CONSULTATION PAPER

CAPITAL MARKETS UNION MID-TERM REVIEW 2017

Question 1 Are there additional actions that can contribute to fostering the financing for innovation, start-ups and non-listed companies? Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation.

EFPA agrees that it is necessary to facilitate SMEs' financing. SMEs are an important source of employment considerably affected by credit restrictions due to the financial crisis.

SMEs have banking credit restricted and difficulties to access stock markets. Consequently, initiatives such as crowdfunding, business angels and venture capital and multilateral trading facilities (MTF), constitute financing alternatives for SMEs. It would be convenient to foster these financing channels by creating legal certainty and supervisory convergence. Moreover, it would be advisable to bridge the gap between these financing mechanisms (*i.e.* a new SME financed by crowdfunding would be likely to access venture capital and even MTF).

From EFPA, we would also like to point out the interesting initiative taken by the Italian administration called 'Fondo Italiano d'Investimento' http://fondoitaliano.it/en. In our opinion, this is one effective way to allow qualified investors to invest in SMEs in a five-year time horizon. The capital gains are not taxed.

In general, European investors are reluctant to invest their savings in start-ups and innovative companies. It would be important, through financial literacy, to make them understand the full concept of investment risk and thus, the advantages of certain level of diversification in these companies.

Question 2 Are there additional actions that can contribute to making it easier for companies to enter and raise capital on public markets? Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation.

From EFPA, we think that there are currently in the EU area some barriers that complicate the raise of capital for companies, mainly SMEs. Among other facts, we would like to point out the following: lack of common taxation, securities laws and the current discriminatory tax treatment between debt and equity investment. In our opinion, the creation of a real Pan European market will increase both the size and the number of operations.

Besides that, the lack of financial literacy of entrepreneurs and SMEs developers is a strong barrier to shift from bank debt (which still is overwhelmingly the main financing source) to equity raised in capital markets. Usually entrepreneurs have an idea to whom it should be sold but they lack the financial strength.

From a separate note, EFPA would also like to point out that positive credit bureaus offer guarantees to investors and facilitate access to public markets. Positive credit bureaus should be created on European basis. This would allow SMEs have scoring and, therefore, facilitate their access to EU corporate bond markets. This measure would encourage the creation of a single bond market for SMEs.

Question 3 Are there additional actions that can contribute to fostering long-term, infrastructure and sustainable investment? Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation.

Capital requirements of financial institutions are a relevant element to proper market functioning, but they do not guarantee long-term sustainable investments themselves.

Participatory finance models allow investors to choose sustainable and climate-friendly investments when obtaining the same return rate.

Besides, from EFPA, we think other factors could help to improve long-term sustainable investments:

- Government and public agencies should help foster liquidity to sustainable investors.
- There should be long-term tax policy incentives for sustainable investors.
- There should be better definition and clear information about risks and costs on sustainable and climate-friendly investments.
- In order to make these investments in terms of relevant figures, we think that governments, via their public funds, should have a mandatory percentage of their portfolio invested in these funds.

Question 4 Are there additional actions that can contribute to fostering retail investment? Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation.

Fostering retail investment, as mentioned before, needs a general improvement in financial literacy of investors for better understanding capital markets. This 'demand improvement' should go in parallel to a serious regime of qualifications for sellers and advisors, including CPD's (continuous professional development).

We strongly believe that the key element to address is the highlighted retail investors' lack of confidence in capital markets.

'Financial engineering' is not in question. Financial products are increasingly complex for retail investors. Consequently, financial regulation is essential to safeguard retail investors' activity within capital markets. Moreover, it is necessary to guarantee an independent financial advice to savers, especially for those who save for their retirement.

We can compare financial advisors with family doctors. For example, some medicines are subject to medical consultation before their consumption and patients need medical prescription for making use of them. In the same way, retail investors need the expert advice of financial advisors before purchasing complex and risky products.

Furthermore, it is necessary to enhance not only clients' financial education, but also advisors' knowledge and competence.

Accordingly, EFPA proposes the convenience of conducting a campaign in order to: (1) enhance financial education among investors, (2) restrict financial advice as it is only provided as an investment service, (3) enhance financial advisors' qualification, and (3) promote supervisory convergence in relation to qualification and conduct requirements on financial advice, with the due prevention of conflicts of interests.

Question 5 Are there additional actions that can contribute to strengthening banking capacity to support the wider economy? Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation.

Banks should be a close ally to CMU. We firmly believe in a stronger banking system and capacity. We also would like to point out that the banking industry is at its lowest reputational level ever, due to the lack of trust from customers, among other factors. To improve this situation we need customers to regain their trust. Banking has to change its culture and go from a selling culture to a service culture. Any action favouring the regain of the banking trust will be essential in CMU.

On a separate note, EFPA would like to point out that credit should be considered as a service, accessible to companies and adequate to its needs. Derivative finance, especially securitization, are in the crisis' origin. At the same time, SMEs demand simple credit products and comprehensible guarantees. Banking has to make an effort on simplification and clarification of its products in order to satisfy companies' needs, particularly SMEs' needs. Banking needs to set the right tone from the top.

Question 6 Are there additional actions that can contribute to facilitating cross-border investment? Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation.

To guarantee free access to market, infrastructures constitute an essential element to facilitate cross-border investment. Besides, the enhancing of complaint services would create confidence and would facilitate cross-border investment, too. In addition to that, fostering financial authorities' autonomy from political establishment would contribute to generate confidence.

Moreover, EFPA would like to point out the following additional measures to facilitate cross-border investment:

- Common qualifications to improve mobility in Europe
- Common rules and procedures to generate a common market status.