December 2015

BUSINESS VIEWS ON THE FUTURE OF EUROPE'S ECONOMIC AND MONETARY UNION

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

BUSINESSEUROPE a.i.s.b.l.

WWW.BUSINESSEUROPE.EU
Follow us on Twitter @BUSINESSEUROPE

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: main@businesseurope.eu
EU Transparency register 3978240953-79

INTRODUCTION

The debate on the future of the Economic and Monetary Union (EMU) is today a priority for Europe. Strengthening the EMU will be fundamental to rebuilding trust in the euro, and in turn in the European project, and can signal the renewed commitment of individual Member States both in terms of solidarity and responsibility. Completing EMU is both a priority and a matter of urgency for business. Business investment requires a safe and predictable environment based on a well-functioning EMU. Leaders need to act quickly to ensure the necessary steps are taken to strengthen the foundations of our common currency and improve the business environment in Europe.

The European Union has shaped the contemporary history of our continent. It allowed decades of peace, democracy and prosperity. It fostered growth and employment, competition and investment. Moreover, the introduction of the Euro brought benefits to businesses, and citizens, through reductions in exchange rate risks, greater price stability and transparency, more attractive financing conditions, and increased trade. Our desire to strengthen the Euro comes from our strong belief in the benefits of the Euro Area, not the fear or the cost of its abandonment.

However, the founding fathers of the Euro always recognized that further steps would need to be taken to complete EMU. Whilst the crisis saw a number of measures taken to strengthen EMU, it is nevertheless the case that weak economic governance, growing imbalances, asymmetric adjustment between member states, lack of coordination, and years of indulgence in the implementation of national reforms are to a large part responsible for the difficulties the EU has found in overcoming the economic crisis.

We need to reinforce the EMU and to create the necessary mechanisms and institutions to ensure a strong currency union, sustainable from both an economic and a socio-political perspective.

The 5 Presidents report is a welcome first step. However, BUSINESSEUROPE considers that greater urgency and ambition is needed in strengthening EMU, and in setting out a clear path for the coming years, in order to strengthen confidence today.

We can no longer delay important steps for further integration within EMU. We urgently need to complete the Banking Union, make the European Semester more focused on implementation, and improve coordination of major economic policies. Euro area governments must show a clear commitment to introducing reforms and respect for the rules alongside measures to improve democratic accountability of collective decisions. Progress in these areas is necessary to increase confidence in the commitment of Member States and to move forward with a Euro area fiscal capacity/ macroeconomic stabilisation function. In other words, greater solidarity must be accompanied by stronger individual responsibility.

At the heart of both the EU and the Euro area is the single market. Improving the free flow of goods, services, capital and labour can strengthen the adjustment mechanisms essential for a monetary union whilst increasing integration and resilience. Furthermore, advancing the EU single market will be the most efficient way to clearly demonstrate the benefits of the EU and to boost growth and job creation. While progressing with the EMU, it must be ensured that this is in done in a way that protects the interests of all Member States, and that the door remains open for the participation of non-Euro area countries. Whenever matters of common interest are concerned, they should be discussed by ministers from all 28 Member States.

The time has come to rethink the EMU and to take ambitious steps towards its completion. The business community is keen to play its role in contributing to this process and helping ensure that real progress with tangible results is made in strengthening EMU.

President Emma Marcegaglia

Director General Markus J. Beyrer

BUSINESSEUROPE RECOMMENDATIONS

Member States must implement structural reforms in order to increase growth and job creation to facilitate greater convergence of European economies. Commitment from Member States to reform and respect the existing EMU rules is essential to regain trust and make further progress in completing the Economic and Monetary Union.

1. Economic Union

- **Put competitiveness at the core:** In line with the Commission's October proposal, set up independent National Competitiveness Boards that look at all aspects of the business environment with relevance to productivity, such as for example, taxation systems administrative burdens, skills and energy prices, etc. When it comes to wage setting, it is fundamental that any initiative fully respects national wage setting structures and does not interfere with the autonomous competence of national social partners in this area.

- **Properly monitor macroeconomic developments:** Strengthened implementation of the Macroeconomic Imbalance Procedure, in both deficit and surplus countries, as well as developing a broader macroeconomic analysis to identify risks that may be outside its current scope.

- **Place a greater focus on employment and the sustainability of social security systems,** based on a renewed EU strategy on flexicurity.

- **Enhance the coordination of major economic reforms**, followed by proper assessment.

2. Financial Union

- **Address the fragmentation of the EU savings and credit markets,** including breaking the negative feedback loop between the financing of banks and governments.

