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Keynote Speech

**EuroFinUse Conference on the
"Better Finance Manifesto –
Challenges and opportunities for
the next 5 years"**

**Unlocking the capacity of the EU
financial system; the Commission
Communication on long-term
Finance**

28 March 2014

- First of all, let me thank the organisers for facilitating this exchange of ideas on this very topical issue and for inviting me to deliver the keynote address.
- I think the conference title "**How to restore European households' confidence in long term savings & investments, financial policy priorities for the next 5 years**" and the timing is very appropriate in light of the adoption yesterday by the Commission of the Communication on "**Long-Term Financing of the European Economy**".
- Before I outline to you the key elements of the Communication I would first like to welcome the very important agreements reached between the co-legislators in the last weeks. Once formally adopted they will make a significant contribution to the objective of restoring European households' confidence in long-term savings and investments, the focus of today's conference.

- Firstly, after a 17-hour overnight negotiation marathon, the European Parliament and the Council reached an agreement on the **Single Resolution Mechanism (SRM)**, the second pillar of the Banking Union. The SRM will ensure that potential future bank failures in the banking union are managed efficiently, with minimal costs to taxpayers and the real economy.
- Together with the Intergovernmental Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund, this represents another crucial step towards a stronger and more resilient Economic and Monetary Union.
- Furthermore, a political agreement was reached on the Directive on making **bank accounts** accessible to all, transparent and easier to switch (the "bank accounts package"). The Directive is a major step towards a real single market for retail financial services. It provides a right to a basic payment account irrespective of a citizen's place of residence or financial situation, thus removing obstacles faced by many in accessing basic banking services cross-border.
- The COREPER endorsed the revised Directive on Undertakings for Collective Investment in Transferable Securities (**UCITS**), which had been agreed in trilogue in February. The new rules will significantly increase the level of protection enjoyed by UCITS investors when it comes to the safe-keeping of UCITS assets by the depositary. It should ensure that the abuses seen at the time of the Madoff scandal cannot be repeated.

- And finally, a provisional agreement was reached on the Regulation on key information documents for Packaged Retail Investment Products (**PRIPs**). The Regulation will improve the quality of information that is provided to consumers when considering investments by introducing a new, short and plain-speaking document called a Key Information Document (KID).
- I think the delegates at today's conference will agree that these agreements will unequivocally benefit financial stability, and will greatly assist in ensuring that proper financing of the economy is restored.
- Let me now outline the main elements of the Communication adopted yesterday by the Commission on the **Long-term Financing of the European Economy**.
- The panellist for today's conference are sitting or former MEPs; so let me state at the outset that there is a great deal in common between the Communication and the European Parliament's resolution on long-term financing of the European Economy which was adopted at the end of February.
- The economic and financial crisis has affected the ability of the financial sector to channel funds to the real economy, in particular to long-term investment. Heavy dependence on bank intermediation, combined with bank deleveraging and reduced investor confidence, has reduced funding to all sectors of the economy.

- The Union has acted with determination to reverse these trends and restore the conditions for sustainable growth and investment. Public finances have been consolidated and procedures for better coordination of budgetary and economic policies have been put in place. The ECB has acted firmly to restore confidence in the markets, and the establishment of the Banking Union is helping to reduce financial fragmentation and restore trust in the Euro area.
- We have made great efforts to stabilise the financial system, and the financial system is transforming itself – correcting from the previous excesses, responding to regulatory pressure or simply adapting to the changing economy.
- The key now is to turn our attentions to how best the economy can be financed in the longer term.
- We need to be in a position to find financing for those areas that will power our economy in the future.
- But it's clear that a lot more has to be done to help diversify the European financing landscape. While respecting banks' essential role as a provider of funding to business. We'll have to develop and expand market funding models with instruments like project bonds, public-private partnerships and better managed and more transparent securitisation.
- Encouraging long-term investment will need concerted action. Involving the markets and governments in Europe and around the world. To make them easier, more accessible and more transparent. This is certainly something on which we

will be focusing our energies in the months and years ahead.

