13 May 2015

# Capital Markets Union

COMMISSION CONSULTATION

## Improving access to finance

*The need for a Capital Markets Union*

Access to finance is vital for companies and growth. For historic reasons, European businesses, and especially smaller and medium-sized businesses, are highly dependent on bank lending. Given regulatory and balance sheet pressures, bank lending will continue to be under pressure in the coming years. There is a significant risk that as economic growth picks-up banks will be unable to meet companies' funding requirements on the desired scale. Capital markets are fragmented and regulated differently across the EU. Some of the integration achieved has been lost due to the crisis. As a result, while in some Member States there is a shortage of funding for productive investment, in other Member States there is abundant liquidity and a lack of assets offering adequate returns. Against this background, if Europe wants to create growth and jobs, financing sources need to be diversified and cross-border capital flows strengthened. It is therefore particularly important to create a comprehensive and well-designed Capital Markets Union which encompasses all 28 Member States and favors the development of a level playing field and allows markets to integrate.

In a comprehensive and well-designed Capital Markets Union all market participants with the same relevant characteristics should face a single set of rules, have equal access to a set of financial instruments or services, and be treated equally when they are active in the market. Therefore, it has to be clear which areas have to be included in an effective "union" and, on the other hand, which areas need to be simply better harmonized. This will in particular help growing medium-sized firms to access finance. Deeper and more liquid markets would also act as a buffer in the face of financial turmoil and are key for reducing the cost of financing whilst encouraging cross-border trade and investment. Such a Capital Markets Union, supporting and complementing the Banking Union and the objectives of the Juncker Plan, is the true keystone of the Commission's strategy to strengthen Europe's competitiveness and to stimulate investment for the purpose of job creation over the next five years.

BUSINESSEUROPE thus welcomes the Commission consultation also because it is addressing a more balanced regulatory approach between financial stability and growth.

*Priorities*

The launch of the consultation is a first important step, but needs to be followed up by concrete initiatives that seek to resolve the insufficient financing and investment in the EU striking the right balance between long term ambitions and urgency. BUSINESSEUROPE appreciates the pragmatic and realistic approach of the Green

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Paper which distinguishes two complementary sets of measures: on the one hand, measures on which it is possible and necessary to rapidly proceed and, on the other hand, complex measures which need a longer maturation process.

In this respect, we agree that the first initiatives should be to develop standards on securitization, develop a framework for a voluntary SMEs credit information system, strengthen private placement markets, promote the use of ELTIFs, and to review the prospectus directive. It is important that these actions are not unduly delayed by a too wide-ranging agenda. Further harmonization in complex areas relating to insolvency, tax and corporate governance are rightfully recognised as longer-term challenges. While a reflection on these issues should start now, rushing actions in these areas as part of the Capital Markets Union, however, could risk delaying the overarching objective of boosting investment for firms across Europe.

*Cumulative effects*

The Commission also needs to urgently consider the cumulative effects of all EU policies on the availability of finance, as well as the broader impact of policies on companies' investment decisions. A number of legislative projects, recently adopted, planned, and under discussion, have all impacts on financing conditions such as capital and liquidity requirements for banks, insurance companies and institutional investors; rules on private equity and money market funds; rules on financial instruments and derivatives; accounting requirements on how financial institutions account for bad loans and financial tax and resolution schemes. The combined effects of all these rules, together with new bank structural reform measures, may jeopardise European companies' access to financial markets on competitive terms and their ability to find investors. A higher degree of consistency between regulatory measures is essential to ensure a proper functioning Capital Markets Union.

In particular, the proposal for a Financial Transactions Tax (FTT) and the proposals for bank structural reform, currently under discussion, contradict the objectives of the Capital Markets Union which encompasses all 28 Member States and should thus be discontinued. The FTT represents a major burden for the construction of the Capital Markets Union, slowing down the integration of capital markets and worsening current fragmentation. It would reduce the attractiveness of investment in shares and corporate bonds hindering the acquisition of additional growth capital. The framework on bank structural reform would hinder European companies in regard to their hedging and liquidity needs (market-making).

