



ASSOCIATION  
FRANÇAISE  
DES MARCHÉS  
FINANCIERS

# **CAPITAL MARKETS UNION & SMEs FINANCING**

**5th International Conference on SME Finance**

TUESDAY 22 OCTOBER

CEROS – UNIVERSITÉ PARIS NANTERRE – UNIVERSITÉ DE LORRAINE

# WHO IS AMAFI

- **Association française des marchés financiers (AMAFI)** is the trade organisation working at national, European and international levels to represent financial market participants established in France
- It acts on behalf of credit institutions, investment firms, trading and post-trade infrastructures, regardless of where they operate or where their clients or counterparties are located
- AMAFI members operate for their own account or for clients in different segments, particularly **organized and over-the-counter markets for equities, fixed-income products and derivatives, including commodities**
- Our members (more than 155) are **split into three major categories:**
  - Big French institutions and their subsidiaries
  - Subsidiaries or branches of non-French institutions
  - Independent market participants whose size is sometimes very small

# CMU – A MAJOR POLITICAL ISSUE

“I want the capital markets union to help european businesses, **and our SMEs in particular**, have a wider range of funding options. [...] I want to knock down barriers to make it easier for capital to flow freely across all 28 member states”

*Commissioner Jonathan Hill, responsible for financial stability, financial services and capital markets union, Brussels, 30 September 2015*

“Given their importance for the EU economy, we need **to make sure that SMEs enjoy the best possible financing conditions to grow and innovate**. The political agreement is an important step in making the rules on SME's access to capital markets fit for that very purpose. These measures will enable SMEs to develop and prosper without being hindered by unnecessary costs and red tape, while preserving a high level of market integrity and investor protection”

*Commission Vice-President Valdis Dombrovskis, responsible for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union, 7 March 2019*

# CMU IN A NUTSHELL

- **Flagship initiative for financial services** under the Juncker Commission
- Action Plan adopted in September 2015 made of **33 mesures** ([link](#))
- **Main objectives** according to the European Commission :
  - **Diversify the funding of the economy** and **reduce the cost of raising capital**
  - Create a single-market for capital by removing barriers to cross-border investments
  - **Improve access to financing** for all businesses around Europe
  - Maximise the benefits of capital markets so they can support economic growth and job creation
  - **Help SMEs raise finance more easily**
  - Help the EU to attract investments from all over the world and become more competitive
- **Mid term review** of the CMU Action Plan published in June 2017 ([link](#))
  - in accordance with the original timetable, the Commission has delivered more than half the measures(20 out of 33) announced in the CMU Action Plan

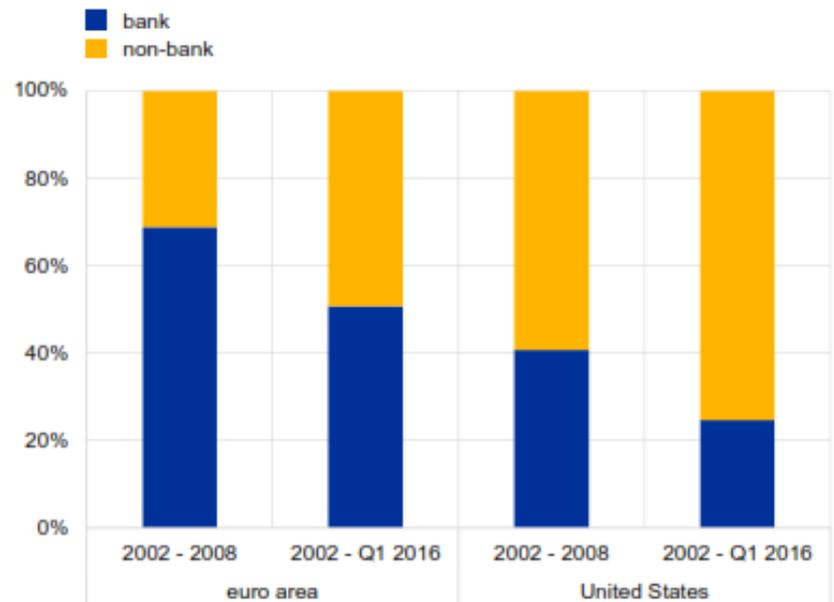
# A KEY ISSUE

## BOLSTERING MARKET FINANCING

- **A financing of the European economy which is traditionally based on bank credit**
- A situation that has changed since the crisis but remains very different from that of the United States
- The latest data (2016) indicate that bank lending accounts, on average, for around 55% of debt financing of euro area firms. In the United States, by contrast, companies source around 70% of their debt financing directly from non-banks, and only 30% from banks

