



European Capital Market Union

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Figure 1: Europe's next three big topics



Dates indicate the dates the initiatives became operational, initiatives without dates are under discussion or in the pipeline
Source: 5 Presidents report 2015, CMU Green Paper, CMU Action Plan, European Commission, ESM Research

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- **THE PATH TO GROWTH –**
- FINANCING FOR INNOVATION, START-UPS AND NON – LISTED COMPANIES
- MAKING IT EASIER FOR COMPANIES TO ENTER AND RAISE CAPITAL ON PUBLIC MARKET
- INVESTING FOR THE LONG TERM, INFRASTRUCTURE AND SUSTAINABLE INVESTMENT
- FOSTERING RETAIL AND INSTITUTIONAL INVESTMENT
- LEVERAGING BANKING CAPACITY TO SUPPORT THE WIDER ECONOMY
- FACILITATING CROSS-BORDER INVESTING

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Why does it matter? Focus on corporate financing

- Mid-sized companies receive five times as much funding from capital markets in the US
- Venture capital markets as deep as the US could have been worth an additional €90bn over the past five years and 4000+ additional companies financed
- Private funds are providing less money to venture capital in the EU than before the crisis;
- Infrastructure funding deficit (1 trillion€ by 2020).

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Main themes in CMU debate

1. Strengthen access to market-based finance for corporate capital-raisers;
2. Create conditions for cross-border investment & remove policy barriers to capital;
3. Facilitate investment by retail and institutional investors & create higher returns needed to finance retirement,
4. Boost investment available for infrastructure;
5. Build a stronger equity culture in Europe and break debt/fixed income dependence;
6. Monitor and manage risk transfer from banking to non-banking channels – macroprudential dimension.

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Raising capital:

Public (debt and equity) markets:

- improve IPOs through revision of prospectus Directive;
- more transparent/efficient secondary bond markets;
- Conditions for SME listing

Private debt and equity (alternative finance):

- private placement;
- private equity & venture capital;
- New channels: crowd-funding & peer-to-peer lending, loan-originating funds;

Use markets to support bank-credit

- Securitisation of loans;
- markets for loan transfer, Distressed debt.

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Address tax and legal barriers to cross-border investment

- Insolvency law;
- Company law, corporate governance;
- Tackling tax bias in favour of debt over equity, venture capital;
- Securities law and collateral;
- Infrastructure: clearing and settlement.

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Attracting investors:

Institutional investors:

- Review capital treatment for securitisations;
- Permit institutional investors to expand holdings of public/private equity, infrastructure projects;

Retail investors:

- Rebuild damaged trust;
- Exposure to attractive products on margins;
- EU tax transparent private pension wrapper.

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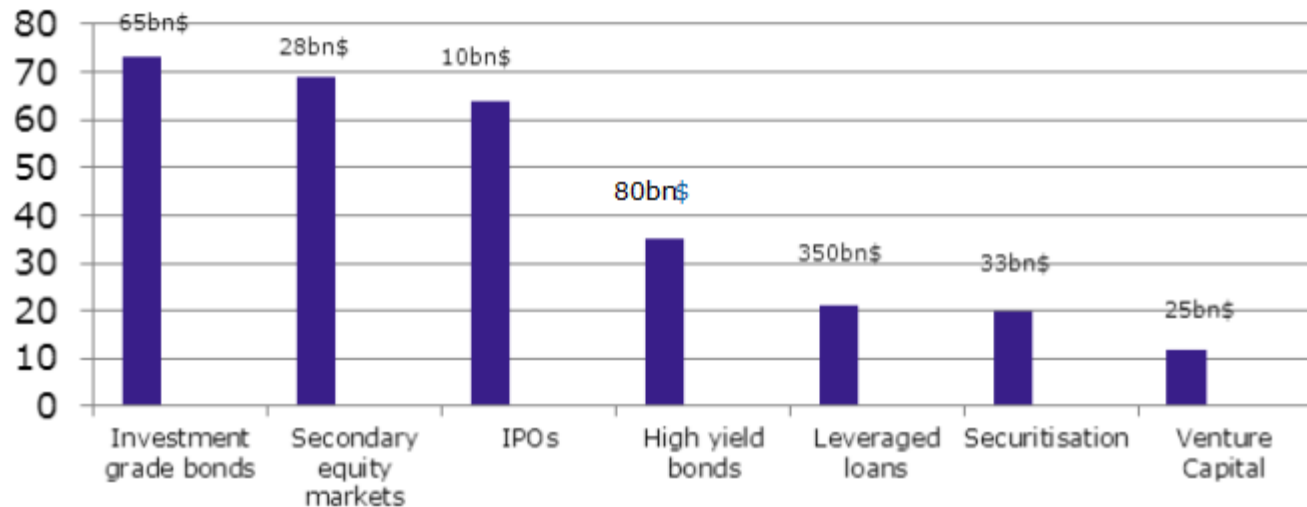
Guiding principles for CMU action plan:

- Prioritise CMU barriers and evaluate cost-effectiveness of measures to overcome them (economic analysis);
- examine different options before deciding on form: alternatives to legislation include: codify 'best practice', projects, standardisation/codes.
- Enforce existing single market and competition rules (cf. letter to MS on capital market barriers).
- CMU implies a structural shift in our economy = a long term project: need early success to provide a decisive impetus to some non-bank funding channels..

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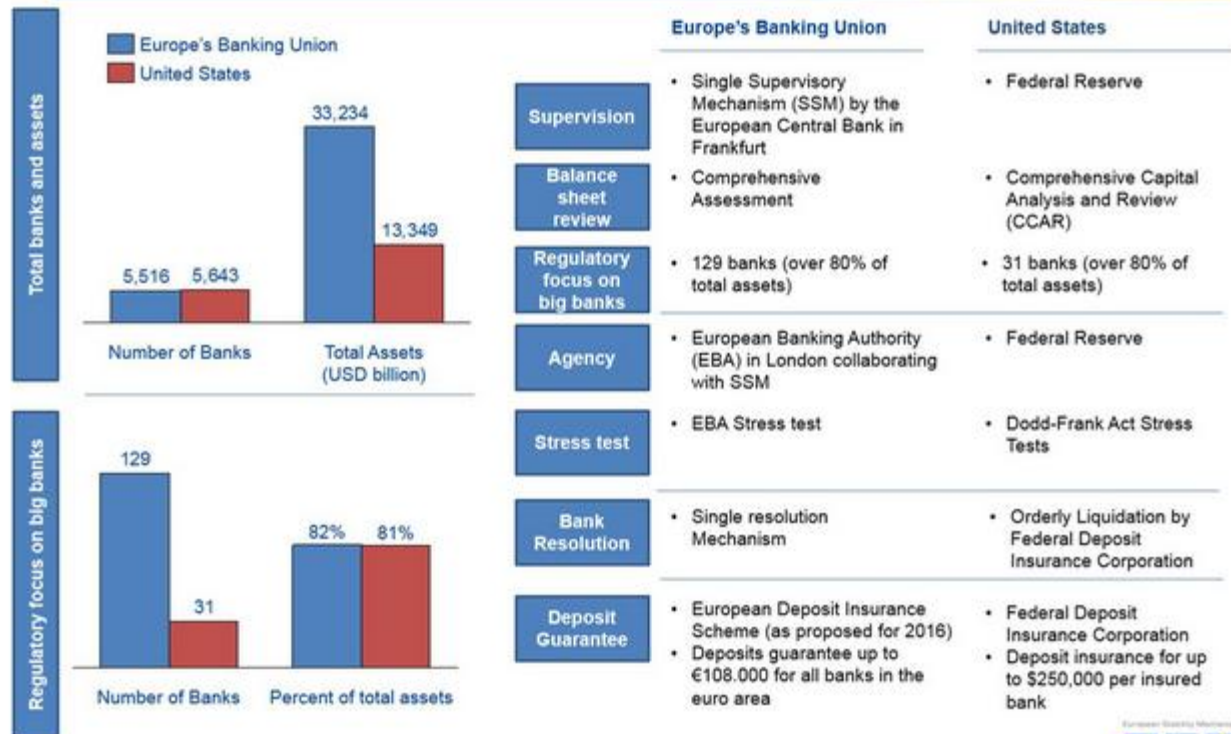
EU lag in market-based finance (gap compared to US if normalised as % of GDP)



