



EUROPEAN COMMISSION  
Directorate General Internal Market and Services

Financial services policy, Relation with the Council

# **SUMMARY**

## **RESPONSES TO COMMISSION GREEN PAPER ON LONG-TERM FINANCING OF THE EUROPEAN ECONOMY**

January 2014

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## 1. RESPONSES TO THE CONSULTATION

Last year, the European Commission held a public consultation to explore the challenges and opportunities related to long-term financing in the context of efforts to resume smart, sustainable and inclusive growth in the EU.

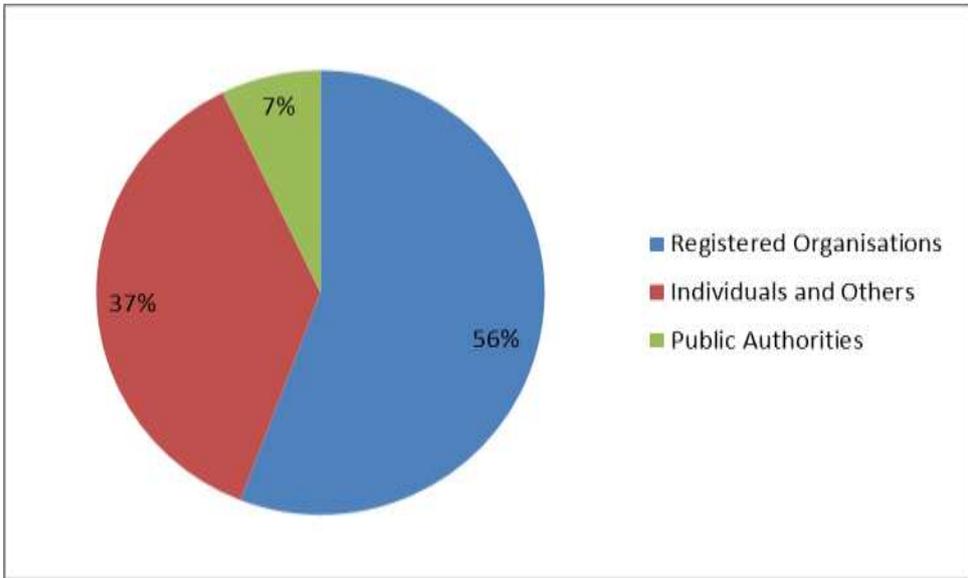
The consultation, which ran from 25 March to 25 June 2013, took into account two observations:

- the importance of access to predictable, long-term financing
- the possibility that the crisis might have affected the capacity of the financial sector in Europe to channel savings to long-term investment needs.

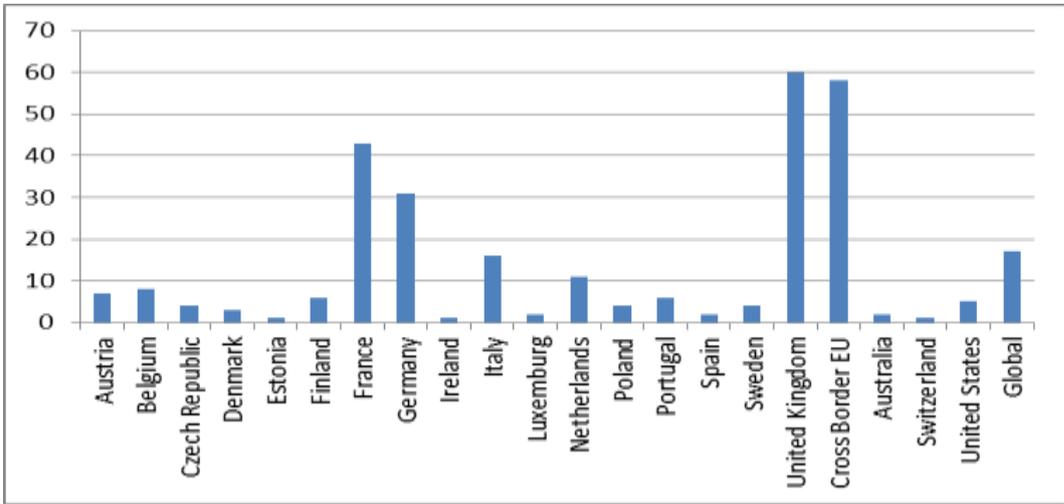
The Commission's Green Paper framed the debate around four areas and 30 questions:

1. The capacity of financial institutions to channel long-term finance, including the scope for institutional investors such as insurers and pension funds to play a more active long-term financing role, taking into account their long time horizons; and the need to monitor the cumulative impact of prudential reforms on long-term macroeconomic capital formation;
2. The efficiency and effectiveness of financial markets to offer long-term financing instruments, including scope to build a stronger Single Market in covered bonds, develop safe securitisation markets (e.g. for SMEs), develop project bonds to finance large infrastructure assets, and address the alleged equity gap in Europe;
3. Cross-cutting factors enabling long-term saving and financing, such as taxation, accounting principles, corporate governance arrangements, information and reporting requirements, and the development of alternative benchmarks and credit ratings; and
4. The state of play regarding SMEs' access to bank and non-bank financing.

