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The Swedish Government and the Swedish authorities' common answer to the Commission Green Paper on building a Capital Markets Union

Stockholm, 13 May 2015

Ministry of Finance **Finansinspektionen** **Sveriges Riksbank**

Introduction

The Swedish Ministry of Finance, Finansinspektionen (the Swedish Financial Supervisory Authority), and Sveriges Riksbank welcome the opportunity to comment on and present a shared view on the Capital Markets Union (CMU). We welcome and support the Commission's work on this important issue. Well-functioning and resilient capital markets are important to the stability of the financial system and the economic well-being of the EU as a whole, and carries with it complex regulatory questions.

Comments and answers to particular questions are provided with reference to the enumeration of the particular question in the Green Paper. If a question or topic has not been commented on or answered, that should not be taken to constitute our approval or dismissal and we reserve the right to comment on these questions at a later point in time. Capitalised terms and abbreviations used in the Green Paper will have the same meaning when used in this response. When used herein, 'we', should be considered as the common view of the Ministry of Finance, Finansinspektionen, and Sveriges Riksbank.

Strong capital markets are complementary to a resilient banking sector. Therefore work in this area should not be considered a substitute to work ensuring the resilience of the union's banking industry. By a joint Swedish initiative, we have earlier implemented a higher common equity Tier 1 capital requirement than the minimum requirement in the CRDIV/CRR, for the four major bank groups in Sweden. Even though the Swedish banks have had to abide by stricter capital requirements, lending to the corporate sector has been strong. One reason is that the conditions for lending are better for stronger banks. Safeguarding financial stability is an important precondition to ensuring credit provision to SMEs, since a substantial portion of SMEs will continue to rely on banks as a major source of financing.

In general we are positive to work aimed at facilitating cross-border financing, complementing companies financing alternatives and strengthening the single market. Tax matters may be a part of this. However, in our view such matters should be dealt with in the fora designated for such purposes. Thus, within the framework of a capital markets union it would not be appropriate to make any proposals for changes in the tax area. It should also be noted that for some of the tax issues raised in the Green Paper discussions are already taking place in an EU context and that tax matters fall under the competence of each Member State, whilst respecting the EU-freedoms. Further, we do not envisage that the CMU requires changing mandates of EU-institutions.

We are committed to the CMU and consider it a long-term venture that should not be rushed but gradually implemented. Increased and diversified funding sources, improved allocative efficiency of capital markets and increased cross-border capital flows could encourage investments by firms. This combined with a strong and resilient banking system could promote and strengthen economic growth and employment in Europe. Strong capital markets are complementary to the banking sector, not a substitute. Any proposed initiative should be preceded by a thorough impact assessment ensuring that financial stability as well as consumer and investor protection is not put at risk. Further, it is important that each initiative is consistent with global standards, as this would increase non-European investors' willingness to invest in Europe. It is also important to integrate environmental, social and governance (ESG) aspects in all future proposals. We believe that ESG considerations should be part of the priorities for the short-term. This is a highly prioritized issue for the Swedish government.

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

Regarding the priorities for early action, we would especially welcome those areas of the initiative that result in increased transparency and access to standardised information. We also consider that integrating environmental, social and governance aspects should be included in the initiatives prioritised for short-term action. This is a highly prioritized issue for the Swedish government.

Considering the extent of new financial regulation imposed since the global financial crisis, we believe that a thorough analysis of the consequences of these regulations is highly warranted. Such an analysis could provide regulators and decision-makers with valuable insights on if and how to improve current regulations in order to foster financial stability and investor protection and to facilitate the free flow of capital within the EU. In this work it is important to keep in mind that an important precondition for ensuring long-term credit provision to SMEs is to safe-guard financial stability. This in turn requires adequate regulations across the entire chain of credit intermediation.

In addition, since the macroprudential framework is often focused on institutions rather than products, the toolbox should be adjusted as marked-based financing increases and risks are transferred away from traditional institutions. We also see potential for increased access to equity capital and believe that this is a crucial component in achieving the goals set out in the Green Paper.

