



TITHE AN OIREACHTAIS

**An Comhchoiste um Airgeadas, Caiteachas Poiblí
agus Athchóiriú**

**Tuarascáil maidir le héisteachtaí I ndáil leis an
bPáipéar Uaine ón gCoimisiún Eorpach ar Aontas
Margaí Caipitil a Thógáil**

Bealtaine 2015

HOUSES OF THE OIREACHTAS

**JOINT COMMITTEE ON FINANCE PUBLIC
EXPENDITURE AND REFORM**

**Report on Hearings in relation to the European
Commission's Green Paper on Building a Capital
Markets Union**

May 2015

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CHAIRMAN'S PREFACE

On 13 February 2015, the European Commission published a Green Paper entitled *Building a Capital Markets Union*. The sub-Committee on EU Scrutiny – Finance and Public Expenditure decided at its meeting on 25 March 2015 that the Joint Committee would undertake further scrutiny in respect of this Green Paper.

The Commission's stated intention in publishing the Green Paper is to enhance and further develop the integration of capital markets across the 28 EU member states. The objective of the reform is to promote investment, growth and prosperity in the European Union through the increased utilisation of capital markets and private financing models. At present, capital markets in Europe are underdeveloped. Creating a fully integrated capital markets union would, it is argued, provide businesses with access to alternative and diverse sources of finance. It would also offer additional products and choices to investors and retail savers looking for positive returns. The overall aim is to link savers with investors and maximise the efficiency of the investment chain – in the process making Europe a more attractive proposition for investment from both within and outside the EU.

In carrying out its scrutiny of this Green Paper, the Joint Committee arranged a series of hearings. The hearings were organised with stakeholders from four key areas: (1) Business, (2) Institutional Investors, (3) Academics/Capital Markets Experts and (4) Public Bodies. Under these broad headings, the Committee met with the following stakeholders:

- Mr Mark O' Mahoney, Director of Policy, Chambers Ireland
- Ms. Regina Breheny, Director General, Irish Venture Capital Association (IVCA)
- Mr Frank O' Dwyer, Chief Executive, Irish Association of Investment Managers (IAIM)
- Mr Pat Lardner, Chief Executive, Irish Funds Industry Association

- Mr. Gavin Purtill, Head of Capital Markets, Banking and Payments Federation Ireland
- Mr. Felix O'Reagan, Head of Communications, Banking and Payments Federation Ireland
- Mr. Peter Brown, Lecturer in Finance, Institute of Investing and Financial Trading
- Dr. Constantin Gurdgiev, Economist and Lecturer in Finance, Trinity College Dublin
- Officials from the Department of Finance and the Central Bank of Ireland

I would like to express my appreciation to all the witnesses for their contributions, to the Committee Secretariat for their administrative support, and to the members of the Committee for their work on this subject. I hope that this report will help to inform the consultation process and make a valuable contribution to the forthcoming publication of the Action Plan on Capital Markets Union. Furthermore, the Committee acknowledges the early stages of the proposal, looks forward to on-going engagement throughout the development of this measure and also to meeting with Commissioner Jonathan Hill shortly to discuss this important step in more detail.



Liam Twomey T.D.

Chairman

May 2015



SECTION 1-BACKGROUND

The concept of a single market for capital in Europe is not a new development. The founding Treaty in 1957, the Treaty of Rome, made specific reference to the idea of a single capital market. Along with people, goods and services, freedom of capital was one of the four founding “freedoms” or principles of the newly constructed economic community. Furthermore, the Giovanni Report, published in 1997, contained many of the core ideas relating to an integrated capital market structure that the recently published Green Paper refers to.

A single market in capital across Europe must be viewed in the context of completing the broader economic single market created under the Single European Act in 1986. Capital is a critical element of any functioning economy and increasing the depth and liquidity of capital markets will arguably assist the wider objective of completing the single market.

