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on long-term financing of the European economy
(2013/2175(INI))

Committee on Economic and Monetary Affairs

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on long-term financing of the European economy

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The European Parliament,

- having regard to the Commission Green Paper entitled ‘Long-Term Financing of the European Economy’ (COM(2013)0150),
- having regard to the Commission proposal for a regulation of the European Parliament and of the Council on European Long-term Investment Funds (COM(2013)0462),
- having regard to the Commission communication entitled ‘Europe 2020: A strategy for smart, sustainable and inclusive growth’ (COM(2010)2020),
- having regard to the Commission communication entitled “‘Think Small First’: A “Small Business Act for Europe”” (COM(2008)0394), which recognises the central role of SMEs in the EU economy and aims to strengthen it and to promote their growth and job-creating potential by alleviating a number of problems which are thought to hamper their development,
- having regard to the Commission communication entitled ‘An action plan to improve access to finance for SMEs’ (COM(2011)0870),
- having regard to the Commission ‘proposal for a regulation of the European Parliament and of the Council establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (2014-2020)’ (COM(2011)0834),
- having regard to the Commission communication of 23 February 2011 entitled ‘Review of the “Small Business Act” for Europe’ (COM(2011)0078) and to Parliament’s resolution of 12 May 2011 thereon¹,
- having regard to the proposal for a regulation of the European Parliament and of the Council on European Venture Capital Funds (COM(2011)0860),
- having regard to Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010²,
- having regard to Rule 48 of its Rules of Procedure,
- having regard to the report of its Committee on Economic and Monetary Affairs and to the opinion of its Committee on Employment and Social Affairs (A7-0000/2013),

¹ OJ C 377 E, 7.12.2012, p. 102.

² OJ L 174, 1.7.2011, p. 1.

- A. whereas, according to the Commission, commercial banks are a primary source of finance in the EU, providing over 75 % of financial intermediation;
- B. whereas the global financial crisis and the sovereign debt crisis in the EU have significantly hampered the financial intermediation process;
- C. whereas there is a persistent lack of confidence and a high level of risk aversion on the part of both private and institutional investors;
- D. whereas the low-interest environment and economic uncertainty have significantly decreased demand and risk appetite for long-term projects;

Reasoning

- 1. Welcomes the Commission's initiative of starting a broad debate on ways to foster the supply of long-term financing and to improve and diversify the system of financial intermediation for long-term investment in the EU;
- 2. Stresses that long-term investments provide the basis for continuous economic growth and social well-being necessary to achieve a competitive, sustainable and inclusive EU;
- 3. Notes that the economy's capacity to provide financing for long-term investment depends on its ability to generate savings and attract and retain domestic and foreign direct investment capital;
- 4. Notes that banks in the EU provide over 75 % of long-term financing, which creates significant dependency on this funding source, while in the US less than 20 % of all long-term financing is provided by banks, and a large majority through well-developed capital markets;

Barriers to growth

- 5. Notes that public financing is limited owing to slow economic growth, poor public budget management and the granting of state aid to save financial institutions;
- 6. Notes that some countries face serious obstacles to, or are even denied, access to capital markets;
- 7. Notes that some investors from the banking and insurance sector are reluctant to invest on account of tightened regulatory requirements;

Alternative funding mechanisms

- 8. Notes that commercial banks will remain a main source of finance and that it is key for the EU to establish new sources to complement established mechanisms and fill the funding gap;
- 9. Welcomes the Commission's legislative proposal on long-term investment funds; notes that their envisaged characteristics will mean that they serve mainly institutional investors; points out that the EU regime on alternative investment funds also provides suitable

investment vehicle models;

