Comments

of the German Insurance Association

on the Green Paper "Building a Capital Markets Union" (COM(2015) 63) of 18 February 2015

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Executive summary

The German insurance industry appreciates the opportunity to contribute to the European Commission's Green Paper on Building a Capital Markets Union in the European Union. With total assets of about EUR 1.4 trillion the German insurance industry is a major institutional investor in international capital markets and therefore has a strong interest in the development and harmonisation of international capital markets.

We welcome the intention of the Commission to kick-start a debate across the EU over the possible measures needed to create a true single market for capital. In order to achieve some of the initiative's objectives such as better access to finance for SMEs and infrastructure projects or the creation of a single capital market across Europe we would like to highlight some core points for thorough consideration:

- In order to improve financing of the real economy – in particular regarding SMEs in the peripheral countries –, **insolvency and enforcement law should be harmonised.** The **legal status of creditors varies significantly from country to country.** The disparities of insolvency law do not only lead to different approaches in asset classes they also **create serious obstacles regarding credit risk assessments, pricing and risk management** for investors.

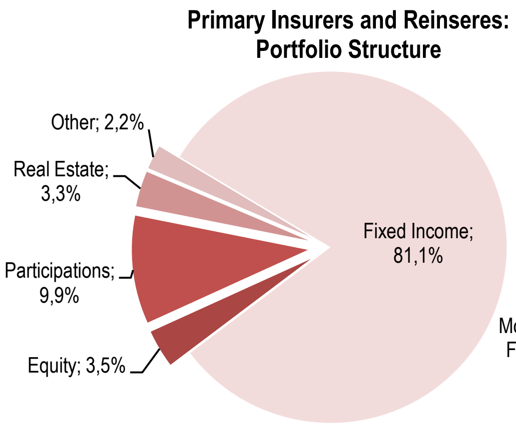
- Developing a sustainable and uniform **set of rules and standards** that take into account the advantages of already existing **private placement markets** such as the German Schuldschein market could help promoting this asset class significantly.

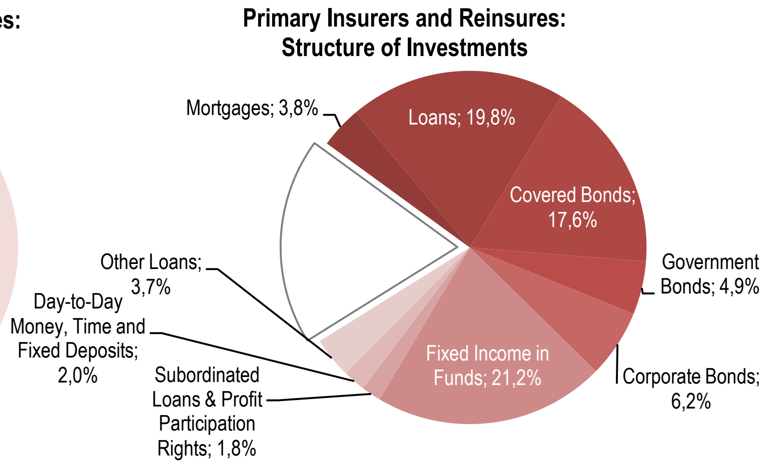
- Broadening and deepening the markets for **covered bonds** through appropriately **harmonised standards** on **quality and information** would be welcomed. However, harmonising **should not put existing and well-proven standards and financial instruments at risk** or interfere with investor protection.

- Harmonisation of **reporting and accounting standards** for SMEs seeking cross-border funding would be useful to improve their access to financing. Advantages for investors would in particular include **better comparability and frequency or reporting.**

Introduction

German insurers are large investors in international capital markets with an investment portfolio of approximately EUR 1,425 billion. Insurers' assets include a large portion of diversified investments in bonds with strong credit quality, blended with only a relatively small portion of more risky investments. This allocation enables insurers to meet their liabilities from insurance contracts at any time. As major institutional investors insurance companies assume an important macroeconomic function, since they provide manifold forms of debt and equity financing for the public sector, banks and corporates. This way they serve the real economy and promote growth and employment in the European Union. To give an example, German insurers' investments in private placements of corporates currently amount to about EUR 15 billion.