It is widely acknowledged that capital markets in Europe remain underdeveloped. This is particularly true when one compares the existing capital market infrastructure in the United States and Asia *vis a vis* Europe. One example, often highlighted, is the extent to which European SMEs rely on funding and access to finance from mainstream banks. In Europe, approximately 80% of SMEs depend on banks for sourcing finance. The inverse is true in the United States where the comparative figure is 20%. Instead, capital markets provide finance to 80% of US SMEs and mid-sized corporations (mid-caps).

The European Commission believes that capital markets can be harnessed to foster growth and investment throughout Europe. Investment levels throughout Europe remain subdued and various sources point to a reduction of 15-20% from 2007 investment levels. This lack of investment is seen as a key contributor to the lagging and fragile economic recovery in Europe. It is also regarded as an impediment to future growth and the Commission identifies the sluggish and persistent anaemic growth levels as the single biggest threat to financial stability across Europe.

There is also significant political support for the creation of a Capital Markets Union. The new Commission, under the presidency of Jean Claude Juncker, identified the importance of CMU from its inception. With its streamlined policy approach and increased emphasis on promoting jobs, growth and investment, the Commission has invested significant time and resources on two strategic priorities. The first is the “Investment Plan for Europe” and the second is the CMU. The investment plan aims to use public monies in the form of EU and European Investment Bank (EIB) guarantees to leverage additional investment from the private sector through a multiplier effect of 15:1. In this way, the Commission intends to raise €315billion of additional investment to support a range of infrastructural projects across the EU.

Both the Investment Plan and the CMU, although separate initiatives, are interrelated. By promoting the transition to a market based finance model, the Commission hopes to remove existing regulatory bottlenecks to the free movement of capital and in the process attract higher levels of both private investment and risk capital which can be diverted into long-term EU infrastructure projects.

2.1 SPECIFIC PROVISIONS OF THE GREEN PAPER

The simple objectives of CMU are to link savers and investors with businesses, make the investment chain more efficient, remove barriers that currently impede the flow of capital across borders and ultimately make the maximum use of capital for the benefit of the “real” economy.

The Commission states that there is an abundance of liquidity in the European economy. However, for a variety of reasons, this finance is currently locked or frozen. Part of the CMU initiative is to unlock this finance blockage and entice private sector investors to invest in the real economy through investment or by investing in businesses and long-term infrastructural projects that will generate a significant return to both individual citizens and commercial investors.

In addition, many commentators refer to what is seen as a “funding gap” that has emerged since the onset of the financial crisis in 2007. The “funding gap” is particularly associated with the banking sector crisis and the feedback loop associated with the sovereign that threatened the very survival of the Eurozone.

As the banks continue to deleverage, the additional capital requirements imposed on banks to safeguard against potential losses and mitigate future risks has seen the banking sector retreat from lending to the real economy. CMU, if implemented, is intended to bridge this shortfall and use the readily available liquidity in capital markets to complement the traditional loans supplied by banks heretofore. Such a model also has the added advantage of diluting the concentration of risk in the financial services sector.

As in 2007, the overconcentration of risk in the banking sector led to a credit crunch which enveloped the global economy and resulted in catastrophic consequences in terms of folding businesses – often viable – and the resulting unemployment which has blighted Europe since. By diffusing risks within the financial sector, it is hoped that whilst future difficulties will inevitably occur, the effects and spill-overs can be contained and minimised in the context of affecting the overall economy. In this light, CMU is perceived to add a protective as well as a productive layer to the functioning of the wider European economy.

Choice and diversification are terms frequently associated or linked to CMU. There is increased choice in terms of offering alternative finance models to SMEs and to retail savers, and to investors in terms of products available. Diversification, apart from the systemic risk concerns addressed above, also lends itself to the heterogeneous enterprise sector prevalent throughout Europe. As such, there is no one size fits all business model today. This is particularly true in the innovation and R&D sector where companies can be established in isolation, often at short-notice and benefiting from the latest technological advances. The methodology and processes associated with financing traditional businesses, whilst still necessary, may not be either suitable or preferable for emerging

enterprises who may desire modern, fluid and flexible financial arrangements to avail of fast moving and 'disruptive' technologies.

