



Building a **Capital Markets Union** for the EU

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Capital Markets Union: A Commission priority

"To improve the financing of our economy, we should further develop and integrate capital markets. This would cut the cost of raising capital, notably for SMEs, and help reduce our very high dependence on bank funding. This would also increase the attractiveness of Europe as a place to invest."

~ President Juncker, July 2014

A key part of the Commission's 10 priorities

Capital Markets Union: A Commission priority

"The direction we need to take is clear: to build a single market for capital from the bottom up, identifying barriers and knocking them down one by one. Capital Markets Union is about unlocking liquidity that is abundant, but currently frozen and putting it to work in support of Europe's businesses, and particularly SMEs. The free flow of capital was one of the fundamental principles on which the EU was built. More than fifty years on from the Treaty of Rome, let us seize that opportunity to turn that vision into reality."

~ Jonathan Hill, Commissioner for Financial Stability, Financial Services and Capital Markets Union, 18 November 2014

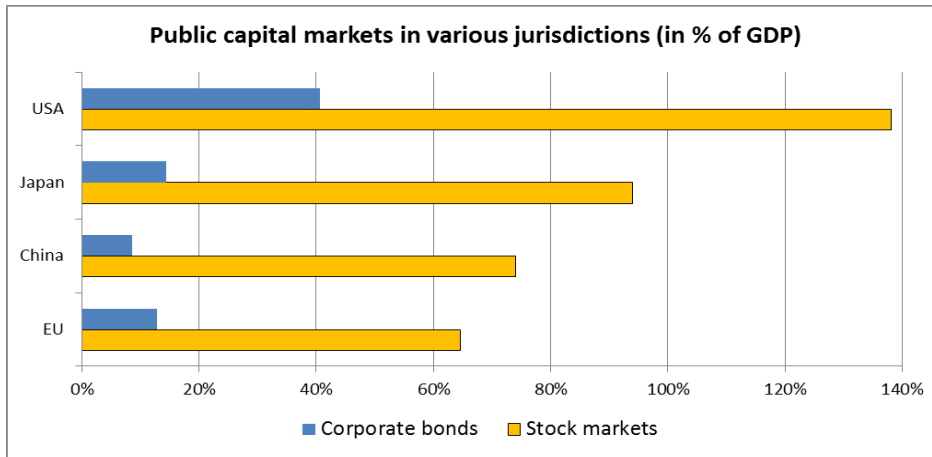
A key part of the Commission's 10 priorities

Capital Markets Union: A Commission priority

- **Growing businesses critical to jobs and economic growth in Europe**
- The tightening of bank lending **has reduced financing**
- **Opportunity for a** bigger range of financing options, **particularly for SMEs**
- **Can help the financing of the** Commission's Investment Plan
- **Free movement of capital:** a fundamental Treaty freedom

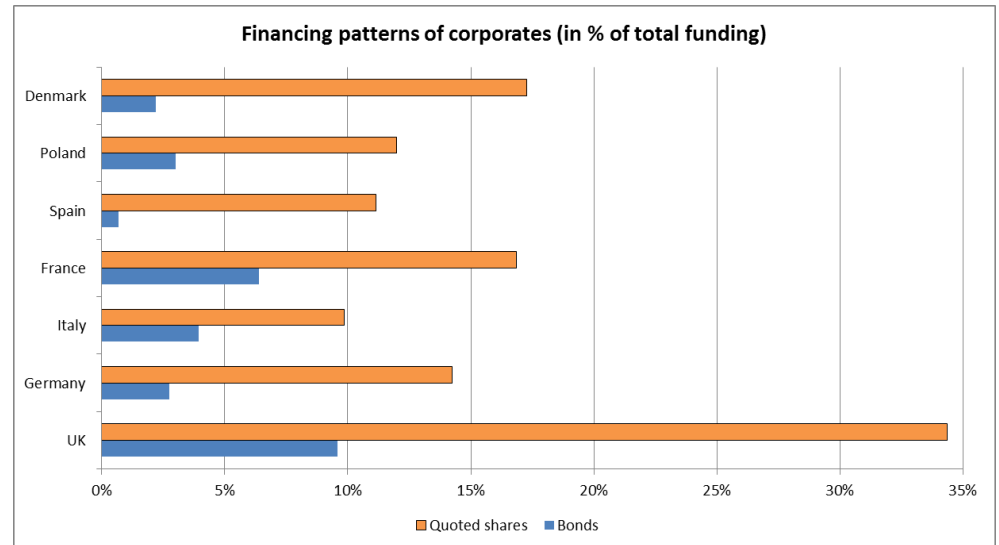
A single market project for all 28 Member States