Source: BaFin, GDV (30/06/2014); without pension funds

As the largest institutional investor group in the European Union insurers have a strong interest in deep and harmonised capital markets with high levels of standardisation and transparency. In order to further diversify their investment base insurers are also interested in the unlocking of alternative ways of funding. We therefore welcome the intention of the Commission to tackle the fragmentation of the financial markets and to break down barriers that are blocking cross-border investments in the European Union and preventing businesses from getting access to finance.

Section 3: Priorities for early action

3.5 Developing European private placement markets

Q1. Beyond the five priority areas identified for short term action, what other areas should be prioritised?

<u>Answer</u>
The harmonisation of financial instruments, capital market standards and investor rights across Member States as well as the tapping of alternative sources of funding beyond bank loans in order to finance the real economy can help developing and diversifying investment options for institutional investors. In this regard, the set five priorities for early action are considered as appropriate.

In order to unlock further funding the European Commission should also look at potential **barriers for investments due to over regulation**. Examples for areas where further work is needed include the calibration of capital requirements for infrastructure investments under Solvency II and existing supervisory provisions on unbundling of energy production and energy transportation (Directive 2009/72/EC and Directive 2009/73/EC). In particular against the background of various European initiatives that examine ways how to support investments in infrastructure the **regulatory framework for infrastructure investments** under Solvency II and CRD IV/CRR (both debt and equity) should be reviewed carefully **as an additional priority.** The objective to promote long-term investments (priority area 3.4) should not be limited to finding ways how to support the take up of ELTIFs. We believe that more work should be conducted on **analysing how current regulation or framework conditions are hindering long-term investing.** In this respect the current REFIT initiative should provide for an appropriate basis for an assessment. Regarding the level of detail, in particular in financial services legislation, it is important that not only Directives and Regulations but also measures of implementation are considered. One example for such regulation is the European Market Infrastructure Regulation (EMIR).

Q2. 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?

Answer

As far as SMEs are concerned, reporting and information standards as well as reporting periods vary significantly between different Member States. Since they do not maintain very close relationships with the companies seeking credit, such as banks, insurance companies as well as other **institutional investors usually do not have easy access to credit assessments and other important business information of SMEs.** However, this information is vital for investment decisions and direct comparability.

Against this background, the **harmonisation of reporting and accounting standards** for SMEs seeking cross-border funding would be useful to improve their access to financing. For investors, advantages would be in particular better comparability and frequency of reporting. Further advantages could result from better transparency and quality of harmonised reporting.

Q3. What support can be given to ELTIFs to encourage their take up?

Answer

No comment.

Q4. 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?

Answer

Due to different regulation in individual Member States, the European market for private placements is overall fragmented and underdeveloped. The level of investment of European insurers in this field remains low. Germany on the other hand has a long-established market for private placements (borrower's note loans, Schuldscheindarlehen) with an outstanding market volume of currently EUR 65 billion. In 2014 new issuance amounted to about EUR 10 billion. Due to their transparency and cost benefits, borrower's note loans are an attractive alternative to classic financing through bank loans or bonds, particularly for German SMEs.

For issuers of **private placements** this form of financing can have various **advantages over a bank credit:**

- Larger and more diversified financing base;
- Reduced dependency on banks;
- More flexibility in using bank lines;

- Long maturities with fixed interest rates;
- Confidentiality, since financial information is only disclosed to the investor;
- Access to long-term investors with buy-and-hold strategy;
- Compared to bond issuance lower expenses and documentation requirements (no prospectus, publication requirements, license costs);
- No public external rating required (high costs and publication requirements).

Developing a sustainable and uniform set of rules in the European Union and **introducing certain standards** that take into account the above mentioned advantages of private placements could help promoting this asset class significantly. Such new rules would support the European Commission’s intention to improve financing conditions and offer alternatives to traditional bank loans. The set of rules and standardisation should aim at creating a transparent and cost-efficient financial instrument for investors and corporates alike. In order to achieve cost efficiency and make this instrument successful incorporating the following **characteristics** would be desirable:

- Arrangement / intermediation by banks to ensure an efficient process handling;
- Documentation based on standardised loan contracts according to specific law or regulation;
- No issuance of securities, no listing;
- No public disclosure requirements. Disclosure of financial information only to creditors;
- Long-term maturities should be possible (up to 10 yrs);
- Bullet structure for amortisation;
- Creditor protection via collateralisation or negative pledge with financial ratios such as right of extraordinary termination, cross default, change of control etc.;
- High level of standardisation regarding the credit contract, efficient process;
- No requirement for an external rating or external credit assessment of the issuer or the issue in order to keep costs low.

