Finance Watch comments on Capital Markets Union Action Plan

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The Commission's Capital Markets Union plan includes some positive proposals, but its main proposals raise serious concerns

Brussels, 30 September 2015 – **Finance Watch** welcomes the objectives of the European Commission's **Capital Markets Union Action Plan** presented today, but believes that the main proposals are inadequate to deliver on the objectives of creating sustainable growth and jobs, helping SMEs, or making our economy more resilient to shocks. Instead, the main beneficiaries are likely to be the too-big-to-fail banks that manufacture securitisations.

The Commission's Action Plan includes some **welcome initiatives** such as the review of the **Prospectus Directive** and an announcement to work on the removal of the **debt-equity tax bias**. We also welcome the **promotion of seed capital** that will benefit the 10% of European SMEs that are innovative start-ups.

It should however be combined with more ambitious measures to promote retail funded traditional and local banking for the remaining 90% of SMEs.

We also hope to see stronger political support for rapid implementation of the proposals of the Financial Stability Board to address the systemic risks of **securities financing transactions**: as non-bank lending relies heavily on financial guarantees called collateral, it creates a greater web of contracts between financial institutions, in turn increasing the risk of domino effects in our financial system. Addressing these issues and creating a regulatory level playing field should arguably precede the promotion of non-bank lending.

Some of the main proposals, however, raise serious concerns:

- First and foremost, the main proposal to revive **"simple transparent and standardized" securitisation** (a financial technique to repackages loans and issues securities) goes in the right direction but does not truly learn the lessons from the crisis: the framework **should exclude tranching** in order to be truly simple. It should also address comprehensively the conflicts of interests created by the “originate-to-distribute” model through **increased and tighter risk retention requirements**. Lastly, it should firmly **close the door on future inclusion of synthetic securitisations**, a type of securitisation that does not finance anything in the real economy and amplifies systemic risks.
- Secondly, pushing retail investors away from banking deposits towards capital markets in order to facilitate the pension reform agenda could create **more risks for retail investors** and lead to more fragile bank funding structures.

While it is no longer a popular topic, **financial stability** is a condition for sustainable growth not a barrier to it, and we call on policy makers to pay due consideration to these concerns.

The Secretary General of Finance Watch, **Christophe Nijdam**, said:

"The shift in political momentum from "we need to regulate shadow banking" to "we need to promote shadow banking" must not be at the cost of financial stability and more risks for taxpayers".

The Head of Policy Analysis at Finance Watch, **Frédéric Hache**:

"Competitiveness concerns should not make us forget too quickly the lessons from the crisis. The new framework for simple transparent and standardized securitisation should only promote truly simple securitisation without

conflicts of interests and that finances the real economy."

Finance Watch has also published together with a number of civil society organisations a joint statement on the Capital Markets Union.

To see Finance Watch's position paper and other related materials on CMU, please click here.