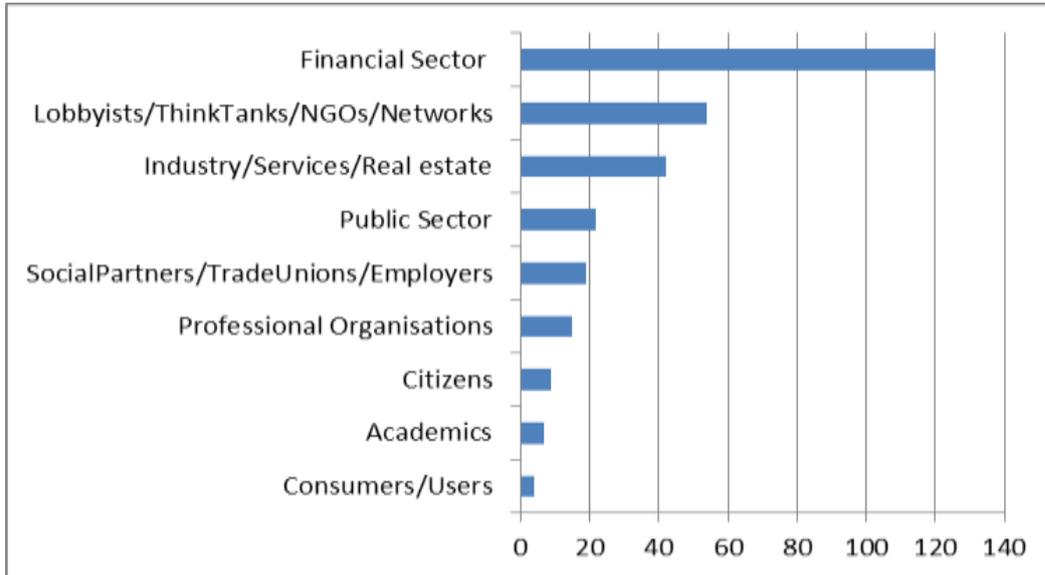
The Commission received 292 contributions, of which 21 came from public authorities, 163 from registered organisations and 108 from individuals and others. Eight respondents asked for their contributions to be kept confidential. In total, the Commission received around 4000 pages of feedback.



Two thirds of the responses received were submitted from stakeholders from the UK, cross-border EU organisations, France and Germany.



In terms of professional background, the financial sector was by far the biggest source of contributions, followed by lobbyists, think tanks, NGOs and networks. Nevertheless, there was a considerable response from the public sector, social partners, professional organisations, citizens, academics and consumers/users.



## 2. SUMMARY OF RESPONSES

The Green Paper was very positively received by stakeholders overall. They especially welcomed the Commission's initiative in launching and framing this timely debate.

### *Question 1*

*Do you agree with the analysis regarding the supply and characteristics of long-term financing?*

Most respondents agreed with the analysis set out in the Green Paper and expressed general support. Some respondents offered clarifications on the analysis of the current situation and on classifications.

Some respondents commented that there were additional factors contributing to constrained long-term investment today. They mentioned;

- economic uncertainty and lack of confidence;
- limited capacity of the banking systems in the periphery;
- the impact of low interest rates on savings;
- a mismatch between saving capacities and the long-term investment needs of governments, SMEs and individual consumers.

Many respondents also stressed that long-term financing cannot be disconnected from short-term financing. Short-term finance often underpins and generates long-term finance and the distinction between productive capital and financial capital is not always clear-cut.

## *Question 2*

*Do you have a view on the most appropriate definition of long-term financing?*

The vast majority of respondents agreed that the definition of long-term financing should be flexible and based on the purpose of investment rather than on its duration.

A minority pointed out that it would be useful to have a narrow, internationally-recognised definition so as to have statistics available on the demand and supply of long-term financing to help ensure targeted policymaking.

Many respondents suggested that the OECD definition, which characterises long-term investment as patient, productive and engaged, is appropriate.

Regarding long-term growth, respondents said the timespan depended on whether the term was applied to SMEs or to other long-term investment such as infrastructure. In any case, they considered that investment over a minimum of five years or a complete business cycle was 'long term'.

## *Question 3*

*Given the evolving nature of the banking sector, going forward, what role do you see for banks in the channelling of financing to long-term investments?*

Many respondents stressed that banks would continue to play an essential role, especially regarding SME financing, since they have expertise in credit risk assessment, as well as local and company knowledge.

Many respondents thought that because of more stringent capital requirements and especially because of the introduction of liquidity ratios, banks would tend to reduce the assets on their balance sheet and move towards origination and subsequent securitisation of assets. Others thought that the new capital requirements would encourage banks to return to their traditional advisory and company finance business.

Additionally, on the subject of structural separation, many respondents suggested this would reduce lending to the real economy because it would raise banks' funding costs. Others said it would encourage banks to return to more traditional business models.

Finally, some respondents pointed out the potential importance of co-financing between commercial banks and national and multilateral development banks, as well as with institutional investors, particularly regarding infrastructure finance. They also saw the potential usefulness of banks in helping to bring third party investment into SME lending.

#### *Question 4*

*How could the role of national and multilateral development banks best support the financing of long-term investment? Is there scope for greater coordination between these banks in the pursuit of EU policy goals? How could financial instruments under the EU budget better support the financing of long-term investment in sustainable growth?*

Many respondents said multilateral development banks should complement rather than substitute for or compete with private investors. Respondents had a number of suggestions.

Many suggested an **enhanced role for the EIB and EIF**. The two entities could:

- reduce the guarantee requirements they currently require from local banks;
- adopt a coordination role vis-à-vis national development banks to avoid funding duplication;
- harmonise procedures to reduce administrative burden.

Regarding the EIF, they suggested its operational and/or funding capacity be increased, given that funding is most scarce in EIF niche areas.

**SMEs:** respondents suggested it would be useful to establish special investment vehicles or funds which would grant funding or guarantees to banks on new SME loans, invest in listed SMEs during the subscription stage, and that would purchase asset-backed securities in asset classes that fund the real economy. However, there was vagueness on the source for such funds, and on the extent to which the proposed instruments under the Multiannual Financial Framework (MFF) would perform such roles.

**Project Bonds:** some favoured broadening their use for medium-size projects, and for environmentally-friendly sectors such as waste management and water resources.

**Public private partnerships (PPPs):** suggestions included establishing a European framework; issuing joint euro-area debt to finance infrastructure PPPs; standardising and disclosing their risk assessments, valorisation and reporting; and creating a secondary market for securities related to PPPs.

Some respondents would like **State aid rules** to take account of the special role of the promotional banking sector and funding agencies, simplifying procedures more generally, and promoting joint EU-national or multinational initiatives.

