



**Association for Financial Markets in Europe**

# Funding & Capital Markets Forum 2015

## Capital markets union: the institutions' viewpoint

Milan, 23 April 2015

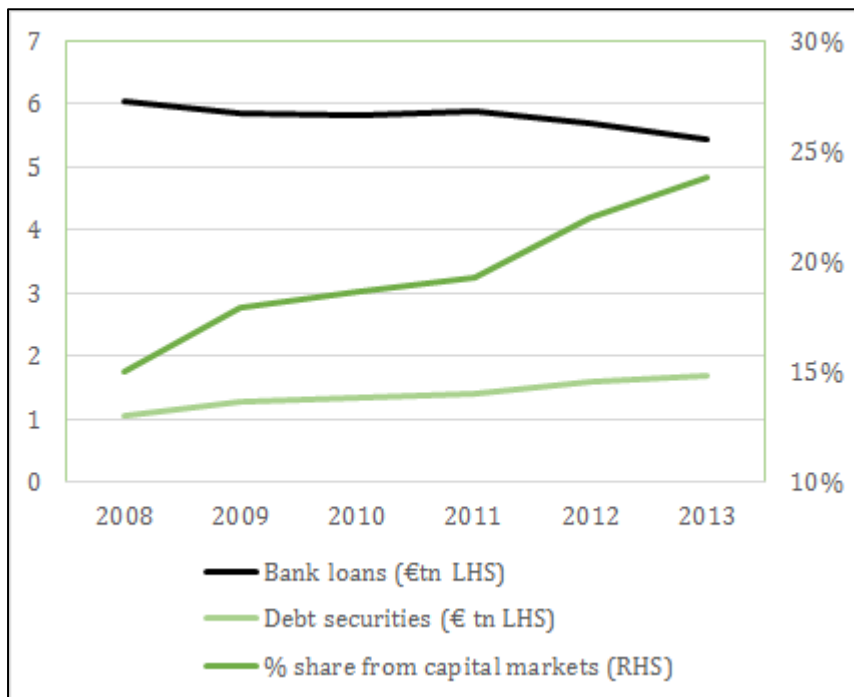
**Paul McGhee**, Director of Strategy, AFME

- AFME is the voice of Europe's wholesale financial markets – we represent the leading global and European banks and other significant capital market players
- We have offices in London and Brussels and work with trade groups and policymakers across Europe
- We strongly support an ambitious agenda for capital markets union
- We put forward an agenda for CMU focused on three pillars: (i) issuance; (ii) investment; and (iii) market infrastructure
- We welcome the direction of the Commission Green Paper on CMU and the immediate priority actions that have been identified

- A single financial market is a founding goal for Europe, and was first identified as a target more than 40 years ago

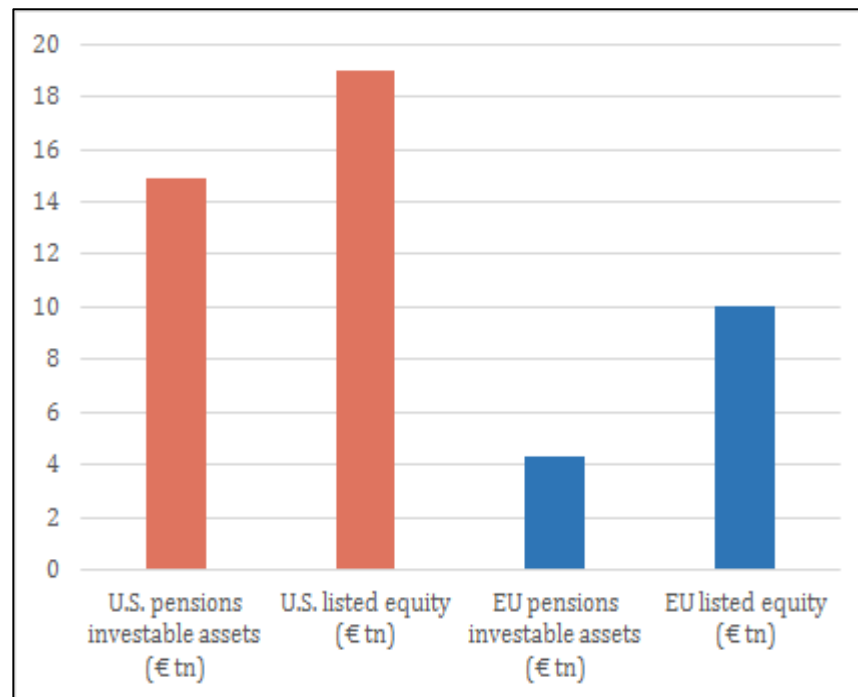
<b>What's not so new in CMU?</b>	<b>What is new?</b>
Market fragmentation ( <i>currency, language, regulation etc.</i> )	Limits to the 'bank-based' model
Difficult barriers in national policy ( <i>e.g. tax and insolvency</i> )	Low / zero growth in Europe
Barriers in post-trade ( <i>Giovannini</i> )	The regulatory context ( <i>Banking union, CRD4, MiFID, BSR, EMIR etc.</i> )
A lack of SME finance	Political focus ( <i>Commission and Member States</i> )

