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How to achieve CMU, after all?

An analysis of the recommendations for Capital Markets Union in the Draghi, Letta and Noyer reports

The three reports by Draghi, Letta and Noyer remind policy makers that capital markets channelling savings into investments is key to competitiveness and economic growth. The recommendations of these reports could give new impetus to the long-standing flagship policy of the Capital Markets Union (CMU). In this briefing we show how securitisation, supervision, market infrastructure and savings/pensions schemes are identified as priorities in all three reports, however with different conclusions. We also discuss all other CMU recommendations in the reports.

1. Introduction - scene-setter

Strengthening European competitiveness will require significant private sector investment, so it is not surprise that the reports by Enrico Letta on the Single Market and by Mario Draghi on European Competitiveness prominently present **recommendations for developing European capital markets**, a policy pursued since 2015 under the brand "Capital Markets Union (CMU)". A third report has been written by a French group of experts headed by Christian Noyer. This report is exclusively dedicated to capital markets, but suggests **re-branding the policy as Savings and Investments Union**, a name probably closer to what businesses and citizens experience, or should experience, when dealing with capital markets.

In this paper, we try to cover **all recommendations** in the three reports that concern CMU in order to facilitate the ECON Committee future deliberations on the topic. We group the topics by theme with a **particular focus on five areas**, namely *securitisation, supervision, market infrastructures, pensions and savings, and harmonisation of business law*. For the overview of key CMU proposals refer to **Table 1** below. The remainder of the recommendations is grouped in a shorter section entitled "*other proposals*". We have selected the first four topics because they receive particular attention in all three reports, which testifies to their relevance.

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In the area of **securitisation**, all reports support reviving the use of securitisation through a series of legislative changes to release bank's capital and further expand financing. Draghi and Noyer[1] in particular call for a less punitive prudential treatment for banks and insurers as well as streamlined transparency and due diligence requirements. Furthermore, Draghi and Noyer propose the establishment of a securitisation platform backed by an EU-level guarantee for senior tranches as a vehicle to promote standardisation, cost efficiency and market deepening.

As to **supervision**, all three reports envisage strengthening the European Securities and Markets Authority (ESMA). However, differences exist in the final ambition, on one dimension, between a single regulator and a model where larger entities get central supervision and smaller ones remain in national hands, on another dimension, whether all capital markets supervision or particular areas of supervision should be centralised.

As regards **market infrastructures**, all three reports point out inefficiencies of the multitude of clearing houses and central securities depositaries in the EU. Draghi and Letta recommend a consolidation of those infrastructures at EU level. Noyer strikes a more cautious tone, recommending convergence of securities law as the path to foster consolidation of infrastructures. Moreover, he suggests the ECB's TARGET2 Securities should assume the role of a European securities depositary.

Last but not least, **concerning pensions and savings schemes**, all three reports analyse the potential of existing pension frameworks and propose ways to enhance their attractiveness to the EU citizens. They take different approaches. Letta advocates for the establishment of a common EU pension and savings product at a centralised EU level; Noyer proposes to use existing savings products (or create new ones) at the national level and suggests criteria for improving their attractiveness through domestic labelling. Draghi, on the other hand, focuses on the expansion of second pillar pension schemes by highlighting successful examples from specific Member States.

Even though it is not addressed in Noyer's report, we cover the fifth focus topic, **harmonisation of business law,** in a standalone section because of its far-reaching ambition and potential impact, since it entails areas like company, insolvency and tax law, which have a history of harmonisation difficulties. Draghi and Letta suggest a fresh advance, and their different proposals for 28th regimes certainly deserve attention. Noyer does not address this area, possibly, however, exactly because progress is not easy and because its impact extends far beyond CMU, while CMU is the exclusive focus of Noyer's report.[2]

Box 1: How to finance EU's growth model amidst global challenges?

A dedicated collection **of policy papers on different ways how to finance the EU's growth model** was published at the request of the ECON Committee in spring 2024. Some of these papers provide a general overview of policy challenges and recommendations with regard to deepening Single Market and boosting EU competitiveness, as discussed by Draghi and Letta, while others focus on the CMU more specifically. Additionally, upon ECON requests, papers were published to assess the relevance of the CMU for euro area monetary policy and relevant lessons of the Banking Union for the CMU. For an overview of the papers, please refer to the **Table 2** in the Annex.

[1] The report we refer to as the Noyer report in this briefing has been produced by a group of experts, by contrast to the reports by Draghi and Letta. For simplicity of presentation, we nevertheless refer to the recommendations of this expert group shortly as the recommendations of Noyer, which is however not meant to downplay the contribution of others and the importance of their views. Similarly, for convenience, we continue to refer to Capital Markets Union in this briefing given that the title is familiar to policy makers at this point but that is not meant as a judgement over the merits of re-branding of Savings and Investment Union proposed by the Noyer report as Savings.

[2] While the Noyer report deals exclusively with the CMU, Draghi and Letta deal with the EU economy more broadly but give important room in their discussions and recommendations to the CMU as a central instrument for strengthening the broader economy.

Table 1: Overview of key CMU proposals in Letta, Draghi and Noyer reports

Proposal	Letta report	Draghi report	Noyer report
Securitisation			
Simpler transparency & due diligence requirements	✓	✓	✓
Lower capital requirements		✓	✓
Broader liquidity buffer eligibility (LCR)			✓
Relax prudential framework for insurers			✓
Public securitisation platform		✓	✓
Green securitisation	✓		
Supervision			
Stronger role for ESMA	✓	✓	✓
"Pathways" towards SSM-style model	✓		
European SEC		✓	
Opt-in into central supervision			✓
Executive board for ESMA			✓
Add European appointees to Board of Supervisors	✓	✓	
Market Infrastructure			
Consolidation of CCPs and CSDs	✓	✓	
Convergence of securities law as path to foster			✓
Allow TARGET2 Securities to become an EU CSD			✓
Pensions and Savings			
Introduction of common EU savings product	✓		
EU label for national savings product			✓
Incentives for pillar 2 pension schemes	✓	✓	✓
Harmonisation of Business Law			
European Business Code & European Company Statute	✓		
EU-wide legal statute for innovative start-ups		✓	

Source: EGOV own elaboration based on Letta, Draghi and Noyer reports.

