Q & A on the Green Paper on building a Capital Markets Union

Brussels, 18 February 2015

General Questions

What does the term 'Capital Markets Union' mean?

The free movement of capital is a long-standing objective of the European Union – a fundamental freedom which should be at the heart of the single market. Despite the progress that has been made, Europe’s capital markets remain fragmented along national lines and European economies remain heavily reliant on banks for their funding needs. This makes them more vulnerable in bad times to a tightening of bank lending, as happened during the financial crisis.

The Capital Markets Union (CMU) is a flagship initiative of this Commission and will contribute to the ambition to boost jobs and growth in the EU in the context of the Investment Plan for Europe.

The objectives of CMU are to help businesses tap into more diverse sources of capital from anywhere within the EU, make markets work more efficiently and offer investors and savers additional opportunities to put their money to work in order to enhance growth and create jobs. It aims to place the building blocks of a well regulated and fully functioning Capital Markets Union in the EU by 2019 - creating a single market for capital for all 28 EU Member States by removing barriers to cross-border investment and to lower costs of funding within the EU.

The building blocks of CMU should create a situation where: small and medium-sized enterprises (SMEs) can raise financing more easily than today; costs of investing and access to investment products converge across the EU; obtaining credit through capital markets is increasingly straightforward; and seeking funding in another Member State is not impeded by unnecessary legal or supervisory barriers. Whilst these changes will help capital markets to play a larger role in channelling financing to the economy, banks will remain key players in capital markets, as issuers, investors and intermediaries. Banks will continue to play a major role in credit intermediation through their role in funding and information provision.

What are the key principles underlying the Capital Markets Union?

The Capital Markets Union is based on the following key principles:

▪ maximise the benefits of capital markets for the economy, to boost growth and jobs
▪ create a real single market for capital for all 28 Member States by removing barriers to cross-border investment within the EU and fostering stronger connections with global capital markets
▪ build on the firm foundations of financial stability, with a single rulebook for financial services which is effectively and consistently enforced
▪ ensure an effective level of consumer and investor protection
▪ help to attract investment from all over the world
▪ contribute towards enhancing EU competitiveness.

What are the key obstacles to a true single market for capital that the Green Paper seeks to address?

There are many obstacles to the integration and development of EU capital markets. Some of these are historical, cultural, economic and legal, some are deep-rooted and difficult to address. The degree of financial market integration across the EU has receded since the crisis, with banks and investors having retreated to home markets. There is also a wide variation in capital market development: capital markets are smaller and less deep in some Member States compared to others. For example, in 2013, domestic stock market capitalisation, which defines the aggregate market value of the issued share capital of all publicly-traded companies, exceeded 121% of GDP in the UK and 98% in the Netherlands[1], compared with less than 10% in Latvia, Cyprus and Lithuania.

Europe’s stock markets, equity markets and venture capital markets are also less well developed when measured against comparable economies. For example:

- US public stock markets are almost double in size (stock market capitalisation is 138% of GDP in
the US vs. 64.5% in the EU in 2013). Relative to the size of the economy, stock market capitalisation in China exceeds that of the EU (74% of GDP in China compared to 64.5% in the EU in 2013).[2]

The US private placement market, which is a form of direct lending typically between institutional investors and mid-sized firms is almost three times bigger than that in the EU (issuance volume of $50 billion in the US vs. €15 billion in the EU in 2013).[3]

- US corporate (non-financial) debt securities markets (which refer to debt issued by a government or corporation that may be traded on secondary markets, such as bonds, notes or money market instruments) are three times as large as in the EU (total value of corporate non-financial debt outstanding is 40.7% of GDP in the US vs. 12.9% in the EU in 2013).[4]

- The Venture Capital (VC) market – the markets for higher-risk ventures and start-up companies – is about five times bigger in the US than in the EU, in terms of the amounts invested[5]. If European venture capital markets were as developed as those in the US, an additional €90 billion of funds would have been available to finance companies between 2008 and 2013; and more than 4,000 additional VC-backed deals could have been struck.

