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Position Paper: The Norwegian Securities Dealers Association on CMU/SIU and Capital Market Development in the EU

The Norwegian Securities Dealers Association acknowledges the challenges posed by the fragmentation of EU financial markets and supports the ambition to enhance capital flows, particularly in financing ongoing transitions and SMEs. However, we caution against inconsistencies in the proposed approach under the CMU/SIU framework.

Key Messages on CMU/SIU:

1. Investment Decisions Are Risk-Reward Driven

- Capital allocation is determined by risk-return considerations. The success of financing the green and digital transitions depends on the viability and profitability of individual projects rather than political aspirations. It is erroneous to assume that retail savings across the EU will -or should- automatically be redirected into these sectors merely through CMU initiatives.
- The goals of the CMU/SIU should therefore be to increase the productive capacity of Europe and thereby 1) further improve the markets' access to profitable projects, and 2) to provide opportunities for higher and lower risk-taking on households' savings

2. Financial Markets Operate Without 'Long-Termism'

- Most asset owners have a long-term perspective on their holdings. Asset managers continuously assess and adjust their positions based on expected future profitability and risk parameters. The notion of instilling artificial 'long-termism' contradicts the fundamental dynamics of financial markets and price discovery, where flexibility and responsiveness to changing conditions are key.

3. Investment Returns Reflect the Real Economy

- Stock market returns are ultimately driven by the performance of listed companies, which operate in competitive environments. A supportive regulatory and tax framework is crucial for these firms to expand and adapt. The EU should prioritize addressing regulatory and tax competitiveness through comprehensive international benchmarking.

4. EU Financial Markets Are Nationally Distinct Ecosystems

- European financial markets are highly diverse, shaped by national conditions. In the Nordics, financial ecosystems have developed organically over decades, demonstrating the importance of local adaptation rather than top-down centralization.

5. SME Financing Is Predominantly Local

- Home bias in SME investment arises from structural factors, including detailed local knowledge, familiarity, trust, and regulatory considerations. Strengthening national and regional financial ecosystems should take precedence over centralized EU initiatives.

6. Encouraging Best Practice Comparisons

- The EU should promote benchmarking of successful local financial ecosystems to foster sustainable capital market development.

7. Taxation and pensions systems are national

- Nordic financial market success has been influenced by national policies on taxation and pensions—areas that remain under national jurisdiction in the EU. Comparative analysis of best-practices in these areas should be encouraged.

8. Regulatory Simplification and Stability

- Frequent and complex regulatory changes increase compliance costs and discourage cross-border investments, particularly for SMEs and mid-sized market participants.
- While harmonization is beneficial, regulatory requirements must remain proportionate to the size and complexity of financial actors to avoid overburdening smaller market players.
- The increased burden of the regulation of financial markets in the EU since 2008 must be reviewed, coordinated and simplified. Principle based legislation should be considered.

9. Addressing the Cost of Public Listings for SMEs

- The cost and administrative burden of listing on public markets remain disproportionately high for SMEs, discouraging them from accessing capital through stock exchanges.
- Introducing scaled regulatory requirements based on company size and risk profile could facilitate SME access to public funding while maintaining investor protection.

10. Cross-Border Payment and Settlement Efficiency

- Differences in settlement cycles, payment processing, and clearing systems across EU markets increase friction in cross-border investments.
- Further integration and enhancement of EU-wide financial infrastructure could reduce operational inefficiencies and transaction costs.



Recommendations to Enhance Cross-Border Investment Flows:

To facilitate improved cross-border investments within the EU, the following measures could be considered:

- **Standardized language:** Mandatory financial reporting in English.
- **Harmonized accounting standards:** Consistent methodology across markets.
- **Uniform financial reporting practices:** Enhanced comparability of financial data.
- **Centralized access to information:** A single EU-wide website for financial disclosures.
- **Standardized IPO documentation and prospectus requirements:** Approval by national supervisory authorities with harmonized frameworks.
- **Centralized prospectus repository:** A supra-national database for investors.

The EU initiatives on ESAP, Prospectus Directive and Listing Act are sensible moves in the right direction. The proposed Consolidated Tape initiative should be reconsidered with an aim to be discontinued.

Characteristics of Small-Cap Investing:

1. Low Liquidity

- SME stocks are inherently illiquid, limiting investment by large asset managers due to ownership constraints.
- Many SMEs have concentrated ownership structures, with significant founder or local shareholder control, further reducing free float.

2. Limited Analyst Coverage

- Small and illiquid securities are not commercially viable for investment banks to cover.
- There is minimal, if any, research coverage for listed companies with a market capitalization below EUR 200 million.

3. Lack of Media Exposure

- Smaller companies attract little mainstream media attention, with news flows primarily localized.
- International investors often perceive an information disadvantage relative to local market participants.

4. Divergent Taxation Policies

- Capital gains taxation varies across jurisdictions, and double taxation remains a significant barrier to cross-border investments.



5. Predominantly Local Funding

- SME financing is largely regional due to the above-mentioned factors.
- Home bias remains prevalent across Europe, making national and local SME investment markets the norm rather than the exception.
- Even in the Nordics, where there is a relatively uniform financial infrastructure (language, reporting, taxation, trading platforms), SME funding remains largely domestic.
- Norway's high level of international participation in capital markets is primarily attributable to its energy sector assets rather than general cross-border SME investment.

Conclusion:

The Norwegian Securities Dealers Association emphasizes that EU capital market development must acknowledge national financial ecosystems' unique characteristics. While harmonization efforts are valuable in reducing barriers, fostering a thriving SME financing environment requires a bottom-up approach that prioritizes local ecosystem development over top-down centralization. Policymakers should focus on international best practice comparisons, regulatory competitiveness, and measures that facilitate—rather than mandate—cross-border investment flows.

