Jonathan Hill

European Commissioner for financial stability, financial services and capital markets union

Capital Markets Union: a driver of growth across the EU

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Good afternoon ladies and gentlemen. Thank you, Jeroen. I am very pleased to be here in Amsterdam. This is a city with a great heritage, home to the oldest stock exchange in the world, where the world's first traded shares were issued in the Dutch East India Company. Where better, then, to discuss the next step for vibrant capital markets in Europe.

Many of the issues you will be discussing today fit exactly with the main questions we have been looking at in our work to build a stronger single market in capital. So I look forward to your conclusions. I would also like to thank ICMA for your thoughtful contribution to our Green Paper on Capital Markets Union. I will come back to some of the points you raise a little later.

But first, I would like to explain how my work to build a stronger European single market in capital fits in to the overall approach of the Commission; and to set out what I am trying to achieve with it, who would benefit and how it can help drive growth across the EU.

So first, the Commission: with 24 million Europeans out of work, our top priority is jobs and growth. It is that which lies behind our new drive on free trade agreements and our new push to expand the single market – in energy, in digital services, and my own area of capital markets. Bigger markets, more competition and more trade will help economic growth and generate more of the jobs we need. That drive, which is one that I know chimes well with many people here in The Netherlands, sits at the heart of the new Commission's agenda.

We also have a new push, led by your very own Frans Timmermans, to regulate only where necessary. He has set a cracking pace: this year the Commission will introduce only one-fifth as much new legislation as in a typical year in the last Commission and we will review two and a half times more existing legislation. Frans recently set out a new approach to regulation that should improve the quality of new laws through better impact assessments and promote more effective reviews of existing EU laws.

I support him very strongly on this new approach and I will bring it to bear in my own area of financial services. So there will be less new legislation in the future, more focus on bedding-in the reforms of recent years, and more of an emphasis on reviewing existing legislation.

Over the last five years, we had to legislate at speed while the fires of a crisis were burning all around. It was a remarkable achievement, in particular to create a Banking Union from scratch. There is no doubt our financial system is stronger, better regulated, more resilient. So no one is putting into question the new framework which has been put in place. But now I think it makes sense to step back and ask ourselves whether we managed to get everything exactly right all of the time; to take a look at the combined effect of our legislation and check whether we have always achieved the right balance between managing risk and enabling growth.

And if the evidence does show that the rules are not proportionate to the risks they were intended to address, or if they are not conducive to growth, then we should be ready to adapt them. One of our goals is to encourage investment, and long-term investment in particular. Surely we need to look at all the factors that affect it.

If the aim of the Investment Plan being championed by my colleague Jyrki Katainen is to help kick-start growth in the short-term, the goal of my work on Capital Markets Union is to encourage investment for the longer term.

The background is well known. Despite efforts made over the years, EU capital markets remain underdeveloped: our equity markets are only about half the size of those in the US. It's also the case that Europe does not have a shortage of capital. So the question is where is that capital going and to what extent does it feed back into the economy? In the US, around a tenth of household assets are tied up in bank accounts. Even in mature and well-developed EU markets, that figure is closer to a third – and in some EU markets over half. To give you another example, medium-sized companies in the US receive five times as much funding from capital markets as they do in the EU. Europe's capital can and should be put to more productive use.

At its simplest, the purpose of Capital Markets Union is to increase the availability of capital to the economy, to link savings more effectively to growth. To give businesses at different stages in their development more options for funding. To diversify sources of finance, to complement the traditional role of banks in the European economy, which itself would increase stability by spreading risk. We have all seen what has happened to lending in countries which are heavily dependent on bank financing in the aftermath of the crisis, including here in the Netherlands. Diversifying funding sources will help ensure that capital continues to flow, as best it can, in the good times and the bad thus making our economies more resilient.

Businesses would benefit by being able to raise finance more easily and having more funding options available to them, both at home and cross-border. Even in parts of the EU where there is no shortage of bank lending, SMEs with innovative ideas and a higher risk profile often tell me that they can't find the funding they need. This is a common theme wherever I go. We all know examples of European entrepreneurs and innovators who have moved to the US for funding. Well, I want us to deliver that finance in Europe so that businesses have the choice to stay, hire and grow within the EU.