2. Securitisation

The three reports at a glance

All three reports call for a **reform of the EU securitisation framework to expand the use of this technique**, **release bank's capital and boost financing.**

The Letta report is the most generic in its proposals by calling for simplification by 2025. It stands out in its **reference to green securitisation as a way to foster the green transition**, though it stops short of taking a position whether this should be done through the use of proceeds - i.e. a securitisation would be deemed if its proceeds are directed towards green financing - or through an underlying-assets approach - i.e. a securitisation would be deemed green when the assets backing it are green.

The **Draghi and Noyer reports further substantiate the call for a review of the EU securitisation framework**. The two reports are quite similar by identifying targeted changes to the EU legal framework - **prudential requirements** for banks and insurers, **due diligence and transparency** obligation - and the establishment of **a securitisation platform** as key avenues for reform.

On the **prudential framework**:

- **Draghi calls for the reduction of capital charges applied to simple, transparent and standardised (STS) securitisation**, which are overall seen as safer, as current calibrations are deemed excessively punitive. Moreover, Draghi proposes a reduction of the difference between the capital requirements for securitised loans and securitisation tranches (the so-called "p-factor"[3]) that *"is criticised for being excessive and discouraging securitisation, in particular, for corporate and SME portfolios"*.
- **Noyer is quite vocal in his call to deviate from Basel standards on bank's capital requirements** (notably on p-factors and risk-weight floors for senior tranches), arguing it would boost EU competitiveness and approximate the lower US requirements[4]. In his view, such deviation would be justified by the lack of focus in the Basel committee on the prudential treatment of securitisation.
- The Noyer report proposes that some **highly-rated non-STS tranches also benefit from more lenient capital treatment** as *"some asset classes that help finance the economy may never be eligible for STS classification, primarily because they are not granular enough (loans to corporates and infrastructure projects for instance)"*.
- **Noyer also points to liquidity bottlenecks** by calling for a broadening of the eligibility of securitisations for the liquidity buffers (under the Liquidity Coverage Ratio, LCR).
- Noyer further proposes **targeted amendments to the prudential framework applying to insurers** arguing they constitute key institutional investors that have withdrawn from the market.

On transparency and due diligence, **Draghi** calls for a review by pointing to the **excessive burden of current requirements for securitised assets** relative to other asset classes. **Noyer** once again provides

[3] The p-factor is a parameter in the capital requirements for securitisation tranches that determines how much higher the capital requirement for all tranches in a given securitisation will be compared to the capital requirements for all underlying assets of the same securitisation. This is often also referred to as the non-neutrality factor and it reflects among other considerations that, because of risk diversification among the underlying loans, securitisation tranches entail more exposure to non-diversifiable risk then an exposure to an individual loan with similar default risk.

[4] Although long overdue, the US has not implemented the Basel III requirements for securitisation yet. That said, there is a pending proposal of July 2023 that has drawn criticism from industry for being, in turn, more penal than current EU requirements, see here.

extra details on the envisaged simplification of rules proposing for instance to "***streamline the content and better define the scope of application of ESMA's disclosure templates***" and for a risk-based distinction in the approach to public placements and private securitisations. Noyer also calls *for "breaking down practices and rules by market segment, nature and risk duration"* when it comes to due diligence and suggest to distinguish between EU and non-EU originators.

The **most novel proposal put forward by Draghi and Noyer is the establishment of a securitisation platform backed by a system of public guarantees** that would foster standardisation and reduce costs for smaller banks. Draghi explicitly calls for public support in the form of "*well-designed public guarantees for first-loss tranches"*.

A more detailed explanation on the design of such a platform can be found in Noyer's report. He argues that a **securitisation platform could contribute to standardise the securitisation market**, stimulate demand by offering "*standardisation, massification and transparency*" **and create a new common safe asset at EU level** that would further boost the efficiently and the depth of the EU capital markets. The platform, according to Noyer, could be **set up either at EU level or by a coalition of Member States**. In concrete terms, the standardisation of arrangements and the presence of private or public guarantees for the underlying loans would mitigate heterogeneity in risk, whereas on the supply side the cost sharing for structuring would allow smaller banks to participate in securitisation market. Such a proposal may be inspired by the US government sponsored entities (GSEs: Freddie Mac and Fannie Mae, Japan (JHF), Canada (CMHC) as well as EU national examples (Italian GACS for non-performing loan),

In addition, a European-level public guarantee for the senior tranches is suggested: while Noyer does not find such a public guarantee essential, he sees it as a catalyst as a number of national specificities would lead to inertia and limited success in this space. The platform would thus ideally rely on an **unfunded guarantee by an EU agency or a group of Member States** to prevent the need for *ex ante* capitalisation. Such guarantee would back senior tranches whereas a system of national guarantees at loan-level would approximate the risk on individual loans across Member State and borrowers.

The report suggests that the platform should target **residential real estate loans** as they constitute a homogeneous and granular asset class, with low risks associated (hence with zero costs for public finances) and significant weight in bank loan portfolios. Additionally, residential mortgages are often guaranteed at national level. According to Noyer **the freed-up capital would flow towards EU businesses,** potentially increasing lending by 25%. Noyer also proposes **corporate loan origination rules** for each bank accessing the platforms drawing inspiration from the ECB's TLTRO III and pushes back against more granular assessment of the use of proceeds, such as under the EU Green Bond Regulation, which would be too burdensome.

