

Capital Markets Union: French banks want to play a significant role in the process and underscore the essential conditions for success

The French Banking Federation, FBF, welcomes the European Commission's initiative in launching a consultation round on the Green Paper relating to the Capital Markets Union (CMU). The ambition of this proposal is to contribute to stimulating employment and growth in the European Union by facilitating access to market financing for companies. For this to be a success, the CMU must take into account the advantages and specific nature of the European economy funding model, which can tap into a broad arena of financial centers and players, including universal banks that the Capital Markets Union can and must rely on.

Financing the European economy and companies is still subject to a high lending rate which fundamentally sets it apart from the U.S. model. This financing model is already changing: with the impact of new banking regulations which are pressing for removal of the intermediation rate, the capital markets are playing an increasingly important role, providing 40% of French corporate financing. Yet this change goes at a different pace depending on company size. The challenge for the CMU is therefore to prepare the ground for a successful transition of Europe towards a new balance between bank lending and market-based funding, by building on the strengths of financial institutions.

French banks want to play a significant role in this process and underscore the essential conditions for its success for Europe:

- **Develop market access for SME and mid-cap companies**

The CMU must promote the development of a shared framework for SME and mid-cap company listings and improve financing possibilities in the form of private placements in euros. This means a best practices module must be determined so as to attract international investors.

- **Sustain lending capacities**

The CMU must build on a solid and transparent securitization market in Europe, especially through the determination of a shared label and by resorting to public-provided guarantees, if required, in order to increase attractiveness for investors.

- **Safeguard the ability of universal local banks to accompany clients on markets and provide liquidity**

CMU must ensure that universal local banks that accompany businesses of all sizes on the markets can also provide liquidity via market making, and this must be carried out in economically viable conditions. The draft proposal on bank structural reform must be abandoned, or radically reviewed so as not to penalize an essential activity for markets to function well. Failing that, CMU would only ultimately benefit non-European financial market participants and would not provide SMEs and mid-cap companies with the prospects that they expect.

Finally, the current proposal on the European financial transaction tax is a major obstacle to implementing and developing a Capital Markets Union. As the proposal will be applied by only 11 out of 28 countries, it would create distortion of competition and therefore major fragmentation within the European Union.

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