



CAPITAL MARKETS UNION

#CMU

Capital Markets Union: Benefits and Challenges

Senior Officials' Workshop, Programme Partners meeting

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Overview:

1. Core rationale for CMU;
2. Capital markets in MS with high catch-up potential;
3. Overview of pre-IPO debt and equity finance and initial listings;
4. Progress in delivery of of CMU.



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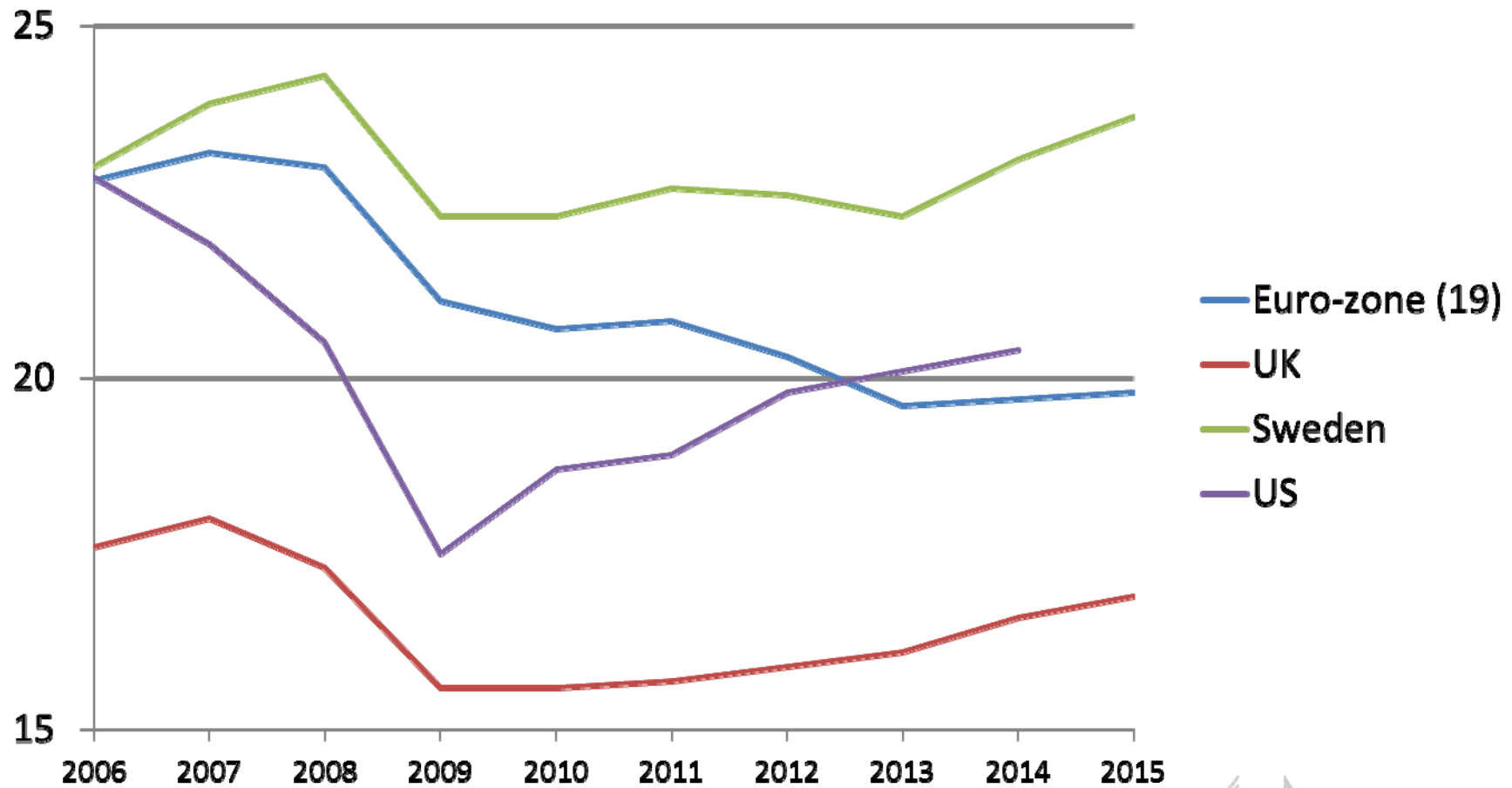
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1. Core rationale for CMU.



Investment (EU vs US):

Gross Fixed Capital formation as % of GDP



Purpose of CMU:

Policy objective:

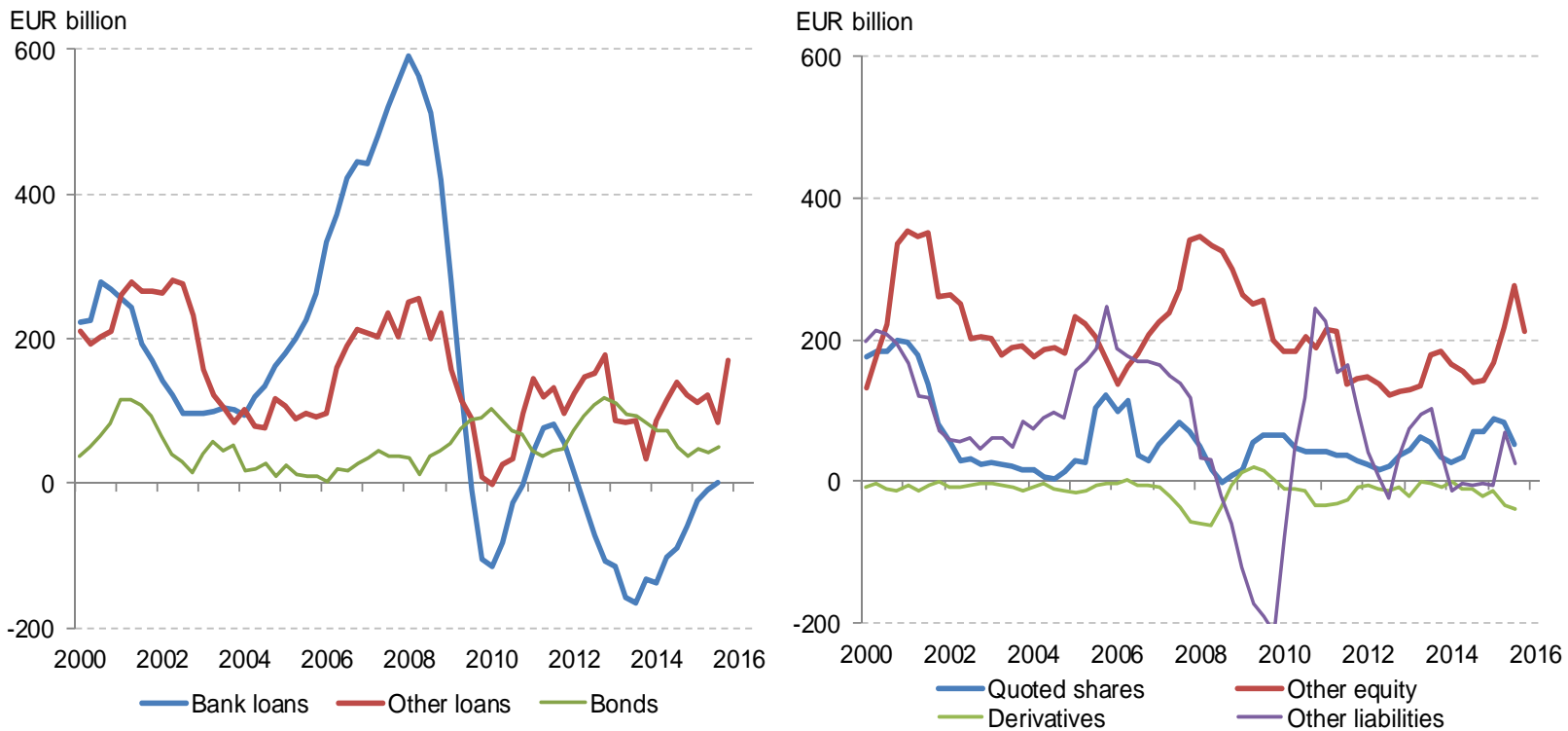
- Regulatory reform programme to diversify the funding of EU economy, reduce over-dependence on bank loans.

Why?

- Increase market-based finance from various sources and building a stronger equity culture to complement bank lending;
- Stimulate long-term finance for infrastructures and SMEs;
- Strengthen risk diversification and shock absorption by removing barriers to cross-border capital flows and investment.