Banks would benefit. One of our priorities is to build an EU market for securitisation. This will help free up banks' balance sheets so they can lend more. I see Capital Markets Union here as sitting alongside the vital role of banks in lending to the economy, complementing what they do, and making more finance available throughout the system.

People who are saving for their future and retirement would be able to benefit from a wider range of affordable investment opportunities. Institutional investors – like pension funds and insurance companies – would benefit from our emphasis on supporting investment in long-term projects. And here in The Netherlands, where you have large pension funds and highly developed pension products, I know there is a lot of interest in the potential of a "29th regime European pension fund".

Speaking about pension funds, I hope the pension fund industry will be pleased with the decision that the Commission will adopt tomorrow to continue to exempt pension funds from the clearing obligation under EMIR for another two years thus providing the certainty for which the industry was understandably looking for.

All EU Member States would benefit from their businesses having access to deeper pools of capital on better terms. I see this as a classic single market project. It is for all 28 Member States and it is supported by all 28. I have also had good backing from the European Parliament.

My starting-point is to build a stronger single market from the bottom up, to work out how we can make existing markets work better. That is why we started with a Green Paper to try to identify all the barriers and obstacles that currently exist. To do that job of analysis properly we needed input from Member States, consumers and the industry. It is they who know best where the barriers are, where the shoe pinches, what is stopping them from investing in businesses across the EU or limiting the products that they could sell across the EU. I want the Capital markets Union to be something that is developed with the industry, not done to it.

We received over 400 responses to the Green Paper and are now busy working through them. That will help us to identify what the biggest barriers are, and then work out how to overcome them, one by one, step by step. It is going to be an ambitious project which will require sustained effort over time – more of a marathon than a sprint. But that need for a long-term effort needs to go hand-in-hand with a quick start. That is why we are moving forward as fast as possible with early measures on securitisation and reviewing the Prospectus Directive, for both of which I have received strong support - including from the Dutch Government.

Let me single out four areas where we are concentrating our efforts. First, improving access to finance. It's less of a problem here in The Netherlands but in some countries, fewer than a third of SMEs get the credit they ask for; whereas in others, it's more than 80%. We want to make it easier for creditworthy companies to be able to get the financing they need. So we are looking at how we can reduce barriers to accessing markets through lowering burdens in the **Prospectus Directive**, which can cost tens if not hundreds of thousands of euros to produce and has grown to hundreds of pages.

We are also looking at what we could do to make **SME credit information** more accessible to potential investors, without tying up our SMEs in red tape.

We want to diversify sources of finance by unblocking barriers to new channels of financing reaching our companies and infrastructure projects. That is why, along with the ECB and the Bank of England, we want to get the market for **securitisation** going again in Europe, creating a framework for highly transparent, simple and standardised products. Despite losses on European securitisations being very low, our markets remain at just one third of the level they were pre-crisis. The door will remain firmly shut to the bad old ways of the past. But progress here could make a positive difference to long-term investment by broadening the investor base to include more long term investors such as insurers and asset managers.

Another area we are looking at is how to improve the ecosystem in Europe for **venture capital**. If our venture capital markets were as deep as those in the US, as much as 90 billion euro of funds would have been available to finance companies between 2008 and 2013. We need to look again not just at the rules for EU Venture Capital Funds but also the wider picture of equity financing in the EU.

I know many of you here agree that we also need to explore the potential offered by **crowdfunding** and other areas of financial innovation where new funding models are emerging: I will be meeting some of the Dutch crowdfunding platforms later today. If savers are going to invest more –we need transparency, choice and competition. In the coming months, I will be launching a Green Paper on retail financial services to understand better how we might help to give consumers access to more products, better services and lower prices. Again, I welcome the Dutch government's thinking in this area.

I want to play my part and help investment flow for the long term. So while I don't believe it is for policymakers to force markets to behave in a particular way, I do think there is a role we can play in supporting market activity. For example, insurers, the guardians of 8.5 trillion euro of assets, were given a number of incentives for long-term investment in the detailed rules under **Solvency 2** last October. But there is still more work to be done here and EIOPA is looking into these issues and will report to me by the end of June.

And, on a topic close to your own hearts, we are keen to exploit the potential of **private placements** as a source of funding for large and mid-sized companies to borrow from institutional investors. These markets work well in the US, with over 46 billion euro being raised. They work less well in Europe, with only 20 billion euro in financing sourced in this way, and about three quarter of this concentrated in Germany and France.