Source: New Financial

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Figure 2: Europe's Banking Union vs United States



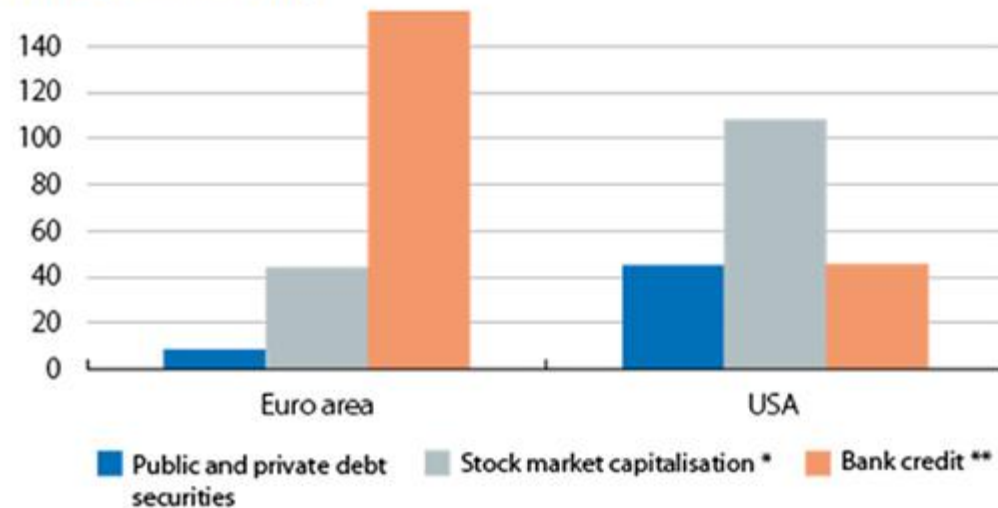
Source: Bruegel based on ECB for European banks and Federal Reserve and FDIC for US commercial banks and ESM Research.
Exchange rate Euro Dollar 1.08, 23 January 2016



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Figure 3: Sources of financing

% of GDP (December 2014)



Notes: *Stock market capitalization of S&P 500 for the USA and of Eurostaxx 600 for the euro area.

**Includes bank loans to the public and private sector.

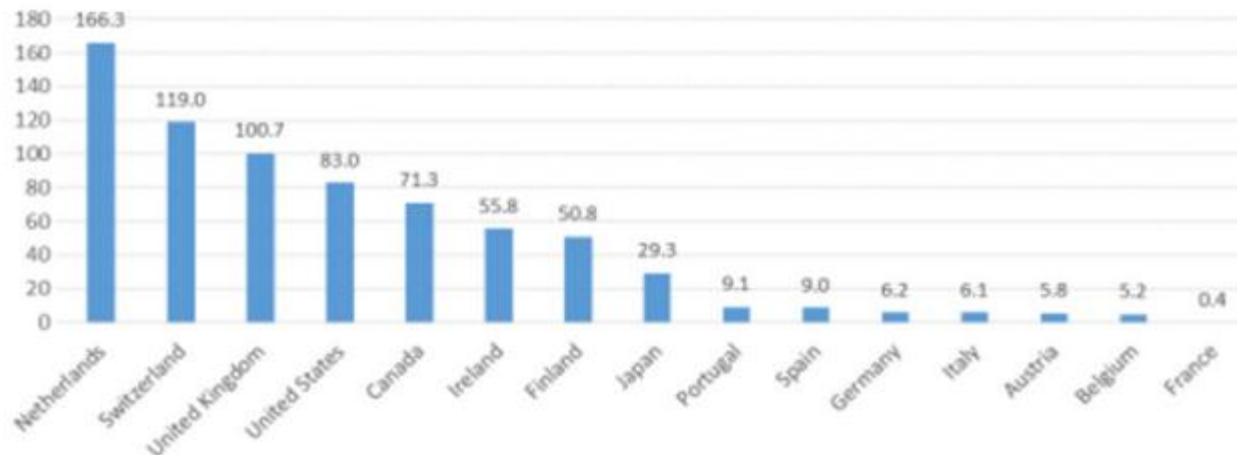
Source: "la Caixa" Research, based on data from Bloomberg, Sifma, the ECB and the Federal Reserve.