Bank loans more pro-cyclical than market funding

Chart 2.13: Dynamics in NFCs' sources of funding (liabilities) in the euro area



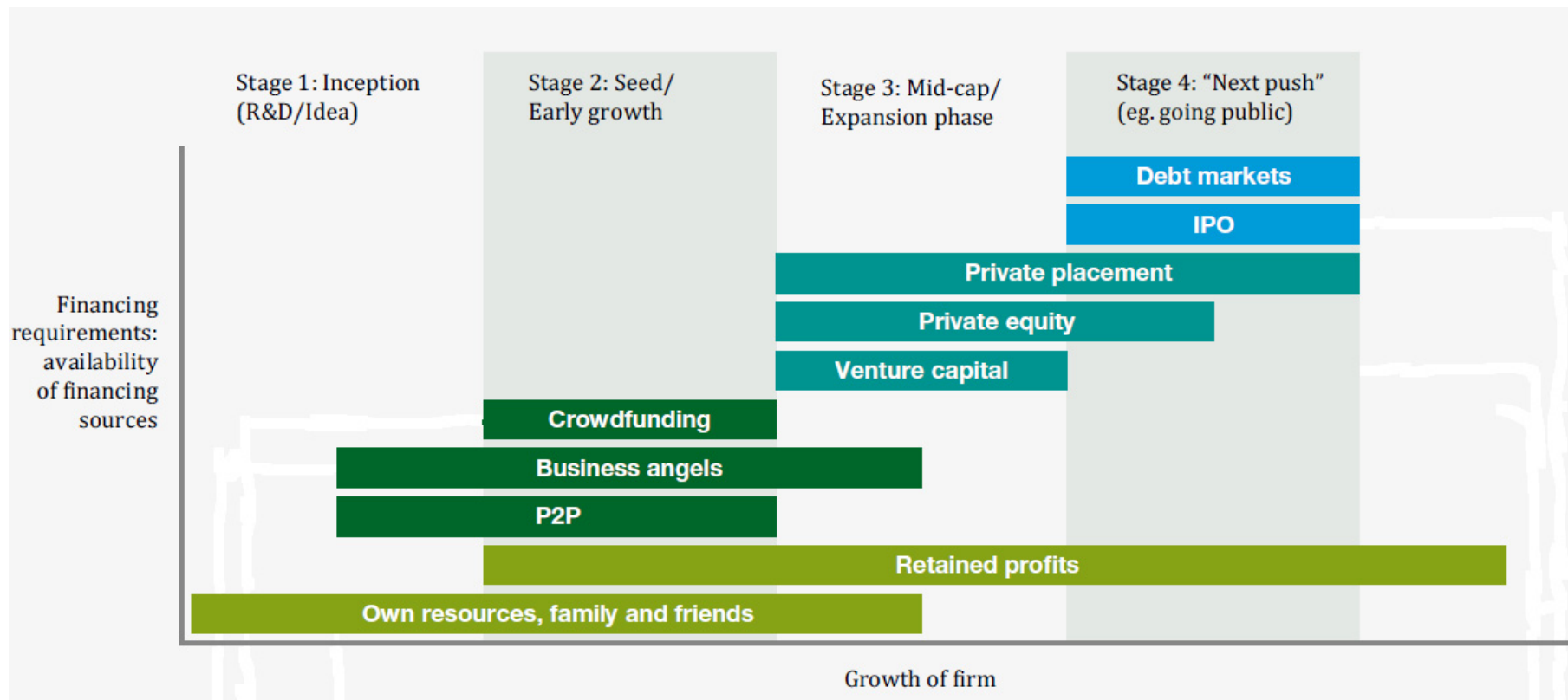
Source: ECB, Eurostat and own calculations

SME funding in the EU and the US

	European Union	United States
Total stock of outstanding finance for SMEs	€2,007bn	€1,236bn
Share of bank finance	77%	40%
Listed market capitalisation	€10tn (53% of GDP)	€19tn (140% of GDP)
Venture capital investments	€4.2bn	€26.4bn
Business angels	€6.1bn	€22.7bn
Equity crowdfunding	€354m	€149m
Accelerators	€38m	€83m

Nesta 2009

Funding escalator for high-growth companies



Conclusions of EBRD transition report 2015 ('rebalancing finance'):

- "The pre-crisis financing model was not sustainable and does not work.
- There is an existing post-crisis investment gap...
- A significant rebalancing process is needed to implement a stable financial system."



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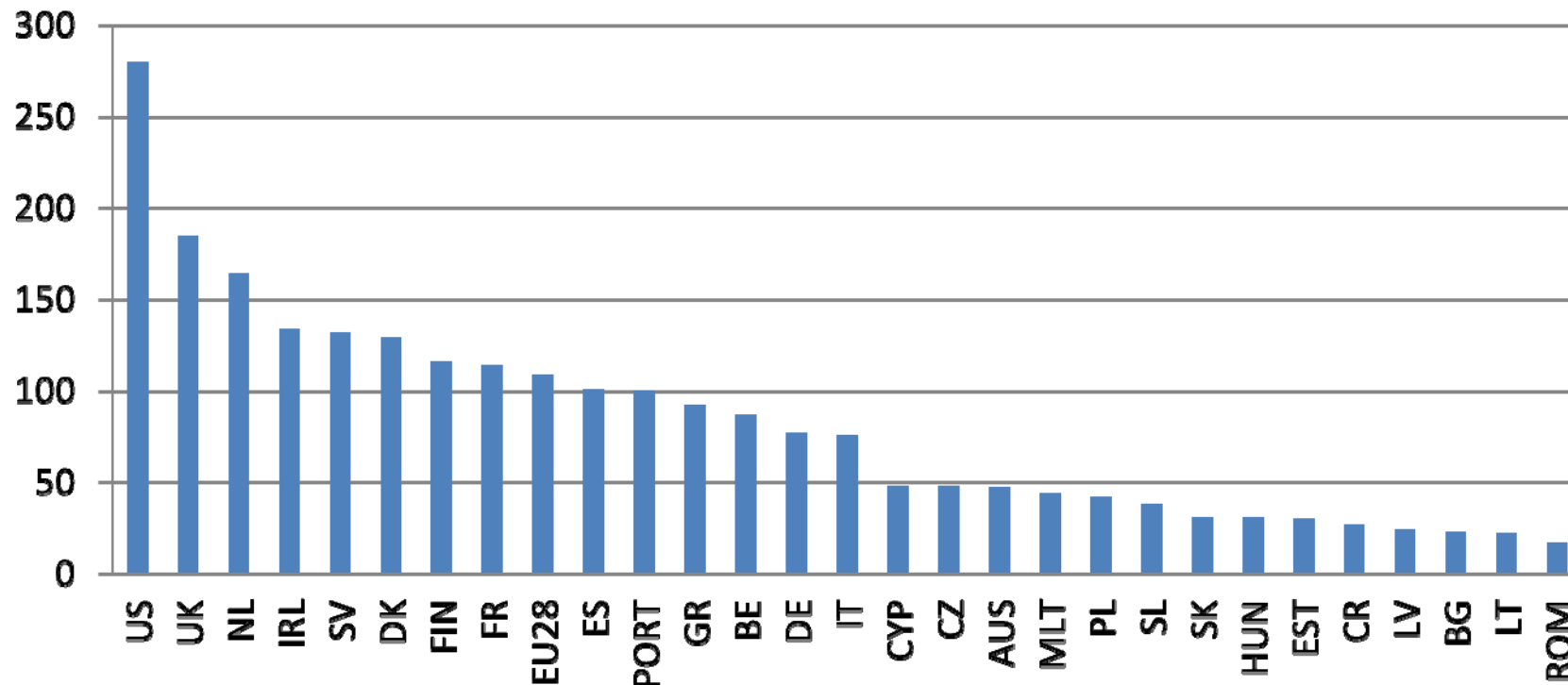
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2. Capital markets in MS with high catch-up potential:



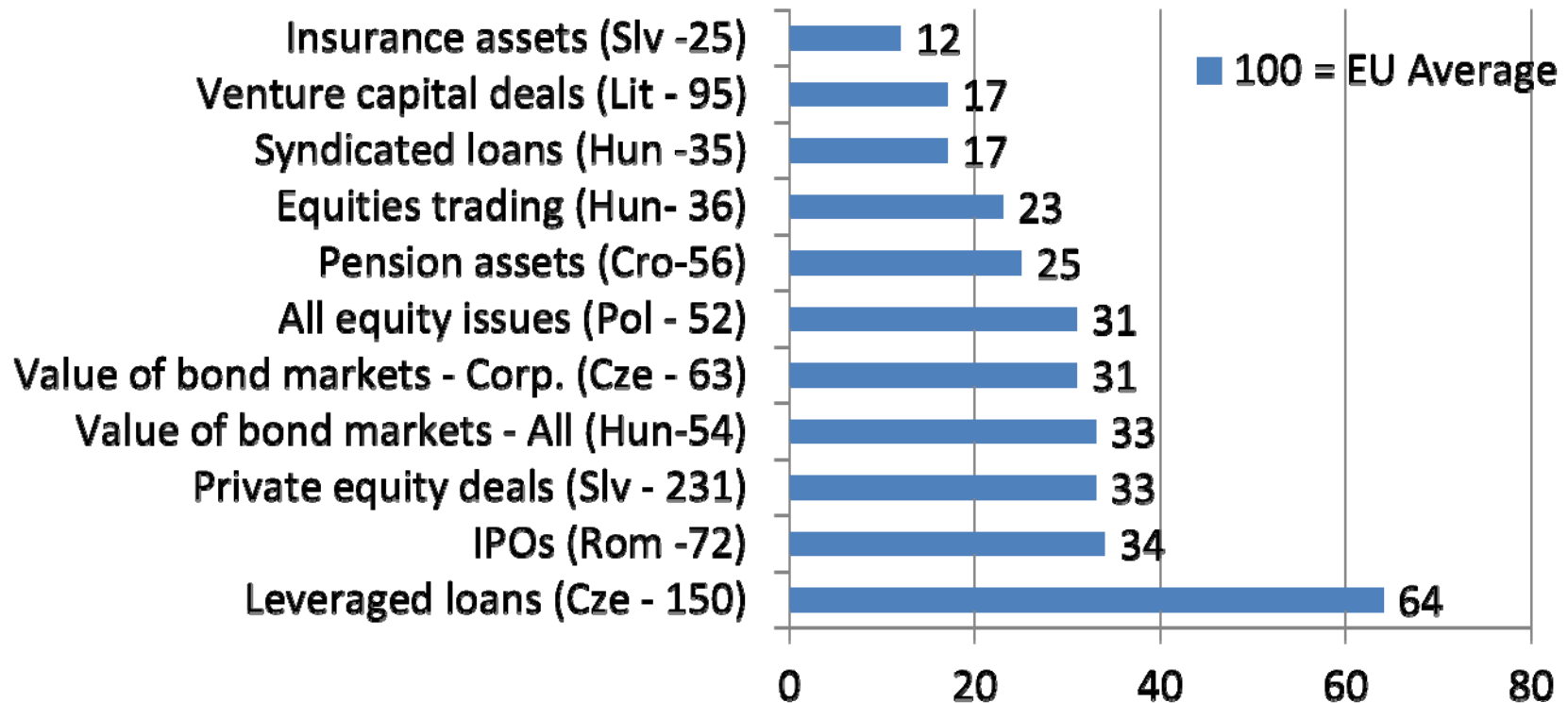
Depth of capital markets across EU

EU average 2011-14 = 100



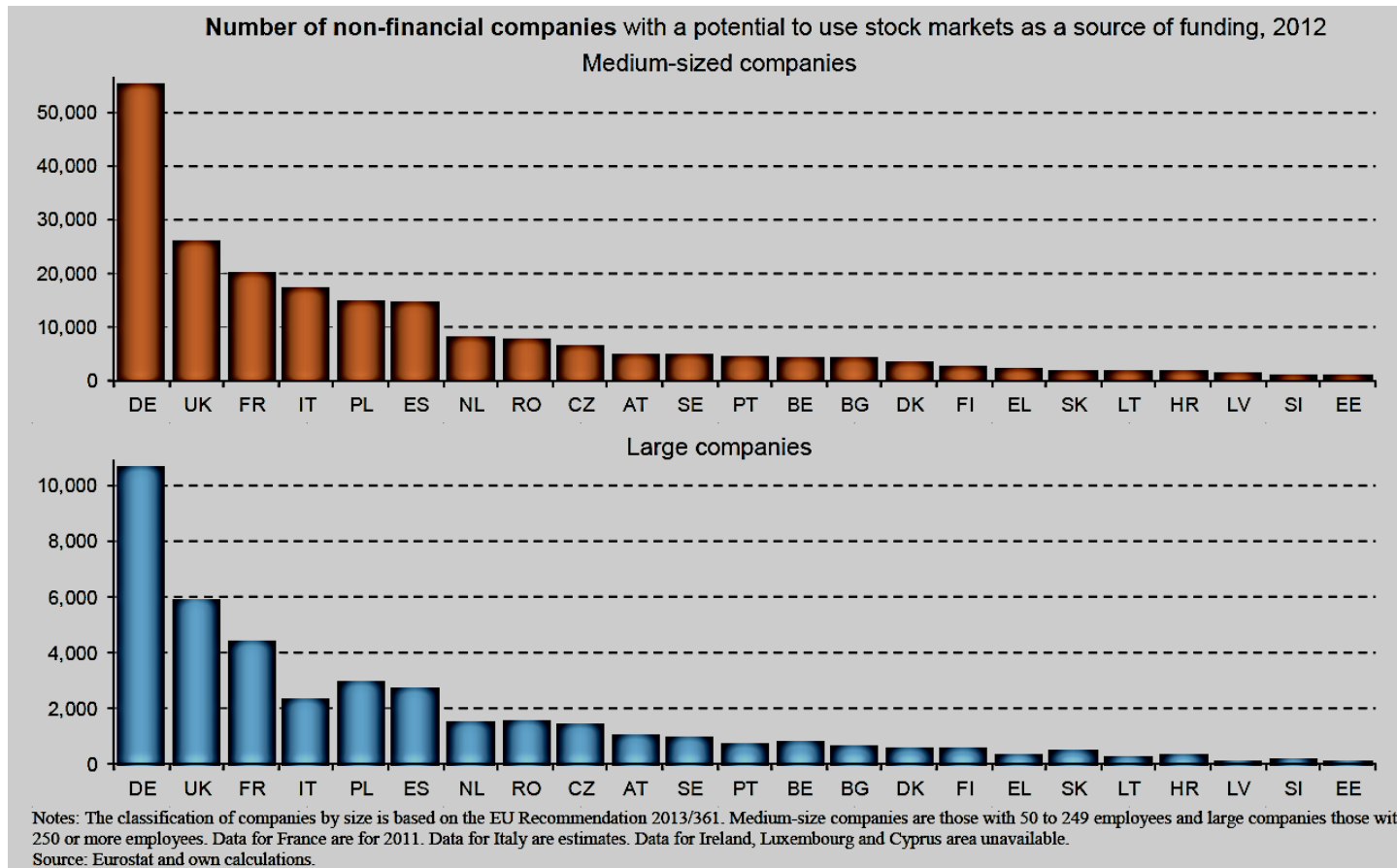
Source: New Financial 2016

The depth of different sectors in EU11 capital markets* (In brackets: most developed market and score)



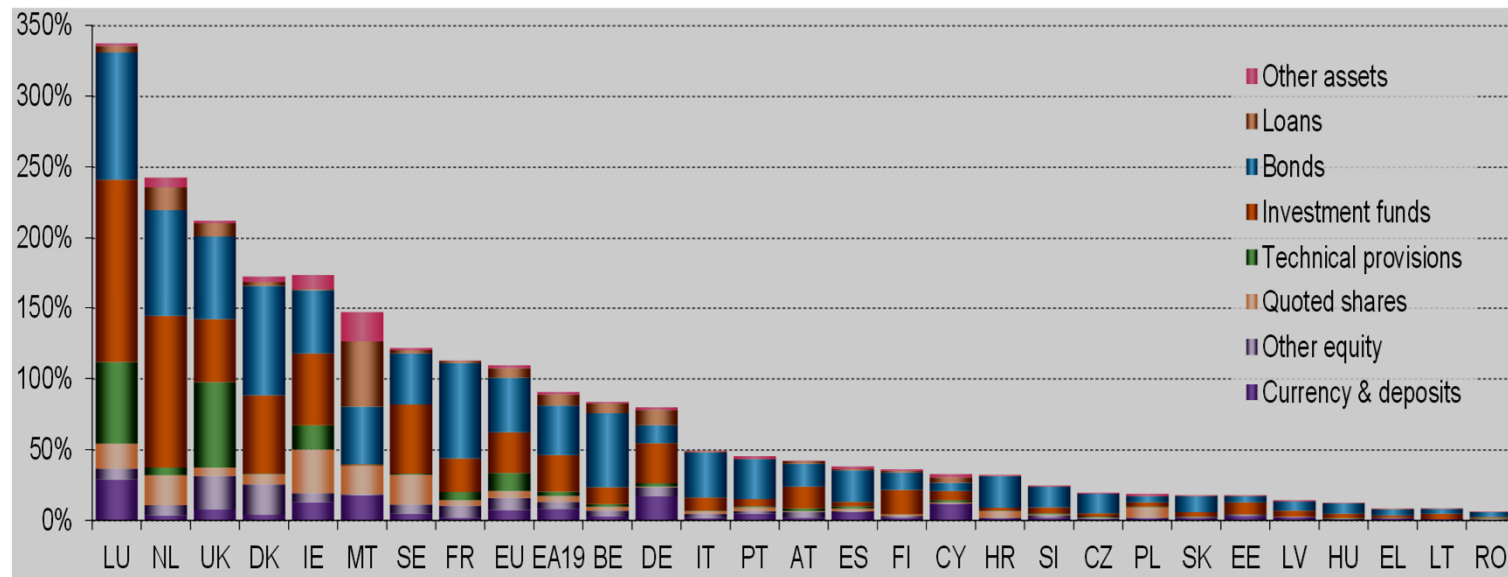
*Depth of capital markets by sector in the EU 11 relative to GDP and average in the EU; Three years to 2015; source: AFME: The Benefits of capital markets to high potential EU economies, Nov 2016

Size profile of corporate sector:

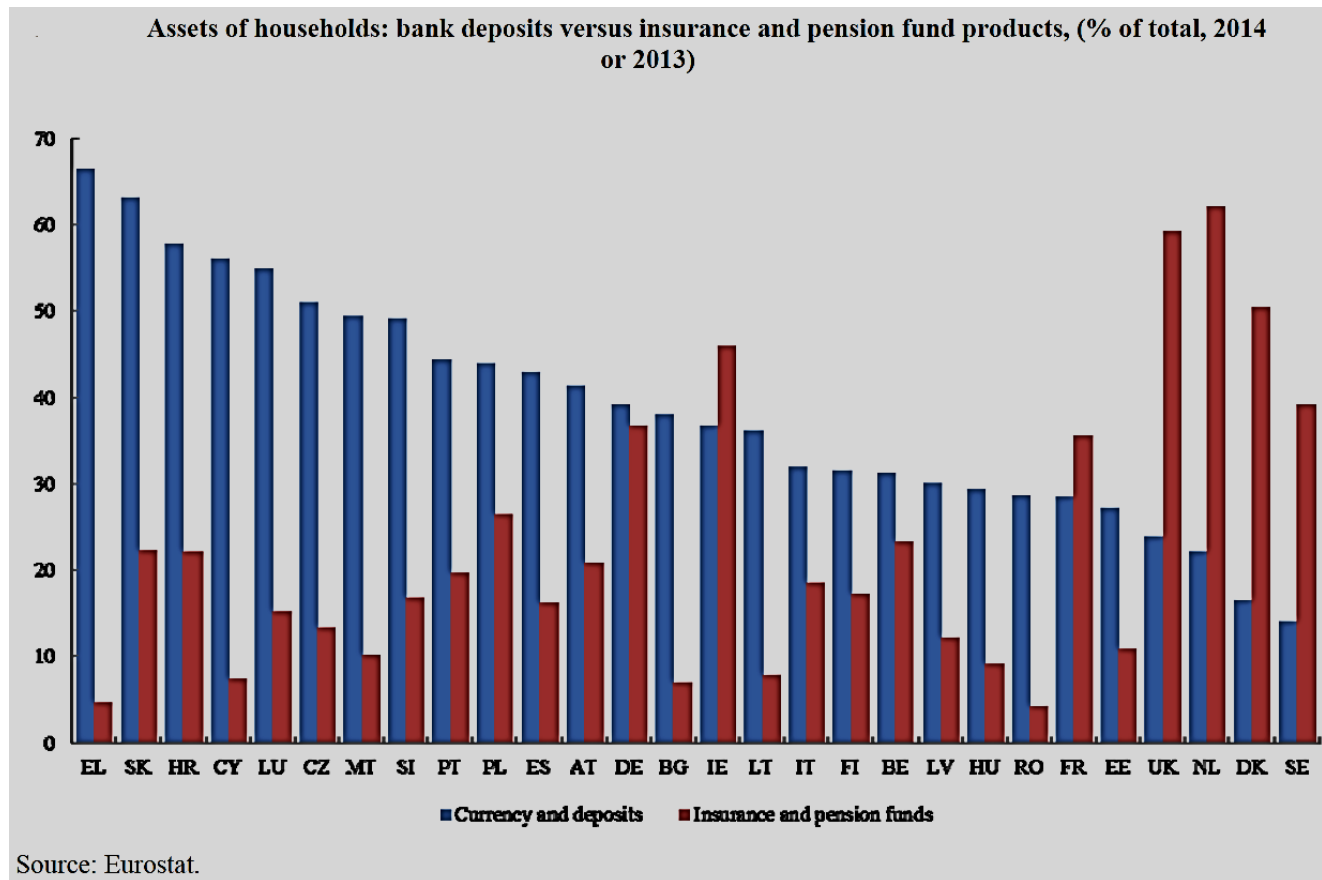


Availability of capital: instiutional

Insurance Corporations and Pension Funds Assets
(share of GDP, Q3 2015)



Availability of capital: retail investors





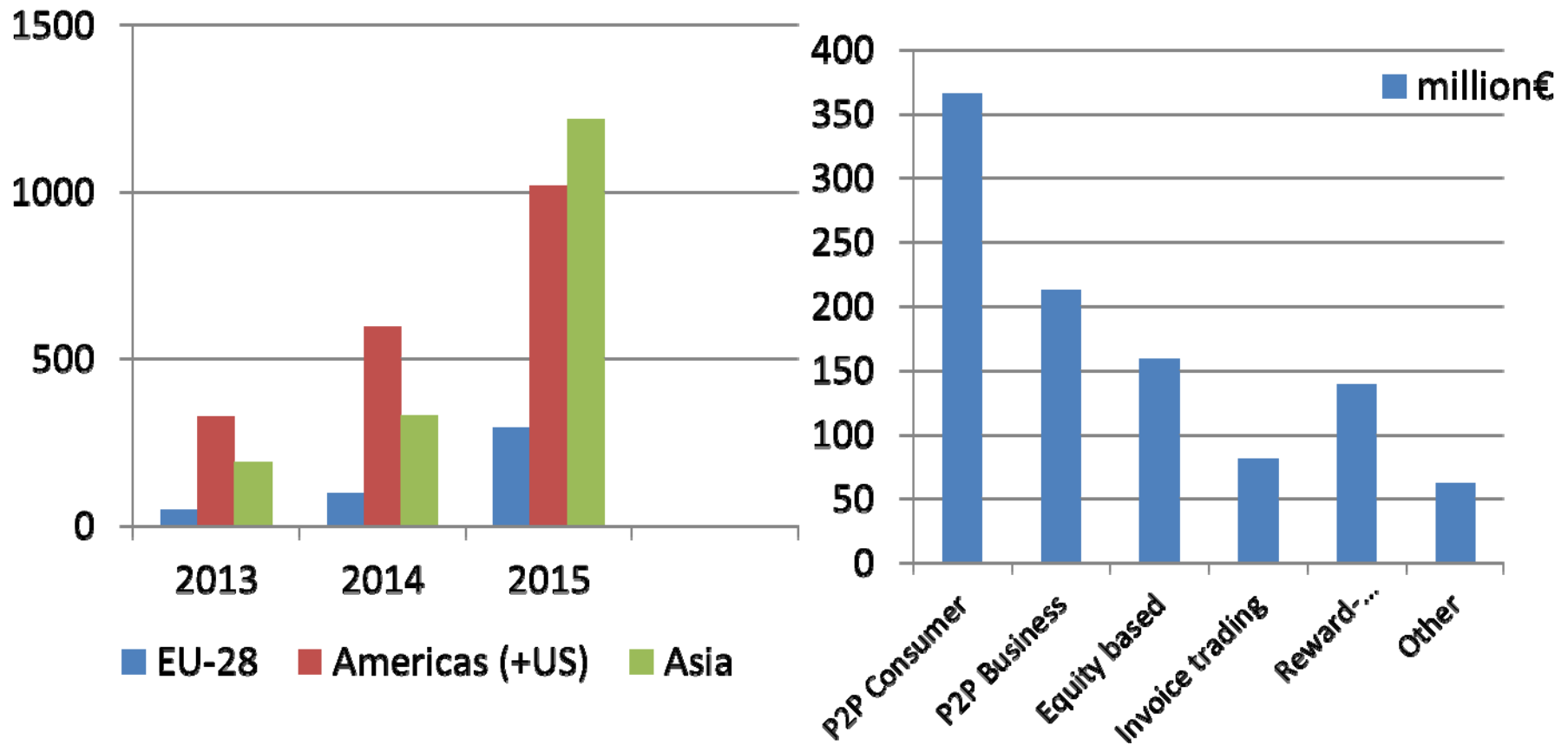
European
Commission

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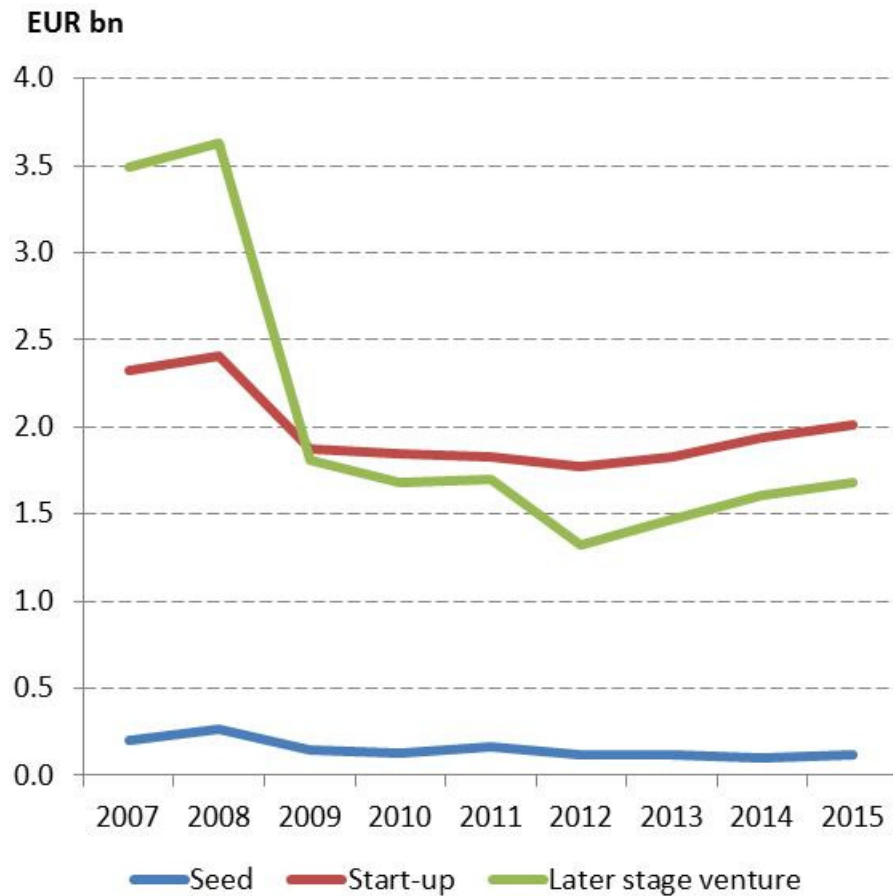


European crowdfunding (in m€)

