European Commission - Speech - [Check Against Delivery]

Speech by Commmissioner Jonathan Hill at the Euromoney Capital Markets Union Forum

Brussels, 3 December 2015

Building a Capital Markets Union

Ladies and Gentlemen,

I am very pleased to be here and to have this chance to bring you up to date with the latest state of play on our work to build a single market for capital, a Capital Markets Union.

A number of you here have been great supporters of the CMU project from the start and have indeed helped me to develop it. So I am glad at the end of the first year to be able to look back on how far we have come, and also to look forward to the new year and our priorities for 2016.

Let me start with the case for deeper capital markets and a few figures to put this into context. Europe's economy is about the same size as America's, but our equity markets are less than half their size. In the US, SMEs get about five times as much funding from the capital markets as they do here. Compared to the US, EU households have more than double the amount of their savings in deposits, but only half as much in investment funds and shares.

This may seem a theoretical point of interest just for economists. But the consequences of the financial crisis showed, in graphic terms, just why it matters. In a system like ours which is so dependent on bank funding, you have a real knock-on effect on the economy if there is a major contraction in the banking sector. And that is of course what happened after 2008. A more diversified system, as well as offering business more choices of funding, would be more resilient to financial shocks.

At its most simple, the goal of the CMU is to connect savings more effectively with growth, to channel investment across Europe to projects which need financing. It will help us increase the opportunities for business to sell into bigger markets, it will help us to reduce costs for consumers, and it will help us add to the options for people saving for the long term. And, as I have said, it can make the whole financial system stronger.

I think this last point explains why attitudes towards capital markets seem to have changed so much. If I had said a few years ago that I wanted to increase the contribution that capital markets could make to the European economy, I think I would have got a pretty cool response. Today, it's different. There is support from all sides. From industry, of course, but also from the 28 Member States, from the European Parliament and, indeed from countries outside the EU who see the attraction of being able to invest into the European single market.

So that means that we now have not just a need but also an opportunity to build that deeper single market for capital.

This time a year ago, I had to work out how best to approach the challenge that President Juncker had given me with the Capital Markets Union. The commitment to the free movement of capital was not, of course, a new one as it dates back all the way to the Treaty of Rome.

I was clear that the priority was to build confidence and trust and also to make the quickest possible start. That's why I thought that the best approach would be to try and build things, step by step, from the bottom up. I didn't want to start with a theoretical blueprint of what the ideal single market for capital might look like and spend years arguing over institutional issues. Instead, I wanted to start by identifying of the practical barriers we needed to overcome. I was also clear that this was something that needed to be done with the industry, and not to the industry. That's why we started by consulting in order to flush out all the issues we would need to tackle.

We used the responses we got to draw up the Action Plan that I published in September. Everything in it comes from that consultation. It is broad in its sweep and ambitious in its scope.

There isn't a single measure that will alone make the difference. I don't, sadly, have a magic lever I can pull. Instead, it's going to require a sustained effort over many years, as we look at a whole range of difficult long-term measures like insolvency law, taxation and securities law. But being in it for the long haul does not mean that we should not start early.

Indeed, we need to start urgently to generate the momentum and build the confidence I spoke about.

And that is exactly what we have done. Earlier this week, for example, I launched a proposal to overhaul the Prospectus Directive. We need a regime that is simpler, faster and cheaper. One that is more useful for companies that need investment to grow.

Under the current system, prospectuses can run to hundreds of pages and cost up to a million euros to produce. This might provide lots of work and fees for lawyers - but that isn't really the point. The point is to provide useable information for investors and to make it easier for companies to raise capital.

So, we are going to exempt more companies from the prospectus altogether: we will raise the threshold at which you have to issue prospectuses from 100,000 euros to 500,000. And, Member States will be able to raise that limit to 10 million euros: twice the current threshold.

We want to create a special regime for smaller companies under which they will be able to produce much simpler prospectuses. Any business with a market capitalisation under 200 million euros will be eligible. And then, for companies that have already issued a prospectus and want to raise capital again, we need a much more streamlined process. In future, once they have made key information available, they won't need to provide the whole lot all over again when they go to the markets. This will speed things up and we estimate it could save listed companies up to 100 million euro a year.

We're also acting to help for larger companies that tap the markets more frequently. We will create a frequent issuer regime, where they will only have to produce a universal registration document once a year which they can use each time they go to the market. This will reduce the approval times for raising capital from 10 to 5 days.

