

> Return address POSTBUS 20201 2500 EE 'S-GRAVENHAGE

**Financial Markets
Directorate**

Korte Voorhout 7
2511 CW 'S-GRAVENHAGE
POSTBUS 20201
2500 EE 'S-GRAVENHAGE
www.rijksoverheid.nl/fin

Our reference

2025-0000064077

Annexes

1. Explanation of the actions

Date

Re The Netherlands' Commitment to the Capital Markets
Union

Dear chairman,

The European Union (EU) faces major and fundamental challenges. European competitiveness is under pressure and productivity growth is lagging significantly, particularly compared to the United States (US). Europe, and the Netherlands as well, need this productivity growth to maintain our prosperity in the future. This is the core message of Enrico Letta and Mario Draghi in their reports on the European internal market and competitiveness published last year.¹

To achieve this, many investments are needed. These should mainly come from private sources, as Draghi also states in his report. The deepening and integration of the European Capital Markets Union is therefore crucial to meeting the challenges facing Europe. The European Commission has announced that it will soon present its strategy for a Savings and Investment Union, of which the Capital Markets Union is part.² In her "ReArm Europe" letter of 4 March to the European Council, the President of the Commission underlines the importance of private financing, including for investments in the European defence industry.³ In its government programme, this government has expressed its ambition to promote the free movement of capital and strengthen the Capital Markets Union. With this letter, the government further elaborates on this ambition, as well as on the commitment to inform the House about this in the first quarter of 2025.⁴ On behalf of the Minister of Economic Affairs, I will describe the challenges and needs in this letter and outline the government's commitment to strengthening the Capital Markets Union.

Dutch interests and challenges

The internal market is fragmented. This applies to products and services, and in particular to capital. Barriers in the internal market currently amount to a trade tariff of 45% on goods and as much as 110% on services, according to

¹ Mario Draghi, The future of European competitiveness, September 2024. Enrico Letta, Much more than a market, April 2024.

² COM(2025) 30.

³ https://ec.europa.eu/commission/presscorner/detail/en/ip_25_684

⁴ Parliamentary Papers II 2024/25, 21501-30, no. 621.

calculations by the International Monetary Fund (IMF).⁵ This hinders cross-border trade in goods and services and costs us money. And thus prosperity. Lowering these barriers to goods, services and capital is crucial for increasing the EU's productivity and competitiveness, because the freedoms of the internal market are interlinked and mutually reinforcing. The government is committed to this, as set out in the government's vision on EU competitiveness.⁶ The Capital Markets Union is in the interest of the Dutch economy; for companies, citizens and society as a whole. A strong capital market ensures that companies have easier access to financing options. This creates greater productivity, economic growth, jobs and broad prosperity. Citizens benefit from this and can also profit from it by achieving returns, directly through their own investments and indirectly through their pension accrual.

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What is the capital market?

A capital market brings together supply and demand for financing. Demand from companies that need capital to start or expand their business. And supply from investors looking for a return on their capital. Each EU Member State currently has its own capital market with its own rules for the legal structure of companies and shares, its own tax rules and its own institutions, such as stock exchanges, banks and asset managers. This creates barriers that prevent capital from flowing freely and efficiently within the EU to the most attractive investments. With the development of the Capital Markets Union, Europe wants to change this.

Innovative companies in Europe, such as start-ups, have difficulty obtaining appropriate financing.⁷ In the EU, and therefore also in the Netherlands, companies are too dependent on bank financing, which is not always sufficiently available for small and start-up entrepreneurs. Bank loans are readily available due to the large and strong banking sector, but are mainly suitable if there is little risk and the financing horizon is shorter. This type of financing is therefore often unsuitable for financing innovation, or for new, strategic technologies that are necessary for productivity growth and resilience. At the same time, the European capital market is not attractive and accessible enough for companies. The (venture) capital market and the stock market landscape are fragmented and liquidity – the supply of capital and trading in shares, bonds and other financial instruments – is low. Banks are focusing on lending and have scaled back their investment banking activities. There are also few large private investors and investment funds that can participate in later financing rounds of scale-ups.⁸ This makes it more difficult for companies to attract equity, as also concluded in the Interdepartmental Policy Research (IBO) on corporate financing. This makes it difficult for SMEs and young, innovative companies to grow from start-ups to successful, large (listed) companies.

