CFA Institute

EUROPEAN CAPITAL MARKETS UNION

What It Means for Investors in the EU and Globally

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This CFA Institute white paper gives an overview of the European Commission's Capital Markets Union (CMU) initiative. The paper presents the current state of the European capital markets and what the CMU initiative could mean for investors in the European Union and globally. To inform our analysis of the initiative's key issues and to formulate our policy considerations, presented here, we conducted a survey of CFA Institute members. The white paper also covers the European Commission's public consultations on the revision of the Prospectus Directive and on simple, transparent, and standardised securitisation.

INTRODUCTION

The new European Commission announced in late 2014 that it would aim to build a pan-European Capital Markets Union (CMU) by the end of its mandate in 2019. As the first concrete step, in February 2015, the Commission published a Green Paper (a public consultation) on building the CMU. In conjunction with the CMU Green Paper, the Commission also published two other consultation papers: one on the revision of the Prospectus Directive and one on simple, transparent, and standardised securitisation. The Commission is expected to present its CMU Action Plan, a detailed roadmap, in September 2015.

The central aim of the CMU is to enhance economic growth in the European Union (EU) by increasing the role that capital markets play in the financing of the economy. The Commission hopes that the CMU will move the EU closer toward a situation where, for example, small and medium-sized enterprises (SMEs) can raise financing more easily and on more competitive terms; costs of investing fall and access to investment products expands and converges across the EU; obtaining financing through capital markets is increasingly straightforward and less constrained by regulatory burdens; and seeking funding in another Member State is not impeded by unnecessary legal or supervisory barriers. The Commission also aims to improve the availability of credit information on SMEs to improve transparency and make it easier for investors to invest in them. The Commission notes that although these changes will help to reduce reliance on bank financing, banks will continue to play a vital role in the European economy.

The CMU is not a single legislative proposal but a number of interconnected legislative and non-legislative initiatives. For that reason, the Commission has been clear that it wants the CMU to cover all 28 EU Member States.

One key part of the CMU umbrella framework is to revise the current Prospectus Directive. The revision of the directive would include efforts to harmonise the national approval processes for prospectuses in relation to offerings of securities and to mend inconsistencies in their format as well as simplifying the issuance process and reducing administrative burdens. The Commission is also expected to present a new horizontal legislative initiative on high-quality securitisation in order to harmonise capital, risk retention, and due diligence requirements for securitisations across prudential regulations (e.g., Capital Requirements Regulation and Solvency II Directive). In addition, the Commission may choose to employ efforts to further harmonise the implementation of existing rules in the EU, for example, on Undertakings for Collective Investment in Transferable Securities (UCITS).

CURRENT STATE OF EUROPEAN CAPITAL MARKETS

As the Commission's Green Paper notes, European capital markets have expanded in recent decades. Total EU stock market capitalisation, for example, amounted to €8.4 trillion (around 65% of GDP) by the end of 2013, compared with €1.3 trillion in 1992 (22% of GDP). The total value of outstanding debt securities exceeded €22.3 trillion (171% of GDP) in 2013, compared with €4.7 trillion (74% of GDP) in 1992.

Nonetheless, the national capital markets in the EU continue to be highly fragmented. They have evolved unevenly, at a different pace, with insufficient cross-border investments. There are differences, for example, in languages, the historical preferences by businesses for certain means of financing, the characteristics of pension provisions, the application of prudential regulations and administrative hurdles, and market structures. In addition, the EU Member States continue to function under uneven financial services legislation and have different rules—for example, on taxation, corporate governance, and insolvency laws. Even in well-integrated capital markets, some of these differences will remain.

One of the main goals of the CMU would be to increase cross-border investments and to expand the pool of capital available to SMEs. Unlike in the United States, for example, in Europe, SMEs have traditionally received most of their funding from banks. In the United States, medium-sized companies receive five times more funding from capital markets than their counterparts do in the EU.[1] With bank loans becoming increasingly difficult to obtain, SMEs in Europe are looking for alternative sources of financing. Within the CMU initiative, the Commission is considering whether these efforts could be intensified through high-quality securitisation or aided by increased crowdfunding and peer-to-peer lending.

[1]European Commission, "Building a Capital Markets Union," Green Paper No. 52015DC0063 (18 February 2015): http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52015DC0063.

