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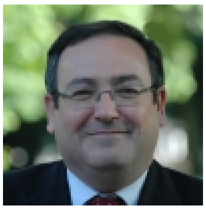
Equity financing: what priorities for developing equity markets in the EU?

Speakers

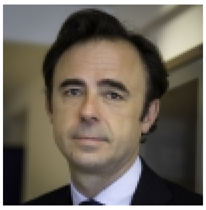


James Chew
HSBC Holdings plc , Global Head of Regulatory Policy

Philippe De Backer
European Parliament , MEP, Committee on Economic and Monetary Affairs

Benoît De Juvigny
Autorité des Marchés Financiers (AMF) , Secretary General

David Lawton
Financial Conduct Authority (FCA) , Director of Markets Policy & International



Martin Merlin
European Commission , Director, Financial Markets, DG for Financial Stability, Financial Services and Capital Markets Union

Stéphane Boujnah
Euronext N.V. , Chief Executive Officer

Vincent Remay
Tradition , Advisor to the Chairman

Greg Bennett
Fidelity International , Head of Capital Markets – EMEA & Americas

Objectives of the session

This roundtable discussed the main obstacles to equity funding in the EU, whether the on-going actions (CMU, MiFID II…) are likely to foster a development of equity markets in the EU and the additional actions that may be needed. The role that the on-going expansion of fintech solutions and electronic platforms may play in the development of equity markets will also be examined.

Executive Summary

Obstacles to the development of equity financing and issues to be addressed

A funding gap between £2 million and £10 million revenues had been identified in the UK market for small growing companies that could not go to the banks for money and needed to access long-term finance. A specific fund had been successfully set up backed by banks (the British Growth Fund - BGF) to invest equity in this SME segment. The standardisation of the investment process and the close contacts of the banks backing the fund with the companies involved were the key factors in their success, as was the diversification of the investments that had thus been achieved.

Several panellists however felt that the European economy as a whole did not at present have a funding gap, although one might materialise in the near future if banks continued to deleverage and if Europe's capital markets could not provide sufficient alternative funding. The current issue was more a lack of diversification, with under-developed equity channels relative to the size of the total economy.

One speaker stated that Europe lacked an equity culture, particularly compared with the US. There was a general lack of equity demand, both from retail and institutional investors and retail participation in particular should be encouraged by all possible means – directly or indirectly via investment products. Another speaker emphasised that equity investment was very difficult and best performed by professional investors (e.g. fund managers) who had the necessary time and expertise to make appropriate diversification decisions. Private equity markets also needed developing.

The European Commission (EC) had been attempting to make progress on this issue, but this required time, as the issues were related to historical legacies, societal choices, and sometimes culture. Negative economic forecasts both globally and in Europe and a lack of good projects to invest in were other potential obstacles to equity financing; some panellists believed that although growth prospects were reasonably good, leadership and the collective willingness to realise these achievements were lacking. Moreover the absence of regulatory and fiscal harmonisation within Europe was an obstacle to cross-border investment, as well as the lack of easily accessible information on SMEs. Additionally, there were now fewer analysts in the market, which was increasing the reluctance of investors to invest cross-border and increasing the disconnect between retail and institutional investors.

On the issuer side, taxation currently favoured debt financing over equity financing. Moreover there was a lack of awareness among SMEs of the different available financing options. Some domestic initiatives regarding business education had been put in place but this needed extending. Bankruptcy regimes sometimes showed a punitive approach to failure and this discouraged risk taking in the EU, which the EC was aiming to address legislatively, as well as improving insolvency law in general.

Possible EU level solutions to increase equity financing

The EC had begun the roll-out of the CMU Action Plan, which aimed at developing EU capital markets and reducing reliance on bank funding, but a great deal remained to be done and the approach was incremental.

