News release

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Increasing cross-border flows is key test for EU's Capital Markets Union policy, says PwC

Achieving a Capital Markets Union (CMU), a signature initiative of the Juncker Commission, will require policies which tackle presently low levels of integration, concludes a report published by PwC.

Findings from the report, '**Capital Markets Union: Integration of Capital Markets in the European Union**', come ahead of the European Commission's (EC) CMU action plan, which is expected to be unveiled on Wednesday, 30^{th} September.

The ultimate objective of the EC for CMU is to foster higher levels of economic growth. The initiative has two main priorities: first, to promote market-based financing to offer growing EU companies access to debt and equity markets, thereby reducing their reliance on banks; and secondly, to pursue integrated capital markets, so that investors funds can be deployed more freely and efficiently to fund growth and generate returns.

PwC suggests five priorities that could improve European capital markets integration based on the main blockages to integration which were identified.

Improving cross-border distribution of capital will expand choice both for investors and companies seeking funding, and lead to higher growth. Policies which are directly focused on facilitating and supporting cross-border flows must be a priority for CMU. Developing cross-border distribution is critical in order to promote further integration of capital markets across EU countries.

To create an effective CMU, asymmetry of information between investors and borrowers across the EU should be minimised. This would significantly reduce investor's cost of seeking information which would then translate into better financing and investment conditions.

Care needs to be taken to mitigate initiatives which could unintentionally negatively impact the market. Banks are crucial players for loan originations and securitisation. In particular, regulations pertaining to capital requirements (such as Basel and Solvency) dis-incentivise investors to buy securitised products.

Promoting diversified sources of financing would reduce dependency on banking loans. The promotion of alternative methods of financing is important to reduce overreliance on one specific financing method**.** For instance, despite being inconsistently regulated across Member States, crowdfunding has recently appeared as an additional tool for financing small to medium sized firms.

Additional work is needed to thoroughly identify the main challenges of the CMU and to underpin the specific issues to be addressed. Identifying the main blockages preventing the integration of capital markets and the development of market-based finance is crucial in order to setup a concrete and efficient action plan.

Brian Polk, PwC Director, Global Financial Services Regulation, comments:

"Improving integration of capital markets is fundamental to improving the performance of Europe's economy.

"Increasing the diversity of funding sources for growing businesses will decrease their cost of finance, whilst also improving returns for investors. This will encourage savers to provide more finance, and drive wider efficiencies in the financial industry.

"Deeper, competitive financial markets can also contribute to growth by allocating capital more efficiently. Rules that facilitate the trading, hedging and pooling of risks across borders by the financial sector would allow investors to find and fund profitable investment opportunities that would otherwise be missed. Funds will increasingly go to the more profitable projects and the productivity of the economy will increase.

The European Commission has some important choices to make in deciding what to prioritise in its action plan later this week. We look forward with interest to see their choices, as a signal for how they will address the integration challenge which is apparent in our study."

Notes to Editors:

PwC's report '**Capital Markets Union: Integration of Capital Markets in the European Union**' provides insights to help establish capital markets that are more accessible to finance companies, in particular SMEs. It assesses the extent to which capital markets in Europe are market-based and integrated, explains the main blockages preventing capital markets from becoming more integrated and puts forward the priorities that should be set to improve European capital markets integration.

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