The fertile Dutch soil for innovation and competition must receive sufficient water (financing). Limited access to various forms of financing means that companies cannot scale up their innovations quickly enough. European entrepreneurs

⁵ In this analysis, the IMF compares the European situation with that in the US, where the barriers to trade between states amount to a lower trade tariff of 15%. With this, the IMF wants to make it clear that there is still work to be done to perfect the European internal market and that this can reduce the costs of trade between member states within the EU. International Monetary Fund, Regional Economic Outlook Europe, October 2024.

⁶ Parliamentary Papers II 2024/25, 21501-30, no. 621.

⁷ A start-up is a newly established company that often develops innovative ideas or technologies and is in the early stages of growth and usually requires a lot of external financing to do so.

⁸ A scale-up company is a fast-growing company that has successfully completed the start-up phase and is starting to offer its product or service on a larger scale and needs financing for this.

therefore choose to seek financing from American venture capitalists, list on the American stock exchange and scale up in the US. So Europe is losing those innovative companies. Between 2008 and 2021, nearly 30 percent of unicorns founded in Europe – startups valued at more than \$1 billion – moved their headquarters abroad, often to the US.⁹ This means that Europe is losing an enormous source of innovative power. It also means that control over these companies is increasingly located outside Europe and in many cases the returns also accrue more to foreign investors.

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The government wants to reverse this trend. This requires capital. Fortunately, a significant part of this is already present in Europe, because European households save a lot. Together, Europeans hold around 33 trillion euros, mainly in cash and savings accounts.¹⁰ The Dutch collectively have more than 600 billion euros in savings, which are often held at (Dutch) banks at low returns.¹¹ And the assets that are invested are largely invested outside Europe, particularly in the US. This is often done passively, investing in an index or fund of many different shares. This applies to both the 190 billion euros that households invest themselves and the 1,600 billion euros in pension assets. The Netherlands Authority for the Financial Markets (AFM) stated in a recent analysis that this combination of saving a lot and investing little in the EU results in too little venture capital being available in Europe.¹² The US market is attractive to European investors because of its size, low costs and high returns. European savings and investment capital can increase productivity in the EU by investing more in the EU and, where savings are concerned, taking more risk. A European capital market is therefore not just for the business community. It offers households the opportunity to achieve higher returns on their assets through better investment and risk diversification options. This can be very useful, for example, if people stop working at some point. It is in our interest to take more risk and invest more in European companies where appropriate. With the Capital Markets Union, we promote the gradual development of an investment culture in the Netherlands and Europe.

The Dutch financial sector also benefits from this. As an open economy, the Netherlands has always had a strong, innovative financial sector. The oldest share and investment fund in the world are Dutch and the first European options exchange was founded in Amsterdam in the last century. Dutch multinationals have always been able to benefit from a vibrant and attractive stock market with access to international capital.

However, our economy is too small to achieve the necessary scale and diversification independently. We need to cooperate better with other European countries. The government wants to remove the barriers that financial institutions and companies experience, so that they can better serve Dutch companies.

Government commitment

In view of the above-mentioned Dutch interests and geopolitical developments around us, the government recognises the urgency of making progress with the Capital Markets Union. The current situation where some Member States cling to their own interests to protect a smaller and more inefficient national capital

⁹ Mario Draghi, The future of European competitiveness, September 2024.

¹⁰ Enrico Letta, Much more than a market, April 2024.

¹¹ DNB statistics 'Spaargeld van Nederlandse huishoudens' and 'Effectenbezit Nederlandse huishoudens'.