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?*

We believe that investor's accessibility to standardised accounting information and record of payments are essential for enabling access to funds for SMEs. As the Green Paper discusses, financial information on SMEs is limited and difficult for investors to access. Different means to improve availability of such information should be explored and analysed. However, any measures should not extend beyond what is necessary and proportionate to achieve the goals of the initiative. Thus there is a need of a thorough analysis of the feasibility of any such project.

If information would be made available to investors, through central publicly accessible databases, this could reduce barriers for investors to evaluate a firm and increase the availability of alternative funding sources for all varieties of SMEs. However, to minimize the administrative burden and respect commercial interests of individual SMEs, participation should be voluntary. We believe that such a database and the actual credit scoring should be administered and performed by the private sector. This is important in order to maintain high incentives for investors to perform proper due diligence. Combining accounting standards with participation in such a database should be considered, having due regard to issues of integrity. Please see our answer to question 8 with respect to accounting standards.

There are several interesting private sector initiatives catering to the growing demand among investors to quickly and easily retrieve intelligence about listed firms. One example being, the new Nasdaq Nordic company fact sheet where NASDAQ in cooperation with Morningstar provides fact sheets with financial data for its more than 800 listed firms in the Nordics and in the Baltics. The objective is to provide investors with data to make informed decisions in a segment lacking coverage. An example of an initiative which supports SME's is the London Stock Exchange's ELITE programme which over a long period of time assists smaller firms to improve their access to more sophisticated skill-sets, networks and capital pools.

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

We welcome measures that would increase long term investments for sustainable growth in the European economy, including the establishment of ELTIFs. It is vital that any measures taken ensure a high level of consumer protection, uphold investor confidence in financial markets as well as uphold financial stability; a prerequisite for Sweden supporting ELTIFs.

We do not consider ELTIFs to be appropriate for marketing to retail investors and do not support changing the requirements in the ELTIF regulation to further facilitate marketing to retail investors. It is in our view also too early to assess what measures should or could be taken in order to enhance the take up of the ELTIF-funds. Any such measures should not weaken prudential regulation. See also our answer to question 12.

4) *Is any action by the EU needed to support the development of private placement markets other than supporting market-led efforts to agree common standards?*

We believe that it is important to enable different sources of financing for firms, one of them being private placements. In our view firms that diversify their financing increase their resilience against crises. We welcome market initiatives such as the International Capital Market Associations (ICMA) Pan-European Private Placement Guide and believe that such private initiatives are sufficient to identify best practice and to standardize structures and documentation. The Commission could assist in identifying national regulations and obstacles that increase investor's home bias, i.e. shedding light on unnecessary barriers.

Secondary markets such as Euronext and Alternext for Euro PP (private placements) securities already exist and we believe that increased origination in the primary market and standardisation should contribute to increased market activity in secondary markets. We consider that standardized credit information is an important part of a well-functioning private placement market. Initiatives have already been taken where the demand exists for e.g. S&Ps Mid-Market Evaluation scale launched solely in Europe in June 2013.

There are reports that attribute a large part of the success of the US private placement- market to the role of the National Association of Insurance

Commissioners (NAIC). The Securities Valuation Office (SVO) of the NAIC provides credit quality opinions (NAIC Designations) of private placement issuances at a modest cost. The insurance firms buying bonds are required to report NAIC Designations to their regulators. The existence of a credit scoring mechanism is recognized by market participants as an important enabling factor for the thriving of the US private placements-market. Private institutions should be encouraged to cooperate to provide an industry standard for credit ratings and opinions. It could also be beneficial if the Commission evaluated the US private placement market to see if there are elements that could be transferred to the EU private placement market.

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

Increased standardization of information on SMEs could decrease information asymmetry and increase investor confidence resulting in increased allocation of equity investments in such firms. In addition an increased focus on equity financing has the advantage of better matching the structural needs of SMEs and also making markets more resilient. For SMEs in general, and especially for start-ups without steady cash flows, equity should be favoured relative to other funding sources. Thus measures that improve the operating environment for venture capital investments and SME financial information could increase access to funding.