- **Put in place a comprehensive banking union without further delay,** including through making decisions on further development of the single resolution mechanism and, following asset quality reviews for all relevant banks, a deposit insurance schemes.

- **Strengthen cross-border capital flows and help companies access diversified funding sources.** A comprehensive and well-designed Capital Markets Union should encompass all 28 Member States, favour the development of a level playing field and allow markets to integrate.

- **Ensure consistency between regulatory measures** in order to avoid unintended consequences and underpin a proper functioning Capital Markets Union.

- **The EU should promote tax systems that support equity-financed investments.**

BUSINESSEUROPE

3. Fiscal Union

- **Greater efficacy of fiscal rules:** The upcoming review of the 6+2 pack should not modify the underlying spirit of the regulations, but could lead to simplification.

- **Access to a Euro Area fiscal capacity or stabilisation fund is necessary for the long-term stability of EMU.** Such a stabilisation mechanism can improve the ability of the EU to be able to handle quickly and effectively asymmetric shocks to one or more of its economies. In order to prevent moral hazard and strengthen individual responsibility, access to such a Euro area fiscal capacity or stabilisation fund must be fully conditional on Members States implementing structural reforms. In addition, it must also not lead to an increase in the overall tax burden in the Euro area. Consideration should be given to a **Euro Area treasury** carrying out this role.

- **The ESM could ultimately be developed into a European Monetary Fund,** a permanent financial adjustment mechanism to provide technical and strictly conditional financial support to individual Member States facing asymmetric shocks.

4. Political Union

- **Increase the focus on the implementation of reforms:** There should be greater focus on implementation within the European Semester, and greater visibility of country specific recommendations at national level, including a greater involvement of national parliaments and a more visible "comply or explain" practice.

- Measures towards further integration should be fully compatible with the Single Market in all aspects and ensure a **level playing field between all EU Member States.**

- **Involve social partners in the implementation of reforms:** It is useful when social partners can agree themselves on the reforms needed because they know best the reality of enterprises and how to implement the agreed actions in practice. Where social partners do not reach agreement, governments must act to implement necessary structural reforms.

1. Economic Union

A. Greater structural convergence of European economies and stronger coordination of economic policies

The lack of convergence between Euro area countries before the crisis and the even greater disparity in their economic and employment performance in the years that follows remains a key challenge to EMU. During the first decade of the Euro, strong capital flows allowed some Member States to reap the benefits of the Euro without addressing structural problems, including introducing reforms to increase the resilience and competitiveness of their economies. This led to major structural bottlenecks and created a number of imbalances and speculative bubbles both inside and outside of the EU's fiscal framework.

We need to ensure we have governance structures in place that enable all Euro area members to develop policies which give them the enhanced resilience and flexibility to adapt to external shocks that is necessary within a single currency area. Or, in the words of the 5 presidents report, Member States must "pursue sound policies so that they can rebound quickly from short term shocks, are able to exploit their comparative advantage within the single market and attract investment, thereby sustaining high levels of growth and employment".

As well as strengthening the implementation of country specific reforms, BUSINESSEUROPE believes it is necessary to have much greater coordination of major policy reforms than suggested in the 5 Presidents report in order to yield visibly better results than the coordination efforts of the past. The close interlinkages of the economies of the EU, within the Euro area in particular, mean that policy choices in one Member State will spill-over into other countries through trade and financial channels. Whilst negative feedback loops were most in evidence following the crisis, strong policy reform in Member States can also contribute to positive and reinforcing spillovers. (This is already recognised by the Commission when allowing Member States implementing major structural reforms to temporarily deviate from the medium-term objective or the adjustment path towards it).

The introduction of specific thematic discussions in the Council, including on topics of exclusive national competence, can be a good way to enhance the coordination of reforms. The discussions on the tax wedge on labour initiated in the Eurogroup in July 2014 and which culminated with recommendations regarding stronger use of indicators in September 2015 provides an example of the way forward. The beginning of the discussions on services reforms is also welcome. But it is important that the momentum of the discussions is maintained with appropriate follow-up.

Comments on the 5 president recommendations:

Creation of a Euro area system of Competitiveness Authorities: Setting up bodies made up of independent experts could be helpful in encouraging greater awareness of both the need for reforms and their potentially impacts on competitiveness.

When it comes to wage settings, it is fundamental that any initiative fully respects national wage setting structures and does not interfere with the autonomous competence of national social partners in this area. The proposal in the report that the social partners "should use the opinions of the Authorities as guidance during wage negotiations" would, in a number of Member States, not respect the role of the social partners and risk upsetting the delicate balance of wage setting in those Member States.