¹² With the analysis of the challenges in this letter and my response to the AFM report 'Aantrekkelijke Europese kapitaalmarkten', I am cancelling the commitment made to Member Aukje de Vries (VVD) during the Eurogroup/Ecofin Council Commission debate of 4 December 2024.

market makes the EU collectively poorer than would be the case with a deep, common European capital market. The government is committed to preserving and reinforcing the factors that make the Dutch capital market strong and attractive. It recognises the major advantages of a deeper European capital market for the further development of the Dutch capital market. Further integration of national capital markets and clear regulations are important for this. A deep and integrated European capital market brings social benefits for citizens, companies and investors. The government also recognises the urgency of stimulating private investment in the light of other European financing discussions. The government will therefore adopt a constructive and ambitious approach in the dialogue on solutions to remove unjustified barriers in legislation, both nationally and at European level and thus improve the effects of the internal market.

It is dedicated to an ambitious commitment to the Capital Markets Union because of the Dutch interest involved. This applies to actions at European level, as well as measures to be taken nationally. It wants to take further steps than the Netherlands has done so far. With this fundamental attitude, the government also looks forward to future proposals from the Commission. This commitment contains three pillars, as I also wrote in my vision on the financial sector:¹³

1. Stronger supervision
2. More and diverse capital supply
3. More uniform rules

Each of these three pillars reinforces each other. In other words, the more and more ambitious steps, the greater the impact of other actions and the stronger the European Capital Markets Union becomes. Below, I will explain which concrete actions the government wants to take and why. The appendix contains further explanations for each action.

1. Stronger supervision

Ultimately, a well-functioning European capital market cannot exist without good European supervision. Current supervision of the capital markets is divided between the European supervisory authorities and national supervisors (national competent authorities, NCAs) – in the Netherlands, these are the AFM and De Nederlandsche Bank (DNB).¹⁴ However, many capital market participants operate from one or more offices in the EU, which means they have to deal with different national supervisors. This includes trading platforms or asset managers, which are often active internationally. National supervisors sometimes interpret European agreed rules differently or request information in a different way and sometimes twice. These differences lead to confusion, unnecessary regulatory pressure and additional costs. This hampers the emergence of economies of scale and the efficient functioning of capital markets.

More uniform supervision and implementation of regulations are therefore important for a stronger European capital market. Firstly, the government wants to promote a more uniform implementation of the rules for these markets by advocating the conversion of directives into regulations. Regulations have direct

¹³ Parliamentary Papers II 2024/25, 32 013, no. 302.

¹⁴ The European supervisory authorities are ESMA, the European Securities and Markets Authority, EBA, the European Banking Authority, and EIOPA, the European Insurance and Occupational Pensions Authority. Together, they form the European System of Financial Supervision (ESFS).

effect in Member States and, unlike directives, do not need to be transposed into national law. This leads to further harmonisation of rules within the EU and to more uniform supervision by NCA's of nationally active market participants. For market participants that are active in several EU Member States, reinforcement of direct European supervision is more effective. Together, this creates a more level playing field with more consistent interpretation and application of the rules, which can prevent supervisory disputes. The government is therefore committed to strengthening European supervision of the capital market, focusing on the role and activities of ESMA, the European Securities and Markets Authority. The cabinet advocates a number of measures:

- Reinforcement of supervision of cross-border activities, through the exploration of different supervisory models and where appropriate the extension of ESMA's role.
- Collection and storage of supervisory data at a European supervisory authority to reduce administrative burden for market participants and national supervisors. Review of ESMA's governance structure to improve its assertiveness, and review of ESMA's financing to contain the costs of supervision.

