

New proposals for future of capital markets union

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The European Commission (EC) has been working for a long time to develop the idea of a capital markets union (CMU) aimed at creating a single capital market across the EU and promoting collaboration between the member states, as well as securing the EU economy's growth and competitiveness. The EC began to work on this more actively in 2015 and developed its first CMU action plan, which has now largely been completed. The EC announced its second action plan on 24 September 2020, given the adverse effects of Covid-19 on the CMU.

The second action plan

Companies still choose banks as their main financing source, which creates low diversity in financing sources. The financing terms vary widely from country to country, which hinders cross-border financing. Also, relatively few companies obtain a stock exchange listing because of the lengthy and extensive process. To address these issues and carry out the action plan, the following key tasks have been identified:

1. Improving EU clearing services
2. Revising and improving insolvency rules to ensure uniformity across the EU and help promote cross-border investment
3. Making amendments on initial public offerings (IPOs) to help small and medium companies obtain a stock exchange listing

In the context of these tasks, the EC published its proposals for several enactments on 7 December 2022.

Development of EU clearing services

Clearing services include the sending, examination and mutual reconciliation of documents. These steps are basically carried out by an intermediary or a clearing service provider, such as a bank, assuming the role of buyer and seller in a transaction. As a result, the clearing service provider determines each member's liabilities or claims against the parties to the transaction.

In making the proposal to improve clearing services, the EU envisages that these services should be more secure, more efficient and of higher quality to help companies and investors avoid unforeseeable risks causing extra costs. So the proposals provide for:

- Creating secure and resilient supplies of clearing services by strengthening the EU monitoring rules for clearing service providers and adopting tighter security requirements for handling claims from the parties to transactions
- Minimising high-risk transactions with clearing service providers in third countries

Uniform insolvency proceedings across the EU

Each member state has different rules on insolvency proceedings, including creditor rights. This means that when it comes to deciding on investment in a member state and addressing possible consequences, investors need to consider the member state's conditions for insolvency. A number of proposals are being made to align the national insolvency procedures, including:

- Ensuring uniformity of the steps involved in preserving the insolvent company's assets to help the creditors maximise the value they receive
- Setting up creditor committees to settle claims fairly among the creditors
- Introducing various preventive procedures
- An obligation to file for insolvency in good time
- Giving micro-companies a special treatment to minimise their liquidation costs
- Preparing a summary of key elements of each member state's insolvency rules

Companies obtaining a stock exchange listing

The CMU action plan includes proposals that make it easier to enter a regulated market, such as:

- Simplifying the documentation to be filed, setting the maximum amount for an IPO prospectus or widening the range of cases where a member state may waive the obligation to file an IPO prospectus
- Redefining various requirements to prevent market abuse and avoid putting market integrity at risk
- Investment research to make small and medium companies more noticeable and attractive

The proposals mainly aim to cut down the bureaucracy and costs in order to make companies interested and give them an opportunity to obtain a stock exchange listing and raise funds.

Since these proposals are still to go through EU approval procedures, they may change over time. We will keep our MindLink.lv subscribers informed of the latest developments.