest rates, partly as a direct consequence of EU prudential rules that limit what assets they can hold. We should rebalance these requirements to favour longer-term equity investment, including in green sectors. Insurance companies would see higher returns on their portfolio and innovative firms would see large increases in their potential investor base. Demand will create supply.

How can we ensure that this takes place in a large and truly single market for capital? The EU has struggled for decades to make its capital markets work as one, and to a large degree still has 27 capital markets. In order to allow investors to carry out sophisticated cross border due diligence we are proposing to set up a simple, transparent, harmonised, one-stop and free EU company data base. This should be a sea change in terms of cross-border investment, especially for the smaller national markets.

Our "High-Level Forum", composed of experts from a wide spectrum of professional and national backgrounds, has just concluded a major report for the European Commission. We are recommending an array of measures to move the EU much closer to one single market for savings, investments and raising capital for our dynamic companies so they can grow.

We have avoided abstract ideas that everybody could agree on. Instead, we are putting forward very precise, clear recommendations and timetables to move Europe forward. This is not an à la carte menu to order two or three courses and go home satisfied. The 17 clusters of measures are mutually reinforcing, and dependent on each other. They target improvements in the financing of business, of market infrastructure, individual investors' engagement and reducing obstacles to cross-border investment.

A functioning capital market was vital before Covid-19 and it is even more important now as the EU economy tries to recover from this global health crisis.

Europe's innovative companies have grown over decades from small to medium, but more often than not many of its most exciting prospects had to leave the continent to find the finance, mostly equity, to fuel further growth. The bloc lacks financing options in adequate form and depth for modern economic activity: more than 80 per cent of corporate funding comes from banks. In addition, small and medium-sized enterprises are confronted with unnecessarily high costs and complex obstacles to listing. Individual EU investors shy away from equities more than in the UK or the US. Sound and prudent securitisation in the EU does not work.

Other obstacles to cross-border trading abound: insolvency laws and procedures; unnecessarily complex systems for refunding withholding tax; lack of financial education; the urgent need to reform national pension systems; onerous and costly listing rules; many unintended, burdensome consequences and spillovers from previous laws; widely differing definitions and rules on who actually is a shareholder and what their rights are — and many more. We have improvement plans for all these areas.

As Europe works to recover from coronavirus, it is obvious that the huge financing requirements dwarf available public resources. We need to harness the potential of a large EU capital market, so growth and employment return rapidly, for as many as possible.

We believe the European Council, the European Parliament and the commission should agree up front on this package with a binding timetable for delivery. Absent this, progress will be slow, very uneven or worse, death by a thousand bureaucratic cuts. The time has come for politicians to do during the work week what they preach on Sundays. In short, act.