2. More and diverse capital supply

As mentioned in the above analysis, the lack of private financing is particularly relevant for risk-bearing investments such as venture capital. Start-ups and scale-ups in particular struggle with this. This specifically applies to larger amounts of more than 50 million euros. According to the IBO corporate financing, this is due to a shortage of well-capitalised, cross-border investment funds and because banks are less able to serve these entrepreneurs. To address the financing challenges of Dutch and European companies, in addition to its commitment to the Capital Markets Union, the government is working on national measures such as strengthening Invest-NL. Europe also requires a more diverse supply of capital.¹⁵ As mentioned, a lot of household assets are held in savings accounts at banks. This capital is therefore present in Europe, but we are not yet using it well enough. In order to increase and diversify the supply of capital in the EU, the government is therefore focusing on the following actions:

- Development of a framework for an EU investment account, under which Member States can apply national tax incentives to encourage people to invest more in the EU, in particular in companies in sectors that are strategic for EU competitiveness.
- Promoting the development of national (occupational) pension systems in other Member States by sharing *best practices* and structural attention in the European Semester through country-specific recommendations.
- Stimulate the development and scaling up of private venture capital funds through further harmonisation of venture capital fund regulations and more equal implementation thereof in the EU.
- Increasing the role of the European Investment Bank in venture capital investments, and strengthening and continuing pan-European funds such as the European Tech Champions Initiative (ETCI).

¹⁵ For the other measures taken by the government in addition to commitment to the Capital Market Union, see the IBO corporate financing, Parliamentary Papers II 2024/25, 32, 637, no. 658.

- Revising the securitisation framework to lower barriers for a wider target group of institutional investors, in particular through more proportionate regulation.
- Revising the prudential framework for investment firms for more proportionate rules and an improved method, which means investment companies are not classified as a bank where this is not appropriate.
- Facilitating long-term equity investments by insurers through targeted regulatory adjustments.
- Resumption of European negotiations on a proposal for a more balanced financing mix through more equal tax treatment of equity and debt.

3. Uniform rules

The EU internal market will only function optimally if all relevant regulations are harmonised and applied in the same way everywhere. This is a complex, long-term process that the EU is continuously working on. On the positive side, many regulations relevant to the functioning of capital markets, investments and investments are already regulated at EU level. In general terms, the government therefore advocates converting directives into regulations in order to achieve more uniform regulations.

At the same time, there are still many areas of law that are regulated nationally and where differences between EU Member States are significant. These barriers in the internal market hinder cross-border business and investment.¹⁶

Investments in other countries are therefore more complex and expensive than in one's own country and therefore less likely to become profitable. Capital does not always end up in the best place. More cross-border investments promote competition and increase financing options for companies in all Member States, including the Netherlands. In their aforementioned reports, Draghi and Letta point out the importance of more efficient regulation and greater harmonisation, also to reduce administrative burdens for companies, in particular SME entrepreneurs. The government wants the biggest bottlenecks that hinder the free movement of capital and thus the integration of the EU capital market to be tackled expeditiously. In this regard, it wants the EU and the Member States to prioritise the following legal areas and focus on optional EU frameworks:

- Standardisation of insolvency law, by continuing ongoing negotiations and exploring further steps to remove barriers in insolvency law.
- Standardisation of collateral law through further steps to harmonise both substantive rules and rules on applicable law in the EU.
- Harmonisation of securities law and shortening of the settlement cycle to improve the efficiency of the EU capital market infrastructure.
- Development of an optional EU standard for financial reporting of SMEs.
- Development of a 28th regulatory regime that meets the needs of Dutch businesses. The government sees opportunities for the growth of innovative companies, because barriers on the internal market are currently an obstacle. However, there are questions in the design of a 28th regime, for example in the area of possible taxation, legal certainty and employment law harmonisation proposals.

Lastly

With this commitment and concrete actions, the government is contributing to the further development of the Capital Markets Union. As usual, the House will be

¹⁶ See also the internal market agenda, Parliamentary Papers II, 2021/22, 22 112, no. 3437.

informed of non-papers that the government, with or without like-minded Member States, submits on the subjects included in this letter. The House will also be informed through the appropriate channels of the government's assessments of future proposals from the European Commission. The Commission is expected to publish a strategy for the Savings and Investment Union very soon, on 19 March. In this report, it is expected to further explain the plans for the capital markets announced in its competitiveness compass.

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Yours sincerely,

the Minister of Finance,

E. Heinen