In order to create growth and jobs, businesses need stability and regulatory certainty. In the future, the EU and Member States should carefully assess the need for new legislation and focus on bedding-in the reforms of recent years.

**Information problems**

*SME research aimed at improving information*

Overcoming information problems about small and medium-sized companies will help to improve access to capital markets for those growing medium-sized firms that are most likely to benefit from easier access to finance, particularly longer-term, patient growth capital. The availability of widespread and diverse research on such companies is essential to ensuring greater funding diversification. In this context, it is especially

important that implementing legislation in the framework of Markets in Financial Instruments rules (MiFID II) does not seek to unbundle trading and research fees. This will lead to less demand for SME research which is already unsatisfactory. This will make it harder for these companies to access capital markets and find investors contradicting the objectives of the Capital Markets Union.

*SME credit information*

BUSINESSEUROPE is open to discuss the issue of enhancing SME credit information as a way to improve access to finance. Increasing transparency in this area could mainly benefit the growing medium-sized firms that wish to access capital markets and that have a good profile for this. It is thus important to avoid a blanket approach for increasing transparency of credit information which would impose disproportionate burdens on companies for which increased transparency would not give any relevant and decisive help in the search for alternative (non-bank) finance. As a matter of fact, very small companies, self-employed people, and companies with a very little size and with simple governance might not be interested in rating and in financing tools different from credit, but the existence of an efficient capital market may encourage them to proceed towards growth paths, also through mergers or other forms of ventures. Transparency and information availability, are after all the key elements for attracting investors.

In this context, BUSINESSEUROPE agrees with the idea of creating a minimum, simple and shared set of data to build a credit scoring system available to SMEs interested in accessing capital markets. This system should be implemented through the creation of a common European platform, where SMEs looking for finance could voluntarily insert their data and keep them up to date. This information platform would represent a “shop window” for those companies interested in financial instruments different from bank credit and a toolkit for potential investors to easily access relevant information about target companies, finding suitable investment opportunities. Such an instrument would allow companies to reach international pools of liquidity. Investors could approach these companies and, after a deeper analysis, define the financial instrument fitting the companies’ needs. In order to avoid significant data protection issues, related to the interconnection to the platform, information access should be restricted to potential investors (e.g. financial institutions, investment funds). Moreover, enterprises should have the possibility to ask support to third parties to access the platform and transmit their information. The platform would be very interesting also for innovative SMEs, with high risk profile but extremely important for technological development, as it would offer them the opportunity to address a wider range of investors.

*Increasing business awareness of financing options*

BUSINESSEUROPE believes that it would be helpful if banks could be encouraged to provide advice about alternative financing opportunities to companies whose credit applications are declined. A significant barrier to firms accessing capital markets is culture and awareness, with businesses not wanting to opt for alternative finance or aware of the options available. Equity, for example, is underutilised as a source of financing, predominantly due to a lack of equity culture and misperceptions on how equity can work for businesses. Education on the options available and providing access to the right information is key.

*Prospectus Directive*

We also agree to review the current prospectus regime. The cost of publishing prospectuses or updating those for issuance programs (e.g. EMTN) is very high for companies of all sizes and new rules should strike the right balance between protecting investors and not burdening companies with excessive compliance costs. The complexity of documentation required for retail investors is not only a cost issue, but also a stumbling block for the targeted investors, who might need to go through hundreds of pages. Prospectus updates and new issuance is often limited to relatively small time windows after quarterly company reports. Not only do these requirements bind significant personnel resources, but also do they lead to periods with many corporate bonds being issued, creating comparable time pressure for the investor side having to evaluate such new issues. BUSINESSEUROPE recommends streamlining the prospectus regime for all issuers, thereby increasing the exemption for small and medium-sized companies. Having said this, the main underlying problem is the costs for getting listed (and for being listed). BUSINESSEUROPE suggests that the Commission examines ways through which these costs could be reduced. This should include costs related to the acquisition of capital (such as fees) and alternatives (different markets vs outsourcing or insourcing of operations) as well as benefits (visibility, ease for capital acquisition etc.). Another issue that should be addressed is the implementation at national level as often additional burdens are added when transposing the EU rules leading to different requirements and definitions that are very burdensome for companies.

