European Commission - Speech - [Check Against Delivery]

Conference: Next Steps to Build a Capital Markets Union

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Good morning ladies and gentlemen, and welcome to our conference on the Capital Markets Union. It is good to see so many of you here. It shows how much interest there is in the project, which President Juncker has established as one of the Commission's top priorities.

That degree of interest is also reflected in the more than 700 responses that we have received to our consultation on the CMU and the linked subjects of securitisation and the prospectus directive. So first of all a big thank you to all of those who took part.

The aim of the Green Paper was, first, to make sure that we had identified the right overall areas for action. Second, to get ideas and suggestions from those closest to the action as to where the barriers and obstacles to a single market in capital are and how we might overcome them. And third, to check that people supported the step-by-step approach that I am taking, combining long-term ambition with immediate practical steps.

I also wanted to go about things in a way that would take people with me, to demonstrate to the industry in particular that CMU would be something done with them, rather than to them.

Alongside the formal consultation, we have been travelling across Europe to talk to politicians, consumers, business start-ups, regulators, the financial services industry and investors large and small. By the summer we will have been to every country in the EU. That in itself underlines a central point: this is a classic single market project for all 28 Member States.

Those many conversations have been pointing in the same overall direction. While I already knew that we had the support of Member States and European parliamentarians, what has been encouraging is that we have received that same message, a real groundswell of support, from right across Europe.

It is the same message that emerges from the responses to our consultation. That we are on the right track. That we are concentrating on the right areas. That we have identified the right issues. That we are right to be taking a step-by-step approach.

People want us to be ambitious for the Capital Markets Union, but they also want us to make quick progress where we can, for instance by creating a new market for simple, transparent and standardised securitisation products, and by reviewing the Prospectus Directive.

There is also a shared analysis of the benefits of a stronger single market in capital to help support more cross-border risk-sharing, create deeper and more liquid markets, and diversify the sources of funding to the economy. It will deepen financial integration and help increase growth and competitiveness over the medium term.

Or in other words, it will better link savings with growth. It will provide more options and better returns for savers and investors. It will offer businesses more choices of funding at different stages of their development. It will channel investment to where it can be used most productively, increasing the opportunities for Europe's companies and infrastructure projects. My colleague, Jyrki Katainen, who has been so energetic in driving forward the Investment Plan, will talk about this more this afternoon. It will also help to ensure that the financial system supports growth and jobs and helps with the demographic challenges Europe faces.

And when we talk about the CMU helping to boost growth, I mean growth throughout the EU, for those countries without well-developed capital markets as well as those with them. Indeed, it is countries which don't have established financial centres whose businesses and investors could benefit the most, because the CMU should create the conditions for capital to cross borders, to flow to entrepreneurs with high growth potential, no matter where they are located.

And it can strengthen the stability of our financial system. Our current system is heavily dependent on bank financing, so if there is a contraction in banking, lending in the whole economy dries up – which is of course exactly what we have seen in recent years. If we encourage equity investment, in place of debt, we could make the economy more resistant to shocks.

If these are some of the benefits of the CMU, what practical steps will we need to take? We have identified three themes as being at the heart of the project: how the CMU can increase funding options for business; how it can create more opportunities for investors; and how it can encourage cross border investment.

Theme 1: increasing access to finance

The first theme, looks at how we can improve Europe's 'funding escalator'. How we can build a financial system that is better able to meet the financing needs of all our businesses — from the smallest micro-firm to the largest listed companies — at different stages in their development. This emerges as a top priority from the consultation.

Bank lending will of course remain central to the European economy and in particular will be the staple source of funding for SMEs. But a recurring theme from many discussions is that more innovative new businesses with higher returns, but also higher risk, find it hard to get investment from banks. Then there are other gaps where SMEs find it difficult to attract capital as they seek to expand. These are the steps in the funding escalator that are missing in Europe.

Although overall, the financial system in the EU provides some two trillion euros to SMEs, non-bank finance is less than half that in the US. A large majority of respondents have told us that key links in the chain are missing or not yet delivering on their potential: angel investing, venture capital and innovative forms of finance such as equity crowd-funding.

