ACCOUNTANCY EUROPE.

Valdis Dombrovskis
Vice-President
European Commission
Rue de la Loi 200
1049, Brussels
Belgium

Brussels, 17 March 2017

Subject: Public consultation on the CMU mid-term review 2017

Dear Vice-President,

Accountancy Europe is pleased to provide its input to the European Commission's public consultation on the mid-term review of the Capital Markets Union (CMU). Since the launch of the CMU Action Plan in September 2015, the European Commission – with the diligent support and contribution of the European Parliament and the Council – has achieved concrete progress. Accountancy Europe supports the CMU project and its objectives, and is looking forward to further steps to foster capital market integration in the EU.

Accountancy Europe has contributed actively to the CMU project, having for example replied to the consultations on prospectus review[1] and the CMU itself[2], published a paper on SME prospectuses[3], replied to the consultation on Call for Evidence[4], and elaborated on the role of the accountancy profession in business insolvency proceedings across Europe[5]. We hope, therefore, that the Commission will find the comments below useful to assess the direction to which the CMU project should be steered.

Due to the limited consultation period – two months instead of the usual three – Accountancy Europe has not been able to bring together all the planned input. We hope, nevertheless, that the Commission will find the recommendations below useful.

[1] https://www.accountancyeurope.eu/consultation-response/fee-comments-on-the-review-of-the-prospectus-directive/

[2] https://www.accountancyeurope.eu/consultation-response/fee-comments-on-the-public-consultation-on-building-a-capital-markets-union-cmu/

[3] https://www.accountancyeurope.eu/publications/prospectus/

[4] https://www.accountancyeurope.eu/wp-content/uploads/160129_response_EC_call_for_evidence_EU_regulatory_framework_for_FS.pdf

[5] https://www.accountancyeurope.eu/publications/eu-business-insolvency-contribution-accountancy-profession/

Accountancy Europe notably recommends to:

- conduct an assessment of credit referral and mediation schemes across the EU, and consider a pan-European scheme
- work together with the International Accounting Standards Board (IASB) and within the existing International Financial Reporting Standards (IFRS) framework on a proportionate IFRS regime tailored for companies listed on Multilateral Trading Facilities (MTFs) and SME Growth Markets. EU-specific solutions should be avoided
- conduct a comparative study on the practical experiences with filing requirements currently faced by small listed companies on MTFs across the Single Market as a basis for a potential alleviated regime
- review existing incentive regimes for equity research on listed SMEs, and to establish user-friendly platforms for analysts to share their reports on
- take stock of existing market-led green bond initiatives, identify best practices and promote convergence on standardisation at the EU level early on. The role of external assurance should be considered where relevant
- bolster the role and responsibilities of the European Supervisory Authorities (ESAs) over time as capital market integration advances, and ensure that the ESAs have the proper resources and competences to fulfil this growing role effectively

We elaborate on these recommendations, and provide additional ones, in the Annex below and hope that they will be useful to the European Commission. Accountancy Europe will be very much looking forward to continuing its contributions to the CMU project. For further information on this letter, please contact Johan Barros (johan@accountancyeurope.eu, +32 2 893 33 88).

Sincerely,
On behalf of Accountancy Europe,

p.p.

Edelfried Schneider President	Olivier Boutellis-Taft Chief Executive

About Accountancy Europe

Accountancy Europe unites 50 professional organisations from 37 countries that represent close to **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX

1.) Financing for innovation, start-ups and non-listed companies

An overwhelming majority of SMEs will remain reliant on debt financing by banks as their primary source of funding. However, as a lot of SMEs could benefit from better capitalisation, alternative sources can play a useful and complementary role in finding finance.

Additional action to support small companies with refused credit applications

Many national schemes across the EU ensure that SMEs with rejected credit requests can find alternative financing elsewhere and access mediation services. In the UK, a scheme introduced in October 2016 establishes that when a bank refuses a SME's credit application, it is required to pass on the company's information to alternative finance platforms – subject to the company's consent. In France, a credit mediation system was established in the aftermath of the financial crisis which enables a SME with a rejected bank credit request to seek the help of a mediator. The mediator is a bridge between the company and a financial institution, and advises the company on the best way forward. The French scheme is still in place today, a testament to its effectiveness. Similar schemes were introduced after the crisis for example in Belgium, Germany, Ireland and Spain.