Moreover, while productivity and wage developments in relation to main trading partners is a very useful measure of competitiveness, it is important that the issue of competitiveness is not simply reduced to wages. Competitiveness is also determined by broader aspects of the business environment ranging, for example, from taxation systems, to administrative burdens, skills and energy price.

These national authorities should be in close contact with the Commission's Vice-President in charge of competitiveness, exchanging views on the impact of European policies on national competitiveness.

We are therefore pleased that the Commission in its October communication on completing EMU, recognises in its proposal for a system of national competitiveness boards, that their aim should be, 'neither to interfere with the wage setting process and the role of social partners, nor to harmonise wage setting systems'. The emphasis on analysing competitiveness performance and competitiveness-related reforms in a broad sense is also a welcome step forward.

- *A stronger Macroeconomic Imbalance Procedure:* We support a strengthened application of the macroeconomic imbalances procedure with imbalances identified and corrected, in both deficit and surplus countries. Given that the MIP covers a limited number of key indicators it is necessary to review them regularly with a view to a possible introduction of new ones when risks are identified outside its current scope.

- *Greater focus on employment and social performance:* Contrary to other regions worldwide such as the US, employment levels in Europe remain below those of 2008. An increase in activity rates is not only an imperative because of demographic ageing, it is also a condition to generate demand and private consumption, hence to foster growth and to secure the financial stability of social security systems. The priority is, and remains, to establish at European level a European framework for national labour market reforms promoting employment creation and improve the resilience of social security systems based on renewed common principles on flexicurity.

Focusing on employment and social performance should lead to foster job creation and employment participation. To achieve these goals, European benchmarks would need to ensure that objectives would be met through competitiveness enhancing structural reforms. To be of added value such benchmarks would need to address the following key challenges:

1. Remove barriers to integration of new entrants on labour markets, such as rigid employment regulations;
2. Ensure attractiveness of different forms of employment contracts and provide a framework to facilitate transitions between them;
3. Increase the performance of active labour market policies, including assessing the cost effectiveness of Member States' spending in achieving employment outcomes;
4. Improve learning outcomes in line with labour market needs, by reforming education and training systems, anticipating skills needs and improving data on job vacancies. Particular attention should be given to increasing the productivity of the workforce by ensuring appropriate access to effective life-long learning
5. Tackle demographic challenges and ensure sustainability and adequacy of pension systems, notably by aligning the retirement age with life expectancy.

A challenge for many European countries is to organise employment protection in a way that is conducive to employment and is inclusive for all workers, avoiding a segmentation between different types of employment contracts. In a number of countries barriers to employment creation exist due to the design of employment protection.

One important concern for employers is the reference in the report to a "social protection floor". It is unclear what is meant with this. Coordination will need to be fully coherent with the goal of increasing Europe's competitiveness and respects subsidiarity as already defined in the Treaty in the areas of pay and social protection, and in particular, the national social dialogue and social partners' rights to negotiate.

- *Stronger coordination of economic policies within a revamped European Semester*: Given the potential for spill-over effects from reforms, it is essential that mechanisms for analysing and co-ordinating reforms are strengthened substantially. Eurogroup thematic discussions on topical issues can provide a good platform, followed by appropriate follow up including through ex-post assessment of the implementation of reforms based on a Commission analysis.

B. THE LONG RUN: FORMALISE THE CONVERGENCE PROCESS

Strengthening convergence between Member States economies is essential for the success of EMU. As the 5 Presidents report suggests, convergence can be improved by moving from improved coordination of national policies towards common decision-making. The report mentions the need for "agreeing on a set of common high-level standards that would be defined in EU legislation, as sovereignty over policies of common concern would be shared and strong decision-making at euro-area level would be established." The complexity of these ideas requires thorough discussion and deeper analysis. The idea to set up a working group on the future of the economic union, the same way that it is being foreseen for the future of the fiscal union, should be foreseen. It should set a clear path, respecting the need to maintain solid democratic legitimacy in all Member States and taking into account all the details and challenges posed by legal aspects.

Comments on the 5 president recommendations:

- *Formalise and make more binding the convergence process:* It is important to achieve greater convergence and to make sure that structural reforms are properly implemented to increase the resilience and flexibility of both Euro area and non-Euro area economies.

  The Commission should provide a report, based on a working group, that elaborates the policies where a common decision-making would be warranted and the policy instruments that are intended to achieve real convergence, as well as the policies that should come under the heading of "structural policies", including the modernisation of public institutions. This should include an assessment of available policies and instruments including EU's regional policy, which aims at reducing disparities.