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?*

We believe that increased standardisation in the corporate bond market could have a positive impact on liquidity and thereby issuance on European corporate bond markets. Further harmonization and standardisation would increase investments, leading to better developed and more liquid bond markets. However, we are reluctant to propose regulatory action at this stage. Rather, market initiatives should be able to solve such a task in an equally satisfactory fashion, taking into account the interest of both issuers and investors. In addition, we believe that the corporate bond market might benefit from a common definition of a bond trustee and that this could be worth exploring. Any such possible definition should adequately safeguard investor protection and, inter alia, address conflict of interest issues.

A standardisation of issuance agreements would have a positive impact on liquidity and cross-border investment on the European corporate bond market. Looking at the issue from a Swedish perspective; corporate bonds are growing in importance as a source of funding for Swedish non-financial corporates. Both the outstanding volumes and the number of issuers have increased. The issuance of bonds with lower or even no credit rating is also increasing. The increased issuance of corporate bonds has been met by increased demand from different types of investors. Against the backdrop of the changes taking place on the Swedish market for corporate bonds, the market would certainly benefit from greater liquidity. This is especially the case since funds have grown in importance as investors on the market. To meet redemption requests many funds rely on liquid secondary markets. A number of initiatives have already been taken by market participants and authorities in Sweden with the aim of developing the Swedish market by increasing liquidity and transparency.

The opportunity to tailor funding agreements is considered an important advantage especially for larger corporates which explains why there are such differences in terms and conditions between agreements. However, such heterogeneity decreases transparency and increases transaction costs. An increased use of standardised agreements could improve liquidity. It could also lead to corporates originating fewer bonds with higher issuance volumes which in turn could improve liquidity and turnover further. For instance in Sweden, many corporates currently have a large number of different bond issues outstanding; this is especially the case for larger issuers that sometimes have up to 40 bonds outstanding.

We believe that authorities should encourage market-led initiatives; emphasizing the benefits that standardisation could have on increasing liquidity and issuance. Regulatory standardisation could, on the other hand, make corporate bonds less attractive for some issuers and should be avoided if possible. In Sweden for instance, a market-led initiative to standardise issuance agreements has been taken, aimed at reducing costs for smaller bond issuers. Although it is difficult to assess whether or not it is a result of this standard agreement per se, high-yield bond issuance in Sweden has since then increased both in size and share of the total market.

Even though primary issuance in the Swedish market has increased, trading in secondary markets is rather low, on average only six per cent of the outstanding volumes are traded each month. Possible reasons for this could be the lack of available price information and of functions that provide some sort of reference prices for less frequently traded bonds. The existence of reference prices could contribute to reducing uncertainty and assist less informed issuers and investors in their decisions.

7) *Is any action by the EU needed to facilitate the development of standardised, transparent and accountable ESG (Environment, Social and Governance) investment, including green bonds, other than supporting the development of guidelines by the market?*

In order to enable sustainable development and ensure a sustainable future where global climate goals are met, the contribution of financial markets is important. Many aspects need to be taken into consideration and policy makers are responsible for speeding up and facilitating the process, domestically as well as on an EU level.

The EU should strive to work alongside the G20 and the OECD in order to support the process of shifting investments toward financing the transition to a low-carbon and climate-resilient infrastructure. Shifting investments to sustainable infrastructure, renewable energy production, and energy efficiency measures need supporting policy choices, and a predictable policy and regulatory framework to which market players can adhere. Many market players are currently working diligently and successfully with these issues, work that we believe should be promoted in order to achieve global climate goals.

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?*

We support the overarching goal to improve access to financing for SMEs by increasing and diversifying the sources of funding. SMEs and firms in an early business stage are usually high risk investments due to the lack of a track record and opaque information about their risks.

For SMEs that are to be listed on MTFs, an adequate framework needs to be in place to ascertain sufficient disclosure about the firm, its business and risks. Here standardised accounting standards could facilitate both investments in SMEs and cross-border activities. The broader investor base that follows from a listing necessitates a higher degree of disclosure and public access to accounting information. If a company is listed an adequate level of transparency must be fulfilled to entail comparability and sufficient information to uphold the needs of investors and analysts to understand the risks of the company. For Swedish firms listed on a non-regulated market (e.g. MTF), it is up to the exchange to set the requirements on information disclosure and use of accounting standards. For example, First North (an MTF on Nasdaq Stockholm), require firms to use national GAAP but firms also have the option to apply IFRS. Therefore, we would see merit in an amendment to Regulation (EC) No 1606/2002 on the application of international accounting standards allowing all firms listed on European MTFs to voluntarily apply IFRS in the consolidated financial statements.

