

# Stimulating the European Economic Recovery

Communication on Long-Term Financing of the European Economy

A Cicero Group analysis



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 CICERO

## **Introduction: Stimulating the European Economic Recovery**

Today's Communication on long term financing is the most substantial contribution to date from the European Commission on how to stimulate the European recovery following sustained sluggish growth. As our summary grid on page 3 shows, the document contains a multitude of proposals and actions that seek to address a wide range of questions that have been posed to policymakers since the economic and financial crisis. These include: Is financial regulation impeding the ability of financial institutions to support growth-enhancing activity? How can Europe reduce its reliance on bank finance and support SME access to finance? And how can the EU's future infrastructure investment needs that could amount to as much €2 trillion (according to the EU's 2020 Strategy) be met?

The Commission's proposed actions are split into six areas. In some, the proposed actions have already been agreed and are well underway. The European Insurance and Occupational Pensions Authority (EIOPA)'s assessment of the treatment of securitisations within Omnibus 2 was completed in December 2013 and will feature in the Level 2 text for Solvency 2, which is expected to be published by the European Commission in May. Similarly, efforts to calibrate the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Requirement (NSFR) in the Capital Requirements Regulation (CRR) so as not to discourage long term investments or measures to improve the regime for Institutions for Occupational Retirement Provision (IORPs), also published today, are not new.

In this respect, sections of the Communication read as a reminder of already agreed reforms rather than new announcements. But this alone should not detract from today's paper. The Commission has always been clear that creating a long term financing climate cannot simply be stimulated through a single proposal. A number of actions listed in the paper may appear piecemeal but this is the nature of the subject rather than a sign of a lack of ambition. Long term investments are by their nature complicated and higher risk. In addition to the difficulties of identifying suitable investments that can be made over a longer period of time, they require the presence of investors willing to lock-up their investments for a number of years. They also challenge an investment mindset that is often geared towards judging performance by shorter term metrics.

The Communication contains a number of varied measures that taken together could support the growth of long term finance. In addition to the measures that seek to tinker with the long term investment landscape in the EU, there are areas where the Commission has been far more ambitious.

The Communication contains a response to the public debate on how to improve the availability of alternative forms of finance. Much work has been done charting the availability of funding to SMEs but there has been an absence of innovative approaches to address this gap. The inclusion of a commitment to conduct a study of private placement regimes in different Member States could lead to the wider development of a model that has been successful in channelling funding to smaller businesses in Germany in particular. The specific treatment of securitisations in the liquidity coverage ratio in CRR may also make SME loans more attractive to the banking sector. A continued review of the treatment of debt versus equity may encourage Member States to alter their tax regimes to better support the use of equity over debt.

The Communication proposes important measures to simplify and co-ordinate infrastructure investments across the EU. Infrastructure investment is central to the EU's growth strategy, both for the large scale initial investment and the long term social and economic benefits that are attached to improved infrastructure. Large scale investors are currently constrained by varied approaches and practices across Member States. It may be difficult to identify possible opportunities or the terms of investments may differ. The Commission's proposal to create a central portal of prospective projects in all Member States and to establish channels through which to share best practice could be a significant step forward in giving investors the confidence to engage in projects across the EU. The development should please the banks and insurers who have been activity engaged with DG ECFIN and DG MARKT to consider how to improve the coordination and access to project information for potential investors.

The Communication will also consider whether to expand the role of the European Investment Bank and its EU Project Bond. This initiative has already shown its value in a number of projects where its early investment has helped to reduce some of the risk of a large-scale investment, which can make projects more attractive to private sector investors. The potential expansion of the Project Bond Initiative beyond the Connecting Europe Facility is likely to precipitate a greater appetite among investors to support the EU's wider growth objectives.

Taken together, the initiatives outlined in this Communication are ambitious and should be seen as an important contribution to Europe's growth strategy but for the large part they are at an early stage. As our grid shows, the majority of the actions relate to studies, monitoring and assessments where most of the outputs will not be seen until next year at the earliest.

In spite of this, the Communication is important for two reasons in particular; it provides a clear indication that the Commission has listened to feedback about the impact of the legislative reform programme on the ability of the financial sector to support the economy and has the appetite to address problems that have been identified. Second, the Communication comes at the end of the current mandate and therefore has the potential to set the tone for the next term. This reiterates the importance of having a European Commissioner for Internal Market that is not afraid to lead from the front. The past five years has seen a wave of reform to bring stability to Europe's financial system. The Communication provides a clear starting point from which the next Commissioner can set the priorities of their mandate away from restoring stability and towards promoting growth.



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## Overview of the European Commission Communication on Long-Term Financing of the European Economy

Objective 1: Mobilising private sources of long-term financing	Objective 2: Making better use of public finance	Objective 3: Developing European capital markets	Objective 4: Improving SME's access to financing	Objective 5: Attracting private finance to infrastructure	Objective 6: Enhancing the overall environment for sustainable finance
<b>Legislative and Non-legislative proposals</b>					
2014 - <b>Adopt the Delegated Acts</b> for Solvency II under the next parliament	2014 - <b>Communication on role of promotional banks</b> to provide guidance on principles, governance and supervision	<b>Delegated Act</b> in MiFID 2 will set out the requirements for SME growth markets	2014 - <b>Communication</b> on crowdfunding		<b>Proposal for revision of the Shareholder Rights Directive</b> to ensure better disclosure of institutional investors' engagements and voting policies
	<b>Country-specific recommendations</b> to the Council for ensuring differentiated growth-friendly fiscal policy				2014 - <b>Recommendation to improve the quality of corporate governance reporting</b> , followed by a <b>Report</b> on possible transparency initiatives and a <b>study</b> on fiduciary duties and sustainability
<b>Calibration and Review of enforced legislation</b>					
2014 - <b>Prepare a Report</b> on the appropriateness of the CRR requirements relating to long-term financing		2015 - <b>Assessment of the Prospectus Directive</b> rules	2014 - Consultation examining a <b>simplified accounting standard</b> for listed SMEs and <b>complete a self-standing accounting standard</b> for non-listed SMEs		<b>Consideration</b> of fair value accounting standards when endorsing IFRS 9