*Investor protection*

Regarding the issue of investor protection, BUSINESSEUROPE would like to stress that as we are currently in the process of an overhaul of the Markets in Financial Instruments Directive (MiFID II), which includes a wide range of new rules aimed at increasing consumer and investor protection. Some of these rules are extended to purely professional parts of the markets (e.g. derivative hedging of institutional clients like corporate) which are not populated by individual or retail investors. We would recommend that the Commission does not consider any additional rules before the recent changes have been implemented as it would be very important to first analyse the impact of those changes on markets.

*Accounting standard for SMEs listed on a MTF*

BUSINESSEUROPE does not support the proposal of defining a new accounting standard for SMEs listed on MTF. As IFRS and IFRS for SMEs are already in place, the creation of a third new standard would not represent a step forward in terms of transparency and comparability. Moreover, Member States are adopting the Directive 2013/34/EU, which will become effective in a few months. The Directive modernizes the accounting criteria through the adoption of some IFRS principles, fostering the process of accounting harmonization in order to achieve a more effective common accounting language.

The use of any standard for SMEs – either IFRS for SMEs or a specific standard for SMEs listed on a MTF - should not be mandatory or a requirement to be listed on a SMEs growth market or MTF. Although IFRS for SMEs may be beneficial to non-listed companies being active in international trade and/or seeking cross-border financing, the cost of compliance could also outweigh any commensurate benefits. While for

some companies the costs would be justified by the increased comparability of accounts for users, there will also be many companies not engaged in international activities where this will not currently be the case as the users of their financial statements will often be local and familiar with local accounting guidance. Companies should thus be given the option to adopt IFRS for SMEs. The specific company is the best one to decide which financial reporting regulations/standards should be applied in its communication with stakeholders.

*Access to EU funds*

There is a lack of awareness with respect to the access to EU funds for companies. Many enterprises, in particular SMEs, have no clear information of eligibility rules; what needs to be done to access EU funds, and which financial intermediaries to contact as required in many operations with the European Investment Bank (EIB). In addition, to the complicated legal framework, compliance with procedures is both costly and time consuming, forcing many companies to use alternative sources instead of EU funds. Moreover, despite the efforts to cut red tape and make EU financial instruments playing a more important role, access to EU funds is still difficult for SMEs. The uptake of EU financial instruments that can play an important role in the current context, remains poor.

In this context, BUSINESSEUROPE would like to stress that although public funds play an important role for the long-term financing of small and medium-sized enterprises, in principle, the public sector cannot substitute for the private sector.

**Infrastructure investment**

The dramatic fall in EU investment (by about 15% since its 2007 peak) that followed the economic and financial crisis, is slowing down the economic recovery. Therefore the green paper rightfully recognizes that the EU requires a significant amount of new infrastructure investment to promote its growth and competitiveness.

With the Communication “An Investment Plan for Europe” the Commission has proposed a comprehensive strategy, with the aim to mobilize up to 315 billion Euro over the next three years to relaunch investments in the EU. Infrastructure investments in transport, energy and digital economy are expected to benefit of almost 240 billion Euro. While the Investment Plan represents a first step along the way of economic recovery, further actions are needed to promote infrastructure investments and to fully benefit of its countercyclical positive effects.

Strong efforts regarding the financing and development of cross-border infrastructures in transport, digital economy, electricity and gas sectors, modernisation of transport and energy infrastructures, as well as expansion of energy storage capacity are needed.

In this context, a right mix of public and private resources should be encouraged. While public resources should be used to address investments without profitable economic return or to cope with market failures, private resources should be preferred whenever, even in the long period, a reasonable profit could be achieved. In this respect, initiatives such as the Project Bonds Initiative (PBI), which try to fill the existing gap between the liquidity available in the capital markets and the difficulties to reach

attractive investment, should be further enhanced as the green paper positively underlines.

