In the detail

Rationale for action

The European Commission sets out a strong case for action, including:

- Europe's capital markets are less developed than those in the US and Japan, where public equity markets are nearly twice as large as a percentage of GDP.
- There is considerable variation in the size and nature of capital markets across the EU.
- Despite an increase in bond issuance by corporates, this has been limited to large firms in the more developed markets.
- Europe's reliance on bank finance to fund the corporate sector has made it vulnerable when bank lending is constrained.
- On the demand side, SME access to non-bank finance is constrained by the lack of information available to investors and high costs, while infrastructure financing is constrained by a lack of transparency and the opaque structuring of investment opportunities.
- Supply side issues include the need to enhance the confidence of retail investors/savers in capital markets and further boost the attractiveness of EU capital markets to international investors.
- Creating greater and deeper capital markets would create greater choice for investors and scope for risk-sharing.

Areas for early action

The Commission identifies some relatively quick wins, including:

- Changes to the rules governing the information corporates need to access the capital markets to lower the information and legal barriers.
- Common minimum standard for credit reporting and assessment to help SMEs access alternatives to bank finance. As banks typically hold this information, there would be an opportunity for some collaboration and pooling of data.

- High quality securitisation – between 2007 and 2014 overall securitisation issuance in Europe has more than halved. The Commission is not indicating a return to the pre-crisis days but sees potential for simple, transparent and standardised instruments to pool a range of assets for investors. Work is already underway from the EBA to define criteria which largely boil down to asset quality, structural risk and transparency to investors. However, even in the separate consultation paper the Commission makes no detailed proposals on how the capital and liquidity regimes could be amended to encourage high quality securitisations.
- Long term investment – ELTIFs create a framework for investment in companies and infrastructure projects and the Commission sees potential for Member States to do more to support up-take.
- Private placements – European firms have tapped the US market for private investors for years, raising US$15 billion in 2013. The Commission is supportive of an industry-led initiative to establish common market practices, principles and documentation.

Medium to long term initiatives

- Helping SMEs – banks could provide more feedback on credit decisions and suggest alternatives; simplified high quality accounting standards could help to reduce the cost of listing on trading venues.
- Infrastructure – a register of EU-level projects/pipeline could increase transparency to investors and provide regulators with information to help adjust capital rules to benefit infrastructure investments.
- Covered bonds – there is an opportunity to extend and integrate markets, with enhanced information on underlying collateral to improve transparency.
- Corporate debt – greater standardisation could open up new trading venues and create liquidity in secondary market.
- Green bonds – there is scope to build on market participants' development of voluntary guidelines.
- Peer-to-peer/crowdfunding – the Commission points to the potential for cross-border investments subject to standardised disclosure. This could also help to develop more of an equity investment culture among smaller investors.
- Role of retail investors – declining deposit rates increase the incentive to better deploy household savings into market securities. Despite their success, UCITS ownership by private investors is lower than it could be. The Commission sees increasing cross-border retail UCITS investment as having potential if trust in distribution and returns can be addressed. Investor protection is being strengthened, but more needs to be done. The Commission is due to look at both the positive role that digital channels can play to lower costs while maintaining security and how a single-market for retail financial services can be developed.
- Foreign investment – gross capital flows into Europe have declined since the crisis and the Commission sees scope for reducing barriers to EU institutions and services, and for improving access to third country markets including cross border asset management in future trade deals, for example with China.
- Convergence and supervision – the Commission identifies inconsistency in how the single rule book is implemented and lack of enforcement as barriers to capital market development. Although not specifically cited, MiFID 2 extends the potential for consistency across market rules for all market participants but will also greatly add to cost and complexity in data and reporting, which will inevitably be passed on to investors and end-users. The ESAs, and ESMA in particular, have a key role to drive greater convergence around investor protection.
- Data, reporting and technology – there is an opportunity for more common IT approaches, data and reporting – the 'consolidated tape' in equities trading is an example which could be built on.
- Markets infrastructure – further work is needed on 'the piping', building on the regulatory framework.
- Collateral – restrictions in flow and increasing demand present challenges, with concern over the reuse of securities and the risks that might be created. Variations in investors' rights are complex but require further action.
- Company law, insolvency and taxation – in the 'harder and longer-term' box are changes that would improve shareholder rights, cross-border mobility and restructurings, and remove uncertainty caused by national differences in legal, tax and insolvency frameworks.

Comparison with KPMG's EU Agenda paper (August 2014)

The Commission's Green Paper picks up on many (but not all) of the ideas KPMG's FS Regulatory CoE put forward in our New Commission, New Parliament in August 2014:

Initiatives proposed in our EU Agenda paper August 2014	Covered in Green Paper?	Details
Better analysis of underlying problems – what and where are the current "gaps"? Why is the EU capital market less developed than in the US?	No	
Focus on jobs and growth – outcomes not inputs	Yes	Clear focus on the benefits of capital markets for the economy, jobs and growth
Focus on creating a genuine EU-wide single capital market, and recognise the global context	Yes	Clear focus on developing an EU-wide single capital market and on attracting investment from outside the EU
Identify current legislative and regulatory constraints	Yes	Single rulebook largely in place – but still scope for progress on consistent approaches to supervision, enforcement (role for ESAs here) and common data and reporting Scope to legislate to narrow national differences in investors' rights in securities, insolvency frameworks and tax regimes
Make Solvency 2 more accommodating for long term financing, equity holdings by insurers	Yes	Further work required to identify lower risk categories of long term financing, with a view to a possible review of prudential rules
Tranching/structure of infrastructure investments to enhance attractiveness to investors	No	Some rather vague proposals on publishing more information on infrastructure projects
Certainty of tax regime for long term investments	No	
Recalibrate capital and liquidity treatment for banks' longer term lending, and for simple high quality securitisations	No	No proposals to recalibrate capital and liquidity regimes Mention of developing criteria for simple securitisations, but not capital and liquidity treatment of these
Enhanced credit information on SMEs	Yes	Identified as an issue, but practical solutions yet to be developed
Develop private placement market	Yes	Reliance on market-led approach
Encourage investment in ELTIFs	Yes	Seeking suggestions on how this could be achieved
Remove preferential tax treatment for debt over equity	Yes	Identified as an issue, but no proposals

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