- Securitisation issuance in Europe amounted to some €216 billion in 2014 (€180 billion in 2013), compared with €594 billion in 2007. If the SME securitisation market could be revived safely, it could generate some €20 billion of additional funding.[6]

There appears to be insufficient investor confidence in the EU, and this is reflected in the differences in savings and investment patterns. European investment levels are well below their historical norm and due to lack of scale European capital markets are less competitive at the global level.

On the demand side, there are barriers in terms of access to finance, in particular for SMEs, start-ups and long-term infrastructure projects undertaken in areas such as transport and energy, but also social infrastructure (hospitals, schools and social housing). These barriers include the varying levels of information available to make investment decisions across the EU and the high costs of accessing capital markets, especially for SMEs, with many investors limiting themselves to their national markets. These problems are particularly severe in the countries that have been most affected by the crisis.

On the supply side, there are constraints that limit the flow of savings into capital market instruments from institutional, retail and international investors. These include issues such as the high costs of setting up and marketing funds across borders; the lack of tailored treatment for infrastructure investments in capital requirements of insurers and banks; the difficulties of accessing personal pensions across borders; the fragmented market for risk capital in the EU, and the general lack of trust of retail investors in financial markets and intermediaries due to the crisis.

**What are the priorities highlighted in the Green Paper?**

The CMU project includes certain short-term priority actions, some of which were also identified in the Investment Plan for Europe:

- lowering barriers to accessing capital markets through a review of the current prospectus regime (see below)
- widening the investor base for SMEs by improving credit information on SMEs
- developing proposals to encourage ‘high-quality’ securitisation and free up banks’ balance sheets so they can lend more
- supporting take up of long-term investment funds (ELTIFs - see below)
- supporting industry led work to develop European private placement markets

Based on the feedback it will receive, the Commission will assess what measures will need to be taken in the medium- to long-term.

**Who is being consulted in the Green Paper?**

The aim of the Green Paper is to consult the EU institutions and all interested parties and stakeholders including national parliaments, Member States, citizens, SMEs, the non-governmental sector as well as the financial sector on the Commission’s overall approach to putting in place the building blocks for CMU by 2019, and on possible measures which could be taken to achieve this objective.

The Green Paper is accompanied by two technical consultations: one on improving the Prospectus regime, the other on building a ‘high-quality’ securitisation market in the EU.

**What are the next steps after this Green Paper?**

All interested parties are invited to submit their contributions by 13 May 2015. See consultation here.
Based on the input received, the Commission will adopt an Action Plan on the Capital Markets Union later in 2015. The Action Plan will set out the actions to be carried out over the next five years.

**Does the Commission envisage adopting legislative proposals?**

The Green Paper consults widely on the nature of the problems, the possible measures and their prioritisation. While some legislative measures will most likely be needed, legislation might not always be the appropriate policy response. In many cases it will be up to the market to deliver solutions. Non-legislative steps and the effective enforcement of single market and competition laws might offer the best way forward in other areas.

**Who stands to benefit from CMU?**

**Who will benefit from a well-regulated and integrated Capital Markets Union?**

An integrated and well-regulated CMU should support investment in the EU by unlocking financing and putting it to work in support of all **Europe's businesses, including SMEs and start-ups**.

CMU aims to offer **investors and savers** additional opportunities to put their money to work. Households (retail investors) and institutional investors (insurance companies, pension funds, and investment funds) should benefit from a greater choice of investments, accessible at lower costs, with effective investor protection.

**Financial institutions, investment firms and financial intermediaries** should benefit from more competitive, well regulated and integrated EU capital markets with greater scale and depth. Ultimately, as CMU takes hold, **all EU citizens** should benefit from the expected boost to growth and job creation.