**Export credit:** ideas included creating an EU agency for export credit that would harmonise existing national schemes or promote government-backed export credit insurers.

**Other issues** included:

- prolonging the financing periods for Commission programmes linked to long-term financing (COSME, Horizon 2020);
- respect of the principle of subsidiarity by all levels of development banks;

- using some of the resources allocated under the Connecting Europe Facility to set up an EU infrastructure fund of funds;
- setting up a database enabling public operators and institutional investors to identify investment needs at EU level.

#### *Question 5*

*Are there other public policy tools and frameworks that can support the financing of long-term investment?*

Many stakeholders said the most important factor to foster long-term financing was the stability of the policy and regulatory framework.

Several stakeholders encouraged the Commission to look into initiatives undertaken by other jurisdictions or individual Member States, for example, the US ‘Build America Bonds’ or ‘Private Activity Bonds’ or the ‘Transport Infrastructure Finance and Innovation Act’, and the UK ‘Green Investment Bank’ and ‘Pension Infrastructure Platform’.

Other proposals included setting up a market monitoring utility that would collapse legal chains-of-claims, thereby increasing transparency, and to go further in harmonising procurement/tendering rules at EU level.

#### *Question 6*

*To what extent and how can institutional investors play a greater role in the changing landscape of long-term financing?*

There was consensus on the usefulness and the existing scope for institutional investors to play a greater role in long-term financing. Many respondents also welcomed the Commission proposal on European long-term investment funds (ELTIF).<sup>1</sup>

Below are some of the ideas put forward to allow institutional investors to make full use of available scope:

- defining a statute for long-term investors;
- complementing the role of institutional investors with that of the banks;
- encouraging the development of specialised investment funds which could co-invest alongside institutional investors; splitting up the risk phases of projects;
- developing company savings schemes/pension schemes at EU level;
- stock listing venture capital funds to generate liquidity;
- developing instruments such as inflation linked infrastructure bonds;
- ensuring proper training of asset managers specialised in infrastructure or other long-term investments;

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<sup>1</sup> COM/2013/0462.

- creating new models of investment mandate, for example by lengthening performance evaluation periods for managers of asset portfolios;

making full use of their rights in the governance of companies.

### *Question 7*

*How can prudential objectives and the desire to support long-term financing best be balanced in the design and implementation of the respective prudential rules for insurers, reinsurers and pension funds, such as IORPs?*

Many respondents pointed out the need for a sensible adjustment of regulatory rules:

**Regarding Solvency II**, the most frequently mentioned ideas included:

- adjusting the calibration for standard formula capital requirements of certain asset classes, such as infrastructure, asset backed securities (ABSs) or investments guaranteed by a public institution;
- adding counter-cyclical tools (such as the matching adjustment) to mitigate mark-to-market valuation, and reviewing the internal model approach to make it more suitable for medium sized insurers;

**Regarding IORPs**, suggestions included refraining from mark-to-market valuations, providing for long enough recovery periods, and setting up an industry-wide pension protection fund guaranteeing a minimum level of benefit to members and which in turn could be taken into account in the regulatory regime.

### *Question 8*

*What are the barriers to creating pooled investment vehicles? Could platforms be developed at the EU level?*

Respondents again welcomed the Commission's proposal on European long-term investment funds.

Regarding barriers to pooled investment vehicles, many mentioned the lack of long-term political consensus (implying regulatory instability), differences in tax regimes and lack of relevant knowledge in the industry.

Some of the ideas put forward to reduce these barriers include developing a common regulatory framework for institutional investors in terms of eligible investment vehicles at EU level or creating funds of funds rather than platforms at EU level.

Some respondents suggested that to pool assets credibly, long-term products should be created, then left to achieve a certain maturity as asset classes.

### *Question 9*

*What other options and instruments could be considered to enhance the capacity of banks and institutional investors to channel long-term finance?*

Ideas included the following:

On **infrastructure financing**, respondents said it would be useful to;

- have a clear, stable view from national and/or EU levels of the infrastructure project pipeline;
- create transparent, easily accessible, regularly published project information;
- create bonds that package infrastructure projects.

Regarding **banking regulation**, they suggested that full use be made of the observation period of the net stable funding ratio to review unintended consequences for corporate financing.

Other ideas included:

- setting up (multilateral) mutual guarantee mechanisms;
- giving innovative sources of finance (stable) regulatory treatment; allowing institutional investors to invest in inflation-linked instruments;
- developing an EU private placement market using standardised documentation and ratings, with adequate secondary liquidity.

### *Question 10*

*Are there any cumulative impacts of current and planned prudential reforms on the level and cyclicity of aggregate long-term investment and how significant are they? How could any impact be best addressed?*

Many respondents said the Commission should carry out an assessment of the cumulative effects of financial regulation to address the first question.

Other respondents suggested a targeted recalibration of some of the prudential rules.

Some thought it was necessary to ensure that obligations in the EU were not more constraining than those in third countries.

A few suggested there was a clear negative cumulative impact on long-term financing deriving from the use of market-based valuation of assets and liabilities and risk-based models to compute capital requirements. This caused balance sheet volatility, higher capital requirements and a shift in investment from shares and corporate debt to corporate bonds.

Others drew attention to the negative interaction between the prudential framework for insurers (Solvency II) and international financial reporting standards (IFRS), to the need for coherence between banking regulation and savings taxation, or to the potential effects

for long-term investments of excluding some short-term liabilities from the field of application of the bail-in.

### *Question 11*

*How could capital market financing of long-term investment be improved in Europe?*

Most respondents agreed that an increased role for capital market financing would benefit long-term investments.

Concerning more specific ideas for possible measures; many respondents suggested creating pooled investment vehicles with transparent structures.

Other respondents thought it useful to involve public authorities, for example, by increasing co-investment or public guarantees. Many cited the importance of the European Project Bond initiative.

