



# Capital Markets Union An Initial View



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7 January 2014

# The CMU Initiative

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- 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

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- 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

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- Disclosure requirements
  - Listing requirements
  - Simplification of prospectus 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

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- Increase retail investment in capital market products:
  - Financial literacy – EU project “Consumer Classroom”
  - Simplicity of products
  - Channels for marketing investments
  - Information: home bias, SME – credit scoring
  - Advice
  - Culture and traditions
  - Consumer protection
- Increase funds under institutional management:
  - Funded pension funds: US - 75%, UK - 96%, Italy/Spain/Germany/France<8%
  - Investment Policies

# Capital market drivers: Intermediaries

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- Reduce the costs of intermediation
  - Capital
  - Collateral fluidity
  - Liquidity
  - Exit opportunities
  - Tax
  - Clearing and settlement costs/systems
- Strengthen the institutional framework and the role of intermediaries
  - Institutions – need for IB's and brokerage operations
  - Technology –trading platforms

# Concluding comments

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- 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:
  - Identify and address areas of market failure
  - Nudge private sector to make necessary up front investment of time and resources
  - Avoid and correct regulations and initiatives that create negative incentives