Federation of European Accountants
Fédération des Experts comptables Européens

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Ref.: FSCMU/PKR/PPA/ECO

19 May 2015

Dear Mr Bohan,

Re: FEE comments on the Public Consultation on Building a Capital Markets Union

(1) The Federation of European Accountants (FEE)[1] with number 4713568401-181 of the European Commission's (the Commission) Register of Interest Representatives is pleased to provide you with its comments on the European Commission's Public Consultation on Building a Capital Markets Union (CMU).

(2) FEE recognises the public interest and fundamental freedoms of the EU (including the free movement of capital) and would, therefore, like to take this opportunity to express our support for the Commission's recent initiative, including the two separate consultations on the review of the Prospectus Directive and securitisation. This essential component of the single market should be approached in a pragmatic and forward looking manner to improve access to funding, both within and across countries.

[1] FEE's represents 47 professional institutes of accountants and auditors from 36 European countries, including all 28 European Union (EU) Member States. It has a combined membership of over 800.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education. Adhering to the fundamental values of their profession – integrity, objectivity, independence, professionalism, competence and confidentiality – they contribute to a more efficient, transparent and sustainable European economy. In representing the profession,

(3) We believe that the key principles underpinning a true Capital Markets Union should be:

a. **Simplifying existing legislation and removing current obstacles before embarking on additional legislation and recognising the decisive role and responsibilities of Member States in seeking ways to simplify regulation.**

b. **Prioritising the needs of those who will be most affected by the CMU, i.e. businesses and investors, when setting the framework for change.**

c. **Ensuring there are clear and compelling benefits for those seeking funding and improved channelling of funds on European Capital Markets to those who need them through increased access to innovative and competing funding sources.**

d. **Adhering to a structured roadmap of how the main objectives will be achieved and measuring the success in achieving a real European Capital Market Union against these objectives.**

(4) We believe the accounting profession can be a constructive partner to the Commission in its difficult and ambitious task of building a European integrated Capital Markets Union.

(5) We have identified several key areas where, based on our experience, further action by the Commission could facilitate the better functioning of European Capital Markets. These include:

- Ensuring better flow of reliable and understandable information to market participants and potential investors – including through a broader use of International Financial Reporting Standards (IFRS) where appropriate, applied in a simpler and proportionate manner;
- Measures to create a more efficient taxation regime, and where the EU's competencies allow, greater coordination and information sharing between Member States;
- Further harmonisation in corporate governance and company law and greater transparency regarding insolvency proceedings;
- An enhanced role of the European Supervisory Authorities (ESA), to reflect the increased harmonisation and cross border nature of European capital markets.

(6) In addition to these specific measures we also believe that audit and assurance is key to developing a Capital Market Union. Ultimately, accounting and auditing are directed towards achieving more efficient, transparent and trustworthy corporate reporting, thus allowing for better informed investment decisions. This is to the benefit of society as it allows for the most efficient distribution of resources.

(7) Corporate reporting has a key role to play in the development of capital markets. There is a need for timely, reliable and relevant financial and non-financial information to be made accessible to a wider range of stakeholders to ensure markets have the information they need about potential investment opportunities. FEE will continue our forward looking work on this issue, and will publish a discussion paper on 'The Future of Corporate Reporting' in Autumn this year.

(8) We would also like to note that a more holistic approach to the regulation of capital markets is necessary in order to foster the development of a genuine CMU. Assessing the cumulative impact of existing and upcoming legislation, not just in the field of financial services but also more broadly, is essential to ensuring it does not create barriers through the duplication of legislative requirements. We believe that wherever possible the Commission should first look to update existing legislation before considering introducing new requirements and regulation.

(9) FEE's responses to some of the specific questions posed in the consultation document are included in the annex to this letter. We have not responded to questions where the accounting profession has limited experience or expertise. We would be pleased to provide you with more detailed responses or any additional information you would find useful.

For further information please contact Pantelis Pavlou, manager from the FEE Team on +32 2 285 40 74 or via e-mail at Pantelis.Pavlou@fee.be.

