



**Association for Financial Markets in Europe**

## Bridging the growth gap

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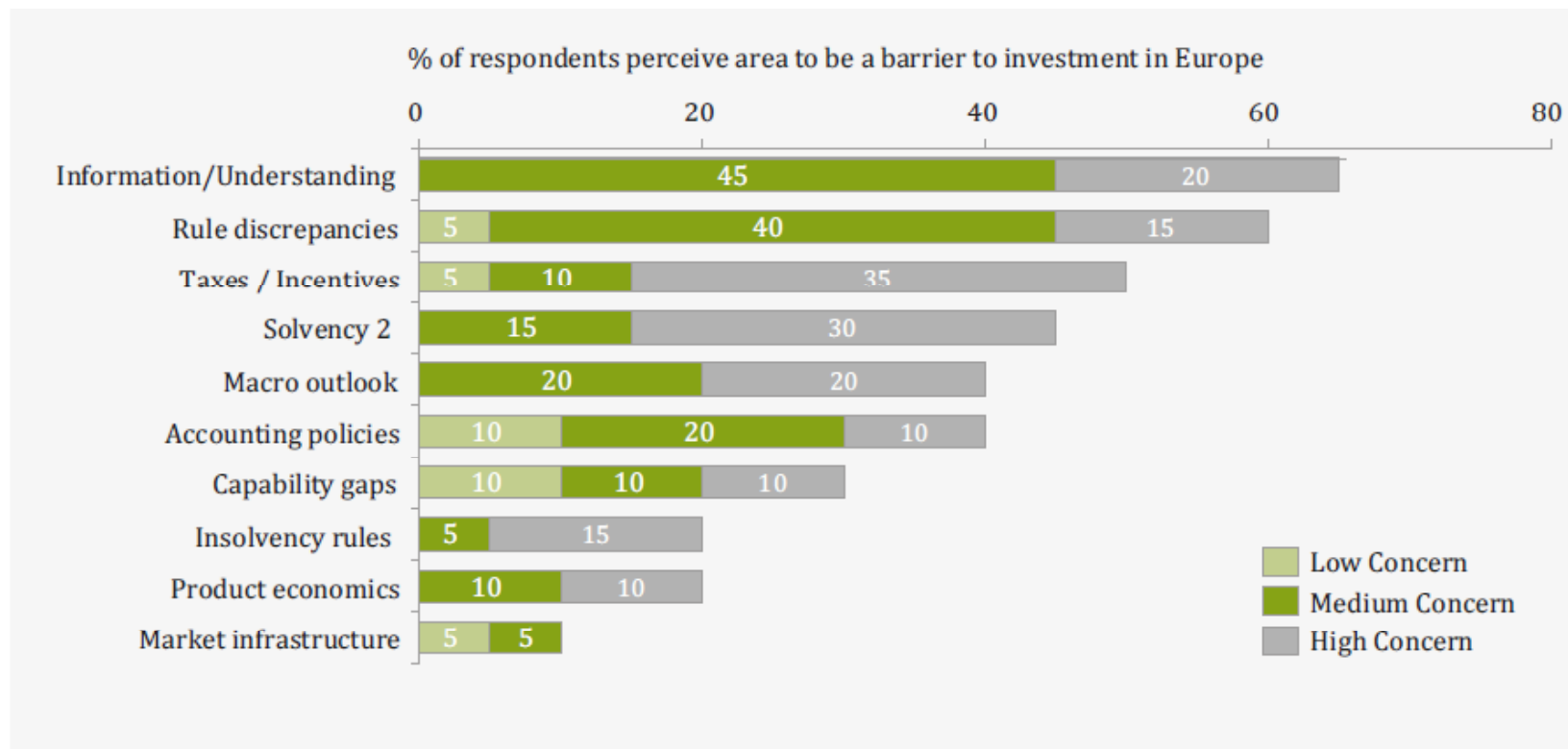
**Nick Burge**, Head of Strategic Liquidity Solutions, **Lloyds Bank**

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- AFME published *Unlocking funding for European investment and growth* in 2013
- The goal of “Bridging the Growth Gap” is to describe the **differences between EU and US financing in the areas of SMEs, infrastructure and private placement**
- A survey of global investors with AUM of **€9tn**, fund management associations and exchanges including:



- **Market fragmentation, discrepancies in rules and the macro outlook hold back investments**

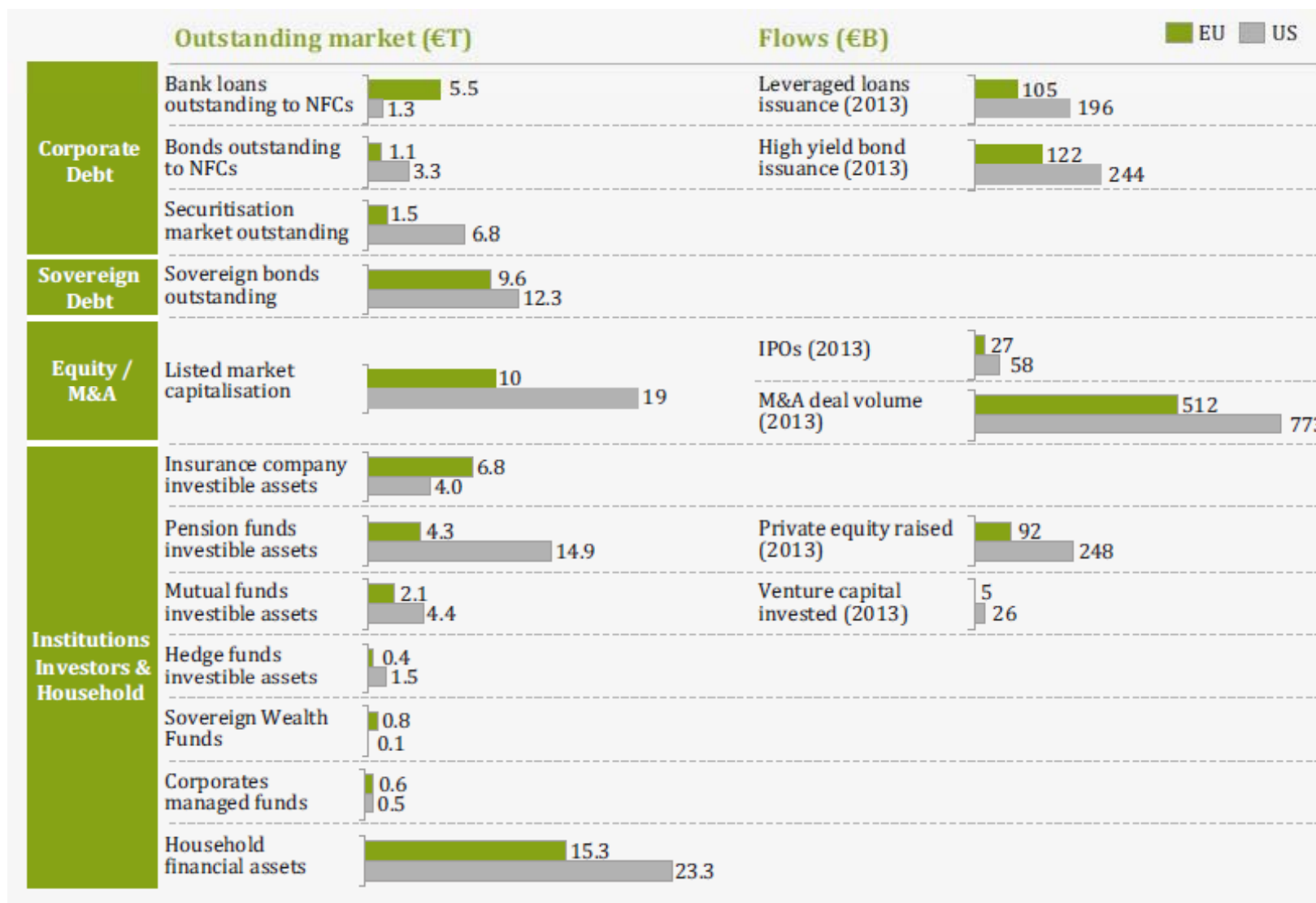


Source: Interview respondents analysis

### Available funds and composition

- **Europe has a smaller pool of investable assets:** €30tn in Europe vs €49tn in the US
- **Europe has significantly less listed equity capital:** €10tn in Europe vs €19tn in the US
- **Europe provides more overall finance to SMEs than the US**
- **European provides more overall infrastructure funding than in the US**
- **Regulated institutions** such as **banks and insurers provide a larger proportion of overall funding in Europe** than in the US
- **Europe's savings market structures are less geared to equity investing.**
  - European pension funds provides €4.3tn in investible assets, vs €14.9tn in the US
- **Pension funds' equity allocation is lower in Europe vs the US:** Europe: 37% vs US: 53%

