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**Towards a Capital Market Union:
Securitization, private placement and other opportunities for SMEs**

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OUTLINE

- I. Towards a Capital Markets Union**
- II. The securitization market after the crisis**
- III. Weaknesses and opportunities for SMEs**
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After the Banking Union, the next feasible step for the EU could well be a Capital Markets Union...

- Initiatives at EU-level are necessary to help recover some areas of the EU capital markets, not yet well integrated and still weakened by the financial crisis of 2008
- The European Commission has presented a Green Paper on this topic
- Consultation still open (until May 13, 2015) on Commission's proposals for the creation of a more transparent and standardised securitization market
- In March, ESMA presented its observations on the Green Paper, basically agreeing on its contents
- The industry has recently shown its willingness to contribute to the new steps (e.g. by presenting a Market Guide on private placement)



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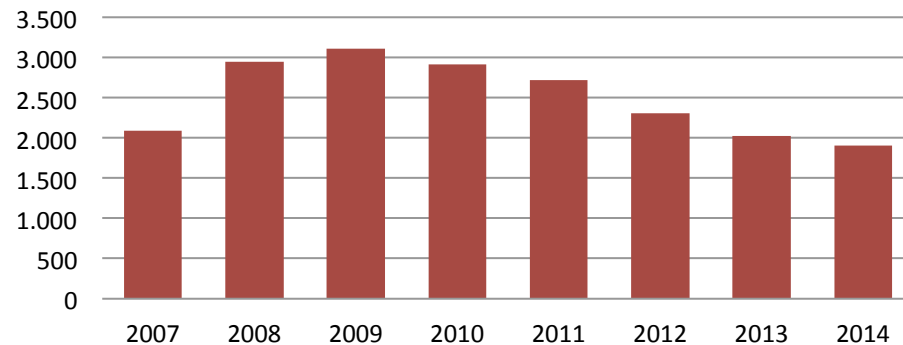
The securitization market has not fully recovered since the financial crisis of 2008, and particularly so in Europe...

Before 2008, securitization markets boomed both in the US and Europe, with securities outstanding peaking at about 11,000 billion \$ in the US and 3,100 billion \$ in Europe.

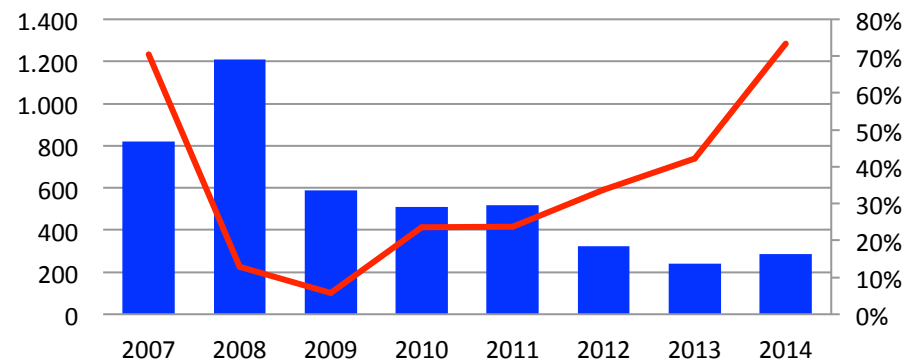
In the aftermath of 2008, the activity has significantly shrunk.

At the end of 2014, outstandings fell at 10,000 billion \$ in the US and 1,900 billion \$ in Europe (respectively, -9% and -38% since the peak).

Securitizations outstanding in Europe
(billion \$)



Securitization issuance in Europe (billion \$)
and issuance placement (%)



Source: Sifma



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... as well as for some specific categories of securitizations, such as SME loans..

