CFA Institute

Square De Meeûs 38/40
1000 Brussels
Belgium

+32 (0) 2401 68 28 tel
+32 (0) 2401 61 18 fax
info@cfainstitute.org
www.cfainstitute.org

13 May 2015

Mr. Jonathan Hill
Commissioner for Financial Stability, Financial Services and Capital Markets Union
European Commission
Rue de la Loi / Wetstraat 200
1049 Brussels
Belgium

CFA Institute identification number in the EU transparency register: 89854211497-57

Re: Public consultation on Building a Capital Markets Union

Dear Commissioner Hill,

CFA Institute appreciates the opportunity to respond to this consultation on Building a Capital Markets Union.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. The end goal is to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 130,000 members in 150 countries and territories, including 123,000 Chartered Financial Analyst charterholders, and 144 member societies.

Summary

In order to inform the policy debate, CFA Institute conducted a survey of members in the EU (plus Switzerland) to get input on CMU in March-April 2015. 20,738 members were invited to participate in the survey. 697 valid responses were received, for a response rate of 3% and an overall margin of error of ±3.7%. The demographic profile of respondents is provided in the survey report attached as an appendix to this consultation response.

CFA Institute advocates for fair, transparent and ethical market practices. As elaborated in the responses below, we support the European Commission's plans to create a Capital Markets Union in the EU. According to the survey respondents, the biggest barriers to the development of European Union capital markets are differences in taxation treatment across jurisdictions and differences in legal frameworks surrounding the ownership and transfer of securities. CFA Institute is thus in favour of the principle of maximum harmonisation of rules between the Member States. Our detailed answers to the Green Paper are presented below.

Specific Comments

1. Beyond the five priority areas identified for short term action, what other areas should be prioritised?

CFA Institute's recent member survey had several open-ended questions on CMU priority areas. We also requested specific feedback from our EU CFA Societies to inform our responses as presented below.

In addition to the five priority areas identified by the European Commission, our members would welcome further developments in the practical implementation of financial services legislation in the Member States. Some of our members noted that while the legislative initiatives since the 2008 financial crisis have been welcome, the application of these new rules has been inconsistent across the EU. One example is the UCITS Directive (please see our response to question number 17). According to the respondents to our survey, further stability and predictability of pan-European laws would stabilise the markets and thus aid the European Commission's goal of further growth and jobs in Europe.

According to the comments to our survey, some of the respondents would welcome further harmonisation in taxation. This could be done, for example, by providing tax incentives for investors who invest in start-ups and SMEs. Please see further comments on taxation in our response to question 30.

2. What further steps around the availability and standardisation of SME credit information could support a deeper market in SME and start-up finance and a wider investor base?

In the CFA Institute member survey on CMU, less than 6% of the respondents noted that credit information on unlisted SMEs is readily accessible. According to 83% of the respondents, the information is not accessible.

83% of our members believe that non-performing loan figures (amounts and statistics) are the most important types of credit reporting information needed for the investment decision-making process with regard to investment in SMEs. Similarly, our members rate highly the importance of loan details (e.g., dates, amount outstanding vs. guaranteed amount) when making an investment decision (noted by 82% of the respondents). Moreover, a majority (63%) of the respondents believe that the types of credit lines are important for the investment decision-making process.

Just under a half of the members use credit information sourced directly from unlisted SMEs (43% of all the respondents to our survey). Other sources that our members use include public sources, such as business chambers, which are relied upon by 38% of all the respondents. Public/private credit registers were identified as being useful by 37% of all the respondents. Business information companies are used by 36% of all the respondents, though they are particularly popular in Italy (50%) and in Spain (46% of the Spanish respondents). Just over a quarter (27%) of our members use banks as a source of credit information on unlisted SMEs.

3. What support can be given to ELTIFs to encourage their take up?

In June 2013 CFA Institute published a response to the European Commission's Green Paper on the long-term financing of the European economy (http://cfa.is/1QFBDRA). In the comments, we reflected opinions as developed in a poll of 381 investment professionals who are members of CFA Institute.