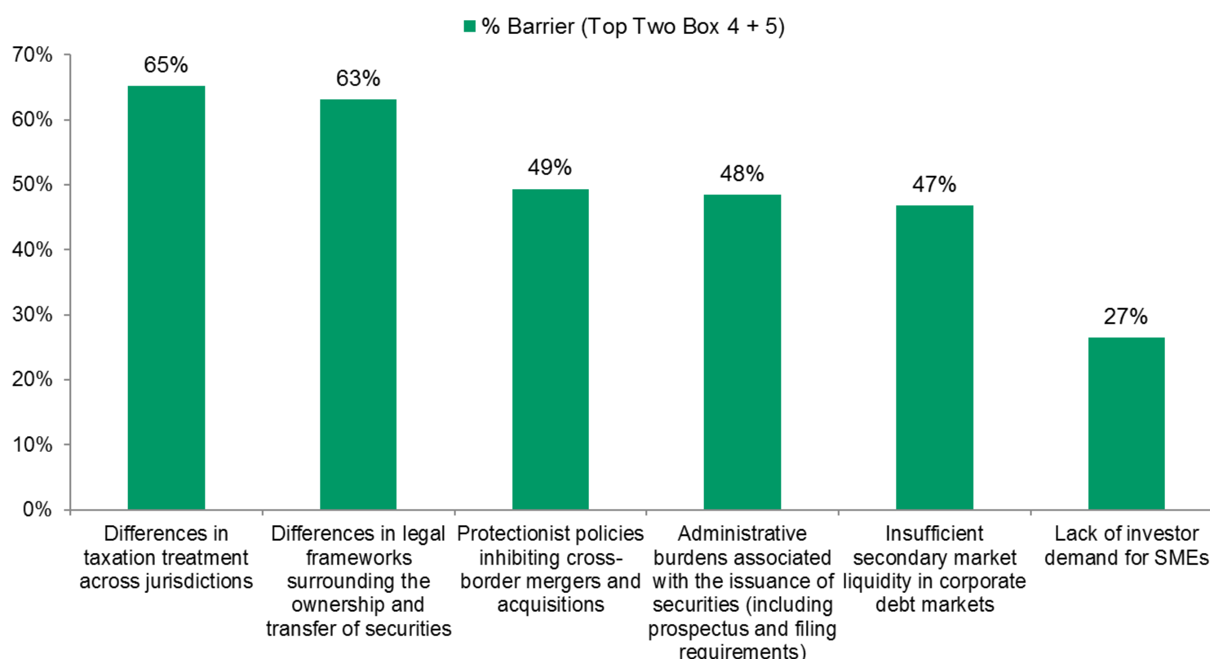
CFA INSTITUTE MEMBER SURVEY

Following the publication of the Commission's Green Paper, CFA Institute launched a survey to learn what our European members think about the CMU initiative. The survey, open to members in the EU plus Switzerland, ran from March to April 2015. Out of the 20,738 members who were invited to participate in the survey, 697 valid responses were received, for a response rate of 3% and an overall margin of error of ±3.7%.

As shown in **Exhibit 1**, the survey respondents[2] noted that the biggest barriers to the development of EU capital markets are differences in taxation treatment across jurisdictions and differences in legal frameworks surrounding the ownership and transfer of securities.

The respondents also highlighted that they would welcome further developments in the practical implementation of financial services legislation in the Member States because some directives have been

EXHIBIT 1. BARRIERS TO THE DEVELOPMENT OF EU CAPITAL MARKETS



Q: To what extent are each of the following a barrier to the development of EU capital markets?
Scale: Please rate each on a 1 to 5 scale, where 1 means it is not a barrier at all and 5 means it is a huge barrier.

[2] CFA Institute received responses from investment professionals from all 29 countries that were asked to participate in the survey. The three biggest response rates were from the United Kingdom, Germany, and Switzerland (19%, 14%, and 13% of the total number of responses received, respectively). Of those who responded, 33% have 6–10 years of experience in the industry and 22% have 11–15 years of experience.

implemented unevenly across the EU. According to the survey respondents, further stability and predictability of pan-European laws would stabilise the markets and thus aid the Commission's goal of further growth and jobs in Europe.

Further analysis of the survey results are presented in the following sections.

Cross-Border Securities Ownership

The EU has made great progress toward a more harmonised regulatory framework for capital markets in which firms can compete cross-border on a level playing field. Nonetheless, some key pieces of EU legislation still allow for the addition of requirements, so-called gold plating by Member States, as well as divergent interpretations of EU legislation.

Although efforts have been made to harmonise the rules needed for the transparency and integrity of securities markets, national legislation relating to investors' rights in securities differs across the EU. As a result, investors have difficulties assessing the risk of capital investments in different Member States. The issue concerns, for example, property, contract, corporate, and insolvency laws.