The review of the Prospectus Directive (PD) was among the short term priorities of the CMU. Currently prospectuses were too long and complex for most investors and were mainly used by issuers as a legal tool and by professional equity analysts. Some short term improvements were suggested: a simplification of prospectuses for existing issuers (representing about 70% of UK prospectuses for example), relying on the information that had been provided previously; a streamlining of disclosures for SMEs; and thirdly, taking smaller issuances out of the pan European regime. One institutional investor believed that the PD review could have been more radical in allowing the prospectus to be brought forward within the IPO timetable, with the publication of research into the company in question delayed until investors had already received this prospectus.

MiFID 2 which would come into force at the beginning of January 2018 would introduce additional rules for the improvement of investor protection and advice, as well as tools such as SME growth markets which could further contribute to developing equity investment. However, the unintended consequences of these rules which may in particular limit the willingness of banking networks to sell equity should be avoided. The new form of ELTIF that had come into place at the end of 2015 together with adjustments to Solvency II requirements was another positive development.

A stronger focus of trading venues on equity markets was also needed. For there to be a true equity culture and equity market across Europe, there first needed to be proper equity focused venues, connecting those who had money with those who had projects or business ideas. Properly regulated markets, capable of addressing the needs of all types of issuers and investors, needed to be in place. Trackers, indices and HFT were extremely important for the provision of liquidity to equity markets, but without market infrastructures focused on equity, the ‘critical mass’ necessary to ensure an alignment of interests between all market participants in the ecosystem would not be created; the focus on channelling funding towards projects and businesses would be lost also.

Some panellists also emphasized the importance of a common vision and of a single rulebook. Many of the achievements that had been realised thus far had not resulted from new regulation, but from vision and determination. The core elements that were necessary for promoting European equity financing were present; the challenge was pulling them together and approaching them with a degree of vision and sufficient scale and efficiency, as had been done in the case of the BGF fund mentioned previously.

There also needed to be a collective transition towards a single rulebook that would encourage the development of risk capital on a domestic and cross-border level. Europeans needed to be more self-confident about their collective capacity to make these developments happen. The CMU was achievable and should not be impeded by those who were sceptical about its chances of success.

The possible role of technology and electronic platforms in fostering equity financing

Some regulated platforms e.g. some e-brokers were increasingly working with robo-advisers for which they sent orders to the stock exchange. Other venues had a more passive attitude to these developments for the moment, monitoring innovations and focusing instead on their core business. Sufficient scale and standardisation were needed for innovative solutions to expand, which was not the case at present.

Regulators and politicians often did not feel familiar, or comfortable, regarding new technologies, but the EC nevertheless aimed to have legislation in place that did not hinder their development. Taking the example of crowdfunding, it would be beneficial to have a single European framework that was resilient, conducive to investor confidence, and enabled a free cross border flow of services; however, proposing legislation at too early a stage might hamper the development of crowdfunding and 'fossilise' the market. As such, the EC had not proposed to legislate on this issue at this stage.

Some domestic regulators were taking action. The UK had announced a 'regulatory sandbox', which meant allowing firms to test particular product offerings with live consumers, in a safe environment with no risk of 'ex-post' repercussions. Regarding crowdfunding, simple investor protection rules had been put in place in the UK to restrict the proportion of a portfolio that an investor could put in a crowdfunding investment. France had established a national regime a year and a half ago; a light-touch approach had been chosen that aimed to find the right balance in the market and allow requirements to be adapted relatively quickly if necessary.

Many discussions were presently taking place among regulators at the European and IOSCO levels regarding fintech and blockchain; one panellist noted that, in the case of blockchain, it was important that someone should be held accountable for making the server work. Transparency and security were critical for these solutions to be operational. The speaker was confident that these innovations could be incorporated into the market. The challenge was aligning regulators, innovators and market players, and this could be achieved.

Detailed Summary

1. Obstacles to the development of equity financing and issues to be addressed

The funding gap

An industry representative stated that a gap in funding demand had been identified in the UK in the tranche between £2 million and £10 million of company revenues; i.e. small, growing companies that needed equity and were not asset-rich. These could not go to the banks for money, and needed long-term finance. This was a difficult segment to serve because it required research and investment decisions were quite hard to make. Above roughly the £10 million level, larger private equity firms started to come in and take companies away from his bank; below that, funding was mostly provided via business angels and secondary funding.