As noted in our June 2013 response, we believe that the creation of a European Long Term Investment Fund (ELTIF) regulatory framework, separate from the existing UCITS structure, can be an effective mechanism for addressing many of the shortcomings of direct investment and allowing smaller investors opportunity to allocate capital to such projects. We therefore welcome the establishment of the ELTIF label.

We caution, however, that development of ELTIF structures should account for the unique characteristics of the underlying assets in all investor disclosures, with particular regard to the likely limitations on investor liquidity and novel risks associated with the underlying assets. This is especially important if individual investors are to have access to these investment opportunities.

We believe that full transparency as to the underlying ELTIF assets and risks and constraints associated with ELTIF investments should be of paramount importance in order to encourage their take up.

4. Is any action by the EU needed to support the development of private placement markets other than supporting market-led efforts to agree common standards?

○ Yes

◉ No

Comments on question 4:

CFA Institute believes that it is sufficient to support market-led efforts to agree common standards for private placement markets. We do not see the need for regulatory intervention.

5. What further measures could help to increase access to funding and channelling of funds to those who need them?

No opinion.

6. Should measures be taken to promote greater liquidity in corporate bond markets, such as standardisation? If so, which measures are needed and can these be achieved by the market, or is regulatory action required?

CFA Institute believes that further measures should be taken to promote greater liquidity in the bond markets. In the recent CFA Institute member survey on CMU, almost half of the respondents (47%) noted that insufficient secondary market liquidity in corporate debt markets is a significant barrier to the development of EU capital markets. Most notably this view was expressed by two thirds of our member respondents (67%) in Poland. On the other hand, only one third (32%) of the respondents in Germany shared the same view.

Most of the respondents (72%) maintained that the best way to promote liquidity in corporate bond markets would be through greater standardisation of issuances (including prospectus and filing requirements) and to facilitate secondary market trading on electronic platforms. That would also aid the comparability of different products. While greater standardisation was the most popular option overall, it received most support in particular from our Dutch and Spanish members, as identified by 88% and 83% of respondents in these countries, respectively.

In addition, 70% of all the respondents believe that greater price transparency would promote greater liquidity in the corporate debt markets. This view was supported particularly by the respondents in Spain (82%) and Italy (81%). These findings underline the importance of the MiFID II reforms in the area of non-equity market transparency.

According to our members, other possible means to achieve greater liquidity include establishing common standards for private placement markets, which was supported by 65% of all the respondents. In particular this view was supported by our members in the Netherlands (85%) and in Spain (83%). Just over a half (53%) of our German members support the establishment of common standards for private placement markets.

Moreover, half of the members (50%) also supported the reduction of regulatory burdens placed on banks. This view was largely supported by the Spanish respondents (63%), yet only a quarter (26%) of our French member respondents shared the same view.

In the open comment section of our survey, many of our members also noted that harmonised tax regimes in the Member States would promote greater liquidity in corporate debt markets. Other measures noted by individual respondents included *'uncomplicated alternative rating system for small bonds'* issued by SMEs; reduction in the number of trading venues; further post-trade transparency in the bond markets; and better coordination between different clearing houses.

7. Is any action by the EU needed to facilitate the development of standardised, transparent and accountable ESG (Environment, Social and Governance) investment, including green bonds, other than supporting the development of guidelines by the market?

○ Yes

○ No

Comments on question 7:

No opinion.

CFA Institute

8. Is there value in developing a common EU level accounting standard for small and medium-sized companies listed on MTFs? Should such a standard become a feature of SME Growth Markets? If so, under which conditions?

In general, CFA Institute does not support the creation of differential accounting standards for different entities, whether based upon size or legal structure. Separate financial reporting for SMEs reduces comparability between the financial statements of SMEs and larger companies. Comparability is essential to those who invest across companies of all sizes. Creating differences in the financial reporting requirements of such companies hinders investors' financial analysis and investment decision-making processes.

More importantly, the creation of separate SME accounting will be perceived by investors to be of lower quality with less disclosure that may result in reduced compliance costs but a higher cost of capital. In the case of the EU, we therefore encourage all companies to adopt a single standard – IFRS.

