ICMA – Annual General Meeting and Conference - 19 May 2016 – Ugo Bassi

CMU: moving to the next step of capital markets in Europe.

Ladies and Gentlemen,

It's always a pleasure for me to come back to Dublin. I am deeply honoured by ICMA's kind invitation, which presents me with this opportunity. This is my first public speech in my new capacity as Director for Financial Markets in DG FISMA of the European Commission. Therefore, I am more than happy to talk about one of the most prominent files of my new portfolio, which is also one of the top priorities of the Junker Commission: The Capital Markets Union.

During the financial crisis, the main objective of the Commission's action in this field was to restore financial stability, by addressing the various market vulnerabilities which emerged. This was the main driver of the complete overhaul of the financial market regulatory framework which took place in the last 7 years, with more than 40 new legislative initiatives adopted and agreed by the co-legislators in this area.

7 years later, our biggest challenge across Europe is certainly the lack of investment, which we need to address, if we want to promote growth and jobs and,

ultimately, prosperity. The EU economy is growing, but not fast enough. More than 23 million people are out of work, one in five of whom is under 25. We have an ageing population with increasingly fewer people to support it.

In this context, the function of capital markets in Europe should be to mobilise financial resources and channel them to all companies, notably to SMEs, and to infrastructure projects that need it to expand and create jobs. In the past, the capital markets have been criticised for losing sight of the end users they were serving. **Going forward, we need capital markets** to better fund the real economy. **Going forward, we need capital** to fuel productive investment, and to allocate risks to those parties most able to deal with.

That's why, in September 2015, the Commission adopted its Action Plan on Building a Capital Markets Union that seeks to develop market-based finance. This is a broad programme of no fewer than 33 measures that the Commission undertook to deliver by 2019. At the end of April, we published our first CMU Status Report. This Report shows that we have already made good progress in implementing our Action Plan.

Let me recall in more detail our objectives, how we are planning to meet them and what we have achieved so far.

Our first objective is to provide alternative sources of funding for start-ups and non-listed firms. A small population (1.5%) of high-growth companies account for more than 30% of new jobs. Developing alternative funding tools for SMEs, especially in their expansion phase, is therefore of utmost importance, to put the European economy back on track. For instance, the CMU Action Plan places great emphasis on strengthening our European Venture Capital markets. In this area, we are still lagging behind the US, where venture capital represents 8% of outstanding financing to SMEs, while the same share is only 1% in the EU. Even more telling, is that around 90% of EU venture capital investment is concentrated in only eight Member States. The Commission is working on a package of 3 measures to scale up the supply of venture capital:

- First, by this summer, the Commission will put forward a legislative proposal to improve the EU legal framework for venture capital. This proposal should allow larger managers to run those funds, and widen eligible investment opportunities.
- Second, alongside measures of regulatory nature, we will launch a new pan-European venture capital fund of funds, with a size of at least 500 million EUR. In the summer, we will publish a call for expression of

interest, inviting private sector asset managers to operate this fund of funds.

- Third, in January, we launched a study on how national tax incentives for venture capital and business angels, can prop up the investments into start-ups. This autumn, the Commission will start promoting best practices across the Member States.

Moving up the funding escalator, we are also working on another alternative source of funding for companies: private placements. Here, market forces are already pushing in the right direction. The Commission is fully supportive of the ICMA's *Pan-European Corporate Private Placement Guide:* this industry-led initiative on the standardisation of processes for private placements has certainly contributed to the robust growth of the pan-European private placement market, which doubled in size between 2014 and 2015. However, private placement markets remain largely underdeveloped in many EU jurisdictions. We want to find out why. To better understand, the Commission is launching fieldwork to identify regulatory and market barriers, that are holding back more funding of companies via private placements.

Our second objective is to make it easier for companies to raise funds on public markets. This is as much a challenge as a vast source of potential funding for our economy. For example, today, US public equity markets are twice the size of those in the EU.

If we are to make listing and public offer a viable funding option, we need to reduce the price of the entry ticket to public markets. The compliance and legal costs associated with public offer (notably via the prospectus) can absorb up to 8% of the capital raised through a small issuance. This is a show-stopper. An early measure we took, was therefore our proposal to overhaul the Prospectus Directive. Our proposal for streamlined prospectuses will reduce the cost of issuance and simplify the approval process, whilst preserving a high level of investor protection. Member States and the European Parliament are working intensively to finalise these rules.

For larger firms, corporate bonds are a valuable mechanism for raising debt finance on a larger scale. Favoured by historically low interest rates, issuance of euro-denominated corporate bonds now has more than doubled since 2008 and 2014. And, in recent weeks, some European businesses have even been issuing at negative rates.