Other ideas included:

- aiming for more consistency or even harmonised national procurement frameworks;
- opening them to bank/bond hybrid solutions;
- streamlining prospectus requirements by simplifying disclosure requirements and by having a common language for their publication in different countries;
- harmonising insolvency legislation across the EU;
- adjusting the financial transaction tax proposal.

### *Question 12*

*How can capital markets help fill the equity gap in Europe? What should change in the way market-based intermediation operates to ensure that the financing can better flow to long-term investments, better support the financing of long-term investment in economically-, socially- and environmentally-sustainable growth and ensuring adequate protection for investors and consumers?*

Responses were very varied.

A limited number of respondents questioned the existence of an equity gap and suggested a more in-depth study of the issue.

As regards the **issuers' side**, there were several suggestions to encourage their admission to capital markets, for example:

- reviewing the fiscal treatment of equity vs debt;
- increasing dual-class voting rights;
- introducing incentives for companies to distribute dividends in shares rather than in cash.

As regards **market infrastructures**, some respondents said they thought the integration of equity markets introduced by MiFID undermined the financing of smaller companies at local level.

Ideas to improve the current situation include:

- co-financing of structural funds via the capital markets;
- improving the consumer protection framework;
- including sustainability and long-term criteria in stock-exchanges;
- increasing competition in the access to capital markets for retail;
- expanding the private placement market by standardising documentation, ratings and publicly available information.

One suggestion on the international dimension of capital markets raised the possibility of giving the FSB a supervisory role as regards the application and implementation of international financial regulation.

Finally, some respondents thought there were already adequate instruments and that the problem lies in the multiplicity of legal and regulatory provisions, which increase costs for those involved.

### *Question 13*

*What are the pros and the cons of developing a more harmonised framework for covered bonds? What elements could compose this framework?*

Respondents were fairly evenly split over the need for and feasibility of a European framework for covered bonds.

Among those against a more harmonised framework for covered bonds, the most frequently used arguments included:

- the vulnerability of covered bonds to crises;
- their complex and risky structure;
- the fact that the underlying pool of assets is too heterogeneous across Europe and the fields of law governing them purely national (bankruptcy/property law);
- potential lengthy negotiations over an EU legislative proposal, which would bring uncertainty;
- the belief that self-regulation is superior.

Many respondents believe the European Covered Bond Council already has a good framework, and that this could be reinforced by minimum standards, or, alternatively, could be a framework on which to build.

Respondents in favour of developing a more harmonised framework suggested that such harmonisation should include the following elements:

- eligibility of the asset classes;
- public supervision; transparency requirements;
- bankruptcy remoteness; minimum legal binding requirements for overcollateralisation;
- taxation;
- legal settlement of disputes;
- minimum liquidity buffer.

Finally, a number of respondents said that if an EU framework were to be put in place, it should set minimum standards in a way that would not lower existing national standards.

#### *Question 14*

*How could the securitisation market in the EU be revived in order to achieve the right balance between financial stability and the need to improve maturity transformation by the financial system?*

Some respondents were against reviving securitisation markets in the EU because they consider that securitisation structures across the EU differ widely, because of bad experiences during the crisis with securitisation, and because of difficulties in rendering transparent the quality of the underlying pool of assets.

Those in favour suggested;

- building up and maintaining a comprehensive SME data warehouse inspired by the European DataWarehouse but with more, standardised information on the performance of underlying assets;
- better formulation of the CRD IV and Solvency II liquidity requirements and risk-weights for this asset class;
- putting in place effective ‘skin in the game’ provisions (i.e. that originating banks retain a portion of the junior tranche);
- strengthening international harmonisation;
- creating an EU quality label covering aspects such as eligible assets, maturity transformation and CRA methodologies.

Many respondents cite the Prime Collateralised Securities (PCS) initiative as a good starting point for an EU quality label. But some respondents warned that the PCS initiative, promoted by large financial institutions and adapted to their characteristics, would become expensive for smaller financial and non-financial institutions, particularly because of data format requirements. Such requirements should only be a starting point, and not be used for smaller companies in their current form.

### *Question 15*

*What are the merits of the various models for a specific savings account available within the EU level? Could and EU model be designed?*

Respondents discussed the pros and cons of savings accounts, including national models, as well as the potential design of an initiative at European level, while refraining from formulating a clear view on whether such an EU initiative should be tabled.

Some stressed the potential distortions of competition that such an instrument would create vis-à-vis insurance and pension funds.

Others expressed more explicit support for an initiative to put in place an EU savings account, saying that such an instrument would encourage more consumers to save, thus making them more resilient. They added that an EU savings account would be a good tool to finance the development of projects of public interest, such as infrastructure, research, renewable energy or social housing, which would ultimately contribute to sounder and more sustainable public finances.

Many respondents also said some basic principles would need to be decided before an EU-wide savings account could be created:

- Who would guarantee returns to depositors?
- Who would be in charge of prudential supervision?
- How would investment decisions be taken?
- Would a common interest rate regime be necessary?
- Would (common) fiscal incentives be necessary?
- Should the liquidity of the account be limited?

### *Question 16*

*What type of Corporate Income Tax (CIT) reforms could improve investment conditions by removing distortions between debt and equity?*

Most respondents agreed that the different treatment of debt and equity creates a distortion of financial structures, while a few expressed caution against potentially creating new distortions by trying to tackle ‘debt bias’.

However, many respondents suggested that the fiscal distortions between debt and equity could be removed by either allowing tax deductibility of notional interest on equity, or conversely, by removing tax deductibility on interest payments.

Others said that incentives to reinvest profits or avoid double taxation of dividends could be enough to remove distortion. Other responses acknowledged the CCCTB proposal<sup>2</sup> as a way of tackling distortion EU wide, while limiting/restricting corporate tax competition.

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<sup>2</sup> COM/2011/0121 .