Should the European Commission decide to provide relief to SMEs in the EU, we urge the Commission to consider any relief from IFRS both cautiously and in limited circumstances, especially since some SMEs in the EU are public companies. If the Commission were to consider providing relief for SMEs, such relief should only be considered in the areas of disclosure requirements and effective dates of new accounting requirements. With respect to disclosures, the Commission could provide some relief to SMEs by not the requiring the narrative that accompanies tables, charts, reconciliations, and roll forwards. Secondly, the Commission could consider allowing SMEs extra time to adopt new accounting requirements.

The query is timely given the release of CFA Institute's recent report *Addressing Financial Reporting Complexity: Investor Perspectives*. The report, based upon a survey of our membership, provides investor views on the creation of differential reporting requirements based upon legal structure or size.

We also note that CFA Society of the United Kingdom has submitted an additional reponse to this specific question, which lends further support to our position on this issue of accounting standards.

9. Are there barriers to the development of appropriately regulated crowdfunding or peer to peer platforms including on a cross border basis? If so, how should they be addressed?

In the CFA Institute capital markets union survey, 47% of the respondents stated that crowdfunding and peer-to-peer lending platforms are important in the provision of capital to small-to-medium sized enterprises (SMEs). The view was supported particularly by our members in Italy - 63% of our Italian respondents consider these channels very important.

However, only 24% of Germans consider crowdfunding and peer-to-peer lending important for the provision of capital to SMEs. This difference of opinion suggests that German SMEs likely have greater availability to traditional sources of finance than SMEs in other European countries.

Only 20% of the respondents rated crowdfunding and peer-to-peer lending as important in the provision of capital to companies other than SMEs.

In the open comment section, most of the respondents noted that the main barrier to cross-border crowdfunding and peer-to-peer lending is the lack of investor protection in these markets. Member respondents called for further legislation and transparency in order to increase the credibility of these alternative sources of financing. Indeed, many of the respondents in the open comment section described the participation in crowdfunding activities as almost '*a lottery'* due to the lack of sufficient regulation. According to some of our members, investments via crowdfunding and peer-to-peer financing also suffer from a lack of liquidity due to the unwillingness of investors to participate in these markets.

In order to ensure sufficient investor protection, CFA Institute supports the creation of a robust and transparent legal framework on crowdfunding and peer-to-peer lending in the EU.

10. What policy measures could incentivise institutional investors to raise and invest larger amounts and in a broader range of assets, in particular long-term projects, SMEs and innovative and high growth start-ups?

89% of CFA Institute members responding to our survey on CMU think that further policy measures should be taken to incentivise institutional investors to invest more in infrastructure projects.

Almost half of our member respondents (48%) believe that both favourable taxation treatment and favourable regulatory capital treatment for investment in infrastructure would positively incentivise investors. In particular, respondents in Italy (62%) and Poland (58%) would like to see more favourable taxation treatment for such investments.

Over a third (39%) of all the respondents believe that greater number and availability of pooled vehicles for infrastructure investment (e.g. under the ELTIF label) would be one of the most important measures to incentivise institutional investors. This view was supported by over half (54%) of our French members. Only 27% of the members who responded to our survey believe that lack of investor demand for SMEs is a barrier to the development of EU capital markets.

Our members indicated less support for greater public sector capital invested in infrastructure and shorter lock-in periods in infrastructure investment funds (favoured by just 17% and 16% of respondents, respectively). One in ten respondents maintained that no policy measures should be taken to incentivise institutional investors to invest more in infrastructure projects.

Moreover, in the open comment section of our survey, several of our members noted that increased transparency in the design of the potential financing vehicles and the structure of the project as well as regulatory certainty would incentivise them to invest more in infrastructure projects.

11. What steps could be taken to reduce the costs to fund managers of setting up and marketing funds across the EU? What barriers are there to funds benefiting from economies of scale?

No opinion.

12. Should work on the tailored treatment of infrastructure investments target certain clearly identifiable sub-classes of assets?

- Yes
- No

Comments on question 12:

No opinion.

12.1 If so, which of these should the Commission prioritise in future reviews of the prudential rules such as CRDIV/CRR and Solvency II?

No opinion.