Yours sincerely,

Petr Kriz
President

Olivier Boutellis-Taft
Chief Executive

Enc. Appendix – FEE to the Public Consultation Building a Capital Markets Union

We are pleased to provide you with our detailed comments on the specific questions in the Commission's Green Paper. We include in this Appendix our responses to the questions that we believe the accounting profession's views can assist to achieving the objectives of the Commission's initiative to build a European Capital Markets Union.

Furthermore, we believe that more time is needed to assess quantitative and qualitative information in order to draw conclusions on some areas raised in the Green Paper. FEE is committed to continue working on these areas and provide our comments during the next steps following this consultation.

Question 1 Beyond the five priority areas identified for short term action, what other areas should be prioritised?

(1) We agree with the five priorities that the Commission has put forward. In addition to these priorities we propose that the Commission should add the following areas as well:

i. Better definition and refinement of the scope of the Capital Markets Union (CMU). In our view, the CMU has not been properly defined in the Green Paper and as result different stakeholders might not have the same understanding of the scope of the CMU. Therefore, we suggest that the Commission first should better define the scope as a first step.

ii. An earlier review of AIFM Directive. We believe that a review in 2018 (as it is currently scheduled) is too far away.

iii. We also urge the Commission not only look at the demand side of CMU but also look at investors' concerns in the short term. We acknowledge that these investor-related matters are discussed further in the green paper. However, we believe that some aspects should be looked at in the short term as well.

Question 2 What further steps around the availability and standardisation of SME credit information could support a deeper market in SME and start-up finance and a wider investor base? *

(2) Credit information is mainly based on financial information, both historical and forward looking financial information. The lack of a harmonised accounting regime for SMEs contributes to the need to develop a standardised framework for SME credit information/scoring across the EU.

(3) Although Members States have had to adapt their accounting frameworks (local GAAPs) to comply with the EU Accounting Directive[2], the Directive includes so many options that each Member State can end up with its own accounting regime. When implemented, this could result in 28 different frameworks. The lack of a harmonised accounting regime causes confusion among different constituents who cannot assess the credit information of different companies based on diverse local GAAP. In addition, without a harmonised accounting framework, it would be challenging to develop a standardised SME credit information regime since the underlying information would not be comparable.

(4) As discussed in more detail in Question 8 of this consultation, FEE believes that there is a need for a single financial reporting framework for listed entities on pan-European funding and trading platforms; developed by an independent, international standard setter. FEE believes that this process is more efficient for Europe and is also more likely to result in a framework that will produce relevant, reliable and high quality financial information and therefore constituents can more easily assess the creditworthiness of SMEs across the EU.

Question 3 What support can be given to ELTIFs to encourage their take up?

(5) In this regard, a more urgent review of the AIFMD would be useful, specifically in order to assess the interrelation between the AIFMD and new legislation on ELTIFs. Allowing a broader range of fund managers to offer ELTIFs would, in our view, increase their take up across Europe.

Question 5 What further measures could help to increase access to funding and channelling of funds to those who need them?

(6) At this stage, we do not have any specific suggestions on what further measures need to be taken, because we strongly recommend to first focus on simplifying current measures and especially dismantling current obstacles to funding and channelling of funds to those who need them rather than or before embarking on additional legislation.

(7) However, our answers to several questions below raise points which would aid access to funding and channelling the funds to those who need them.

[2] http://www.fee.be/index.php?option=com_content&view=article&id=1478&Itemid=106&lang=en

(8) Some of the areas where we believe that it is worth exploring ways to enhance CMU are:

i. Better flow of information to achieve efficient markets. Reducing information asymmetry in capital markets increases market efficiency, liquidity and reduces the cost of capital for issuers.

ii. Reliable, comparable and understandable financial information (use of a transparent, high quality accounting framework, i.e. IFRS, simplified and proportionately applied).

iii. Reporting under a proportionately applied IFRS regime (after the completion of the IASB's Disclosure Initiative Project) for all small and medium caps, whether listed on an exchange, MTF or SME Growth market. As many companies list with the intention of growing, applying the same accounting standards in all markets would assist in the transition to regulated markets in the future.

iv. A member state option on whether to allow or require an international working language (i.e. English) to attract international investors.

v. Allow flexibility of finance vehicles for access to finance to match the projects' needs (e.g. different tranches, interest rates, repayment periods, prepayment options etc.)

vi. Increasing transparency in capital markets especially in national insolvency legislation, to assist investors to better understand their credit exposures.

