

## ROADMAP

Roadmaps aim to inform citizens and stakeholders about the Commission's work to allow them to provide feedback and to participate effectively in future consultation activities. Citizens and stakeholders are in particular invited to provide views on the Commission's understanding of the problem and possible solutions and to share any relevant information that they may have.

<b>TITLE OF THE INITIATIVE</b>	Communication on EU Support for Local Capital Markets
<b>LEAD DG – RESPONSIBLE UNIT</b>	DG FISMA – Unit E2
<b>LIKELY TYPE OF INITIATIVE</b>	Communication
<b>INDICATIVE PLANNING</b>	23 May 2018
<b>ADDITIONAL INFORMATION</b>	–

**This Roadmap is provided for information purposes only. It does not prejudice the final decision of the Commission on whether this initiative will be pursued or on its final content. All elements of the initiative described by the Roadmap, including its timing, are subject to change.**

## A. Context, problem definition and subsidiarity check

### Context

The initiative is Priority action 9 of the Mid-term review of the Capital Markets Union (CMU) Action Plan<sup>1</sup> adopted by the Commission on 8 June 2017: "EU strategy (communication) on measures that can be taken to support local and regional<sup>2</sup> capital market development across the EU". Following up on this commitment, the planned Communication – to be adopted by Q2 2018 – will build on the report of the Vienna Initiative's CMU Working Group. This report was endorsed by the Full Forum of the Vienna Initiative on 12 March 2018. The strategy will also take account of the experience of the Commission's Structural Reform Support Programme, which provides technical assistance, including in the area of capital markets development, to EU Member States.

The initiative contributes to an important objective of the Capital Markets Union, namely to facilitate the growth of capital markets across the EU. This is particularly relevant for the countries where capital markets are underdeveloped, so that they become an efficient financing source for businesses, including SMEs.

The Vienna Initiative (VI) is a public-private forum gathering financial markets' regulators from Central, Eastern and South-Eastern Europe (CESEE), international financial institutions (the International Monetary Fund, the World Bank Group, the European Bank for Reconstruction and Development and the European Investment Bank), the European Commission, Western European parent banks with subsidiaries and branches in the CESEE region, and other market participants. The Vienna Initiative aims to address risks faced by the region's financial sector, thereby ensuring that potential cross-border financial stability issues are resolved and policy actions are taken in the joint interest of home and host countries.

### Problem the initiative aims to tackle

Capital markets in several EU Member States, in particular in Central and Eastern Europe but also in some Southern EU countries, clearly lag behind their EU peers in terms of capitalisation, liquidity and market depth. Around 99% of companies operating in these countries are small and medium-sized enterprises. It is costly and burdensome for them to access capital markets, since they have to meet many legal requirements and follow procedures that are often too complex for them. As a result corporates, SMEs in particular, are reluctant to use capital markets as a source of funding for their activities and mainly use bank credit instead. Many of these companies are not even aware of the existence of an alternative to bank financing. Likewise, many citizens and retail investors have a very low level of knowledge and of confidence in capital markets, and therefore keep most of their savings on bank accounts. Due to these hurdles on the demand and the supply side of funds, capital markets in these countries are underdeveloped. They lack the stimulus to grow and become a source of financing which can effectively complement bank funding. A more diversified model of financial intermediation for firms, including more vibrant and accessible capital markets, would support economic growth.

### Basis for EU intervention (legal basis and subsidiarity check)

Small national capital markets in the EU need a boost to effectively complement bank credit in financing the economy. Small and medium-sized enterprises operating in these countries find it too cumbersome to make use of capital markets. Stock markets in several Member States are often too small to be attractive for many institutional

<sup>1</sup> [https://ec.europa.eu/info/publications/mid-term-review-capital-markets-union-action-plan\\_en](https://ec.europa.eu/info/publications/mid-term-review-capital-markets-union-action-plan_en)

<sup>2</sup> 'regional' refers to a group of EU Member States that are geographically close to each other

investors, and the pool of retail investors is limited due to their lack of confidence and knowledge. There are also very few investment opportunities since equity issuance of corporates are often discouraged by high regulatory and compliance costs. Policy suggestions by the Commission would help develop local capital markets and facilitate their regional integration and cooperation, e.g. with respect to market infrastructure. They will facilitate further integration of these local markets into a single European capital market. The subsidiarity principle will be fully respected since most of the actions discussed to support local markets will refer to the national level while encouraging regional cooperation. Only few targeted initiatives will be proposed at the EU level.