**How will start-ups and SMEs benefit from CMU?**

Many European SMEs are struggling to get funding, particularly in those countries worst hit by the crisis. In the euro area, 35% of SMEs didn't get the complete financing they asked their banks for in 2013[1]. Bank finance is often difficult to access or insufficient for larger companies. At the same time SMEs and start-ups in Europe have less access to venture capital and other alternative sources of funding than their rivals in the US, for instance. In some cases European companies have felt compelled to relocate to the US in order to have easier access to funding.

A Capital Markets Union should help businesses **gain improved access to greater finance**, including risk capital, at reasonable costs. A Capital Markets Union should also help businesses **to tap into more diverse sources of funding from investors** in the EU and all over the world.

**SME credit information**

SMEs face numerous hurdles in seeking and attracting finance. For example, around 25% of all companies and around 75% of owner-managed companies do not have a credit score which provides potential investors with the information they need to make their decisions[11]. The Green Paper therefore identifies **SME credit information** as an area for potential improvement. Adequate, comparable, reliable and readily-available credit information on SMEs is often either held by banks, or is missing or varies greatly from one EU Member State to the next.

In order to facilitate SMEs' access to finance, the Green Paper envisages increasing SMEs' visibility and ensuring that investors have greater access to SME credit information. This would help to significantly improve the efficiency of SME funding markets and help to diversify the funding avenues available to firms.

**A simplified, common and high-quality accounting standard**

The Green Paper seeks views on whether developing a simplified, common and high-quality accounting standard tailored to companies listed on certain trading venues (e.g. SME Growth Markets – new markets which will be set up from 2017 when the Markets in Financial Instruments Directive, or MiFID II, comes into force). could have the potential of increasing the transparency and comparability for such companies, and making them more attractive to cross-border investors.

**Prospectus Directive**

**The Prospectus Directive** provides an EU-wide regime for capital market prospectuses which are required when a public offer of securities is made or when a company is seeking admission to a regulated market. It is the gateway into capital markets for many firms, and the Commission will review the directive to improve its effectiveness and lower burdens, particularly on smaller firms (see annex for more details).

**Private placement**
Private placement is a form of direct lending typically between institutional investors and mid-sized firms, or ‘mid-caps’. It can take the form of loans or bonds with maturities between 3-15 years, with 5-10 years being more common. The current EU regulatory framework allows private placements and some Member States – mainly Germany and France - have already developed these markets. However, there is room for improvement: the US private placement market is almost three times bigger than that in the EU, with an issuance volume of some €50 billion in 2013.

Private placements have the potential to broaden the availability of finance for medium to large unlisted companies. They also have the potential of offering additional investment opportunities for long-term investors, such as the insurance sector and pension funds industry, which prefer longer maturities.

The Commission has undertaken a mapping exercise of national private placement regimes and it notes that barriers to the development of a pan-European private placement market include the lack of standardised processes and documentation; information on the credit worthiness of issuers; as well as lack of liquidity in secondary markets.

A consortium of industry bodies has developed a guide of best practices to help develop common market practices and principles for market placement. This was made public on 10 February 2015[2] . The Commission welcomes this market-led approach, which could help to facilitate the creation of a European private placement market in the short term. The Green Paper asks whether any other EU action is needed to support market-led efforts.

**What will be the benefits of a Capital Markets Union for large companies?**

CMU will boost the flow of savings from investors into capital market instruments. This should create more choice in terms of funding sources for all businesses, including large corporates. Deeper and more integrated capital markets would also mean enhanced competition and therefore lower costs for business financing.

**What will be the benefits of a Capital Markets Union for banks?**

As lenders to a significant proportion of the economy and intermediaries in capital markets, banks will play a central role in CMU and will benefit from a deeper integration of the single market for capital. In their role as intermediaries, banks would benefit from better-functioning markets as this would mean fewer barriers to cross-border investments and an increase in the number and the amounts of transactions, both domestically and across the Union.

Measures such as a framework for ‘high-quality' securitisation could also provide scope for banks to lend more where they transfer risk safely off their balance sheets (see annex on securitisation below).