A fund backed by five banks (the British Growth Fund (BGF)) had been set up five years ago to invest equity in this segment of small growing SMEs: roughly £800 million had been invested so far, in 128 investments. Now around 120 people were working for the fund in eight offices across the UK. The important aspects had been standardisation, being very efficient, having good quality contacts with the companies involved, locating these companies, and being tenacious. The fund was now acting as an 'industrialised investment machine'.

A regulator believed that discussions of an 'equity gap' presumed a difference between aggregate demand and aggregate supply, which he was not certain existed across the European economy as a whole. The problem was better conceived of as a lack of diversification; the equity channels were not as developed as they could be, relative to the size of the total economy. Private equity markets should be considered alongside public equity markets, and facilitating growth would mean a series of incremental changes, rather than 'one big bang'. The key would be to decrease unit costs. The appropriate channels already existed, both in theory and practice, but some of them were used only sparingly, because unit costs were too high.

A policy-maker considered that the European economy, in macroeconomic terms, did not currently evidence a funding gap right now; although there might be very circumscribed gaps in relation to the funding escalator and in some parts of the EU, in aggregate terms, there was more of a lack of demand for funding than a lack of supply. However, such a gap could materialise in the near future if banks needed to continue to deleverage, and if Europe's capital markets and market-based finance in general were not present to provide the necessary funding.

The lack of equity culture and retail demand for equity investments

An institutional investor stated that one of the key obstacles standing in the way of further equity investment was the lack of retail involvement in the equity markets. Europe lacked an equity culture, particularly compared with the US, and this meant that there was less capital coming into the equity market. Equity investors in Europe, whether institutional or others, did not have the 'weight' that could enable them to make a difference to global capital markets.

A regulator noted that there was a lack of equity demand and equity culture, but from retail and institutional investors. In many EU countries, there were very few or no pension funds, and among institutional investors such as insurers, there was still a lack of appetite for equity, even if Solvency II had been improved to a certain extent.

An institutional investor suggested that Europe needed to do whatever it could to encourage retail involvement and individual participation, either directly or through other parties, because ultimately, all the funds that went into equity investment came from retail and from individuals, whether through pension plans, direct investment or mutual funds.

An industry representative stated that to increase equity financing in the European Union, it would first be necessary to develop private equity, especially for retail investors. A secondary market for private equity investment should be created, similar to that of the United States, which was very efficient and developed. Stock exchanges should help in that respect.

Economic prospects and supply of projects in the EU

A regulator added that the negative economic forecasts both in Europe and globally did not encourage equity investment. There was also a lack of good projects.

An industry representative did not believe that there were poor prospects for growth in Europe. Examining the prospects of the former BRICS, or the debate regarding whether or not there would be a soft landing in the US, and comparing these to the slowdown of austerity measures in Europe and consumption rates in continental Europe – which were back to what they had been between 2002 and 2007 – indicated that positive change was taking place, albeit slowly. There was also not a lack of projects: there were plenty of good projects within Europe, and many intelligent and technical ideas. What was lacking was leadership and willingness to realise these achievements.

Lack of regulatory and fiscal harmonisation

An industry representative stated that the clients of his organisation, which operated an ebroker, liked IPOs, especially SME IPOs, and purchased mainly French shares. Occasionally, they purchased Dutch and Belgian shares, because they were on Euronext, but rarely US ones. Although his organisation accepted that it needed to offer more European shares to its clients, this was not possible, because the other countries were unknown territories. There was no tax harmonisation and no legal harmonisation with these countries, and clients disliked the associated risk. They would like to see a single rulebook, but it was not clear when this would come into effect, particularly for retail clients.