There are both positive and negative aspects of introducing a new accounting standard for publically listed SMEs. A common accounting standard could increase the comparability between firms and make it easier for firms and investors if a company chooses to move its listing to a regulated market. Developing another accounting standard specific for SMEs listed on an MTF could, on the other hand, increase complexity and lead to a reduced desire to invest in SMEs. This is due to the fact that current investors have a good understanding of local GAAP or IFRS. This complexity could decrease the readiness to invest and thus make it harder for SMEs to find financing. Hence, the costs of developing a new accounting standard could be higher than the benefits.

The International Accounting Standards Board (IASB) has developed an IFRS for SMEs which is a less stringent and complex accounting standard applicable for the needs of smaller firms. If an EU accounting standard, for SMEs listed on an MTF is to be developed, it seems most appropriate to use IFRS for SMEs or an amended version (i.e. a third IFRS, an IFRS light) of it to maintain the link to IFRS which is mandatory for listed firms on regulated markets. However, introducing a third IFRS for listed SMEs would introduce additional costs and in addition raise questions regarding who should be responsible for developing and maintaining the framework. We believe that applying such a standard should be voluntary.

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?*

We believe that equity-based crowdfunding and lending-based crowdfunding are relevant to this question. Crowdfunding can be an important source of financing for start-ups and innovative projects, but it is also often associated with risks for investors. It may involve the risk of fraud, risks related to incomplete information provided by the issuer, operational risks relating to the platforms, and not least the risk of loss of invested capital.

Equity-based crowdfunding is a relatively new but growing phenomenon in the Swedish market. The current regulations for financial services in the EU are not designed with this industry in mind. Regarding barriers to the development of appropriately regulated equity-based crowdfunding, there are certain restrictions on dissemination in private companies in the Swedish Companies Act. Sweden has not interpreted shares in private companies as transferable securities/financial instruments. Hence, shares in private companies fall outside the scope of MiFID and the Prospectus Directive. Sweden does not have any national regulation regarding equity-based crowdfunding.

Lending-based crowdfunding typically takes place on an on-line platform where all or part of a transaction between lenders and borrowers is administered. The administrative service provided by the platform can be designed in several ways. Depending on the way in which these services are provided the companies' operations may be subject to different EU regulations, for instance Mortgage Credit Directive (MCD), Directive on Payment Services (PSD) or CRDIV/CRR. These regulations however, are not designed to take into account the activities of loan-based crowdfunding and do not provide sufficient protection for the consumer. If the administrative service includes the remittance of money, in Sweden, an authorisation to provide payment services is required.

As crowdfunding may assume so many forms and the industry is growing, also on a cross-border basis, it is important to have a common understanding of the phenomenon within the EU. Hence, we suggest that the Commission further investigate this phenomenon with an emphasis on consumer and investor protection, and the possible need for future regulation.

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?*

There are several areas of importance to focus on in order to incentivise institutional investors to increase investments in the above mentioned investment categories. Industry changing cross-border regulatory initiatives, such as Solvency II and IORP, as well as national investment regulation play an important role in determining what options, for instance life insurance companies and national pension funds have when allocating their portfolios. Designing regulatory requirements to support the ability of insurers to match long-term liabilities with long duration assets and the creation of financial instruments enabling pension funds to make these investments could have an impact on capital attraction from these investors. However, it is important that all prudential regulations (both consumer protection and financial stability) correctly reflect the risk of long-term investments and that regulation is consistent across sectors – see also our answer to question 12.

Another important prerequisite to attract investors is that investments must be competitive on an expected risk return basis. Insurance companies make decisions based on how different asset classes fit into their investment philosophies and the expected risk versus return on any given asset. To facilitate analysis of the expected return and encourage investors to commit to long-term investments the regulatory environment needs to be stable. For example, for green investments (energy and renewable investments), stronger requirements on CO_2-emissions should increase investments in the energy and renewables sector.