13. Would the introduction of a standardised product, or removing the existing obstacles to cross-border access, strengthen the single market in pension provision?

CFA Institute believes that if carefully structured, the introduction of a standardised pension product could lead to the strengthening of the single market in pension provision. 58% of all respondents to the CFA Institute capital markets union survey agree that the introduction of a standardised European pension product is necessary to strengthen the single market in pension provision. One third of the respondents strongly agree that a single pension product would be desirable. Only 7% strongly disagree with the idea.

Of all the respondents, Italian and Spanish members in particular support the introduction of a standardised European pension product (84% and 80% in favour, respectively). On the other hand, British members were divided by the idea, with 52% supporting the standardised product and 29% disagreeing with the idea.

Furthermore, in the open comment section to the survey, one of the respondents noted that "*the most significant point is insufficient support to private pension funds in the EU. First of all, relying on pay-as-you-go pension system is a true hazard in the current demographic development. Secondly, introduction of a private pension system with mandatory contributions would help to develop both local equity as well as credit markets*". CFA Institute welcomes the European Commission's initiatives to further develop and standardise the European pension markets and to improve transparency, simplicity, and availability of pension products.

14. Would changes to the EuVECA and EuSEF Regulations make it easier for larger EU fund managers to run these types of funds?

No opinion.

14.1 What other changes if any should be made to increase the number of these types of fund?

No opinion.

15. How can the EU further develop private equity and venture capital as an alternative source of finance for the economy?

No opinion.

15.1 In particular, what measures could boost the scale of venture capital funds and enhance the exit opportunities for venture capital investors?

No opinion.

16. Are there impediments to increasing both bank and non-bank direct lending safely to companies that need finance?

CFA Institute recently published a report on shadow banking (i.e. nonbank finance) which highlights the positive role securitisation can play in the development of capital markets and in the provision of funding to support real economic activity. The report is available at http://cfa.is/1G6ai89.

Securitisation transforms pools of loans into tradable debt securities. By creating a tradable financial instrument with a different risk profile from the underlying assets, securitisation provides an important source of non-bank finance as well serving to facilitate risk transfer. Because they are (mostly) structured as pass-through securities, securitisations carry little refinancing risk, and also create less encumbrance on bank balance sheets than other forms of asset-based finance such as covered bonds.

Existing regulatory measures related to securitisation have primarily addressed the potential misalignment of interests between originators and investors along the chain from loan origination to issuance, as well as strengthening transparency over issuance structures and collateral. The key regulatory elements related to securitisation include (i) a greater degree of alignment of interests, and due diligence requirements; (ii) prudential rules; (iii) prospectus and transparency frameworks; and (iv) the identification of "high quality" (or qualifying) securitisation. The desirable elements of a securitisation framework are examined in further detail in chapter 7 (pp.60-67) of the CFA Institute shadow banking report.

Overcoming issues related to product and market fragmentation, transparency and illiquidity are central elements to help the securitisation market revive so that it can once again be a strong tool to support bank lending and economic growth. The need for greater standardisation and simplification of issuance structures (as well as greater transparency) in securitisation markets is a necessary condition to stimulate investor interest in securitisations. Currently, investors face adverse selection risks in securitisation markets because of product complexity and insufficient transparency, which leads to information asymmetries between risk sellers and risk buyers. Moreover, there are costs to monitoring exposures, in terms of both asset-level data (static) and the evolution of credit pools and flows (dynamic).

Greater standardisation and simplification of issuance structures, combined with greater transparency, may facilitate investor due diligence, reduce monitoring costs, and stimulate demand. Further, reduced capital charges for qualifying securitisations, and consistent prudential treatment across regulations, may incentivize supply of desirable or “high quality” issuances.

Specifically, standardisation and simplification should focus on the following aspects: issuance structures, including the distribution of risks across tranches; structure of any credit enhancements or guarantees; legal terms applicable to relevant contracts, including pooling and servicing agreements and definition of eligible assets, including whether the asset pool comprises real or synthetic loans and the underlying economic activity being supported.

Standardisation of legal frameworks across geographic markets is also desirable to improve the ease and certainty of enforcing ownership rights and creditor protections.

