Government Offices of Sweden

Statement from Ministry of Finance

Shared views of the Finance Ministers from Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, Sweden, and The Netherlands about Capital Markets Union

Published 18 July 2018

It is central for ensuring continued prosperity in Europe that we tap into all sources of growth available. Mobilising capital in Europe to help promote sustainable growth in the real economy to the benefit of all citizens, investors and companies in the Union remains a key priority. The development of open and globally competitive capital markets in the European Union, and the reduction of barriers to capital flows will help ensure businesses have access to sources of financing from other countries and through means other than traditional bank based financing and better match investment demands with those who have savings to lend. Extending cross border private risk sharing will make our financial system more robust and less vulnerable to financial crises.

Given the challenges facing the European Union, fully delivering CMU is essential. CMU has already delivered in a number of targeted ways such as amending Europe's prospectus and securitisation frameworks, facilitating Europe's venture capital funds investment in start-ups and small and medium sized businesses by amending EuVECA and seeking to promote financial knowledge via the work of the Sub-Group on Financial Literacy. Vice-President Dombrovskis has highlighted that the prospect of Europe's largest financial centre leaving the European Union makes our task more challenging, but all the more important. The United Kingdom's decision to leave the European Union, while regrettable, must act as a catalyst to redouble our efforts in further developing and integrating EU capital

markets.

Taking account of the European Union political and institutional cycle, time is not on our side and so we must set an ambitious target and prioritise. This means that we should focus our resources on those outstanding parts of the CMU Action Plan with the largest impact, which enjoy broad support among Member States and can be completed quickly. This includes the Investment Firms Review which will implement a more proportionate regulatory regime for investment firms and the proposed framework for covered bonds which would enhance their use as a stable and cost-effective source of funding for credit institutions to help finance the real economy. In addition proposals that help provide financing to European companies that actively contribute to a low carbon and environmentally resilient economy and sustainable development must also be advanced. In that regard, accessible and comparable information about sustainability aspects for investors is crucial. We also have to make sure that the financial industry becomes aware of the risks related to climate change and the necessary transition to a sustainable economy.

Second, we also need to focus on those proposals that will allow the financial services industry in Europe to benefit fully from technological developments and innovations that improve financial services and enhance their integrity. Financial technologies solutions using for example digital identification, mobile applications, cloud computing and cyber security principles change the financial industry and at the same time create the opportunities to provide better access to finance and address financial inclusion, support operational efficiency and enhance the competitiveness of the economy.

Third, an effective supervisory framework provides the foundation for integrated European capital markets as it ensures a consistent approach to the implementation of the Single Rule Book across Member States. It also provides an environment which attracts international capital and expertise into the Union. The Review of the European System of Financial Supervision is an important opportunity to enhance the current framework and build upon the existing strengths of the three European Supervisory Authorities (ESAs). The focus of the ESA review must be to ensure that there is a level playing field in the Union on the provision of financial services in order to ensure supervisory convergence between Member States. We should ensure that the expertise and knowledge of national competent authorities continues to be shared with the ESAs. The voice of the national competent authorities is a central part of the ESA framework, which are member organisations. This outcome essentially depends on strengthening the existing tools. We

remain convinced that amendments can be agreed by the Council within the timeline of this Commission and Parliament, but progress on CMU should not depend on the ESA Review.

Fourth, national reforms can play an important role in achieving the aims of the CMU. The pursuit of national reforms will result in the further development of local capital markets, helping to diversify financing options for the real economy and improve financial stability via diversified funding sources. The Commission's Structural Reform Support Service has assisted Member States in introducing reforms to develop their capital markets and we believe it has an important role in helping further develop our capital markets.

Notwithstanding the complexities of the many CMU Action Points, we are committed to working constructively within Council and with the Parliament and the Commission in order to help ensure the priority issues are delivered within the current term. We reiterate that this will require a prioritisation of the existing open legislative files in order to ensure that CMU is advanced as much as possible by early 2019.

Government Offices of Sweden

Statement from Ministry of Finance

Global cooperation is key to address tax challenges from digitalization

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The Nordic countries belong to the leading countries in digitalization. Digitalization has hastened the development of our economies and enabled new business models to develop. It is essential to ensure that all companies including digital companies have a growth-friendly environment also in the future. Well-designed and fair taxation is one key factor in achieving this.