National policies can also encourage long term investments by institutional investors. One example is the Swedish pension system where the buffer funds (the First to Fourth AP-funds) are governed by law, giving them a mandate stipulating that no more than 5 per cent of the capital can be invested in non-listed assets. Following an agreement in the parliamentary Pension Group in March 2014, the legislation for these funds is in the process of being changed. According to this proposal the present quantitative investment rules would be replaced by a prudent person principle. It is stated that it may be appropriate to retain an upper limit on investments in non-listed assets. The proposed new legislation is likely to increase the possibility for the AP-funds to make long term investments in non-listed assets.

11) *What steps could be taken to reduce the costs to fund managers of setting up and marketing funds across the EU? What barriers are there to funds benefiting from economies of scale?*

The cost for setting up and marketing funds across the EU differs due to different fee structures imposed at the national level. A consistent fee structure approach should make costs for cross border marketing and sales more predictable and hence enhance investments overall. A first step could be that Member States could take it upon themselves to evaluate their fee structures to see if changes need to be made.

As far as economies of scale are concerned, the UCITS Directive has a number of provisions which are aimed at making it easier for funds to benefit from economies of scale. It is unclear what other measures could be taken in this regard. The effects on financial stability of additional measures that encourage larger funds in the alternative space which use substantial leverage, needs to be assessed, as highlighted by e.g. the FSB. Larger funds also require larger markets (or more markets to invest in) given their impact on the pricing of assets in smaller markets. It is possible that other measures envisioned in the CMU will lead to larger capital markets in the EU. This in turn could increase fund investments in the markets as well as fund size.

12) *Should work on the tailored treatment of infrastructure investments target certain clearly identifiable sub-classes of assets? If so, which of these should the Commission prioritise in future reviews of the prudential rules such as CRDIV/CRR and Solvency II?*

We believe that the purpose of financial regulation is to maintain high levels of financial stability, investor and consumer protection, and should not be a policy measures to incentivise investment decisions which might conflict with this purpose. Therefore, it is important to maintain a transparent and stable regulatory framework for institutions which does not dilute the outcome and potential reviews of prudential regulations, such as CRDIV/CRR, Solvency II, and forthcoming IORP directive.

Potential reviews on prudential regulation should not compromise the investment decision. Introducing favourable treatment in prudential rules for infrastructure investments, by example using capital requirements in CRDIV/CRR and Solvency II as tipping the scale in favour of these sub-classes, may increase the appetite for these investments but does not necessarily support the end goal of growth and jobs in the EU; especially given the inherent risks of infrastructure investments, such as illiquidity and valuation problems.

Further, we believe that due to the risks involved in infrastructure investments institutions which hold large volumes of excess capital and/or have predictable liability cash flows are more suitable to increase allocations to these investments. These institutions include non-banks such as insurers and pension funds. Therefore, we do not support tailored, i.e. favourable, treatment of investments in any prudential rules and are not in favour of the Commission prioritising this in future reviews of such regulation. Such favourable capital treatment could also have adverse effects on the on the capital allocation to ELTIF funds.

13) *Would the introduction of a standardised product, or removing the existing obstacles to cross-border access, strengthen the single market in pension provision?*

Innovation and product development are parts of the business model of the insurance sector. The decision to introduce a new product is taken following thorough market, risk and profitability analysis by the specific insurance company. It is thus difficult to conclude whether a standardised product would strengthen the single market in pension provision. We believe that the cross-border activity in the field of pension provision is limited at present and that the creation of a standardised product would have little impact on providing a single market in pension provision. Insurance providers can already operate across Member States through local branches; however this is not being done on a large scale.

The pension system structures across Member States vary significantly. Occupational pensions in Sweden for example are social contracts based on collective agreements between parties. The pension system in each Member State is tailored to the specifics of the domestic market. In our opinion, a more flexible framework at the EU level would not lead to an increase in cross border activity. Creating a 29th regime could increase consumer choice, but consumers already have a broad range of products and providers to choose from.

14) *Would changes to the EuVECA and EuSEF Regulations make it easier for larger EU fund managers to run these types of funds? What other changes if any should be made to increase the number of these types of fund?*

Large funds already applying the rules of the AIFMD should not be prohibited from using the EuVECA and EUSEF brands as long as they follow the requirements in the Regulations governing such funds. Given that such funds have only been set up recently, we consider it too early to change other aspects of the legislation governing them.