Share of bank and non-bank financing in total non-financial corporation financing in the euro area and the United States

(cumulated transactions, percentages)

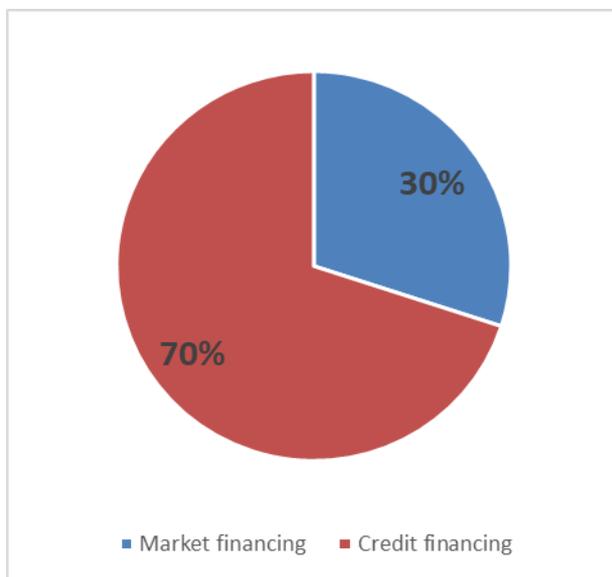


Sources: ECB, Federal Reserve System.

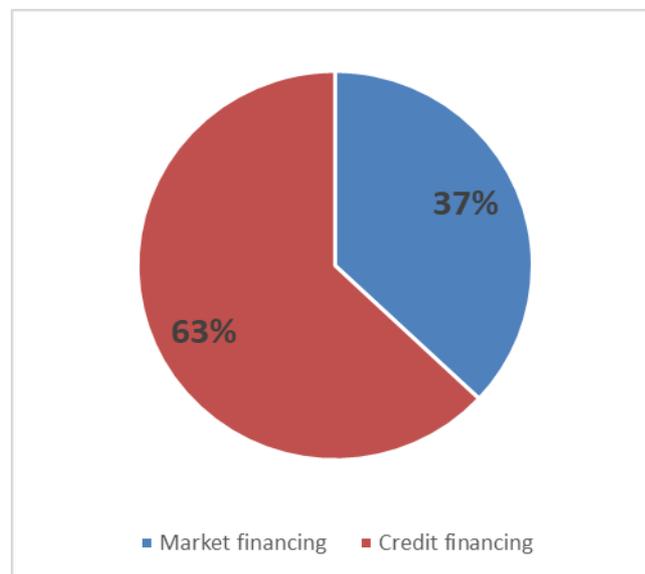
Note: The latest observation is for the first quarter of 2016.

## A SITUATION ALSO SEEN IN FRANCE

Share of financing by the market and by bank and specialized credit in all the financing of companies in France