2014 – Ensure that the <b>Delegated Act on LCR</b> and the final calibration of the <b>NSFR</b> do not unduly restrict long term financing by banks					<b>Review of its 2014 Recommendation</b> on best practice principles on the early restructuring of viable enterprises
<b>Studies and assessments</b>					
2014 – <b>A study</b> on the feasibility and operational options for introducing EU savings account	2015 - <b>Prepare a Report</b> on the need to harmonise/optimize existing national schemes regarding export credit agencies and promote government-back credit insurers	2014 – <b>Review of covered bonds</b> in the CRR followed by an <b>Impact assessment (2015)</b> on the merits of an EU regime for covered bonds	2014 - <b>Report and mapping</b> of the EU and national legislation and practices, which affect SME credit information availability	2014 - <b>Evaluation of the feasibility</b> of creating a single portal of all major projects	<b>Invitation to the International Accounting Standards Board (IASB)</b> to consider impact of its decisions on long term investing
2014 - <b>Call for Advice</b> to EIOPA to consider a legislative proposal on mobile personal pension savings		2014 - <b>Study</b> on trading of corporate bonds following introduction of MiFID 2	<b>Promote dialogue</b> between banks and SMEs on the financial literacy of SMEs	<b>Evaluation</b> of possibility to collect, consolidate and publish database of credit statistics on infrastructure loans	<b>Consider appropriateness</b> of endorsement criteria from a long term finance perspective during evaluation of International Accounting Standard (IAS) Regulation
		<b>Future work</b> on the differentiation of high quality securitisation in EU legislation. Similar work will take place at an international level to create global securitisation standards	<b>Assess best practices</b> on SME access to capital markets	Assessment on <b>expanding Project Bond Initiative</b> beyond the Connecting Europe Facility	Under the <b>EP pilot project</b> on “Promotion of Employee Ownership and Participation” assess Employee Share Ownership (ESO) across the EU

	<p>2014 - Study to <b>map out the private placement markets in Europe</b> against other locations/practices</p>	<p>Report on law applicable to third party aspects of assignment claims</p>
	<p>Explore whether the <b>eligibility criteria for investments</b> by Undertakings for Collective Investments in Transferable Securities <b>(UCITS) could be extended to securities listed on SME growth markets</b></p>	<p><b>Continued monitoring</b> of measures implemented by MS to reduce the tax bias for debt vs equity</p>



Cicero Group is an integrated communications agency specialising in corporate PR, Government relations, digital communications and market research aimed at business, consumer and policy audiences. This means we understand more than any other agency the complex interaction between media, politics and policy. We have offices in London, Brussels, Washington and Singapore.



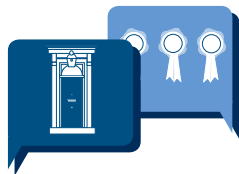
### Communications and PR expertise

Cicero has strong media and PR experience, having worked across print, broadcast and online media for a number of clients. Cicero maintains strong relationships with target media to ensure a best-in-class offering for clients. Cicero's communications team has worked with major organisations in the UK and beyond, and has worked with BBC News, Sky News, Bloomberg, Reuters, all leading national newspapers and trade outlets.



### Digital

For a communications strategy to be successful in today's world of 24-hour media, integration with digital media is essential, particularly through social media. Cicero's digital team has worked with leading financial services organisations, including GE and Invesco Perpetual, to deliver digital media monitoring, consultancy and execution to ensure effective delivery of key messages online.



### Government relations

Cicero was founded in 2000 and has grown from one client in the UK to more than 200 in 22 countries around the world today. Our public affairs business works across retail and investment banking, commodities, insurance and asset management. Cicero was named Public Affairs News Specialist Consultancy of the Year in 2011 and 2012.



### Thought leadership

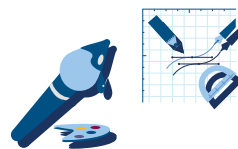
Cicero has managed thought leadership projects since 2000. In overseeing every aspect of the project, from initial questionnaire design through to results, analysis and reporting, we attempt to ensure that the client is able to generate as many outcomes as possible. Cicero has previously undertaken thought leadership projects for organisations including HSBC, AXA, Scottish Widows and HM Treasury.



### Political monitoring and intelligence

Novares, Cicero's market-leading public policy intelligence tool, is the foundation of our monitoring and intelligence offering. Services we provide include:

- Bespoke monthly issue-tracking grids;
- In-depth analysis of set-piece events; and
- Verbal consultant reports and under-the-radar intelligence based on Cicero's wide contact base with Government, Parliament, Whitehall, regulators, think-tanks, and industry sources.



### Design

In a world where design is playing an ever increasing role in the success of businesses and companies, we recognise that communication needs to be clear, quick and simple. Our corporate background means we see the bigger picture and can integrate design throughout the process. We implement communication strategies in new and engaging ways, while managing your reputation through clear and consistent design.



Please contact Helena Walsh with any further questions.

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