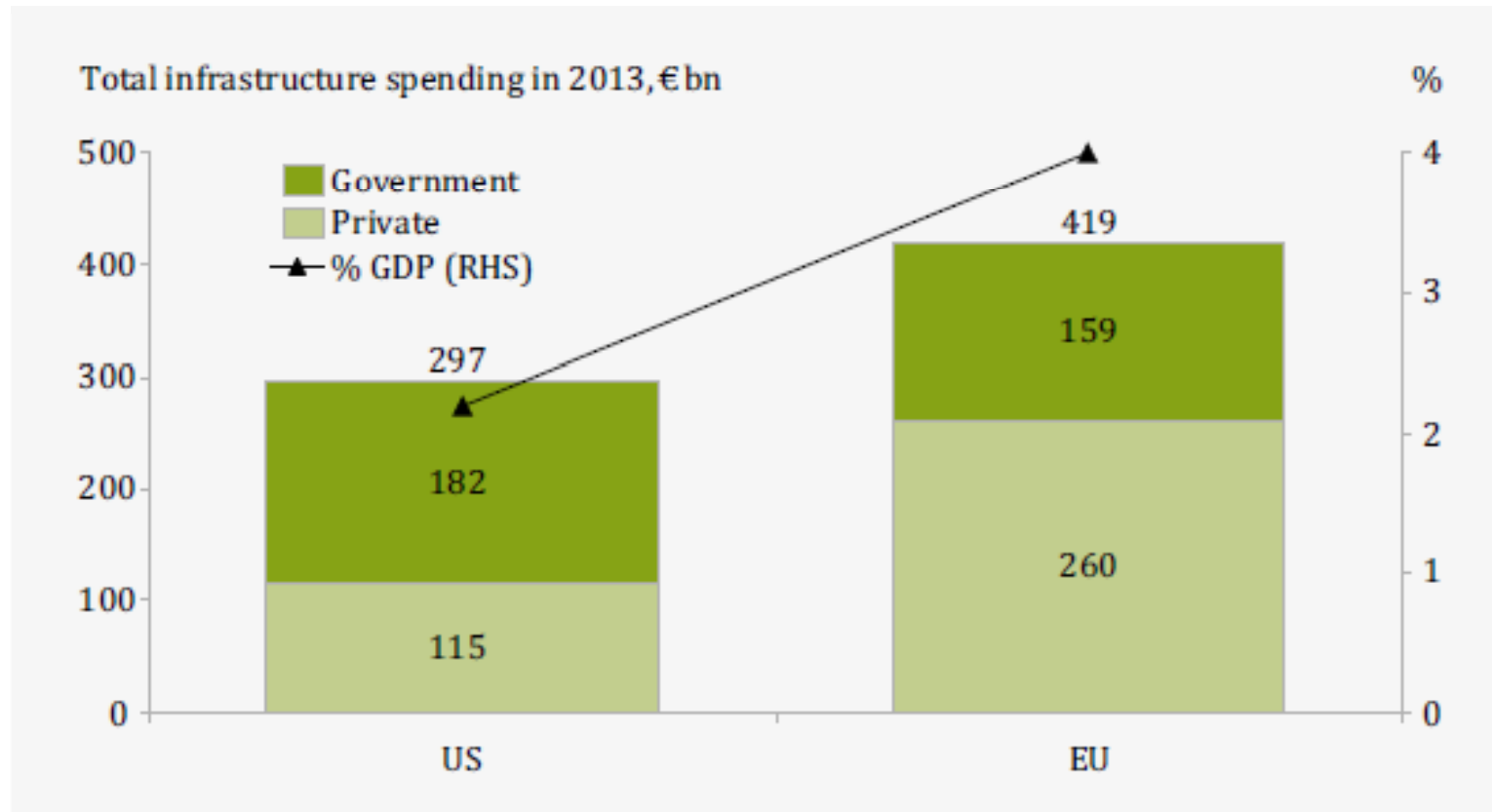
## Available funds and composition



- **Europe delivers a larger pool of financing to SMEs: €2.0tn vs €1.2tn (in outstanding stock )**
  - The majority of EU financing is bank lending: €1.4tn vs €0.5tn
- **Sources of equity funding for SMEs are underdeveloped in Europe compared to the US:**
  - US PE and VC funds had €488bn to invest in 2013 (Europe : €245bn)
  - 33% of SME financing is provided by private persons' wealth in the US (Europe: 9%)