Furthermore, as the involvement of capital markets into infrastructures investment mainly depends on public administration efficiency, an adequate PA performance is fundamental to ensure reliable and steady infrastructure programs and give certainty to projects engineering and financial planning. Clearly, those issues are also relevant with regard to the Juncker Plan implementation: an evaluation grid of the procedural and financial elements is necessary to allow private capital to invest in infrastructure projects.

Finally, also EU structural funds have a fundamental role to play in infrastructure investment, to the extent of promoting economic and social cohesion and addressing structural weaknesses. The review of the Multiannual Financial Framework in 2016 should ensure that funds are properly channelled to growth-enhancing projects and programmes that can increase the competitiveness of the European economy.

*Project bonds*

Projects bonds have the potential to be an important instrument for providing supplementary financing for large infrastructure projects, particularly of a cross-border nature. Nevertheless, the volume of issued infrastructure project bonds is still small, and infrastructure financing is mainly dominated by direct equity and bank loans.

In order to channel available finance towards infrastructure projects via this instrument, there should be a supply of properly structured and viable projects as investors need to be sure of their financial closing and of a realistic long-term probability of profitability. In this respect, the expertise of the EIB and of national agencies could support public authorities to structure profitable projects for capital markets. In addition, there should be a stable and predictable regulatory framework, enriched of specific pro-investment fiscal and legal measures. Finally, to allow bonds to be widely used they should be supported by adequate guarantees. At the EU level, bonds can increase the attractiveness of projects by allowing the EIB to absorb some of the risk. In addition, the development of specific monoline insurances markets should be envisaged.

*ELTIFs*

Private European Long-Term Investment Funds (ELTIFs) are potentially an important part of a Capital Markets Union as they aim to increase the finance available to companies in search for long-term capital for projects, for example, relating to energy and transport, but it is still too early to assess how successful they will be bearing in mind also that the regulation contains quite detailed and burdensome provisions.

*The role of institutional investors*

Institutional investors, such as pension funds and insurance companies, normally pursue a long-term investment strategy. These investors should be encouraged to invest long-term risk capital when we need such partnerships between European companies and long-term investors to generate employment and economic growth. Unfortunately, the supply of financial resources by institutional investors is hindered by new prudential rules. For example, insurance companies will be unduly burdened with capital requirements following Solvency II. These rules need to allow for insurers to

invest in infrastructure over the long-term without increasing barriers to investment. They should take account of the respective structures of assets and liabilities, given that long-term liabilities need to be financed by long-term assets. Also, the issue of appropriate risk evaluation is central for the correct calibration of the rules. The rules should reflect real risks.

**Company law and corporate governance**

Appropriate company law and corporate governance arrangements also play a role in encouraging institutional and other investors to provide capital to companies. However, it should be avoided that these rules impose unnecessary burdens on companies and investors such as overly prescriptive disclosure obligations in the context of the proposal to revise the shareholders rights directive. The one-size-fits-all approach to directors pay and related party transactions in the proposal will create a disincentive for accessing capital through equity markets and for competitiveness in general. The diversity in corporate governance models in the EU is an asset, not a problem. Corporate governance should remain covered by soft law and by the complain-or-explain principle. This approach combines investor's need for transparency with companies' need for flexibility. It is vital that corporate governance rules do not make it less attractive to become or remain a listed company.

Having said this, BUSINESSEUROPE supports creating minimum requirements to facilitate the identification of shareholders as an increasingly complex and internationalised holding chain makes it difficult for companies to be able to identify and communicate with its own shareholders.

Another issue is linked to the mobility of companies. Improved cross-border mobility would increase opportunities, reduce legal uncertainty, costs and free-up resources for investment. Companies cannot yet fully exercise their freedom of establishment provided for in the Treaties. In some cases, when a company wants to move its registered seat from country A to country B, it has to dissolve itself in country A to be able to move. A Commission initiative regarding the transfer of a company's seat would be significant for the elimination of these mobility constraints. It should give businesses the right to relocate and to fully enjoy the potential of the internal market whilst creating legal certainty for the market, creditors, investors, members and workers.