## **B. What does the initiative aim to achieve and how**

The Communication will indicate measures and good practices to reinforce and develop local and regional capital markets across the EU. They will aim to facilitate access to finance for European firms, in particular for small and medium-sized enterprises, and thereby help them grow. These measures may reinforce the actions already taken by national authorities or international financial institutions. At national level, the EU could grant various forms of support (e.g. by making use of the Structural Reform Support Programme) to initiatives that are important for capital market development. These may include: supporting government strategies for capital markets; improving the business environment; using structural funds to facilitate access to capital markets; create incentives for institutional investors; promote financial education; and enhance capital market supervision. At regional (cross-border) level, the following measures could be taken: strengthening regional alliances of stock exchanges and cross-border links between local capital market infrastructures (such as central securities depositories and central counterparty clearing houses); aligning legislation in regional clusters e.g. for securitisation or covered bond markets (while ensuring that it complies with relevant EU regulation). The Communication will also explore the possibility of potential EU initiatives, such as Commission's support to the implementation of EU law or EU financial support instruments (e.g. offered by the European Investment Bank and European Fund for Strategic Investment). In addition, the Communication will make reference to the initiatives already launched at EU level, which aim to improve the access of small firms to stock markets. These legislative and non-legislative actions will help strengthen local capital markets, thus improving them as a source of financing for local businesses.

## **C. Better regulation**

### **Consultation of citizens and stakeholders**

Due to the type of the initiative (communication), there is no need for an impact assessment. Moreover, the communication will draw on the conclusions of the report of the Vienna Initiative Working Group on Capital Markets Union whose members were representatives of public and private institutions from Central, Eastern and South-Eastern Europe. The report has been prepared based on responses to the survey conducted by the Group members in 12 countries of the region. Through the survey, both public and private local stakeholders expressed their views on challenges and impediments to capital markets' development, potential solutions and areas for improvement. The survey looked at challenges and solutions from structural, regulatory, supervisory and cultural perspectives.

Furthermore, the Communication will provide insights of the experience of the Structural Reform Support Service which has already carried out several projects supporting the development of capital markets in many EU countries, by cooperating and interacting with local stakeholders.

### **Evidence base and data collection**

The basis for the actions presented in the Communication will be the extensive work carried out between March and December 2017 by the Vienna Initiative Working Group on Capital Markets Union in which 12 CESEE countries were represented by public or private stakeholders. The Group held 3 one-day meetings in Brussels, with the participation of external experts, and conducted a survey at national level to gather stakeholders' views on the challenges and opportunities for local capital markets. The report of the Group provides information on many national and regional initiatives, which will feed into the Communication. In addition, the report's economic analysis and evidence on the development of capital markets in the region provides a solid basis of evidence for the Communication.

Moreover, the Communication will take into account the experience of the Structural Reform Support Service which finances and coordinates projects across the EU. These projects target different aspects of capital markets, such as developing capital markets strategies, supporting companies to access capital markets, facilitating conditions for institutional investors, enhancing supervision of capital markets, linking Central Securities Depositories.

Finally, the Communication will make a reference to a number legislative or non-legislative initiatives already launched at EU level, such as the initiative to build a proportionate regulatory environment to support SME listing, which aims to improve the access of small firms to public markets and for which a dedicated impact assessment is conducted. The Communication will also rely on the analysis of local development of capital market included in the European Financial Stability and Integration Report 2018.