Indeed, 63% of the respondents to our member survey believe that current securities ownership rules are a significant barrier to the development of EU capital markets. In particular, CFA Institute members in the Netherlands believe that the differences in legal frameworks surrounding the ownership and transfer of securities are a problem (statement supported by 82% of survey respondents in the Netherlands). Even with the least support among all the respondents, more than half of respondents in Poland (58%) and in Italy (59%) believe that differences in securities ownership rules are a decisive barrier. CFA Institute members noted that it is almost impossible for a German retail investor to buy, for example, Italian government bonds because of registration challenges, which often means that a local-market securities account needs to be established.

Undertakings for Collective Investment in Transferable Securities

Similar to other cross-border issues, application of certain aspects of the UCITS Directive is inconsistent. National differences concern, for example, registration costs, taxation, and translation requirements for marketing materials.[3] Thus, there remains scope to provide more confidence and certainty when investing outside of the home Member State.

Because the practical application of the UCITS rules and the treatment of UCITS funds differ from Luxembourg to France, for example, cross-border investments can be burdensome. Ensuring that the investment opportunity is well understood, is easily accessible and tradable, and offers an attractive risk/reward proposition would increase cross-border retail participation in UCITS. CFA Institute also supports improving the visibility and transparency of underlying risks in the context of fund reporting and

[3]Charles Gubert, "Asset Managers Call for Fund Distribution Reforms," *International Securities Services Magazine* (20 July 2015): www.iss-mag.com/news/asset-managers-call-for-fund-distribution-reforms.

disclosure rules. With the upcoming sixth revision of the UCITS Directive, there is also potential for an enhanced implementation of the UCITS passporting rules.

Insolvency Laws

National insolvency frameworks in the EU are still divergent in their features and effectiveness. Further harmonisation could reduce uncertainty for investors needing to assess the risks in several Member States. In addition, the lack or inadequacy of rules enabling early debt restructuring in many Member States, the absence of "second chance" provisions,[4] and the excessive length and costs of formal insolvency proceedings in some countries can lead to low recovery rates for creditors and discourage investors.

More than half (58%) of the respondents to the recent CFA Institute member survey consider the divergence of national insolvency frameworks a considerable barrier to investment. Only 15% of the respondents do not consider the divergence of national insolvency frameworks to be a barrier to investment. In particular, 74% of respondents in Spain and 73% of respondents in Italy consider the divergence of national insolvency laws to be a barrier to investment.

CFA Institute thus broadly supports the harmonisation of insolvency laws in the EU. This would include harmonising the definition of insolvency, such as the time of declaration and the length of the recovery phase, as well as harmonising the filing and verification of claims by facilitating the enforcement of cross-border claims and collateral.

Bond Market Liquidity

The Commission notes that despite the recent growth in corporate bond issuance, bonds have mainly been issued by large firms as opposed to smaller companies. Bond issuance is also characterised by low levels of standardisation and price transparency. Although in recent years new electronic bond-trading platforms aimed at retail as well as institutional investors have emerged in some Member States, a lack of standardisation may inhibit the development of bond trading venues and of a liquid secondary market.

Buyers and sellers in bond markets typically have unequal access to information about prices and market conditions in the bond markets, especially when buyers and sellers meet away from an exchange. This asymmetry potentially provides protection to dealers who provide liquidity to markets, shielding their positions from opportunistic traders who would use that information. Historically, dealers have acted as intermediaries, maintaining an inventory to trade bilaterally with customers before adjusting their exposures in the inter-dealer market.

However, with tougher bank capital and liquidity requirements, dealers have scaled back their market-making activity, and bond inventories have declined dramatically in the years since the financial crisis. Given that regulatory burdens placed on banks are unlikely to ease, it seems necessary to make electronic,

[4]The second chance provisions are contained in a series of common principles for national insolvency procedures for businesses in financial difficulties that the European Commission proposed in March 2014. The Commission notes that post-bankruptcy, honest entrepreneurs should swiftly get a second chance because evidence shows that they are more successful the second time around. The principles proposed are not laws in many Member States.