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Figure 4: Pension Funds

% of GDP (2013)

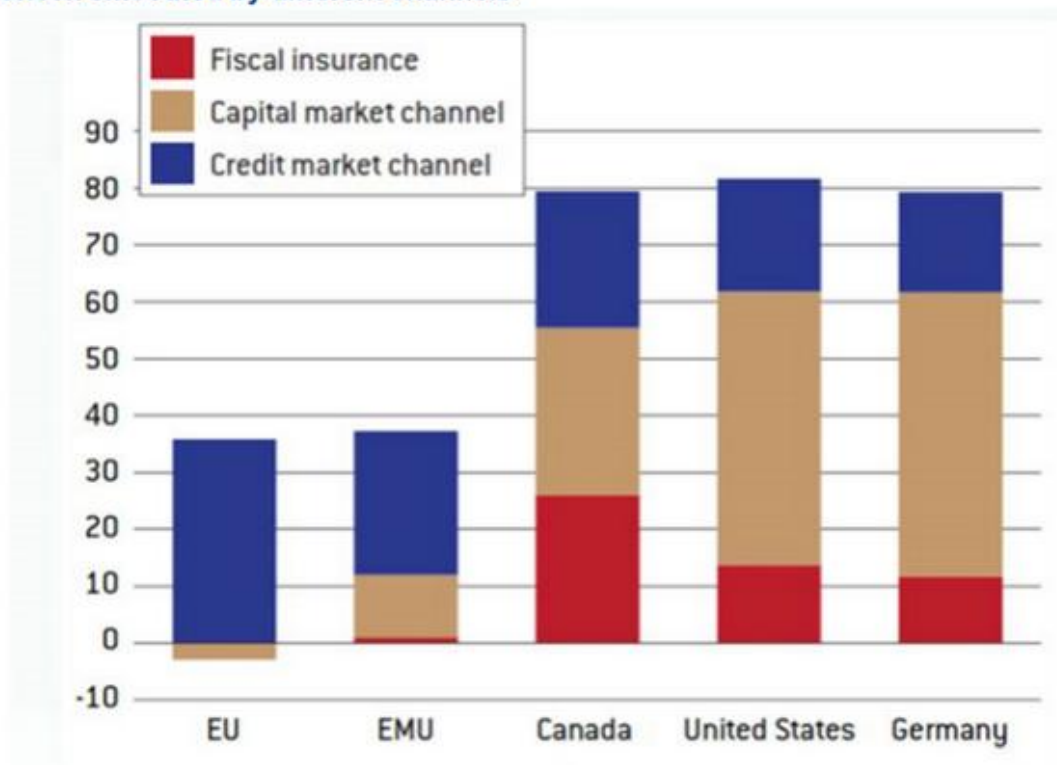


Source: ESM Capital Markets Union contribution

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Figure 5: Deepening EMU and shock absorption

