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[Press release](#) | 18.02.2015

Capital markets union

Strengthen European values instead of focusing on short-term shareholder value

EU Commissioner Jonathan Hill today published a Green Paper proposing a Capital markets union, launching the European Commission's project to create a genuinely European capital market, aimed at removing barriers to the development of cross-border investments. The Commission also plans to decrease the role of bank loans in company financing.

Commenting on the Green Paper, **Sven Giegold**, Green economics and finance spokesperson said:

"Commissioner Hill should seize this opportunity to reform the finance market in order to make it compatible with European values. A capital markets union with a one-sided and short-term focus on shareholder value is exactly what the EU doesn't need.

Instead the financial sector needs to focus on long-term investment guided by not just economic but also environmental and social responsibility criteria. The Capital markets union is the perfect opportunity to ensure these sustainability criteria are integrated in risk analyses, investment products and ratings reports.

There are useful proposals in the Commission ideas for capital markets simplification: small investors could benefit from simpler, EU-standardised retail investment products and these could also come with reduced costs and promote competition through easier comparison between different issuers. We welcome Commissioner Hill's support for these products. As long as consumer protection and information continue to play an important role, we likewise support simplification of simply structured securitisations and investment product prospectuses. Moreover, the harmonisation of capital markets could function in Europe, if it is accompanied by the strengthening of the EU supervisory authorities (ESMA, EBA and EIOPA). The EU capital market must not lag behind in the supervision of cross-border actors and consumer protection.

Despite the opportunities offered by an EU capital market, there can be no avoiding the fact that there are formidable obstacles in the areas of taxation, insolvency and accounting law in particular. Commissioner Hill faces enormous challenges, if he wants to succeed in these fields. It is precisely in these areas that EU

harmonisation would not automatically bring added benefits, so for example there is no need for extension of International Financial Reporting Standards (IFRS) in Europe.

For good and efficient financial markets, the EU needs to move beyond a tunnel vision on capital markets. The major role played by banks as intermediary between business and capital is above all a strength: Small and medium enterprises could become the backbone of our economy, if they were able to rely on the long-term support and competence of banks focused on the real economy. Savings banks, development and cooperative banks and credit unions in particular are sound assets rather than a problem. It is banks in particular that, when it comes to small amounts of capital, can bridge the information gap between businesses and investors. The EU needs, just as much as a capital markets union, an initiative for founding new local banks and development institutes that are run based on a public and common goods mission rather than profit maximisation. Small institutions in particular suffer disproportionately from the costs arising from strict and complex regulation. The European Commission should look into possibilities for allowing small, prudent banks to opt for a simpler but hard set of rules.”

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Sven Giegold

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