Capital Markets Union
An Initial View

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The CMU Initiative

- General agreement on the CMU’s objectives
  - Improve financing of the economy through further developing and integrating capital markets
  - Rebalance the intermediation process in the EU
  - Key initiative to restore growth

- CMU has been widely analysed – EBF, BBA, AFME, ICMA, IRSG
  - Focused on benefits, general principals and specific products

- Challenges are also recognised:
  - Not about transplanting US capital markets into Europe.
  - Distinct from Banking Union
  - Complex – ecosystem
  - Need phased approach
The strategy for achieving a CMU

- Green Paper recognises complexity of task --- focusing on:
  - Current challenges in financial markets in the EU
  - Priorities for early action – quick wins
  - Measures to develop and integrate capital markets

- Risk we focus on products and not the system as a whole:
  - Achieve tactical gains at the cost of more broad based and comprehensive change
  - Important that a holistic approach to establishing an effective eco-system is adopted

- Need to consider the fundamental drivers of capital markets
  - Develop a topology to evaluate products against these drivers
  - Key reforms necessary to facilitate drivers to create an effective ecosystem

- Drivers need to be identified for:
  - Issuers to use capital markets for financing
  - Investors to place assets in the capital markets
  - Intermediaries to provide cost effective intermediation linking the two together

- Create an ecosystem and products will follow - positive use of industry dynamism
Capital market drivers: Issuers

- Disclosure requirements
  - Listing requirements
  - Simplification of prospects directive

- Legal environment
  - Insolvency laws
  - Securities ownership rights
  - Bankruptcy regimes

- Fiscal regimes
  - Financial transaction taxes
  - Interest cost deductibility

- Information
  - Market research
  - Education—culture change
Capital market drivers: Investors

• Increase retail investment in capital market products:
  o Financial literacy – EU project “Consumer Classroom”
  o Simplicity of products
  o Channels for marketing investments
  o Information: home bias, SME – credit scoring
  o Advice
  o Culture and traditions
  o Consumer protection

• Increase funds under institutional management:
  o Funded pension funds: US - 75%, UK - 96%, Italy/Spain/Germany/France<8%
  o Investment Policies
Capital market drivers: Intermediaries

• Reduce the costs of intermediation
  o Capital
  o Collateral fluidity
  o Liquidity
  o Exit opportunities
  o Tax
  o Clearing and settlement costs/systems

• Strengthen the institutional framework and the role of intermediaries
  o Institutions – need for IB’s and brokerage operations
  o Technology – trading platforms
Concluding comments

• Drivers of capital markets development need to be identified, prioritised and mapped against products

• Product based tactical approaches should be pursued but there has to be care not to lose sight of the bigger picture

• Material long term change requires a broad based approach

• Strong intermediaries necessary to promote capital markets and innovate

• Public sector will have a important role to play:
  o Identify and address areas of market failure
  o Nudge private sector to make necessary up front investment of time and resources
  o Avoid and correct regulations and initiatives that create negative incentives