BUSINESSEUROPE

2. FINANCIAL UNION

A. COMPLETING THE BANKING UNION

Long-term sustainable growth will only return to the EU economy once business has the confidence and access to finance required to underpin investment.

The financial crisis has resulted in a tightening of capital requirements for banks and led to fragmentation of the EU savings and credit markets. Despite unconventional measures by the ECB to address the dislocation of normal monetary transmission mechanism, lending costs continue to vary across the Euro area reflecting differences in risk perception and economic conditions.

The Single Market for both capital and services has also been hampered by national ring-fencing of assets by supervisors, prohibiting banks from transferring capital and liquidity across borders.

Europe must take further action to address this fragmentation, including breaking the negative feedback loop between the financing of banks and governments to reduce the sovereign premium inherent in lending costs which still exists, albeit to a lesser extent than before. A properly functioning single market will lead to deeper and more liquid markets which can act as a buffer in the face of financial turmoil, reduce the cost of financing and encourage cross-border trade and investment. It is also necessary to remove the barriers that limit competition between banks in different countries, so that customers can benefit from technological advances and improvements in services at a lower cost.

BUSINESSEUROPE believes these issues can only be properly addressed through completion of the banking union. We call on European leaders to put in place a comprehensive banking union without further delay, including through making decisions on further development of the single resolution mechanism.

The banking union also needs to stay open and transparent towards Member States not using the single currency. BUSINESSEUROPE believes that measures towards further integration should be fully compatible with the Single Market in all aspects and ensure a level playing field between EU Member States.

Progress on the banking union alone will not be sufficient to return to a path of long-term sustainable growth in Europe. Greater progress should be made in implementing structural reform in the EU and further developing the Single Market is also essential to create more growth and jobs.

Comments on the 5 president recommendations:

- *Full transposition of the Bank Resolution and Recovery Directive*: BUSINESSEUROPE supports the principle underpinning the Directive Member States should transpose these rules – an essential piece of post-financial crisis regulatory reforms - as soon as possible, irrespective of progress on other aspects of the banking union. We underline that in the context of precautionary recapitalisations, resolution authorities should carefully assess the option of imposing losses on junior creditors on a case-by-case basis, given the risk of a flight of investors which could further hamper EU bank funding.

- *Swiftly agree on an adequate bridge financing mechanism to ensure that there is enough money if a bank needs to be unwound.* More needs to be done to break the risk of a vicious circle between a fiscally weak sovereigns and fragile domestic banks. In the event that the possibility for bail-in of eligible liabilities has been exhausted and where market access is no longer available to a bank and having supported the establishment of a single resolution fund under specific conditions, BUSINESSEUROPE agrees that in order to build business confidence in the authorities' ability to undertake swift and orderly resolution, an effective bridge financing mechanism is necessary, until the planned funding of the single resolution fund has built up.

- *Set up a credible common backstop to the Single Resolution Fund.* BUSINESSEUROPE acknowledges the need for a credible common backstop which should not draw on public resources, by, if necessary, drawing on ex-post contributions from the financial sector. It should be developed in a way which guards against moral hazard by financial institutions and Member States and encourages them to maintain sound macro-economic and fiscal policies. Common backstops should not reduce the incentives for reform in both the banking system and the broader economy in individual Member States. The implementation of the Excessive Deficit Procedure should take place in such a way that whilst supporting long-term fiscal consolidation, it also provides governments with the capacity to strengthen financial stability. This would complement the possibility for a credit line from, or the direct recapitalisation through, the European Stability Mechanism.

- *Launch of a European Deposit Insurance Scheme.* Recognising the importance of credible guaranteed deposits, which take into account the issue of moral hazard and be well aligned with the mandate of the ECB, careful coordination of deposit insurance resources within the Euro area should be undertaken. It is essential to further resolve market doubts about Member States' ability to deal with a bank failure and consequent fragmentation and competitive distortions. Any European Scheme should be supported by contributions from participating banks. However, before setting up such a scheme, it should be urgently evaluated if enhanced coordination and cooperation between national schemes could serve the same purpose, for example through a joint backstop mechanism similar to the European Stability Mechanism. In the event a European Scheme is deemed essential, it should preferably only be launched once the different national and European resolution funds and national deposit insurance schemes have been set up and pre-financed and when the links between them are fully clarified. We consider there is a need for the ECB and EBA to regularly undertake asset quality reviews and stress tests for financial institutions concerned by such a European deposit insurance scheme, to ensure a level playing field for those institutions.

