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Building a Capital Markets Union to support growth in Europe

Jonathan Hill, European Commissioner for Financial Stability, Financial Services and Capital Markets Union presents the first achievements of the Capital Markets Union launched in 2014 and his impressions about answers to the Call for evidence on the EU regulatory framework for financial services.

What are the Capital Markets Union's first achievements?

I've always been clear that I wanted to build a Capital Markets Union (CMU) from the bottom up, step by step. That's exactly what we're doing. We've got off to a good start with some immediate measures. And we've started work to overcome longstanding barriers to the free movement of capital in Europe.

One of the first things I did was to support long-term investment in infrastructure by amending our prudential legislation, Solvency II. This amendment came into force in April, and will make it cheaper for insurance companies to invest in infrastructure projects. I hope the insurers now take advantage of this change.

 Jonathan Hill

I have also proposed an overhaul to the Prospectus regime to make it easier, faster and cheaper for companies that want to raise money on public markets. It would speed up the process for companies that have already issued a Prospectus, and get rid of the requirement

to produce a Prospectus completely for companies that only want to raise amounts under 500 000 euros.

To free up bank lending in the wider economy, we've tabled a proposal to revive securitisation markets. We've set out criteria for simple, transparent and standardised securitisation, and proposed to reduce capital ratio requirements for securitisations that qualify. Member States reached an agreement on this in record time last year because governments know how important it is to free up the supply of bank lending. The onus is now on the European Parliament to seize this opportunity to support growth.

I think we've built up good momentum. I want to keep it up. This year, we will propose a package of measures to build up scale, diversity and choice in our venture capital markets to help entrepreneurs. Work will begin to improve the passport system for investment funds so that they can offer their services more easily in different countries, and so that investors have got more information and choice. We will also make a proposal to help overcome some of the main differences in our insolvency regimes to give more certainty to cross border investors.

I'll continue to work with businesses, with Member States and the European Parliament on every measure, every step of the way. I want to capitalise on the strong support I've received, to make our financial system more diverse and more resilient, and to support growth and jobs in Europe.

What are your preliminary views on the responses received to the call for evidence?

It's too early for any definite conclusions, but three themes are emerging. Respondents have said that in places our legislation is not proportionate enough; that it could be limiting financing available to the wider economy; and that the compliance burden is too high.

There is a recurrent concern that our rules could be getting in the way of the diversity of Europe's financial sector. Respondents call for rules that take greater account of companies' size, business models and risk profiles. A number argue that the capital requirements are too onerous for smaller banks, but this concern is shared well beyond the banking sector.

Many respondents have raised concerns about declining market liquidity, particularly in corporate bond markets, and question whether regulation has had a hand in this decline. Businesses also complain they are reporting and disclosing the same information in different ways to comply with different pieces of legislation and that the volume of information they are being asked to provide is not always proportionate to risk.

Can you tell us what the main next steps will be?

We have recently published a summary of the responses and held a public hearing to discuss the findings. We'll now complete our analysis and come forward with our thinking on how to follow up this summer.

In the meantime, we'll feed any relevant evidence into the reviews of individual pieces of legislation we're already undertaking. If there's evidence that suggests the same regulatory objectives can in places be achieved in a more growth friendly way, we need to look at how this might be done.

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