However, a single European set of rules **should not infringe or replace existing well-proven financing instruments** such as the Germany Schuldscheindarlehen or other instruments.

Ensuring an appropriate regulatory treatment of unrated financial instruments, **for example under Solvency II,** would encourage investors involvement. It would be appropriate to apply the classification between BB and BBB (according to Art. 176(4) of the Commission Delegated Regulation (EU) 2015/35) to the spread risk of credit securitisations (Art. 178(5)) and to the concentration risk (Art. 186(6)), as well.

Section 4: Measures to develop and integrate capital markets

4.1 Improving access to finance

Q5. What further measures could help to increase access to funding and channeling of funds to those who need them?

<u>Answer</u>
A large step forward to improve the financing options of the real economy in the Member States – particularly regarding SMEs in the peripheral countries – would be the **harmonisation of insolvency law and enforcement law.**

The **legal status of creditors varies significantly from country to country.** The disparities of insolvency law do not only lead to different approaches to asset classes such as covered bonds – they also **create serious obstacles regarding credit risk assessments, pricing and risk management** for investors that aim at investing across various Member States. The same holds true for major differences regarding liquidation of collateral in enforcement proceedings.

Further, the insurance- and banking-regulatory conditions under which insurance companies are entitled to grant corporate loans vary between member states. A harmonization of these conditions would facilitate the legal due diligence in connection with individual lending transactions.

Q6. 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?

<u>Answer</u>
The markets for **covered bonds** in the European Union are distinguished by **strong fragmentation** and very **heterogeneous regulation** in the individual Member States, making it difficult for investors to compare and appropriately assess the risk characteristics of the cover pools with reasonable efforts.

From an investor's point of view, broadening and deepening the markets for covered bonds through an appropriate harmonisation would be highly welcome. Introducing uniform standards for different types of bonds could be a major step in the process of creating a "single market" for covered bonds. This holds particularly true for the **harmonisation of quality and information standards**, since it would significantly reduce the analytical efforts and expenses of the investors. A cross-border harmonisation of covered bonds would make it easier for investors to compare the bonds, irrespective of the country where the issuer is located. Investors could benefit from a significant extension of investment options, whereas issuers could benefit from a larger investor base.

However, harmonising the markets for covered bonds **should not put existing and well-proven standards and financial instruments at risk** or interfere with investor protection. In particular the German "Pfandbrief", which already has a long and proven track record and very high standards regarding quality and investor protection needs to be maintained. A harmonised European covered bond regime should neither replace national bond types and the German "Pfandbrief", nor should it be based on the lowest common denominator.

Q7. 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?

Answer

An increasing number of institutional investors is incorporating information on ESG aspects into their reporting to stakeholders. Depending on the nature, scale and complexity of investments as well as the company strategy the approaches followed by companies differ from each other. Moreover, the **huge variety of different approaches** to recognise ESG aspects makes it virtually impossible to come up with one binding standard.

In order to allow for ongoing discussions on this matter and **preserve competition and diversity** in this field there should be **no binding standard for ESG investments.**

Q8. 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?

Answer

At present small and medium sized entities (SMEs) are subject to different financial reporting and disclosure requirements in different member states, although all are based on common EU accounting directives. Institutional investors like insurers usually do not have the same close relationship to corporates seeking for financing as banks do. Therefore, insurers' investment decisions cannot be easily based on a long-standing credit history of entities; being in addition directly comparable to each other across member states. Therefore, we **fully support** the idea of **creating a common accounting and reporting standard for SMEs** at EU level for the purpose discussed.

Although the local German GAAP is functioning appropriate at the national level, we believe that for SMEs aspiring to extend and improve their access to capital market financing or to cross-border financing arrangements the common accounting and reporting standard at EU level might be a **reasonable alternative to full International Financial Reporting Standards ('full IFRS').** We agree with the observation in the Green Paper that the full IFRS are not suitable for SMEs and would create a disproportional burden on them. Therefore, a **more suitable, tailored approach is indeed indispensable** as capital markets union without a common standard at EU level is hardly imaginable. Hence, existence of a high quality common EU standard for SMEs is in our opinion a desirable objective.

For reasons of precaution we would like to note that the existing Standard **"IFRS for SMEs"** as published by the International Accounting Standards Board (IASB) **has not been designed for entities aiming to access capital markets.** Hence its application for the purpose discussed would be conceptually inappropriate. Not endorsing the standard "IFRS for SMEs" in the EU has been the right decision as "IFRS for SMEs" is intended to be an alternative if local GAAPs are not well developed or not existent.

