Premise
The concept was introduced by European Commission President, Jean Claude Juncker, when presenting his vision and policy guidelines for the new European Commission (July 2014): Over time, I believe we should complement the new European rules for banks with a Capital Markets Union. To improve the financing of our economy, we should further develop and integrate capital markets. This would cut the cost of raising capital, notably for SMEs, and help reduce our very high dependence on bank funding. This would also increase the attractiveness of Europe as a place to invest. Lord Jonathan Hill (UK) was given the mandate of Commissioner for Financial Stability, Financial Services, and Capital Markets Union (DG FISMA), and he consistently referred to the setting up of a Capital Markets Union (CMU) in his European Parliament hearings (October 2014) and subsequent interventions\(^1\).

The main idea is to unlock the potential of non-bank financing of the economy – especially for SMEs, to decrease Europe’s “bankcentricity” and get closer to the US model of funding. The initiative is also aimed at ending the existing fragmentation of European capital markets and promoting more competitive, more diverse, and better quality financial services. Aside completing the free movement of capital in the single market, the initiative is supposed to significantly support the EU’s growth & jobs agenda and recovery effort, as well as set the basis for more risk-resilient financial markets, mainly by cross-border risk-sharing in Europe.

What we know so far
This is one of the most important and prominent initiatives of the Juncker Commission, and it is likely to provide the main political framework for most policy measures in the field of financial services and capital markets, for the next 5 years. While it is currently, the talk of the town, no concrete proposals have been put forward, so it remains, for the moment, a catch-all slogan, that will need to be fleshed out. For now, Lord Hill clearly stated that the European Long-Term Investment Fund proposal, whose final compromise text was recently endorsed by the Council of the European Union, is a strong pillar of the future CMU.

Different experts and analysts have identified some of the potential emerging themes for the CMU, presented below as a non-exhaustive, work-in-progress list:

- High-quality securitisation – relaxing existing rules to allow the freeing-up of bank sheets and an increased use of asset-backed securities, to finance SMEs;
- Addressing the heterogeneity of multiple national insolvency rules;

\(^1\) Opening speech of the high-level conference Finance for Growth – Towards a Capital Markets Union (6 November 2014, Brussels), and opening remarks of the high-level Conference on Investing in Long-Term Europe (12 December 2014, Rome).
- Allowing entities like pension and insurance funds to invest in new categories of assets (private equity, infrastructure etc), with a long-term view;
- Harmonisation / standardisation of existing rules and practices - ongoing debate on the extent and the role of European or national overseeing authorities etc;
- Creating structures to share risk-pertinent data about SMEs, such as a “credit-risk database” or an “investible index” for small businesses;
- Better transparency and accountability – but the concept is still to be defined.

**Expected main steps:**
- A “green paper”, or consultation document, is rumoured to be put out before the end of **February 2015**. Eurosif will provide a briefing for members, once the paper is released.
- A public consultation, involving all stakeholders, including NGOs, is expected to take place afterwards. Eurosif will respond to the consultation. Members of Eurosif Lobby Advisory Group will be solicited for input.
- A “white paper”, or Action Plan or roadmap will be released by summer 2015, based on stakeholder input.

**Opportunities for Eurosif:**
- CMU is the talk in town and THE key political priority for DG FISMA (name of the new DG for financial services, led by Lord Hill). From a strategic perspective, it is vital that Eurosif manages to connect its policy agenda with the CMU initiative to get a chance of being heard.
- There is an opportunity to insert sustainability concerns and ESG (including corporate governance and shareholder stewardship) in the CMU – particularly when it comes to standardisation of practices and harmonisation of markets.
- As the consultation on CMU is issued, Eurosif should push for its SRI Agenda and ensure that the CMU framework is linked to Europe’s objectives on smart, sustainable and inclusive growth.
- However, further work is needed to define specific “hooks” to connect CMU to Eurosif’s policy agenda. Eurosif will engage its member affiliates to do so early.