The Noyer proposal is distinct from the ideas put forward by KfW, the German federal promotional bank, and TSI, a German securitisation initiative, in a recent paper, where they called for a securitisation platform for SME loans pivoting around the pooling of resources and information to reduce issuance cost and encourage standardisation. Effectively, the KfW and TSI proposal was particularly tailored to the German context and more directly targeted supporting SME lending. To that end, it aimed at promoting the use of securitisation by small and mid-size banks that struggle to access the market and whose portfolios are dominated by small business loans. Their proposal in essence consists in a market-driven platform standardising structure, contracts and data for synthetic on-balance sheet transactions[5]. Two options were

[5] In this transaction, securitised asset remains on bank's balance sheet but credit risk is transferred outside the bank to the extent that is not retained by the bank.

presented depending on whether the securitisation would be done by a single operator or through the pooling of loan portfolios of several credit institutions. A guarantee would cover the part of the risk (usually 95%) that is not retained by the bank(s).

Related EU legislative initiatives on securitisation

The political debate on whether a revamp to the EU framework for securitisation is needed has dominated CMU discussion in the recent year.

Already in March 2024, the **Eurogroup in its inclusive format called upon the Commission to assess factors preventing the development of a securitisation marke**t in the EU focusing particularly on the **prudential** bottlenecks for banks and insurance companies as well as on reporting and due diligence requirements. On the same month, the **ECB Governing Council also showed support to the idea of reviewing the prudential treatment of securitisation as** well as reporting/due diligence requirements while floating the idea of a **system of public guarantees and standardisation to support targeted pan-EU issuances**, e.g. in the green space. The **European Council** in April 2024 further **put its weight behind** then need to *"[relaunch] the European securitisation market, including through regulatory and prudential changes"*.

On its side, the **Commission is already looking at what type of amendments could be carried** in this area. A consultation is currently seeking feedback on many of the issues raised in the three reports, including on due diligence and transparency requirements, prudential treatment of securitisations for banks and (re)insurers as well as on the ideal of a securitisation platform. The feedback is expected to feed into potential legislative initiatives to amend the EU securitisation framework in line with the **political mandate to Commissioner-designated Maria Luis Albuquerque to revive the use of securitisation in the bloc**.

This new momentum on securitisation marks a change in tone relative to the past **years. In its last mandate, the Commission has shown little appetite to re-open the legislative framework on securitisation**. Notably, in a 2022 review report on the functioning of the Securitisation Regulation, the **Commission indicated that the EU securitisation framework is effective in pursuing its goals** of "*establishing an EU securitisation market that helps finance the economy without creating risks to financial stability"* and concluded that *"the market seems to work reasonably well, even though expectations for a highly dynamic market with increasing volumes and a growing number of participants do not yet seem to have been fulfilled"*. At the time, only targeted improvements were suggested that would not require a reopening of the legal text.

Similarly, on the **prudential treatment**, despite the review of the Capital Requirements Regulation (CRR) and of the legal framework for (re)insurers during the current mandate, **no major action has been taken**. Moreover, in its advice to the European Commission of end of 2022, the **Joint Committee of the European Supervisory Agencies (JC) clearly posited that *"re-calibrating the securitisation capital framework for banks would not be a solution*** *that would ensure the revival of the securitisation market (...) any changes to the capital framework may have a limited impact because investor demand may remain subdued in the foreseeable future"*. In contrast to Noyer, the JC suggested that any review to the **prudential treatment of securitisation for banks should be discussed at the level of the Basel Committee for Banking Supervisions (BCBS).** The JC also **rejected calls for amendments to the liquidity framework (LCR)** or to the Solvency II framework for insurers and reinsurers.

Among the reasons presented, the JC indicated **lack of appetite for further increasing the complexity** of the already complex framework, the **uncertainty on the effectiveness** of the measures and the **costs** of amending the framework in presence of low participation and volumes in the securitisation market. The JC had instead pointed to a number of other factors that could instead stimulate interest for securitisations, including the monetary policy tightening and the increase in interest rates. AFME figures quoted in the Draghi report (see Figure 7) do not however seem to suggest that the recent tightening cycle lead to a substantive increase in securitisation.

3. Supervision

All three reports identify the **current supervisory arrangements** as an **obstacle** to capital markets development. **Letta's report is the most cautious** in this regard. It notes that the absence of a robust and standardised framework can impede further integration. At the same time, it finds establishing a single, centralised supervisor possibly premature, potentially overlooking the benefits of proximity to local markets. **Draghi's report is more assertive**, and finds that a single common regulator would be a key pillar of CMU, without analysing the underlying shortcomings of the current arrangements further. In the same vein, **Noyer finds that a "true single market cannot tolerate fragmented supervision"**. In particular, he emphasises inefficiency, disproportionate compliance cost, obstacles to competitiveness of European firms and distrust in national supervisors leading to measures to protect local markets as specific arguments against the status quo.

As to **concrete recommendations**, all three reports envisage a **stronger role for ESMA.** In particular, ESMA should take on more direct supervision of individual entities. That said, there are **marked differences in how far and how fast** the three reports recommend proceeding in that direction.

At one end of the spectrum, the Letta report recommends the system to "evolve" towards a model similar to the Single Supervisory Mechanism (SSM) for banks, with **a central instance directly supervising major entities**. Letta suggests national supervisors should then continue to "manage" less significant entities. It may however be noted that in the SSM, the ECB also plays an important role in supervising less significant banks and can take over direct supervision at any time. The Letta report **suggests "pathways" towards this end**, rather than specific transfers of supervisory power at specific points in time. The most integrated markets or significant players - how ever identified - could be assigned to ESMA, or alternatively, the Commission could be tasked with an open-ended review of the merits of more direct supervision each time a piece of markets regulation comes under review.