Yet, despite record primary issuance, market participants, including ICMA members, have raised concerns about the limited liquidity in secondary markets. If credit conditions were to deteriorate, some firms may find it hard to access debt markets quickly. This is a complex issue, with many moving parts. To get a better picture, we have started a comprehensive review of the functioning of corporate bond markets. The review looks at possible ways to widen access to - and deepen - liquidity, in light of changes observed in the recent years affecting market structure, behaviour, issuance and liquidity. On March 18, we published a tender for a study on the drivers of corporate bond market liquidity. And we will also publish a call for applications shortly, to establish an expert group, in charge of looking at this issue in detail.

Our third objective is to promote investment in long-term, sustainable projects and infrastructure projects. Total infrastructure needs in the EU, could reach up to 2 trillion EUR up until 2020. Insurance companies in Europe have almost 10 trillion EUR to invest. At the moment, less than 0.5% of these funds are invested in infrastructure.

As you know, we have already amended the Solvency II regime to support infrastructure investment by insurers. Capital charges for insurers investing in qualifying infrastructure, have been reduced by nearly a third. This is the first CMU action to have already taken effect on the ground. We hope insurers will make the most of it.

Green and sustainable finance are also high on the CMU political agenda, not least due to the recent Paris Climate Agreement. In this area, the Commission will be supportive of market-led initiatives that could contribute to mobilising more funding for resource-efficient investments, such as the ICMA's Green Bond Principles.

Our fourth objective is to offer broader and better investment opportunities for retail and institutional investors.

Households are the main providers of funding in the economy. But today, they are less involved in capital markets (than in the past) and keep significant savings in bank accounts as deposits, rather than investing them for their future retirement or to achieve their life-goals. In some Member States, financial assets kept in form of currency and deposits, represent as much as 150% of GDP! A big challenge will be to ensure that retail investors can participate in capital market investments. We are working to ensure that retail investors have an easy access to a range of suitable and cost-effective investment products.

One specific action in this respect relates to private pension provision. At present, no effective single market for "third pillar" personal pensions exists. So, by the end of 2016, we will assess the case for a policy framework to establish a European market for simple, efficient and competitive personal pensions. We intend to launch a public consultation and a study before the summer. A successful market for personal pensions would make the European retail investors familiar with the various financial instruments available for investment and, to a certain extent, would contribute to develop financial literacy and equity culture in Europe. This would also provide a large pool of capital for long-term financing.

As for institutional investors, I have already mentioned the action recently taken by the Commission, to better align the capital held by the insurance sector against infrastructure investments. We are even ready to go one step further: we will assess whether changes are needed to the prudential treatment of insurers' investments in private equity and private placements in Solvency II. However, we need concrete, solid evidence to assess whether those products offer sufficient transparency and credit quality to justify a more risk-sensitive prudential treatment. And we rely on your support, to gather that evidence.

Our fifth objective is to leverage bank capacity to support the EU economy. Banks are, and will remain, an important source of corporate funding in Europe. Stronger capital markets can help banks in the process of managing and repairing their balance sheets. To free up bank lending to the wider economy, we have made a proposal to re-launch the securitisation market in Europe. If EU securitisations could be rebuilt, safely, to pre-crisis average issuance levels, banks would be able to provide

- according to our estimates - more than 100 billion EUR of new credit to the economy. Our proposal sets out the criteria for simple, transparent and standardised securitisation, with reduced bank capital requirements for those who qualify. This proposal was agreed in record time by the Council. It's now the responsibility of the European Parliament to take this forward. The sooner we can get the changes into effect, the sooner we can get more lending flowing into Europe's businesses.

Finally, our sixth objective is to tear down unjustified barriers to cross-border investment within the EU. For instance, in the coming weeks, we will launch a public consultation on remaining obstacles to the cross-border distribution of funds, both UCITS and AIFs. This consultation will allow the Commission to gather evidence from stakeholders on all of the identified barriers, in particular: marketing rules, administrative arrangements imposed by host countries, regulatory fees and notification procedures, but also the most pertinent features of the tax environment.

Ladies and Gentlemen,

Before concluding, I would like to recall that the CMU is a pro-business, pro-investor and pro-growth agenda. It is about stripping finance back to its basic objectives so that capital moves from where it is more abundant to those places where it is badly needed to finance investment. In only eight months since the adoption of the CMU Action Plan, we have covered a lot of ground: on securitisation, on infrastructure financing and on the prospectus. But we still have a pretty long way to go.

I am well aware that we are implementing this Action Plan in an environment that is moving: we will have to overcome the challenge of selling capital markets in a period of volatility and uncertainty. I am also aware that CMU is a long-term structural project and it will not happen overnight. To achieve its full potential, we will need a shared sense of purpose, of ownership, among all interested parties. As the new director for financial markets, I will seek to maintain momentum to deliver stronger capital markets in Europe. But I dare to count also on your precious support, in order to achieve that common goal.

Thank you very much for your attention.