Accountancy Europe recommends that the Commission assesses credit referral and mediation schemes across the EU, and identifies best practices under different market conditions. These should be shared amongst Member States to inspire national decision-making.

The Commission should, in parallel, closely monitor the integration of Europe's capital markets and, once the time is ripe, consider a EU-level scheme to complement national regimes. It should be targeted, in particular, to those categories of SMEs most likely to benefit from it – for example, medium-sized companies and innovative start-ups actively seeking to expand their scope of operations. Under such a scheme, SMEs that have been turned down for bank credit would have the option of being directed to alternative financing options on a European scale. This could be done through a pan-European platform linking companies and alternative finance providers across the Single Market. Companies' access to affordable pan-European credit mediation should also be ensured under such a scheme. This would require the Commission and Member States to consider alleviating existing licensing rules for mediators.

Recommendations:

- Accountancy Europe recommends that the Commission assesses credit referral and mediation schemes across the EU, and identifies best practices that can be shared amongst Member States to inspire national decision-making.
- Once the time is ripe, Commission should consider the possibility of a EU-level scheme for credit referral and mediation to complement national regimes.

Advisory services for small companies

SMEs also require help from the onset not only to identify but also to prepare for funding sources that best suit their profile and needs. Good quality financial advice bolsters SMEs' investment readiness with solid business planning and financial and credit management, and improves the financial literacy of SMEs' management.

Professional accountants, for example, are well-placed to fulfil this role, and often do act as financial advisors in smaller companies. When a business is already a client of a professional accountant, it is easier for the profession to offer its advice on crucial moments. However, Member States should further raise awareness on the availability of expert advice overall. Such a lack of awareness constitutes, by itself, a barrier to the growth of capital markets in the EU.

> **Recommendation:**
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> Accountancy Europe calls on the Commission to put forward recommendations for national decision-makers to establish comprehensive information programmes and platforms through which smaller companies may not only be better aware of the financial advice available, but also to establish contact and receive relevant advice.

Study Tax incentives for fund-seeking Small companies

The European Commission has announced its intention to assess and publish a study on tax incentives for venture capital and business angels – a move that Accountancy Europe warmly welcomes as this will enable the identification of best practices between countries. Accountancy Europe encourages the Commission to also conduct a study on tax incentives for SMEs specifically when they are seeking debt or equity financing. The study should include an overview of existing incentive practices across the EU, assessment of the impacts of the various national regimes, as well as the identification of best practices that could be proposed as recommendations on a pan-European level.

> **Recommendation:**
>
> Accountancy Europe encourages the Commission to conduct a study on tax incentives for SMEs specifically when they are seeking debt or equity financing.

2.) Making it easier for companies to enter and raise capital on public markets

Even though public markets enable companies to raise additional funding to grow and develop, any potential gains in terms of financing must be balanced with the costs involved in the listing process as well as after listing. In parallel, any solutions to reduce the costs and administrative burdens involved in listing must be consistently coupled with ensuring investor protection, for example through the provision of sufficient, understandable, comparable and material information on a company to prospective investors.

Most European SMEs are not high-tech start-ups and fast growing companies that have an immediate appeal to capital market investors. 'Regular' SMEs will find it hard to access the financing they need from capital markets, although they are the backbone of the European economy. Notwithstanding the status quo, Europe needs to tap into its entrepreneurial and innovative potential to be able to achieve economic growth and foster innovation. Creating a better environment for listing can have undeniable benefits in this regard, and be particularly appealing for innovative start-ups seeking to take the next step in the company's lifecycle.

proportionate IFRS tailored for companies listed on SME Growth Markets and MTFs

Unlike on traditional stock exchanges, companies listed on Multilateral Trading Facilities (MTFs) are often not required to produce their consolidated financial statements using the International Financial Reporting Standards (IFRS). This means that there is a patchwork of different accounting standards for such companies across the EU, developed at a national level and usually based on national Generally Accepted Accounting Principles (GAAP) or either mandatory or optional use of the IFRS.

The lack of a common framework reduces comparability between financial statements and thereby hinders potential investors in making decisions about cross-border investments based on comparable information. By extension, this makes it more difficult for those SMEs to raise financing from investors across borders.