15) *How can the EU further develop private equity and venture capital as an alternative source of finance for the economy? In particular, what measures could boost the scale of venture capital funds and enhance the exit opportunities for venture capital investors?*

We believe that we need to maintain the momentum for a more harmonised market for venture funds. Sharing information across Member States about successful tax-policies related to venture capital, as well as amendments of framework conditions which have had beneficial effects and increased activity in this field, would lead to a greater understanding of measures that could be taken at the national level. This could include activities and conditions of business-angels as well as incentives for Private Equity-funds, including venture capital investors.

16) *Are there impediments to increasing both bank and non-bank direct lending safely to companies that need finance?*

We believe that a healthy, resilient, and stable banking sector is fundamental in providing investment to the real economy. Thus, one of the most important issues for increased bank lending and investment is that we have well-capitalised banks and that they manage their bad assets. Hence, in our view it is important to maintain stringent capital requirements for banks in order to safeguard financial stability, consumer protection and the long-term availability of credit.

There is also a need to be vigilant about the effects on financial stability of increased non-bank direct lending to firms, as highlighted by the FSB and the IMF. Further, if not properly monitored or implemented, shifting risk outside of regulators' views could make it more difficult for supervisors to identify and mitigate macro-prudential risks. For these reasons, we believe non-bank lending should instead be done through other liquid forms of credit e.g. corporate bonds, which are more liquid than non-standardised direct lending to firms by the non-bank sector.

17) *How can cross border retail participation in UCITS be increased?*

See our answer to question 11.

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

In article 9 of the regulations establishing the ESAs a number of tasks that they are to carry out in the area of consumer protection are listed. However, as the recent review of the three authorities has shown, the workload related to level 2 measures has strained the resources at the authorities. While the ESAs have carried out different tasks related to consumer and investor protection, more work can be done in this area within the authorities´ existing mandate. Consumer/investor protection considerations should also be an integrated part of the impact assessment carried out with respect to level 2 measures.

One important task for the authorities is to enhance and increase cooperation with each other in order to make sure consumer protection remains in principle the same across sectors, creating a level playing field in the different sectors of the financial services area. Cooperation should be the starting point for all legislative and supervisory activities related to consumer protection. To further make a positive contribution to consumer protection the ESAs should be evaluated periodically on a cross-sectorial basis with regards to their contribution in the area of consumer and investor protection as well as cooperation between the ESAs.

19) *What policy measures could increase retail investment? What else could be done to empower and protect EU citizens accessing capital markets?*

Policy measures in the area of financial literacy and increased transparency could increase retail investments. The former would result in a deeper understanding of investment prospects including the risks in different investment alternatives. The latter, would ensure the availability of relevant information presented in a clear, understandable and comparable manner, aiding retail investors in making informed decisions. While a number of Member States, including Sweden[1], have projects aimed at increasing financial literacy, these should be complemented by private sector initiatives.

In the legislative context it is important to consider how to match the financial needs of consumers with both product suitability and appropriate advice in order to both empower and protect EU citizens as well as to strengthen investor confidence in the capital markets. At the national level, different policy measures can increase retail investments. However, different policy measures may lead to unintended consequences further along thus requiring proper impact assessment during the design of the incentive.

20) *Are there national best practices in the development of simple and transparent investment products for consumers which can be shared?*

Economic incentives may be a way to nudge a consumer towards certain behaviour. To give a Swedish example, an ISK account[2] was created in Sweden in 2012 to encourage consumers to, in a simple manner, invest in funds as well as in financial instruments.

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

Attracting capital from outside the EU is an important goal of the CMU and hence it is important that EU regulations are consistent with global standards. Applying a globally aligned terminology would help to increase non-European investors' confidence in European capital markets and open for increased trade in and out of the EU, not least against the background of net outflow of

[1] The Swedish project known as the Financial Literacy Program (Finanskunskap) is organized by Finansinspektionen.

[2] An investment account where an individual can buy and sell funds and securities without declaring loss or profit for the individual transaction.

capital from the EU, as described in the latest Commission report on freedom of capital movements.