**2009**



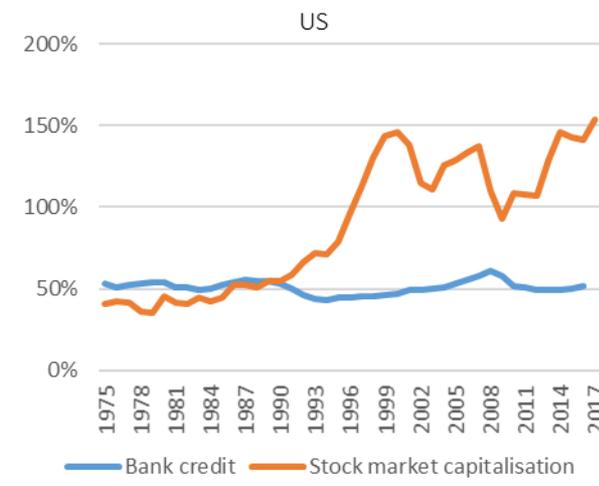
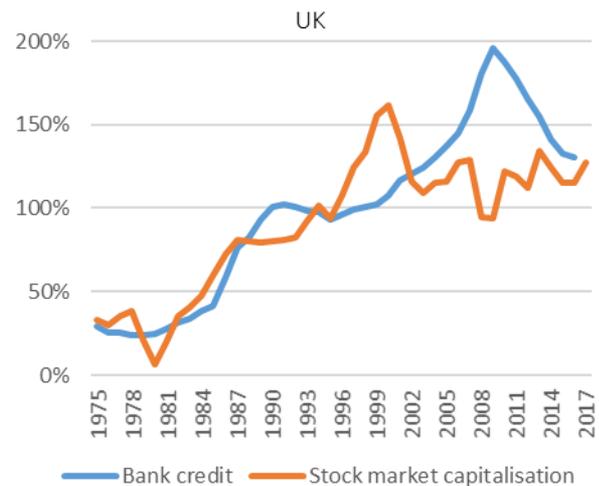
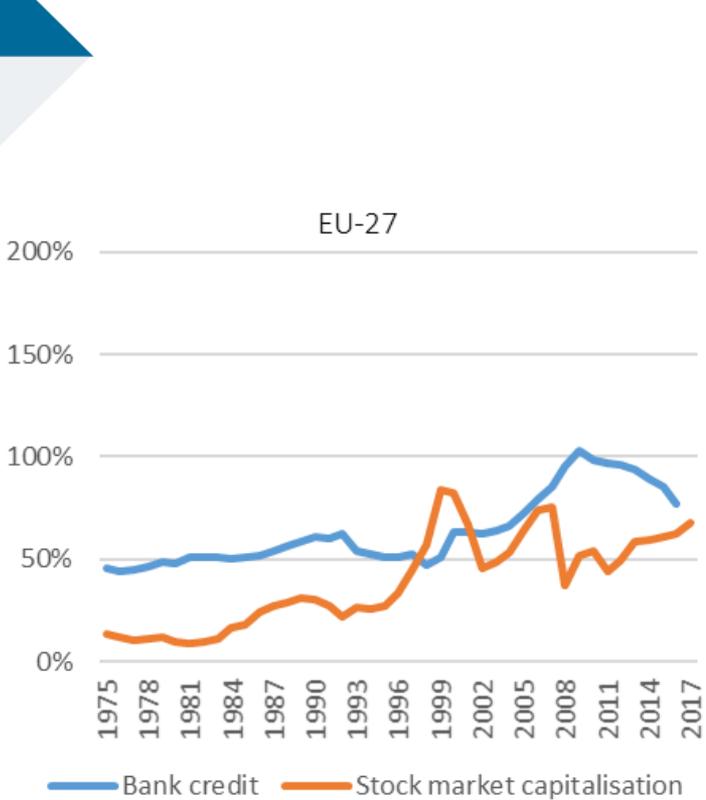
**2018**

Source : Banque de France, financement des entreprises, à fin novembre 2018

# A MORE CONSTRAINED BANK CREDIT

- The addition of the various post-crisis regulatory reforms is indeed not without consequences: **banks have to maintain large reserves of liquid assets with low returns**
- Regulation tends to **shorten the timelines and the financing horizon**, even though long term financing becomes a real issue for the European economy
- **Regulatory developments are affecting access to financing**, increasing its cost and complexity
- **As a major example, the new Basel III / IV prudential regulation** forces banks to make an arbitrage between equity and balance sheet risk
- The Basel Committee has indicated that with Basel III and IV, **the cost of regulatory requirements for banks will increase by 20% in Europe** while it will increase by only 1.5% in the United States