Lastly, the EU needs a more digital company law. Some EU directives in the area of company law are decades old, conceived long before the internet and modern information technology. It is key that European and national company law use the increasing benefits provided by the digitalisation of the economy. For example, only 16 Member States currently allow for the creation of companies using on-line tools. This could be extended to all Member States if the proposal for a single member company were to be adopted. The Commission proposal to amend the first and eleventh company law directives in order to bring them up-to-date with modern information technology and reduce administrative burdens should be taken up again as well. Another example regards shareholder voting in a cross-border context where the use of technologies could help shareholders get more engaged with the companies in which they invest. Due to the rapid development of technology any EU promotion of technical systems for cross-border voting should always be voluntary so BUSINESSEUROPE would not support mandatory requirements on the use of technologies.

**Standardisation**

Market participants should be free to explore standardisation, which is voluntary, market driven and not defined by regulation, when this is beneficial for businesses, for example when such standardisation leads to simpler procedures and lessens information needs when issuing financial instruments or helps creating liquid secondary markets attracting investors. On the other hand, companies, above all SMEs, often need tailor-made financial instruments, depending on their financial situation and objectives. Non-financial companies are not issuing bonds as regularly as financial companies mainly because their requirements and funding structures are different. These companies borrow money against long-term investments in operative capacity. They require tailored financing, be it with regard to currency issued, volume, or exact tenure, or with regard to seniority of the bond or even bond tranches being issued (e.g. senior unsecured, subordinated, or convertible, PIK, etc.). In that way, the financing of a company is like hedging operative risks with derivatives, where it is also vital that the solutions can be fit to the occasion. Standardising terms and conditions could be problematic for these corporate issuers, and might lead to less issuance. BUSINESSEUROPE thus opposes any regulatory action in this area.

BUSINESSEUROPE believes that the main reason for inadequate liquidity in bond markets is linked to negative interferences between different regulatory frameworks. We continue to believe that this problem is not given the necessary attention (see also above). Some of the new rules being implemented for Basel III through CRD/CRR IV are highly counterproductive to the goal of increasing liquidity. The interplay of higher capital requirements across the board with new requirements like Liquidity and Leverage Ratio is leading broker/dealer banks to massively reduce inventories on their trading books, which in return is resulting in lower liquidity in bond markets, which we have seen across all sectors. In our opinion this currently is the biggest obstacle to EU bond markets, and not the degree of individuality of issues being traded. We would strongly recommend to analyse if there are ways to change some of the settings in CRD/CRR or on Pillars 2 and 3 to revive secondary market trading. Without it, there will never be adequate liquidity in bond markets.

**Securitisation**

Reviving securitisation markets would be an important contribution to strengthening financing. The image of securitisation has suffered due to the lack of transparency of some financial products in the wake of the financial crisis, despite European assets performing very well from a credit and secondary market standpoint. The Commission should take initiatives aimed at ensuring a careful revival of securitization with a properly regulated framework.

This will require changes in prudential regulation that presently clearly discourages investment in these asset classes through higher capital cost, such as Solvency II for insurance companies and international rules for banks. Moreover, the EU legislator should refrain from limiting money market funds to play an active role in securitization markets. In this context, BUSINESSEUROPE is pleased that recently some requirements for securitisation have been softened but more needs to be done to avoid unnecessary negative economic impacts for the real economy.

We need a balanced evidence-based approach to securitisation that takes account of the credit and price performance of high quality securitisations. In addition, higher

product transparency, strict quality criteria and an improved risk management of securitisation should also be taken into account. Positive examples are the PCS initiative (Prime Collateralised Securities) based on clearly defined rules for transparency, disclosure, lending, and credit processing, the standard developed for Dutch RMBS by the Dutch Securitisation Association and TSI in Germany which well-established a quality trademark for German securitisations (Deutscher Verbriefungsstandard) mainly, but not only, used by the German car manufacturers for car loan securitisations. Another positive example is the loan level initiative of the ECB and the establishment of a central European Datawarehouse for securitisation transactions under the surveillance of the ECB.

