

Press release

AFME backs European Commission's call for more capital markets financing options

27 March 2014

The Association for Financial Markets in Europe (AFME) welcomes the European Commission's paper on *Long-Term Financing of the European Economy*, published today, and in particular, its acknowledgement of the important role to be played by Europe's capital markets in funding Europe's economic growth.

The Commission's paper notes that although bank lending has been negatively affected by regulatory constraints, the intermediary role of banks is likely to grow in importance as Europe becomes less reliant on direct bank loans as a source of financing.

The Commission's communication follows on from last year's Green paper on long-term financing of the European economy and addresses ways to improve access to finance for Europe's companies.

Improving SME access to finance

The Commission paper refers to initiatives to address SMEs' education and information gaps through the Enterprise Europe Network. AFME's latest funding study¹ highlights that SMEs are not fully aware of the range of government and central bank schemes at national and European levels. Improved information and communication would increase their awareness of what was available and how to access it.

In addition, securitisation could play a larger role if the economics of SME loan securitisation can be restored as it is an efficient way for banks to be able to free up capital and raise cash for further lending to existing or new SME borrowers.

Securitisation

AFME welcomes and supports the Commission's commitment to revive securitisation in Europe, and in particular, to consider better regulatory treatment for high quality securitisation. Since 2011, Europe has been a global leader in important regulatory reforms of transparency and risk retention, which, along with industry initiatives such as Prime Collateralised Securities, have laid the foundations for sustainable securitisation markets which meet the needs of the real economy. AFME remains strongly committed to constructive engagement with the Commission and other policymakers to this end. It is essential that this further analysis takes account of the evidence of the strong performance of high quality securitisation in Europe.

¹ AFME's research study – 'Unlocking Funding for European Investment and Growth' – published in June 2013 based on in-depth interviews with borrowers, investors and banks in nine EU countries. The study was conducted by Oliver Wyman and identifies nearly 50 obstacles for companies accessing capital markets for finance, identifying almost 50 potential solutions.

Private Placement

AFME supports the Commission's identification of private placement markets as an alternative to bank lending and bond issuance. According to AFME's funding study, large and mid-sized companies want greater flexibility in accessing finance as they need to be able to tap large pools of cash quickly, depending on market conditions. They say that certain capital markets sources of finance, such as the European private placement and high yield bond markets should be prudently expanded, which could be achieved by developing legislation as well as more harmonised EU insolvency regulations.

Infrastructure funding

According to AFME's recent study, investors, such as pension funds and insurers, are 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, as well as by introducing simpler planning and procurement procedures. AFME welcomes the Commission's commitment to enabling greater standardisation and transparency in areas such as infrastructure project credit history and improving availability of transparent information and data on new Public Private Partnership initiatives.

Clare Francis, Managing Director & Head of Global Corporate Banking at Lloyds Bank, and Chair of AFME's Long Term Growth working group commented:

"As growth and financing of Europe's real economy face structural challenges, enhancements to European capital markets would be a welcome development, with banks continuing to play a key funding role. For example, an ideal world would allow corporates to be able to choose between fully functioning euro, sterling and U.S. private placement markets, all with similar conventions, documentation and standards. Although we are some way off from that, this EC paper is an important move towards that goal."

Rick Watson, AFME's head of Capital Markets commented:

"There is no question that European capital markets have a key role to play in fuelling long-term growth. In order to achieve this ambition, they need to be developed so that companies can more easily access them and that means a well developed capital markets policy; one which improves education for new issuers on how to most efficiently meet the needs of capital markets investors.

"The Commission's paper represents a major step forward towards this goal by identifying areas where we can further develop Europe's capital markets."

-ENDS-

AFME contacts:

David Waller, david.waller@afme.eu

Tel: +44 (0)20 7743 9504
Mob: +44 (0)7793 903509

James White, james.white@afme.eu

Tel: +44 (0)20 7743 9367
Mob: +44 (0)7825 081686

Notes:

1. The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets, which support economic growth and benefit society. 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. 'Unlocking Funding for European Investment and Growth' report – 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 ambition is that these recommendations might help shape policy making in the future at both country and at European levels. Click here for the report: <http://afme.eu/unlocking-funding-for-European-investment-and-growth/>
3. Follow us on Twitter @news_from_afme