At the other end of the spectrum, **Draghi postulates that ESMA should become the single European regulator**, similar to the SEC in the US. In this spirit, Draghi puts forward **concrete subjects for ESMA's supervision**: (i) large multinational issuers, (ii) major regulated markets with trading platforms in various jurisdictions and (iii) central counterparty platforms (CCPs). Somewhat contradicting the idea of a single regulator, Draghi goes on to suggest supervision should still be shared with national authorities **"to overcome likely opposition"** and mentions the concept of Joint Supervisory Teams which we know from the (banking) SSM. Moreover, he suggests a sequencing of **"tactically wise steps"** towards a single regulator.

Finally, the Noyer report sets out detailed proposals for specific roles that ESMA should assume, which however extend only to **two sectors**, namely markets infrastructures and asset management. Their **most salient feature is the possibility for supervised entities to "opt in" into ESMA supervision**, trying to create some natural momentum towards centralisation while lowering possible resistance. Regarding **market infrastructures**, Noyer argues that in principle, the "most systemically important" CCPs and central securities depositaries (CSDs) should be supervised by ESMA, while other CCPs and CSDs should be able to opt in. In particular the report labels the idea that national supervision must match the ultimate national fiscal responsibility for a failing CCP as a fallacy; he points out that much rather, market participants from all over Europe have to bear the losses, creating a different agency problem with national supervision. For **asset managers**, Noyer proposes mandatory supervisory colleges led by ESMA for cross-border groups with the possibility for asset managers to opt into full direct supervision by ESME. A similar opt-in is proposed for the supervision of individual products (for example UCITS, ELTIF[6]).

All three reports entail some form of "phasing in" of direct supervision. In the legislative process of the 2017 ESAs review, stakeholders raised the concern that ESMA lacks **experience** when it starts supervision and that **fixed cost** generated by ESMA can weigh heavily on the fees charged to supervised entities if they cannot be spread over larger number of subjects. Looking back at the experience of the (banking) SSM, it seems that integrating national authorities in a **hubs and spokes model** can not only foster trust and confidence, but can also make experienced staff available, limit start-up cost and facilitate dealing with a critical mass of supervised subjects from day one. If an opt-in model is politically desired, the incentives of supervised entities to join need to be carefully considered and a mechanism might be needed to avoid that fees for supervision exceed those of national authorities.

To **underpin a stronger role of ESMA**, all three reports recommend **changes to ESMA's governance**. While currently, all decisions are taken by a board composed of 27 national representatives, Noyer suggests installing an **executive board** appointed by the European level.[7] Noyer specifically recommends **entrusting "individual decisions" to this executive board**, presumably in contrast to policy decisions such as adopting draft technical standards to be adopted as law by the Commission. Accordingly, decisions in the direct supervision of entities - more on that below - and potentially also decisions in coordinating supervisors' case-by-case, such as Breach of Union Law procedures or Peer Reviews would be taken by people with only a European mandate instead of by 27 national representatives.

The Letta report by contrast is less specific in its recommendations. It is similar to the other two in that it recommends to **staff the existing management boards with people appointed at the European level**. Moreover, it also aims to give more European orientation to the board of 27 national representatives by making the European appointees from the management board join the former. It however **leaves open which decisions would be taken by which of the two bodies**. Nevertheless, the report notes that the current governance might fall short on efficiency and independence, citing sensitive decisions in particular. Interestingly, the Draghi report boldly recommends to **detach governance from national interests**. However, it goes on to endorse the changes proposed by Letta's report, which appear less far reaching in that regard than those put forward by Noyer.

Note that the Commission's 2017 ESAs review already proposed an executive board, which was meant however not for decisions in direct supervision but to detach individual decisions in supervisory coordination from national interest. This **specific proposal met resistance in the legislative process** and was discarded in the final legislation.

[6] Regulated investment funds, namely Undertakings for Collective Investment in Transferable

[7] To be precise, Draghi does not mention the term executive board, but recommends aligning governance with the ECB, which has an executive board.

4. Market Infrastructures

The three reports see **a major inefficiency in the multiplicity of market infrastructures**. This concerns the infrastructures that clear the trades in financial instruments, including central counterparties that enter into transactions between buyers and sellers to mitigate default risk, and the central depositaries that ultimately keep the financial instruments safe, record ownership and administer the rights connected with ownership such as dividends, participation in general assemblies etc. According to the reports' views, **these infrastructures contribute to fragmentation** - higher fees and less liquidity - rather than to competition, since the existing infrastructures largely operate within individual Member States. Accordingly, the US model with a single deposit and clearing infrastructure is considered preferable as long as open and fair access, proper governance and incentives for innovation are granted, considering the utility-like nature of securities infrastructure. By contrast, the multiplicity of exchanges, the venues were trading takes place, is considered less problematic in the reports, considering not least that also in the US multiple exchanges exist.

Against this background, Draghi and Letta both recommend a **consolidation of CCPs and CDSs.** A practical pathway, according to the Draghi report, would be to consolidate the largest CCPs and CSDs first, which would exert a "gravitational pull" on the smaller ones. Neither report however is specific as to what public policy could bring about such consolidation, considering that it has not taken place by itself so far.