Openness to trade is an effective time tested tool to keep prices competitive and foster innovation. The OECD trade restrictiveness index (STRI) shows that the EU is more open than the US and Japan. However, progress in the EU is required in certain areas. For example, the EU still has to make substantial progress in order to comply with the Basel Committee on Banking Supervision (BCBS) as demonstrated by the results of the recent Regulatory Consistency Assessment Programme (RCAP). It is also important that the EU encourages other jurisdictions to comply with such global standards. To conclude, we believe that consistency of EU regulations with global standards should be a high priority in the CMU. This will increase international competitiveness of the EU and thus make the Union an attractive place to invest in.

22) *What measures can be taken to facilitate the access of EU firms to investors and capital markets in third countries?*

The Green Paper mentions the possibility of direct marketing of EU investment funds and other types of securities in third countries. Financial services is therefore a key issue in free trade agreements between the EU and countries such as the US, Japan, Canada, and Vietnam. A predictable environment for EU firms should help in attracting foreign financing and we believe it is important for the EU to comply with globally agreed standards. Hence, we endorse the close collaboration between DG-Trade and DG-FISMA in this area.

It is important that global standards are implemented and applied by all jurisdictions. Europe has successfully employed the passporting principle in certain areas of financial regulation. Exploring the viability of developing passporting arrangements between jurisdictions should be considered since this could facilitate the access of EU-firms to third country investor and capital markets.

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?*

The Green Paper touches upon several important areas to improve the functioning and efficiency of markets as well as reduce the obstacles to cross-border investments. Both the primary and secondary markets for equities and bonds fill an important role in achieving this. A well-functioning secondary market is important in that it helps with price discovery of assets issued, enables comparisons of issuers, helps in the valuation of existing portfolios as and gives investors the possibility to reallocate their portfolios. It is also very important for the primary market, especially when issuing bonds.

A consolidated tape is a natural step towards improving the functioning of markets and is encouraged for both equities and bonds. Due to the very nature of a consolidated tape it is desirable that ESMA could be put in charge of collecting and maintaining such a system unless a market solution occurs. This is in particular important for non-domestic investors assessing investment opportunities in another EU country. For bond markets, transparency is very important to improve price discovery, while still making sure that liquidity providers are not exposed to undue risk. A higher degree of electronic trading in bonds could also facilitate investments by investors without a build- up of network of banks or brokers.

The regulatory framework for EU markets in bonds and equities also needs to be predictable and implemented in a way that does not distort price formation (and hence the information being transmitted through the price mechanism), while at the same time protecting investors. The playing field must be stable and predictable in order to attract long term investments in EU markets. As an example, the short selling regulation, initially meant for equity markets was hastily complemented with rules against the short selling of government bonds when market conditions changed.

Finally, in order to achieve more liquid equity and bond markets on a European level, the direct or indirect costs and frictions of carrying out transactions should be reduced. Here fees and withholding taxes should be addressed, as mentioned in the staff working document.

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

We believe that a minimum level of harmonised regulation of the financial markets in Europe is an important prerequisite for the free movement of capital within the union. It is also important to comply with globally agreed financial regulatory standards as this would increase non-European investors' confidence in European capital markets and minimize possibilities for regulatory arbitrage. By creating and further developing a set of minimum harmonised regulations, transaction costs can be lowered and protectionist barriers against the free flow of capital eliminated. A minimum harmonisation of financial regulations is essential for effective competition across the EU and beneficial for its citizens.

Against this background, we welcome the dedicated work by EBA and SSM to review whether the vast number of options and national discretions in CRDIV/CRR are distorting the level playing field within the EU. However, we believe that there are instances where a stricter application of a certain provision could be warranted. The way the financial system is structured in a certain Member State could be a relevant reason for applying stricter requirements and deviating from the minimum standards. An example is the decision by the Swedish authorities that the common equity Tier 1 capital requirement for the four major bank groups in Sweden should be higher than the CRDIV/CRR minimum threshold. One of the reasons is that the banks in question are very large compared to the Swedish economy and that the failure of one of these banks could cause large costs to society and taxpayers.

Finally, we would like to highlight the need to improve the quality of translations of regulations and other legally binding documents. Given that the use of regulations as a legislative instrument has increased, the importance of accurate translation has hence also increased.