(9) Furthermore, we believe that the broader area of Corporate Reporting needs to keep pace with developments in technology, the evolution of stakeholders' needs and the fact that the focus on a single stakeholder group (i.e. only investors and capital providers) is no longer sustainable. Entities need to identify, understand and address the needs of an even wider stakeholder audience.

(10) As discussed in more detail in our response to the Commission's consultation on the Prospectus Directive, we believe there is a need for easier access to information and the prospectuses of companies in order to ensure investment is channelled to those who need it. From our experience, investors cannot easily navigate National Competent Authorities' (NCAs), websites or other national databases to find the necessary information they are looking for. This adds barriers to cross border investors. We, therefore, suggest a single procedure for filing that can be used as a search engine and that allows investors to access to such information easily.

Question 6 Should measures be taken to promote greater liquidity in corporate bond markets, such as standardisation? If so, which measures are needed and can these be achieved by the market, or is regulatory action required?

(11) While we agree that standardisation of corporate bond markets can enhance liquidity by offering more liquid assets, we have some concerns on the suitability of those products for all SMEs. We do not believe that a "one-size-fits-all" approach for corporate bonds is suitable for all SMEs.

(12) FEE supports a level of flexibility for SMEs to design their own products to raise finance, as this will assist them in obtaining funds in a way that best fits their business models. Having said that, enhanced transparency will be required, as this would probably assist in enhancing market liquidity.

Question 8 Is there value in developing a common EU level accounting standard for small and medium-sized companies listed on MTFs? Should such a standard become a feature of SME Growth Markets? If so, under which conditions?

The need for a common EU level accounting standard for small and medium-sized companies listed on MTFs

(13) We believe that for SMEs that intend to access pan-European funding and trading platforms (referred to SMEs hereafter) there is significant value in using a common accounting framework.

Current status

(14) Under existing EU legislation, companies listed on Regulated Markets are considered to be public interest entities and are required to produce their consolidated financial statements using IFRS. This is not the case for companies listed on MTFs. The result is that across the EU there is a patchwork of different accounting standards for such companies, determined at a national level and usually based on national generally accepted accounting principles (GAAP) or with mandatory or optional use of IFRS.

(15) The lack of a common framework reduces comparability between financial statements and thereby hinders potential investors (both within and outside the EU) in making decisions about cross border investments based on comparable information. In order to ensure higher levels of investor protection, financial statements should be prepared using a high quality reporting framework that can be understood by investors from across the EU (and from third countries) and that depicts accountability, stewardship and comparability between entities.

The way forward

(16) Ideally, we would like to see a proportionate application of IFRS to all companies listed on pan-European trading platforms and intending to access cross border capital investment. We envisage that this could be achieved through ongoing simplification of recognition and measurement requirements of IFRS, and reduced disclosures through the completion of the Disclosure Initiative project of the IASB.

(17) In line with our response to the Commission's recent consultation on the review of the IAS Regulation[3], we would support the application of IFRS to the individual financial statements of all entities listed on European regulated markets, including those which are not required to produce consolidated accounts.

(18) However, it should be noted that, at present, it is not clear whether the benefits of such a framework would outweigh the costs for SMEs.. Therefore a thorough impact assessment should be conducted. While FEE considers that providing investors with the best quality information is a crucial part of well-functioning capital markets, this has to be balanced against the compliance costs for businesses. Currently, some of the more extensive and onerous requirements of IFRS mean that this balance may not be struck for SMEs.

(19) After a thorough impact assessment (considering the potential costs and benefits) and a suitable transition period, we propose to also apply an extension of the scope of the IAS Regulation to entities listed on other pan-European platforms, particularly as entities listed on MTFs tend to have an inherently higher investment risk profile. If MTFs and SME Growth Markets are to become a key feature of European Financial markets and their uptake to be increased, a sound, robust and transparent financial reporting framework is a prerequisite.