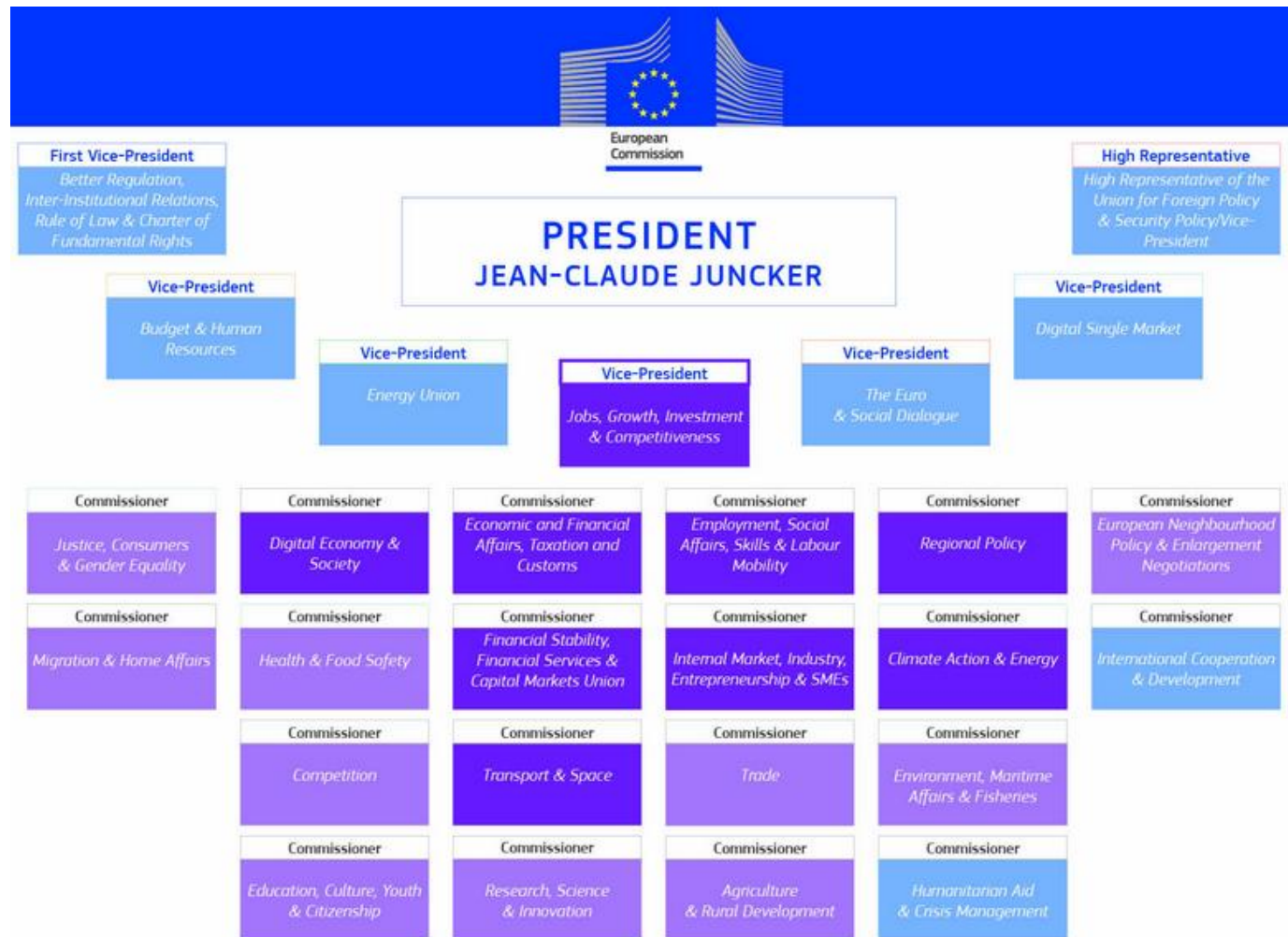
% of shock smoothed by different channels



Source: Breugel and IMF



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I thank you for your attention