In this regard, the Noyer report offers a more detailed discussion. At the same time, it also **strikes a more cautious tone** on the subject: it makes any recommendations "on a prospective note". Noyer suggests that a **convergence of securities law should be the path to foster consolidation of CSDs**. Clearly, when they administer securities, CSDs have to follow the different securities laws of the Member States. The other two reports also acknowledge different securities laws as an obstacle, but nevertheless seem to envisage possible consolidation nevertheless. That raises the question if consolidation can indeed take place within an integrated CSD that manages to conform with all applicable securities laws, and what policy measures would be necessary to incentivise CSDs to go down that route. Alternatively, the question would be about the **feasibility of a political process to bring about securities law harmonisation**, which might then more naturally lead to consolidation of infrastructures. A further question, not discussed in any of the reports, concerns the merits and feasibility of a 28th regime for securities law; one that securities issuers could opt for instead of national laws, thereby potentially bypassing fragmented national frameworks.

The Noyer report expresses **disappointment with the ECB's TARGET2-Securities (T2S) infrastructure**, which in principle allows cross-border delivery-versus-payment settlement. In particular, the report finds that the system is largely used within Member States, thus not exploiting its potential against fragmentation. Noyer suggests the statutes of the system should change to **allow it to also adopt the role of a CSD**; arguably, it could then turn into the nucleus of a truly European CSD. Yet it appears that such T2S-cum-CSD would also have to face the problems current CSDs would face integrating despite different securities laws. Nevertheless, the idea of such a move by the ECB seems to dovetail with the utility-like nature of CSDs that all three reports hint at.

5. Pensions and Savings

All three reports see the potential of pension funds in the pension systems, especially when it comes to making the funds **more attractive to citizens**, an aspect that some might overlook when talking about investment strategies during an individual's life time.

The report by Letta **proposes the creation of an auto-enrolment EU Long-Term Savings Product**. In this context, Letta focuses on the importance of institutional investors, **particularly pension funds**, which are relatively small in Europe and play a less significant role compared to those in other advanced economies (which is mainly due to national differences in welfare systems and pension schemes). In the EU, Member States are in charge of decisions around pension systems, and only a few allow for long-term capital growth. Letta recognises the potential for **both collective and individual long-term savings plans** that could be **centralised at the EU level**. How can this be achieved? Letta thinks the success of these plans, like many initiatives in the EU, **will rely on tax incentives provided by Member States**. Moreover, simplifying and upgrading the **Pan-European Personal Pension Product (PEPP)**[8] could be a promising step forward.

In his report, **Draghi advocates for stronger incentives to encourage retail investors through the expansion of second-pillar pension schemes**[9]**.** He points out that certain EU Member States provide successful examples and can serve as leaders in this area: pension funds are underdeveloped in most Member States, and pension assets are concentrated in just a few countries. For instance, he notes that **the Netherlands, Denmark, and Sweden collectively hold 62% of the EU's total pension assets**. Draghi points out that **the high participation in second-pillar pensions,** which have effectively channelled household savings into productive and innovative investments, **is one of the factors behind the success of these Member States, and could be replicated at the EU level**. To address this gap, Draghi suggests that **Member States should explore various evaluation models** to give citizens more choice, allowing simplified pension dashboards to be available, along with a recommendation for a fixed portion of pension contributions to be tax-exempt. It all boils down to making pension funds more financially attractive to EU citizens.

By contrast to Letta, Draghi does not speak of a European pension product. Noyer appears to take the same approach as Draghi but goes a step further by suggesting a European label in order to coordinate national approaches instead of having a pan-EU product. As a background to his suggestions, he first **criticises the failure of the PEPP**. Political difficulties on taxation and pricing made it difficult to reach a compromise. Moreover, the existence of different tax systems in Member States led to a complicated setup of separate national sub-accounts, while the absence of tax incentives made the PEPP less attractive to savers compared to existing domestic savings products.

Since this European product has not gained traction, he suggests a European label for national products may be more effective. Member States would be **motivated to adjust their existing savings products or create new ones**. However, Member States should not focus only on developing a common European savings product, as proposed by Letta, rather **they should find a way to simplify and enhance what is already available in Member States** by applying the European label to their domestic products. Savings would primarily remain under domestic control. Noyer envisages that these savings products[10] could generate long-term investment flows of hundreds of billions of euros.

According to Noyer, the label should entail the following criteria so that households' savings will be channelled towards long-term investments:

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8 PEPP was designed as a pension product that would avoid different domestic rules, promote competition for savers, and direct savings toward long-term financing needs. This ambitious initiative proposed in 2017 by the Commission has however failed to take off.

9 Second pillar pension schemes refer to work-related (occupational) pension schemes designed to provide individuals with a retirement income that closely resembles their earnings prior to retirement.

10 Several existing schemes, including France's collective PER, Germany's Betriebsrente, and Spain's Planes de Pensiones de Empleo, could qualify for this label with some adjustments.

- **to meet long-term investment needs (e.g., in equity investments), it is essential to restrict liquidity** while still maintaining enough attractiveness for savers, especially young(er) generations; the **default withdrawal option should be upon retirement**, with some flexibility for early withdrawals during significant life events; however, early withdrawals outside these circumstances should incur a tax penalty or be outright prohibited;
- **labelled products should not include a permanent capital guarantee**, as this limits financial intermediaries' ability to invest in high-risk assets like equities; while this approach allows for a maturity guarantee (e.g., at retirement), it does not provide guarantees for early withdrawals;
- **labelled savings products should feature actively managed allocations based on investment horizon**, aligning with risk profiles of savers (although departing from this default, savers might be allowed to make some choices from a pre-defined investment universe);
- these products should be **offered collectively through employers** subject to automatic enrolment and the possibility, while employees would have flexibility to opt out and to make voluntary additional contributions; this scheme should particularly help younger and lower-income employees to build up savings, while minimising distribution costs associated with individual savings products.
- to increase attractiveness, Noyer finds it critical that labelled products benefit from **preferential tax treatment**; he envisages different variants of deductions, tax credits or tax-exemptions for earnings that could be harmonised by the label; recognising the challenge to agree this among Member States, Noyer notes that a compromise might be to require that the most favourable national tax treatment should be available for the labelled product;
- to effectively direct household savings towards EU investment needs, labelled products should channel a minimum of **80% of their assets towards investments in Europe**.

