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Unlocking the growth potential of Europe

Barclays has been supportive of Capital Markets Union (CMU) since its conception. We remain supportive today.

Important progress has been made over the past five years but CMU is not a small undertaking and the new European Commission and European Parliament terms provide an opportunity to develop fresh ideas and a renewed impetus.

The core rationale for CMU remains. Addressing our over-reliance on traditional lending channels can both support long-term growth and enhance economic stability.

We should be clear, this does not mean replacing traditional lending channels.

Rather, it is about helping markets develop to provide funding that is generally not provided through banks. It can bring together our need to find sources of patient capital and our long-term need for investment returns to meet our savings gap.

It is also about augmenting banks capacities to lend in their core areas and to help banks develop the markets where direct lending or funding is not the answer.

Let's look at these in turn.

The funding challenge for Europe's SMEs is often misunderstood. While it is clear that there is a gap for SME accessible risk finance, it is not by any means obvious that there is a gap for traditional loan finance or finance more generally for businesses with clear trading histories and reasonable expectations of repayment.

What is needed is to provide a bridge from conceptualisation of a business to the traditional capital markets, and to make equity available at the smaller levels. We call this idea the 'Pre-Capital Markets Union'.

CMU will require strong wholesale/investment banking institutions that can promote the development of capital markets through bringing users and providers of funding together efficiently. These will need to comprise of both large global but also strong local and regional institutions that are familiar with local markets and have a strong vested interest in building these markets and bringing local firms to the capital markets.

Barclays European investment banking activities have recently been consolidated under our Irish subsidiary and other global firms have been undertaking similar changes, in a variety of locations. This helps cement that vested interest to develop pan-European capital markets, leveraging our global operations and vice-versa.

Some of the regulatory changes required to support this are not particularly new or innovative but they require an understanding of the inter-linkages between policy areas and the political and supervisory will to address them.

Home-host issues are an obvious example, within the Eurozone, within the EU more widely, and internationally.

The EU's decision to require a 90% scalar for internal MREL (the highest level within the FSB's recommended range of 75%-90%) combined with host supervisors' discretion to layer on additional requirements increases costs without improving or facilitating resolution. It discourages investment in the EU financial services sector (especially in leverage-constrained businesses such as capital markets activities).

At an international level, although there is work ongoing at the FSB to address market fragmentation, it is not yet translating into policy outcomes at regional level. In the US, the consultations on the tailoring of rules for Foreign Banking Organisations do not point to an outcome that would indicate increased trust of the home country regime. In Europe, internal MREL is an example but we also have the increasingly fractious discussions around the continued ability of firms to access and use Europe's foremost financial centre.

The work on CMU should also look at potential opportunities to accelerate innovation and help develop markets for financial instruments that would be new to the EU and designed to address the specific characteristics and needs of the EU markets.

We could push further on securitisation, including doing more work on the securitisation of SME loans. We could look at new equity like instruments for private companies requiring more limited disclosure and avoiding loss of family control. We certainly need to continue to try to develop our venture capital market and, of course, develop our sustainable finance solutions as a matter of priority.

The list could go on but the pre-requisite is strong financial institutions operating in open, competitive, and efficient markets. ●