17. How can cross border retail participation in UCITS be increased?

CFA Institute believes that further measures could be taken to increase the availability of products on fund platforms outside of investors’ home market. We would support ease of access to those products to overcome home bias through an enhanced implementation of the passporting rules.

We are also in favour of the consistent implementation of provisions of UCITS Directive so as to provide more confidence and certainty when investing outside of the home Member State. This would include improving the visibility and transparency of underlying risks in the context of fund reporting and disclosure rules. We believe that ensuring that the investment opportunity is well understood, easily accessible and tradable, and offering an attractive risk/reward proposition, would increase cross border retail participation in UCITS.

18. How can the ESAs further contribute to ensuring consumer and investor protection?

CFA Institute believes that the European Supervisory Authorities (ESAs) can best contribute to ensuring consumer and investor protection by implementing the revised Markets in Financial Instruments Directive (MiFID II) with regard to the framework for investor protection and associated conduct of business standards. The ESAs should also ensure that the rules that are already in place (as well as those that are in the process of being implemented) are properly enforced by national competent authorities (NCAs). To this end, the ESA's should work collaboratively with NCAs to ensure consistent implementation and high-quality enforcement practices of investor protection regulations throughout the EU. Such an approach would engender a climate of trust and confidence among retail investors.

19. What policy measures could increase retail investment?

CFA Institute believes that a complete and harmonised implementation of MiFID II rules in the Member States would support retail investment. In particular, the legislation on product governance, reporting of fees, and on professional knowledge and competency are the foundations of market integrity, which, in turn, is necessary to support investor confidence and participation in financial markets. An effective practical implementation of these rules is therefore a key element of building a capital markets union.

Moreover, in particular our CFA Society leaders noted in our recent survey that investment education should commence at a young age, and the introduction of basic economics/finance education in European schools would be beneficial. Financial literacy initiatives in European schools could lead to a new generation with a basic understanding of their rights and responsibilities as direct or indirect retail investors.

Some of the respondents to our CMU survey noted in the open comment section that another way to increase retail investment could be to reduce the cost of investing in the form of commissions and exchange fees, or through the creation of a favourable tax environment for retail investing. Furthermore, our members believe that direct investing in European shares and bonds is also made difficult by the lack of access to securities listed outside of the investor's home market. For example, according to our members, a German retail investor will find it difficult to buy an Italian government bond without first setting up a securities account in Italy.

19.1 What else could be done to empower and protect EU citizens accessing capital markets?

Please see CFA Institute response to question 19.

20. Are there national best practices in the development of simple and transparent investment products for consumers which can be shared?

In September 2013, CFA Institute published a report in which we examined the fees and costs associated with common types of packaged retail investment products (PRIPs) including retail investment funds, insurance products with an investment component, and structured products (http://cfa.is/1Fim8x3). The report identifies best practices for product disclosures drawn from different products in different Member States.

We believe the introduction of the Key Information Document (KID) for packaged retail and insurance-based investment products (PRIIPs) is a welcome and important development that should help to create more comparability and ease of comprehension for retail investors when choosing among investment products. The focus of policy makers should thus be on improved product disclosures, rather than product design specifically. The combination of a wide product choice (rather than a restricted set of investment opportunities) with high-quality disclosures should lead to a wider prevalence of appropriate investment decisions.

21. Are there additional actions in the field of financial services regulation that could be taken to ensure that the EU is internationally competitive and an attractive place in which to invest?

CFA Institute believes that adequate legislation in financial services will ensure safe and transparent markets for the benefit of the investors and the economy as a whole.

At the same time, we understand that the cumulative effect of the current financial services legislation in the EU could be clarified. CFA Institute would be in favour of a review on how the most wide-ranging financial services legislation in the EU currently (e.g. MiFID/R II, MAD/R, UCITS, IMD II) interact and overlap with each other. The review could also take stock of how the post-2008 legislation has been implemented in the different Member States and thus further clarify the potential need for further harmonising the practical application of the legislation in the EU.

22. What measures can be taken to facilitate the access of EU firms to investors and capital markets in third countries?

No opinion.