On a general note, Noyer suggests that Member States should grant advantageous **tax treatments only conditional upon investing in European assets.** He does not further discuss the trade-off between such a European bias in investment strategies and the disadvantage of potentially limiting diversification for investors who may wish to explore other opportunities.

6. Harmonisation of business law

The report by Letta recommends **harmonising insolvency regimes** as a means to promote cross-border investment and market access in the EU arguing it substantially reduces administrative and legal costs associated with insolvency proceedings. Draghi also recommends to harmonise the insolvency framework. Rather than the administrative cost of insolvency regimes, he emphasises that investors that put money into a company in another Member State need certainty about what happens if that company goes bankrupt. One might add that slow or inefficient bankruptcy proceedings may simply imply that value for stakeholders and for investors is destroyed, making some cross-border investment less attractive. Beyond insolvency, Draghi also mentions different **tax regimes** as an obstacle, and calls for removing obstacles they create. We note that in these areas, harmonisation has been tried, that some progress short of full harmonisation has been achieved and that neither Letta nor Draghi are specific on what needs to be done next and how in these areas.

Noyer's report does not touch upon the difficult areas of insolvency and tax harmonisation. As discussed above, in the context of his recommendations, the **convergence of securities laws** plays a particular role since he suggests it is a precondition for integrating market infrastructure and securities depositaries in particular.

From the **wider perspective of European competitiveness and the Single Market**, insolvency, securities and tax law harmonisation are important far beyond their role for capital markets integration. In fact, there is a **whole body of laws about doing business** that directly affect the efficiency which firms can operate both in their local market and across Member States' borders. Therefore, Letta and Draghi make proposals on business law with an **ambition beyond Capital Markets Union** that could also be extremely impactful for capital markets development and therefore deserve to be mentioned in this paper.

Letta's vision is a **European Business Code**. In its potential scope, he envisages general commercial law, market law, e-commerce law, company law, securities law, enforcement law, insolvency law, banking law, financial market law, intellectual property law, employment law, and tax law. Letta recommends as an initial step the **codification of the existing EU legal framework** that provides for partial harmonisation in these areas. Then, where the EU has exclusive competence, the Code should **replace national laws.** However, it remains unclear from the report if such a fully harmonised and directly applicable European Business Code would apply to all European companies. In fact, Letta also mentions in this context the idea of a **28th regime**, meaning a European legal regime that businesses could opt for instead of the 27 national regimes. In other areas, Letta's proposed Code will supplement national laws with new instruments that businesses can choose to utilise such as a **Simplified European Company** statute, while earlier projects in this direction had been unsuccessful.[11]

Draghi also proposes a harmonisation that covers a large scope of business law. However, by contrast to Letta, Draghi's proposal is more confined in terms of firms it would apply to. Draghi would like to see a new **EU-wide legal statute for innovative start-ups (an 'Innovative European Company' or IEC)**. Under this statute, innovative start-ups could operate across Member States under a single EU legislation concerning corporate law, insolvency procedure, as well as labour law and taxation whereas Draghi suggests to become progressively more ambitious regarding the latter two fields of law. The report contains an estimate that at least 180,000 companies should have access to this statute.

It is true that without a uniform legislation for corporations, a fully integrated capital market is hard to envisage. Therefore, proposals for a broadly harmonised business are very impactful for CMU. Yet, advances to harmonise areas such as company law, insolvency law, and tax law are nothing new and have taken us only so far.[12] Therefore, the proposed methods of harmonisation between Draghi and Letta should not only be compared on grounds of their **ambition and effectiveness**, but also on grounds of **political feasibility**. A **European Business Code for all companies** at one end of the spectrum may be considered most effective, but also most challenging on political feasibility grounds. As a **28th regime European Business Code** by contrast, it may be more feasible since it allows Member States to retain what they have in parallel. On effectiveness grounds, the disadvantage is that it cannot reach all businesses and that it creates frictions when stakeholder, public authorities and judicial courts have to deal with a national regime and the 28th

[11] The Commission published a draft regulation on the Societas Privata Europaea ("SPE") in June 2008 and declared its withdrawal in 2013. In April 2014, the Commission published a draft directive on a Societas Unius Personae ("SUP") and withdrew it in 2018.

[12] For instance regarding insolvency law, only in 1996 a first coordination via a convention was achieved. A Council Regulation on insolvency laws was adopted in 2000 and replaced by a new framework in 2017; these instruments chiefly aim at procedural coordination of yet non-harmonised national laws. A step towards limited harmonisation of the material laws themselves can be seen in the Restructuring and Second Chance Directive adopted in June 2019 that would allow viable business in distress to be rescued and honest but bankrupt individuals to be given a second chance. A broader harmonisation of insolvency laws is the subject of a proposal for a directive pending since December 2022.

regime in parallel depending on the choice of the company they deal with. Yet it also avoids frictions of harmonisation for everybody because the cost of transitioning from one regime to another fall primarily only on those that voluntarily chose the 28th regime.

