

## Capital Markets Union French proposal for an ambitious approach

**As the mandate of the current European Commission comes to an end, the European Union finds itself at a strategic moment:** Europe is lagging behind its main competitors in terms of competitiveness and our firms are not finding the continuum of funding they need on our soil. The dual green and digital transition will require more than 700 billion Euros of additional funding per year, and we face additional challenges linked to the demographic transition, while massive investments in our defence industry are also required to ensure Europe's security.

**If no breakthrough is made on the Capital Markets Union under the next Commission, the EU finds itself at risk of falling behind** and never catching up. The United States and the Eurozone had similar GDP in 2008 and 15 years later, there is now an 80 % gap between our economies. The EU equity market capitalisation is currently 4 times smaller than the US markets. We need to change our approach and drop the small steps strategy that had led us to review the whole EU financial regulation framework with limited progress, and instead focus on adopting a reduced number of truly ambitious and transformational measures.

**The draft report currently being prepared through Eurogroup working cycle on CMU is giving us the opportunity to send a strong message and change our approach,** marking our commitment towards building a true Capital Markets Union that works for the EU citizens and businesses. Yet, the current tone lacks ambition and puts us at risk of losing another 5 years, with a long list of measures that look a lot like the previous action plans. **To change our approach and make decisive progress through concrete and transformational measures, we propose 3 pillars approach:**

**First pillar: improving the funding conditions of our firms, by reviving the European securitization market.** To that end, several adjustments are first required both on the prudential and regulatory front, but the example of the US securitization market, where Government Sponsored Entities play an active role, should also drive our reflections. While importing the current US framework in Europe is not a desirable option, a reflection needs to be conducted about the role that a guarantee mechanism could play to foster the issuance of a widely available and liquid asset via a centralized securitization platform. If designed properly, such a common platform would increase EU banks' lending capacity to invest in our firms and generate a common safe asset which could in turn attract international institutional investors, reinforce the global role of the euro, and further integrate EU financial markets. Of course, the characteristics of such a guarantee scheme remain to be defined. We would need to decide which assets should be considered, which institution could play this role, what for the guarantee would take and then assess the benefits of such a comprehensive solution. But we should not start the reflexion by excluding tools that draw from markets that work the best.

**Second pillar: allowing the emergence of pan-European Capital Markets Champions, via an opt-in mechanism for a single European supervision.** Today, European groups with a pan-European model based on multi-implantations are put at a competitive disadvantage compared to the foreign competitors, due to the multiplication of interactions with different national supervisors. Some market infrastructure, and asset management groups in particular could benefit from a voluntary based single European supervision, and several of them have already expressed their interest in such mechanism. National competent authorities could still play an active role for entities under their remit opting-in, under dedicated supervisory committees placed under ESMA's lead.

**Third pillar: better channelling European abundant savings towards Europe's investment needs, through a new European savings product.** The objective of this new product would be to

move savings away from liquid and guaranteed products, towards long term investments. Two principles should guide its design. Firstly, an attractive tax regime to incentivize investors: within each jurisdiction, the European savings product should enjoy the most competitive tax treatment. Secondly, to foster long term investments, the product should not offer a capital or return guarantee or/nor liquidity at all times, which could either be through direct regulation or clear incentives. Then, several features could be explored: promisingly, an active role could be assigned to the employer, as an enroller and/or as a co-investor, to facilitate the widespread distribution of the product, including towards middle-income savers who do not pursue sophisticated tax optimisation strategies. Small fixed monthly contributions or some proposed default allocations that would meet investor preferences could also help retail participation.

Agence Europe