Where are we now?



EU capital markets are less developed than many other countries

There are different levels of market development across the EU



Why does it matter?

- Mid-sized companies **receive five times as much funding from capital markets in the US**
- Venture capital markets **as deep as the US could have been worth an additional €90bn over the past five years and 4000+ additional companies financed**
- **Safely reviving** SME securitisation markets **half way back to previous levels equivalent to over €25bn of additional funding**

Where do we want to get to?

- No barriers to international investment into the EU or investment cross border
- Accessible information about investment opportunities and risks especially for SMEs
- Proportionate regulatory burdens and similar costs of investing across the Union
- Investors (especially retail) better able to understand risk

Where do we want to get to?

- Put in place the building blocks of an integrated and well-functioning single market for capital by 2019.
- The Capital Markets Union is a project for the 28.
- It is built on the foundations of financial stability created by the Banking Union and other financial reforms of the last five years.
- The Single Rulebook needs to be effectively and consistently enforced.

Short term priorities

- Lower barriers to accessing capital markets through a review of the Prospectus Directive
- Widen the investment base for SMEs through improving credit information on SMEs
- Build sustainable securitisation through a more comprehensive approach to securitisation in the EU
- Boost long-term investment through encouraging investors to take up ELTIFs
- Develop EU private placement markets

Prospectus and Securitisation

- Two specific consultations are launched in parallel to the Green Paper:
 - on the review of the Prospectus Directive
 - on Securitisation

Prospectus

- The review aims at making it easier for companies, in particular for SMEs, to raise capital in the EU
- Unnecessary administrative burdens for companies should be reduced while ensuring effective investor protection.
- The consultation will notably consider:
 - ways to simplify the information included in prospectuses,
 - examine when a prospectus is necessary and when it is not and
 - how to streamline the approval process.

Securitisation

- The objective is to work towards an EU framework on simple, transparent and standardised securitisation
- Transparency, consistency and availability of key information should be enhanced
- A higher degree of standardisation of the products
- All these steps should increase the comparability across securitisation instruments

Other possible actions in medium/long term

To achieve the benefits of a single market for capital, challenges should be overcome in three key areas:

1. Access to financing should be improved for all businesses across Europe, in particular for SMEs, and for investment projects (i.e. infrastructures)
2. Sources of financing from investors in the EU and world-wide should be increased and diversified
3. Render the investment chain more effective and less costly (both domestically and across borders)

How to improve access to financing?

Address information problems:

- Encourage banks to give feedback to SMEs whose credit has been declined
- Develop more tailored accounting rules for SMEs
- Create a European Investment Project Pipeline, a dedicated website to ease access to information for investors on infrastructure projects

How to improve access to financing?

Standardisation to kick-start markets:

- Develop a more integrated EU covered bond market to provide investors with safe and liquid investment opportunities, based on experience from national frameworks
- Greater standardisation of corporate debt issuances to allow for a more liquid secondary market for corporate bonds to develop
- Support the development of Green Bonds
- **Enable alternative means of financing to develop**, such as crowdfunding

How to develop & diversify supply of financing?