Application of IFRS with a reduced disclosure regime and ongoing simplifications

(20) Exposure to capital markets and access to non-bank funding implies a degree of public accountability. We believe that the application of a robust and transparent accounting framework is an inherent cost of this. In this regard we view public accountability, rather than size, to be the key criteria in identifying the appropriate accounting framework.

[3] http://www.fee.be/index.php?option=com_content&view=article&id=1453&Itemid=106&lang=en

(21) Although IFRS meets the need for transparency and comparability, a proportionate disclosure regime is also crucial. With this in mind, we strongly encourage the European Commission to urge the IASB to continue working on the Disclosure Initiative project in an effort to develop a framework for disclosures and ongoing simplifications that would ease the application of IFRS by SMEs listed on MTFs that do not engage in complex transactions. We understand that the IASB is hoping to make progress in 2015 in respect of its Disclosure Initiative and would suggest that any initiatives by the Commission take these developments into account in order to ensure a proportionate application of IFRS to listed SMEs.

(22) IFRS would also reduce the number of accounting frameworks operating at an EU and national level for companies listed on different markets/platforms. The application of such a framework will also bring benefits to the companies applying it (similar to the benefits for entities that apply IFRS).

(23) A proportionate application of IFRS will also provide a sound basis where the company grows sufficiently to consider moving from an MTF/SME Growth Market to other trading platforms and will help ensure a smoother transition to a Regulated Market. It will also reduce the cost of capital along the growth cycle of the company and avoid any detrimental threshold effect. As such, we believe the application of IFRS with reduced disclosures and ongoing simplifications would be beneficial to SMEs aiming to access cross border capital markets.

(24) Furthermore this could have additional benefits in other areas, such as education. Professional accountants, preparers, users, enforcers and other constituents would eventually only need to understand a single set of financial reporting standards to prepare, audit, use and review financial statements. The EU has invested considerably in the adoption of IFRS and, resultantly, many stakeholders in the financial reporting chain are already well versed in their use.

(25) Whilst it has been difficult to establish the exact costs of implementing IFRS, there is some evidence that its introduction for companies trading on regulated exchanges has brought some benefit from a reduced cost of capital. Furthermore, the costs of the application of IFRS mostly relate to the one-off transition costs, while it is not clear how much the recurring costs are and whether the recurring costs exceed the benefits from reduced cost of capital.

(26) Given the potential advantages of the application of IFRS with reduced disclosures and ongoing simplifications, we believe that the same accounting framework should also be applied to SME Growth Markets.

(27) In line with our comments on the review of the Prospectus Directive, we also believe that a high quality financial reporting framework that results in transparent financial information might add value to investors and, therefore, reduce the need for a full prospectus for companies seeking to raise finance in MTFs. This will avoid increasing administrative costs for companies accessing capital markets.

(28) Currently where national GAAP are used on MTFs, they are often also linked to other local legal aspects like company law and taxation and may have implications, for example, on commerce, competition, dividend distribution and insolvency. Therefore it would be important to consider these aspects in a comprehensive impact assessment in order to put in place a proportionate and well aligned transition.

Other alternatives

Status quo - Accounting Directive

(29) In line with our earlier comments, we would not support the maintenance of the status quo, i.e. the patchwork of regulation created by the Accounting Directive.

(30) Several other options have been suggested by other stakeholders. However, **we do not believe that these offer the same potential for enhancing the functioning of European capital markets as the proportionate application of IFRS**.

EU Specific Standard

(31) One possibility suggested is the development of an EU specific common accounting standard for MTFs and/or SME Growth Markets. We would not support this proposal. Based on experience from the recast of the Accounting Directive (fundamentally a project significantly less technically demanding than the one under question) this would be problematic because:

i. Member States would require the inclusion of options so that they could mould the accounting standard as far as possible to mirror existing local GAAP. The existence of multiple Member State options (and, indeed, enterprise level options) leads to a reduction in the comparability of financial statements, thereby defeating one of the main advantages of the proposal.

ii. Based on experience, the development of such an accounting standard, or set of standards, would take an excessively long time and would unnecessarily delay progress towards an EU capital market union. It would first require establishment of a framework and, possibly, a new organisation, for developing the standard. In order to ensure new standards were properly implemented, this would require the establishment of an oversight structure as well as an expert group structure, with all the cost implications that this would bring. Undoubtedly, there would also have to be a great deal of discussion at a Member State level (or at those of its relevant competent authorities) and political agreement on the way forward.

iii. For the same reasons, it is also unlikely that the standard, once developed, could be reviewed, developed and revised within the short time scale that modern business requires.

iv. Adopting a European standard also risks isolating Europe from foreign investors and global capital markets at a time where foreign investment is necessary.

