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CMU and Call for Evidence: update and next steps

Speakers

Jonathan Hill
European Commission , Commissioner, Financial Stability, Financial Services, and Capital Markets Union

Ladies and gentlemen,

It's good to be here. Back in September at your last conference, I talked about my plans for the Capital Markets Union and about my approach to rulemaking.

Today, I want to start by giving you a progress report on CMU, but then I am going to concentrate on how we have been getting on with the Call for Evidence and what we are doing to check that our regulatory framework is working as we had hoped and in as growth friendly a way as possible.

So, first, CMU. Here, as you know, the goal is to help capital flow throughout the EU. To connectsavings more effectively to growth; to channel investment to projects in need of financing; to givecompanies a greater choice of funding; and to increase the options for people saving for the long term. By complementing our banking sector, stronger capital markets will also make our financial systemmore resilient, enabling us to bounce back more quickly in the event of a crisis.

We designed the CMU to start fast but also to keep up the momentum in the years ahead. At its heartis an effort to improve the funding conveyor belt for businesses. To increase the funding choices forcompanies so that more businesses can get the financing they need at each stage of their development.

For companies in their start-up phase, we'll begin this year by amending existing legislation governing venture capital funds to build up scale, diversity and choice. And we'll look at using public money to catalyse private investment with a pan-European venture capital fund of funds. To free up bank lending for smaller companies, we've made a proposal to revive Europe's securitisation markets that Member States agreed in record time, and that the European Parliament will I hope take forward urgently to support investment in the wider economy. Every extra day that this proposal takes to pass into law is
one more day of a missed opportunity for growth.

For companies that are growing, we're overhauling the Prospectus Directive to create a simpler, faster and cheaper prospectus regime. We're streamlining the process for companies that have already issued a prospectus and want to raise capital again. And we' re proposing to drop the prospectus requirement altogether for companies that only want to raise small amounts. This is moving well through both the Council and the European Parliament. I also want to look at existing private placement markets that work well and see how we can build on them to help medium sized companies. And next year we'll complete a wider review of regulatory barriers that SMEs encounter when they want to list.

To create deeper capital markets for companies of all sizes, I want to knock down some longstanding barriers to cross border investment. This year we'll bring forward proposals to try to reduce differences between national insolvency regimes. We'll see whether we can simplify the system to reclaim withholding tax when these are subject to double taxation. And to inject more savings into capital markets we're considering proposals for a European market for simple personal pensions.

So I think we have made some good progress. We've got a big programme, we've got off to a quick start, and now I want to keep up the pace. To capitalise on the political support and goodwill I find on all sides.

As part of this work to build a single market for capital, we're also checking that the rules we introduced in recent years in response to the financial crisis are working as intended. This is something the European Parliament – led by Burkhard Balz– many governments and the industry have rightly called for.

Overall, the reforms have made our financial system stronger. They were needed as part of the response to a financial crisis that had such a far-reaching impact on Europe's economy. But as the outlook for the global economy remains uncertain, and as we work to support investment, competition and growth, we need to ask ourselves whether we got everything right. To explore whether the same prudential objectives can be achieved in a more growth friendly way. And to look carefully at the
balance between micro and macro prudential objectives.

That's why we launched a Call for Evidence and asked for people's views - backed up by hard evidence
on the impact of the last few years' regulatory reforms. We were interested to understand not just the effect of individual pieces of legislation, but also the interconnections between all the different pieces of the regulatory jigsaw.

There was a great response and we're still working through the hundreds of submissions we received: assessing the claims against the quality of the evidence that's been submitted.

There's more work to do before we come to a definitive view. But our initial analysis points to three main areas where we need to focus our attention. First, many respondents said that legislation is not always proportionate. Second, that in some areas it is limiting the amount of financing available to the wider economy. And, third that there's too high a compliance burden on businesses, particularly smaller ones.

Let me say a bit more about each of these three areas.

Europe has a very diverse financial sector and that diversity is a source of strength. So I'm sensitive to concerns that regulation may not be taking that fully into account. I'm very sympathetic to the argument that rules need to be better attuned to companies' business models, to their risk profiles and their size. In short, I want to see whether we can take a more proportionate approach.

In the area of banking, smaller banks feel strongly that the capital requirements are too onerous.

We've been looking at this as part of the Capital Requirements Regulation, CRR, and its sister directive CRD4. Here, I want to see whether we can build on existing measures which were designed to make the system more proportionate.

For example, I'd like to make reporting and disclosure requirements more proportionate for smaller banks. To simplify the existing complex templates, and make what's disclosed more understandable, and therefore more meaningful. I also want to see whether the intricate calculations banks have to do to comply with prudential rules could be simplified. And whether there is a case for small banks with limited trading activities to be exempt from capital requirements for trading book exposures.

As we're in the Netherlands, in this historic city built on free trade but powered by modern finance, I can confirm that we'll look again at the list of smaller banks and building societies exempt from CRR and CRD4. So far, this has been decided on a case by cases basis. We'll keep existing exemptions in place. But to speed up future applications, for example from credit unions, I want to set some objective criteria on which future exemptions can be decided.