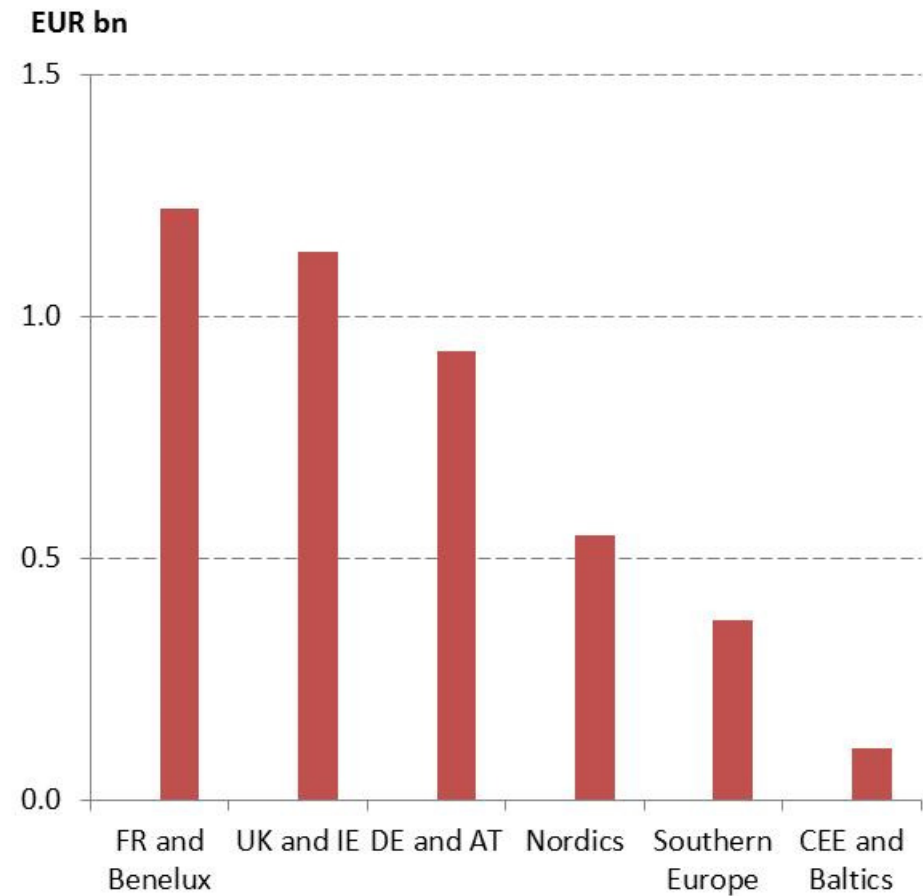


VC investment in Europe

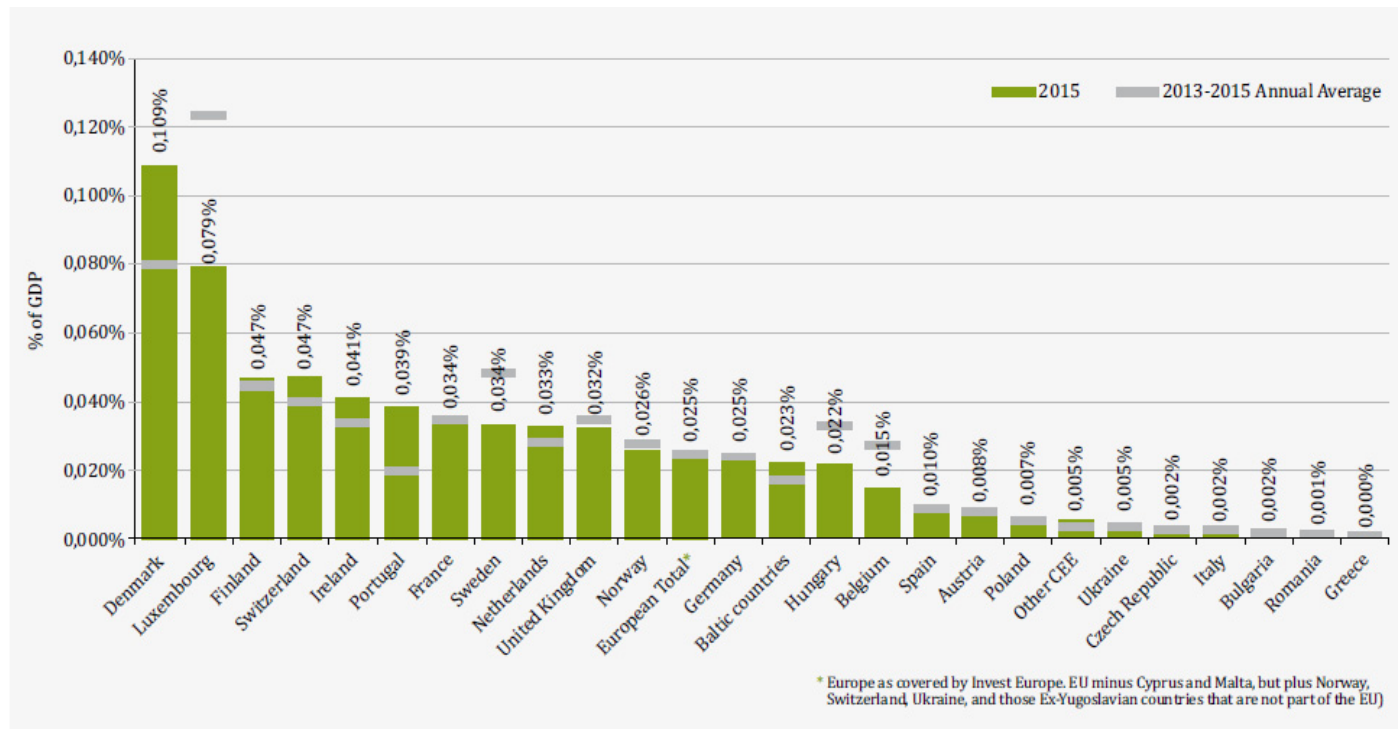
VC investments by stage, 2007-15



VC average yearly investments by region, 2007-15



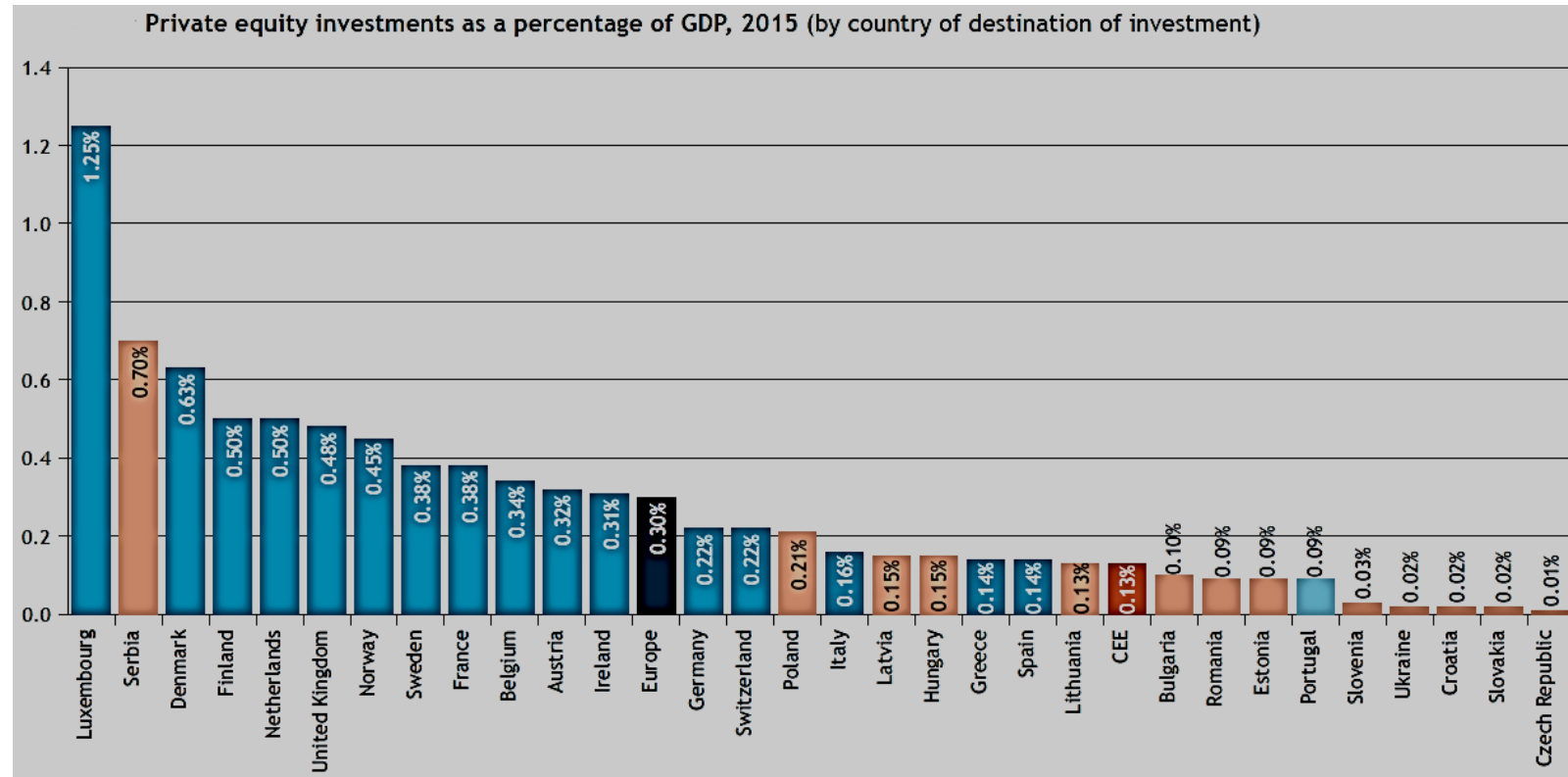
Venture capital investment as % of GDP



Source: IMF, World Economic Outlook Database (GDP) / Invest Europe / PEREP_Analytics

