Capital Markets Union – More Investments, More Growth

Resolution adopted at the EPP Congress, Madrid (Spain)
21 - 22 October 2015

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Since the Treaty of Rome in 1957, the EU has remained committed to four freedoms, namely the free movement of persons, services, goods and capital. The same principles were extended in the Single European Act of 1987 and further strengthened as part of the Lisbon Treaty of 2009. Despite these efforts, the free movement of capital has been hampered over the years due to national legislation and regulation. The Capital Markets Union (CMU) proposal by the European Commission intends to finally, after almost six decades, make the European Union a single market for capital. We need the CMU in order to boost investment and growth! At the same time, it is urgent that we address the significance of stable public financial systems. We, as the European People's Party, wholeheartedly support creating a more open, more competitive, more liquid, bigger and less bureaucratic European capital market. We need more capital in Europe, which is invested in infrastructure projects and European businesses of all sizes to give our entrepreneurs the opportunity to gain financing as easily as possible and with competitive prices so that they can create new jobs, products and services. It is the right time for Europe to open up to a more diversified financial system and increase the share of investments stemming from non-bank actors such as insurance companies, investment funds, private equity funds, venture capital funds, peer-to-peer lending facilities and business angels. The aim of the CMU is not to limit the role of banks in the European Union. Banks have and will have a crucial role in financing growth and investment in the EU, today dominating the financing of small- and medium-sized companies. We call for more complementary actors and instruments to be facilitated and strengthened alongside banks. We need to make sure that our financial system is stable, safe and subject to an overarching supervision of all financial services and financial markets on a European scale. Diversifying our European financial markets and distributing risks within the system to actors best suited to deal with different risk profiles is one important step towards a deeper and more stable European financial system. We understand the different needs of investors with varying profiles and it is important to also understand the needs of companies at different stages. One size most certainly does not fit everyone. Diversification of our system and working to boost private equity investments is,for us, an utmost priority. We have to approach European Capital Markets from the point of view of our entrepreneurs. We have to make sure that there are competitively priced financial instruments available for companies with already-strong products, as well as instruments that are more suited for start-ups and quickly expanding, high-growth companies. In this policy paper, we present our political priorities for the Capital Markets Union. We prioritise a liquid, stable and diversified European Capital Markets Union to support our ambitious entrepreneurs and companies so that they can innovate, grow and employ.

01 Start-Ups – in need of risk capital and alternative financing models

Depending on the type of start-up, the funding needs and optimal instruments differ widely. Start-ups face trouble accessing bank credit without collateral, which is often provided by the entrepreneur. Often it would be better if the initial investments would come from business angels or through new and innovative financial intermediaries such as crowd-investment or crowd-funding platforms. This is of special importance for stimulating young people and women to start their own businesses and it is necessary to highlight the importance of providing information and trainings on the alternatives to bank credit. This is especially the case because, if the start-up fails and the entrepreneur is liable for the bank debt, bankruptcy proceedings in Europe are long processes, which make it hard to try again. The European People's Party:

- Recognises the different financing needs and starting positions of start-ups;
- Acknowledges the invaluable contribution of business angels, seed funds and early stage market players to the European business environment;
- Underlines the need for banks to be able to contribute to the financing of private equity;
- Calls on the Member States to incentivise through taxation the growth and emergence of business angel, seed fund and early stage market player sectors;
- Underlines the importance of the availability of information for unsuccessful loan applicant start-ups and SMEs about alternative financing channels such as peer-to-peer lending platforms, crowd-funding and crowd-investing platforms;
- Calls on the European Commission to create the European framework regulation to facilitate the creation of pan-European crowd-funding and crowd-investing markets.