### EU capital markets are growing...



Source: New Financial, based on ECB and BIS data

### But we still lag the U.S. markets...



Source: AFME / Boston Consulting Group

### And on SMEs...

- The EU stock of SME funding is c. €2 trillion (U.S. = €1.2 trillion)
- >70% of EU funding to SMEs is from bank loans (U.S. is <40%)
- By some measures, EU SMEs absorb 3% of capital market funding (U.S. = 4%)

	ISSUANCE	INVESTMENT	INFRASTRUCTURE
<b>Industry action</b>	<p><b>Private placement: standard documents and practices to promote pan-EU market</b></p> <p><u>Securitisation</u>: initiatives to promote the EU market, with a focus on SME loans</p> <p><u>High yield</u>: develop simpler, more uniform disclosure across European industry</p>	<p><u>Instruments</u>: engagement in review of proposed ELTIFs, as a possible new legal and regulatory instrument to support investment in illiquid assets.</p>	<p><u>Settlement</u>: support implementation of ECB T2S platform, assisting with broader EU harmonisation</p>
<b>Review existing EU measures</b>	<p><u>Securitisation</u>: streamline reporting requirements</p> <p><u>M&amp;A</u>: review Takeovers Directive to reduce obstacles to capital flows</p> <p><u>Equities</u>: review SME regime in Prospectus Directive; reduce research blackout periods</p>	<p><u>Investment research</u>: recast MiFID proposal in order to maintain research coverage of EU firms, particularly midcaps and SMEs</p> <p><b>Securitisation: recalibrate prudential rules for investors (esp Solvency II) and for bank investment; harmonise risk retention rules</b></p>	<p><u>Collateral</u>: ensure flow of collateral is not constrained by excessive restrictions (e.g. on repo markets, margin requirements, insolvency laws.)</p>
<b>Action by governments or regulators</b>	<p><b>Equities: review tax treatment of SME equity; review withholding taxes on cross-border equity</b></p> <p><u>Securitisation</u>: embed and recognize a core definition of high quality securitisation</p> <p><u>Project finance</u>: public sector commitment on tariffs, regulatory regime and project pipelines</p>	<p><u>Equities</u>: review tax treatment of SME equity and withholding taxes on cross-border equity</p> <p><u>Investment research</u>: identify incentives for brokers and research providers to widen coverage of SMEs and midcap firms</p>	<p><u>Market data</u>: open, affordable access to data from primary exchanges; development of a European Consolidated Tape for post-trade data</p>
<b>New EU legislation</b>	<p><u>No action regime</u>: develop an EU-wide regime to promote key funding markets and permit more responsive regulation</p>	<p><b>Insolvency reform: examine scope for greater harmonisation of rules in Europe</b></p>	<p><u>Collateral</u>: Securities Law Directive to provide certainty of cross-border share and collateral ownership</p>

- The key themes we suggest for CMU are:
  - Promote an equity culture
  - Target solutions to specific market failures ('SME' is a broad category)
  - Preserve market liquidity
  - Promote open markets internationally

***Finally...***

- We will encourage the Commission to set SMART targets to define a clear ambition for CMU – both in policy terms and economic terms
- Clear targets will help Europe to:
  - Stay on the right track
  - Reject proposals that would undermine CMU
  - Measure the success of the CMU project