A policy-maker stated that the EU Commission had been attempting to make progress on developing equity investment, but this required time. The issues that it was faced with were not simple, but related to historical legacies, societal choices, and sometimes culture. Another obstacle to the development of equity financing in Europe was bankruptcy regimes' sometimes punitive approach to failure, which did not encourage risk-taking in the EU. The Commission was in the process of preparing a legislative proposal that would grant a second chance to entrepreneurs in particular, and improve insolvency law in general.

A regulator added that another issue was tax which incentivised debt financing over equity financing. The multiplicity of new European regulations also caused difficulties as it was not easy to strike the right balance between what was need for complying with these regulations and what could help SME financing.

Insufficient information regarding SMEs

The lack of easily accessible information on SMEs was another obstacle, a policy-maker believed, as potential investors sometimes found it difficult to access comparable information about SMEs; the Commission also wanted to tackle this issue.

The policy-maker also stated that there was also a lack of awareness among SMEs of the different financing options that were available to them. Europe had to try to improve SMEs' business education, but could also rely on some good national experiences. Some platforms had been put in place to make it easier for SMEs to understand what financing options existed beyond traditional bank loans. The European Commission would like to replicate this in other Member States, and potentially build on them to develop a pan-European system that could link up SMEs and potential investors. Although this was quite an ambitious goal, work was taking place in this regard.

2. Possible solutions to increase equity financing

A public representative stated that, as well as discussion regarding the appropriate level of regulation, there was also a discussion on-going about how people and companies could be incentivised to embrace equity culture, and try to finance themselves and invest more in the equity markets. This rebalancing would be necessary, especially for SMEs and midcaps. Not everybody embraced equity markets; some people were very optimistic about them, but others were very sceptical.

A stronger focus of trading venues on equity markets

A market infrastructure representative emphasised that for an equity culture to develop, there needed to be equity markets, and for these to exist, there had to be equity trading venues. However, some market infrastructures considered listing, equity, issuers and a company's performance to be 'raw material', and that the real value existed on the upper layers, such as derivatives, trackers and indices. Other market infrastructures, such as his, considered that listing, issuers, a company's performance and equity were the purpose of a market infrastructure: connecting the people who had too much money but no ideas with the people who did not have enough money, but did have ideas. This had been what regulated exchanges had been doing for the past 300 years.

Action would need to be taken, or there would be less connectivity in the market between investors and underlying assets. Some markets in Europe however were less affected than others, in particular Spain, where the retail market was flourishing and solutions had been found through the consistent commitment of the retail banks to continue selling individual stocks to their clients.

The current low or negative rates were masking the possible effects of the scarcity of capital. Lending was cheaper than ever for those who were able to access it, but scarcity of capital and banking prudential requirements were, at some point, going to affect a significant number of projects, which would mean that equity would be the only remaining asset class to finance risk.

In the present environment, properly regulated markets capable of addressing everyone's needs were necessary, the market infrastructure representative stressed. This market needed to address the needs of SMEs and blue chips, retail and institutional investors, the buy side and the sell side, and long-only and HFTs. Trackers, indices and HFT were extremely important to provide liquidity to any proper equity market, but without market infrastructures focused on equity, you would not have the 'critical mass' necessary to create an ecosystem that would ensure the alignment of interest of large investors, research and so on, and you lost the focus on funnelling investors' money towards those who took risks.

The Capital Markets Union (CMU) action plan

Objectives of the CMU

A public representative emphasised that the European Commission had begun the roll-out of the CMU Action Plan. Some elements were already on the table and being discussed within the European institutions, but a lot more was still to come. The central idea motivating this discussion was that the European economy was perhaps too reliant on bank financing and debt. In the last couple of years, there had been a shift away from equity and towards debt, which the Action Plan aimed to address.

Another regulator stated that the CMU Action Plan had represented a series of incremental changes, all of which had been in the right direction. This was not an area where one particular intervention could be transformative.

