DANISH BANKERS ASSOCIATION

DANISH SECURITIES DEALERS ASSOCIATION

To the European Commission
Banking and Finance

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Response to the European Commission's Green Paper Building a Capital Markets Union

The Danish Securities Dealers Association and the Danish Bankers Association (hereafter named the Associations) support the Green Paper's initiatives as well as the Green Paper's general positive position due to a large number of initiatives that support economic growth.

At present, while the contents of the specific initiatives are still vague, the Associations find it difficult to consider the need of harmonization in the fields of company law, taxation and insolvency.

The Associations have responded to the consultation regarding the Prospectus Directive and securitization. The Associations look forward to respond to the upcoming hearing regarding covered bonds.

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One of the main objectives of a capital markets union is to make it easier for small and medium-sized companies (SME's) to receive funding from capital markets instead of traditional bank funding. The intention is for Europe to approach the American funding structure to a greater extent. The US companies receive about 80 percent of their funding through the capital markets and about 20 percent from bank funding, which is just opposite the case in Europe.

General Comments
The Associations support the Commission's focus on economic growth and jobs as well as the initiatives that are proposed as a part of the Capital Markets Union. These initiatives will help to strengthen the effective and dynamic financial markets in Europe along with a strong banking sector.

However, it is crucial that a clear political understanding of the critical **coherence between the primary and secondary markets** exists, e.g. regarding issuance and trading. The positive political attitude towards the wish to work for a reasonable support of e.g. issuance of company bonds is fine, but it is inexpedient and does not support the initiatives, if market participants at the same time face rules that make it very difficult to be market maker in the secondary markets.

Liquidity is a crucial factor in creating an efficient Capital Markets Union. When investors purchase securities they need certainty for the possibility to make a quick sale of the securities if they wish to do so. If this possibility does not exist it will be difficult to attract investors as well as result in poor pricing of the securities. This leads to increased capital costs for companies that are funded by the capital markets.

During the last few years a wide range of **level 2 legislation acts** have been issued, and in the next few years more are on their way. Some of these level 2 legislation acts are at risk of conflicting with the objective of the Capital Markets Union. The future level 2 legislation acts for MiFIR/D II could be mentioned as an example of extremely inexpedient for the pricing and the efficiency of the European securities markets, including the Danish mortgage credit system, if the proposed regimes and threshold values are not correctly calibrated. Therefore it is important to analyse the coherence between existing regulation and regulation under negotiation, thus securing level 2 legislation acts that support the Capital Markets Union.

Some of the level 1 proposals as currently negotiated in the Council of the European Union and the Parliament are at risk of conflicting with the objective of the capital markets union. This applies especially to the proposal about a bank structure reform by which the largest banks' trade activities in some cases must be separated into separate trade units. The more specialized the units are the more vulnerable they become and this means that funding becomes more expensive. The proposal could give the banks incentive to reduce certain market related trade activities, e.g. market making in less liquid and/or remote markets, because the costs become too great. This contrasts with the objective of the capital markets union and should be considered during the negotiations regarding the bank structure reform. Another example is the financial transaction tax that will make capital market transactions more costly.

Comments to Specific Initiatives

The Associations are favourably disposed towards the development of alternative funding possibilities; like **peer-to peer lending** and **crowdfunding**. All players offering identical services should be subject to uniform rules, supervision, etc., that is to say a level playing field. This is important both from a competitive and an investor policy perspective, but also because it helps to sustain financial stability.

Overall the Associations support the initiative regarding more **standardisation** and see this as a possibility to kick start the markets. However, some of the markets are very complex, e.g. the **covered bonds** markets in Europe. The Associations generally support the overall ambition to improve the integration of the markets, but it is however important to tread carefully and acknowledge that it is an extensive task that in the long run could become challenging to fields within insolvency, company law and taxation. Therefore the Associations find it reasonable to start off with a soft law approach based on best practices. The Associations look forward to elaborate this further in the separate hearing regarding covered bonds.

The development of a Nordic **corporate bond** market depends both on an expansion of the amount of investors and of the liquidity of the secondary market. There has been an attempt to standardize the documentation in the North to simplify the process for both issuers and investors. The local corporate bond markets should keep maintaining their individual characteristics to be able to facilitate bringing new local issuers (SME's) to the market. Especially new local issuers are not acquainted with this process. The initiative regarding the development of the market for **green bonds** is also regarded as positive due to the increasing focus to this market.

A sustainable setup regarding **securitisation** is absolutely supportable. Following the economic crisis, regulation of securitisation is one of the fields that has been tightened to an extent that it does not support the initiative of the capital markets union. This applies e.g. to the categorisation of assets that can be kept as liquidity compared with stricter capital requirements in accordance with CRR. The Associations estimate that the securitisation currently (with the current capital requirements) is a more expensive funding model than the traditional secured loans . Solvens II has also caused additional requirements that have reduced the desire to invest. Without significant changes towards a market friendly approach the securitisation capacity of small and medium-sized European banks will be lost.

The Associations estimate that standardizing documentation and rating to the greatest extent possible will be expedient for efficient capital markets, e.g. regarding securitization.

The Associations support the initiative regarding the review of the prospectus directive in regard to relieving the requirements for prospectus. Equal to several initiatives in the Capital Markets Union it is necessary to find the right balance between an expansion of the amount of investors and investor protection. Very burdensome requirements for products directed especially to retail investors could cause a reduced supply of such products. Extensive and detailed information can furthermore make it more difficult for investors to estimate whether they wish to invest in these products. So the correct balance must be found and an assessment of possible reduced requirements in the Prospectus Directive is very welcome indeed.

The Associations believe that a harmonized approach, e.g. by introducing a common, simple and high quality accounting standard to the credit information etc. targeted at SME's could have a positive impact to their access to the capital markets. However, it is essential that the SME's supply the necessary information so that the banks' confidentiality and data protection will not be challenged.

The initiative regarding **Long Term Investments** is fully supported. The ELTIF regulation supports long term investments, also within the infrastructure, and therefore the Associations look forward to the ELTIF regulation coming into force. The Associations are under the impression that such investments are of interest to the market and therefore the Associations welcome initiatives supporting more use of ELTIF. Other initiatives that support alternative funding sources are likewise supported.

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The Associations also support the Commission's more general initiative that aims to strengthen the **investment possibilities for minor investors**. This is not an easy task because there are very different national rules in this field. Therefore it is essential to assess and harmonize fundamental rules within taxation, investor protection and marketing to ensure that the initiative has full impact.

The Associations believe that one should be cautious about counting on minor investors giving funding to SME's directly. However, indirect funding through e.g. UCITS or pension insurance schemes would be prudent. The knowledge that the banks have about credit rating of the SME's can be useful when developing products that (indirectly) contribute to fund the SME's (e.g. securitization). This kind of fund is also found prudent.

During the last few years the Associations have experienced a significant increase of administrative burdens due to overlapping supervision, double reporting etc. The Associations believe that the European supervision authorities could - within their mandate - play a more powerful coordinating role to avoid these kinds of inexpediencies.

Conclusion

Overall the Associations support the Green Paper's initiatives as well as the Green Paper's general positive position due to a large number of initiatives that support economic growth.

At present, while the contents of the specific initiatives are still vague, the Associations find it difficult to consider the need of harmonization in the fields of company law, taxation and insolvency.

The Associations have responded to the consultation regarding the Prospectus Directive and securitization. The Associations look forward to respond to the coming hearing regarding covered bonds.

Yours sincerely,

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