



CAPITAL MARKETS UNION

#CMU

6 months on: progress made + next steps

AFME European post-trade conference

London, 4 May 2016

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European Commission

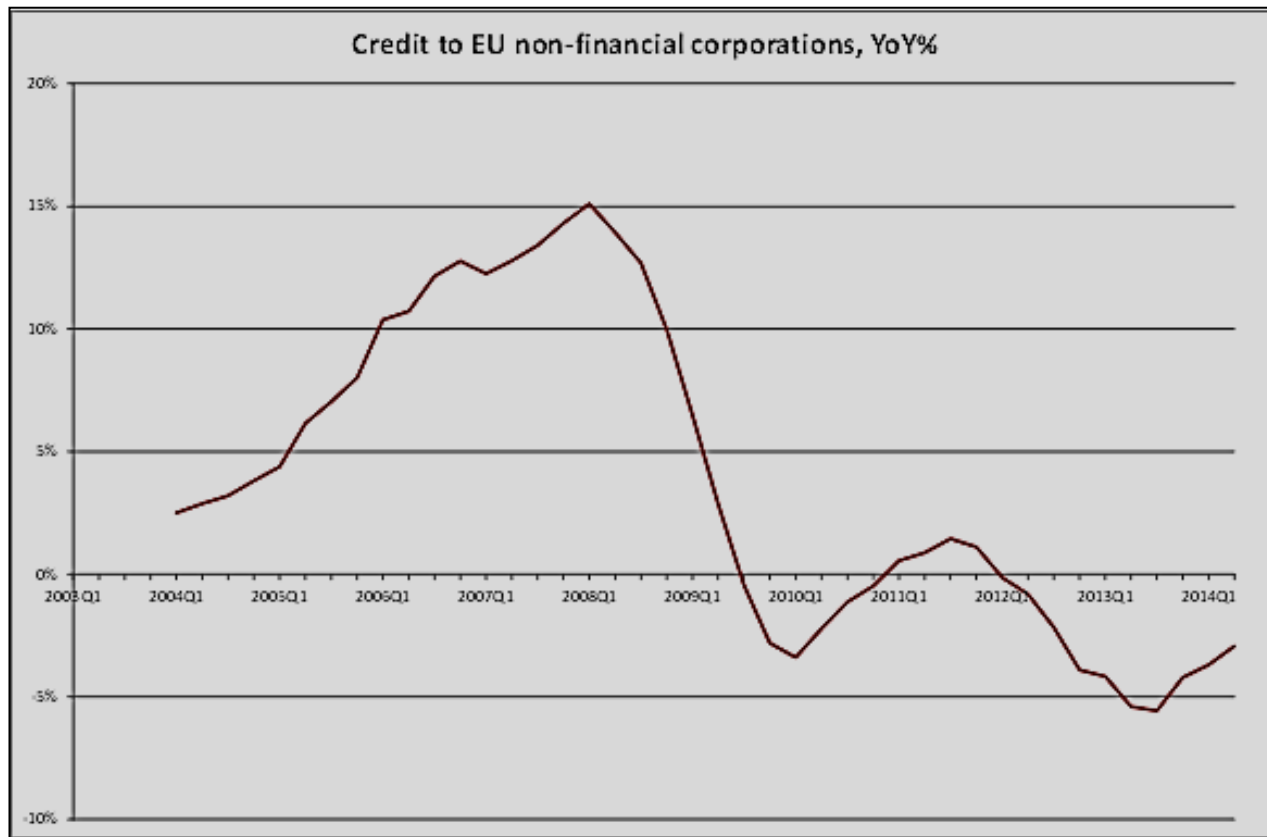
Directorate General for Financial Stability, Financial Services and Capital Markets Union (FISMA)

CMU = finance for investment & growth

- **Strengthen Europe's funding escalator for high-growth firms;**
- **Build financial circuits to channel public and private capital to corporate and infrastructure projects;**
- **Make investment in corporate and infrastructure projects more attractive for institutional investors;**
- **Provide retail investors access to capital market investment opportunities on more rewarding terms;**
- **Remove barriers to cross-border investment and extend capital market financing across the EU.**