Draghi's proposal of an "Innovative European Company" is an interesting case of what one might call a "**special purpose 28th regime"** in the sense that companies can opt into a 28th regime voluntarily - provided they qualify as innovative companies. In terms of effectiveness, it may reach exactly the right companies that need equity financing from the EU, but it will inevitably also miss some less innovative companies for which CMU would also be good. The above-mentioned frictions of a 28th regime aside, there may also be additional frictions due to an un-level playing field between firms with or without access to the new statute, if the latter gives a competitive edge. By consequence, the advantages of Draghi's proposal should lie in its political feasibility, and it is regrettable that Draghi does not elaborate on them. One possible advantage might come to bear if harmonising areas such as worker rights, worker representative representation, creditor rights, but maybe also consumer rights is easier for innovative start-ups than for other businesses. At least in principle one might argue that stakeholders dealing with a young company do so consciously and might be less demanding regarding their legal protections from such bodies of law.

7. Other Proposals

Supporting equity financing and venture capital in particular

Draghi and Letta both call for **efforts to support equity financing, and in particular financing of young or innovative companies**. Letta calls for a "clear strategy" in that regard, without however specifying what it could look like. Draghi is looking for a greater **role of the EU budget** in that regard. We are not fully sure if such public investments, or publicly supported investments, should be considered as fostering the CMU which should rather be about private investment. Nevertheless, we mention these ideas here since - provided that public investment does not crowd out private investment - it is imaginable that an initial public investment stimulates further private investment. Further analysis of such effects and what structures and approaches can foster them might be desirable.

Draghi calls for a reorientation with less programmes and more flexibility to shift money between priorities over time. Financial flexibility could be gained by postponing the repayment of the Next Generation EU debt whose repayment schedule was politically agreed in pandemic times. As to specific instruments, he recommends **dedicated funding schemes** for "scale-up technology companies" as well as manufacturing capacities in "certain cases", giving clean tech as an example. He would also like to see the EU guarantees for the InvestEU programme increased; there are as of September EUR 31 bn guarantees available, and the use of EUR 22 bn has been approved. To make the schemes useful for the relevant companies, he proposes a single contact point for project promoters, reduced waiting times, more use of guarantees, blending of public and private funds. Finally, Draghi would like the European Investment Bank (EIB) to take more risk through larger, more high-risk projects, innovation, start-up, scale-up financing and a "dedicated fully funded EIB equity arm".[13]

The concrete measures mentioned by Letta by contrast do not involve the use of the EU budget, possibly because his focus are internal market policies. He is rather looking for private financing and suggests an **EU wide scheme that allows private savers to invest in alternative funds** (funds that do not or not

[13] Since the EIB already funds equity, it would be interesting to know what that entails.

exclusively make well diversified and liquid investments). Currently, alternative European venture capital funds (EUVECAs) are excluding smaller savers by a EUR 100 000 minimum investment, essentially to protect them. Nevertheless, private saver can invest small amounts in venture capital in principle under EU law, for instance by granting loans that participate in earnings and losses through retail internet platforms. Moreover, another category of alternative funds, ELTIFs, which can include private equity and can, in turn, invest in venture capital funds, are open to retail investment. With regard to the ELTIFs, Letta asks **Member States to grant tax incentives to investors**.

More generally on equity financing of smaller companies, Letta suggests **raising awareness about the advantages (along with the risks) of capital markets among SMEs** and fostering a culture of capital market utilisation among them. We note in that context: already the first CMU action plan of the Commission set out to address information barriers that keep SMEs from accessing capital markets and the Court of Auditors found the success in this area limited, although the actions had been completed; accordingly, coming up with effective measures in this area seems difficult.

Stock exchange listings of smaller and innovative companies

This topic is specifically addressed only in the Letta report. Letta suggests creating **tailored market segments or exchanges**. First, a section of the capital markets for small and mid-cap companies, with simplified listing requirements proportionate to their age, size, and ownership structure; supervised by ESMA. And second, a dedicated "EU Deep Tech Stock Exchange" with specific rules and supervision for investments above a certain threshold. The report does not further elaborate on the merits of these proposals and specific measures. In general, creating stock exchanges or segments on stock exchanges is traditionally left to the exchanges and their operators and they also define specific listing rules that issuers have to fulfil. As regards legal requirements for listings, a "Listings Package" has been adopted by the legislator in April 2024, to facilitate the listing of smaller companies.

Draghi recognises that progress has been made with the Listings Package, but argues for **further simplified procedures for IPOs of high-tech companies**. However, it remains open how and why this should be limited to high-tech companies. The report also does not further elaborate how, starting from the adopted Listings Package, further simplification can be achieved. For instance, Draghi recommends allowing generally dual-class listings, while this is already an element of the Listings Package.

Infrastructure investment

Only the Letta report addresses this topic specifically. As mentioned above, Letta suggests an **EU-wide scheme allowing private savers to invest in alternative funds**, which in turn can also make infrastructure investments. Again, it may be noted that the existing alternative European Long Term Investment Funds (ELTIFs) already allow for retail investments, and the report suggests national **tax incentives** for investments in these funds. Without further specifying it, the report also recommends a comprehensive framework for **public-private partnerships**, where the public sector cooperates with private entities to fund and operate infrastructure.

The role of banks and insurers in capital markets

The Draghi report implies that **a more competitive and well-integrated banking sector could best support the development of European capital markets**; large banks in particular perform multiple functions in capital markets, providing advice to issuers and investors, underwriting issuance and ensuring liquidity. Against this background, Draghi recommends to assess whether **prudential regulation** (i.e. capital requirements and the like) are in line with a strong and competitive banking system. Moreover, he suggests that **completing the Banking Union** would allow banks to emerge that can better support capital markets. Short of achieving the complete Banking Union, which again and again proves politically difficult, Draghi recommends creating a **separate jurisdiction for cross-border banks** which would allow them better reap the benefits of cross-border integration. We believe this idea goes back to a paper commissioned by the ECON Committee, which provides **further detail and analysis**. In a nutshell, the suggestion is that supervision and crisis management should first be fully integrated at the Banking Union level for large cross-border banks, avoiding the political difficulties of extending the Banking Union project to all banks. On that basis, those banks could be allowed to meet regulatory requirements at group level only, making substantive efficiency gains available. Letta by contrast only emphasises the role of banks as investors in capital markets. In this context, he recommends, like Draghi does more broadly, to **reassess the capital requirements framework**.