**Alternative means of financing to diversify the supply of funding**

As said above, institutional investors, such as pension funds and insurance companies, normally pursue a long-term investment strategy which is hindered by new prudential rules. Considering the important role that other investors can play as providers of capital, it is absolutely key that the regulatory framework does not prevent them from investing in private enterprises. This means that regulation should first and foremost be neutral and not grant any special privileges to government assets. The rules must also not hinder investors from playing a part in new forms of SME-finance which might emerge.

It is crucial that European rules that impact on the availability of alternative means of financing support market liquidity and make it easier for businesses to access debt and equity funding investments. Investors should be encouraged to invest long-term risk capital in European companies.

As banks and other investors are likely to continue to withdraw from lending as a response to new financial regulations, capital market financing is becoming more and more important for companies and especially the larger SMEs. There is a wide ranging set of finance tools that businesses can use to grow, some of which are more clearly long-term tools, and some of which are shorter-term (e.g. bonds, private placements, asset-based lending, peer-to-peer lending, crowd-funding). Further analysis should be undertaken to assess what exists and works well to identify how best to encourage growth in these markets on an EU-wide basis, particularly where benefits of scale exist.

But the benefits of a Capital Markets Union should not be overestimated. The Member States have their own finance traditions, corporate structures and financing requirements. Financing options which entail recourse to the capital market are not always an alternative for smaller and medium-sized companies. As said above, a Capital Markets Union will in particular help growing medium-sized firms to access finance. Other smaller companies will continue to need reliable access to bank loans. Any discrimination of the traditional bank financing through regulatory privileging of capital market financing would jeopardize the success of the objective of restoring growth and investment in the EU. Bank-based and capital market-based financing models must be inter-linked.

*Private placements*

Regarding the developments of private placements markets, BUSINESSEUROPE believes that the Commission should continue to support market-led initiatives to agree common standards rather than harmonising standards. A Pan-European Private

Placement market aimed at larger medium-sized businesses could provide a means to channel wholesale funds directly into growing firms. The Commission should support the standards set out in the recently produced market guide and promote the long-term benefits that private placements can have, to boost awareness and demand. To incentivise investment into the uptake of private placement, as well as more generally in long-term assets, Solvency II calibrations should be revisited.

*Crowdfunding*

The same support for market-let initiatives should be applied to crowd-funding. Although the legal framework regarding crowdfunding in the EU is fragmented with different national frameworks, we do not believe that it is necessary that the Commission goes further and proposes specific regulation to harmonise these frameworks. Crowdfunding is a new, innovative form of finance which operates well in those countries where it is more established. National frameworks seek to bring credibility and stability to the markets enabling them to provide a safe and secure environment. These national arrangements, which are often requested and supported by the crowdfunding platforms, should be respected and EU wide legislation should not stifle the development of these markets.

*Venture capital and private equity*

Financing of venture capital funds should be facilitated by making the tax, institutional and regulatory framework for venture capital investment more attractive. A more favourable tax treatment of venture capital funds should be encouraged that promotes financing neutrality and avoid tax-induced misallocations of financial resources. Smaller private equity funds that invest mainly in SMEs are hit by disproportionate financial market regulation. This should be addressed by an appropriate regulatory framework to support equity financing of SME firms bearing in mind that pension funds and insurance companies play a very limited role as a source of finance for venture capital funds. Effort should be taken to encourage potential institutional investors and evaluate and – if necessary – streamline existing state initiatives to promote venture capital financing properly. A pan-European stock market segment should be set up that meets the specific needs of young and innovative firms.

