Editorial

Principles for a European Capital Markets Union

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European financial integration has been ongoing for a number of years, with the Customs Union, Monetary Union, and more recently the Banking Union already established. The Capital Markets Union, a vision of the President of the European Commission, J. C. Junker, can be seen as the next step towards the objective of European financial integration, across not only the Euro-countries, but crucially across all 28 EU-member states.

The main goals of the Capital Markets Union can be distilled as follows: to finance jobs and stimulate growth by increasing capital markets funding, to reduce reliance and dependence on the banking system, to provide longer-term stable funding through increased cross-border investment, to encourage long-term investment and innovation, and to remove the possibility of regulatory arbitrage through harmonization.

Financing is needed to drive economic growth and employment in Europe. Bank funding has been decreasing in response to higher capital requirements. Intensified banking regulation has forced banks to clean up and strengthen their balance sheets, building up liquidity and capital buffers. To achieve this, many banks have looked to deleverage by reducing lending to businesses with the consequence of reducing their exposure to risk. Capital markets funding will provide alternative channels to help companies of various sizes obtain access to capital. Efficient capital allocation is ensured by channelling the wealth of savers towards those who can put it to productive use, such as companies or governments making long-term investments. This can play a significant role in addressing the intermediation gap between supply and demand for financing given the many different funding sources available at varying costs of capital. In addition, related derivatives markets can assist companies further in hedging and minimizing risks that arise from price fluctuations. The European Capital Markets Union should develop the broader picture for growth generation, not only focusing on Small and Medium Sized Enterprises (SMEs) but also stimulating efficient capital allocation.

After first discussions, experts agreed on *six core principles* – with each principle including key elements – that should be at the heart of achieving the objectives of the Capital Markets Union:

1. Revive investor trust
Restore trust and confidence to revive investor demand and stimulate growth. Key elements are financial education and balanced investor protection.

2. Improve alternative, non-bank funding
Given the reduction in bank funding, new sources are needed to fill the gap and lead to growth. Key elements are the creation of an "ecosystem" for SMEs, pre-IPO, and securitization.

3. Promote financial stability
A prerequisite for increasing investment activity and growth. Key elements are risk management and reduction of systemic risks.

4. Increase transparency
Price discovery and information transparency are a prerequisite for increasing stability. Key elements are the reduction of unregulated trading and dark pools.

5. Foster harmonization
Reduce costs/complexity, promote cross-border activities, and stimulate growth. Key elements are single rule books, implementation of TARGET2-Securities, and reducing other cross-border barriers.

6. Create a supporting regulatory environment
Proportionate and efficient regulation is a prerequisite for increasing investment activity and growth. Key elements are regulatory reconciliation, avoidance of regulatory arbitrage, and efficient supervision.

We are looking forward to discussing a wide range of initiatives with the combined aim of deepening existing markets and developing non-bank funding sources to allow the free flow of capital across all 28 EU member states. To realize a broad Capital Markets Union, it is important to bring the views of all interested stakeholders together and discuss their ideas.