

Press release

AFME proposes an agenda for capital markets union

3 December 2014

Capital markets union (CMU), a flagship initiative of the new European Commission, should focus on increasing the share of capital markets financing in the EU by creating an open, efficient framework for all types and sizes of corporate issuers and investors, argues AFME in a policy paper published today. To succeed in this task, CMU should examine legislative and regulatory issues, market impediments and business practices in the EU in order to identify a limited number of high impact initiatives to boost Europe's capital markets, the paper says.

An agenda for capital markets union outlines practical measures and a set of firm targets which AFME suggests should guide the work of the Commission on CMU over the next 5 years. Commenting on the publication, Simon Lewis, Chief Executive of AFME, said:

"The capital markets union initiative must focus on outcomes by growing markets, reducing costs and offering more financing options for businesses across Europe. We are proposing a set of firm, measurable 5-year targets to guide the project and we would encourage the Commission to adopt a targeted programme with a limited number of new initiatives, each designed to deliver the maximum economic impetus."

Proposed five-year goals for capital markets union

AFME proposes that a central goal for CMU should be to increase the overall share of debt financing from the capital markets in Europe from 25% of the total currently to at least 35%. This should be achieved without further reducing the ability of Europe's banks to provide credit to the real economy.

We also encourage the Commission to consider setting objectives for specific product markets; for example:

- increasing Europe's stock market capitalisation from around 75% of GDP currently to 100% of GDP, as the Federation of European Securities Exchanges has proposed;
- at least doubling European issuance volumes of securitisation and private placement by encouraging greater participation by both bank and non-bank investors; and
- increasing the share of capital market funding of SMEs, through both equity and debt.

An action plan targeting issuance, investment and market infrastructure

The AFME policy paper outlines have highlighted three complementary objectives to drive action on CMU:

1. Developing more efficient and liquid markets for equity and debt issuance: Industry initiatives on high quality securitisation and private placement should be complemented by review of applicable regulation, especially capital requirements, as well as the Prospectus and Takeover Directives; and by review of the tax regime for SME equity.
2. Harnessing long-term savings to promote investment: The priority reforms from an AFME perspective are to: appropriately calibrate the capital framework for institutional investors (particularly Solvency II); 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.
3. Promoting open, integrated capital markets infrastructure: The priority reforms from an AFME perspective are to: achieve closer integration of clearing and settlement systems; pass a new securities law to clarify collateral ownership; remove barriers to cross-border collateral use; and ensure broad and affordable access to market data.

Association for Financial Markets in Europe

A summary table is provided below, outlining the main measures proposed in the AFME paper and highlighting near-term priorities for CMU and long-term cross-cutting reforms.

An agenda for capital markets union is available [here](#) on the AFME website.

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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 (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, www.afme.eu
2. Follow us on Twitter @news_from_afme

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Summary of initial AFME proposals to promote capital markets union

This table summarises the initial proposals outlined in this paper under each pillar and according to the appropriate form of intervention. Near term priority actions for the next 12 months are highlighted in **bold**. Long-term cross-cutting reforms are shown in *italics*.

	Issuance	Investment	Market infrastructure
Industry action	<p><u>Securitisation</u>: initiatives to promote securitisation, with a focus on SME loans</p> <p><u>Private placement</u>: develop standard documents and practices to promote pan-EU market</p>		<p><u>Settlement</u>: support implementation of T2S platform, enabling broader EU harmonisation</p>
Review existing EU measures	<p><u>Securitisation</u>: streamline reporting requirements</p> <p><u>M&A</u>: review implementation of the Takeovers Directive to reduce obstacles to capital flows</p> <p><u>Equities</u>: review SME rules in Prospectus Directive and MiFID; reduce research blackout periods</p>	<p><u>Securitisation</u>: recalibrate regulatory capital for investors (notably Solvency 2) and for bank investment; harmonise risk retention rules</p> <p><u>Investment research</u>: recast MiFID proposal in order to maintain research coverage of EU firms, particularly midcaps and SMEs</p>	<p><u>Collateral</u>: ensure collateral flow is not constrained by excessive restrictions (e.g. on repo markets, margin rules, insolvency laws)</p>
Action by governments or regulators	<p><i><u>Equities</u>: review tax treatment of SME equity; review withholding taxes on cross-border equity</i></p> <p><u>Securitisation</u>: embed and recognise a core definition of high quality securitisation</p> <p><u>Project finance</u>: firm Member State support for EU Investment Plan; public sector commitment on tariffs, regulatory regime and project pipelines</p>	<p><i><u>Equities</u>: review tax treatment of SME equity; withholding taxes on cross-border equity</i></p> <p><u>Investment research</u>: identify incentives for brokers and research providers to widen coverage of SMEs and midcap firms</p> <p><u>Private placement, project finance</u>: review legal and regulatory impediments to investment in unlisted securities and project finance deals</p>	<p><u>Market data</u>: open, affordable data access from primary exchanges; develop pan-European Consolidated Tape for post-trade data</p> <p><u>Settlement</u>: support implementation of T2S platform, enabling broader EU harmonisation</p>
New EU legislation	<p><i><u>Safe harbour regime</u>: explore options for an EU-wide regime to develop key funding markets (e.g. private placement, loans)</i></p> <p><i><u>Insolvency reform</u>: examine scope for greater harmonisation of insolvency rules in Europe</i></p>	<p><i><u>Safe harbour regime</u>: explore options for an EU-wide regime to develop key funding markets (e.g. private placement, loan funds)</i></p> <p><i><u>Insolvency reform</u>: examine scope for greater harmonisation of insolvency rules in Europe</i></p>	<p><u>Collateral</u>: Securities Law Directive to provide certainty of cross-border share and collateral ownership</p>

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