There are a range of factors that cause this, including cultural and historic ones. Some are regulatory. So we will review our venture capital regulation EUVECA to support the growth of this market further – both in terms of allowing a wider range of funds to participate, and a wider range of possible investments. We will also investigate how we can eliminate passporting barriers to funds raising capital across Europe. We know that the factors holding back an equity culture in the EU are broad and deep but strengthening our venture capital ecosystem must be a key priority.

Another issue for this morning is the role we want non-bank lending channels like peer-to-peer lending, alternative investment funds and ELTIFs to play in our financial system. How do we increase the availability of funding while maintaining investor protection and financial stability? Here it is worth remembering just how much work has been done in recent years through MIFID II, EMIR and AIFMD to strengthen the regulation of non-bank finance.

For our larger firms, we need to make it easier to raise capital by issuing debt or equity on public markets. There is probably more we could do to build on the success of private placements in Germany and France for companies wishing to place large amounts of debt with institutional or qualified investors. Most respondents to our consultation said that we should give time to recent market-led initiatives by the industry to allow them to bear fruit rather than regulating. I very much welcome the steps taken by the industry and will be following their progress closely. And I agree that legislation is not always the answer.

Some respondents, particularly investors, have pointed out that there are some ambiguities in the regulatory treatment of private placements. They have asked us to look at aspects of Solvency II in order to support insurance companies to invest through private placements. And they have identified the issue of national divergences in the treatment of withholding tax as a potential obstacle to the development of a deeper cross-border market for private placements. Those are all issues we will reflect on as we consider our next steps.

One of the strongest messages to have emerged from the consultation supports our view that getting the **Prospectus Directive right** will be an important early priority. As the gateway to capital markets, we need to make sure that prospectuses fulfil their original purpose: giving investors information they can understand before making an investment decision.

The consultation confirmed how valuable prospectuses are, and the role national authorities' prior approval of prospectuses plays in giving legal certainty and supporting investor protection.

But many respondents said we should lighten the burden on issuers who are already listed on a regulated market when they want to make a secondary issuance. They want the prospectus regime to have a more joined up approach to information that is already published under other rules. They also argued that the lighter disclosure regime for smaller companies has had virtually no take up. So we need to take a radical look at how the prospectus directive is working, particularly for smaller companies and smaller countries in Europe. We will bring forward proposals to review the Prospectus Directive in the autumn.

Promoting simple and transparent securitisations

Alongside the consultation on the CMU, we held a specific consultation on securitisation, where we had more than 120 replies, with very broad support for our plans. Respondents clearly shared our view that all securitisation should no longer be tarred with the same brush. We plan to build on the work of the ECB, Bank of England, IOSCO, and the ESAs to put forward a framework for securitisation products that are simple and transparent.

With this new legislative proposal, we will aim to rebuild trust and make it easier for investors to assess the risks of securitisations. Issuers will have to maintain 'skin in the game' so that their incentives are aligned with those of their investors. The products will have to be transparent, so investors will know what they will be buying. The system should work with all the appropriate checks and balances, without being too complex.

This will enable us to put in place more appropriate capital and solvency requirements for investors, so that simple securitisation products do not end up being penalised. It will also allow us to improve the way existing due diligence and disclosure rules currently work.

Theme 2: Making CMU work (creating opportunities for investors)

Our second main theme today is creating opportunities for retail and institutional investors who are the fuel in the tank of the CMU.

Life insurance companies and pension funds are the natural long-term investors in European equity, venture capital and infrastructure. They have the deep balance sheets and the long time-horizons to be able to manage significant exposure to equity investments.

Over recent years, however, these institutional investors have been retrenching, and holding more significant amounts of liquid debt at the expense of equity. There is a concern on the part of some Member States, the insurance industry and other observers that the regulatory framework may indeed be driving this tendency.

Last October, just before I took office, my predecessor gave insurers a number of incentives for long-term investment in the detailed rules under Solvency 2. But we could still do more to ensure insurers can invest into Europe's infrastructure. We will soon start the process to amend the Solvency II delegated acts to incorporate investments into ELTIF funds. We will also start the process to put in place the necessary changes to incorporate infrastructure as an asset class into Solvency II as soon as EIOPA has reported to me on this later in the month.