On the same day we published our Action Plan, we tabled a package of measures to revive securitisation markets. Why? Because we need to free up capacity in the banking sector and increase lending to the wider economy. If we could restore securitisation to pre-crisis levels, it could free up an extra 100 billion euros of investment for the economy. The idea is to introduce a framework for simple transparent and standardised securitisation, or STS, which will define when a securitisation qualifies as STS and bring with it lower capital ratios.

This proposal has been welcomed across the EU and I'm pleased to say that under the Luxembourg Presidency the Council has taken it through in record time: just two months. This is the kind of pace we need and I hope we can see it matched in the Parliament and also with the new proposals on the Prospectus Directive.

We also acted early to support long-term investment in infrastructure. By making changes to Solvency II, we can define infrastructure as an asset class and reduce the capital ratios associated with it by about a third. This will allow the insurance industry to invest more of the 10 trillion euros it manages in European infrastructure. We have already put forward a delegated act making this change and I hope it can be put into effect as rapidly as possible.

Alongside these measures, I have launched what we are calling a call for evidence to look into the cumulative impact of rules in the financial services sector.

Over the past five years, we have had to legislate at speed to respond to the financial crisis. I believe that those changes have made our overall system stronger. But I also believe that if you legislate at speed, in the middle of a crisis, you cannot expect to get every bit of regulation 100% right. Nor can you expect, if you introduce forty separate pieces of legislation as we did, to predict all the interconnections between those different pieces of regulation. So now, as we work to create an environment that supports investment, we need to check that the cumulative impact of these rules hasn't had any unintended consequences.

The call for evidence is set to run until the first week of January. I would urge people to let us have your contributions. Whether that is evidence of inconsistencies, of duplications, of gaps, or where the combined effect of the rules is different from what was intended. We need to maintain financial stability, but I think we also need to recognise that one of the greatest threats to financial stability today is the lack of jobs and growth.

Our next big CMU initiative will be a Green Paper on Retail Financial Services that we will publish before Christmas. Retail investors need to be at the heart of the CMU and I think most people would agree that there is more to be done to bring down barriers in the area of retail financial services.

I want us to look at financial services from the perspective of the consumer – how we can give them some more tangible benefits from the single market. We need a system built on transparency, competition and choice, one that makes full use of digital technology. The Green Paper I hope will give new life to that debate.

I hope you would agree that this is a pretty chunky programme. We've got off to a quick start as I promised. But as I think about next year, I have my foot firmly pressed on the accelerator.

So - we'll bring forward measures to support venture capital. We will start by amending existing EU legislation – EuVECA and EuSEF which have the potential to work much better. We want to make it easier for more funds to participate, and to be active in more investments. We are also exploring ways to promote venture capital through a fund-of-funds – to achieve the scale, diversification and geographical reach that Europe needs.

We'll publish a report on crowdfunding. There are over 500 crowdfunding platforms providing a range of services across the EU. I want to understand the effect of national regimes, study best practice to see how we can encourage this innovative new source of financing.

For smaller companies, we want to strengthen the feedback given by banks declining SME credit applications. I'll be saying more on that early next year. And for smaller markets, we'll develop a strategy for providing technical assistance to Member States to strengthen their capital market capacity.

We want to create a stronger European passport system for investment funds. We already have a European system that allows investment funds to operate across the EU – but we know it does not work as well as it should. So next year, we'll launch a consultation to identify the main barriers to the cross-border distribution of investment funds and work to knock them down, one by one.

Personal pensions have the potential to inject more savings into capital markets. So we'll figure out exactly what is needed to establish a European market for simple personal pensions, and whether or not EU legislation could help to underpin that market.Without a single market for voluntary personal pensions, we're missing out on economies of scale which in turn limits choice and pushes up the cost for savers.

We'll also be consulting on the key differences between insolvency regimes across the EU, looking at how to reduce the length and cost of proceedings, early restructuring and how to give second chances to entrepreneurs. By the end of 2016, we will bring forward a legislative initiative to align insolvency proceedings better across the EU. And we'll work to address the current bias in our tax system that makes it cheaper to issue debt rather than equity.

Looking back, I'm encouraged by how far we have come. I am very aware of how far we still have to travel. But I am not daunted by that challenge. I do believe we have a chance to make Europe's economy more stable, to give our businesses more choices of funding, and to help them expand and compete in the remorseless global market.

No one is pretending that progress is always going to be easy. But with the political support I sense, and the rapid progress we have already made, I am optimistic about what we can achieve.

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