Companies inside and outside the financial sector are calling for more proportionality in the European Market Infrastructure Regulation, EMIR. Smaller companies claim that future capital requirements are stopping banks from providing clearing services to them. Why is that a problem? Because without access to clearing, they will not be able to manage the risks in their businesses properly and this will hinder investment and growth.

So we must make sure the cumulative impact of bank capital requirements and EMIR is not overly burdensome, that it doesn't inhibit sensible business planning. And we will simplify EMIR's requirements without jeopardising its core purpose of reducing systemic risk in our derivative markets. This goal is central to the EMIR review currently underway.

Some of the responses to the Call for Evidence also focused on the impact of our legislative framework on the amount of funding available to the wider economy.

Some have emphasised its positive impact on investor confidence. For them, higher capital requirements will over time have a positive impact. They argue that the slowdown in lending is because demand for loans has been lower. But others argue that our prudential rules, especially CRR and CRD4, are reducing the funding available to the wider economy.

So in reviewing this legislation, my challenge is to make sure it achieves its prudential objectives but that its requirements for lending to companies are not too high. As you all know, there's been a long debate about whether to keep the SME supporting factor. Today, I can announce we will not only keep it, but that we’re also examining whether to raise the threshold so that more loans to SMEs can qualify for lower capital requirements.

Responses from the insurance industry have said that the rules do not distinguish sufficiently between long-term and short-term investments, and the different levels of risk associated with them. The result, in their view, is that long-term investments are made disproportionately expensive.

For investments by insurers in infrastructure projects, I agree with them. That’s why one of the first actions under the CMU was to amend Solvency II to support infrastructure investment by insurers. This defined infrastructure as an asset class, and reduced associated capital requirements on insurers for this type of investment by nearly a third. I'm glad to say that this change has been in place since 2nd April.

We made that change on the basis of the advice that we received at the time. Could we go further? While we need to get Solvency II bedded in, some have argued that we should extend this change to a broader range of infrastructure investments. I think that is something that is worth looking at carefully. So we've written to the European Insurers and Occupational Pensions Authority for advice and expect a response in June.

Asset managers have told us that the existing EU passporting system isn't working properly. For me, a passporting system that works for investment funds is fundamental to a single market for capital. But smaller fund managers tell us they still struggle to offer their products in different countries. That gold plating by national supervisors, additional fees, and different requirements for marketing material too often get in the way.

They find that unacceptable. And if it's true, so do I. That's why we'll launch a consultation in May to identify the main barriers to funds operating in other countries. Then, we'll improve passporting so that investors can get hold of the right information; where they have more choice and enjoy lower charges; and where investment funds can genuinely compete across borders.

The decline of market liquidity is, of course, the subject of a lively debate. And as you'd expect, Call for Evidence responses reflect this. While everyone agrees there's been a decline, there's less consensus as to its cause. Some argue the decline is normal, following the excess liquidity of pre-crisis years. Others believe it introduces new risks and that legislation may be playing a role.

To get a better understanding of the overall picture, we're starting with a comprehensive review of liquidity in corporate bond markets – the markets most important to businesses raising capital to invest. And when it comes to new measures, we'll be careful to avoid anything that could make the situation more difficult. That's why we've written to the European Securities and Markets Authority to SPEECH/16/1527 ask for a more cautious approach on MiFID II liquidity calibrations. And that's why we've asked the advice of the EBA on how to apply Basel measures - like the bank Net Stable Funding Ratio liquidity rules and the leverage ratio – in way that works for European businesses. And for their assessment of the impact that the Fundamental Review of the Trading Book would have on the European banking sector.

Another big theme of Call for Evidence responses is the burden imposed by the complexity of the rules, and the quantity and duplication of reporting requirements across different pieces of legislation.

I take very seriously businesses' complaint that they're reporting and disclosing the same information in different ways to comply with different pieces of legislation. That the volume of information they're being asked to provide is not always proportionate to risk. And that the pace of regulatory change has itself been a huge challenge for businesses.

The volume of data collected and exchanged between national authorities and the European supervisory authorities has undoubtedly increased dramatically. It's less clear whether all of it is essential. So we'll see what can be done to streamline reporting requirements, templates and reporting formats, and for common IT tools to be used to lighten the compliance burden.

What makes this review urgent? The lack of growth across Europe. That's one of the reasons why, as President Juncker said on Tuesday, we shouldn't "overregulate" and "interfere too much". Yes, we need to worry about financial stability. But it's from a financial stability point of view that we need to look at the combined effort of our regulations and ask whether we are striking the right balance between micro and macro prudential considerations.

We'll complete our analysis of the responses of the Call for Evidence by the summer. By then we should also be clearer on the follow-up actions that will be needed. In the meantime we'll publish a summary of our responses this month, and hold a public hearing in May to explore the key issues that have been raised.

Assessments of the coherence of the reforms that were undertaken at speed during the crisis are now underway across the world. For the moment, we're the only ones to have taken such a fundamental and comprehensive approach. There's an obvious opportunity to lead, and I want us to do just that. To feed the lessons we learn into international discussions at the G20, FSB and the Basel Committee. To shape the agenda. And to work for a regulatory framework that delivers financial stability but which also recognises that without risk, we will not have growth.