**Press release**

**AFME calls for the European Commission to unlock the potential of EU capital markets**

13 May 2015

AFME has today responded to the European Commission’s Green Paper on Building a Capital Markets Union (CMU) and to its consultations on high quality securitisation and on the review of the prospectus directive. The responses provide guidance as to where AFME’s members, who represent the wholesale capital markets of Europe, see the immediate objectives and overarching priorities.

Simon Lewis, Chief executive of AFME, said:

“We strongly support the creation of a Capital Markets Union as it aims to create jobs, restart growth and investments and improve the functioning of the financial sector in the EU. High unemployment and weak recovery means that many EU citizens face uncertain prospects and many businesses lack the confidence to invest. The Capital Markets Union initiative can address these challenges and AFME believes that a combination of industry initiatives, the removal of regulatory barriers and new regulations can make lasting change.”

**AFME suggests 5 overarching priorities**

1. **Building an equity culture to develop entrepreneurship, business growth and new jobs**

   European SMEs would benefit from a combination of measures including: better coordinate SME financing support within and between countries, maintain a broad and efficient “ecosystem” for investment research focused on SMEs, expand the availability of credit information and scoring, harmonise the definition of SMEs across the EU, encourage the development of SME growth markets, facilitate venture capital investing through initiatives similar to the US Small Business Investment Companies (SBIC) programme, encourage crowdfunding etc.

2. **Improving the market ecosystem to better serve companies at different stages of growth**

   Europe must think creatively about creating new networks for SMEs to access capital market products through non-public capital markets means such as private equity, business angels and private sources. We believe there is scope for industry participants to develop standardised and proportionate reporting templates for SME credit data.

3. **Preserving necessary market efficiency and liquidity**

   CMU cannot be developed if capital market regulations which pre-exist or are under development are in direct contradiction with its objectives. We recommend that the EC undertakes a careful review taking into account the combined market liquidity impact of MiFID, the BCBS fundamental review of the trading book and other regulations.

4. **Tackling market fragmentation in Europe and internationally**

   Closer integration of EU capital markets will ensure that the single market is more attractive to foreign investment and that it serves as a reference for regulatory best practice and convergence globally.

5. **Supporting the Commission’s ‘Better Regulation’ approach to produce better policy outcomes**

   The CMU project will be most effective if it is informed a robust impact assessment and a clear analysis of market failures, in line with the EC “Better Regulation” agenda. We urge the EC to keep in mind the possible impact on the development of CMU in its review of EMIR, CRR, the ESAs framework and the shareholder rights.
directive. We also highlight the clear risk that proposals such as bank structural reform and the FTT may undermine the potential economic benefits of CMU.

However, to unleash the full potential of European capital markets we believe that work on essential pieces of the CMU jigsaw, such as insolvency law and securities law reform, needs to start early as it will take longer to achieve progress. We have shared our thoughts on how to progress on these issues with the EC.

The revival of the market for high quality securitisation

The consultation is a clear indication that the Commission recognizes the positive benefits of securitisation for the functioning of the financial markets and supports the rehabilitation of “qualifying securitisation” so it can play a key role in CMU.

It is therefore disappointing that yesterday, the Joint Committee of the European Supervisory Authorities (“ESAs”) published recommendations on due diligence and disclosure which, if implemented, will have precisely the opposite effect and hinder the recovery of Europe’s securitisation markets.

We fully support sensible disclosure and the Joint ESAs’ calls for greater harmonization and consistency, especially across different types of investors. However, our members are very concerned by new proposals which are intrusive, unnecessary and risk damaging both confidentiality obligations to customers and legitimate commercial interests in proprietary know-how such as credit scoring. Also, in mandating new qualitative as well as quantitative disclosure requirements, they create uncertainty around liability under securities laws, and cross the line between the information and tools that it is reasonable and legitimate for an issuer to supply, on the one hand, and the due diligence and critical analysis that an investor should undertake, on the other.

The review of the prospectus directive

In its review of the prospectus directive, AFME is advocating to make the process for issuing new securities less costly and complex and to help corporates in Europe get better access to financing on the capital markets.

We suggest several changes to the current regulatory framework including:

- Formal passporting requirements for full prospectuses of issuers listed on regulated markets should be removed provided that investors are given a translated summary. We believe this would greatly enhance companies’ ability to extend IPOs into several member states.

- Secondary issuers listed on any exchange should be allowed to use a short form prospectus

- Incorporation by reference in a prospectus should be more flexible to reduce their length without diminishing disclosures to investors

- Consequential issues of investor protection and issuers liability should be addressed concurrently with other changes.

AFME’s responses to the green paper and the consultations are available on our CMU page.

-ENDS-

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About the Association for Financial Markets in Europe

AFME promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, www.afme.eu

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