Date: 17 August 2015
ESMA/2015/SMSG/021

SUMMARY OF CONCLUSIONS

Joint meeting of the Board of Supervisors and the Securities and Markets Stakeholder Group

Date:	25 June 2014
Time:	14:00 – 17:00h
Location:	ESMA, CS60747 – 103, rue de Grenelle, 74345 Paris
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No Item

1 Opening remarks

The ESMA Chair welcomed all SMSG members and Board of Supervisors' members and alternates to the meeting and thanked the Board members who had volunteered to make presentations to the meeting. He also apologised on behalf of Anneli Tuominen, who would not be able to participate as planned due to travelling complications.

The SMSG Chair remarked on behalf of the whole Group how important it is for its members to be able to meet with the Board of Supervisors.

2 CMU

The SMSG Vice-Chair Judith Hardt gave a comprehensive presentation of the SMSG advice that the group had delivered to the European Commission in response to its consultation on the Capital Markets Union. The presentation focused on four aspects of the SMSG advice given, being:

- Retail investors,
- Development of an effective "ecosystem",
- Alignment of past and recent legislation with objectives of the CMU,

- Boosting long-term investments taking into account the growing institutionalisation of people's savings.

Judith Hardt further accounted for the view of the Group in respect of the five short-term priorities, regarding (1) the prospectus regime, (2) credit information on SMEs, (3) sustainable securitisation and corporate debt markets, (4) the boosting of long-term investments and ELTIFS and (5) the development of European private placement schemes. She further accounted for the views of the group as regards the longer-term initiatives regarding accounting standards, crowdfunding, the single market pensions' provisions, venture capital funds and venture capital investors, and cross-border retail participation in UCITS.

Gérard Rameix, Chairman of the AMF and Chair of the ESMA Corporate Finance Standing Committee, remarked regarding the CMU that it is a good opportunity for practical solutions. He expressed agreement with the priorities identified in the CMU paper but also remarked that there is other work to be done such as to finalise EMIR. The main objective should be to bring investments to the market. The monetary policy has created risk in the markets and there is a risk that certain funds are being considered as artificially liquid. More transparency is needed on risk/return. Long-term investments are beneficial but many investors are not willing to take the risks it involves. He also remarked that securitisation to his mind does not work for SMEs and that for SME prospectuses one could reduce the burden for issuers without this leading to much higher risks.

Gareth Murphy, Director of Markets at the Central Bank of Ireland, Chair of ESMA Investment Standing Committee, noted in his intervention that rather than quick wins now is the time for more fundamental changes like on insolvency law and taxation law. He noted that the amount of investments that investors put into SMEs demonstrates their faith in the EU. Furthermore he noted that lack of transportability of pensions leads to capital being locked up which could be used as working capital at the European level. He also expressed his appreciation for the important work ESMA performs on strengthening coherent data in the EU.

Kostas Botopoulos, Chair of the Hellenic Securities Commission, gave the view that the green paper is too general and that the central message of the green paper is about jobs and growth. The main areas to tackle are taxation, insolvency/bankruptcy law, and corporate law. He also remarked on the big question of the UK's place in the EU. ESMA's role in the CMU initiative could be as a helper or driver. In addition there is the International dimension where the EU wants to attract non-EU investments.

SMSG members made the following remarks:

- Retail investors' needs are at the heart of the CMU concept and that data is lacking for the comparability of retail investor costs.
- The SME markets that have been successful have been outside the scope of the Prospectus Directive.

- There is no shortage of capital but of investments, whereas the importance of the insolvency regimes harmonisation may be less significant.
- Rules on the financing of research are going against the market practice and could be damaging.
- The European Union is missing in the CMU Green paper. The goal could have been a European stock-market authority. There should also be an oversight of auditors.
- There is a general shift in investment behaviour from deposits to bonds and from institutional investors to private persons.

The ESMA Chair thanked all participants for an interesting discussion.

3 Risks in the Financial Sectors

The SMSG and ESMA Board of Supervisors discussed the main risks identified in financial markets in recent times.

Angel Berges-Lobera made a presentation of the risks in the bond markets and the marked shift from savings in deposits into bond funds creating a sensitivity to bond price drops in Europe and world-wide, and risks for investors in terms of e.g. liquidity mismatch.

Peter De Proft made a presentation of the risks in the bond market and highlighted the concerns of different bodies such as IMF, ECB, European Commission (FISMA), and IOSCO. He accounted for the views of the asset management industry as regards the liquidity challenge, the causes of the problem and the concerns about the systemic risk caused by asset managers, which he stated should not be over-emphasised.

Alexander Justham, CEO, London Stock Exchange, presented Electronic fixed income markets of the LSE Group and gave his views as regards the example of the Italian bond market as a good one of electronic bond markets.

David Lawton, Director of Markets Policy and International, FCA, Chair of ESMAs Market Data Reporting Working Group, presented key facts and figures of the liquidity in the corporate bond markets in the UK, showing a fall of the turnover ratio of corporate bonds since 2010.

Carlos Alves, Chair ESMAs Committee of Economic and Markets Analysis, outlined his views on the risks in the bond markets. He noted that there are times of low yields to maturity on sovereign debt, low yield spreads to the German yields and CDS prices, as well as interest yields, compared to stock markets. He outlined some thought of the reasons behind this being inflation expectations, monetary policy and very low risk premiums, and also spoke of some risks that result from this current environment.

One SMSG member made remarks regarding liquidity risks and pension funds and individual investors owing a lot of debt and noted that the current situation is a real lesson from where industry did not work in time with regulators or too late. The member also noted a risk for a maximum loss if acting in the trigger events and a need to engage to try to prevent herding behaviours. The member noted a change in investors' behaviour and a need to understand their behaviour better and also finally mentioned that it is unknown what MiFID II will bring for the bond markets and it would be useful to hold such discussions between industry and regulators.

The ESMA Chair remarked that transparency is needed, and that bonds are largely traded and owned by non-regulated entities, whereas relatively limited numbers are owned by UCITS and by AIFs.

SMSG members also made remarks on:

- collateral and cross-border collateral and how to reduce such needs,
- quantitative easing that cannot last in combination with healthy competition,
- the differences between government bond markets and corporate bond markets, and on the latter one there are big ETFs subject to large withdrawals, that needs to be addressed,
- certain instruments with equity-like characteristics which in reality are bonds.

Gareth Murphy remarked on the quantitative easing used by the ECB, and the need to separate the QE effect out of the numbers in order to see real asset prices.

One SMSG member noted that there is a need for a CCP resolution mechanism as well and reliable data to be able to know what is happening in the markets. The member further noted that banking regulators are taking an interest in non-banking issues and remarked that a debate on stability in the financial system is to be had.

The ESMA Chair concluded thanking everyone for the interesting contributions.