The Commission acknowledges there is no "silver bullet" in terms of implementing CMU. The purpose of the Green Paper is to elicit the views and thoughts of a wide range of stakeholders on the merits or otherwise of CMU. But the Green Paper also seeks representations on identifying the existing barriers and hurdles to the free movement of capital which undermines and hinders economic growth. The Commission is equally concerned with overcoming these roadblocks as it is with advancing the CMU agenda.

It is in the context of this pragmatic stance and acknowledging that CMU is an initiative that has a long road to travel, that the Commission has subdivided the project into two distinct phases: - (i) what can be achieved in the short/medium term and (ii) what can/may be achieved/considered from a long term perspective.

1.1 SHORT TO MEDIUM TERM PERSPECTIVE

The Green Paper proposes two specific measures that can be achieved in the near to medium term. These include (i) a review of the Prospectus Directive and (ii) the revival of securitisation. The prospectus is the document that companies/business must produce when going to market in the form of an IPO or initial public offering. The process is oft cited as the “gateway” to capital markets. The Green Paper consultation proposes far reaching reforms of the existing prospectus regime. The question of the very requirement of a prospectus is put forward as is whether the current thresholds exempting certain types of offerings from the prospectus regime should be changed.

Other aspects relating to the review include the requirement to have a prospectus for secondary issuance of a class of securities or where securities are admitted to trading on a multi-lateral trading facility. The format and content of the prospectus is also examined. Current prospectus documents frequently exceed 1,000 pages and the administrative burden placed on businesses, especially smaller SMEs, may act as a disincentive to companies delving into capital markets.

The prospectus is currently being reviewed to address concerns over definition of terms, opacity of documents and differing approval regimes, depending on which jurisdiction the prospectus is being reviewed, are also listed as items for consideration.

Securitisation is the process whereby loans and securities are bundled, repackaged and transferred to institutional investors on the basis of a risk evaluation. The Commission is keen to state that the securitisation model it wishes to revive is one that is simple, safe and transparent. There is no fear of a return to the complex and opaque derivative instruments that became synonymous with the sub-prime crisis that erupted in 2007. Securitisation has returned as a feature of the US financial system and is attributed to aiding the broader economic recovery there.

Securitisation remains subdued in Europe. Various market players have intimated that there is a growing demand from institutions for the services provided through securitisation. The Commission believes developing a safe and transparent securitisation framework would lead to increased capital flows to the real economy. Banks are typical users of the securitisation model and, in theory, securitisation allows banks to increase lending as capital tied up in provisioning becomes available for other uses. With securitisation, banks are able to transfer asset backed securities to institutional investors who, in turn, usually use credit rating agencies to assess the risk of the asset class. Thus, the risk is taken off the banks' balance sheet and transferred to a third party. Banks are then able to free up capital to lend to the productive economy, if they so choose. The Commission estimates, that even at levels of 50% of 2007, a revived securitisation market in Europe would have increased overall finance to the EU economy by €20 billion.

1.2 LONG TERM PERSPECTIVE

Taking a long-term view, the Green Paper acknowledges that developing a true single market in capital will require substantial change in a number of areas. Amongst others, this potentially includes harmonisation of tax law, securities law and insolvency regimes.

Frequent reference is made to the US as a standard bearer in how capital markets operate or function. In the United States, the use of a common language in tandem with a uniform approach to insolvency, tax and securities law(s) contributes to the success of their capital markets. Europe, due to its distinct and cultural and linguistic profile, is quite different in this respect.

The Commission notes the political sensitivities associated with many of these issues and that ultimate authority resides with Member States on what are matters of national competency. Nevertheless, the Commission also believes initial strides in developing CMU can be achieved and has

advanced a number of short term measures to start the process. The objective is to have the building blocks in place of a CMU by 2019.