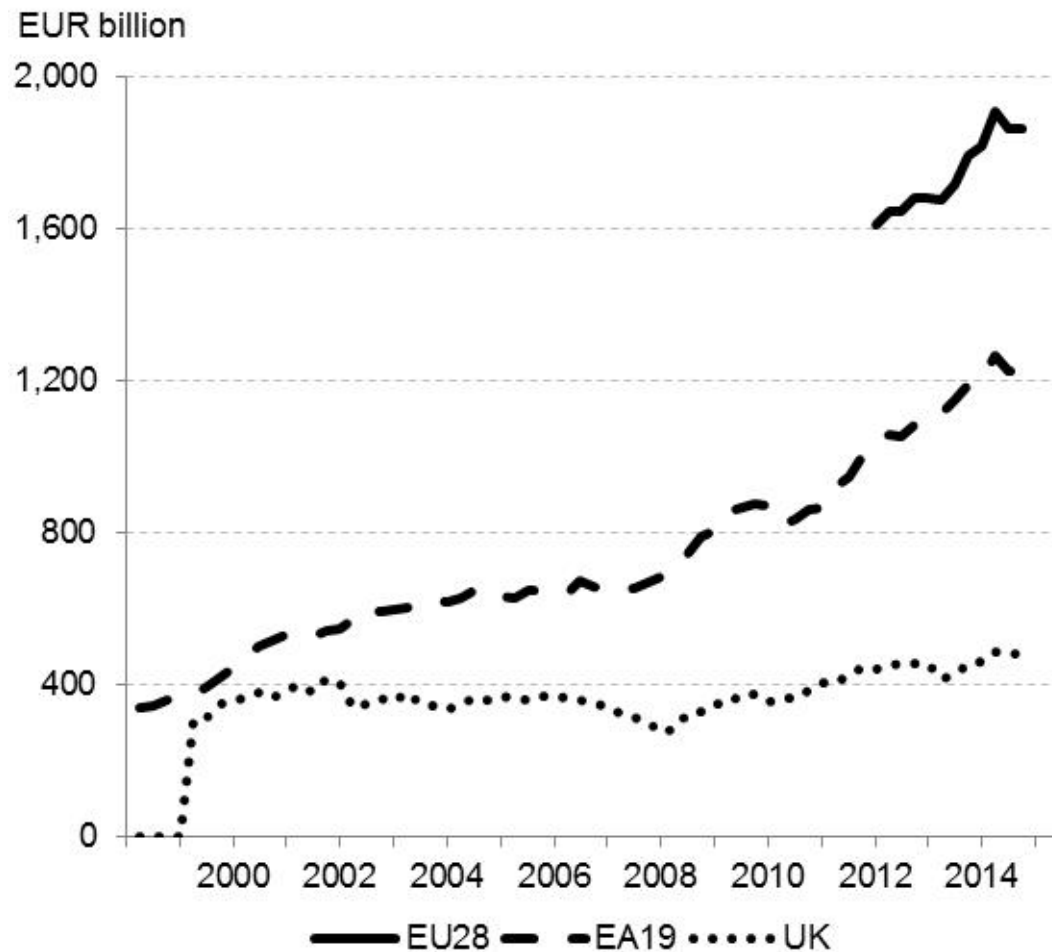
Note: *Other CEE consists of Ex-Yugoslavia and Slovakia

Sources of non-bank finance: private equity



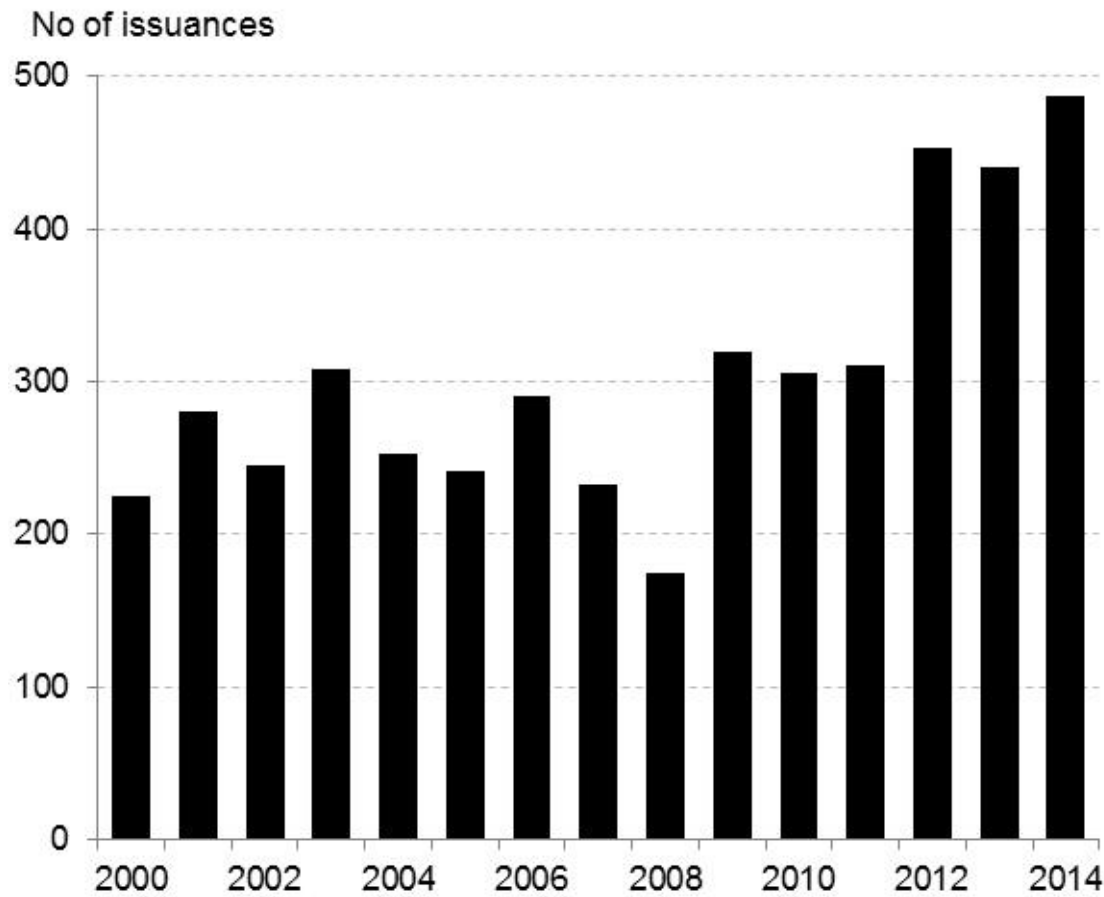
Corporate bond issuance rose in volumes...

NFCs' bonds: outstanding amounts



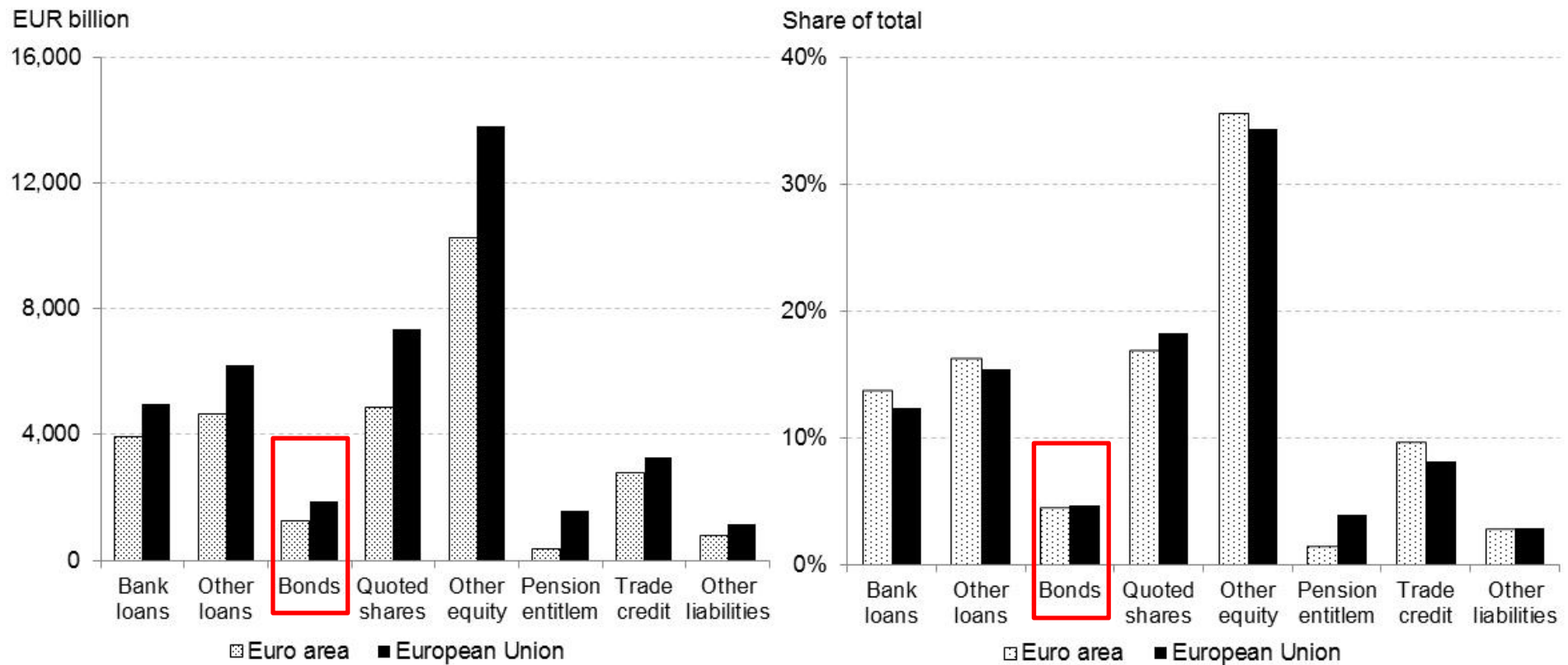
... and number of issues...