Q9. 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?

Answer

No comments. Against the background of defined liabilities in most cases crowdfunding is not seen as a suitable investment for insurers.

4.2 Developing and diversifying the supply of funding

Q10. 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?

Answer

Apart from the improvements discussed under previous questions we believe that **planning certainty, supervisory stability and a stable regulatory framework are crucial** for the commitment of insurers **for long-term investments.** Against the background of investment periods of ten, twenty or more years, confidence in the consistency and legal certainty of the political and supervisory decisions once made is essential. Due to their fiduciary obligations to their customers, insurers always have to base their investment decisions on maximum legal certainty and a stable regulatory framework. This means with respect to long-term investments in for example infrastructure and renewable energies that the political certainty of the decisions and commitments made must be similar to the contractual certainty provided under private law. Subsequent burdens such as retroactive reductions of feed-in prices and taxation of photovoltaic power plants, as have been for example implemented in Spain and Italy, destroy investors' confidence and should therefore be avoided by all means. The certainty of existing regulations on the basis of which already existing investments have been made should be preserved.

In most cases investments in **start-ups** are not suitable for insurers since start-ups lack an appropriate business track record and financial data that would enable the investor to thoroughly assess the risks associated with an investment. Moreover, start-ups are not able to provide stable and secure cashflows to investors.

Q11. 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?

Answer

No comments.

Q12. 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?

Answer

The standardised approach under **Solvency II includes inappropriately high capital requirements for infrastructure equity investments**, leading to considerable investment obstacles for insurers. A review and risk-sensible calibration of capital requirements, in particular regarding low-risk infrastructure projects, would remove this significantly burdensome disincentive for insurance companies.

There is an **enormous variety of potential investment objects** in the field of infrastructure and renewable energies, involving highly divergent real, economic and legal environments. For this reason, defining certain sub-classes of infrastructure investments does not make much sense. The most reasonable approach is to **define characteristics of relatively low-risk infrastructure investments rather than certain types of investments.** Following this way only comparatively low-risk cases are included – for which a common calibration can be found – excluding cases associated with higher or unpredictable risks. This approach is based on a list of requirements, which do not relate to specific categories of investment objects, but rather to general criteria ensuring the secure, bond-like character of such an investment. The list of requirements could include the following aspects:

- Investment object in the field of infrastructure or renewable energies.
- Unlisted. operative cash-flows predictable on a long-term basis.
- Low default risk (compared to other asset classes).
- Low correlations with other asset classes.
- Regulated business environment or public guarantees. The development of the investment properties is subject to laws and/or extensive regulations. Since infrastructure projects are public services, they are usually of “common public interest”. This can entail public guarantees, e.g. sureties or exemptions from liability by business development banks, licenses/concessions with authorities, end-user is paying fees (e. g. costs of water, waste water, etc.).
- Market environment close to a natural monopoly or inelastic demand or long-term contracts/licenses or minimum purchase regulations. Management risks are small. Infrastructure facilities are usually not – or only to a small degree – subject to market competition, since their services are difficult to replace. Often specific market entry barriers exist.

- No material project or construction risks (brownfield investments; greenfield investments during construction if the project phase has been completed and the construction has been secured by a comprehensive EPC contract, as well as former greenfield investments after successful putting into operation).
- No material risks related to natural hazards or theft/vandalism (insured if necessary).
- Maximum debt-to-capital-ratio of 60% investment.
- Object located in OECD member state.

Investment objects meeting the insurance industry's requirements mentioned above include the fields transportation, telecommunication, supply and disposal as well as social infrastructures, e.g. public road building projects, schools or the development and exploitation of renewable energy sources, including the grids required for the feed-in and distribution.

For infrastructure debt investments the counterparty default risk module is an avenue that should be considered to reach an appropriate capital requirement under Solvency II. This would allow the calibration of the capital requirement for infrastructure debt to reflect higher recovery rates (as compared to corporate bonds) and the existence of risk mitigation tools (eg collateral) that reduce the loss given default. Alternatively, default experience on infrastructure debt can be used as a means to derive an adjustment to the spread risk for corporate bonds.

Q13. Would the introduction of a standardised product, or removing the existing obstacles to cross-border access, strengthen the single market in pension provision?