### *Question 17*

*What considerations should be taken into account for setting the right incentives at national level for long-term saving? In particular, how should tax incentives be used to encourage long-term saving in a balanced way?*

General remarks included:

- the importance of a stable fiscal framework
- the negative effect of low interest rates on savings;
- the need to build balanced incentives to save that do not excessively penalise spending on consumer goods;
- targeting relevant sections of the population, typically those on low incomes, with tax incentives for long-term savings.

Some respondents argued in favour of differentiated tax treatment depending on the investment product, for example, extending tax incentives to investment in the proposed European long-term investment funds or in the adopted venture capital funds, corporate bonds and even equity.

Others warned this might entail distortions to competition and would prefer incentives neutral in terms of product and supplier and which would depend, for example, on the holding period or underlying investment assets/objectives.

Other ideas included:

- creating/continuing tax incentives to set up professional/corporate pension schemes, pension products and life insurance;
- harmonising national fiscal frameworks for institutional investors;
- introducing capital gains taxes which would be proportional to holding periods;
- reducing the tax burden on labour.

Finally, a number of respondents warned of the possible negative effects of extending tax deductions in terms of complexity and reduced transparency.

### *Question 18*

*Which types of corporate tax incentives are beneficial? What measures could be used to deal with the risks of arbitrage when exemptions/incentives are granted for specific activities?*

Most respondents stressed that expenditure related to research and development should be tax deductible. Others saw tax measures targeting immaterial rights or reinvested profits as beneficial.

As to how to limit the risks of arbitrage of exemptions/incentives, many respondents suggested harmonisation of the tax base at EU level.

Other suggested solutions included:

- appropriate supervision and sanction mechanisms;
- the fight against harmful tax competition;
- neutrality in investments between small and large companies, and between domestic and foreign-owned;
- removing disincentives to invest via fund structures.

#### *Question 19*

*Would deeper tax coordination in the EU support the financing of long-term investment?*

Most respondents were in favour of deeper tax coordination, and some would also support tax harmonisation. Only a few expressed a preference for taxation to remain a national competency. On the other hand, many said a financial transaction tax would be detrimental to long-term financing.

Those in favour of more coordination or harmonisation said they thought this would imply simplification and stabilisation of the rules, facilitating cross-border finance and encouraging long-term investment.

Corporate tax bases and rates, including the treatment of interest and dividend payments, were frequently mentioned as an area in which more coordination/harmonisation should take place.

#### *Question 20*

*To what extent do you consider that the use of fair value accounting principles has led to short-termism in investor behaviour? What alternatives or other ways to compensate for such effects could be suggested?*

Many respondents said they thought the use of fair value had led to short-termism in investor behaviour to some degree. However, they acknowledged the issue was complex and generally recognised that there is no perfect alternative to fair value.

Among the ideas put forward were the following:

- returning to more use of amortised cost;
- adapting IFRS (and capital requirements) to take account of the specific business models of long-term investments, for example by creating a specific category of assets and liabilities;
- complementing fair value accounting with further disclosures about the information reported in the statements of financial performance;
- encouraging companies to provide additional information about their future cash flows;
- reintroducing the concept of prudence.

On IFRS and governance matters more generally, feedback included:

- strengthening the role of the European Financial Reporting Advisory Group ;
- including financial stability and economic development criteria in the endorsement criteria for IFRS standards;
- amending the EU regulation to allow for diversions from IFRS in exceptional cases.

### *Question 21*

*What kind of incentives could help promote better long-term shareholder engagement?*

There seems to be wide agreement on the opportunities that long-term investments offer to institutional investors. As to the question on incentives for long-term shareholder engagement, the following ideas were put forward and appear to be widely supported:

- providing adequate tax incentives, for example, different rates on capital gains depending on the duration of the investment;
- encouraging better alignment of interests between institutional investors and their asset managers, including reducing the emphasis on short-term performance reporting and benchmarking of asset managers and promoting transparent, better controlled, long-term oriented remuneration;
- developing and EU Stewardship Code for investors;
- having a common EU framework for encouraging institutional investors and their asset managers to take environmental, social and governance issues into account in their investment decisions.

Regarding shareholder rights, the most popular idea was to improve the cross-border execution of voting rights.

As for the issue of granting ‘loyalty shares, additional voting rights and loyalty dividends’ for long-term investors, views were mixed. Although many supported the idea, a non-negligible number of respondents argued that additional control rights (additional votes, loyalty shares) could lead to a concentration of control within a certain group of shareholders and discourage the engagement of other shareholders.

There was slightly more support for additional dividends. However, some argued that such an instrument could negatively affect the efficiency of the capital markets, as investment decisions would be made not on the basis of the value creative capacity of companies, but on the availability of the extra dividend.

Some respondents argued that the transparency and accountability of voting agencies should be enhanced.

Another important incentive for many respondents was the promotion of employee participation, both financial and non-financial.

### *Question 22*

*How can the mandates and incentives given to asset managers be developed to support long-term investment strategies and relationships?*

The following ideas recurred:

- reviewing fund manager performance over longer time horizons than the quarterly cycle and using other metrics than market index benchmarks, for example, absolute performance metrics;
- transparency about the pay structures of asset managers;
- putting in place EU rules to require long-term performance payments for asset managers;
- transparency about how often asset managers turn the portfolio;
- transparency about how asset owners have taken into account the best interests of their beneficiaries when issuing mandates and how asset managers have fulfilled their long-term fiduciary duties or improved the compliance of institutional investors with their fiduciary duties;
- institutional investors' voting and engagement policies to be integrated into the investment process;
- more transparency about engagement and voting policies and activities of institutional investors and asset managers to the public;
- promotion of existing standard asset management mandate templates.

### *Question 23*

*Is there a need to revisit the definition of fiduciary duty in the context of long-term financing?*

Respondents were very divided about the need to revisit fiduciary duty. Some argued it was not necessary as the measures required at EU level had already been taken (in the context of UCITS and AIFM). Others said defining fiduciary duty at the EU level would prove complex because of the diversity of legal traditions. Others still thought that rather than focusing on revisiting the concept, the emphasis should be on promoting better understanding of its current scope.