We want to boost this funding channel in Europe. I was very encouraged by the Pan-European Corporate Private Placement Guide that ICMA published in February, not least because I do not think that we always have to reach for legislation as a first option. But now that a few months have passed since it was published, I would be keen to know what progress has been made, what concrete projects are being developed as a result, and when we can expect to see the first successful issuances under the regime.

As you know the European Commission asked about private placement in our recent consultation on the CMU. Most respondents advised us to refrain from regulating and support market-led initiatives. Where they would like to see EU-level action is with regard to taxation; interactions with other pieces of legislation; and in particular they would welcome some harmonisation and clarification with regard to the application of withholding taxes on private placements in EU Member States.

We are at an early stage in our analysis of the consultation responses but we will certainly reflect on this feedback when considering our next steps.

The Green Paper also raised well-known issues relating to securities law, tax, and insolvency, where differences exist for good reasons, but they can also deter investment or create uncertainty. It also touches on supervision, where the success of any reforms will depend on consistent implementation of the rules and where the European Supervisory Authorities have been helping to promote supervisory convergence.

I'd like to mention briefly another issue that ICMA has raised and that we have also been looking at in the Green Paper: the cross-border use of **collateral**. Recent ICMA papers have gone into some depth on the importance of collateral in underpinning the functioning of capital markets. It is widely accepted that the overall demand for collateral has increased in recent years.

Regulatory reforms like the Capital Requirements Regulation have certainly played a role in this. And reforms, such as the future EMIR technical standards on the exchange of bilateral margins, will continue to increase the demand for collateral, in particular for high quality collateral. But changing market practices post-crisis have also played an important role, with an increased reliance on secured forms of finance.

I fully share your view that we need to be very careful with financial regulation around the movement of collateral so as to guard against potential systemic risks without impeding the working of the markets. We will be giving this careful thought as we prepare our next steps.

I would also like to say a word about credit unions – which I know is a subject of great interest in the Netherlands. These are an established part of the financial system in a number of Member States, like the UK and Ireland. These schemes, which are often community-based, offer a valuable additional source of funding to the economy, particularly to small businesses. They are certainly something I welcome, particularly in the context of our drive, through the Capital Markets Union, to support improved access to finance for our small businesses. I am pleased, therefore, that Dutch authorities are in the final stages of completing a new regulatory regime for credit unions.

I have been asked whether it would be possible for the Commission to exempt credit unions from European banking law: the CRR and CRD 4. This has been raised with me by Dutch parliamentarians and by Minister Dijsselbloem. Given their small size, the limited financial risks they pose and the fact that the medium-sized and large credit unions will be subject to specific prudential and supervisory regimes, I can announce today that the Commission is open to considering this exemption for Dutch credit unions. The next step is to send the Commission a request and all the details that we need on the design of the Dutch credit union system. Then I will ask my officials to move forward as soon as we can.

Rolling forward a single market in capital is also an opportunity for the financial services industry to demonstrate again its utility to the wider economy. The nature of the recent crisis encouraged the perception of financial services as a source of problems whose resolution had to be borne on the shoulders of wider society. I believe the whole economy needs a thriving financial services industry. I want that to be apparent again, so that people will see jobs and wealth being created by the flow of investment from the industry.

I also want to ensure that the Capital Markets Union project is one that benefits all 28 EU Member States, not just those with well-established capital markets. Money should be able to flow to companies and projects regardless of where they are located in the EU. Equally, those countries that have developed expertise and experience in specific financial sectors – such as The Netherlands in pension funds amongst other things - should be able to build on that across a market of 500 million for Europe's financial centres to demonstrate their value not just to their own customers and investors but to the whole of Europe.

I hope you agree that we have a great opportunity to build a stronger single market in capital with all the benefits that would bring for the European economy. In September, I will be publishing an Action Plan which will set out the way ahead on CMU. Alongside that, we will publish proposals on securitisation and the Prospectus Directive. So we will be moving fast and with a sense of urgency.

Although it is nearly 60 years since the Treaty of Rome set out a commitment to the free movement of capital, I think we now have a great political opportunity to make a new attempt to tackle some old challenges. It is an opportunity I intend to seize.