Review of the Prospectus Directive

The review of the prospectus directive was the first manifestation of the Capital Markets Union. A public representative recalled that, when he had first discussed the Prospectus Directive review in the European Parliament, he had brought with him some 500 to 600 page documents and queried whether these qualified as investor protection. This level of disclosure might need to be rethought.

An industry representative agreed: when his organisation's clients wanted to invest in a new biotech IPO, they were looking at research, rather than the prospectus.

In the short term, the opportunity existed to make three helpful improvements via the review of the prospectus rules, a regulator believed: firstly, for established issuers, the prospectus that was needed for further issues could be greatly simplified by relying on the information that had been provided to the market about those issuers previously e.g. through the ongoing disclosure requirements. Costs could certainly be streamlined in that case. About 70% of the prospectuses that the FCA approved came from existing issuers; many were for debt, but existing issuers were by far the largest share of the population.

Secondly, disclosures for SMEs could be streamlined. One of the issues that would need to be addressed in achieving this goal was the interaction between the existing provisions, which referred to the necessary information that needed including in the prospectus, and the liability regimes that issuers worked under. One of the reasons why prospectuses were as long as they were was risk aversion on the part of issuers about potential liability, and this issue needed to be confronted. Thirdly, via the prospectus regulation, smaller issuances could be taken out of the pan European prospectus regime, so prospectuses were no longer necessary. National regimes could be reverted to in this case, although this was not totally in line with the ethos of the CMU. Europe could probably be more aggressive in terms of the lower limit on prospectuses.

A regulator replied that there were arguments in defence of prospectuses. Although there needed to be a summary that was of a reasonable size, the 300 to 500 page documents were necessary for equity analysts, who were able to read the whole document and needed all of the information it contained. Equity analysts had been known to criticise even very long documents for not containing enough information.

The regulator was however satisfied with many of the improvements contained in the new prospectus regulation, although the fact that SMEs could only have an appropriate and streamlined regime on MTFs might have been a missed opportunity.

An institutional investor believed on the contrary that having reduced disclosure for SMEs on MTFs only, went far enough. If companies were pushing for premium listings, they ought to be willing to put a premium level of disclosure into the public domain. His institution, as an investor, wanted to see these companies coming to premium listings at the major exchanges in the EU, and delivering the highest quality and calibre of disclosure and corporate governance.

An institutional investor considered that the prospectus directive could have been more radical. He had been ‘delighted’ to see the FCA’s statement the previous week regarding the timetable and the IPO process. A major step forward to allow improved access to companies for investors, and vice versa, within the IPO process was to allow the prospectus to be brought forward in the timetable to allow investors to review the core document and the management’s core demonstration of their business and financial background, and for the publication of research into that company to be delayed until investors had the prospectus in front of them. This was already the case in France, through the “document de base”, and in the US through the filing system. Implementing this change would make a big difference to the IPO process and help with access to equity capital.

A speaker in the audience suggested that a move towards a lighter touch disclosure regime for SMEs should be accompanied by a forced spreading of investors to make it more difficult for retail investors to invest directly in single stocks.

The new form of ELTIF that had come into place at the end of last year was another positive development: some regulators, including his own, had criticised ELTIF in the past, but with the new ELTIF, the new Solvency II rules and the fact that the first ELTIF had been approved on the French market in the last few months, a real appetite for this new tool had been seen in the market.

MiFID II

A regulator noted that not all of the regulation work that was underway was in the area of CMU. MiFID 2 would come into force at the beginning of January 2018. This piece of legislation contained very interesting tools for the improvement of investor protection, which would contribute to the development of equity culture. As the French regulator, the AMF had put in place ‘mystery shopping’ for branch networks; it had become clear that the lack of equity culture arose not only from clients, but also from the distribution networks, which was becoming more and more afraid of its responsibility.

MiFID 2 would provide better advice, better investor protection and additional tools such as SME growth markets, but there were also possible unintended consequences of these rules which may limit the willingness of banking networks to sell equity. Another potential unintended consequence of MiFID 2 for SME equity financing related to brokerage fees.