IFRS for SMEs

(32) Another possibility is to use IFRS for SMEs, a stable framework developed by the IASB. However, this standard specifically states that it is not suitable for companies listed on a public market so would require some amendment before being considered to be suitable for publicly accountable entities. Furthermore, IFRS for SMEs differs in certain key aspects from full IFRSs, in particular in relation to recognition and measurement, which reduces the comparability of the financial statements of companies listed on different platforms and might create confusion among market participants re the basis of preparation of financial statements.

Audit and assurance

(33) Finally another important piece of the corporate reporting jigsaw is the assurance/audit. We develop our main comments for assurance and audit in Question 32.

Question 9 Are there barriers to the development of appropriately regulated crowdfunding or peer to peer platforms including on a cross border basis? If so, how should they be addressed?

(34) Crowd funding is a new initiative and is still developing. We understand that currently, crowd funding is not a major source for funding and we propose to allow room for market led innovation before any attempts to regulate. Therefore we do not expect the Commission to take action at a European level at this stage unless Member States stifle innovation and put in place regulations that infringe Treaty Freedoms. We propose that the Commission monitors the developments on this matter and only takes necessary action when the market is more mature and when there is a clear direction of this new funding model.

Question 10 What policy measures could incentivise institutional investors to raise and invest larger amounts and in a broader range of assets, in particular long-term projects, SMEs and innovative and high growth start-ups?

(35) Institutional investors (especially long-term investors – e.g. insurers) look mainly for economic, legal and fiscal stability which allows them to assess the longer-term prospective of their investments. We urge the Commission to look at how it can establish this in the EU to provide the incentives to long-term institutional investors.

Question 18 How can the ESAs further contribute to ensuring consumer and investor protection?

(36) We believe that the role of ESAs is crucial for monitoring the implementation of the EU legislation for consumer and investor protection. At present ‘gold plating’ of EU legislation at the national level can result in a high regulatory barrier to the capital markets union. The ESAs can play an important coordination role in reducing the impact of differences in the application of EU legislation.

(37) The ESAs also have the potential to perform a crucial role in assessing the impact of financial services regulation in a holistic manner. The cumulative impact of financial services and the numerous requirements contained in different pieces of legislation currently result in a high regulatory burden, which creates a barrier to the development of European capital markets.

(38) In addition, we believe that the ESAs have an important role to play in financial literacy of investors and other constituents in capital markets.

Question 21 Are there additional actions in the field of financial services regulation that could be taken to ensure that the EU is internationally competitive and an attractive place in which to invest?

(39) We believe that differences across different EU jurisdictions make EU capital markets less attractive to international investors. Jurisdictional differences on key areas (even in corporate governance and company law) impose barriers to potential international investors.

(40) Furthermore, additional barriers are imposed from other factors (as listed in Question 5). Although we support diversity in Europe, for a “real” CMU, it is important to work towards eliminating impediments for making European Capital Markets attractive to foreign investors.

Question 22 What measures can be taken to facilitate the access of EU firms to investors and capital markets in third countries? Improving market effectiveness – intermediaries, infrastructures and the broader legal framework Please refer to the corresponding section of the Green paper to read context information before answering the questions.

(41) FEE believes that a series of considerations should be taken into account to ease the access of investors from third countries investing in EU capital markets. One of the main matters is access to information on investment opportunities and on European businesses. In terms of financial reporting, we believe that the application of IFRS to all publicly accountable companies across the EU provides a solid basis for financial reporting, which is well understood from the major countries all over the world that EU companies target to attract investors (for instance Canada, China and even US)–as some investors are familiar with IFRS. In addition, IFRS can result in greater transparency and comparability of financial information which has a positive impact on the cost of capital and lower perceived risk for investment.