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?*

Our view is that the powers of the ESAs are appropriate and well-balanced. Rather than expanding the ESAs mandate, they should be encouraged to make full use of their existing mandates to improve supervision and coherent application of financial regulation across the Union.

Supervisory convergence is an important part of achieving the objectives of the CMU. Consistent risk-based supervision, i.e. consistent outcome of the supervisory activities, is essential for reducing barriers to cross-border activity within Europe. Consistent supervision does not, however, mean identical supervisory activities or identical supervisory processes across Member States. Enhanced cooperation on IT and data issues could be valuable. This includes, where appropriate, allowing the ESAs to coordinate and perform tasks that can lead to a more efficient use of supervisory resources, as well as simplifying the process for the different entities reporting financial data. Therefore we welcome further cooperation in this area.

In addition, there is a need for better cooperation on cross-sectorial regulation. Enhanced cooperation would benefit investor protection and ensure the avoidance of conflicting regulations, which is vital for entities that are active in two or more sectors, such as the securities, banking and/or insurance sectors. It would also benefit consumers and others using financial services and products of different kinds and thus promote the growth of a genuine capital markets union.

Furthermore, the ESAs should make better use of their existing mandate in the area of consumer and investor protection, and give such issues a higher operational priority. Improved consumer and investor protection are important parts of a successful CMU. It is also important to ensure that the ESAs use their resources as effectively as possible while fulfilling the tasks given by their regulations.

26) *Taking into account past experience, are there targeted changes to securities ownership rules that could contribute to more integrated capital markets within the EU?*

NA

27) *What measures could be taken to improve the cross-border flow of collateral? Should work be undertaken to improve the legal enforceability of collateral and close-out netting arrangements cross-border?*

We consider it necessary to evaluate any measures that have already been taken before initiating any reforms in this area or in the area of insolvency law (question 29) and we do not rule out the possible need for targeted measures in these areas. However, it is of great importance that consideration is given to the national competence in this area having regard to the principle of subsidiarity. Further, any reforms should not extend beyond what is necessary and proportionate balancing inter alia financial stability, investor and consumer protection as well as collateral efficiency. It should be noted that laws regarding credit, security interests and insolvency regimes of the Member States differ and priority rights may be completely incomparable among the Member States, making harmonisation efforts difficult. Also national insolvency laws must be seen in their respective contexts. A Member State's insolvency framework is adapted to the Member State's specific conditions. We will consider individual proposals if and when they are presented.

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?*

NA

29) *What specific aspects of insolvency laws would need to be harmonised in order to support the emergence of a pan-European capital market?*

See our answer to question 27.

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?*

In general we are positive to work towards facilitating cross-border financing, to complement the companies financing alternatives and thereby strengthening the single market. Tax matters may be a part of this. However, in our view such matters should be dealt with in the fora designated for such purposes. Thus, within the framework of a capital markets union it would not be appropriate to make any proposals for changes in the tax area. It should also be noted that some of the tax issues raised in the Green Paper are already being addressed in an EU context. It should also be taken into account that, respecting the EU-freedoms, tax matters fall under the competence of each Member State.

Nevertheless, we would like to make the following general comments to the question posed regarding tax barriers in this area. We agree that differences in the tax treatment of different types of financing such as debt and equity financing might increase the reliance of companies on debt funding. It may also give rise to profit shifting. This is something that a national Swedish inquiry has analysed. In June 2014 the inquiry proposed to change the Swedish system for interest deductions in the corporate sector. This proposal is currently being evaluated. Work in this area is also being conducted within the OECD in the BEPS-project. In this context a best practise for a common definition of interest will be proposed. This matter is also being discussed within the framework of the Common Consolidated Corporate Tax Base (CCCTB)) directive.

31) *How can the EU best support the development by the market of new technologies and business models, to the benefit of integrated and efficient capital markets?*

We welcome the rapid growth of new technology in financial services as it can broaden access to finance and lower transaction costs for firms and individuals. The EU should support this development by calibrating the current legal framework so that it does not discriminate against new technologies or businesses, and simultaneously maintains high levels of financial stability and investor and consumer protection.

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?*

NA