Research and information

The ‘elephant in the room’ was that to have a market, it was necessary to have investors, but also people who checked, challenged, commented on and compared facts and provided sufficient substance, a market infrastructure representative emphasised. In the current context, this was becoming much more complicated, and a new business model had to be found for research that was capable of bridging the gap between retail investors and institutional investors and the shrinking number of talented analysts.

An industry representative confirmed that clients who want to purchase SME IPO shares or SME shares on the secondary market needed research particularly when the shares were not domestic ones.

An institutional investor emphasised that investing in equities was very difficult. His company had 60 or 70 research analysts based in Europe who spent all of their time reading companies' reports, accounts, prospectuses, and other material. Institutional investors did not get it right all of the time, and it was very hard to make a positive return from investing in equities. The question of who were the right people to make equity finance investment decisions needed to be asked; when investing in mutual funds, retail investors allowed someone else with the necessary time, expertise and energy to make decisions on diversification. This was very difficult to do as an individual.

A common vision and a single rulebook

An industry representative stated that the achievements that had been realised thus far regarding equity financing were not the result of new regulation, but of vision. The core elements that were necessary for promoting European equity financing had always been present; the challenge was pulling them together and approaching them with a degree of vision. Scale was important, because it enabled efficiency, standardisation and changing attitudes among entrepreneurs, who could have confidence that they would receive support as well as confidence in the nature of the investment. Moreover, there might need to be some variations, but a rulebook could be created that would enable a much more aggressive approach to putting down risk capital. The fact that Basel III directed banks' focus towards secured lending in the shorter term would need to be borne in mind. Europe was moving towards a much more service-based economy, and needed risk capital. There was a slight mismatch in terms of what was available in the market, and fixing this would require vision and leadership.

The UK Business Growth Fund that he had referred to had used the regulatory environment that was set up by the European Parliament, CRD IV and CRR, which recognised that a collective investment undertaking with a diverse pool of assets should be treated differently for capital purposes because it allowed risks to be diversified. Doing this allowed a new set of investors to access the pool, and brought in more capital. This had enabled banks to invest as a risk-weighted asset, which radically changed the economics from the banks' perspective. This meant that they could use their networks, which were incredibly important in terms of reaching these companies, to feed leads through and to get transactions executed.

An institutional investor agreed that the UK's Business Growth Fund was a very good example of trying to bring people together to move things forward, and opening this up to retail investors and a wider group of investors would be a very positive development. The global financial crisis had been a catastrophe, but one of the great losses arising from it had been the retreat of the retail banking networks from some market segments; they were closest to the small companies, knew the businesses, knew the individuals concerned, knew their business plans and financials, and understood where those businesses were going. A lot of retail banks, given the capital constraints they were under, were no longer willing to lend into those businesses in times of stress, which was when the funding gap became most acute. It was encouraging to see the banks coming back together to put this in place again, and bring some funds to bear on it.

To encourage the development of equity financing in Europe, there needed to be a coherent view of what having a single rulebook meant, a market infrastructure representative believed. Diverse or differentiated interpretations of the rules by local regulators would need to cease. If the single market, the single currency, single banking supervision and the banking union could be achieved, along with the single resolution scheme, the CMU should be achievable. However, this would firstly require Europeans to be more self confident about their collective capacity to make these developments happen. The people who had developed the single market and the single currency had faced a much more daunting challenge. Those who did not believe that implementing these objectives was possible should not impede the efforts of those who were trying. The CMU was achievable, and great countries and great continents were great because they wanted to be. The Commission was coming up with strong proposals, but there also needed to be clear leadership from people who had pooled their destinies to make that a fundamental pillar of growth.

3. The role of technology and electronic platforms in fostering equity financing

A public representative wondered whether new technologies including fintech and blockchain could be used to facilitate equity financing.

An industry representative explained that his company – an ebroker - was increasingly working with robo advisers because ebrokers had a broker status. Robo advisers were not regulated and therefore did not have the appropriate status to send orders to the stock exchange; they advised retail clients and needed to send them to a regulated broker in order to transmit orders to the stock exchange.