Boosting institutional investment:

- Explore how to reduce the regulatory cost of setting up and marketing investment funds (UCITS) cross-border
- Possible review of prudential rules for infrastructure investments by banks and insurers
- Adoption of rules under discussion to remove barriers to occupational pension schemes investing more in long-term assets
- Strengthen the single market for personal pensions through a pan-European or "29th regime"

How to develop & diversify supply of financing?

- How can we increase the offer of venture capital funds across the EU - by measures to boost take-up of EU Venture Capital Funds?
- How can we boost the scale of venture capital funds and enhance exit opportunities for investors?

Boosting retail investment:

- How to enhance cross-border retail participation in UCITS?
- How can ESAs further contribute to investor protection?
- Reflect on how to enhance cross-border competition in retail financial services to deliver more benefits to consumers

How to develop & diversify supply of financing?

Attracting international investment:

- Maintain high EU standards of market integrity, financial stability and investor protection and open and globally competitive markets to attract foreign investment
- Wide scope for attracting additional equity and debt investment from third countries – EU attracted €5 trillion of portfolio investment in 2013, of a global total of €25 trillion
- What measures can make the EU a more attractive place in which to invest, and facilitate the access of EU firms to third country markets?

A more effective investment chain?

Single rulebook, enforcement and competition

- Is single rulebook sufficiently uniform? Avoid gold-plating, work with Member States and ESAs to enforce legislation
- Use competition powers to remove entry barriers for competitors and ensure access to market infrastructures
- Tackle unjustified barriers to investment flows, such as unjustified host Member State restrictions
- **Supervisory convergence:** review functioning and operation of ESAs, their governance and funding
- ESAs to foster greater supervisory convergence; give further consideration to role of ESAs in this context

A more effective investment chain?

Data and reporting

- Ensure creation of a consolidated tape for equity markets
- Explore more efficient IT approaches to supervisory and market reporting

Market infrastructure & securities law

- Legislative proposal on recovery and resolution of CCPs
- Could targeted changes to securities law contribute to more integrated capital markets?
- How to improve the cross-border flow of collateral?

A more effective investment chain?

Company law, insolvency law & taxation

- Revision of shareholder rights directive underway to encourage investors to provide more long-term capital to companies
- Further reforms to company law might be helpful to overcome barriers to cross-border establishment of companies
- Reducing divergences in national insolvency frameworks could contribute to integrated cross-border equity and debt markets by reducing legal uncertainty and giving entrepreneurs a second chance
- Differences in tax regimes can impede the development of a single market for capital – for example differences in tax treatment of debt vs equity

A more effective investment chain?

Technology

- Investment in so-called "FinTech" companies, or innovative financial services using digital technologies is rapidly growing
- Since 2008, global investment in FinTech ventures has tripled to nearly USD 3 billion in 2013, and is expected to reach USD 8 billion by 2018
- How can the EU support the development of new technologies, and integrate the benefits of digitalisation in company law?

In conclusion - Green Paper's approach

**Increasing
the supply
of
investment**



**Making
markets
work better**



**Increasing
access to
finance**

**Improving single rulebook, supervisory
convergence, competition & financial stability**

Our approach

- Identify the barriers to the free movement of capital and measures to overcome them
- A long term project, with early wins to build momentum
- Some legislative measures will be needed. But legislation will not always be the appropriate policy response
- In many cases the onus will be on the market to deliver solutions. In others, non-legislative steps and the enforcement of single market and competition rules might offer the best way forward.

Timeline

- 18 February – adoption of the CMU Green Paper
 - **Deliberately broad, covering key areas where feedback is needed**
 - **Specific consultation on early priorities (e.g. prospectus, securitisation)**
- 13 May – deadline for responses to consultation
- Until summer: discussions at EU and national level, with Member States, parliamentarians, interested parties; workshops on technical issues e.g. SME credit information
- 8 June – conference in Brussels
- Summer – publication of CMU Action Plan
 - **Short term and medium term actions needed 2015-2019**
 - **Possible proposals on early priorities**

Thanks for listening