**The role of derivatives**

Non-financial companies use 'over-the-counter' (OTC) derivatives in conjunction with risk mitigation of underlying real economic risks. It is crucial that new technical standards do not undercut the clearing exemption for non-financial companies contained in the European Markets Infrastructure Regulation (EMIR) or discourage end users from entering into OTC derivative transactions. This would lead to corporations reducing hedging risks, increasing not only the risk for the single corporation concerned but also for the economy as a whole. Reduced hedging will also lead to a different risk assessment of the non-financial companies concerned by capital markets which will negatively affect the cost of financing.

In addition, the use of bank guarantees by non-financial companies as collateral for CCP clearing should not be dependent on the guarantees being fully backed with highly liquid assets. Currently, non-financial companies may use bank guarantees as collateral for CCP clearing without the guarantees being fully backed. This supports the use of transparent trading platforms in markets rather than bilateral non-transparent

trading where the use of bank guarantees does not have to be fully backed either. If bank guarantees would have to be fully backed, this would increase the costs of risk hedging adding further costs to end-users. Bank guarantees have limited market risk as issuers are evaluated in terms of credit worthiness and continuously monitored and EMIR already includes detailed requirements regarding the use of bank guarantees.

**Taxation**

Equity-financed investment decisions may be hampered in some EU countries by a corporate income tax system that present a bias towards debt over equity financed investments.

Also, the practice of withholding taxes on dividends on cross-border portfolio investments constitutes one of the main obstacles to an integrated capital market in the EU. This is especially so for institutional investors who in most cases cannot qualify for withholding tax relief as they pay little or no tax themselves against which to claim the relief. Abolishing withholding taxes on cross-border portfolio investments will remove a significant obstacle to the flow of capital within the EU, thus lowering the cost of capital.

Different routes can be envisaged to alleviate the bias towards debt over equity financed investments and unleash the potential for more equity-financed investments. Equity financed investments are generally subject to double taxation as equity taxation occurs both at corporation level and at shareholder's level. The problem of double taxation could be mitigated by reducing shareholders' taxes on dividends and capital gains. Also, in a globalized economy where the shareholder and the company often reside in different jurisdictions, the process of eliminating the so-called "imputation systems" in favor of the so-called "participation exemption" should be continued. Allowances for Corporate Equity (ACE) could also be a way forward as they help rebalancing the tax treatment between debt and equity capital in allowing firms to deduct a notional interest rate on their equity. Italy has notably introduced in 2011 a scheme (Aid to Economic growth), which allows deducting an amount equal to the notional return of equity capital increases from the taxable profit. Having said this, as it is still uncertain whether costly reliefs such as these have a tangible effect, a thorough assessment of the costs and benefits should first be undertaken before taking action in this area.

It must be noted though that a narrowing tax base resulting from a reduction for equity-financed investment at corporate level could result in an upward pressure on statutory corporate tax rates. It is important that the ongoing process of reductions of statutory corporate tax rates continue. It should be combined with tax reductions at the shareholder level.

A list of tax measures should be considered by Member States to allow them to set the right incentives for long term savings and their orientation to corporation long term investment needs:

- A low level or the abolition of capital gain taxes on shareholders' long-term holdings would strongly incentivize long-term investment in corporate equity;

- It is also important to make sure that inheritance taxes do not interfere with the succession of SME as such a tax burden can force many competitive family-owned SMEs to close down.

- Finally, tax incentives for investors in venture capital would foster the financing of the creation and the development of innovative businesses, be it in the form of capital gains tax allowance, tax deduction or income tax allowances benchmarked to the amount invested.

General tax rules are preferable to special incentives. Any need for a special tax treatment in an area, is an indication that the general rules are too restrictive.

Measures enhancing the functioning of the Single Market are increasing investments and growth and government coordination and cooperation is important to reduce red tape and delays in repayment of taxes.

Therefore, greater EU harmonization of administrative systems when possible, particularly for VAT, must be taken forward in a way that would bring less complexity and greater transparency to EU cross-border activities.

Any recommendations in this area should respect the limited mandate of the EU in the field of taxation. Member States have diverging tax systems and therefore should be able to consider how to best implement any initiatives, and at their own discretion.

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