Finance Watch
Making finance serve society

SUBJECT I Finance Watch response - European Commission's Call for evidence - Communication on European Savings and Investments Union

Brussels, 7 March 2025

Success of the Savings and Investments Union (SIU) requires effective implementation of measures which have been well-identified in the effort to advance capital markets integration and to complete the Banking Union. While most of these measures are already defined, more crucially, the SIU will require political will from Member States to act in the common interest and beyond the narrow interests of specific stakeholders at national level.

**Developing a capital markets union (CMU) in the EU has a number of prerequisites:**

1. Creation of a truly **single legal framework**, which underlies the functioning of the market, i.e. EU-wide insolvency law, company law, harmonised tax regimes.

2. Creation of a **common integrated market infrastructure** to remove fragmentation (cost and information), which includes repatriating clearing to the EU and consolidation clearing and securities settlement infrastructure.

3. Creation of a **single EU market supervisor** with sufficient powers, incl. direct supervisory powers where appropriate, independent governance and resources (to address also emerging risks such as AI, climate change and environmental degradation etc).

The capital market - just like any market - relies on both supply and demand. This means that adequate **retail investor protection measures** are essential to ensure the trust of investors as capital suppliers. At the moment this is not the case. The Retail Investment Strategy has failed to address existing problems in the retail investment market, in particular the issue of distribution models and inducements (refer to the Finance Watch's, Better Finance's and BEUC's joint reaction). Further, supporting **real economy policies** will be of crucial importance to provide for the demand side in the capital markets, i.e. generate a supply of attractive investments and counteract the current trend, which sees a large amount of EU investment going to the US. This requires policies to stimulate entrepreneurship, innovation and creation of companies, which would attract investors.

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**Neither CMU nor the Banking Union (BU) will automatically channel money into the green transition (nor other priorities defined by the EC).** For this to happen, rules are needed to adapt the **prudential framework**, pricing in **climate-related risks as well as broader environmental risks.** There also needs to be a **coherent and credible sustainable finance framework** to both provide market agents with reliable and comparable information, and to direct their behaviour towards activities that facilitate the green transition (refer to the Finance Watch's proposals). Progress on the sustainable finance agenda is essential here - to ensure continuity of efforts towards the green transition and legal certainty for companies, in particular SMEs. It has long been recognised by financial supervisors that a disorderly transition poses a major risk to the economy and the financial system. By extension, a disorderly transition also poses a major cost for society as a whole. In this context, the proposals included in the EU Omnibus Directive are of major concern (refer to the Finance Watch's reaction). Without credible rules on ESG risk management, the CMU is likely to further contribute to increasing climate-related risks in the system and simultaneously weaken the prudential safeguards set to absorb them.

**For the completion of the Banking Union, the following measures are of essence:**

1. **Implementation of the European Deposit Insurance Scheme (EDIS)**:
    - With EDIS in place, national authorities will be more likely to support cross-border integration, as it alleviates concerns that, in a crisis, the national safety net may lack the capacity to compensate local depositors.
    - EDIS is indispensable to guarantee an equal level of depositor protection across the BU, which is the fundamental objective of the union.
2. **Completion of the banking recovery and resolution framework to make it functional (CMDI)**. This includes:
    - Ensuring banks build an adequate level of resolution funds: The 8% MREL requirement should be fulfilled without tapping into deposit guarantee schemes (DGSs), which remain insufficiently and evenly funded across the Member States.
    - Ensuring sufficient funds are available to resolve failing banks: The size of the SRF must not be capped and ESM backstop must be ratified.
3. **Maintaining financial stability.** This includes:

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- Completion of the implementation of the post-crisis reforms - faithfully and timely implementation of Basel III while resisting the international race to the bottom.
- Integration of climate-related financial risks into the prudential capital standards to build banks' loss absorption capacity in the view of the growing systemic risk posed by climate change.
- Addressing the risks related to the non-banking financial institutions (see Finance Watch's response to the Commission's consultation).

**The EU should also avoid focusing on "false" measures -** measures that benefit a narrow circle of market participants and have nothing to do with the stated ambitions of CMU and BU:

- **Securitisation** is the most-widely discussed measure. Yet, securitisation remains a niche concern of interest to a very narrow group of market participants and will not contribute increased financing to the EU economy, in particular SMEs. Currently, 80% of securitisations remain on the banks' balance sheets. The main motivation for the banks to securitise is to get access to funding (liquid collateral). Moreover, securitisation deepens dependence on banks, which runs contrary to the CMU objectives. There is no conditionality attached to securitisations in terms of where banks should redeploy capital. Also SME loans are mostly unsuitable for securitising due to their varying maturities, lack of collateral, and high heterogeneity. We refer to the Finance Watch's position papers on the topic for detailed discussion - a position paper on securitisation role in the CMU and a position paper on securitisation risks.
- **The 28th Regime** raises more questions than it answers. While the idea of simplifying rules for businesses in the Single Market may sound appealing, this initiative challenges the legal and sovereign foundations of Member States. Insolvency, labour and tax laws are deeply rooted in national systems, and the lack of clarity on how the 28th regime would interact with existing frameworks risks creating fragmentation rather than unity.

  For instance, creditors may face confusion under conflicting insolvency laws, workers may be subject to unequal protections within the same country and concerns over tax competition could undermine fair play across Member States. Enforcement is another critical question, as it is unclear if disputes will fall under the competency of national courts or a centralised EU body.

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