Digitalization has led to discussions in the EU and on a global level on how the existing tax rules work in relation to the new business models. For us, it is important to ensure that everyone pays their taxes, digital companies as well as all others. The Nordic countries are generally at the forefront of the global fight against tax avoidance, and have actively participated in the work done within the EU and in the OECD to combat base erosion and profit shifting (BEPS). And we remain ready to do more on this issue. We note that the recent US tax reform with its GILTI provision should pre-cisely address issues of tax avoidance by US digital companies, by ensuring a minimum taxation of 13 per cent on profits from foreign sales, which previously could often go untaxed for a long time. This is an important contribution to securing a level playing field between US and European companies.

In March 2018 the EU Commission made two proposals for directives introducing special tax rules for the digital economy. We welcome and support the active EU engagement in the discussion on counteracting base

erosion and profit shifting in light of digitalization, but note that the two proposals are mainly about changing the current rules for allocating taxable income between countries, for the digital economy, rather than fighting tax avoidance. The proposals partly shift taxing rights to the country of the consumer or the digital user, based on the premise that these contribute to value creation in the digital economy.

This deviates from internationally established principles. Traditionally, exporting firms do not pay taxes in their export destination simply because they have consumers there. The proposal for a digital services tax means that basically all value creation is deemed to take place at the location of the consumer. Furthermore, a digital services tax deviates from fundamental principles of income taxation by applying the tax on gross income, i.e. without regard to whether the taxpayer is making a profit or not.

Such substantial changes to the current international principles need to be discussed and agreed internationally. If we in the EU unilaterally apply a digital services tax on gross income, including to non-EU firms, the tax will be difficult to enforce and there is a substantial risk that it will complicate international cooperation in the tax area. Furthermore, it seems unlikely that third countries would quietly accept isolated EU actions in this area without introducing corresponding measures for taxing companies of EU Member States. In the end, we would risk moving to a general destination-based allocation of taxing rights, which is not in the interest of the EU.

We believe there are no reasons to deviate from internationally established principles regarding the allocation of taxing rights for the digital economy. The digital economy as well as the traditional economy should be taxed where value is created. Therefore, there should be a thorough analysis whether and to what extent, users in some specific digital business models contribute by creating value for the business and whether this should be somehow reflected in taxation.

This analysis needs to reach a certain international consensus to be effective, and so a substantial part of it must again be done in the OECD. The Nordic countries will continue to participate actively and constructively in such work, and we would support an acceleration of the OECD discussions on this topic, so that we can find a consensus-based solution rapidly. In these discussions, we must also keep in mind the crucial part innovation and research and development play in creating value for businesses and growth and welfare in general. A system based on where the users are located must not reduce the incentives for states to provide a favourable climate for

business.

Digitalization is changing the world swiftly and in the future it is bound to affect also the businesses we now see as traditional ones. Our aim is to guarantee that all businesses – new and old, more or less digital, national and international – are taxed in a similar efficient and fair matter, based on where value is created, so that the Nordic countries and the rest of the EU remain competitive in an increasingly interconnected and digital word.

The OECD BEPS project has in the recent years delivered significant results in the fight against tax avoidance, showing that global cooperation on tax matters is not only desirable, but also possible. Crucial BEPS initiatives are now being implemented in both EU and the US helping to counter tax avoidance by for instance the digital giants. We are convinced that global cooperation needs to be given a real chance to succeed also when it comes to digital taxation.

Ms. Magdalena Andersson, Minister for Finance, Sweden
Mr. Kristian Jensen, Minister for Finance, Denmark
Mr. Petteri Orpo, Minister of Finance, Finland

Statement from Ministry of Finance

Finance ministers from Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands and Sweden

Published 06 March 2018

The current strength of the euro area is notably the result of the decisive steps that have been taken at the European level to strengthen the Economic and Monetary Union as well as wide-ranging reforms at the national level. Against the background of the benign economic conditions, European ministers of finance discussed the future of the EMU on several occasions over the last couple of months, while Leaders exchanged thoughts in December. Discussions on the future of the EMU will continue among finance ministers in the coming months and Leaders agreed to come back to the matter in March and June.

