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Sébastien Raspiller

Director, French Treasury, Ministry of Economy and Finance, France

Equity funding must be at heart of CMU 2.0

European banks, notably French ones, have been successfully mobilized to help businesses cope with a likely liquidity crisis at the climax of the lockdown. Still, if we all hope this stage of the crisis is now over, the ongoing economic meltdown may last much longer. In this context, our absolute priority must be to avoid turning a possible liquidity crisis into a solvency one. Yet, this dramatic period reminds us of how hard it can be for some companies, in particular SMEs, to benefit from equity funding provided through market-based solutions. This is why rebooting the Capital Markets Union is crucial to help our businesses diversify their sources of funding. This goal can only be achieved if we take bold measures to kickstart both supply and demand.

When it comes to supply, the recent economic challenges we have been facing must lead us to take tough measures to make a smarter use of the insurers' and banks' equity. Insurers must fully play their role in financing the economy and providing long-term savings opportunities for retail investors. The upcoming review of Solvency 2 will be a significant step to meet this objective. At the same time, we must keep defending strong and competitive European banks, operating on global markets and able to provide complex corporate advisory and risk management services. We will then carefully check that the transposition of the Basel III standards does not eventually result in significant differences with some other countries that end up being detrimental to our financial ecosystem.

While banks and insurers have a huge role to play, individual savers should also be given the opportunity to contribute to the economic recovery. This is all the more needed as the current context of uncertainty has led the level of the saving rate to spike. In this view, France will carry on striving to promote pan-European funds in a more active way. Further work will be required to ease the passporting and the development of European labelled funds ELTIF and EuVeCA.

The demand for market-based sources of funding must also be fostered through easier processes. The proposals put forward in July by the European Commission for a quick fix of MIFID are a positive move to waive some reporting requirements which have proven costly and complex, without improving the financial markets stability. The Commission's Capital markets Recovery Package will also contribute to ease SMEs' access to financial markets by allowing the rebundling of research and brokerage for capitalizations under € 1 billion. In the longer run, it will also be necessary to strengthen entrepreneurs' trust in the financial markets. To meet this goal, transparency should be fostered through simpler and more standardized information. MiFID II and PRIIPs, should be better suited to individual investors' needs. In the same line, the recent Wirecard case must bring us to scrutinize the current organization of our supervision to make it better at all levels and more efficient.

Finally, although simplifying the access to market-based sources of funding is a priority, we must acknowledge that it cannot be a cure-all and that it is not always the best suited solution. There are cases in which the panacea will probably rather be to help banks benefit from the financial markets in order to lend to businesses. In that way, we must promote securitization by an ambitious review of impediments - notably prudential ones - to the development of the European framework for Simple, Transparent and Standardized securitizations (STS). ●