10. Calls on the Commission to propose a European framework for less liquid investment funds in order to channel the short-term liquidity of private households into long-term investments, and to provide an additional retirement solution;
11. Encourages the stakeholders to further develop the EU-European Investment Bank Project Bond Initiative to increase the financing of large European infrastructure projects in the transport, energy and information technology sectors; calls on the Member States to develop national project bond initiatives underpinned by guarantee schemes;
12. Believes that national or multilateral development banks can stimulate private investments and catalyse long-term financing for undertakings of broader public interest;
13. Calls on the Member States to create appropriate networks for cooperation and information exchange, and to set up national or regional development banks which can learn from the best practice of already established institutions;
14. Calls on the Commission to explore ways to support Member States requiring financial and technical assistance to set up their national development banks, and to study the possibility of an EU guarantee mechanism for national development banks;
15. Believes that institutional investors – insurance companies, pension funds, mutual funds and endowments – are suitable providers of long-term financing, given the longer time horizons of their business models;
16. Stresses the need to improve access to capital markets through new sources of funding such as initial public offerings and (covered) bonds or through new market segments;
17. Believes that securitisation can play an important role in financial intermediation; encourages efforts to securitise high-quality assets while avoiding structures of high complexity; notes that there is scope for more standardisation and transparency; calls on the Commission to follow closely the activities of the International Organisation of Securities Commissions-Financial Stability Board working group on securitisation and to develop a definition of ‘high-quality securitisation’;
18. Welcomes the European Investment Fund’s credit enhancement operations and the Competitiveness and Innovation Framework Programme to generate additional financing for SMEs;
19. Welcomes the Commission’s call for the use of private equity or venture capital as an alternative source of finance for high-risk investments, in particular vis-à-vis companies in the start-up and growth phases; notes that there is currently a strong tax bias favouring debt financing; believes that venture capital firms can provide valuable non-financial support including consultancy services, financial advice, marketing strategy and training;

Regulatory environment

20. Emphasises that an investor-friendly business climate with a strong drive for technological

progress is a prerequisite for making the EU an attractive destination for foreign direct investment;

21. Stresses that a consistent regulatory framework and legal certainty are indispensable for a functioning single market for financial services; calls on the Commission to complete the single market for services in order to unlock its full potential;
22. Calls on the Commission to assess carefully the cumulative impact of already concluded and ongoing financial regulation of long-term investment;
23. Believes that a specific impact assessment on long-term financing should be included in any legislative proposals on relevant financial services regulation;
24. Welcomes the fact that the Commission has asked the European Insurance and Occupational Pensions Authority to examine the potential calibration of certain capital requirement provisions under the Solvency II regime to avoid possible obstacles to long-term financing;
25. Reiterates its call, in the proposal for a regulation on prudential requirements for credit institutions and investment firms, for exposures fully and completely secured by mortgages on critical infrastructure projects in the fields of transport, energy and communication to be assigned an appropriate risk weight;
26. Believes that sound fair value accounting principles for institutional investors can enhance the transparency and consistency of financial information; stresses that those principles should avoid creating incentives for pro-cyclical strategies;
27. Believes that there is a strong need for a stable tax environment which prevents impediments to long-term investments; notes that certain tax incentives and concessions can be key in fostering investment; stresses that the internal market requires stronger coordination of national tax policies in order to facilitate cross-border investment and avoid double taxation; encourages the Member States to assess the possibility of granting tax-free yields on infrastructure projects;
28. Instructs its President to forward this resolution to the Council, the Commission and the governments and parliaments of the Member States.

EXPLANATORY STATEMENT

Long-term investment is key for economic growth and the creation of jobs. Without it, crucial projects in the areas of infrastructure, research and development (R&D), and innovation cannot be started or carried out successfully. Right now almost all European countries are pursuing a policy of fiscal consolidation to get a grip on their debt. While sound fiscal policies serve as the underlying foundation, it is crucial for Europe to enter a path of sustainable growth that enhances its competitiveness vis-à-vis other global regions and ensures the creation of jobs. The financing of the real economy plays a pivotal role in the process, yet it currently faces significant obstacles in Europe.

In times of stressed financial markets, mainly due to the on-going global financial crisis and the unresolved sovereign debt crisis, Europe's traditionally high reliance on funding through banks has proven to be a major impediment for the intermediation process of allocating funds. Not only has high risk aversion dried up the supply of finance, but it also prevents necessary investments from being undertaken and as a result brings the economic recovery process to a standstill.