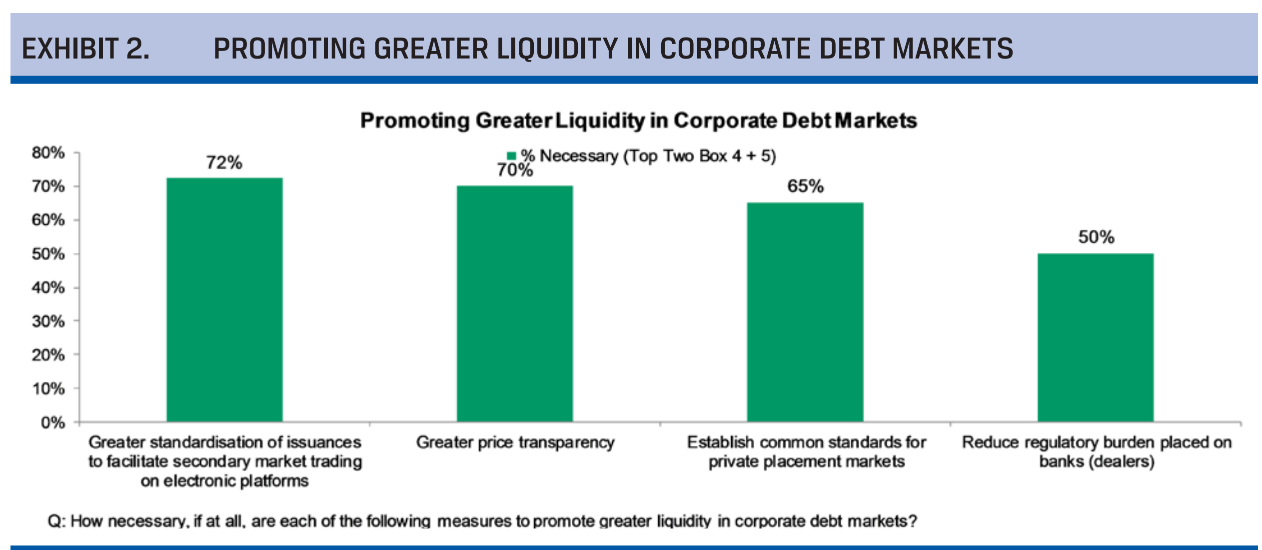
multilateral bond trading more viable, which, in turn, implies a need for greater standardisation in these markets. Less heterogeneity among issuances would enable liquidity to coalesce in an exchange-type (all to all) trading environment. A push toward greater standardisation, however, need not imply that all issuances should be standardised; issuers should retain the flexibility to secure debt financing on terms that are suitable to their specific needs, and, in turn, dealers should continue to play a key role in market making and price discovery in order to sustain a well-functioning market ecosystem.

As demonstrated in **Exhibit 2**, most of the respondents to the member survey (72%) maintained that the best ways to promote liquidity in corporate bond markets would be through greater standardisation of issuances (including prospectus and filing requirements) and by facilitating secondary market trading on electronic platforms, which would also aid the comparability of different products.

In addition, 70% of all respondents believe that greater price transparency would promote greater liquidity in the corporate debt markets. These findings also underline the importance of the Markets in Financial Instruments Directive (MiFID II) reforms in the area of non-equity-market transparency. Another possible way to achieve greater liquidity would be to establish common standards for private placement markets, which was supported by 65% of all respondents. The industry should continue to lead efforts to harmonise the European private placement market.

Half of the respondents (50%) also support the reduction of regulatory burdens placed on banks, alluding to the challenges facing banks acting as market makers and supplying liquidity to the market. Many of the respondents also noted that harmonised tax regimes in the Member States would promote greater liquidity in corporate debt markets.