1.3 SUMMARY OF THE MAIN FEATURES OF THE GREEN PAPER

As outlined above, the Green Paper presents the concept of CMU developing over a five year horizon. The current consultation period is at the outset of this process. Furthermore, the process is subdivided again into what is achievable in terms of the short/medium time-frame and a long term perspective. In summary, the main facets of Capital Markets Union include:

- Promoting investment, growth and jobs through capital markets financing;
- Linking investors/savers with businesses that require funding;
- Providing choice to the business and enterprise sector through alternative and diversified funding models;
- Providing choice to retail savers/investors through additional investment products;
- Unlocking liquidity that is currently frozen in Europe and maximising the efficiency of this money to benefit the real economy;
- Removing barriers and regulatory bottlenecks that currently impede or inhibit investment across Europe;
- Instigating a number of short-term measures including: (i) reviewing the Prospectus Directive, (ii) reviving a safe and transparent securitisation model; (iii) establishment of a standardised information framework for SMEs across Europe (iv) developing a private placement programme; (v) promotion of European Long-Term Investment Funds (ELTIFs) for

infrastructure projects and (vi) developing the European Corporate bonds market;

- Instigating a number of long-term measures including matters relating to potential harmonisation of (i) insolvency regimes, (ii) tax law and (iii) securities law;
- Maximising the efficiency of the investment chain, making Europe more attractive to both inside and outside investment, increasing the profile and competitiveness of EU capital markets in a global context;
- Eliminating the barriers that prevent the free-flow of capital across EU borders and ensuring that those who have investment capital can readily access those businesses and enterprises that require finance the most to develop and expand.

SECTION 2 –BUSINESS PERSPECTIVE

The identification of key issues and concerns is based on consideration of stakeholders' evidence. The approach taken was to focus on the most pertinent themes rather than examine every individual aspect of the Green Paper.

2.1 CHAMBERS IRELAND

Mr. Mark O' Mahoney, Director of Policy, represented Chambers Ireland at the hearings. Chambers Ireland welcomes the CMU initiative and stated it is a "worthwhile project". The organisation particularly views the possible boost to lending in the SME sector as important and the resulting benefits for employment growth and prosperity across the EU. Moreover, their presentation referred to what it perceives as an unhealthy overreliance on bank loans. In this regard, the CMU initiative is welcome if it contributes to the introduction of a new range of innovative financing options for the business community.

Chambers Ireland specifically acknowledged the multi-layered approach to CMU outlined in the Green Paper. It was very clear in stating that the Commission should focus its energies on the short to medium term objectives. Many of the long-term issues raised in the Green Paper will require overcoming significant barriers and should be classified as secondary matters. For now, the onus should be on generating momentum for the CMU.

One of these short term measures relates to a standardised SME information register. Chambers Ireland supports this aspect of CMU and refers to the potential use in allowing for the accurate assessment of investment propositions across borders. They questioned the likelihood of implementing common SME information standards in the immediate future. Too many differences and diverse practices prevent a one size fits all approach. Instead, Chambers Ireland believes the priority should be on developing a minimum amount of common comparable information across the EU. In this way, a standard information register may help to develop

further opportunities in a timely manner. Chambers Ireland cited positive spill-over in cross border peer lending as a possible benefit arising from a standardised information framework. However, there is a delicate balancing act involved in introducing a standardised information template. Mindful of the administrative burden and compliance costs to SMEs, the creation of a common information register should not impose additional regulatory and bureaucratic hurdles. Red Tape should be kept to a minimum. Chambers Ireland went even further in stating that mandatory public disclosure of company information in addition to national reporting requirements should be opposed.

Chambers Ireland made several comments on the development of a European private placement market. Currently, this market is too fragmented and restricted to largely domestic investments. Standardised documentation would be a welcome addition to the market. However, it is the issue of tax legislation that Chambers Ireland believes requires action. In this regard, the organisation called for the introduction of an exemption for withholding tax for private placements to boost the sector.

The issue of tax was not solely confined to the private placement market. The tax treatment of equity over debt was raised. Chambers Ireland specifically referred to Ireland on this matter but also argued that removing what it deems as a tax bias against equity throughout Europe would send a positive signal in favour of entrepreneurship and bolster investment in key innovation hubs.