		Source	Stock (of outstanding financing)		Flow (of new financing in 2013 <sup>1</sup> )	
			US (€B)	EU (€B)	US (€B)	EU (€B)
SME	Banks	Loans	464	1,425*	281*	712
		Securitised loans	30	118	5*	36
		Bonds/Equity <sup>2</sup>	Desk research and investor interviews indicate only marginal investments			
		<b>Subtotal</b>	<b>494</b>	<b>1,543</b>	<b>286</b>	<b>748</b>
	Non banks	Mutual funds	107	88	10	7
		Segregated Mandates	~5	~10	~1	0
		Pension Funds <sup>3</sup>	Desk research and investor interviews indicate only marginal investments via funds, mandates or securitisation			
		Insurance <sup>3</sup>				
		SWF <sup>3</sup>				
		Private Equity Funds	59*	32*	14*	9*
Venture Capital Funds		104*	22*	26	5	
Family and friends		371*	168*	186*	84*	
	Crowdfunding	3*	1* <sup>2</sup>	1	1	
	Angel Investing	39*	11*	20	6	
	<b>Subtotal</b>	<b>688</b>	<b>332</b>	<b>258</b>	<b>112</b>	
Government	Government guarantees and sponsored loans	54*	132*	27	66*	
	<b>Subtotal</b>	<b>54*</b>	<b>132*</b>	<b>27</b>	<b>66*</b>	
	<b>Total</b>	<b>1,236</b>	<b>2,007</b>	<b>571</b>	<b>926</b>	

\* Estimates used, see Appendix 2





- **Europe funds more infrastructure than the US:** €297bn vs €419bn in Europe
- In Europe, the private sector provides €260bn vs €115bn in the US, which is dominated by the municipal bond market
- **Many roadblocks are preventing investors from deploying their capital:**
  - Lack of projects
  - Regulatory and political risks: governments' interference on tariffs after the completion of a transaction,
  - Uncertainty of project usage and whether guarantees from government entities could make certain transactions feasible,
  - Quantity and quality of the a deal pipeline
- **Government support for infrastructure finance should target deals that would otherwise not be financeable.** All too often, public finance crowds out the private sector

- Establish a more comprehensive public review process for **infrastructure to ensure planning is more strategically coordinated**
- **Increase focus of government and Europe-wide funding** to financially unviable, but socially important, projects (potentially through (partial) guarantees in order to make them viable)
- **Produce easy-to-understand guide** to infrastructure finance through banks and capital markets
- **Amend accounting and regulatory treatment** of infrastructure projects to increase attractiveness for investors
- **Increase use of structures** which enable retail investors to participate better in illiquid financings

- **US Private Placements are twice the European market: €46.1bn vs €20bn**
- **53% of the US Private Placement deals were raised by non-US issuers**
- **There is a lack of standardisation in Private Placement deals and documentation in Europe**
- **The US Private Placement market is well established** and viewed globally as 'go-to' location
  - **Standardised documentation exists** in the US, e.g. Model Note Purchase Agreement
- **Launch of a Pan-European Private Placement initiative** supported by AFME, led by ICMA

- **Promote and increase awareness of Private Placements** as a funding avenue, and their potential benefits
- **Establish standardised documentation** for European Private Placement deals
- **Increase consistency and clarity** of accounting procedures and regulatory and tax treatment of investment

- **Active support for a stronger EU Capital Markets Union** and implementation of specific targets
- **Active support for promoting broader understanding of financial markets for borrowers, investors, and other stakeholders:**
  - Guide to SME Finance
  - Guide to Infrastructure Financing
  - Development of standardised industry practices for a pan-European Private Placement market
- **Help promote a responsible equity risk culture for all types of equity raising**

The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society.

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