A common accounting framework for SMEs accessing pan-European funding and trading platforms is, therefore, needed. Financial statements could be prepared using a high-quality reporting framework that can be understood by investors from across the EU (and from third countries) and that depicts accountability, stewardship and comparability between entities. Not only would this enhance the appetite of cross-border investors for smaller local companies, but also foster the growth and pooling of trading venues across borders.

Many companies and stakeholders, however, fear that the application of full IFRS may prove too burdensome for smaller entities. Full IFRS are seen as too complex and potentially leading to a disclosure overload. Accountancy Europe, therefore, urges the Commission to work on a proportionate IFRS regime tailored for companies listed on MTFs and SME Growth Markets – based on reducing disclosure burdens and simplifying other aspects of full IFRS, wherever possible.

In doing so, the Commission should not seek to re-invent the wheel, and instead aim to work within the existing IFRS framework. This also means that any EU-specific solutions should be avoided.

In order to ensure the development of a solution that is in line with international standards, Accountancy Europe emphasises the need for the Commission to work together with the International Accounting Standards Board (IASB). The IASB is already planning to undertake work on proportionality which should result in more simplification for SMEs. Its ongoing Disclosure Initiative, in particular, is moving in the right direction and provides a good starting point for further work. We urge the Commission to proceed as planned and to work together with the IASB at an international level. Accountancy Europe offers its help to the Commission for this exercise.

> **Recommendation:**
>
> Accountancy Europe calls on the Commission to work together with the IASB and within the existing IFRS framework on a proportionate IFRS regime tailored for companies listed on MTFs and SME Growth Markets – based on reducing disclosure burdens and simplifying other aspects of full IFRS, wherever possible. Accountancy Europe offers its help to the Commission for this exercise.

Address challenges faced by companies listed on SME Growth Markets and MTFs

Once listed, companies often face additional challenges that may severely discourage smaller entities' appetite for listing in the first place. Filing requirements and weak coverage by analysts require particular attention.

Filing requirements are the main means for ensuring that investors, regulators and the exchanges alike have access to timely information on a company's condition, performance and potential risks. There may, however, be room for considering alleviated filing requirements for companies listed on SME Growth Markets and MTFs, as well as ensuring a better balance between the 'timely' and 'relevant' dimensions. Any proposal for alleviated regimes should, however, be based on a careful analysis of current experiences across the EU and trading platforms.

Analysts and the equity research that they conduct, in turn, are key in fostering a company's visibility and attractiveness in the eyes of potential investors. Many SMEs on public markets, however, find it difficult to have analysts follow them actively.

This issue is present on the AIM market for example, where many smaller companies suffer from weak coverage by analysts and consequently from reduced liquidity of their stocks. Accountancy Europe, therefore, recommends for the Commission to conduct a study on existing research coverage of smaller companies on European trading venues. The study should focus, in particular, on regimes tailored to incentivise equity research on listed SMEs, and the identification of best practices.

An additional solution to ensure the prevalence of equity research on smaller companies would be the establishment of user-friendly platforms where analysts may share their reports. This could even provide an additional incentive for analysts to conduct research on smaller companies with the knowledge that their research will be easily accessible to relevant users.

Accountancy Europe is also aware of the concerns expressed by many stakeholders that the Markets in Financial Instruments Directive (MiFID) II may have a further negative impact on the supply of research on listed companies. Accountancy Europe, therefore, calls on the Commission to assess the potential impact of MiFID II on equity research.

Recommendations:

- Accountancy Europe recommends for the Commission to conduct a comparative study on the practical experiences with filing requirements currently faced by small listed companies on MTFs across the Single Market. This would enable the identification of main problem areas and the assessment of whether there is room for alleviated filings for SMEs listed on MTFs that can be promoted at a pan-European level.
- Accountancy Europe recommends for the Commission to conduct a study on existing incentive regimes for equity research on listed SMEs.

3.) Investing for long term, infrastructure and sustainable investment

Accountancy Europe welcomes the Commission's intention to formulate a EU Strategy for Sustainable Finance, and commends the ongoing work of the High-Level Expert Group on Sustainable Finance (HLEG). This work is still at the early stages, but we recommend for the Commission to consider the elements below in the process.

The accountancy profession, as the provider and assurer of financial as well as non-financial information (NFI), ensures the flow of information that is essential for the good functioning of capital markets overall. As such, Accountancy Europe has already contributed to the sustainability agenda specifically, through its work on environmental, social and governance (ESG) reporting[6] as well as the NFI Directive[7]. We are looking forward to further contributing to future Commission initiatives in these areas as linked to the CMU agenda.