Securitisation is positive in so far as it enables banks to segregate risk from its balance sheet and frees up resources for investment to the business sector. However, Chambers Ireland pointed out that responsibility is crucial when contemplating reviving the securitisation market. The legacy arising from toxic securitised products continues to infect the financial system. Accordingly, clear regulatory oversight of securitisation is essential.

Finally, Chambers Ireland concluded by endorsing the concept of CMU and the positive scenario of enhanced investment and business growth that may yet emerge. However, there was one caveat. Whether the CMU will

exert a significant impact on small markets, such as Ireland, remains to be seen.

2.2 IRISH VENTURE CAPITAL ASSOCIATION (IVCA)

Ms. Regina Breheny attended on behalf of the Irish Venture Capital Association. Ms. Breheny briefly described the main features of the venture capital industry in Ireland. Venture Capital (VC) firms typically invest in fast-growing, hi-tech companies in the ICT and life sciences sectors. As venture capitalists are not allowed to hold debt, the normal arrangement is to invest equity in return for a minority shareholding. Venture Capital frequently takes the form of bridge financing over a five to ten year timeline.

Venture capital has particularly impacted on the research and development field and has steadily built companies that now act as angel investors to the next generation of companies coming on-track. Indeed, Ireland has a positive narrative in terms of developing its venture capital sector. Annual investment has grown by 65% since 2007 and a considerable number of graduates are employed in sectors underpinned by VC support. The IVCA welcomes the Green Paper on CMU and acknowledges the attention given to venture capital and the important role it has to play in any future capital market union.

Fragmentation is a key issue for the Venture Capital sector across Europe. Ms. Breheny referred to deal size as a major drawback. This problem is magnified when one compares the differences applicable between the VC markets in the US and Europe. In venture capital terms, US companies receive up to ten times more funding than in the EU. To remedy this situation, the IVCA believes the Commission should seek to increase the amount of available capital in order to allow scaling opportunities. One means of achieving this objective is to increase the liquidity and depth of capital markets.

Size of funds was a recurring theme throughout the IVCA presentation. Simply put, there is a mismatch between the funds available and those required to match investor's appetite in the marketplace. Funds need to increase in size to make the VC sector more attractive. Similarly, Ms. Breheny raised concerns about regulations that currently restrict the opportunities for VC funds to be more attractive as an asset class. The venture capital threshold of €500 million, as enunciated in the Alternative Investment Funds Management Directive (AIFMD), is too low and should be doubled to €1 billion. According to the IVCA, this would allow bigger funds to be created without undue regulatory issues.

2.3 ISSUES RAISED IN DISCUSSION DURING SESSION I

Members raised a number of issues with stakeholders during the course of discussions in the first hearing. Deputy Donnelly raised the issue of what would constitute a benchmark of success for CMU. Effectively, his question centred on how one will be able to measure the impact of CMU. For the VC sector, the answer lies in increasing the capital available within the financial system and ensuring more private capital seeks a home in venture capital funds.

The miniscule size of VC funds at European level is holding back growth and, therefore, it was proposed that a pooled mechanism might be implemented at European level to facilitate expansion. The European Fund for Strategic Investment (EFSI) was deemed as an appropriate vehicle to undertake this task. In principle, the idea is to create a pan-European fund or structure with a large pool at the top which could then invest in venture capital funds below.

The broader issue of the free movement of capital and the unintended consequences that may arise was also raised. Free movement of capital has and will continue to aid economic growth but history also demonstrates that fast and unfettered capital flows can and has led to destruction throughout the ages. Members expressed fears that CMU may inadvertently lead to asset bubbles and unequal distributional effects that may in time undermine rather than bolster the business environment. At

the very least, those devising and planning for a CMU should be aware of the possible negative consequences. The Commission needs to be vigilant in regard to CMU possibly making it easier for inward global capital flows coming into the EU, inflating asset prices, creating a false economy and ultimately destroying and bringing down businesses in the process of a collapse. Chambers Ireland acknowledged this danger and replied that due diligence and requisite knowledge about the suitable financial instruments for the different business profiles would be essential to futureproofing against this risk.