<u>Answer</u>

The introduction of a standardised pension product **neither creates cross-border demand for such a product nor does it automatically channel funds** to those parts of the European economy in need of funding. A strengthened single market in pension provision is not an end in itself, but would only make sense if all European citizens would need a comparable type of product for their complementary pension savings. But this is not the case, since the level of public pension provisions and the roles of occupational or personal pensions differ between Member States as well as individuals' life circumstances. German insurers therefore propose a two-pronged strategy to stimulate market financing through insurance firms and pensions funds:

- First: the **EU should foster national initiatives to develop and increase complementary pension savings** of citizens in a way **that fits into the respective domestic pension system.** Pension products which are tailored to the characteristics of national frameworks are more beneficial for consumers than generic or standardised products. It is the combination of information and awareness raising measures, incentives, trust in the economy and in financial providers as well as qualified intermediaries which promotes pension savings on a larger scale. Therefore, and based on national experience, we do not think that a standardised pension product within a 29th or 2nd regime creates additional demand for pension products.
- Second: those **institutions that benefit from the inflow of pension savings must be enabled to invest the assets** via the capital markets union in line with the needs of pension savers for adequate and safe outcomes as well as with the wider European economy.

Insurance companies **already have in place the regulatory framework to provide cross border pension products.** However, insurers typically assess a range of important factors when deciding to provide cross-border services, such as ‘know your customer’ (KYC)-provisions, access to distribution channels, understanding the true risk proposed for cover (inter alia availability of suitable mortality tables), language, culture (including expectations of the local policyholder), as well as the tax, legal, regulatory, and supervisory environments. While in some member states the market for pension products probably needs further development and initiatives to deliver good quality products, in other countries, like Germany, the market and regulation are already well developed. **For underdeveloped markets an assessment of possible reasons, weaknesses as well as** concrete barriers for cross-border engagement of providers should be conducted on a case-by-case basis.

Q14. 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?

Answer
No comments.

Q15. 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?

Answer
No comments.

Q16. Are there impediments to increasing both bank and non-bank direct lending safely to companies that need finance?

Answer
No comments. Please refer to our answer to Q4.

Q17. How can cross border retail participation in UCITS be increased?

Answer
No comments.

Q18. How can the ESAs further contribute to ensuring consumer and investor protection?

Answer
No comments.

Q19. What policy measures could increase retail investment? What else could be done to empower and protect EU citizens accessing capital markets?

Answer
No comments.

Q20. Are there national best practices in the development of simple and transparent investment products for consumers which can be shared?

Answer
No comments.

Q21. 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?

Answer
No comments.

Q22. What measures can be taken to facilitate the access of EU firms to investors and capital markets in third countries?

Answer
No comments.

4.3 Improving market effectiveness - intermediaries, infrastructures and the broader legal framework

Q23. 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?

Answer
The recent actions of the European Central Bank (ECB) (Quantitiative Easening) have led to severe interference at international bond and ABS markets. Given the extend and impact of the ECB intervention on secondary markets the pricing for bonds and ABS is considered as being disturbed. Moreover many markets have virtually dried out, leaving very little liquidity.

Q24. In your view, are there areas where the single rulebook remains insufficiently developed?

Answer
No comments.

Q25. 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?

Answer
There is **no reason to suggest that the ESAs lack the power to ensure consistent supervision.** The report itself doesn't identify specific shortcomings as to how ESA competences do not suffice. The main objective of the ESAs is to ensure supervisory legislation is effectively implemented in the Member States. They are, however, **not competent to monitor the implementation of substantive law such as company law and insolvency legislation** section 4.3 is referring to. **In fact, it is for the European legislators to ensure supervisory convergence in these areas of law.**

If an extension of ESA powers is discussed, the **criteria of the latest ECJ** jurisprudence (see ECJ, Judgment of 22 January 2014 – C 270/12) **stipulate mandatory standards.** It is **necessary to determine sufficient procedural and substantive restrictions to the ESA powers.** Inter alia, the ESA competences and the scope of discretion need to be narrowly limited to an adequate extent. Also in line with the **principle of subsidiarity** (Art. 5 TEU) ESA action may only be permissible if national authorities unlawfully fail to act. More generally an extension of ESA powers must be accompanied by appropriate measures to ensure "checks and balances" on European level.

Q26. Taking into account past experience, are there targeted changes to securities ownership rules that could contribute to more integrated capital markets within the EU?