Number of bond issuances by EU NFCs



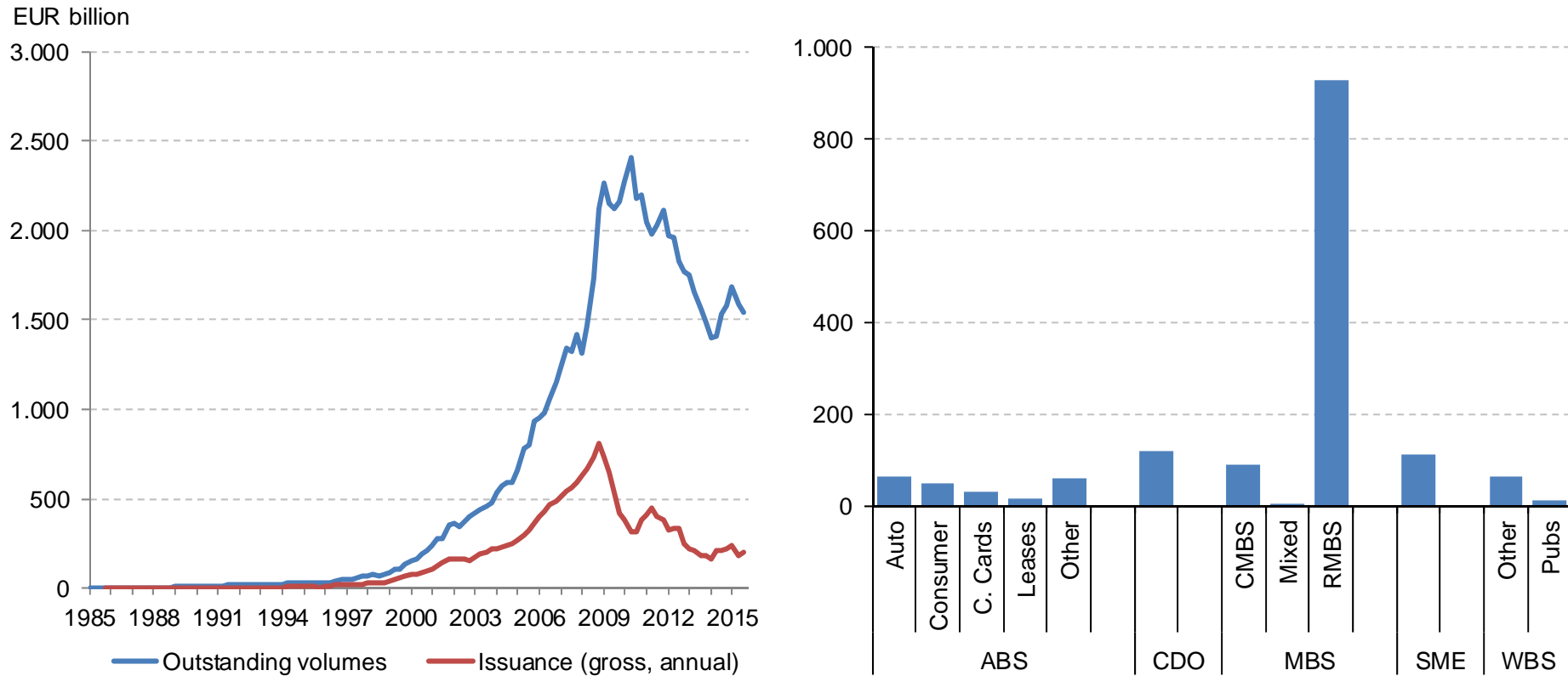
... but remains a marginal source of funding on average...

NFC's funding sources (financial liability), 2015



EU securitisation markets

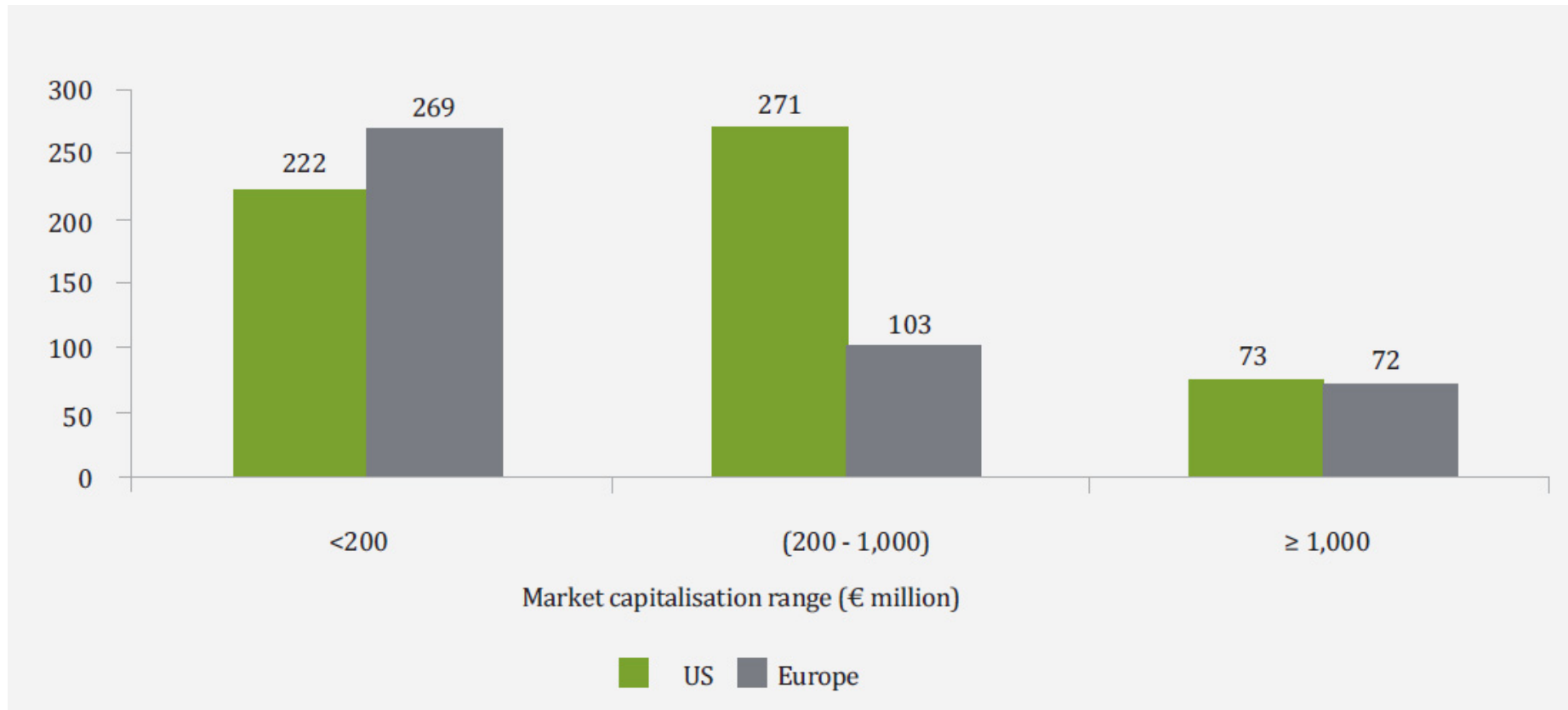
Chart 2: Securitisation in Europe - total outstanding amounts and by collateral class (2015-Q3)



Notes: ABS: asset-backed securities; CDO: collateralised debt obligations; MBS: mortgage-backed securities; CMBS: commercial mortgage-backed securities; RMBS: residential mortgage-backed securities; SME: small and medium-sized enterprises; WBS: whole business securitisation.

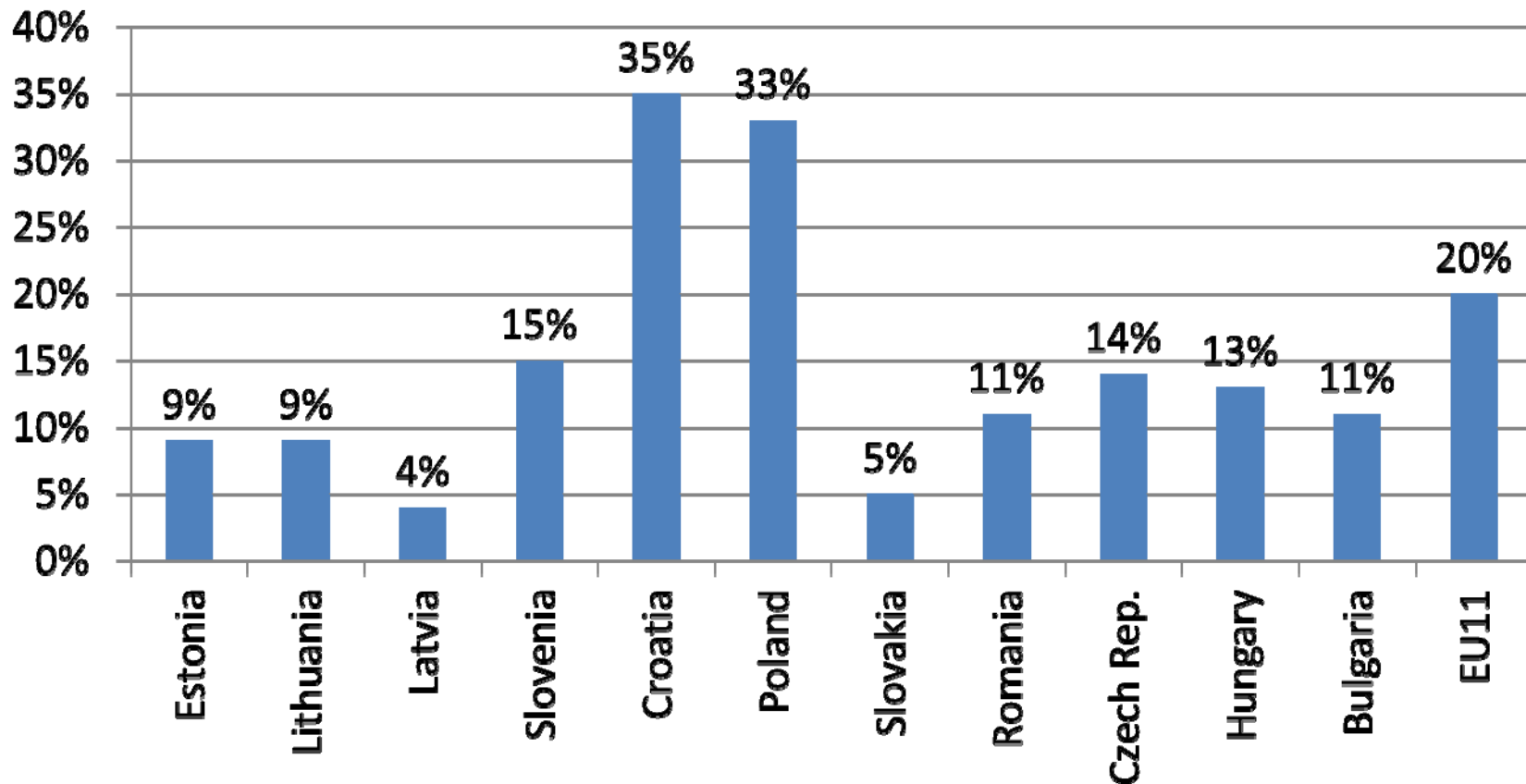
²Source: AFME, SIFMA, ECB and own calculations