**What will be the benefits of a Capital Markets Union for retail investors and citizens?**

The Capital Markets Union aims to offer investors and savers additional opportunities to put their money to work. Retail investors will only invest in capital markets if they trust them as well as the financial intermediaries operating in them, and believe they can safely secure a better return on their savings.

CMU should offer households (retail investors) a greater choice of investments, accessible at lower costs, with effective investor protection.CMU also aims to enhance cross-border competition in retail financial services in order to bring benefits to retail investors in terms of greater choice, lower prices and better services.

In particular, the Green Paper seeks views on how retail investors could better benefit from investment funds, known as the Undertakings for Collective Investments in Transferable Securities (UCITS) funds (see MEMO/14/298). Although these funds work well in the EU, there are still important differences between Member States regarding the regulatory costs of setting up such funds, the authorisation requests to become authorised managers and the selling of the funds across borders. Reducing costs for setting up funds and marketing them across borders would lower barriers to entry and create more competition. This would also allow funds to grow and benefit from economies of scale.

**What will be the benefits of a Capital Markets Union for institutional investors such as insurance companies, pension funds or investment funds?**

Institutional investors (insurance companies, pension funds, and investment funds) should benefit from a greater choice of investments, accessible at lower costs, with effective investor protection.

The Green Paper seeks to identify measures which could attract a greater flow of capital from institutional investors to a broader range of assets, such as long-term projects, start-ups and SMEs. These include measures to reduce the costs of setting up and marketing investment funds across borders, to boost investment in infrastructure, develop personal pensions and promote the provision of
How could European Long Term Investment Funds (or ELTIFs) facilitate long-term financing?

Europe needs an estimated €1.5 trillion to €2 trillion to finance its infrastructure needs by 2020[1]. The European Long Term Investment Funds (ELTIFs) (see MEMO/15/4423, IP/13/605) are designed to bring together investors who want to put money into companies and projects for the long term with enterprises in need of 'patient' long term money. As such, ELTIFs are an integral part of the drive to improve the long-term funding of the EU's economy which is embodied by European Fund for Strategic Investments (EFSI) (see IP/15/3222).

Investors will have confidence that their money is being managed within the clear and harmonised parameters set by the ELTIF regulation. In addition, ELTIFs will be managed by an authorised manager specialising in long term investments.

ELTIFs are designed to make long term investments in infrastructure assets such as airport concessions, transport infrastructure, electricity grids, as well as 'social' infrastructure, for example, social housing, hospitals or municipal services. They can also invest in small and medium-sized companies (SMEs) regardless of whether they are listed on stock exchanges.

How is Capital Markets Union coherent with other EU projects?

What is the link between CMU and the Investment Plan?

CMU supports and complements the Investment Plan for Europe. The €315bn investment package will help to kick start the process of unlocking finance for companies. But deeper and more liquid capital markets can help more funds to flow into the projects supported by the investment plan.

CMU builds on the short term priorities set out in the Investment Plan for Europe – such as 'high-quality' securitisation and the review of the Prospectus Directive by consulting on how those priorities should be implemented. In addition, the Commission seeks views on how to address, in the medium term, the deep seated barriers to integrated capital markets to build the foundations for continued investment over the long run.

Is CMU similar to Banking Union?

The goal of achieving an integrated single market for capital to channel funds to the real economy is a distinct, yet complementary project to the Banking Union (see MEMO/14/294). The main objective of the Banking Union is to break the link between banks and national finances for the Member States that share the euro. The Single Supervisory Mechanism (see MEMO/13/780), the first pillar of the Banking Union, gives the European Central Bank (ECB) responsibility for supervision over banks in the euro area while the Single Resolution Mechanism (see MEMO/14/295) ensures that when banks fail despite stronger supervision, bank resolution would be managed more effectively through a Single Resolution Board and a Single Resolution Fund. The Banking Union today encompasses the Eurozone countries but is open to any non-euro Member State that would want to join.