EXHIBIT 2. PROMOTING GREATER LIQUIDITY IN CORPORATE DEBT MARKETS



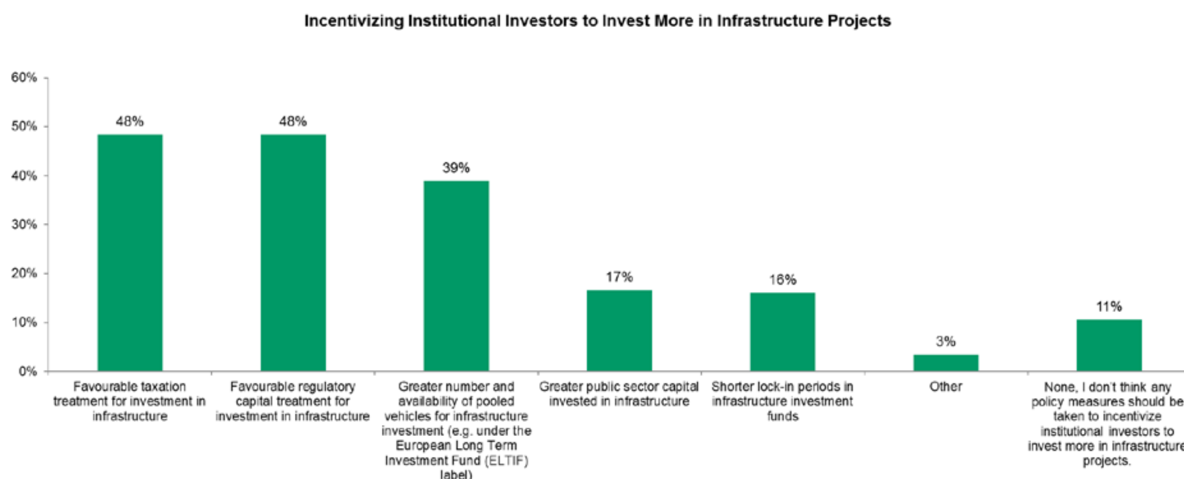
Long-Term Investments

In order to encourage investments in Europe, the European Long-Term Investment Funds (ELTIFs) regulatory framework came into force in 2015. ELTIFs will allow investors to put money into nonfinancial companies and infrastructure projects[5] for the long term.

CFA Institute believes the ELTIF framework can be an effective mechanism for addressing many of the shortcomings of direct investment and allowing smaller investors the opportunity to allocate capital to such projects.[6] Nonetheless, the development of ELTIF structures should account for the unique characteristics of the underlying assets in all investor disclosures, with particular regard to the likely limitations on investor liquidity and novel risks associated with the underlying assets. This is especially important if individual investors are to have access to these investment opportunities.

In the CMU member survey, 89% of the respondents maintained that further policy measures should be taken to incentivise institutional investors to invest more in infrastructure projects. As shown in **Exhibit 3**,

EXHIBIT 3. INCENTIVISING INSTITUTIONAL INVESTORS TO INVEST IN INFRASTRUCTURE PROJECTS



[5]The eligible investment assets are defined in Article 9 of the ELTIF Regulation and comprise equity and debt instruments issued by a qualifying portfolio undertaking (e.g., an unlisted nonfinancial entity); loans, shares, or units of another ELTIF, EU venture capital fund, or EUSEF (European Social Entrepreneurship Fund); and direct holdings of individual real assets that require upfront capital expenditure of at least €10 million.

[6]For further information, please see the CFA Institute response to the European Commission's Green Paper on the long-term financing of the European economy (25 June 2013).

almost half of the respondents (48%) believe that both favourable taxation treatment and favourable regulatory capital treatment for investment in infrastructure would positively incentivise investors.

More than a third (39%) of all respondents believe that having a greater number and better availability of pooled vehicles for infrastructure investment (e.g., under the ELTIF label) would be one of the most important measures to incentivise institutional investors. Respondents indicated less support for greater public sector capital invested in infrastructure and shorter lock-in periods in infrastructure investment funds (favoured by just 17% and 16% of respondents, respectively). One in ten respondents took the view that no policy measures should be taken to incentivise institutional investors to invest more in infrastructure projects.

Several of the members also noted that increased transparency in the design of the potential financing vehicles and the structure of the project as well as greater regulatory certainty would incentivise them to invest more in infrastructure projects.