We will take the opportunity over the coming months to give a clear voice to the values we generally share:

First, we believe discussions about the future of the EMU should take place in an inclusive format. European cooperation is based on strong shared values, among others the value of inclusiveness. Unity is a key asset for the remaining EU27 and must be safeguarded. The future of the EMU (fiscal, structural, financial, institutional issues etc.) is relevant to all and should therefore be discussed and decided by all. New EMU initiatives should be open on a voluntary basis to non-euro area countries on equivalent terms.

Second, a stronger EMU requires first and foremost decisive actions at the national level and full compliance with our common rules. It starts with implementing structural reforms and respecting the Stability and Growth Pact, thereby building up fiscal buffers in national budgets to allow room for

national fiscal policies, both automatic and possibly discretionary stabilisation, in order to smoothen economic downturns. This would ensure a robust EMU with better stabilisation, resilience and sound structures as well as improved convergence. The EU should make use of the strengthened fiscal, economic and financial frameworks already in place, to deliver concrete results for European citizens in terms of stability, jobs and growth.

Third, we should focus on initiatives that have public support in Member States. The financial crisis and the subsequent sovereign debt crisis have affected citizens in all Member States. With a view to the future, it is of the essence that we do our utmost to strengthen economic and financial stability and regain public trust. Further deepening of the EMU should stress real value-added, not far-reaching transfers of competence to the European level. For that reason the discussion on the deepening of the EMU should find a consensus on 'need to haves', instead of focussing on 'nice to haves'. In line with the outcome of the Leaders' discussion in December, priority should be given to areas with the greatest convergence of views between Member States, notably the completion of the Banking Union, and the transformation of the ESM into a European Monetary Fund. The EMU strengthening should be complemented by further building on core EU strengths within the broader economic cooperation to create tangible value for citizens and strengthen growth potential, including completing the single market and pursuing an ambitious free trade agenda. Stronger performance on national structural and fiscal policies in line with common rules, along with these European initiatives, notably the Banking Union, should have priority over far-reaching proposals.

Fourth, we are all committed to the process of completing the Banking Union. The Council Roadmap to Complete the Banking Union from June 2016, provides an agreed outline and priorities for the completion of the Banking Union, and provides a firm commitment by all Member States. The Roadmap should remain the basis for future discussion. A next step could be to add more precision as regards to the specific steps that have to be taken. Important elements in this regard, as principally contained in the 2016 Council Roadmap, include adequate buffers for bail-in, flexibility to address macro prudential and systemic risks at the national level, sound provisioning policy for non-performing loans, regulatory treatment of sovereign exposures, ongoing work on improving the efficiency of national insolvency procedures, transparency to markets as well as minimizing the use of state-aid. We should continue discussions on the common backstop for the SRF and continue technical discussions on EDIS. We could start political discussions on the first stage of EDIS as soon as sufficient progress has been

made on the measures on risk reduction. We should also continue to ensure openness and equivalent treatment of all Member States participating in the Banking Union. In addition to the Banking Union, progress should also be made with the development of a Capital Markets Union, in order to foster cross border private risk sharing.

Fifth, the ESM should be strengthened and possibly developed into a European Monetary Fund (EMF). An EMF should have greater responsibility for the development and monitoring of financial assistance programmes. Decision making should remain firmly in the hands of Member States. The current subscribers to the ESM Treaty stress the importance of preserving the current voting rules, as fostered by the current intergovernmental set-up. Moreover, the modalities of a strengthened framework for orderly sovereign debt restructuring in case of unsustainable debt levels should be explored as part of the set-up of an EMF.

Sixth and finally, the post-2020 Multiannual Financial Framework can help to foster sustainable growth and can be better aligned to the implementation of structural reforms, whilst respecting the responsibility and ownership of Member States for such reforms. Structural reforms are key for strengthening the resilience and potential growth of Member States and the EU as a whole. Recent growth rates in Member States that implemented reforms during and after the crisis illustrate that reform efforts pay off. Potential for further reforms remains. Better focus of the EU budget on structural reform could support their implementation, while targeted investments financed by the EU budget could also complement the effects of structural reforms. Such measures would need to reflect the budgetary constraints of the future EU-budget.