# Press release

## EU insolvency law reform could boost growth and jobs across Europe, finds new AFME report

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AFME has today published new research showing that European insolvency law reform could boost GDP output and create jobs across Europe. Insolvency reform is a key plank of the European Commission's action plan on Capital Markets Union (CMU).

The research, produced in cooperation with Frontier Economics and Weil Gotshal & Manges LLP, shows that improvements in insolvency frameworks across the EU could increase GDP by between €41 and €78 billion (or between 0.3% and 0.55% of EU28 GDP). The research also estimates that total EU employment could increase by between 600,000 and 1.2 million jobs.

The report, entitled ***"Potential economic gains from reforming insolvency law in Europe"***, finds that much of the absolute gains from insolvency reform could flow to Italy, Spain and France. Countries such as Greece, Hungary and Romania stand to gain most in relative terms; adding 2% to long-term GDP if they can bring their insolvency regime up to the European average.

Simon Lewis, Chief Executive of AFME, said: *"Closer convergence of EU insolvency rules would help to build a truly integrated Capital Markets Union, benefiting investors and providing greater flexibility for companies. Our research highlights the scale of the potential economic prize. With the Commission due to propose a legislative initiative on business insolvency later this year, we hope that this report will make a positive contribution to the policy debate."*

Currently, national European insolvency laws vary in many respects. These differences can have a range of negative effects on financial markets and the real economy, including:

- increasing uncertainty among investors; discouraging cross-border investment;
- discouraging the timely restructuring of viable companies in financial difficulty; and
- making it harder to address the high levels of non-performing loans (NPLs) in the European banking system – a vital issue for banking union.

In its action plan on CMU, the Commission has highlighted that adopting minimum standards for insolvency law across Europe would help to alleviate these negative effects. In this respect, AFME's report recommends:

- a Chapter 11-type stay of proceedings to enable quick and effective restructuring.
- granting super-priority status to new financing to provide working capital to a distressed company;
- giving creditors stronger rights to propose viable restructuring plans; and
- requiring national insolvency agencies to publicly report on outcomes.

Andrew Wilkinson, Head of European Restructuring at Weil, said**:** *"Europe still faces huge challenges in the aftermath of the global financial crisis. Given the scale of the NPL problem, the fragile recovery and enduring concerns about the resilience of Europe's financial institutions, efficient debt restructuring laws are urgent and important. This difficult issue has been left unaddressed for too long. The EU could reap significant benefits for creditors and debtors across the EU by enhancing the possibility of rescuing viable businesses, lowering borrowing costs, limiting the loss of value caused by insolvency and ensuring that large corporates and SMEs have equal access to the best possible restructuring tools and procedures. The catalysing effect that insolvency* *law reform could have on stimulating recovery in the EU economy by providing an improved legal framework for banks to tackle NPLs and reallocate capital to prospering businesses underscores the significant macro-economic benefits that could be achieved by Commission-led legislative reform in this area."*

Amar Breckenridge, Senior Associate at Frontier Economics, said: "*We are pleased to have collaborated on this informative report, the findings of which underscore the important contribution insolvency regulation reform can make to the EU's broader agenda for competitiveness and growth."*

The economic impact of insolvency reform in Europe is a relatively new area of research and the amount of economic evidence that has been collated so far is quite limited. AFME's study seeks to increase the evidence base by using market data in order to test the impact of the quality of national insolvency frameworks on corporate bond yields.

The report also contains an overview of current national insolvency regimes in France, Germany, Italy, Spain, the UK, the Netherlands and Luxembourg, as well as case studies relating to recent cross-border insolvency procedures and recent reforms at national level.

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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.

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3. Frontier Economics is one of the largest economic consultancies in Europe with offices in London, Cologne, Madrid, Brussels and Dublin. Frontier is at the forefront of the application of economics to solve complex business and policy problems, with clients ranging from government departments, industry regulators and private sector organisations. Information about Frontier is available at www.frontier-economics.com