- *Review the effectiveness of the ESM's direct recapitalisation instrument.* In line with our desire to build confidence in swift and effective resolution regimes, we support reviewing the effectiveness of the direct recapitalisation instrument. This last resort instrument is essential to safeguard financial stability.

- *Create a more level playing field for banks.* BUSINESSEUROPE strongly supports the steps that have been taken to strengthen supervision of the banks participating in the banking union. A single rule book and strengthened supervision are essential for restoring confidence in banks and will contribute to ensuring consistent application of supervisory standards drawing on best practices for the assessment of banking risk. BUSINESSEUROPE supports efforts to further develop a level playing field for banks. Within the Banking Union, different supervisory practices for smaller banks should not lead to any preferential treatment, as this would severely distort competition.

- *Strengthen macro prudential institutions to better monitor new risks in the banking and shadow banking sector.* Given continuing regulatory pressure on bank lending, it is very important to develop complementary sources of finance, and the shadow banking sector clearly has a role to play. Regulation needs to be balanced with supervision and be mindful of the consequences for non-financial companies. Greater control and supervision of the "shadow banking sector" is required to ensure a level playing field and avoid distortions of competition between different types of companies providing financial services. However, typical and necessary transactions of industrial corporations like the hedging of business risk (hedging of commodity price changes, interest or exchange rate changes, etc.) or transaction within a holding must not be considered as shadow banking activities.

B. Launching the 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. 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 favours the development of a level playing field and allows markets to integrate.

Financial institutions and institutional investors such as pension funds and insurance companies should all be encouraged to invest long-term risk capital in European companies. Unfortunately, the supply of financial resources from these investors is hindered by different prudential rules. The combined effect of these rules and other financial reform measures, such as rules on private equity and financial instruments, may jeopardize companies' access to financial markets and affect the functioning of capital markets. A high degree of consistency between regulatory measures is essential to avoid unintended consequences and ensure a proper functioning Capital Markets Union.

Comments on the 5 president recommendations:

- ***Develop more diverse finance sources for companies and allow them to tap capital markets***: 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. Also, 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 not hinder investors from playing a part in new forms of SME-finance which might emerge, nor make market financing more difficult and more costly for non-financial companies. In this respect, the Commission should urgently withdraw proposals for an FTT and Bank Structural Reform or at least, in the case of the latter, deeply amend it to ensure a level playing field and full coherence with capital market union.

- *Deeper integration of security and bond markets.* BUSINESSEUROPE supports deeper integration of security and bond markets but believes that inadequate liquidity in bond markets is linked to asymmetric information and negative interferences between different regulatory frameworks. Some of the new rules being implemented for Basel III through CRR/CRD IV are highly counterproductive to the goal of increasing liquidity. The interplay of higher capital requirements across the board with new requirements like the Liquidity Coverage 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 CRR/CRD IV or on Pillars 2 and 3 to revive secondary market trading. Without it, there will never be adequate liquidity in bond markets. We agree on the need to develop standards with market participants 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. 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. Deeper integration should also not lead to new rules on investor protection. 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. 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.

- *Creating a single European capital markets supervisor.* BUSINESSEUROPE believes it will be important to consider carefully weather a single supervisor is required for capital markets. Whilst it is necessary to have a single supervisor for the banking union given the link between the sovereigns and the banks, this is not necessarily the case for the capital markets union.

- *Regulation to ensure that financial institutions have sufficient risk management structures in place and remain prudentially sound.* BUSINESSEUROPE supports regulatory initiatives that address the regulatory failures that led to the financial crisis and reduce the risk of new crises occurring. Companies are the first victims of problems in the financial sector as we have seen. But reforms must strike the right balance and be mindful of their consequences for non-financial companies which depend on the services of financial companies for their investments in the real economy. Moreover, the Commission must urgently deliver a comprehensive impact assessment which addresses the cumulative impact of different reform measures.

- *Taxation measures to provide a neutral treatment for different but comparable activities and investments across jurisdictions.* BUSINESSEUROPE believes that the EU should promote tax systems that support equity-financed investments. Also, equity-financed investment decisions may be hampered in some EU countries by a corporate income tax system that presents 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.

- *Simplification of prospectus directive.* BUSINESSEUROPE agrees to review the current prospectus regime. The cost of publishing prospectuses or updating those for issuance programs 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.