IPOs in European main markets and MTFs versus US (2012 – 2015)



Source: AFME, Dealogic

Stock market capitalisation as % of GDP (*)



*Source: AFME: The Benefits of capital markets to high potential EU economies, Nov 2016

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Summary of market infrastructure in the EU11 (*)

Country	Stock exchange	No of listings on SE	SME/growth market	No of listings on SME/growth market
Estonia	Nasdaq Tallin	16	First North Baltic	1
Lithuania	Nasdaq Vilnius	34	First North Baltic	1
Latvia	Nasdaq Riga	28	First North Baltic	1
Slovenia	Ljubljana SE	41	Entry market	26
Croatia	Zagreb SE	171	-	
Poland	Warsaw SE	905	New Connect	400
Slovakia	Bratislava SE	50	-	
Romania	Bucharest SE	84	Aero	6
Czech Rep.	Prague SE	25	START	0
Hungary	Budapest SE	45	-	-
Bulgaria	Bulgarian SE	365	-	-

*Source: AFME: The Benefits of capital markets to high potential EU economies, Nov 2016

Work-streams for capital market development:

1. VC fund-of-funds – to expand reach of EU VC industry to wider range of MS;
2. SME growth markets;
3. SME information services;
4. Develop focus on access to finance/CMU in Vienna Initiative;
5. Technical assistance for access to non-bank finance (Structural Reform Support Service).
 - Agreement on global budget for SRSS (140m€) expected early 2017;
 - 1st pilot projects (ROM) agreed.



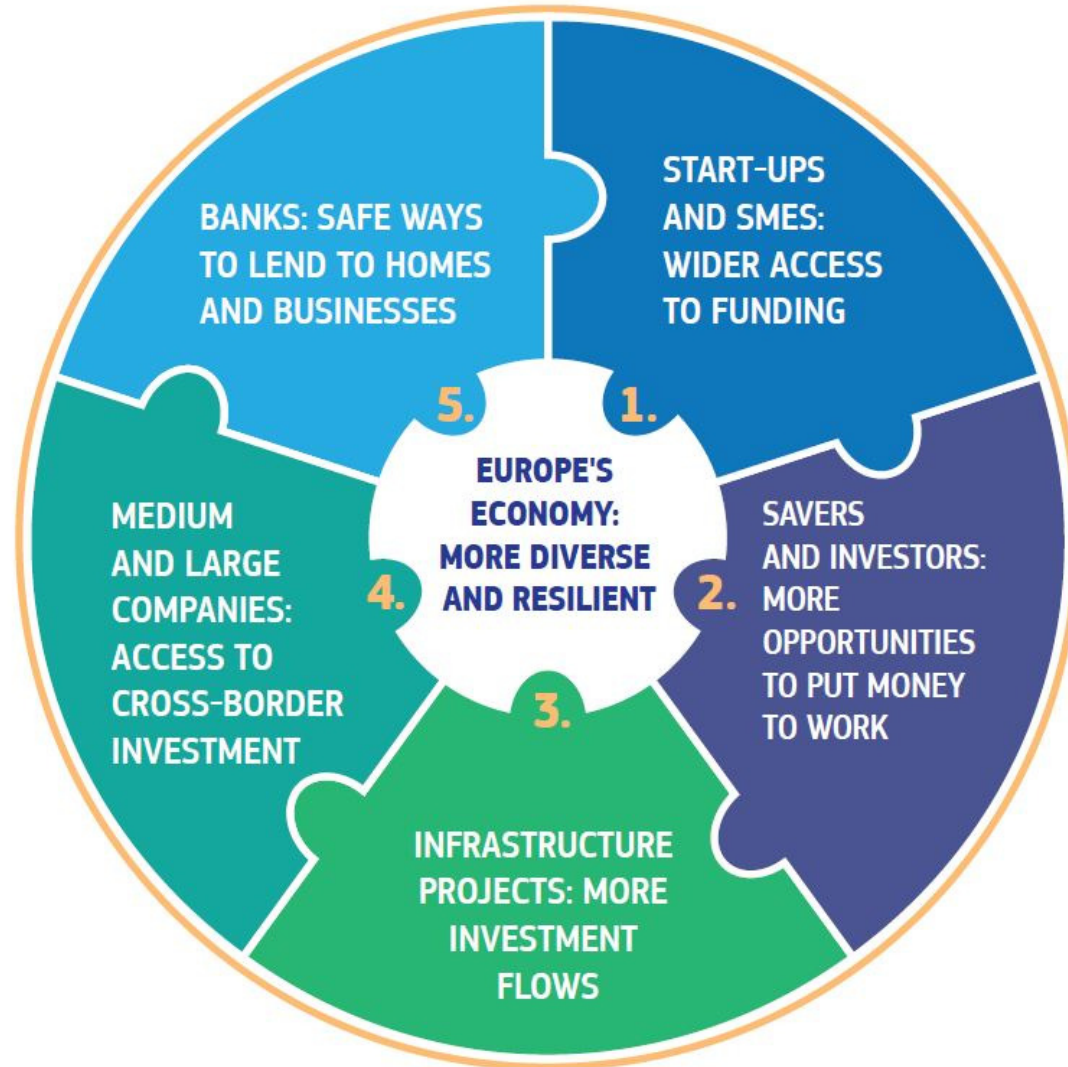
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3. CMU delivery to date:



CMU = finance for investment & growth



The CMU pipeline is delivering

	<u>Policy Action</u>	<u>State of play</u>
Risk Calibration	Lower (>1/3) prudential calibrations for insurance investments in infrastructure/ELTIFs	In force since April 2016
Prospectus Directive	Proposal to streamline Public Offer Prospectus	Agreement by the co-legislators in December 2016
STS securitisation	Proposal to revive Simple, Transparent and Standardised securitisation	Agreed in record time by Council - EP vote end 2016 followed by EP-Council negotiations
Insolvency	Proposal on preventive restructuring & second chance	Adopted in November 2016
Debt-equity bias	Address debt-equity bias in national corporate tax systems	CCTB proposal adopted in November 2016
VC funds-of-funds	Establish Pan-European venture capital funds-of-funds	Call for applications of managers closed at end January 2017
EuVECA	Revise EuVECA legislation	Council general approach agreed in December 2016

Next wave of CMU priorities

Policy Action

Personal pensions	Possible legislative proposal (2017) to underpin the development of personal pensions across the EU
Retail financial services	Action plan to open up EU market for retail financial services (expected in March 2017)
Securities law	Legislative proposal to clarify applicable law for competing claims on securities or debt assignments traded cross-border (end 2017)
Sustainable and green finance	Report of expert group on how to integrate sustainable and green finance in the financial framework (end 2017)
FinTech	Innovative potential should be harnessed while protecting investors (crowdfunding, robo-advice): consultation March 2017
Supervision	Public consultation launched in March 2017. Possible legislative proposal on ESAs governance and funding in Q2 2017.

CMU mid-term review: maintaining momentum and relevance

- CMU = a long-term agenda which remains at heart of EU investment and jobs strategy despite recent developments
- Mid-term Review of the CMU Action Plan in June 2017 in view of
 - ✓ Taking stock of progress on the implementation of the CMU Action Plan;
 - ✓ Reframing actions in light of undertaken work and evolving market circumstances;
 - ✓ Complementing the CMU Action Plan with new measures
- Draw on stakeholder input from on-line consultation (180 replies), dedicated roundtable discussions and structured dialogues in existing fora

September 2016 – accelerate CMU delivery

September 'State of the Union' Communication: 3 messages

- (1) finalise first set of CMU legislative actions;
- (2) accelerate delivery of next set of measures;
- (3) Explain how Commission will take forward CMU.

Why?

- Evolving economic and market developments crystallised need for a policy response and new priorities:
 - In other areas where work has been launched under CMU Action Plan, a more comprehensive and ambitious approach is needed, e.g. supervision.

Conclusions/Prospects:

- A long-term agenda which remains at heart of EU investment and jobs strategy despite recent developments;
- Economy moving towards more market based finance:
- Which parts of the financial system will work best for Member States in catch-up phase?
- **Next step: evaluation and review in mid-2017.**