# BANK CREDIT AND STOCK MARKET CAPITALIZATION EU-27, UK AND US (% GDP)

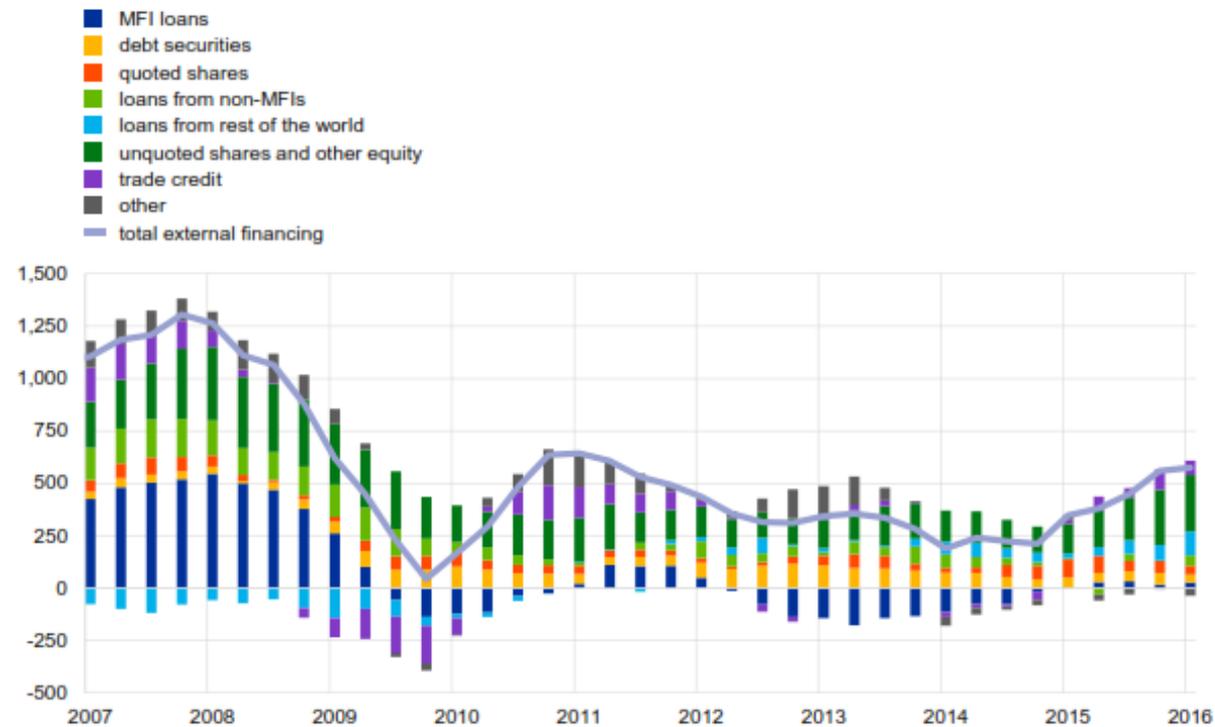


Source: World Bank Financial Structure Database, FRED Economic Research, CEPS / ECMI

# EVOLUTION OF THE VARIOUS FINANCING FLOWS

## External financing of euro area non-financial corporations by instrument

(annual flows, EUR billions)



Source: ECB.

Notes: The latest observation is for the first quarter of 2016. "Other" refers to the difference between the total and the instruments included in the chart and includes inter-company loans and the rebalancing between non-financial and financial accounts data.

# A PARTICULAR CHALLENGE: DEVELOPING EQUITY FINANCING

- One of the *drivers for growth* is accessible capital dedicated to long-term financing of companies
  - Growth is generated by the collective wealth and jobs created by companies.
  - From it depend not only on the purchasing power of households and the unemployment rate
  - But also the financing of the public sphere and, through it, the various mechanisms of redistribution aiming at reducing inequalities and covering social risks
- Three factors are central to generating growth: **capital, labor and technical progress**
- Among these factors, **own funds are a specific one**
  - To ensure and maintain enough level of quality of production or service
  - To allow the development of a company's market share
  - But also for fostering and developing innovation
  - Often on the long term and at the cost of certain failures, own funds finance research and development initiatives and their transformation into industrial or commercial applications
- **Capital is thus a crucial dual factor** of differentiation from competitors, especially when they benefit from lower production costs

# AS WELL AS A QUESTION OF SOVEREIGNTY FOR THE EUROPEAN UNION

- **What is at stakes** is set out in the Tibi Report to the French Minister of finance: Financing the Fourth Industrial Revolution - Breaking the Financing Clocks for Technology Companies ([link](#))
- A simple observation: In the fourth industrial revolution, **Europe is far behind the United States and China:**
  - As for young companies, fundraising by European start-ups represented only 10% of global financing in 2018, far behind the United States (53%) and China (27%, compared to 10% in 2013)
  - Of the 372 unicorns counted worldwide in mid-July 2019, 182 are American, 94 are Chinese and only 45 are European
  - In the case of firms that are well established in their market, Forbes's list of the 100 largest listed digital companies in 2018 includes 49 American companies, 14 Chinese and only 12 European companies