Those who think investor confidence in asset managers needs to be improved after the crisis say that fiduciary duty should include a requirement to analyse the sustainability of companies in which investments are made, disclosing the voting policy, or having an obligation to disclose asset managers' cost and performance fees.

#### *Question 24*

*To what extent can increased integration of financial and non-financial information help provide a clearer overview of a company's long-term performance, and contribute to better investment decision-making?*

Very few respondents thought that non-financial information was irrelevant to giving a clearer picture of a company's long-term performance.

On the contrary, most saw non-financial information as very useful, but many were concerned about unduly burdensome reporting requirements.

To address this concern, some respondents suggested extending reporting periods from quarterly to six-monthly or longer (under the revised Transparency Directive<sup>3</sup> quarterly reporting is not compulsory anymore). A significant number of proposed solutions see integrated reporting as the best option, once its design is finalised.

#### *Question 25*

*Is there a need to develop specific long-term benchmarks?*

Most respondents did not think there was any need to develop specific long-term benchmarks, mainly because:

- the development of benchmarks is a market-driven process; they develop in response to demand;
- creating a new benchmark would go against the current trend of avoiding reliance on external parties, whether rating agencies or other instruments such as benchmarks.

However, some respondents supported the development of long-term benchmarks. They favoured specific benchmarks rather than a general long-term one, for example, in infrastructure investments or for socially responsible investments.

#### *Question 26*

*What further steps could be envisaged, in terms of EU regulation or other reforms, to facilitate SME access to alternative sources of finance?*

Most respondents stressed the need to have better, cheaper, more regularly updated information. Suggestions for this include:

- developing a European standard for SME credit scoring;
- making the information held by central banks more widely available to investors;
- establishing an SME credit rating agency; and creating a standardised database with SME information.

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<sup>3</sup> Directive 2013/50/EU

A significant number mentioned crowd funding as a potential measure to improve SME access to finance.<sup>4</sup> Some called for strong regulation of this, while others suggested establishing a code of ethics and specific regulatory framework for each different class of crowd funding.

The idea of creating a statute of ‘European crowd funding institution’ was raised, as well as the need to ensure a high level of consumer protection. Some respondents said they thought crowd funding should be recognised as a source of co-financing of European projects.

Ideas to facilitate SMEs’ access to the capital markets include:

- creating public-private financing initiatives to support SME IPOs;
- creating regional funds of funds for venture capital;
- mutualising SME equity and bonds to access the markets, with for example, a guarantee by development banks;
- creating a public fund of listed SMEs.

Other ideas to facilitate SME access to alternative sources of finance include:

- considering giving a greater role to hybrid instruments, so that the original owners (often family businesses) keep corporate control;
- establishing a clearer definition of SMEs across Europe and a single or national contact point where information on all SME support programmes would be available;
- standardising market practices and legal documentation to facilitate private placements by institutional investors and individuals, for example, by establishing standardised electronic financial reporting for SMEs;
- revising the thresholds and other circumstances under which a prospectus has to be produced;
- fostering peer-to-peer lending by, for example, encouraging small companies in the same country or region to co-invest in their own industry.

### *Question 27*

*How could securitisation instruments for SMEs be designed? What are the best ways to use securitisation in order to mobilise financial intermediaries’ capital for additional lending/investments to SMEs?*

Many respondents said future Commission work should build on the Prime Collateralised Securities (PCS) initiative. Others stressed the need to have a strong, standardised EU framework with an accompanying EU level label or a harmonised framework based on transparency and simplicity.

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<sup>4</sup> Note that the Commission after this consultation has been closed has started a specific public consultation on crowd-funding, until 31 December 2013.

This would allow the possibility of granting preferential treatment as far as capital and other regulatory requirements are concerned, provided this is justified from a prudential standpoint.

Some respondents expressed the need for better information on underlying loans and suggested key performance indicators be developed, or internal rating models, or that central banks publish easily accessible and simple-format data relating to the performance of SME portfolios.

Respondents were divided on the need to have public credit risk mitigation for securitisation. The more sceptical said there was a need for careful preliminary analysis as to whether public support would yield more lending for SMEs, rather than favouring the originator. Some also thought such support would be against state aid rules.

They were also divided as to whether securitisation should be done through banks.

Finally, some thought there were already adequate securitisation instruments, and that the key issue was the alignment of incentives between originators.

#### *Question 28*

*Would there be merit in creating a fully separate and distinct approach for SME markets? How and by whom could a market be developed for SMEs, including for securitised products specifically designed for SMEs' financing needs?*

Some respondents were very strongly in favour of the idea of creating a distinct European approach to SME markets, while others were more sceptical. Many thought it worth waiting for the outcome of the 'SME growth markets' in MiFID.<sup>5</sup>

Many respondents stressed the importance of bond markets for SMEs rather than over focusing on equity markets. Some thought making existing bond markets more 'SME friendly' could be enough.

A successfully conceived, distinct SME market would, they said, involve low-cost, slow trading, easily accessible junior platform, with a relaxation of listing requirements, offering a variety of products.

Markets should be regional so as to tap into local savings, but connected to other EU platforms. However, some responses called on MiFID to allow the trading of SME stocks on other SME growth markets only with the explicit consent of the SME issuer, arguing that there would be liquidity constraints without such a restriction.

#### *Question 29*

*Would and EU regulatory framework help or hinder the development of this alternative non-bank sources of finance for SMEs? What reforms could help support their continued growth?*

Many respondents did not address the first question. The few that did thought it would be beneficial, while others were worried that new regulation would destabilise nascent

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<sup>5</sup> COM/2011/656.

markets. They favour spreading good practices and innovation between Member States, or creating a forum for discussion on potential EU actions.