Both the Letta and Draghi reports highlight the **role of insurance companies** as investors and they appear to see the existing **Solvency II capital requirements as a potential obstacle**. Without providing additional detail, Draghi suggests the Commission should assess if further changes to capital requirements for long-term equity holdings are warranted. Letta by contrast sees a way forward in **insurance supervision**, suggesting that more insurance company capital might be unlocked by coherent capital model approvals, by enhancing supervisory convergence and fostering collaboration among national authorities.

Financial literacy

The Letta report recommends strengthening financial literacy including by **integrating financial literacy into school curricula.**

Draghi does not address the topic of financial literacy. He, instead, more generally **emphasises that basic literacy and skills** (e.g., numerical, digital, green, and transversal skills) form the foundation of a competitive economy which can be achieved after **(re)design of school curricula**.

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ANNEX

Table 2: Expertise papers on Capital Markets Union (CMU)

How relevant is the Capital Markets Union (CMU) for monetary policy?		
Authors	**Title**	**Abstract**
C. Wyplosz	One Money, One Financial Market	Bringing all European financial markets under one roof, the CMU**, stands to provide European savers and borrowers with better opportunities. This, in turn, is expected to boost long-term growth and to improve the functioning of the Economic and Monetary Union (EMU).** Yet, powerful private and public interest groups have been able so far to stand in the way of this transformation. **Most governments are torn between the benefits from CMU and the pressure of these interest groups**.
A. Pekanov	The Capital Markets Union – an extra feather to the EMU	The first 10 years of the CMU have been marked by minimalistic progress. **The unfinished nature of the CMU has direct relevance for the ECB by affecting financing conditions in Member States and eroding the risk-sharing ability of the EMU**, imposing a higher burden on the ECB to act as "the only game in town". It has even bigger implications for the long-term investment opportunities and economic performance of the EU. This calls for a **renewed approach and narrative on the CMU to gather political support** to move forward.
How to finance EU's growth model amidst global challenges?		
Authors	**Title**	**Abstract**
N. Véron	Capital Markets Union - Ten Years Later	The European Union's project of **capital markets union (CMU) has disappointed in its first decade**. **The best way to revitalise it is to focus on supervisory integration through in-depth reform and further empowerment of the European Securities and Markets Authority**. If, conversely, more integrated supervision cannot be achieved, then it may be time to discard the CMU slogan altogether.
Can Banking Union foster market integration, and what lessons does that hold for Capital Markets Union?		
Authors	**Title**	**Abstract**
G. Gotti, C. McCaffrey, N. Véron	Banking Union and the long wait for cross-border integration	The banking union project has **achieved European-level policy integration of microprudential supervision but not of crisis intervention**. This largely explains the **disappointing progress in the cross-border integration of the banking sector,** which we document using data on banks' assets and also specifically on their sovereign exposures. **In a capital markets union, there is no equivalent of the banking crisis intervention framework and related public financial safety net**, and therefore supervisory integration can have more direct catalytical impact in that context than in banking.
I. Angeloni, R. Haselmann, F. Heider, L. Pelizzon, J. Schlegel, T.H. Tröger	Can the Banking Union foster market integration, and what lessons does that hold for the Capital Markets Union?	Over the past decade, the **Single Supervisory Mechanism focused on making banks safer, resulting in stronger banks but limited euro area cross-border integration.** We argue that overbanking hinders both cross-border integration for the EU and the development and integration of capital markets. In addition to a common supervisory authority and to attain the strong and integrated financial system Europe needs going forward, the **Banking Union and Capital Markets Union need to coexist and complement each other**.
T. Beck, B. Bruno, E. Carletti	Can the Banking Union foster market	We discuss the **contribution of the Banking Union in its current form to market integration in the euro area**. While the introduction of single supervision has fostered banking integration, limited progress in single resolution and the absence of a European deposit insurance scheme undermine further advancements. We argue that a significant

	integration, and what lessons does that hold for the Capital Markets Union?	obstacle to financial integration lies in the persistence of national interests in regulation, supervision, and politics. We also **explore the lessons that can be learned from ten years of the Banking Union for the development of the Capital Markets Union and the integration of capital markets**. The successes of the Banking Union in common supervision and rule-setting can provide a path forward.
R. Ayadi, M. Bodellini, B. Casu, G. Ferri	Can the Banking Union foster market integration, and what lessons does that hold for the Capital Markets Union?	We address the **role of the Banking Union (BU) in promoting market integration and the lessons it provides for the Capital Markets Union (CMU)**. First, we tackle BU's establishment, exploring whether it has achieved its original goals and discussing its main shortcomings. Second, we address market integration in the BU. Third, we advance some proposals to finalise the BU accelerating effective market integration. Fourth, **we explore various BU-CMU interconnections, introducing policy-related considerations to support the development of a well-functioning CMU**.
A.C. Bertay, H. Huizinga	Banking Market Integration in Europe and Insolvency Law	Despite considerable progress towards a Banking Union in the euro area, **banks in the EU continue to be subject to widely varying insolvency law as applied to their lending customers**. This paper provides **evidence that bank interest margins tend to be higher in countries with weaker loan enforcement**. Higher bank interest margins are a sign of less efficient bank intermediation, and hence the evidence of this paper suggests that bank intermediation is less efficient in countries with weaker loan enforcement. This policy-induced national variability in bank efficiency is incompatible with banking union.