The CMU and Banking Union are complementary projects. CMU will build on the foundations of financial stability promoted by Banking Union by diversifying Europe's sources of finance to encompass non-bank sources of funding (e.g. insurance companies, pension funds, hedge funds and other asset managers). Well-integrated capital markets will also contribute to the resilience of the Economic and Monetary Union. In contrast to the Banking Union which currently includes only the countries that share the same currency, the CMU is a project for all 28 EU Member States.

Isn't CMU about reducing bank funding in favour of capital markets, and essentially an 'anti-bank' policy?

Developing market financing does not mean reducing bank financing – in fact, revitalising 'high-quality' securitisation could provide scope for banks to lend more where they transfer risk safely off their balance sheets. Banks also play a key role in offering intermediation services in capital markets.

As lenders of the economy and intermediaries in capital markets, banks will continue to play a central role in a single market for capital and more broadly in the European economy. CMU is about expanding and diversifying the sources of funding available for jobs and growth.

How will European capital markets be made more attractive to international investors?

To attract foreign investment, European capital markets need to ensure market integrity, financial stability and investor protection. The Commission is contributing to international work on freedom of movement of capital, including for example the enforcement of the OECD Codes of Liberalisation of Capital Movements.

According to International Monetary Fund (IMF) data, the global total stock of cross-border portfolio
investments was €25 trillion at the end of 2013. The total stock of cross-border portfolio investments between EU Member States was €9.6 trillion, whereas portfolio investments coming from outside the EU amounted to €5 trillion. Therefore, there is still a wide scope for attracting additional equity and debt investment from third countries.

With the Green Paper, the Commission is interested in views on measures which could be taken to increase the attractiveness of EU markets to international investors.

**Will CMU encompass any changes to company, insolvency or tax laws?**

Many experts and market practitioners agree that the barriers to an integrated capital market include divergences in areas such as tax, company and insolvency laws across the EU.

These types of issues are difficult as matters of policy to overcome. However, there is a need to explore whether there are targeted measures, even in difficult areas, which could materially contribute to the goal of CMU, and how to build consensus around them.

**What about the supervision of capital markets – what role does the Green Paper foresee for the European Supervisory Authorities?**

Although regulatory frameworks for capital markets have largely been harmonised, the success of reforms also depends on the implementation and consistent enforcement of the rules. In relation to supervision, the European Supervisory Authorities (ESAs) therefore have an important role to play, alongside the Commission and national regulators, in ensuring that EU financial legislation is fully implemented and correctly enforced.

The consultation asks how the ESAs can further contribute to ensuring consumer and investor protection, whether the powers of the ESAs to ensure convergence are sufficient and what additional measures relating to EU supervision would materially contribute to more integrated capital markets within the EU.

**Will Capital Markets Union promote shadow banking and unregulated markets?**

No. A sustainable Capital Markets Union is predicated on a foundation of financial stability and investor confidence. The intention is not to back-pedal on the reforms agreed during the last years. The international regulatory community has set out a path to deal with shadow banking risks and a monitoring framework which is being implemented in Europe, for example through the Alternative Investment Funds Managers Directive (AIFMD) whereby all funds are subject to authorisation and regulation. Negotiations are also ongoing on proposals regulating Money Market Funds and securities financing transactions in the Parliament and the Council.

The diversification of risk, which capital market financing may help to achieve, can be good for financial stability. A more diverse financing sector could have helped to reduce the effects of the crisis and the recovery of EU economies. The challenge is therefore to maximise the benefits of non-bank financing for the economy while minimising systemic risks.

The Commission will continue to monitor the situation – relying on the work of the European Systemic Risk Board at the European level – and will remain vigilant to the risks of shadow banking while enabling the economy to benefit from a more diverse range of funding. In line with the work of the Financial Stability Board, the Commission's approach regarding shadow banking is to deliver transparent and resilient market-based financing while tackling major financial risks.