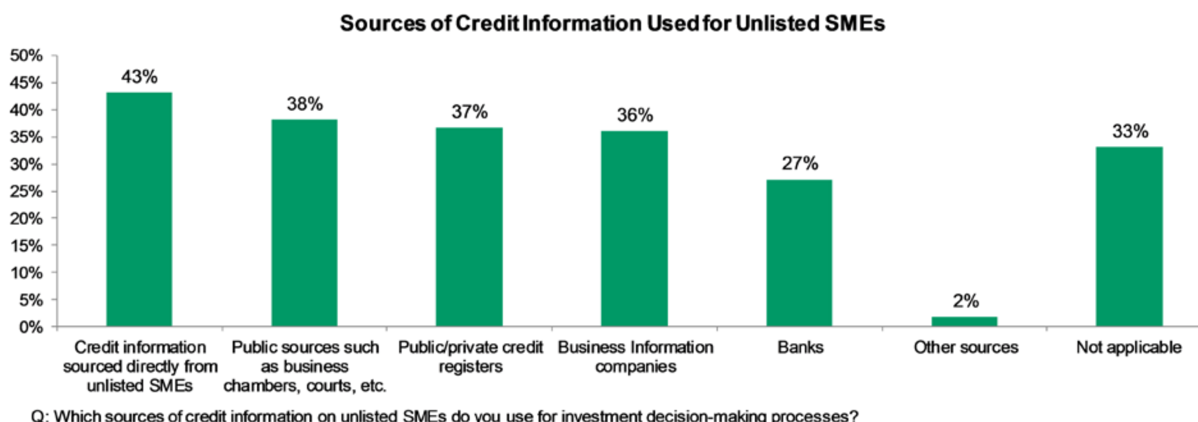
SME Credit Information

In Europe, bank lending has traditionally played a significantly larger role in the financing of the corporate sector than the issuance of debt securities in the market. SMEs often only approach banks when seeking financing. Because information on SMEs is typically limited and held by banks, some SMEs struggle to reach the broader investor base of nonbank investors. Accordingly, improving credit information would help build an efficient and sustainable capital market for SMEs. Standardised credit quality information could also help the development of financial instruments to refinance SME loans, such as SME securitisation.

In the CFA Institute member survey on the CMU, less than 6% of respondents noted that credit information on unlisted SMEs is readily accessible. According to 83% of the respondents, such credit information is not accessible. Improved credit scoring provides investors and lenders with information on the creditworthiness of SMEs. In Europe, however, about 25% of all companies and around 75% of owner-managed companies do not have a credit score. Possible action in this area could help diversify the financing of innovative and high-growth startups.

Of those who responded, 83% believe that nonperforming loan figures (amounts and statistics) are the most important types of credit reporting information needed for the investment decision-making process with regard to investment in SMEs. Similarly, our members rate highly the importance of loan details (e.g., dates, amount outstanding versus guaranteed amount) when making an investment decision (noted by 82% of the respondents). Moreover, a majority (63%) of the respondents believe that the types of credit lines are important for the investment decision-making process. Just under half of the respondents use credit information sourced directly from unlisted SMEs (43% of respondents to our survey). These and other sources of credit information are set out in **Exhibit 4**.

EXHIBIT 4. SOURCES OF CREDIT INFORMATION USED FOR UNLISTED SMES



Alternative Financing: Crowdfunding and Peer-to-Peer Lending

Crowdfunding and peer-to-peer lending in EU Member States are subject to differing rules covering integrity of crowdfunding platforms, transparency by issuers and platforms, investor access and appropriatness, due diligence, and other safeguards.[7] In some Member States, these activities are not regulated. Although diverse national approaches may encourage crowdfunding activity locally, they may not be necessarily compatible with each other in a cross-border context.

In the CMU survey, 47% of respondents stated that crowdfunding and peer-to-peer lending platforms are important in the provision of capital to SMEs. The view was supported particularly by our members in Italy—63% of respondents in Italy consider these channels very important. However, only 24% of respondents in Germany consider crowdfunding and peer-to-peer lending important for the provision of capital to SMEs.

Only 20% of respondents rated crowdfunding and peer-to-peer lending as important in the provision of capital to companies other than SMEs, indicating that these funding channels are unlikely to supplant traditional sources of financing for larger companies.

Most respondents to the survey noted that the main barrier to cross-border crowdfunding and peer-to-peer lending is the lack of investor protection in these markets. In order to ensure sufficient investor protection, CFA Institute supports a robust and transparent legal framework on crowdfunding and peer-to-peer lending in the EU.

[7]See, for example, the CFA Institute Policy Brief "Investment-Geared Crowdfunding" (March 2014) and the European Commission's "Communication on Crowdfunding in the European Union: Frequently Asked Questions," Section 6 (27 March 2014).

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Retail Investment

Retail investors' appetite for investing directly in capital markets is generally small across the EU, being predominantly channelled through collective investment schemes. However, European households have significant savings held in bank accounts that in some cases could be used more productively. Restoring the trust of investors and enhancing cross-border competition in retail financial services could bring greater choice, lower costs, and better services across the EU.

CFA Institute believes that a complete and harmonised implementation of MiFID II rules on product governance, reporting of fees, and professional knowledge and competency would provide the key building blocks to support retail investment in the EU. We also believe that the introduction of the Key Information Document (KID) for packaged retail and insurance-based investment products (PRIIPs) is a welcome and important development that should help to create more comparability and ease of comprehension for retail investors when choosing among investment products.

Moreover, financial literacy initiatives in European schools could lead to a new generation of investors with a basic understanding of their rights and responsibilities as direct or indirect retail investors, thus increasing their interest and trust in the markets.