(42) Furthermore, a harmonised regime that also deals with a common international “working” language across the EU would add value to the efforts towards attracting investors from third countries to invest in EU capital markets.

(43) Finally, a review of the corporate governance and company law matters (including taxation) to ensure that there is a consistency on the application of the key concepts (e.g. insolvency), which will assist the risk assessment of European entities using the same definitions and concepts across the EU.

Question 23 Are there mechanisms to improve the functioning and efficiency of markets not covered in this paper, particularly in the areas of equity and bond market functioning and liquidity?

(44) FEE believe that efficient markets, simple straightforward financial products, a well-controlled (safe) market environment, transparency, accountability and stewardship enhance market liquidity Any further initiatives in this area should take this into account.

(45) Furthermore the public sector has an important role to play. Having a transparent, high-quality reporting framework in the public sector would enhance the liquidity of sovereign bond markets.

Question 24 In your view, are there areas where the single rulebook remains insufficiently developed?

(46) In principle, we support the efforts to develop the single rulebook where financial legislation is brought together in an effort from the ESAs to better monitor the implementation process.

Question 25 Do you think that the powers of the ESAs to ensure consistent supervision are sufficient? What additional measures relating to EU level supervision would materially contribute to developing a Capital Markets Union?

(47) In order to build a harmonised and efficient Capital Markets Union across the EU, the role of the ESAs would be expected to grow over time. It should be ensured that they have the resources and competences to allow them to fulfil this role effectively.

(48) While the enforcement of EU and national legislation should be within the scope of responsibilities of the National Competent Authorities (NCAs), ESAs should coordinate the implementation and enforcement at an EU level in order to ensure that differences in national implementation do not lead to barriers to the movement of capital.

Question 28 What are the main obstacles to integrated capital markets arising from company law, including corporate governance? Are there targeted measures which could contribute to overcoming them?

(49) As already stated in the consultation we believe that further harmonisation in corporate governance and company law is appropriate to further develop a capital market union in the EU and reduce uncertainty for investors. However since these two areas remain within the legislating (or sovereign) powers of the Member States, the Commission cannot introduce EU wide requirements.

(50) Some of the areas that are worth considering looking into are:

i. Consolidating and updating EU company law directives with a similar scope would be an appropriate approach.

ii. Harmonising company law affects other areas too, such as liability regimes for companies and boards. As long as direct tax remains a sovereign matter for EU Member States, the attractiveness of using EU company legal forms in practice is limited.

iii. With the developments of corporate governance and, especially, with regard to the role of audit committees over the last couple of years throughout Europe, the role and responsibilities of boards and audit committees should be further addressed in the broader context of the relationship between company law, corporate governance, internal control and risk management. Measures in these areas should be proportionate to the size and complexity of the company in question.

iv. The capital regime for limited liability companies should be reviewed. Various models for capital regimes exist in different European countries. A certain level of harmonisation of EU company law is an ultimate goal.

An in-depth analysis of the impact deriving from proposals is needed to measure the costs and benefits of potential alignments.

v. Further analysis on the continued relevance of the distinction “public/private” for limited liability companies could be undertaken. One model for replacing it could be the introduction of objective criteria related to size of the company, with a distinction between listed and unlisted companies, due to the need for transparency for listed companies. This would better align company law with accounting used in the Accounting Directive, audit and relevant parts of capital market requirements. Similar considerations apply to the discussion regarding the EU legal form companies of the (public) SE and the (private) SPE at EU level.

vi. Introduction of a possibility to apply a solvency test for the distribution of profits, which could include the cumulative use of a “snapshot test” and a forward looking test is appropriate.

Question 30 What barriers are there around taxation that should be looked at as a matter of priority to contribute to more integrated capital markets within the EU and a more robust funding structure at company level and through which instruments?

