

## Insideview

# The Perspective of Stock Exchanges on the Capital Markets Union

INTERVIEW WITH RAINER RIESS

**The financial crisis has shown that Europe's financing structure does not efficiently serve its purpose for businesses: financing investment in order to create jobs and wealth, and boosting economic growth. As a result, in 2014, the Capital Markets Union (CMU) was launched by the European Commission to further integrate capital markets and mobilise capital in Europe, in essence making it easier for businesses across the 28 member states to access the funding they need to innovate and expand.**

### What role will 'stock exchanges' have within the CMU?

Europe is over-reliant on credit and there is too little equity to act as a buffer against external shocks or to finance entrepreneurs with innovative growth ideas. While non-bank funding finances more than 75% of the US and more than half of the Asian economies it is less than 25% in Europe. In an environment where Europe needs to reduce its dependence on bank lending, a greater share of financing needs to be provided by capital markets. There is a need for action (both legislative and non-legislative) at European

level to facilitate this by addressing the issues faced by issuers, investors and intermediaries when accessing capital markets. FESE and its Members have long been advocating a fundamental re-orientation of Europe's policies and therefore welcome the CMU. It is a hugely ambitious project that should have the European equity markets at its heart in order to achieve its goal.

### Exchanges clearly have a pivotal role. What, in your view, are the main issues that need to be tackled within CMU?

Exchanges today are highly efficient in supplying financing as well as price discovery for listed companies. They perform a vital role for companies and the economy at large, however entry barriers to equity finance for small and medium sized enterprises (SMEs) are too high. Policies of the future need to take into account SMEs which are crucial to increasing innovation and economic growth. The immediate issues to be tackled should include:

Firstly, reducing the regulatory barriers and burden companies face when seeking capital;



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secondly, improving the market ecosystem to better serve companies at different stages of growth through a funding escalator offering financing options from different types of investors; thirdly, easing constraints that restrict investors' access to public equity markets and encouraging investments in equity funds; and finally, creating an equity culture in Europe, through education and other initiatives to raise awareness of the benefits of equity.

### Can CMU provide a quick fix to raising funds and attracting companies to public markets?

There is no single quick fix in my view, but many small steps and measures need to be taken. I in particular welcome the proposed new lighter prospectus regime for SMEs. If designed in the right way, such a "Pro-SME regime" should help SMEs that in the past were often barred from offering securities to the public merely due to the amount of paperwork involved and the high costs incurred by preparing a prospectus. In summary, the Prospectus Regulation proposal is an important first step to reduce frictional costs and to deliver a more unified European capital market,

improving funding choices for issuers and investment opportunities for investors.

### What is your vision? How - from the perspective of the European exchanges - would a successful CMU look like?

Ultimately the areas with most potential for delivering an integrated CMU, would be the harmonization of accounting, taxation and insolvency rules across the 28 countries. This may be far away, but it certainly would remove a major barrier that companies seeking to finance cross-border face today. Also the idea of a framework to establish European personal pensions would help to unlock new funding sources and allow Europeans to better invest for their retirement. Financial literacy is another key pillar, where Europe needs to act!

Capital markets are crucial to finance growth, but as stated above, today equity markets only finance one quarter of the European economy. The CMU will be a success, if Europe is able to significantly increase the financing share of its economy via equity markets.