Creating a corporate reporting framework for the future

A robust, forward-looking corporate reporting framework is one of the core building blocks for scaling up sustainable finance. It contributes, for example, to building the trust that underpins successful capital markets. We elaborate on possible solutions in our paper on the *Future of Corporate Reporting*.[8]

Long-term investors are increasingly looking for high quality information beyond financial statements in order to better understand the longer-term sustainability of business models and companies' strategies, opportunities and risks. Corporate reporting plays a critical role in this respect. The NFI Directive was in Accountancy Europe's view a positive first step to improve the provision of NFI by large companies in the EU. However, further developments are still needed to improve corporate reporting for the future, including the need for more robust governance, controls and assurance over performance metrics, including operational metrics.

Improving corporate reporting in this way is a key element in stimulating longer-term sustainable investment, as it will allow for better asset allocation towards sustainable business models. We would urge the Commission to support important developments globally that aim at making corporate reporting better fit for the 21st century and to help remove any barriers that may exist to further progress in this regard. We also plea for more coordination globally to streamline the various disclosure initiatives.

> **Recommendation:**
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> The Commission should support important developments globally that aim at making corporate reporting better fit for the 21st century and to help remove any barriers that may exist to further progress in this regard. We also plea for more coordination globally to streamline the various disclosure initiatives.

Green bonds

Scaling up pan-European green bond markets is high on the agenda, and a common approach in areas such as standardisation is an essential component for this objective. The emergence of green bonds across the EU must not lead to national fragmentation of rules and diverging green bond markets. The Commission, with the support of the HLEG, should take stock of different existing market-led initiatives, identify best practices and promote convergence at the EU level early on. Where relevant, this exercise should include the role for external assurance in order to contribute towards trust and ensure that relevant criteria and standards are met.

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6 https://www.accountancyeurope.eu/consultation-response/the-federation-responds-to-ec-s-consultation-on-long-term-and-sustainable-investment/

7 https://www.accountancyeurope.eu/publications/federation-issues-model-disclosures-non-financial-diversity-information-directive/

8 https://www.accountancyeurope.eu/publications/future-corp-rep/

Recommendation:

> The Commission, with the support of the HLEG, should take stock of different existing market-led initiatives, identify best practices and promote convergence at the EU level early on. The role of external assurance should be considered where relevant.

Promoting responsible investment

Profit has conventionally been the main driver of investors' investment decisions. An increasing segment of the investment community, however, actively seeks to accommodate sustainability into their portfolios. Even small investments can have significant positive impacts at a local level. Such 'impact investing' combines positive social and environmental impacts with financial returns, and requires measurable, reliable and understandable information to be fed to investors.

Accountancy Europe encourages the Commission to monitor existing and emerging solutions for making investors better aware of the impact that their investment decisions have for remote regions within Europe and beyond. This exercise should include assessing the added value for non-binding EU-level recommendations that could inspire national legislation or, indeed, further market-led initiatives.

Recommendation:

> Accountancy Europe encourages the Commission to monitor solutions for making investors better aware of the impact that their investment decisions have for remote regions within Europe and beyond. This exercise should include assessing the added value for non-binding EU-level recommendations that could inspire national legislation or, indeed, further market-led initiatives.

A role for the public sector

Accountancy Europe would also see value in public-private partnerships aimed at encouraging sustainable investment patterns. Recently in the Netherlands for example, the Government decided to create a fund for energy and environmental investment in innovative SMEs. The move was sparked by the fact that banks and private investors often find it too risky to provide funding for SMEs undertaking such projects. The Dutch Government is yet to decide whether the fund will be based on equity or subordinated loans. In case the latter, banks would be allowed to provide additional funding since subordinated loans are considered to be equity for banks.

Accountancy Europe calls on the Commission to monitor the practical functioning of this measure – and other similar ones across the EU – and to consider the case for promoting best practices on a pan-European level. With the participation of the public sector, such partnerships would provide reassurance for more private investors and banks to get involved in sustainable investment.

Recommendation:

> The Commission should monitor the practical functioning and effectiveness of public-private partnerships on sustainable investment across the EU and to consider the case for promoting best practices on a pan-European level.

