
Press release

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Europe's businesses want more flexible funding channels, says AFME's 'Funding for Growth' report

Europe's businesses want more flexibility in accessing funding, through expansion of capital markets channels such as European private placements, infrastructure, real estate, high yield and securitisation in order to improve distribution channels to capital markets to complement existing bank lending, according to a new report from the Association for Financial Markets in Europe (AFME). The [Unlocking Funding for European Investment and Growth](#) report is based on in-depth interviews with borrowers, investors and banks in nine EU countries, carried out for AFME by Oliver Wyman.

The study includes new insight from borrowers, owners of small businesses, CFOs of large companies, insurers, pension funds and asset managers on how the capital markets work for them and what changes they think will unlock the investment needed for growth.

Commenting on the report, Michael Cole-Fontayn, Member of the Board of AFME and Chairman, BNY Mellon EMEA, said: *"Growth and financing of the real economy in Europe clearly faces structural challenges. European businesses have traditionally relied on bank funding rather than accessing the capital markets. Borrower and investor feedback underlines that capital markets channels need to be expanded alongside bank lending to ensure that Europe's businesses have sufficient funding for economic growth."*

Clare Francis, Chair, AFME Financing Growth Working Group and Managing Director, Head of Global Corporates, Lloyds Bank said: *"By concentrating on the perceptions and specific concerns raised by the users and providers of financing, we believe this report provides a different perspective to help inform the debate within Europe on actions that can be taken to improve the outlook for growth. Seen through the lens of a diverse range of businesses from across Europe the report provides both clarity and granularity as to where the financing markets are working well and where there are problems to be addressed."*

"Understanding the reality and issues from the users' perspective will give greater focus on the key pressure points and practical recommendations for their resolution that have direct support at the grass roots level."

Report Findings:

Improving access to finance for SMEs

Interviewees believe that lending to small businesses (SMEs) is likely to remain primarily in the hands of banks due to the small size of transactions and the local nature of commercial relationships, although they say that non-bank sources such as fund managers could add some capacity over time. **Securitisation could play a larger role**, if the economics of SME loan securitisation can be restored, as an efficient way for banks to be able to free up capital and raise cash for further lending to existing or new SME borrowers. SMEs also said that it was not easy to understand the range of government and central bank schemes at national and European level. **Improved information and communications** would help them to understand what was available and how to obtain it and improve competition and transparency.

Hedging for large corporates

Large corporates say they do not generally experience problems with accessing funding but they would like to see action on the unforeseen and unintended consequences of regulation which is *reducing availability of the products they need to be able to hedge business risk*, as well as increasing their cost of capital.

More flexibility in accessing funding for large and mid-size corporates

Both large and mid-sized corporates would like greater flexibility in accessing funding as they need to be able to tap large pools of cash quickly, depending on market conditions. They say that certain capital market sources of finance, such as the European private placement and high yield bond markets should be expanded, which could be achieved through expanded legislation as well as more harmonised EU insolvency regulations respectively.

Almost fifty target actions identified

In terms of general themes, interviewees also cited two overarching constraints: the *macroeconomic outlook* as a barrier to growth and investment and the *unforeseen real world consequences of regulation*. Overall, the report identifies almost fifty possible targeted actions, each addressing a specific obstacle, which interviewees believed could achieve significant improvements. The obstacles and solutions are largely specific to country, sector or product -- for example, businesses in crisis-related countries and sectors such as infrastructure finance and commercial real estate have particular issues -- and the solutions will require coordinated actions across industry and public authorities.

Infrastructure funding

Infrastructure funding is crucial to long term growth and productivity. Historically, infrastructure funding in Europe has been provided by banks. However non-bank funders, such as insurers, could be more active if certain issues were addressed. Investors said they were cautious of highly localised practices in procurement, as well as uncertainty around future tariffs. Governments and policymakers could reassure investors by standardising national or pan-European tariff guidelines and enacting regulatory risk compensation measures, as well as by introducing simpler planning and procurement procedures.

Although insurance companies should be well placed to invest, given they generate approximately €1 trillion each year in investable cash flow, uncertainty over impending Solvency II and IORP pension fund regulation is holding back investment in long term asset classes. Insurers are concerned about how mark-to-market volatility for long-term investments is or is not dampened by matching adjustments, as well as how certain discount rates are used and how capital charges for certain real economy asset classes are calibrated. Pension fund asset eligibility should also be reviewed.

-ENDS-

Contact

AFME

James White

+44 (0)20 7743 9367

Notes:

1. AFME (Association for Financial Markets in Europe) 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 through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, www.afme.eu
2. AFME commissioned Oliver Wyman to conduct interviews with users and providers of funding, including large corporates, mid-sized corporates, SMEs investors and banks. Oliver Wyman conducted interviews with 75 individual firms across nine European countries. Fieldwork took place in the spring of 2013. The objective of the report was to provide an interview-based and industry-led assessment of the barriers which are preventing Europe's wholesale financial markets from making their maximum contribution to long term economic growth. The report has been designed to help prioritise actions in response to the current corporate funding gaps, with a particular focus on debt funding issues. The ambition is that these recommendations might help shape policy making in the future at both country and at European levels.
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