Among ideas for reforms to encourage alternative non-bank sources of finance were the following:

- promoting ‘mini IPOs’ with relaxed legal requirements and lower placement costs;
- creating a closed debt fund which would invest in bonds and in financial promissory SME notes and which would be accessible only to institutional investors;
- creating a platform (private or public) providing valuation and information on credit statuses, due diligence, business risk and financial reporting.

### *Question 30*

*In addition to the analysis and potential measures set out in this Green Paper, what else could contribute to the long-term financing of the European economy?*

Respondents stressed the importance of political and regulatory stability, as well as ensuring an aggregate approach guaranteeing consistency across Member States, and emphasised the importance of completing the Banking Union.

Some respondents thought better statistical knowledge would contribute to long-term finance.

Ensuring the attractiveness of FDI is also a factor contributing to long-term finance in the opinion of some respondents. They stressed the importance of completing the internal market for services to that end.

Other ideas included supporting trade finance, or setting-up a pan-European platform/association gathering long-term investors in infrastructure.

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- 4 Pellegatta Alessandro
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- 7 Rutkowski Artur
- 8 Zibell Laurent
- 9 Castel Michel
- 10 Nordic Financial Unions
- 11 Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios
- 12 Federation of German Industries
- 13 Finnish Pension Alliance
- 14 Czech Republic
- 15 European association of mutual guarantee societies
- 16 Fédération Nationale des Cadres Dirigeants

- 17 ICAP Securities&Exchange Limited
- 18 Anglo-French Committee of the City of London and Paris Europlace
- 19 Verband Deutscher Pfandbriefbanken
- 20 International Regulatory Strategy Group
- 21 Favilli Lorenzo
- 22 Belgian Financial Sector Federation
- 23 Bundesarbeitskammer Austria
- 24 Altenburg Michael
- 25 Portuguese Banking Association
- 26 Confederation of Industry of the Czech Republic
- 27 Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic and Confederation of Industry of the Czech Republic, Czech-Moravian Confederation of Trade Unions
- 28 Association of Finnish Local and Regional Authorities
- 29 International Accounting Standards Board
- 30 European association for investors in non-listed real estate vehicles
- 31 Compagnia Mobiliare Investimenti (CO.MO.I Group) and REF Ricerche
- 32 De Moor Lieven
- 33 Association of Chartered Certified Accountants
- 34 Trade Union PRO Finland
- 35 Verbandes Deutscher Bürgschaftsbanken
- 36 Unicredit
- 37 Confrontations Europe
- 38 Nomura
- 39 Norton Rose Fulbright
- 40 Legal and General Group
- 41 Royal Bank of Scotland
- 42 FTTH Council Europe
- 43 European Association of Public Sector Pension Institutions
- 44 Royal Institution of Chartered Surveyors
- 45 Verband der Firmenpensionskassen
- 46 Association of German Banks
- 47 Redes Energéticas Nacionais
- 48 CECODHAS HOUSING EUROPE
- 49 Ministry of Finance Estonia
- 50 European Confederation of Directors' Associations
- 51 Veolia Environnement Europe Services
- 52 European Private Equity and Venture Capital Industry
- 53 The Capital Spillway Trust
- 54 PME Finance
- 55 Eumedion
- 56 Wirtschaftsbeirat Bayern
- 57 Swedish Project Exporters
- 58 Meridian Infrastructure
- 59 Dii Renewable energy
- 60 FEDERATION OF BUSINESS INFORMATION SERVICES
- 61 Association française des marchés financiers
- 62 Associazione nazionale promotori finanziari
- 63 French Asset Management Association
- 64 KBC
- 65 European Association of Public Banks and Funding Agencies
- 66 Confederation of Swedish Enterprise

67	European Covered Bond Council
68	Finance Watch
69	Caisse des Dépôts
70	Polish Bank Association
71	Task Force « ILT » de la Place de Paris
72	Association of Corporate Treasurers
73	Associazione dei fondi pensione negoziali
74	HSBC
75	Standard Life
76	Law Society of England and Wales
77	European Partners for the Environment
78	Financial Reporting Council
79	Fédération Française des Sociétés d'Assurances
80	Swedish Authorities
81	Capita Registrars
82	PFZW and PGGM
83	Deutscher Gewerkschaftsbund Bundesvorstand
84	European Sustainable Investment Forum
85	MEDEF
86	Central Organisation of Finnish Trade Unions
87	German Insurance Association
88	Institut des Administrateurs
89	Luxembourg Bankers' Association
90	Network of European Financial Institutions for SMEs
91	UNI Europa
92	Federation des Experts comptables Europeens
93	Building Societies Association
94	United Nations Environment Programme Finance Initiative
95	Amundi
96	National Association of Pension Funds
97	European Public Real Estate Association
98	EDF
99	Observatoire de l'Epargne Européenne
100	Integrate
101	Burns Brendan
102	NASDAQ OMX
103	Fondation Nicolas Hulot
104	Casey Campbell and Tamar Joulia-Paris
105	Sovereign Wealth Fund Research Initiative
106	MARQ Services
107	Italian Association of the Investments Management Industry
108	Zentraler Immobilien Ausschuss
109	European Federation of Financial Advisers and Financial Intermediaries
110	Cercle de l'Industrie
111	PricewaterhouseCoopers
112	European Fund and Asset Management Association
113	Union Sociale pour l'Habitat
114	Polo Interregionale Jean Monnet
115	Union Asset Management Holding
116	European Financial Services Round Table
117	Alstom
118	VNO-NCW — MKB-Nederland