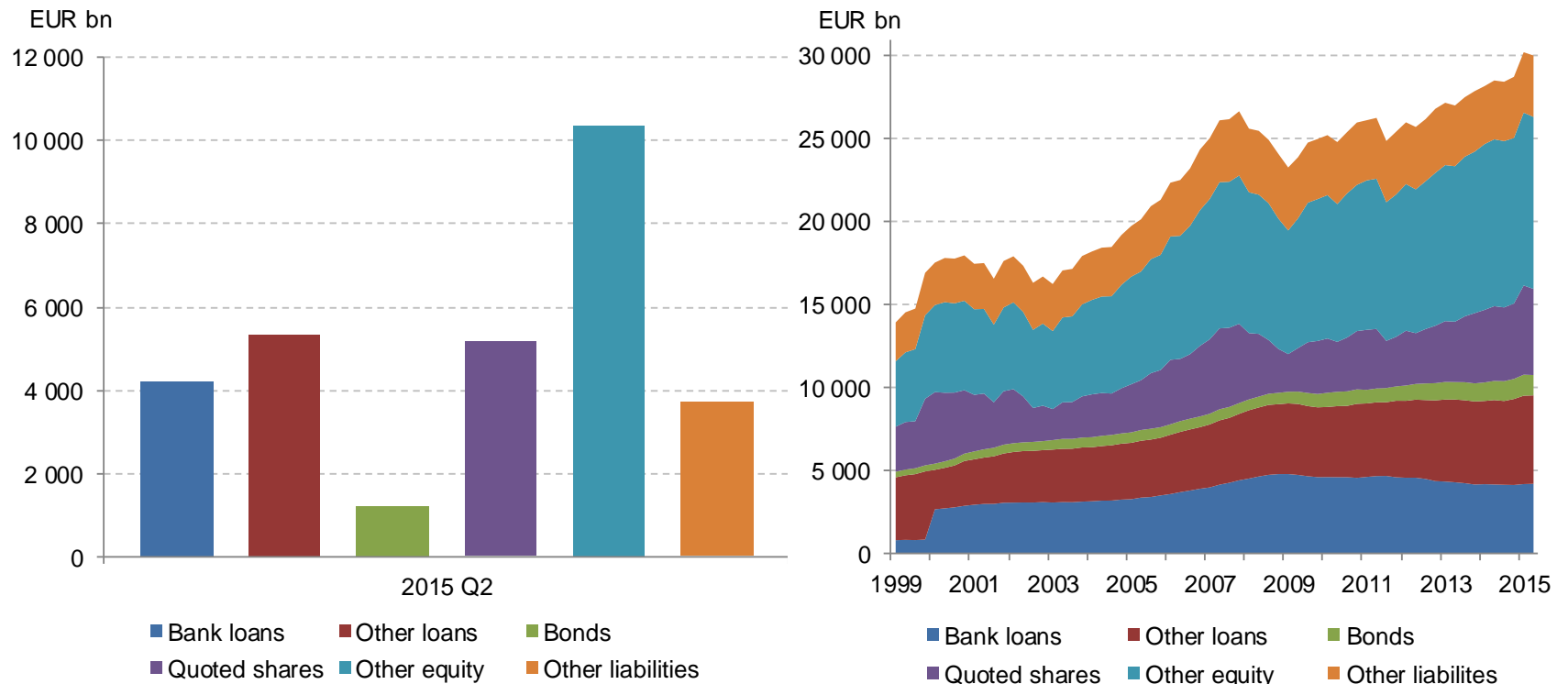
Bank lending is pro-cyclical

EU bank lending to business (2008-2014)



Funding structure of EU corporate sector:

Chart B1.1: Funding sources (financial liabilities) used by NFCs in the euro area