Taxation

As the Green Paper notes, differences in tax regimes across Member States can impede the development of a single market for capital. For example, there are varying levels of taxation of similar instruments in different countries, and only very few Member States provide tax incentives for long-term investments. Challenges are also posed by the application of financial transaction taxes by some Member State national governments.

Almost two-thirds (65%) of survey respondents believe that differences in taxation treatment across jurisdictions are a significant barrier to the development of pan-European capital markets. In particular, our members in Spain and the Netherlands believe differences in taxation across the Member States are a significant hindering factor (83% and 79% of respondents, respectively).

CFA Institute believes that investments in Europe could be incentivised, for example, by granting tax incentives to investors in startups, venture capital, and SMEs and by reducing or eliminating the favourable tax treatment of debt capital (whereby interest costs are tax deductible) vis-à-vis equity capital. Nonetheless, because taxation is purely a national Member State competence in the EU, any changes to pan-European taxation policies are unlikely.

Securitisation

Securitisation refers to the process by which credits (loans) are originated and pooled, packaged into securities, and sold to investors. By creating a tradable asset with a different risk profile from the underlying collateral, securitisation provides a valuable credit intermediation function and an important source of

nonbank financing. It can provide an efficient mechanism for transferring risk and increase capacity for banks to lend.

Since the crisis, however, European securitisations have decreased in volume. In 2014, European securitisation issuance amounted only to €216 billion (just one-fifth of the size of US securitisation issuance), compared with €594 billion in 2007 (almost half the size of US securitisation issuance).[8]

As noted in a CFA Institute report on shadow banking,[9] existing regulatory measures related to securitisation have primarily addressed the potential misalignment of interests between originators and investors along the chain from loan origination to issuance and have also strengthened transparency of issuance structures and collateral.

At a high level, a policy framework for securitisation should be anchored around the needs of investors. Indeed, absent sufficient investor demand, securitisation would be uneconomical. Standardisation and simplification in securitisation markets should focus on issuance structures, including the distribution of risks across tranches; the structure of any credit enhancements or guarantees; the legal terms applicable to relevant contracts, including pooling and servicing agreements; and the definition of eligible assets, including whether the asset pool is composed of real or synthetic loans and what the underlying economic activity being supported is. Standardisation of legal frameworks across geographic markets is also desirable to improve the ease and certainty of enforcing ownership rights and creditor protections.

CFA Institute thus welcomes further details on the Commission's planned legislative framework on securitisation, in particular on due diligence requirements, prudential rules across legislations, prospectus and transparency frameworks, and the identification of "high-quality" (or qualifying) securitisations.

CMU and Interaction with Other EU Legislation

CFA Institute believes that adequate legislation in financial services will ensure safe and transparent markets for the benefit of investors and the economy as a whole. At the same time, we understand that the cumulative effect of the current financial services legislation in the EU could be clarified.

CFA Institute would be in favour of a review on how the most wide-ranging financial services legislation in the EU currently (e.g., MiFID/R II, UCITS, Insurance Mediation Directive II) interact and overlap with each other. The review could also take stock of how the post-2008 legislation has been implemented in the different Member States and thus clarify the potential need for further harmonising the practical application of financial services and markets legislation in the EU.

[8]Figures based on data from the Association for Financial Markets in Europe (AFME) and the Securities Industry and Financial Markets Association (SIFMA).

[9]Rhodri G. Preece, *Shadow Banking: Policy Frameworks and Investor Perspectives on Markets-Based Finance*, CFA Institute (April 2015): www.cfapubs.org/toc/ccb/2015/2015/2.

PROSPECTUS DIRECTIVE

In conjunction with the Green Paper on the CMU, the Commission issued a public consultation on the revision of the Prospectus Directive. The directive provides for an EU-wide regime for capital market prospectuses, which are required when a public offer of securities is made or admission on a regulated market is sought.

The prospectus is a detailed legal document setting out company information and the terms and risks of an investment. Prospectuses help to provide an equivalent level of investor protection across the EU and enable the comparability of investment options for investors across the EU. If the prospectuses are of equally high quality and conform to the same standards in all Member States, then the prospectus acts as a "quality check" on the securities that are admitted to trading.

Nonetheless, prospectuses are also costly and administratively burdensome for companies to produce, in particular in the case of SMEs. For investors, it can be complex to wade through excessively detailed information.

