

BUSINESSEUROPE PRIORITIES FOR FINANCIAL AFFAIRS

OVERVIEW

The EU must invest at an unprecedented level to meet the challenges of energy, climate change mitigation, aging population, economic and digital transitions, and transform its economic production model. In such a context, access to finance, specifically long-term debt financing and equity investment, is a pre-condition for companies to thrive and make the investment necessary to drive growth, maintain competitiveness and provide jobs and prosperity to citizens. In order to both ensure stability and meet the different financing needs of companies – many of which are SMEs - and of the EU economy in general, finance needs to be available through a variety of channels and on reasonable terms. We need to ensure the free flow of capital and an efficient innovative payment system to support cross-border trade and the development of the (digital) single market, with variability between financing channels, which are complementary and interdependent.

For the forthcoming EU political cycle, BusinessEurope has 3 overarching priorities in the field of financial affairs:

- **Maintain an efficient and competitive banking system, able to support the development of European companies of all sizes.**
- **Develop a unified, deep and liquid capital market.**
- **Ensure actions to support sustainable finance are proportionate, practicable and accommodate the needs of both the financial markets as well as the real economy.**

DETAIL

1. **Maintain an efficient and competitive banking system, able to support the development of European companies of all sizes, through:**

- **putting in place a full Banking Union**, with rapid agreement and implementation of an EU deposit insurance scheme (EDIS), alongside the existing supervision and resolution pillars needed to address the continued fragmentation of EU savings and credit markets¹. The EU deposit insurance

¹ For MEDEF, achieving this objective imperatively requires the full recognition of the Eurozone as a single jurisdiction and the better integration of European banks supervision. Therefore, for MEDEF, the implementation of an EDIS should be progressive, with in the first phase, a system of re-insurance of national deposit guarantee schemes. Before moving onto subsequent phases, proper assessment of the quality of banks and free flow of liquidity and capital within the Eurozone are needed. MEDEF believes EDIS should not cost banks more than the existing national

scheme should take into account periodic asset quality reviews and stress tests carried out by the relevant supervisory authorities. A full banking union would enable liquidity to flow freely between Member States, which requires that banks' capital is not ring-fenced in specific Member States.

- **Prudential rules striking the right balance between ensuring financial stability and supporting companies' financing needs** for investment and business activities, with a specific attention to long term debt financing and equity investment.

This requires a **tailored implementation of Basel IV in order to avoid that future changes to capital requirements put EU firms at a competitive disadvantage**. Recent changes to capital requirement rules have increased the cost of capital in a context of a low profitability of EU banks, which is a decisive factor for lending conditions in the market. Future changes to those rules (following Basel IV) should not significantly increase capital requirements overall, as requested by EU institutions, to support companies' need for capital for investment and trade (bank loans, equity investment, trade finance) and ensure access to risk management products at competitive terms. Careful attention should be paid to the EU market structure before approving any new standards.

This includes:

- **Maintaining risk sensitivity and an adequate prudential treatment of unrated companies.**
- **Applying the output floor at the highest level of consolidation and only to international capital requirements as a backstop.**
- **A maintained SME Supporting Factor.**
- **A maintained Infrastructure Supporting Factor.**
- **A maintained Credit Valuation Risk Exemption and an appropriate calibration of the Standardised Approach for Counterparty Credit Risk.**
- **Creating a low risk category for specialised lending.**
- **Appropriate risk weights for the building sector.**
- **Appropriate risk weights for leasing exposures.**
- **Revised treatment of certain equity exposures.**
- **Revised treatment of Unconditionally Cancellable Commitments.**

2. A unified, deep and liquid capital market

We need to reinforce and implement the Capital Markets Union to provide EU companies a genuine single market in financial services and support initiatives at Member States level to develop complementary sources of finance to bank lending. Key actions include:

deposit schemes. National deposit guarantee schemes' contributions should reflect the level of stability of the respective national banking system.

- **Facilitate SME's access to the market.** In order to promote SME's access to the market there is the need to simplify regulation for their access to growth markets, in particular with regard to the market abuse regulation. It is also important to quickly create the new EU fund dedicated to SME IPOs as announced by the Commission President in the context of the SME strategy and further measures under the Capital Markets Union programme, to support listing on growth markets. Recent changes to the rules on market research (MiFID), which require stockbrokers to charge investors separately for company research and securities trading, have led to a drop in spending on research especially in smaller companies making capital markets less accessible for these companies. This should be reviewed. Furthermore, the use of new technologies (like pan-european platforms managing end to end operations) to open SME's access to debt markets should be encouraged, as well as harmonisation of the documentation required.
- **Introduction of a European consolidated tape.** Currently markets are still very much dispersed and there is a strong home bias for retail investors. Creating a European consolidated tape, bringing together market data for the whole EU would help to overcome this limitation and increase cross-border investments in European companies.
- **Supporting responsible securitization.** restoring confidence in securitisation, also of SME loans, can play an important role in allowing banks to free up their balance sheets and extend lending. In order for a securitisation to be compliant with the European STS regulation, it must meet a lengthy series of criteria which are difficult to satisfy, with prudential rules penalising investments in these products. These rules should be reviewed to ensure they strike the right balance supporting financial stability and access to finance.
- **Review prudential rules for institutional investors and constraints on marketing of financial products.** Prudential rules for pension funds and insurance companies discourage investments by these investors in companies and need to be reviewed. Furthermore, the constraints on the marketing of certain financial products (MIFID II, PRIPS, DDA) which have counterproductive effects for investment in companies shares or bonds, should be reassessed.
- **Review the impact of withholding taxes on cross-border equity investment:** The practice of withholding taxes on dividends on cross-border portfolio investments constitutes one of the main obstacles to an integrated capital market in the EU. Whilst respecting Member States' competence in the field tax, such practices should be reviewed by the Commission as they constitute a significant barrier to deepening integrated capital markets.

3. Ensure that actions to support sustainable finance are proportionate, practicable and accommodate the needs of both the financial markets as well as the real economy.

BUSINESSEUROPE welcomes initiatives such as the Commission's Sustainable finance taxonomy proposal, to provide greater clarity to the markets through a more coordinated EU approach. A well-designed taxonomy could contribute to these goals and help to establish a common language for Sustainable Finance.

Any initiatives in this area:

- Should be designed to help companies finance their transition and funnel investments to support greening the economy, but not to implement exclusion strategies. Otherwise it would only decrease financing opportunities for the largest emitters, who can actually have the largest impacts by reducing their emissions;
- Should take the dynamic evolution of technology into account;
- Should avoid additional and duplicative bureaucratic burden for corporates, especially related to the disclosure of non-financial information, and not be misused as a "punitive" instrument.
