



CMU: financing the recovery from COVID-19

By *Daniel Mendes and Charlotte Bellamy*

Introduction

More than six months have passed since the COVID-19 pandemic placed financial markets under severe stress and yet further impacts are still being observed as the world economy is expected to shrink by 4.5% this year.¹ In response, governments worldwide have adopted a wide range of policy initiatives to limit the human and economic impact of the pandemic. Fiscal, monetary and macro-financial policies are the core measures deployed in various jurisdictions, with some of them also adjusting their exchange rates and balance of payments². In advanced economies such as the US, EU and UK, central bankers have cut interest rates and pumped money into the economy through quantitative easing programmes.

Authorities have also focused on financial markets regulation. A wide range of regulatory responses, for example in relation to forbearance, extensions of deadlines and relaxed prudential requirements, have been seen in the EU, UK and elsewhere.

In the capital markets field, in particular, the European Commission (EC) announced in July 2020 a [Capital Markets Recovery Package \(CMRP\)](#) and noted that these amendments are “at the heart of the CMU project”. This article is concerned with recent developments with regard to the Capital Markets Union (CMU) project, the CMRP and ICMA’s areas of focus.

CMU before the pandemic

The CMU is an EU economic growth policy originally launched under the Juncker Commission in September 2015 to establish a true single market for capital across the Member States. In its first version, the action plan put forward a wide range of goals including improving access to funding options for businesses, especially SMEs (thereby reducing risks related to over-reliance on bank financing) and offering new opportunities for savers and investors.

As an umbrella project, the first CMU encompassed a number of dedicated initiatives and legislative changes.³ The project was unveiled in 2015 with the publication of the first [CMU Action Plan](#) and underwent a [mid-term review in June 2017](#) to strengthen the existing actions and put forward new measures in response to evolving policy priorities.

As the political landscape changed, notably with a new Presidency and College of Commissioners taking office and mounting pressure to make EU economies more resilient and competitive, the completion of the Monetary Union through the CMU and the Banking Union was again put in the spotlight. Indeed, in her [Political Guidelines for the Next European Commission 2019-2024](#), Ursula von der Leyen, President of the EC, emphasised the completion of the CMU and the Banking Union as some of the objectives envisaged as part of her tenure.

1. See OECD [Interim Economic Assessment](#), September 2020.

2. A country-by-country report is available on the IMF’s dedicated webpage on the [Policy Responses to COVID-19](#).

3. For further information, please see the [factsheet](#) published by the EC and its [Legislative measures taken so far to build a CMU](#) webpage.



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Against this backdrop, the EC put together a group of experts, known as the [High-Level Forum](#) (HLF) to provide their recommendations on the way forward for the CMU in 2019. The HLF's [Final Report](#), published in June 2020, set out 17 recommendations on a wide range of issues. Overall, the HLF endorsed fully functioning, integrated capital markets and sustainable growth. The COVID-19 pandemic also played a key role in shaping the Final Report, as it poses new challenges to EU economies not originally anticipated by the EC. Indeed, the HLF's Final Report refers to COVID-19 as one of the rationales for completing the CMU.

ICMA published its [preliminary thoughts](#) on the Final Report and [responded](#) to an EC call for feedback in June 2020 highlighting a range of suggestions and concerns associated with the recommendations in the Final Report. Among these were:

- suggestions related to sustainable finance in the context of CMU;
- a concern that the impact of the proposed CSDR mandatory buy-in regime on banks' and non-banks' market making activity had not been considered;
- a concern that, while an EU consolidated tape for bonds had been discussed by the HLF, the Final Report did not include a formal recommendation in this area;
- a suggestion that the scope and purpose of the PRIIPs Regulation be reviewed (as well as any review of the disclosure requirements);
- support for a review of the European Long-Term Investment Funds (ELTIF) Regulation; and
- support for the proposal to recalibrate insurers' and banks capital charges in order to boost the securitisation market.

The new CMU Action Plan

On 24 September 2020, shortly before the publication of this article, the EC published a new [CMU Action Plan](#) and associated [Annex](#) building on the recommendations of the HLF Final Report.

Essentially, the new Action Plan is concerned with four key issues: economic recovery from COVID-19, green transition and transformation, a more inclusive economy (eg strong market-based pension schemes and increased access to capital by retail investors), and the EU's competitiveness globally.

These goals translate into 16 measures that are expected to make the EU economy more resilient and inclusive, consolidate the EU's attractiveness as a safe place for savers and long-term investors and build a so-called "genuine" single capital market by integrating national capital markets. In concrete terms, the EC is expected to take various actions, from internal assessments to proposing new, or amending existing, legislation.

ICMA is assessing the relevance and impact of these action points to its members and published its [preliminary thoughts](#) shortly after publication of the Action Plan. Many of ICMA's preliminary thoughts reiterated or aligned with the points ICMA raised in responding to the High-Level Forum's Final Report.

Capital Markets Recovery Package (CMRP)

While the new CMU Action Plan incorporates long-term goals such as allowing "the EU's economy to grow in a sustainable way", the [CMRP](#) announced by the EC in July 2020 is driven by an urgent need for capital flows to finance the recovery of the real economy in the near-term.

The CMRP aims to ease financial markets rules to help companies meet their funding needs and improve efficiency of the capital markets in the context of the COVID-19 pandemic. In particular, it includes proposals for a short-form prospectus for certain secondary equity issuances, adjustments to the securitisation regime and

certain amendments to the MiFID II/R regime. These translate into targeted amendments to the Prospectus Regulation regime, the Securitisation Regulation and CRR and MiFID II/R.

The ICMA primary market community has been following closely the proposals to amend the MiFID II/R product governance regime. Further information is reported in the article on *The CMRP: MiFID II/R Product Governance* in this ICMA Quarterly Report. Elsewhere, the [proposals](#) to amend the Prospectus Regulation are not anticipated to have a significant impact upon ICMA primary market members operating in the wholesale debt capital markets. Further information can be found in the article entitled *Prospectus Regulation Developments* in this Quarterly Report.

With regard to secondary markets, ICMA welcomes the proposals related to costs and charges disclosure, suspension of best execution reports and alleviation of cost-benefit analysis requirements under MiFID II/R. However, in its September 2020 [response](#) to the EC [consultation](#) on the regime for research on small and mid-cap issuers and on fixed-income instruments, ICMA's Asset Management and Investors Council highlighted several implementation challenges with the partial review of unbundling rules, which is unlikely to revive SME coverage. It also recommended considering other policy options to support SME funding, ie amending rules on free trial and sponsored research. An article in the Asset Management section of the Quarterly Report draws particular attention to this discussion.

The CMRP awaits political agreement between the co-legislators at the time of writing. Given the pivotal role of capital markets in financing the recovery from the pandemic - which has been expressly highlighted in the new CMU Action Plan - as well as policy makers' desire to reduce reliance on bank-financing, there would seem to be political appetite for a achieving a compromise between the EC, European Parliament and Council soon. Indeed, legislative progress has been observed. For example, the European Parliament published a [draft report](#) on 18 September with amendments to the EC's proposal for amending MiFID II/R.

Following agreement and adoption, the amendments to the Prospectus Regulation and the Securitisation Framework will apply directly across the 27 Member States. As for MiFID II/R, the changes will need to be transposed into national legislation before they become applicable.

ICMA will continue to monitor and engage on issues that are of interest to its members under the CMRP.

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