- *Revive securitisation markets.* Reviving securitisation markets would be an important contribution to strengthening financing and it is vital that the Commission does not further increase capital requirements so that banks are able to free up their balance sheets and increase lending. 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. 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. BUSINESSEUROPE therefore welcomes the Commission's proposal in September 2015 for a regulation on simple, transparent and standardised securitization.

- *Greater harmonisation of accounting and auditing practices.* BUSINESSEUROPE supports the use of international accounting standards by listed companies as this improves comparability. However, it does not support defining a new accounting standard for smaller and medium-sized companies. 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. The use of any standard for SMEs – either IFRS for SMEs or a specific standard for SMEs listed on a Multilateral Trading Facility - should not be mandatory or a requirement to be listed on a SMEs growth market or Multilateral Trading Facility.

- *Address bottlenecks related to insolvency law, company law, property rights and the enforceability of cross-border claims.* Although also important, harmonization in complex areas relating to insolvency, property rights, corporate governance etc. should be longer-term challenges. While a reflection on these issues should start now, rushing actions in these areas as part of the Capital Markets Union could risk delaying the overarching objective of boosting investment for firms across Europe. However in the area of company law, BUSINESSEUROPE would support measures to facilitate company mobility in the internal market. This would reduce legal uncertainty and costs, and free-up resources for investment. Also, further use of digital tools in company law, such as for company registration or electronic cross-border shareholder voting, should be encouraged.

3. Fiscal Union

A. Responsible budgetary policies

As seen during the crisis, ensuring fiscal sustainability and healthy public finances is fundamental for the EU, and the Euro area as a whole. The revision of the 6+2 pack must ensure that the fundamental rules regarding public finances continue to be properly applied. However, it is important that consolidation strategies are an integral part of a broader strategy seeking to remove structural bottlenecks and allow for better functioning product, labour and capital markets. This is the best way to ensure sustainable public finances in the long run.

Comments on the 5 president recommendations:

- *A new Advisory European Fiscal Board*: Whilst the proposal may have potential benefits, it needs to be developed in more detail before being taking forward. In particular, it is important to consider how such a board would operate in the context of the revamped semester as well as ensuring that the new body does not add unnecessarily to an already complex macro-prudential surveillance environment, and complements existing national practises. We therefore welcome the additional information provided by the Commission's October 2015 publication and will monitor the progress of the new board which has been established by a Commission Decision on 21 October 2015.

- *Fiscal rules*: The upcoming review of the 6+2 pack should not modify the underlying spirit of the regulations. Simplification could be however take place as the current set of rules makes monitoring, public communication and implementation too complicated. It would be important to take a forward looking perspective in implementing fiscal rules in good times. This means addressing windfall revenues and exceptional savings on the basis of considerations regarding medium term growth prospects, future contingent liabilities related to demographic trends, and investment needs, all within a broader perspective of the Euro area fiscal stance.

- *Greater efficiency of public administrations and credible cost-cutting measures*: it is important to follow a performance-oriented review of public services and spending structures, possibly carried out or analysed by independent bodies making recommendations for spending cuts and public sector reforms.

- *Growth-enhancing tax reforms*: Fiscal consolidation should as much as possible be done on the spending side. To complement spending reforms and tighter budget controls, tax systems should become more supportive of growth and job creation. Tax and benefit systems must create greater incentives to participate in the labour market and make work more attractive. Simplifying tax systems, reducing compliance costs and removing double taxation in the fields of both direct and indirect taxation would make more investment and trade economically viable and contribute to greater benefits of the internal market, in particular for SMEs.

B. THE LONG RUN: MACROECONOMIC STABILISATION FUNCTION

Monetary unions, in order to become more resilient, need to develop a common macroeconomic stabilization function to deal with shocks that cannot be managed at the national level alone. It is important for the EU to be able to handle quickly and effectively asymmetric shocks to one or more of its economies, particularly when it comes to Euro area countries.

Clearly, it is fundamental to prevent moral hazard and strengthen individual responsibility. Hence if deeper macroeconomic coordination is developed, it must be achieved in a way that maintains full democratic legitimacy in all Member States and which properly addresses all legal details and challenges. The implementation of a Euro Area fiscal capacity or stabilisation fund must go hand in hand with the completion of structural reforms, aiming at greater convergence coordination and integration. Moreover, access to a Euro area fiscal capacity or stabilisation fund must be fully conditional on Members States implementing structural reforms, and demonstrating individual responsibility.

As suggested in the 5 presidents' report, a working group should lead the way forward to consider how a macroeconomic stabilisation function for the Euro area can best be developed within this framework. The working group should consider in particular, whether it is necessary for the function to seek to address divergences between Member States, in addition to asymmetric shocks.