Source: ECB

33 actions in 6 key areas

Innovation,
start-ups &
SMEs

Public
markets

Infrastructure
projects &
sustainability

Bank lending

Investment

Integration &
stability

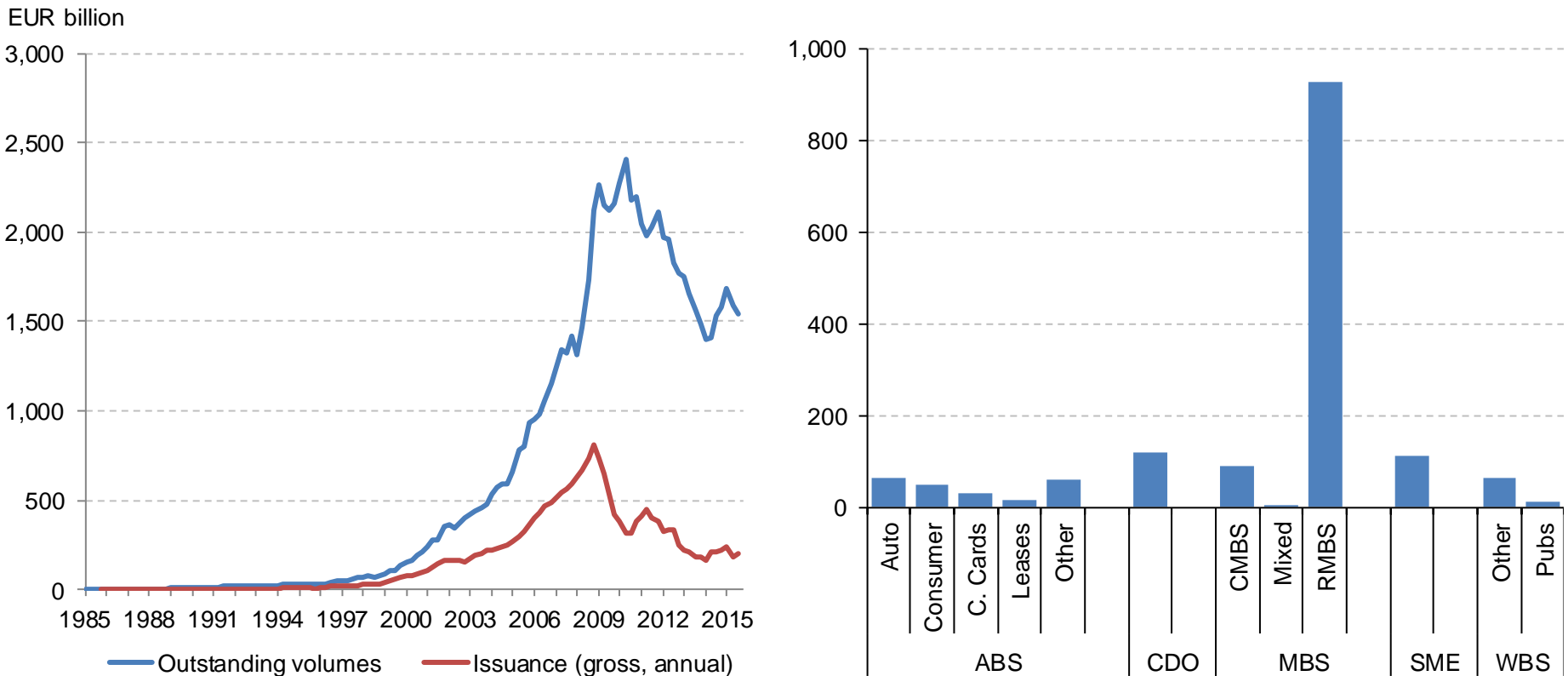
Status Report (25/04) shows good progress in 6 months – need to sustain the pace.

