
Bold action needed on Capital Markets Union

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The following article by Simon Lewis, Chief Executive, AFME, appeared in [Financial News](#) on 14 January 2015.

The European Union is facing a growth crisis: output is flat, unemployment remains high and investment is falling. Even if, as widely expected, the European Central Bank soon tries full-on quantitative easing, it will not be enough.

What Europe needs is a new growth model to put underemployed resources – labour, capital and entrepreneurship – to work, to generate jobs and growth for citizens across the continent.

The financial sector will be central to this revitalisation, and we are at a crucial point in the process – the shaping of the proposal by the new President of the European Commission, Jean-Claude Juncker, for the creation of an EU capital markets union, or CMU.

It is encouraging that, over Christmas, the ECB President, Mario Draghi, urged a swift move to CMU. The Commission has also given some welcome hints as to its priorities – promoting securitisation and private placements, and encouraging the development of long-term investment funds.

We expect more detail in the coming weeks as Jonathan Hill, EU Commissioner for financial services, issues a Green Paper on CMU. We urge the Commission to be ambitious and to tackle the big strategic issues – for example reform of Europe’s insolvency laws or the impact of over-regulation on growth. CMU should aim at a manageable number of high-impact initiatives, each designed to deliver the maximum economic benefits.

The Association for Financial Markets in Europe proposes three complementary objectives for CMU.

First, encouraging more efficient and liquid markets for the issuance of financial instruments. A range of reforms should be pursued to promote the issuance of capital markets instruments – particularly by small to medium enterprises and mid-cap firms. This will help broaden and deepen Europe’s capital markets and increase the choice for issuers and investors. Initiatives on high-quality securitisation and private placement should be complemented by a review of regulation, especially capital requirements. There should also be a review of the tax regime for small and medium enterprise equity finance to promote equity issuance by European firms.

Second, harnessing long-term savings to promote investment. CMU should improve the incentives for institutional and retail investors to make long-term investments in Europe’s capital markets. The priority reforms are to calibrate appropriately the capital framework for institutional investors; 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.

Third, promoting open, integrated capital markets infrastructure. Market infrastructure is a key enabler of CMU, supporting pan-European issuance, investment, trading and risk management. Priority reforms include closer integration of clearing and settlement systems; passing a new securities law to clarify collateral ownership; removing barriers to cross-border collateral use; and ensuring affordable access to market data.

The CMU initiative signals a welcome change of tone in the Commission's attitude. There is growing recognition wholesale banks and markets can provide part of the solution to eurozone growth problems. But Europe's financial sector is still rebuilding after the crisis. Furthermore, while regulatory reform has made the financial system much safer, it has also reduced the capacity to fund growth, both through banks and the capital markets. Advancing CMU in this environment will not be easy, but it is achievable.

However, Europe should not also have to digest further banking structure reform – which would fragment markets and reduce liquidity. We call on the Commission to demonstrate an unequivocal commitment to CMU and to jobs and growth by reassessing its position on this issue.

In the next five years, AFME is committed to helping Europe's policymakers achieve a capital markets union. If we can forge a strong partnership to deliver CMU, then the rewards for Europe will be substantial: more diverse capital markets and new businesses, investment and jobs.

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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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