The lack of alternative equity and debt financing instruments hinders the growth potential of many companies, while limited public finance has halted desperately needed investments in education, technology, R&D, transport facilities as well as communication infrastructure. However, there is no single solution to address this issue.

Commercial banks, whether they are private banks, saving banks or cooperative banks, will remain a primary source of finance in most countries but we need alternatives to close the funding gap and to complement the traditional intermediation process by banks.

A regulatory framework should be established to create investment vehicles that pool financing from multiple sources and channel it into long-term investment in a sound and sustainable manner. However, there are two different target groups: on the one hand there are institutional investors, which are either served through alternative investment funds or through the Commission's proposal of European Long-Term Investment Funds (ELTIFs). On the other hand there are private households that also require vehicles to channel their short-term liquidity into long-term investments. Such investment funds would be less liquid than UCITS and feature specific redemption rights, yet offer private households an additional solution to save for their pensions.

National or multilateral development banks, like the *Kreditanstalt für Wiederaufbau* (KfW), the *European Investment Bank* (EIB) or the *European Bank for Reconstruction and Development* (EBRD) can be useful in stimulating private financing in order to catalyse long-term financing for undertakings that serve a broader interest; namely specific public policy objectives related to wider economic, social and environmental value added.

Institutional investors, for example (life) insurance companies, pension funds, mutual funds and endowments, represent suitable providers of long-term financing given the longer time horizons of their business models.

Given Europe's dependency on bank lending, there is an urgent need to further develop access to capital markets, especially for companies of smaller size. New sources of funding for companies could be Initial Public Offerings (IPOs), issuance of public debt, creation of new trading venues tailored to specific needs as well as improved access to both private equity and venture capital.

Some steps have already been undertaken to generate additional financing for SMEs, notably the European Investment Fund's (EIF) credit enhancement operations as well as the Competitiveness and Innovation Framework Programme (CIP). However, we encourage the European Commission to further reduce the unnecessary administrative and regulatory burden, as it has been mentioned in the Small Business Act and in the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) regulation.

Securitisation can play an important role in financial intermediation, as it can be an efficient technique to deleverage and free up bank balance sheets, therefore creating additional lending capacities. However, the process of securitisation is highly stigmatised due to the US subprime crisis and this has led to misperceptions. Yet securitisation of assets of high quality should be encouraged while structures of high complexity should be avoided. In this regard the European Commission should closely follow the work undertaken in the IOSCO-FSB cross-sectorial working group on securitisation.

The global financial crisis following the collapse of Lehman dramatically revealed the necessity of additional measures to make the financial sector more resilient. While the US has been working on one comprehensive piece of legislation, the Dodd-Frank Act, the EU is strengthening financial regulation via several pieces of legislation. Yet by choosing this approach, it has become extremely difficult to make an assessment of the cumulative impact of all financial legislation on the economy in general, and on long-term financing in particular. Still, it has become evident that in certain areas a careful calibration of certain provisions, especially in Solvency II, might be necessary to avoid creating obstacles for long-term investments. This recommended calibration is by no means a call for deregulation that could jeopardise the stability of the financial sector once again.

Public Private Partnerships (PPP) can be an effective and cost-efficient method to facilitate collaboration between public and private sector for certain investments, especially infrastructure projects. Nevertheless, there is a strong need for a high level of expertise to allow a proper selection, evaluation, design, long-term planning and funding arrangements of such projects.

However, to allow such new players to enter the field, policy-makers should focus on establishing a favourable and supportive business environment to attract international capital and to make Europe an appealing investment destination and avoid the creation of a 'fortress Europe'. Such an environment would feature amongst others initiatives aimed at pooling financial resources, a sound taxation system, appropriate accounting principles, effective corporate governance and efficient prudential regulation - all embedded in a functioning single market.

Furthermore, as this issue is a matter of global importance, the European Commission should seek enhanced international cooperation and convergence in the area of long-term finance by pursuing a global dialogue on both G20 and Financial Stability Board (FSB) level.

Closing the funding gap is the key to ensuring that growing innovative enterprises - especially those of small and medium size - tap their full potential and play their vital part in driving economic growth and creating jobs.