**Won't Commission proposals on securitisation encourage a repeat of the practices that led to the crisis?**

There is no intention to undo what has been put in place in the EU to keep the door closed to highly complex, opaque and risky securitisation.

Pre-crisis, securitisation played an important role in the financing of the economy, particularly in Europe. The role played by opaque and complex securitisation during the financial crisis led securitisation levels to decline significantly worldwide. Since the crisis, securitisation levels have remained subdued in Europe, while securitisations in the US have recovered, notably thanks to the role of public sponsorship in the US market.

Securitisation has real potential as long as it is developed properly in a simple and transparent way. It can then play an important role in transferring risk and increasing the capacity for banks to lend more to the economy.

**How will you measure success?**

There is no single silver bullet to forge a single market for capital from 28 fragmented national markets. The creation of CMU will entail both short-term measures – for instance, on securitisation and the prospectus regime - and longer-term initiatives that will make a real difference to companies and
investors.

The EU should measure success by judging in 2019 whether it has moved closer towards a situation where, for example: SMEs can raise financing more easily than today, in all European countries; the costs of investing and access to investment products converge across the EU; obtaining credit through capital markets is more straightforward; more businesses seek funding in another Member State.

**Will CMU create more legislative obstacles?**

CMU needs to be well-regulated and built on financial stability. The objective is not to undo the necessary and important reforms agreed in recent years to make the financial sector and its infrastructure safe and solid, and ensure that all operators are appropriately regulated and supervised. It is on that basis that the Green Paper invites all interested parties to express their views on how to create a single market for capital.

ANNEX: More details on key areas of the Green Paper

**1. Prospectus Directive**

**Why is the Prospectus Directive being reviewed?**

The Prospectus Directive provides for an EU-wide regime for capital market prospectuses which are required when a public offer of securities is made or admission on a regulated market is sought. Prospectuses are legal documents required to be used by companies to seek investment. They contain facts to help investors make informed decisions. Prospectuses help to provide an equivalent level of investor protection across the EU and to enable the comparability of investment options for investors across the EU.

But prospectuses are also costly and administratively burdensome for companies to produce, often requiring hundreds of pages of detailed information. And for investors, it can be complex to wade through excessively detailed information.

Experience has shown that certain requirements may constitute unnecessary administrative burdens for companies which draw up a prospectus (especially SMEs), despite efforts to establish proportionate disclosure regimes when the Prospectus Directive was reviewed in 2010. Simply put, the amount of administrative, human and financial resources needed to draw up prospectuses make it very difficult for SMEs and start-ups to put together the large package necessary to attract the investment they need to grow.

Given the need to enhance access to financing on capital markets by companies (in particular SMEs) at a time of bank deleveraging, a review of this directive is important in the context of the Commission’s objective of building a Capital Markets Union.

The review will look at when a prospectus is required, streamlining the approval process, and simplifying the information included in prospectuses.

**What are the next steps with regard to the review of the Prospectus Directive?**

On the basis of the responses to the consultation on Prospectuses, other feedback and its own analysis, the Commission will decide in the next months how the Prospectus Directive can be amended. Proposals for such amendments would then be prepared in the second half of the year and be presented to the European Parliament and Council together with the review of the application of the Prospectus Directive early next year at the latest.

**Who should reply to the consultation on the Prospectus Directive?**

All are welcome to reply but as the rules on prospectuses are highly specialised and dealt with by only a minority of citizens and companies, we encourage specialists in particular to respond to the consultation (see link to consultation). At the same time, many investors, retail or others, should in principle read prospectuses, or at least their summaries, before investing. The debate would therefore benefit from any input received from investors or their associations. The Commission is very interested in the views of SMEs and medium sized companies or their respective trade associations.

**2. Securitisation**

The Commission launched a public consultation on an EU framework for simple, transparent and standardised securitisation. This consultation represents a first step towards a possible initiative in this area. Its aim is to gather information and views from stakeholders on the current functioning of European securitisation markets and how the EU legal framework can be improved to create a sustainable market for ‘high-quality’ securitisation.