Greater economic coordination must not lead to an increase in the overall tax burden in the Euro area. Taxes such as the Financial Transaction Tax, would undermine companies' investment by raising the cost of capital and would damage their competitiveness by making essential risk-management activities more difficult. Such a measure is at odds with much needed initiatives to restore affordable access to capital of many European financially constrained companies.

Finally, the European Union institutions should not lose sight of the positive role that worker mobility can play to alleviate asymmetric shocks hitting some countries in particular. Higher levels of mobility from countries with high unemployment in recent years shows that the possibility to work in other EU countries can be beneficial for individuals who would otherwise not be able to work. It can also benefit countries of origin as those workers are likely to return to their home country with improved skills and career prospects. Therefore, it is important not to neglect the positive economic and social role of mobility to ensure a better allocation of labour in Europe and smooth social hardship. At the same time, in some EU countries the working population outflow is as high as 10% of the working age population, which contrasts with the EU average of only 3.3%. In such cases, sudden and high levels of mobility can be detrimental to sending countries.

Comments on the 5 president recommendations:

- *Set up a macroeconomic stabilisation function for the Euro area*: We believe that access to a Euro Area fiscal capacity of stabilisation fund is necessary for the long-term stability of EMU. The debate on the setting up of a macroeconomic stabilisation fund for the euro area needs to be opened in the short-term. It is important for the EU to be able to handle quickly and effectively asymmetric shocks to one or more of its economies. However, the need for any new stabilisation mechanism needs careful consideration, particularly given the scope for a more developed banking and capital union to support stabilisation through the increased flow of both private and public funds between Member States.

  Moreover, any potential stabilisation mechanism must be developed without increasing the potential for moral hazard, i.e. without reducing the incentives for individual Member States to implement appropriate fiscal policies and structural reform. Greater economic coordination should be developed in a way that maintains a full democratic legitimacy in all Member States and which addresses all legal questions. Greater macroeconomic coordination should not lead to an increase in the overall tax burden in the Euro area.

- *Promote mobility that benefits countries of origin and of destination:* EU and national policy makers should promote free movement by addressing barriers to worker mobility, fostering mobile workers' employment participation and encouraging cross-border mobility to maximise the benefits of mobility for countries of origin and destination. In particular, concrete measures to facilitate labour mobility should be taken.

4. Democratic accountability, legitimacy and institutional strengthening

A. Revamp the European Semester

The launch of the European Semester in 2010 introduced some improvements in the way the EU's fiscal and economic policies are conducted. In particular, the yearly recommendations from the European Commission to EU Member States became more robust and the process of communication and exchange of information between the EU and the national level was enhanced, including a much greater involvement of national and European social partners.

However, as clearly demonstrated in BUSINESSEUROPE's yearly reform barometer, the implementation of the EU recommendations by Member States remains weak. Our 2015 report shows that only 22% of the Country-Specific Recommendations (CSRs) analysed were satisfactorily implemented.

This situation is highly problematic. All Member States must progress in introducing reforms in order to ensure the competitiveness and resilience of their individual economies but also of the EU as a whole. In the case of the Euro area, specific reforms such as labour market flexibility become even more urgent given that, in cases of adverse shocks, members of the currency union can no longer seek to boost short-term competitiveness through nominal currency devaluation. In addition, as the Commission's October 2015 communication notes, it is important to better co-ordinate economic policy making within the Euro Area.

As the experience of countries such as Ireland and Spain shows, where reforms have been recently implemented, results can feed through to economic performance surprisingly quickly. On the contrary, traditionally competitive countries such as Sweden and Finland, have failed to introduce a coherent reform programme in recent years, and risk losing ground in the years ahead.

Comments on the 5 president recommendations:

- *Improve implementation of reforms*: It is essential that the European Semester has an increased focus on implementation. The Country-Specific Recommendations (CSRs) should be accompanied with a clear roadmap for implementation with specific and measurable milestones. Greater prioritisation of CSRs – as already introduced by the Commission in 2015 – can ensure greater focus and therefore delivery. However, the aim should not be to reduce the number of recommendations per se or we risk losing important recommendations to Member States. Introducing a "comply or explain" approach can also increase the awareness of the (in)action of Member States. The recent introduction of the *Structural Reform Support Service* is a welcome development that we believe can bring concrete results.