23. Are there mechanisms to improve the functioning and efficiency of markets not covered in this paper, particularly in the areas of equity and bond market functioning and liquidity?

- (●) Yes
- ( ) No

Comments on question 23:

CFA Institute believes that an effective practical implementation of MiFID II rules on post-trade transparency and on the creation of a consolidated tape (by consolidated tape providers) will improve the functioning and efficiency of the markets, including bond market functioning and liquidity. Our detailed views on these topics are presented in our MiFID/R II Policy Brief (http://cfa.is/1zWnNG9). CFA Institute is supportive of a thorough and harmonised application of these rules in the EU Member States.

24. In your view, are there areas where the single rulebook remains insufficiently developed?

No opinion.

25. Do you think that the powers of the ESAs to ensure consistent supervision are sufficient? What additional measures relating to EU level supervision would materially contribute to developing a Capital Markets Union?

CFA Institute believes that the European Supervisory Authorities (ESAs) have been tasked with important mandates to draft Level II legislation and to ensure that the application of the legislation in the Member States is efficient, effective and consistent. We understand that the ESAs are, nonetheless, grappling with insufficient levels of funding, which endangers an effective application of their responsibilities. We believe that the lack of manpower may have a significant impact on the ESAs' ability to provide useful, sensible regulation within the strict time limits that have been imposed by the EU Institutions.

Without enough staff at the ESAs to do the work thoroughly, the European financial markets risk having standards that are inconsistent and unworkable in practice. Accordingly, CFA Institute is supportive of increasing the resources of the ESAs in order to ensure that they are able to fulfil the tasks they have been mandated with by the EU Institutions.

26. Taking into account past experience, are there targeted changes to securities ownership rules that could contribute to more integrated capital markets within the EU?

- (x) Yes
- ( ) No

Comments on question 26:

CFA Institute believes that differences in legal frameworks surrounding the ownership and transfer of securities is one of the biggest barriers to the European Capital Markets Union. Indeed, 63% of the respondents to our recent member survey believe the current securities ownership rules are a significant barrier to the development of EU capital markets.

In particular our members in the Netherlands believe that the differences in legal frameworks surrounding the ownership and transfer of securities are a problem (statement supported by 82% of Dutch survey respondents). Even with the least support among all the respondents, over half of our members in Poland (58%) and in Italy (59%) believe that securities ownership rules are a decisive barrier to the development of EU capital markets.

One example where securities ownership rules differ is in the area of investor rights. For example we are concerned by the developments in France which inhibit the application of the principle of one-share-one-vote. CFA Institute does not support differential voting rights for different classes of investors.

27. What measures could be taken to improve the cross-border flow of collateral?

CFA Institute

CFA Institute believes that a robust framework surrounding the reuse of collateral in relation to securities financing transactions is needed to mitigate the build-up of excessive leverage in the financial system and prevent associated financial stability risks.

CFA Institute believes that the key aspects of a robust collateral framework include the following: harmonised rules on rehypothecation across Member States based on client net indebtedness (applying industry best practices consistently across jurisdictions); greater transparency for securities financing transactions via reporting transaction data to trade repositories and reporting to clients; rules on cash collateral reinvestment, such as restrictions on the maturity of reinvested assets and counterparty liquidity standards; and harmonised requirements for central clearing of repo transactions. Most significantly, we broadly welcome the proposed Securities Financing Transactions Regulation (SFTR) and believe that this legislative initiative will contribute significantly to improving transparency in the securities financing markets. Greater transparency should provide greater clarity and certainty surrounding the flow of collateral in the EU.

Moreover, we believe that the Financial Stability Board's policy framework on securities financing transactions and collateral haircuts should be implemented consistently by national regulators.

27.1 Should work be undertaken to improve the legal enforceability of collateral and close-out netting arrangements cross-border?

○ Yes

○ No

Comments on question 27.1:

No opinion.

28. What are the main obstacles to integrated capital markets arising from company law, including corporate governance? Are there targeted measures which could contribute to overcoming them?