A market infrastructure operator stated that they had a more passive position regarding technology. His institution had to deliver a service every millisecond; while they monitored innovation and new solutions and observed developments, they also had to continue operating their standardised processes. There were many independent or innovative early adopters, but a single early adopter did not make a market; scale, standardisation and regulation needed to be created first.

A policy-maker stated that regulating fintech and other innovations was a difficult issue for regulators. Regulators and politicians were often not familiar with new technologies, and did not feel comfortable with them. When the European Commission developed new legislation or regulation, it aimed to do so in a way that was friendly to new technology and that did not make it difficult for new technology to enter the market. Without necessarily having tailor-made legislation for new technology, Europe needed legislation that was well drafted enough to allow new technologies to introduce benefits.

Crowdfunding was a specific example where it was not clear what the European Commission should do. Ideally, there would be one European framework for crowdfunding that ensured that this was resilient and conducive to investor confidence, with a free flow of services on a cross-border basis. On the other hand, proposing legislation too early on such an issue might stifle the development of the market and produce legislation that hampered the development of crowdfunding, and 'fossilised' the market. The question that the Commission would have to deal with might not be whether it should regulate a subject like this, but when it should regulate it. For the present time, the Commission had decided not to table legislation on the subject of crowdfunding. Later, it would table a report on the subject demonstrating very interesting market and regulatory developments, but the time was not right at present.

A regulator agreed that regulators were often disconcerted by new technology; they did not like disruptive elements. However, regulators would need to be bolder. The FCA had developed an approach over the last couple of years that was aimed at encouraging innovative solutions and working with firms during a pre authorisation stage to help them achieve authorisation. Earlier in the year, it had announced the 'regulatory sandbox', which meant allowing firms to test particular product offerings with live consumers, in a safe environment with no risk of ‘ex-post’ repercussions.

Regarding crowdfunding, it would be necessary to wait and see how the market developed. The UK had around 20 investment-based crowdfunding platforms, which had been capable of being included in the existing MiFID; a new regime was not necessary for the platform itself. Simple investor protection rules had been put in place by restricting the proportion of a portfolio that an investor could put into a crowdfunding investment. Last year, such platforms had helped to raise around €300 million in investment, and from a regulatory perspective, these were private placement marketplaces, rather than public offers. It was ironic that most IPOs, especially in the UK, were not public offers but private placements. They therefore did not fall under the purview of the prospectus regulation, which indicated that this regulation was not completely fulfilling its purpose. This was why it was being reviewed, another speaker added.

Another regulator stated that, in France, a national regime on crowdfunding had been established a year and a half ago. National regulation was easier to change than European law. France had already changed its rules twice; these were somewhat different from the UK rules, but made for a light-touch approach that aimed to find the right balance, evaluate very quickly what was happening in the market, and allow the regulator to remain relatively mobile. Surprisingly real estate had been the first economic sector to benefit from the new equity crowdfunding tools. On the issue of fintech and blockchain, the regulator was examining issues related to financial advice and the impact on existing regulation. It was taking a step-by-step approach, at a time when there was a lot of discussion ongoing among regulators at the European and IOSCO levels.

A market infrastructure operator understood the regulators’ perspective: with blockchain, for instance, if something went wrong, the accountable entity could not only be the server, somebody needed to be accountable for making the server work. Transparency and security were critical, and from the market infrastructure perspective, unless the usual features of a market were completely in place, new technology was ‘nice to have’ and interesting, but could not be an operational solution.

During the 1980s and 1990s, people working with financial markets had been dealing with the digitalisation of paper titles, and had faced many of the same questions about what happened if the IT system that was in place broke down. This had been a much more significant challenge than the one posed by blockchain and crowdfunding, but these people had been self confident enough to try and create something new, and had been successful. The challenge of implementing fintech and blockchain solutions was achievable; it required aligning regulators, innovators and market players.