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A new growth model

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The European Union is facing a growth crisis: output is flat, unemployment remains high and investment is falling. Even though, as widely expected, the European Central Bank (ECB) is to begin full-on quantitative easing, it will not be enough. What Europe needs is a new growth model to put its underemployed resources to work – labour, capital and entrepreneurship – to generate jobs and growth for citizens across the continent.

The financial sector will be central to this economic revitalisation, and we are at a crucial point in the process – the shaping of the proposal by the new President of the European Commission, Jean-Claude Juncker, for the creation of an EU Capital Markets Union (CMU).

When CMU was announced by the new Commission, the idea was short on detail. As it begins to be fleshed out, we urge the Commission to listen to the industry to make sure the project goes in the right direction to maximise its potential for European growth.

It is encouraging that the ECB president, Mario Draghi, has urged a swift move to CMU. The Commission has also given some welcome hints as to its priorities: promoting securitisation and private placements, and encouraging the development of long-term investment funds.

We expect more detail shortly, as Jonathan Hill, EU Commissioner for Financial Services, issues a CMU Green Paper.

We urge the Commission to be ambitious, and tackle the big strategic issues, such as reform of Europe’s insolvency laws or the impact of over-regulation on growth. CMU should aim at a manageable number of high-impact initiatives – each designed to deliver maximum economic benefits.

Complementary objectives

AFME proposes three complementary objectives for CMU.

First, encouraging more efficient and liquid markets for the issuance of financial instruments. A range of reforms should be pursued to promote the issuance of capital markets instruments – particularly by small to medium-sized enterprises and mid-cap firms. This will help broaden and deepen Europe’s capital markets and increase the choice for issuers and investors. Industry initiatives on high-quality securitisation and Private Placement should be complemented by a review of regulation, especially capital requirements. There should also be a review of the tax regime for SME equity finance to promote equity issuance by European firms.
Second, harnessing long-term savings to promote investment. CMU should improve the incentives for both institutional and retail investors to make long-term investments in Europe's capital markets. The priority reforms are to calibrate appropriately the capital framework for institutional investors; to achieve greater harmonisation of EU insolvency rules; to maintain an economically viable model for capital markets research; and to widen product choice for investors.

Third, promoting open, integrated capital markets infrastructure. Market infrastructure is a key enabler of CMU, supporting pan-European issuance, investment, trading and risk management. Priority reforms include: closer integration of clearing and settlement systems; passing a new securities law to clarify collateral ownership; removing barriers to cross-border collateral use; and ensuring broad and affordable access to market data.

Changing attitudes to capital markets

Beyond the detail, the CMU initiative signals a welcome change of tone in the Commission's attitude to the wholesale financial markets. There is growing recognition that wholesale banks and markets can provide part of the solution to the growth problems faced by the Eurozone.

But Europe’s financial sector is still rebuilding after the crisis. Furthermore, while regulatory reform has made the financial system much safer, it has also reduced the capacity to fund growth, both through banks and the capital markets. Advancing CMU in this environment will not be easy, but it is achievable.

However, Europe should not also have to digest further bank structural reform, which would fragment markets and reduce liquidity. We therefore call on the Commission to demonstrate an unequivocal commitment to CMU, and to jobs and growth, by reassessing its position on this file.

Over the next five years, AFME is committed to helping Europe's policymakers achieve a capital markets union. If we can forge a strong, positive partnership to deliver CMU, the rewards for Europe will be substantial: deeper, more diverse capital markets; a more stable financial system; and, above all, new businesses, new investment and new jobs. CMU is an exciting opportunity that we must seize.