- *Involve social partners in the implementation of reforms:* In a number of countries, social partners have played an important role in designing labour market reforms. Social partners are well placed to do so because they know best the reality of enterprises and how to implement the agreed actions in practice. BUSINESSEUROPE promotes mutual learning between national social partner organisations across Europe based on practical examples of social partner led labour market reforms. However, if social partners are unable to reach agreement, Member States need to act. In the last years, the Commission has made positive steps to improve the way in which the EU social partners are involved in the economic governance processes. This has been particularly the case in the context of regular consultations on the Annual Growth Survey and through regular exchanges with the Council's technical bodies dealing with employment, social protection and skills issues. However, our members' involvement is still patchy at national level. While there are some positive experiences, there is still room for improvement to ensure consultations take place in a more coordinated way and following a similar pattern throughout Europe. For instance, sometimes employer organisations are consulted together with the civil society and NGOs; also some member federations were contacted at national level and European level in parallel. We need to ensure consistency throughout the process.

- *Monitor the Euro area stance*: It is important that increased attention is paid to the Euro area as a whole and its country specific recommendations. Ways to incentive the implementation of specific reforms with benefits to the Euro area as a whole could be further analysed.

- *Strengthen parliamentary control as part of the European Semester*: Political discussion at national level regarding the European Semester must be enhanced. European Commissioners can play an important role in communicating the recommendations and EU's economic policy in the European capitals in order to raise political awareness. Similarly, enhancing and formalising consultation and involvement of social partners at national and European level can improve both the formulation and implementation of the CSRs. It would be however important to ensure that the consequence is not an increase in complexity and hampering of the European Semester. Discussion and close follow-up of the country specific recommendations by national parliaments should become mandatory.

- *Increase the level of cooperation between the European Parliament and national Parliaments:* We support this proposal, which can help build ownership of structural reforms in Member States and therefore encourage implementation.

- *Reinforce the steer of the Eurogroup:* As noted above, it is important that the Eurogroup, as well as all other relevant EU bodies, plays a strong role in both co-ordinating structural reforms within Member States and encouraging stronger implementation of reforms.

- *Take steps towards a consolidated external representation of the Euro area:* We support a strong external representation of the Euro area, which can complement existing member state representation in external organisations and will continue to monitor developments in this area following the Commission's October 2015 proposals.

- *Integrate into the framework of EU law the Treaty on Stability, Coordination and Governance; the relevant parts of the Euro Plus Pact; and the Inter-governmental Agreement on the Single Resolution Fund:* We support such action. Regarding the Euro Plus Pact, reviving it and foreseeing its introduction into the EU's legal framework could provide an impetus to greater coordination and convergence in some areas.

- *Introduce a multi-year approach*: A number of country-specific recommendations require more than a year to be implemented and produce the expected results. It is therefore necessary that a multi-year perspective is, in specific cases, introduced in the European Semester.

- *Improve communication of structural reforms*: further work must be placed in better defining and explaining structural reforms. With the crisis, structural reforms became synonymous of austerity. While reforms can indeed be about introducing cuts – often needed to increase effectiveness of the public sector – reforms can also be about investing in skills, reducing administrative burdens, or reducing tax wedges on employment. These are examples of growth-enhancing reforms, fundamental for well-functioning and competitive economies.

B. THE LONG RUN: EURO AREA TREASURY

The 5 Presidents' report states that "Some decisions will increasingly need to be made collectively while ensuring democratic accountability and legitimacy" where a "Euro area treasury could be the place for such collective decision-making." The legal and political challenges at hand clearly are significant, and therefore it is only appropriate that the 5 Presidents report foresees the formation of a working group that will deal with these issues and sets boundaries to common decision-making.

Comments on the 5 president recommendations:

- *Integrate the European Stability Mechanism (ESM) into EU law framework:* We are open to this proposal and furthermore believe the ESM could ultimately be developed into a European Monetary Fund, a permanent financial adjustment mechanism to provide technical and strictly conditional financial support to individual Member States facing asymmetric shocks. This mechanism should be more autonomous from national governments in terms of decision-making. Such a fund would reduce the EU's recent reliance upon IMF funding and expertise, as well as reducing overlap with existing surveillance mechanisms and other work undertaken by the European Commission.

- ***Set up a Euro area treasury accountable at the European level:*** We support the development of a Euro area treasury in the longer-term. Such an institution could combine existing DG Ecfin work, particularly regarding country surveillance and reporting with leadership of the ESM (having been brought into the EU legal framework). However, we do not believe such a treasury should have the power to impose additional EU taxes or 'own resources', and while such a treasury could mirror the role played in Member States by improving the effectiveness of the EU budget, overall expenditure should not be expanded.