Harmonisation of Standards

Despite the current legislation, prospectuses are in practice assessed differently by different national competent authorities.[10] To ensure a level playing field and to simplify the administrative processes associated with preparing, filing, and reviewing prospectuses, CFA Institute believes that prospectus requirements should not differ depending on where a security is issued or listed. Currently, there are national differences associated with, for example, when the prospectus requirement kicks in and how long the approval process lasts. Having uniform requirements would also reduce the scope for regulatory arbitrage and uphold high common standards of disclosure for prospective investors across the EU.

SME Prospectus Regime

While recognising the hardship the prospectus regime may place on SMEs, CFA Institute is not in favour of having a simplified prospectus regime for SMEs. Indeed, the prospectus information may be more important in the case of SMEs because of the limitations they have regarding access to capital, revenue sources, sales markets, and management expertise. Consequently, CFA Institute believes that all issuers should adhere to the same disclosure requirements, regardless of the size, nature, or location of the issuer's businesses. If the information is not adequate, investors will have to make decisions based on insufficient information. Nonetheless, if the proportionate disclosure regime[11] is to be applied to SMEs, such companies should be required to list on SME Growth Markets. Doing so would clarify that SMEs operate on a specialised platform adhering to less onerous listing standards, including corporate disclosure standards as well as accounting and governance requirements.

[10] See, for example, the European Commission's public consultation on the review of the Prospectus Directive (p. 3).

[11] Following the previous review of the directive, a proportionate disclosure regime was introduced for certain types of issues and issuers. The proportionate disclosure regime is currently available for rights issues (i.e., offers of shares to existing shareholders who can either subscribe to those shares or sell the right to subscribe to the shares), offers by SMEs, companies with reduced market capitalisation, and offers of nonequity securities issued by credit institutions. The regime consists of a set of simplified schedules, for each of the above, with minimum disclosure requirements that are lighter than those applying to regular offers.

"Phonebook Prospectuses"

Because of the enhanced focus on liability regimes and issuer concerns of being sued for not providing an adequate amount of information in the prospectuses, European prospectuses have expanded in length, sometimes mounting to hundreds of pages. CFA Institute believes that the prospectuses should minimise the volume of extraneous information or include information by incorporation of reference. CFA Institute is also in favour of mitigating or lifting the obligation to draw up a prospectus for secondary issuances.[12]

Liability Laws

CFA Institute fully supports efforts to further harmonise liability laws among the Member States. At the moment, the same information is subject to different liability standards depending on the home Member State where the prospectus has been approved.[13] The different liability laws could give rise to a liability arbitrage to the extent that the issuer has a choice of its home state.

A Single European Prospectus Database

CFA Institute supports the creation of a single European repository for prospectuses. The database would provide a number of benefits to investors around the world, although the effective functioning of it would have to require issuers to file prospectuses both in the language of their headquarters and in English.

IMPLICATIONS FOR THE EU AND BEYOND

The Commission certainly has ambitious plans for the CMU. As always, the final implications of the initiative will depend on the political negotiations that will take place in Brussels and within the Member States in the coming months and years. The consequences for Europe could thus be wide-ranging, depending on how much resistance to the initial plans the Commission faces in the coming months.

For example, with taxation being purely a national Member State competence in the EU, it will be challenging for the Commission to push through any changes to taxation policy. Not only would it be politically sensitive to propose any harmonisation in taxation, but also any proposal to such an extent would likely meet severe resistance from the national governments. In contrast, several of the proposed initiatives, such as the revision of the Prospectus Directive, are comparatively uncontroversial and should pass the legislative process in the EU institutions with relative ease.

Companies from outside the EU would be likely to benefit from better investments opportunities if, for example, the Prospectus Directive revision creates a central database of all European prospectuses in English, thereby aiding comparability. Further harmonisation of existing EU laws would also be likely to ensure that when companies seek to attract capital from European markets, they would have access to an enlarged pool of investors.

[12]This practice is already used in the United States in the form of a "shelf registration." Under the US Securities and Exchange Commission Rule 415, companies can file a single registration document that permits the issuance of multiple securities.
[13]See the European Securities and Markets Authority (ESMA) report on the comparison of liability regimes in Member States in relation to the Prospectus Directive (10 June 2013).

Because of the divergent national practices and markets, a great deal remains to be done in the EU before the CMU shifts from words into reality. The Commission envisions the main building blocks of the CMU to be in place by 2019. With such a vast array of issues to be addressed, the Commission will have to ensure that its approach to the CMU is focused, well-structured, and consistent. Although the time frames stretch over several years, the combined effects of all the expected initiatives on European capital markets and beyond are likely to have significant consequences for the long term.