- That is why the European Commission has adopted the package of measures to stimulate new and different ways of providing long-term financing to meet the challenges that Europe's long term investment needs pose.
- For example, investment needs for transport, energy and telecom infrastructure networks of EU importance alone are estimated at EUR 1 trillion for the period up to 2020. Significant investment will also be needed in human capital and in R&D, new technologies and innovation under the Europe 2020 strategy and the 2030 climate and energy package.
- What actions can be taken to improve the ability capacity of the European financial system to mobilise savings towards the long-term needs of our economy?
- Following the very wide debate that followed our Green Paper, the Commission has adopted the Communication which presents a set of actions to mobilise private sources of finance, make better use of public finance, further develop European capital markets, improve SMEs' access to financing, attract private finance to infrastructure and enhance the framework for sustainable finance. These actions are all geared towards improving how the European financial system works, making it better able to channel funds to our long-term needs.
- Of the **areas** addressed in the Communication, I would like to focus on the **role of private investors**

and intermediaries, the **role of capital markets** and **cross-cutting factors**; of course improving access to finance for **growth oriented SMEs** underpin many of these actions.

- Europe is characterised by a system dominated by bank intermediation. The **role of banks** is fundamental in our economy – as we have all learned with the crisis. It will remain essential, even if banks will somewhat reduce their exposure. In the work on the implementation of the new prudential rules we should ensure that we find the right balance between a safer and better regulated banking system and its ability to continue playing a role also in long-term finance.
- The changing role of the banks makes institutional investors like insurance and pension funds even more important for the financing of the economy.
- For **insurance**, we are making a series of proposals that should improve the ability of insurers to engage in long-term finance.
- On **pension funds**, the Commission has presented a **proposal on the occupational pension funds** geared towards better transparency and more freedom in long-term finance. And we will engage in particular with EIOPA on work looking at possible way to create a single market for personal pensions.]
- We need more instruments to mobilise savings for long-term finance and that is why last year we made a proposal on **European Long-Term Investment Funds (ELTIF)**. I would encourage the co-legislators to intensify efforts on this proposal.

- What is certain is that we need more **capital-market financing**. This is a challenge for us, because we have still a somewhat fragmented financial system. It is certainly an opportunity, because a single market would allow a better allocation of capital and a much deeper financial system.
- The agreement on MIFID will provide the regulatory framework for the years to come. We will have to implement it carefully. For instance, we will have to pay close attention to how we design the **SME Growth Market label**, as we need to find the right balance between on the one hand simplified rules and reduced burden to make them attractive SMEs – and increase the number of Initial Public Offerings (IPOs), and on the other hand the information for the investors. We have to make these markets attractive for institutional investors.
- Other measures focussing on SMEs include improving credit information on SMEs, reviving the dialogue between banks and SMEs and assessing best practices on helping SMEs access capital markets.
- Secondly, we must improve the instruments for market-based financing. Let me mention here in particular the work we are carrying out on **securitisation**. We think that being able to “differentiate” between good and bad securitisation should then allow to improve the prudential framework for the good one. We are working with the ESAs and the ECB on this and will adhere to the highest global standards.

- **On the cross-cutting factors** – that one could call a framework for sustainable finance.
- The Commission will put forward a proposal to improve the **corporate governance** regime for long-term financing regarding shareholder engagement (by revising the Shareholders right Directive), as well as work on employee ownership, corporate governance reporting, Environmental, Social and Governance (ESG) issues and the relationship between fiduciary duties and sustainability.
- On **accounting issues** we will look into the use of fair value accounting, in particular for business models based on long-term investments.
- And finally on **taxation and legal issues** the Commission will encourage Member States to work towards reducing the debt vs. equity tax bias, as well as to improve the framework for insolvency and cross-border certainty for assignment of claims.
- Ladies and gentlemen, the task of delivering on this broad agenda will take time to implement, but it will be essential if the EU economy is to achieve its potential. As I have already stated, the financing needs for infrastructure alone out to 2020 are estimated at EUR 1 trillion. We need to unlock all the potential of the entire EU economy, to achieve our objectives on jobs and growth.
- I look forward to the debate in the panel session, which given the experience of the panellists I am sure will be a lively and thought-provoking session.
- Thank you for your attention.