**What is securitisation, and why can it be useful?**

Securitisation refers to a transaction that enables a lender – often a bank - to refinance a set of
loans/assets (e.g. mortgages, auto leases, consumer loans, credit cards, receivables) by converting them into securities. The lender pools a portfolio of its loans and structures them to tailor to different investor risk/reward characteristics. End investors are then repaid by the cash-flows generated by the underlying loans.

If soundly structured, securitisation can be an important channel for diversifying funding sources and enabling a broader distribution of risk by potentially removing part of the risk from the banks' balance sheets. This allows banks to lend more to the economy, including SMEs.

Securitisation can also provide additional investment opportunities by allowing banks to transfer assets to institutional investors to meet those investors' asset diversification, returns and duration needs.

Securitisation issuance in Europe amounted to some €216 billion in 2014 compared to €594 billion in 2007. The issuance level of SME securitisations still stands at only roughly half the amount prior to the crisis (€77 billion in 2007 compared with €36 billion in 2014). If the SME securitisation market could be revived safely just half way back to previous levels, it could generate some €20 billion of additional funding.[1]

What is the state of play of EU securitisation markets?

Since the beginning of the financial crisis, European securitisation markets have remained subdued. In recent public consultations by the ECB, Bank of England and BCBS-IOSCO, stakeholders have highlighted the key factors limiting a sustainable recovery in securitisation markets. They include macroeconomic conditions, the availability of cheaper refinancing sources, regulatory uncertainties and the stigma still attached to this asset class.

Securitisation markets in the US have recovered more strongly than the EU, in part due to the fact that significant proportion of securitisation instruments in the US benefit from public guarantees from the US Government Sponsored Enterprises (GSEs) (e.g. Fannie Mae and Freddy Mac). Banks investing in these products consequently also benefit from lower capital charges. Despite realising much larger losses during the crisis, this public support has helped US securitisation markets recover faster than in the EU (see charts below).
What has already been done to revive securitisation markets safely in the EU?

The Commission has been working with European authorities and central banks to develop a framework to support high quality securitisation in the EU. Two delegated regulations – on prudential requirements for insurers[1] (under the Solvency II Directive) and on liquidity for banks[2] (the Liquidity Coverage Ratio) introduced requirements for simple and transparent securitisations to allow investors to understand and quantify the risk of the product they are buying. These are however only preliminary steps, which need to be complemented by further action to help differentiate between simple and transparent products and more opaque and complex ones.

From a market point of view, several EU institutions have taken initiatives to rebuild securitisation markets. The Commission in association with the European Investment Bank and the European Investment Fund is using securitisation vehicles to help finance SMEs, for instance in the COSME programme and in joint Commission-EIB initiatives. The ECB has launched an asset backed securities purchase programme (ABSPP) that aims to further enhance the transmission of monetary policy.

What are the objectives of an EU securitisation framework?

This consultation represents a first step towards delivering an EU securitisation framework with a view to:

1. Reviving markets on a more sustainable basis, so that simple, transparent and standardised securitisation can act as an effective funding channel to the economy;
2. Allowing for efficient and effective risk transfers to a broad set of institutional investors as well as banks;
3. Allowing securitisation to function as an effective funding mechanism for some non-banks as well as banks;

4. Protecting investors and managing systemic risk.

On the basis of these objectives, the consultation will look again at the EU approach to securitisation, from a bank, investor and broader economic perspective to come up with an effective and targeted initiative. The objective is for Europe to benefit from a deep, liquid and robust market for securitisation, which is able to attract a broader and more stable investor base to help allocate finance where it is most needed in the economy. Whilst the securitisation market is not meant for retail investors, it aims to encourage longer term investors to put their money at work, including non-bank institutions.

The consultation seeks views from interested parties on how best to implement a high quality securitisation definition in EU legislation, and what requirements should apply to it – in terms of capital and solvency requirements, due diligence and transparency obligations.


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General public inquiries:
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