Pension funds are one of the biggest potential sources of funding for equity and infrastructure investments. The IORP 2 proposal currently being discussed would give pension funds the freedom to invest in assets with a long-term economic profile on unregulated markets. EU Member States have already agreed their position on IORP 2, and I hope that work in the European Parliament can move forward quickly too.

Personal pensions, too, offer the potential to inject more savings into the capital markets and channel additional financing to productive investments. The consultation suggested that many want us to look at ways of encouraging and supporting people to save more for retirement. There is also the question of whether we should consider the feasibility of a standardised product, for example through an optional pan-European or '29th' regime. This could remove obstacles to cross-border access without forcing cross-border harmonisation on what is a very diverse market place with very different legal systems in place. Any changes would need to ensure consumer protection and not disrupt existing systems which are working well.

Retail investors need to be at the heart of the CMU. Over the years, small investors have been reducing their investment in shares: the proportion of retail investors among all shareholders is less than half what it was in the 1970s. Our feedback tells us that the reasons for this are varied, but in particular because of a lack of trust.

Retail investors will only invest in capital markets if they have confidence in those markets and the financial intermediaries operating in them, and if they believe that they will do better by investing than sticking their money under the mattress. More transparency is therefore key. We have made significant progress in recent years to increase transparency and improve and harmonise disclosure standards. We will need to look carefully at whether this is improving results for consumers and ensure standards are consistent across products.

Retail investors should also be able to choose good products that meet their needs regardless of where it is being sold in the EU. Effective consumer and investor protection and dismantling the barriers to the single market for retail investors will therefore need to be at the heart of the CMU and we will look at ways to take this forward. In particular, I will be bringing forward a green paper on retail financial services issues later in the year.

Theme 3: Dismantling Horizontal obstacles to cross-border investment

Of course retail investors are not the only ones who come up against barriers to the single market. There are many long-standing and deep-rooted obstacles that stand in the way of cross border investment. These range from obstacles which have their origins in national law — insolvency, collateral and securities law — through obstacles in terms of infrastructure like a lack of access to credit data, particularly for SMEs, right through to tax barriers. And these issues form the third main theme to be discussed today.

On some of these issues, particularly those linked with taxation, the feedback suggests we should be pragmatic. In other words, we shouldn't risk making good progress in other areas by charging head long into some of the most intractable ones. I agree with that. But clearly this is an area we need to explore to see if we can find a way to address barriers in respect of withholding tax procedures for example, or problems of double taxation. Many respondents also told us that the current bias in the tax system towards debt at the expense of equity is a barrier to the development to capital markets.

The same goes for barriers to cross-border investing caused by differences in insolvency proceedings. One way forward would be to identify existing best practices that could be exported and work to stimulate cooperation between national authorities, or targeted changes where they can be helpful. We are assessing the consultation responses carefully in this area.

Many responses also made the point that as our capital markets become more developed, there of course needs to be appropriate supervisory arrangements, both nationally and cross border. We have received positive feedback on the architecture that we put into place following the financial crisis, and respondents broadly confirmed that the existing set of powers for the European Authorities are sufficient, which was also the view expressed clearly at the Informal ECOFIN meeting in Riga.

Respondents also made the case, however, for further action by the ESAs, within their existing powers, to promote supervisory convergence so that the benefits of the single rule book and deeper capital markets can be shared by all. As markets develop, we also need to make sure that our macro prudential frameworks nationally, at the EU level and internationally are able to react appropriately to developments in the capital markets.

Conclusions/ next steps

Ladies and gentlemen, we will be making a quick start, but we are going to have to keep the effort up, year-in, year-out.

In terms of next steps, we will publish our Action Plan in September, drawing on the first findings from the consultations. Concrete proposals will follow hard on the heels of the Action Plan – some within a few weeks of the Action Plan. Early actions will include a comprehensive package on securitisation with updated calibrations for Solvency II and CRR, the definition of infrastructure and revised calibrations for Solvency II, and our proposals to review the Prospectus Directive. In order to get early momentum, build confidence, and set a clear sense of direction, I hope that these can be fast-tracked by the co-legislators in the European Parliament and in the Council.

Our commitment to a single market in capital now dates back nearly 60 years. What the replies to our consultation show, what your presence shows, is that there is the opportunity, the support and the will to make that happen. That is an opportunity, with your support, that I intend to seize.

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