4.) Fostering retail investment and innovation

The emergence of well-integrated European capital markets will, inevitably, require changes in the investment culture. This means a fundamental shift not only in the conceptions of capital market actors themselves, but of citizens as well. Capital markets have great potential in shaping the way in which citizens invest, what their expectations are, how they save for retirement, etc.

All of this, in turn, can lead to more funding being available for companies seeking capital market financing in Europe through a greater variety of funding channels. We observe that, in particular, insurance companies, pension funds and asset managers are important catalysts for nurturing an equity investment culture.

Harnessing the potential of FinTech and addressing challenges

The development of FinTech will bring about fundamental changes to the ways in which the financial sector and the financing of the economy function. It has the potential of reducing costs, boosting the speed of services and drastically increasing choices for fund-seeking companies, institutional and retail investors, as well as consumers of financial services. Accountancy Europe sees FinTech's progress as a positive development for the economy and a driver for growth.

In parallel, technological changes and ensuing speedy emergence of innovative start-ups and other service providers with new business models, services and practices has generated potential regulatory gaps that may need to be addressed. An appropriate balance must be found between sufficient protection of investors, businesses and consumers whilst not crushing innovation and young businesses under disproportionate regulatory burdens.

Should the Commission decide to proceed with a new regulatory framework, it should consider the following two aspects. First, the application of new FinTech innovations must ensure appropriate investor and consumer confidence and protection. At this early stage, risks linked to emerging technologies, such as blockchain, are still difficult to identify and assess. We invite further work in this area, and are ready to contribute.

Second, most small companies within the EU will remain reliant on bank lending. In order to promote new means of financing without compromising traditional ones and thus limiting choice, a degree of level playing field between the currently heavily regulated banking sector and new financing platforms and actors should be ensured.

Supporting a European framework for pensions

Harnessing the potential of pension savings for the benefit of fund-seeking companies fulfils a number of public policy objectives: ensuring the resilience of retirement savings in a time of an aging population, lowering citizens' threshold for getting involved in capital markets, and ensuring an increasing flow of finance for the economy, amongst many others. From the CMU perspective, the potential for financing of the economy is there, as evidenced by the fact that countries with strong pension funds typically have more liquid equity capital markets.

With this in mind, Accountancy Europe has been closely following the Commission's work on developing a pan-European Personal Pension Product (PEPP). We welcome the Commission's work in this area, and are very much looking forward to policy measures to be announced in the next few months.

5.) Strengthening banking capacity to support the wider economy

The goal of the CMU is not, and should not be, the replacement of bank lending by alternative means of financing. The purpose is to complement conventional bank financing by other financing venues and means. In its CMU Action Plan as well as the follow-up documents, the Commission already announced several measures in this area. Accountancy Europe would like to encourage the Commission's diligent work in this area and for the time being, has no additional recommendations to put forward.

6.) Facilitating cross-border investment

Regulatory burdens and the myriad of national rules and diverging enforcement constitute significant barriers for the development of pan-European capital markets. In their day-to-day work, many professional accountants active in the field of financial services have reported experiencing such diverging local and national practices and regulatory burdens, and the inconveniences that these cause to both businesses and their advisors. This is, therefore, one of the priority areas where Accountancy Europe urges the European Commission to take action.

The pertinent role of European supervision and convergence

The Commission is expected to publish a White Paper on the funding and governance of ESAs. In order to build a harmonised and efficient CMU across the EU, the role of the ESAs would be expected to grow over time. ESAs must have the resources and competences to allow them to fulfil this growing role effectively.

While the enforcement of EU and national legislation should be primarily within the scope of responsibilities of the National Competent Authorities (NCAs), ESAs should coordinate the implementation and enforcement at a EU-level in order to ensure that differences in national implementation and 'gold plating' do not lead to barriers to the movement of capital. ESAs also have the potential to perform a crucial role in assessing the impact of financial services regulation in a holistic manner. The cumulative impact of financial services and the numerous requirements contained in different pieces of legislation currently result in a high regulatory burden, which creates a barrier to the development of European capital markets. In addition, ESAs have an important role to play in promoting financial literacy of investors and other constituents in capital markets.

> **Recommendation:**
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> The Commission should bolster the role of the ESAs over time as capital market integration advances. To arrive at a really functioning EU capital market, there will be a growing need for ESAs which can implement and enforce measures on a EU level. It should be ensured that the ESAs have the resources and competences to allow them to fulfill this growing role effectively.