CMU – actions to date

- 1. Proposal to revive (STS) securitisation agreed in record time by Council - EP opinion awaited;**
- 2. Proposal to streamline Public Offer Prospectus: expect conclusion of EP/Council negotiations after summer;**
- 3. Lower ($>1/3$) prudential calibrations for insurance investments in infrastructure/ELTIFs in force since 02/04;**
- 4. Consultation on business restructuring and insolvency open until mid-June;**
- 5. Report on crowdfunding: baseline for monitoring fast-moving business [4,2bn€ in 2015] (03/05).**

EU securitisation markets

Chart 2: Securitisation in Europe - total outstanding amounts and by collateral class (2015-Q3)



Notes: ABS: asset-backed securities; CDO: collateralised debt obligations; MBS: mortgage-backed securities; CMBS: commercial mortgage-backed securities; RMBS: residential mortgage-backed securities; SME: small and medium-sized enterprises; WBS: whole business securitisation.

Source: AFME, SIFMA, ECB and own calculations

Next 6 months:

- 1. Overhaul venture capital legislation (EuVECA) to expand range of managers & eligible assets;**
- 2. Set up privately managed VC FoF to manage 500M€+ (EU budget contribution = 200m€+ EFSI guarantee);**
- 3. Enhance UCITS/AIFMD passport – launch consultation**
- 4. Evaluate EU support for a European personal pensions market: consultation and targeted study**
- 5. Develop technical assistance programme for all Member States to reap benefits of capital market finance.**

CMU projects in pipeline for 2017:

- 1. SME growth markets:** >19 junior markets in EU, 3'000 companies with combined capitalisation of 200bn€;
- 2. Private placement:** doubling of issuance in PEPP & Schuldscheine 2015 – promote in MS with mid-cap cohorts;
- 3. Corporate bond markets:** develop supportive policy framework for these markets (tripling of issuance since 07)
- 4. SME information support:** export best practice to help SMEs navigate new funding opportunities;
- 5. Solvency II review of treatment of corporate infrastructure & private debt/equity.**



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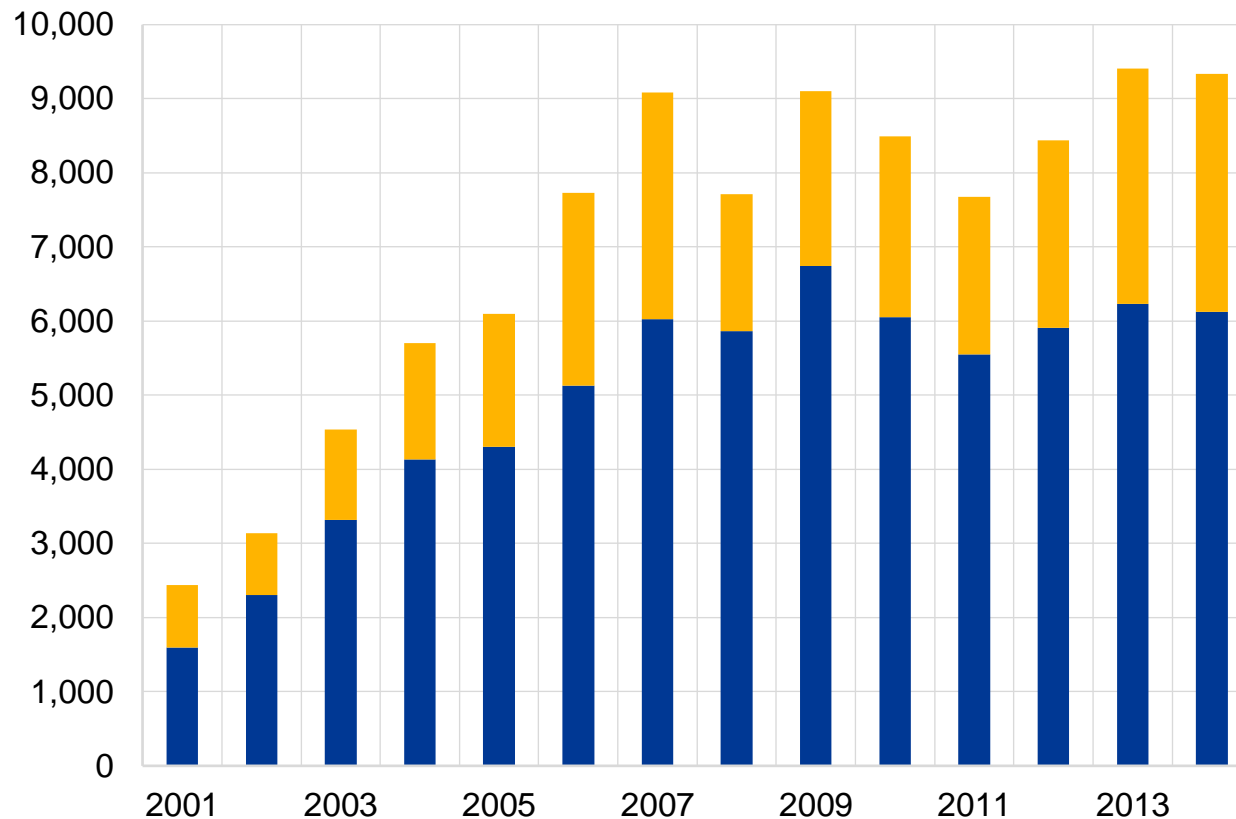
Cross-border barriers and post-trading:



Intra-EU holdings of securities:

US\$ 000bn:

■ Debt Securities
 ■ Equity



Source: ECB/IMF

CMU actions to facilitate x-border investment (1)

Topic	Action	Timeline
Securities law & debt assignment (conflict of laws)	Clarify governing law relating to securities ownership and debt assignment in cross-border situations	Study 2016 Legislative proposal(s) by 2017
Cross-border tax barriers	Withholding tax procedures (WHT) <ul style="list-style-type: none"> • EPTF • Discussion with MS ongoing 	Develop Best practices-Code of Conduct by 2017
	Discriminatory tax obstacles to cross-border investment by pension funds and life insurers	Study in 2017

Withholding taxes: cost of status quo

Estimates of costs of recovering withheld taxes based on current investment flows

	2009 study	update (2014)
Cross-border holdings in EU (USD million, current prices)		
Total	16,706,785	22,127,131
of which:		
equities	6,363,916	8,846,249
debt	10,306,218	13,298,404
Intra-EU		
of which:		
equities	3,555,794	4,621,557
debt	6,928,198	8,803,070
Calculated impact on GDP		
%	0.025	0.037
level (bn €)	3.37	5.18

CMU actions to facilitate x-border investment (2)

Topic	Action	Timeline
Insolvency (debt restructuring)	<p>Minimum harmonization of common principles on debt restructuring and second chance</p> <ul style="list-style-type: none"> • expert group established; • public consultation ends 14/06; • Conference 12/07 • impact assessment (Q3) 	Legislative proposal by the end of 2016
Insolvency: (benchmarking of creditor outcomes)	<p>Develop benchmarking/peer review of national insolvency & enforcement focussed on bank creditor outcomes in recovering value from NPLs.</p>	Presentation/proposal of the benchmarking study for Finance Ministers (autumn);

Post-trading landscape in post-crisis EU

- **Regulatory reform:** EMIR, CSDR, SFTR;
- **Implementation of level 2 and deployment of T2S;**
- **Remaining issues: CCP recovery & resolution**
- **Some challenges are evergreen:** despite progress, cost of settling cross-border transaction = 4*cost of domestic settlement.

European Post-Trade Forum (EPTF)

Mandate:

- Support Commission in undertaking a broad review on progress in removing Giovannini barriers to cross-border clearing and settlement, following recent legislation and market infrastructure developments:
 - Phase 1 (Feb16 – June16): take stock of current and upcoming post-trade landscape in the EU (including fintech & DLT).
 - Phase 2 (July16 – Feb17): assess extent to which post-trade developments and regulatory reforms have addressed Giovannini or other barriers.
- COM stocktaking document in 2017.

Call for Evidence: messages on post trading

- Financial & NFCs call for **more proportionality in EMIR and to avoid excessive impact of CRR and EMIR;**
- Smaller companies claim that future capital requirements stop banks from providing clearing services to them;
- Call to simplify reporting requirements and ensure consistency (SFTR, MiFIR, EMIR);
- **...these issues to be looked at in EMIR review currently in preparation (report = summer 2016).**