General Points

(51) The lack of stability, predictability, legal certainty and coherence of tax regimes are the main threats to investment, especially for SMEs. We consider that the lack of a harmonised Tax system creates significant barriers to the free movement of capital in the EU and it increases the uncertainty for investors. Initiatives to harmonise corporate taxation at the EU level, for example, the creation of a common consolidated corporate tax base (CCCTB) would significantly reduce these barriers but negotiations in the European Council have made little progress. We understand the Commission plans to relaunch the CCCTB and we welcome this initiative.

(52) We believe a more harmonised system would contribute to a strong internal market including Capital Markets Union. The current system with 28 different tax systems and a piecemeal approach to EU level legislation on specific topics raises additional problems addressed below.

(53) In addition, investors often experience a high level of uncertainty when countries have different interpretations of common rules, which might lead to double taxation. This phenomenon is particularly important when dealing with basic and fundamental concepts like residence of companies and individuals or permanent establishment, but is also important with reference to other rules set in Double Taxation Treaties. Consequently, it is fundamentally important that the EU continues to coordinate future measures with the OECD (specifically their anti-BEPS project), and other international organisations influencing international tax issues, to ensure that the EU does not unilaterally take

measures that result in less continuity and certainty for international businesses.

Interest Deductions

(54) Many national tax systems favour debt financing over equity financing. Rather than removing tax deductibility of interest, an alternative could be to introduce a tax relief for (part of) equity investments by granting a tax deduction for "notional interest" on equity investments. Such a measure would enhance CMU only if introduced by all Member States but, as with any tax relief introduced to achieve a particular objective, great care would have to be taken to avoid unwanted side effects and to ensure that the eventual benefits derived from it exceed the costs of introducing the relief.

(55) Some reduction of the debt bias could be obtained from permitting the deduction against taxable profits of the costs of equity finance at the level of the investor. In many Member States the costs of financing equity investments are not deductible when the respective income (intercompany dividends and capital gains) is tax exempt.

(56) In addition, limits to interest deductions are in force in many Member States but are not based on harmonised rules, creating confusion for businesses. These differences create barriers and artificial difficulties to an intended CMU.

Withholding tax

(57) It is possible that the variation in the rates of withholding tax on dividends and interest payments may impact on the willingness of potential investors to invest across borders. This may particularly be the case where the investor may not have sufficient other taxable income to fully offset the tax withheld or may be unable to recover the tax credit due to legal restrictions.

Investor incentives

(58) The source of equity finance available to SMEs generally depends on their size. Except in the case of certain start-up companies (typically in fields such as IT or pharmaceuticals), raising money on public exchanges is simply not realistic for the vast majority of SMEs. However, it is possible to create a system of tax reliefs that may assist potential investors in both unregulated investment markets for small caps and for business angels investing directly in SMEs.

(59) However, especially given the state of the public finances of many Member States, such reliefs would have to be very carefully considered to ensure that their benefit at a macro level exceeds the cost and the added complexity that they would introduce into the tax system.

Financial Transaction Tax

(60) We do not believe that the piecemeal introduction of the Financial Transaction Tax by 10 or 11 Members States under enhanced cooperation will facilitate Capital Market Union. Many customers would be able shift their transactions to countries that do not have the FTT, thereby preventing the costs arising from the tax being shifted to customers and driving up the cost of capital in those Member States that implement it.

Question 32 Are there other issues, not identified in this Green Paper, which in your view require action to achieve a Capital Markets Union? If so, what are they and what form could such action take?

(61) In addition to our detailed comments on accounting standards for listed SMEs (question 8), we firmly believe that developments in corporate reporting more generally will facilitate the growth of European capital markets.

(62) As already briefly mentioned earlier, we believe that audit and assurance is a key piece of developing a Capital Market Union. Ultimately, accounting and auditing are directed towards achieving more efficient, transparent and trustworthy corporate reporting, thus allowing for better informed investment decisions. This is to the benefit of society as it allows for the most efficient distribution of resources.

(63) We welcome the commitment of the new Commission to not issue additional legislation and also the commitment for reviewing existing legislation with a view to improve its efficiency and effectiveness and also reducing the administrative costs for issuers, users, auditors, enforcers and other market participants.

(64) Finally, we support the Commission's initiatives to review the Prospectus Directive and to develop a framework for a simple standardised and transparent for securitisation.