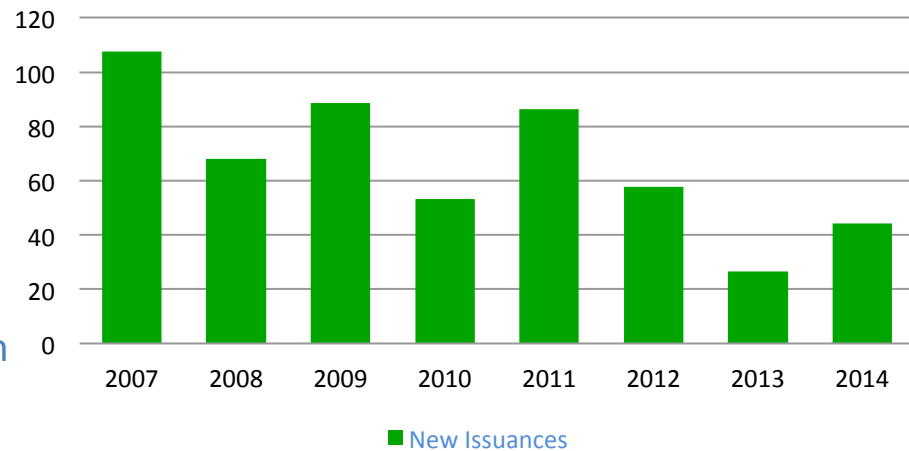
Securitized SMEs loans represented roughly 7,5% of total securitized products in Europe at the end of 2014.

New issues have fallen markedly in the last few years, more than halving from 2012 to 2013, while recovering in 2014.

In this context, **the European Central Bank** has tried to re-start the market with the ABS Purchase Programme, ABSPP, announced on September 4th 2014, with the aim of using the ABS market as an additional conduit to provide additional credit to businesses, especially SMEs.

As of April 17th, 2015, BCE holdings of ABS amountend to 5,51 billion €, roughly 0,35% of the stock of European ABS outstanding (1577 billion €) at the end of 2014 (and 4,6% of existing SME ABS).

Securitization of SMEs loans
(billion \$)



Source: Sifma



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Moreover, securitization is an *indirect* tool for bridging the traditional gap between SMEs and capital markets...

- As indicated by a large body of empirical evidence, SMEs in several countries still face severely restricted access to financing, if not credit crunch, as a result of the crisis. Moreover, SMEs often rely heavily on bank credit and are often reluctant to going public.
[For instance, despite they represent the largest part of the Italian economy, with a share of about 77%, SMEs are only a small fraction of listed companies, with a share of only 16.4%].
- Simplified entry procedures and reduced administrative burdens – without reducing protection for investors - could be crucial for SME listing.
- In addition, SMEs will pay particular attention to the issue of transparency of listing costs.



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... which of course can offer other important growth opportunities ..

- equity research can have a significant role in facilitating listing of SMEs: for such firms, information asymmetries may be severe and, therefore, analyst reports should be particularly valuable to the market
- in Italy, the development of the domestic equity market is also hampered by the lack of adequate demand from institutional investors dedicated to trading newly-listed stocks, and small caps in particular
- a possible solution to this problem could come from a Fund of Funds, dedicated to listed and possibly unlisted SMEs



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... in perspective, it's mandatory to develop an efficient capital market for European SMEs...

Green Paper

In the next future, it is important to work on some key points:

- **lowering barriers** to accessing capital markets (also simplifying information prospectuses and templates required for SMEs)
- developing a **common minimum set of information** (e.g. common accounting requirements) in order to assess and compare SMEs credit quality
- **standardising** key financial statement data & info
- improving **credit scoring** analysis, in order to take into account specificities of **innovative** or **high growth start-ups**
- favouring the development of a '**high quality**' securitization market, based on simple, transparent information standards in a **homogeneous legal framework** within the European Union



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... while at the same time keeping in mind the goal of investors' protection..

- requiring a high level of product transparency
- not allowing 'quality labelling' (e.g. "Class A" securitizations) to bypass the need to pay attention to all risks associated to complex products
- reminding that such products always require specific knowledge and ability to conduct proper due diligence
- favouring an harmonized and consistent **legal framework** within the European Union
- possibly, realizing a unique pan-european reference database for investors ('one-stop shop' model, ESMA being maybe the 'natural candidate') for a large set of information, at least those relative to prospectuses, transparency, market abuse, and - why not? - standardised securitized loans as well



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... and also boosting the role played by other sources of alternative funding, such as private placement (PP)

- in 2013, German and French companies raised about 15 billion € from PP operations; in the same year, US investors USA provided 15,3 billion \$ to European firms in private placements
- PP often refer to small scale issuance of debt or equity by usually non-listed companies
- normally, they provide a competitive source of funding, sometimes cheaper than an IPO or than bank loans, granting more flexibility and allowing the firm to choose its own investors
- reselling restrictions (such as those in the US) are important
- new recent steps towards an European market for private placements:
 - ✓ common market practices and principles gathered in a Market Guide
 - ✓ standardised documentation defined by the industry



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**Thank you
for your attention**