# CMU: THE STATE OF PLAY

- **Strong political push** during the last year of the Juncker Commission to reach political agreements
- **11 out of 13** legislative proposals adopted incl. the ESAs review, the STS Regulation, the PEPP Regulation, the European Venture Capital Fund Regulation and the Investment Firm review
- **2 out of 3** legislative proposals adopted on sustainable finance
- Amongst 11 proposals agreed, a specific focus was given to SMEs access to finance
- The objective is to **address the 50% decrease in SME IPOs in Europe since the financial crisis** ([link](#))
- With notably:
  - **The Prospectus Regulation**
  - **The SME Growth Markets Regulation**
  - **The European Venture Capital Fund Regulation**

# PROGRESS ON THE CMU 1/2

POLICY DESCRIPTION	OBJECTIVE	 European Parliament	 Council of the European Union
<b>CAPITAL MARKETS UNION KEY BUILDING BLOCKS</b>			
<b>Simple, transparent and standardised securitisation</b>	<i>To broaden investment opportunities and boost lending to Europe's households and businesses.</i>	Adopted	Adopted
<b>Prospectus Regulation</b>	<i>To facilitate access to financial markets for companies, particularly small and medium-sized enterprises.</i>	Adopted	Adopted
<b>European Venture Capital Fund Regulation (EuVECA) and European Social Entrepreneurship Funds Regulation (EuSEF)</b>	<i>To stimulate venture capital and social investments in the EU.</i>	Adopted	Adopted
<b>Pan-European personal pension product (PEPP)</b>	<i>To give citizens more and better options for retirement savings.</i>	Agreed	Agreed
<b>Covered bonds</b>	<i>To provide a source of long-term financing for banks in support to the real economy.</i>	Agreed	Agreed
<b>Crowdfunding</b>	<i>To improve access to this innovative form of finance for start-ups, while maintaining investor protection.</i>	Negotiating mandate	Not agreed
<b>Cross-border distribution of collective investment funds</b>	<i>To remove burdensome requirements and harmonise diverging national rules.</i>	Agreed	Agreed
<b>Investment firms review</b>	<i>To ensure a level playing field between the large and systemic financial institutions while introducing simpler rules for smaller firms.</i>	Agreed	Agreed

# PROGRESS ON THE CMU 2/2

<b>Preventive restructuring, second chance and efficiency of procedures</b>	<i>To provide honest entrepreneurs with a second chance and facilitate the efficient restructuring of viable companies in financial difficulties.</i>	Agreed	Agreed
<b>Promotion of SME Growth Markets</b>	<i>To cut red-tape for small and medium-sized enterprises trying to access capital markets.</i>	Agreed	Agreed
<b>Third-party effects on assignment of claims</b>	<i>To enhance legal certainty about the applicable national law to the effects on third parties where a claim is assigned cross-border.</i>	Negotiating mandate	Not agreed
<b>European Supervisory Authorities review including anti-money laundering rules</b>	<i>To enhance supervisory convergence and strengthen enforcement, including against money laundering and terrorist financing.</i>	Negotiating mandate	Negotiating mandate
<b>European market infrastructure regulation (Supervision)</b>	<i>To ensure that the EU supervisory framework effectively anticipates and mitigates risk from EU and non-EU central counterparties servicing EU clients.</i>	Agreed	Agreed
<b>SUSTAINABLE FINANCE INITIATIVES</b>			
<b>Sustainable finance: Taxonomy</b>	<i>To help to reorient private capital flows towards more sustainable investments, such as clean transport, and help finance the transition to a low-carbon, more resource-efficient and circular economy.</i>	Not agreed	Not agreed
<b>Sustainable finance: Disclosure</b>		Agreed	Agreed
<b>Sustainable finance: Low carbon Benchmarks</b>		Agreed	Agreed

Source : European Commission

# SMEs ACCESS TO FINANCE PROSPECTUS REGULATION

➤ **Two main purposes:**

- Reduce the burden on issuers
- Make prospectuses more users-friendly

➤ Changes are **evolutionary rather than revolutionary**

➤ **Key provisions** of the Prospectus Regulation ([link](#)) include:

- An increase in the threshold for small capital raising exemption, prospectus not required for offers below €1m or, at the discretion of member States, €8m over 12 months (Art. 1 & 3)
- Creation of the Universal Registration Document, the aim is for issuers to have their prospectus approved via a fast track approval process (Art. 9)
- A simplified disclosure regime for secondary issues, as investors are already familiar with the company (Art. 14)
- The creation of an EU Growth prospectus (Art. 15)

# SMEs ACCESS TO FINANCE THE EU GROWTH PROSPECTUS

## ➤ Which companies?

- Company which satisfies at least two of the following criteria: market capitalisation of up to €43m, turnover of up to €50m, fewer than 250 employees
- Company with a market cap of less than €200m
- Company with shares traded on an SME Growth Market whose average market cap over the previous 3 years was less than €500m
- Unquoted company with fewer than 500 employees that seek to raise up to €20m through an offer to the public

## ➤ With **limited changes**:

- The standard of disclosure and the liability regime are the same as for a « normal » prospectus
- The categories of required information are very similar

## ➤ **But some flexibilities**, notably:

- Less information on different topics
- Historical financial information on 2 years (vs 3)
- Possibility to incorporate certain informations by reference

# SMEs ACCESS TO FINANCE

## SME GROWTH MARKETS REGULATION

- **Definition** of an SME Growth Markets (MiFID 2, art. 33)
  - An MTF on which at least 50 % of the issuers whose financial instruments are admitted to trading are SMEs at the time when the MTF is registered as an SME growth market and in any calendar year thereafter
  - An SME is a company that had an average market capitalisation of less than €200m on the basis of end-year quotes for the previous three calendar years
- **Key provisions** of the SME Growth Markets Regulation ([link](#)) include :
  - **Market soundings**, the exemption has been extended to all trading venues (Art. 11 MAR).
  - **Liquidity contracts**, recognition of national framework where it exists and ESMA to develop an EU liquidity contract where there is none at national level (Art. 13 MAR).
  - **Insiders list**, alleviations for SMEs on the information to provide regarding insiders (Art. 18 MAR).
  - **Creation of a European Commission stakeholder group** dedicated to SMEs, which will identify barriers to invest in SMEs and listed SMEs in MiFID2/MiFIR (Art. 33 MiFID2).

# CMU – AN IMPORTANT ISSUE FOR AMAFI

- AMAFI contributed to all the consultation process
- On the **CMU**
  - Building a Capital market Union – EC’s green paper, May 2015 ([AMAFI / 15-28](#))
  - Capital Market Union – EC’s Call for evidence, January 2016 ([AMAFI / 16-08](#))
  - Capital Market Union – EC’s Mid-term review, March 2017 ([AMAFI / 17-24](#))
- On the **Prospectus Regulation:**
  - EC proposal, March 2016 ([AMAFI / 16-14](#))
  - ESMA’s Three consultation paper ([AMAFI / 17-61](#))
  - ESMA’s consultation paper on draft RTS ([AMAFI / 18-14](#))
  - AMF’s consultation ([AMAFI 18-10](#) et [AMAFI / 18-31](#))
- On **SME Growth Markets Regulation**
  - Building a proportionate regulatory environment to support SME listing ([AMAFI 18-12](#))
  - Promotion of the use of SME Growth Markets ([AMAFI 18-36](#))

# CMU: DISAPPOINTING RESULTS SO FAR

- The **CMU results** does not live up to the expectations nor to the expressed political will (ESAs' reform, STS, ...)
- EU is facing **challenges that require strong financing needs** which banks can't provide alone
- **Brexit requires to rethink** the structure and the functioning of EU financial markets

# AMAFI's MAIN CONCERNS ON SME GROWTH MARKETS REGULATION

- Three reasons for satisfaction:
  - **Market sounding**
  - **Liquidity contracts**
  - **Insider list**
  
- For SMEs financing, the following reforms should be implemented as a matter of priority:
  - The revision of the **SME definition** to qualify as such in the context of the stock market
  - The **treatment of research** as an inducement should be reviewed as part of upcoming MiFID2/MiFIR refit in light of findings from the reports of the « Observatoire du financement des entreprises » ([link](#)), Toronto University ([link](#)) and the FCA ([link](#))
  - **The développement of long-term investors (Pension funds)**

**THANK YOU**