02 Small- and Medium-Sized Enterprises – micro-companies in need of credit

Small- and medium-sized enterprises are the backbone of our economy and prosperity. Out of all European businesses, 99% are SMEs. SMEs provide two out of three private- sector jobs and contribute to more than half of the total value-added created by businesses in the EU. Additionally, nine out of ten SMEs are micro-enterprises with less than 10 employees, and each company on average provides work for two people. Access to bank credit is important for micro-companies and SMEs in order to incrementally innovate and develop their products and services. We have to review the existing regulations to find the optimal balance between regulations on banks and encouraging lending to micro-companies and SMEs. The European People's Party:

- Recognises the unquestionable importance of the role of banks in providing working capital to SMEs and micro-companies;
- Acknowledges that credit conditions in the EU are widely different and differences are not always based on fundamentals, but on increased banking regulations;
- Calls on the European Commission to facilitate the securitisation of loans to micro-companies and SMEs to increase their available credit;
- Calls on the European Commission and the Member States to facilitate the creation of stronger alternative finance markets for micro-companies in the form of peer-to-peer lending platforms and crowd-lending platforms;
- Calls on the European Commission to give specific attention to young, senior, and female-owned SMEs as well as to family-founded enterprises, social enterprises and cooperatives in pursuing these policies.

03 High-growth SMEs – in need of equity and credit

High-growth SMEs are companies that have experienced average annual growth greater than 20% per annum over a three-year period, either in employment or turnover growth. We have to encourage deeper equity investment markets to not only facilitate more investment but also to make sure that such companies have better possibilities to tap into equity investments. Achieving that would make our financial system more robust, make Europe more resistant to shocks and offer European high-growth companies more alternatives for gathering the financing they need for further growth. High-growth SMEs producing radical innovations have different financing needs compared to incrementally innovating SMEs. The European People's Party:

- Recognises the need for deeper private equity and venture capital markets in the EU;
- Acknowledges that private equity provides long-term financing to more than 5,000 European businesses each year, of which 86% are SMEs;
- Calls on the European Commission and the Member States to facilitate a cultural change towards more equity financing;
- Calls on the European Commission to review the venture capital regulation EUVECA and AIFM directive to allow more investment in venture capital funds and to ease the conditions for Venture Capital funds to be marketed throughout the EU;
- Calls on the European Commission and the Member States to urgently focus on developing efficient private placement markets;
- Calls on the Member States to resist adding additional regulations on existing directives to facilitate cross-border investment by Private Equity Funds and Venture Capital Funds and to annul gold-plated national additional burdens;
- Calls on the European Commission to review the prospectus directive;
- Calls on the European Commission to study lowering the risk-weight assigned to insurers' investments in Venture Capital Funds.

04 Large Companies – deeper and more liquid corporate bond markets

Large companies in the European Union have considerably better access to capital markets and benefit from deeper markets more than SMEs, but markets still remain fragmented. Consolidating markets would increase the liquidity and depth of capital markets in the EU. The European People's Party:

- Recognises that European Capital Markets remain fragmented;
- Calls on the European Commission to study the differential tax treatment of debt and equity financing;
- Calls on the European Commission and Member States to facilitate consolidating stock exchanges into bigger centres in the EU to increase the cross-border nature of European Capital Markets;
- Calls on the European Commission and the Member States to complete the Single Rulebook to help create the Capital Markets Union;
- Calls on the European Commission and the Member States to remain vigilant against forming regulations or instruments that either create systemic risks or encourage moving risky behaviour into unregulated parts of the financial system;
- Underlines the need for stable public finances in order to provide liquid and dynamic financial markets.

05 Public-Private Infrastructure Investments – encouraging long-term investments

It is of paramount importance to encourage public-private investments in infrastructure. The Juncker Plan is doing so by contributing capital. However, problems remain which are caused by regulation that does not fully take into account the characteristics of infrastructure investment, which tend to be long-term and illiquid by nature. It is of great importance to follow up the financing of proposed and approved projects. The European People's Party:

- Calls on the European Commission to review Solvency II to enable more investment in infrastructure projects by insurance companies;
- Calls on the European Commission to open ELTIFs (European Long-Term Investment Funds) to pension and investment funds;
- Calls on the European Commission and the Member States to take into account the long-term nature of ELTIFs when designing fiscal incentives for investing in ELTIFs.

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If you have any question you would like to ask please contact us.

The publication of this document received financial support from the European Parliament.