Answer
No comments.

Q27. 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?

Answer
The **legal status of creditors varies significantly from country to country.** For investors the legal enforceability of collateral is a key aspect when analysing a potential investment. The disparities of enforcement law **create serious obstacles regarding credit risk assessments, pricing and risk management** for investors that want to invest across borders. To give an example, the different enforcement periods for foreclosures of mortgages (varying from one to ten years) are preventing a better compe-

tition in the field of residential mortgages in the European Union. In order to improve this situation Member States could **agree on common standards for investor protection** that have to be followed to ensure enforceability with legal certainty and in a reasonable time.

Q28. 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?

<u>Answer</u>

The German insurance industry **supports the efforts of the European Commission to harmonise company law and requirements on corporate governance.** For example the draft of a new **shareholder's rights directive** to strengthen the rights of shareholders through additional legislative measures is actually in parliamentary process. The proposed measures on an improved identification of shareholders and on enhanced transparency requirements for proxy advisors are welcomed. A proportional balance between investor rights and the owners of the company is important. An obligation to involve and coordinate different interests beyond the mandatory minority protection (such as a blocking minority, for instance) would unduly restrict the rights of the individual investor. Also, this would be a constraint for an effective capital market union.

Company law in the EU is already on a highly harmonised level**. Additional harmonisation should not create more administrative burdens without providing significant benefits** to shareholders and companies. Otherwise the single market as such could be distorted. For example the Commission's provisions in the shareholder's rights directive on "related party transactions" or on the remuneration policy are disproportionate, bureaucratic and too far-reaching. Moreover, a possible requirement that all institutional investors shall be required to disclose their investment strategy and to engage all shareholders comments in their investment strategy is neither practical nor feasible. Due to the fact that the shareholder structure is continuously changing, integrating the engagement of the other shareholders in the investment strategy is impossible. Such measures would be counterproductive for the functioning of a possible capital market union within the EU.

Q29. What specific aspects of insolvency laws would need to be harmonised in order to support the emergence of a pan-European capital market?

Answer
No comments. Please refer to our answer to Q5.

Q30. 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?

Answer
For more integrated capital markets within the EU and a more robust funding structure at company level the following barriers around taxation should be taken into consideration:

- **Financial Transaction Tax** (FTT): the Implementation of an FTT will lead to **harmful impacts on end-users of financial markets,** such as governments, corporates, pension funds and insurers in the EU. Caused by an FTT especially private and occupational pension schemes would have to bear heavy costs. The introduction of an FTT **could result in increased cost of equity, reduction in share price, migration and relocation of trading activities and financial institutions, reduced market liquidity in EU shares and a reduction in EU GDP and tax receipts.** Given the fact that only 11 member states are willing to introduce an FTT, a **partial harmonisation will result in a patchwork of regulation** (e. g. in France and Italy financial transaction taxes on a national basis already exist).
- **Different taxation of corporations within the EU:** because of different national systems for determining the taxable profits in each Member State, companies in the EU face **regularly administrative burdens, compliance costs and legal uncertainties.** The EU could be a much more attractive capital market for investors, if companies could benefit from a **"one-stop-shop" system,** e.g. for filing their tax returns and would be able to consolidate all the profits and losses they incur across the EU.
- **Different approaches in the EU in respect of dividend taxation:** different tax regimes in the EU regarding the taxation of dividends **could negatively affect capital markets and could create obstacles to invest abroad.**
- Since 2013 the OECD has been working on the so-called **BEPS-Project** addressing **B**ase **E**rosion and **P**rofit **S**hifting issues. In principle, the need for a better international coordination and cooperation in the fight against tax fraud and tax evasion is understandable as the use of specific possibilities of aggressive tax planning has also negative implications on the competitiveness of

those companies that do not make use of it. However, as the OECD correctly points out, in the vast majority of cases, **the existing domestic law and treaty rules governing the taxation of cross-border profits produce the correct results** and do not give rise to BEPS. Therefore, changes in national and international tax rules have to be considered carefully. **Uncoordinated national initiatives** have to be prevented as well as the adaption of tax should not lead to **double taxation** of profits of foreign branches and subsidiaries. With a view to the automatic information exchange, during the past few years in particular the insurance industry had to face several significant additional

Q31. 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?

Answer

No comments.

Q32. 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?

Answer

No comments.

Berlin, 31 March 2015