119	AXA
120	Österreichischer Sparkassenverband
121	AMP Capital
122	Belgian Association for Pension Institutions
123	BNP Paribas
124	Triodos Bank
125	The Society of Pension Consultants
126	Air France
127	German Banking Industry Committee
128	Barclays
129	International Sub-Committee of the Association of Pension Lawyers
130	Dutch pension funds PMT and PME, and their service provider MN
131	European Family Businesses
132	DekaBank Deutsche Girozentrale
133	Bundesverband Investment und Asset Management
134	Confederation of Finnish Industries
135	Government of the Netherlands
136	CEZ Group
137	Association française des entreprises privées
138	ShareAction
139	ICSA Registrars Group
140	UK Association of Private Client Investment Managers and Stockbrokers
141	l'Autorité des normes comptables
142	COREALCREDIT BANK
143	European Banking Federation
144	Association Nationale des Sociétés par Actions
145	Association of British Insurers
146	Fédération nationale des travaux publics
147	European Federation of Financial Analysts Societies
148	Pan-European Insurance Forum
149	EDHEC-Risk Institute
150	Investment Management Association
151	Global Alliance for Banking on Values
152	CFA Institute
153	Association française des Investisseurs Institutionnels
154	Fédération Bancaire Française
155	Polish Government
156	Algemene Pensioen Groep
157	WWF
158	Austrian Federal Economic Chamber
159	TOTAL
160	European Property Federation
161	EDF Energy UK
162	Federation of European Securities Exchanges
163	Moody's Investors Service
164	Erste Group Bank
165	Association of Danish Mortgage Banks
166	ING
167	European Fashion Council
168	International Capital Market Association
169	European Association of Paritarian Institutions
170	Arbeitsgemeinschaft mittelständischer Wirtschaftsorganisationen in Bayern

171	The Carbon Tracker Initiative
172	Deutscher Industrie- und Handelskammertag
173	VVD parliamentary group
174	Insurance Europe
175	European Construction Industry Federation
176	The Institute of Chartered Secretaries and Administrators
177	European Savings Banks Group
178	Association Française des Sociétés Financières
179	Zentralverbands des Deutschen Handwerks
180	Verband der Sparda-Banken
181	Danish Insurance Association
182	PensionsEurope
183	Wirtschaftskammer Österreich
184	European Federation of Building Societies
185	Loan Market Association
186	Associazione Bancaria Italiana
187	International Swaps and Derivatives Association
188	Cohen Remy
189	USS Investment Management
190	European Association of Corporate Treasurers
191	European confederation of industrial and service cooperatives
192	European Association of Credit Rating Agencies
193	Leaseurope
194	Investment Property Forum
195	Hermes Equity Ownership Services
196	Nationwide Building Society
197	Anacofi
198	XBRL Europe
199	British Telecommunications
200	Sustainable Financial Markets and the Climate Bonds Initiative
201	Austrian Raiffeisen Banking Group
202	Aviva
203	Confederation of British Industry
204	ICAEW
205	MetLife
206	Alternative Investment Management Association
207	Groupe Consultatif Actuariel Européen
208	Deloitte
209	EIRIS
210	BlackRock
211	European Trade Union Confederation
212	Federation of Dutch Pension Funds
213	AG Insurance
214	EU Venture Fund Investors Network
215	Autorité des marchés financiers
216	Arbeitsgemeinschaft für betriebliche Altersversorgung
217	Business Angels Europe
218	Verband Geschlossene Fonds
219	Ireland-Department of Finance
220	Global Warning
221	British Bankers' Association
222	Banon Jean-Claude

223 Italian Banking, Insurance and Finance Federation  
 224 IdVectoR  
 225 Aguilonius  
 226 NYSE Euronext  
 227 World Future Council  
 228 Association of the Luxembourg Fund Industry  
 229 EuroFinUse  
 230 Pragma  
 231 Nordic Investment Bank  
 232 IIF Council for Asset and Investment Management  
 233 Turitto Vito  
 234 Association for Financial Markets in Europe  
 235 J.P. Morgan  
 236 SEA Europe  
 237 2° Investing Initiative  
 238 Woolley Paul  
 239 Capital Institute  
 240 BUSINESSEUROPE  
 241 Association of European Chambers of Commerce and Industry  
 242 Fédération des Associations Indépendantes d'Epargnants pour la Retraite  
 243 Association of Investment Companies  
 244 Zabel Martin  
 245 KPMG IFRG  
 246 Proxinvest  
 247 European Centre of Employers and Enterprises providing Public services  
 248 Association Française des investisseurs pour la croissance  
 249 Investor AB  
 250 Confédération Générale des Petites et Moyennes Entreprises  
 251 Tesco PLC  
 252 German Association of Energy and Water Industries  
 253 Deutsches Aktieninstitut  
 254 American Chamber of Commerce to the EU  
 255 Groupe BPCE  
 256 North Rhine-Westphalia — Ministry of Economic Affairs, Energy and Industry  
 257 Deutsche Bank  
 258 Institute of Chartered Accountants of Scotland  
 259 World Intellectual Capital /Assets Initiative  
 260 Chamber of Skilled Crafts Frankfurt-Rhein-Main  
 261 Austria  
 262 Financial Services User Group  
 263 London Stock Exchange Group  
 264 Paris Europlace  
 265 European Round Table of Industrialists  
 266 Centrum für Europäische Politik  
 267 Observatoire des Fonds de Prêts à l'économie  
 268 EuropeanIssuers  
 269 Denmark  
 270 Association for Participation in the Development of Accounting Regulations for  
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 271 OCI Nitrogen  
 272 BATS Chi-X Europe  
 273 Prime Collateralised Securities

274	UK Sustainable Investment and Finance Association
275	Bundesarbeitgeberverband Chemie
276	Finland- Ministry of Finance
277	Organismo Italiano di Contabilità
278	Quoted Companies Alliance
279	United Kingdom-HM Treasury
280	Autorités françaises
281	Instituto de Seguros de Portugal
282	Banco de Portugal
283	Comissao do mercado de valores mobiliarios
284	Governance for Owners
285	RARE Infrastructure
286	TheCityUK
287	Standard&Poor's
288	Santander
289	Capital International Limited
290	Employers of Construction of Aragon Confederation
291	European Investment Bank
292	Long Term Investors Club