CFA Institute conducted a member survey on the European Commission's Green Paper on the Long-Term Financing of the European Economy in the summer of 2013 (http://cfa.is/1QFBDRA). According to the survey, our members believe that enhanced corporate governance reporting could help promote long-term shareholder engagement. In particular, they support improving transparency of remuneration policies and enabling shareholders to have a non-binding vote on such policies. They also support strengthening the rules on voting transparency for institutional investors.

CFA Institute also published a Policy Brief on the Shareholder Rights Directive in October 2014 (http://cfa.is/1EASvkI). In the Policy Brief we note, among other things, that we support the promotion of engagement through the application of the "comply or explain" principle and a better alignment of incentives between investors and asset managers. In addition, we welcome proposals to facilitate the alignment of incentives, both ex-ante in drafting investment mandates and ex-post regarding the implementation of mandates. These proposals include giving explicit consideration, in investment mandates, to the methods and time horizons for evaluating performance and determining manager remuneration, and to the alignment of these two elements with the profile and duration of the liabilities of the institutional investor.

Our views on the accounting and corporate governance regimes of SMEs are presented in the response to question 8.

29. What specific aspects of insolvency laws would need to be harmonised in order to support the emergence of a pan-European capital market?

Over half (58%) of the respondents to the recent CFA Institute member survey considered the divergence of national insolvency frameworks a considerable barrier to investment. Only 15% of the respondents do not consider the divergence of national insolvency frameworks as a barrier to investment.

In particular, 74% of respondents in Spain and 73% of respondents in Italy consider the divergence of national insolvency laws a barrier to investment. Nonetheless, one third (33%) of our Polish members do not consider it a barrier.

CFA Institute thus broadly supports the harmonisation of insolvency laws in the EU. That would include harmonising the definition of insolvency, such as the time of declaration and the length of the recovery phase. We further support harmonising the filing and verification of claims and by facilitating the enforcement of cross-border claims and collateral. The harmonisation of these processes would ensure consistent application of insolvency practices, independent of the Member State where the insolvency process takes place.

One individual respondent to the survey also noted that the restructuring of a company could be facilitated through a process similar to the UK receivership, whereby a creditor can enforce security against a company's assets in an effort to obtain repayment of the secured debt.

30. What barriers are there around taxation that should be looked at as a matter of priority to contribute to more integrated capital markets within the EU and a more robust funding structure at company level and through which instruments?

According to the recent CFA Institute member survey, 65% of our members believe that differences in taxation treatment across jurisdictions are a significant barrier to the development of pan-European capital markets. In particular our members in Spain and the Netherlands believe differences in taxation across the Member States are a significant hindering factor (83% and 79% respectively).

These sentiments were also echoed in a number of remarks in the open comment section. Several respondents noted that the incentives for investing differ greatly between the Member States. For example, there are varying levels of taxation of similar instruments in different countries, and only few Member States provide tax incentives for long-term investments. Some of the members also noted the challenges posed by an uneven application of a financial transaction tax by some Member State national governments.

CFA Institute believes that tax reforms could help incentivise long-term investment in Europe, for example by granting tax incentives to investors in start-ups, venture capital and SMEs, and by reducing or eliminating the favourable tax treatment of debt capital (whereby interest costs are tax deductible) vis-à-vis equity capital.

31. How can the EU best support the development by the market of new technologies and business models, to the benefit of integrated and efficient capital markets?

No opinion.

32. Are there other issues, not identified in this Green Paper, which in your view require action to achieve a Capital Markets Union? If so, what are they and what form could such action take?

No opinion.

CFA Institute

Concluding Remarks

CFA Institute welcomes the opportunity to comment on the Green Paper on Building a Capital Markets Union. Please do not hesitate to contact us should you wish further elaboration of the points raised.

Yours faithfully,

Rhodri Preece, CFA
Head, Capital Markets Policy, EMEA
CFA Institute

+44 (0)20 7330 9522
rhodri.preece@cfainstitute.org

Josina Kamerling
Head, Regulatory Outreach, EMEA
CFA Institute

+32 (0)2 401 68 29
josina.kamerling@cfainstitute.org

Maiju Hamunen
Analyst, Capital Markets Policy, EMEA
CFA Institute

+32 (0)2 401 68 28
maiju.hamunen@cfainstitute.org