Members also probed the witnesses in terms of what the specific effects of CMU will/could be for Ireland. The witnesses marked a clear distinction between the SME size relative to Ireland and continental Europe. Reference was made that a typical Irish SME has less than 50 staff. This varies greatly with some European SMEs whose profile and operations are far larger and could be said to reflect mid-caps or even corporations in Ireland. Thus, the size and definition of an SME is a factor when considering the impact of CMU. It was generally felt among witnesses that CMU will benefit those larger scale SMEs compared to smaller enterprises.

However, Chambers Ireland also saw CMU as having substantial effects irrespective of SME size. Perhaps the key attribute of CMU lies in offering opportunities and choices previously unavailable or, at least, underdeveloped to date. Interestingly, Chambers alluded to CMU instituting a cultural shift within the business community. CMU, if successful, may allow SMEs to think bigger, branch out of the narrow confines of traditional bank loans and explore and embrace the multi-faceted financing streams that hopefully will become apparent in time. Members highlighted crowdfunding and peer-to-peer lending as sectors with the potential to grow rapidly and possibly become a 'poster child' for the success of integrated capital markets.

Both members and witnesses highlighted the importance of investor protection. If the objective is to entice smaller retail savers away from depositing their savings in low interest bank products, and to direct investment into alternative and riskier finance instruments, savers must receive appropriate protection.

Issues concerning the standardisation of SME information and administrative burden were also discussed. Members expressed a fear that a new layer of bureaucracy might out-weigh any benefits accruing from introducing a cross-border register for scrutinising company balance sheets. Similarly, Senator Hayden conveyed fears about changes in terms of the core/periphery relationship and investment flow(s).

Senator Hayden articulated the dangers that CMU may in fact suck in funding to the centre and the bigger enterprises in continental Europe at the expense of smaller SMEs lying on the fringe. Such a move would invariably impact adversely on the indigenous enterprise sector. Again, as with administrative and regulatory controls, the Commission will have to carefully examine and map the potential effects of CMU altering the core/periphery nexus to ensure a healthy investment climate is maintained.

SECTION 3 – INSTITUTIONAL INVESTORS' PERSPECTIVE

The second session focused on engagement with institutional investors. The following organisations attended:

- Irish Funds Industry Association;
- Irish Association of Investment Managers; and
- Banking and Payments Federation Ireland

The previous session provided a consumer/business perspective. The Committee was anxious to follow this up by gleaning the insights and perspective from another dimension. The institutional investors, operating at the coalface, and participating in the capital markets on a daily basis, provided an important input.

3.1 IRISH FUNDS INDUSTRY ASSOCIATION (IFIA)

Mr. Pat Larder, Chief Executive Officer, represented the Irish Funds Industry Association. By way of introduction, Mr. Lardner outlined some key facts regarding the organisation and the industry in Ireland. The IFIA is the representative member organisation for companies involved in the international investment funds industry in Ireland. As regards employment, the industry employs 13,000 professionals. Consequently, it is the single largest employment sub-sector within internationally traded financial services. The sector continues to thrive and the statistics bear this out. With assets in excess of €3.4 trillion in over 13,000 collective investment schemes administered in Ireland, the country's reputation as an investment fund jurisdiction and provider of services to the sector is well cemented.

From the outset, Mr. Lardner said the IFIA welcomed the Commission's initiative on CMU. They also agreed that CMU will likely have a significant impact on the Irish investment funds industry. CMU is likely to provide additional products and services that will in turn support additional service provision on top of that. In the IFIA's words, "*multiple sources of financing for economies makes sense*" and CMU could act as a conduit for the transmission of further capital throughout the financial system. The nature

and approach adopted in implementing CMU is important. The Commission should be pragmatic in identifying that any market has numerous participants that have requirements. To succeed and capture the imagination of the industry, the needs of all participants must be addressed.

Currently, financial markets throughout Europe remain disparate and fragmented. Change will not occur overnight. Therefore, the Commission should exercise flexibility and discretion in implementing CMU. Different national characteristics should be taken into account and CMU should be devised around these differences as opposed to shoe-horning individual states' experiences to suit the framework of CMU. In addition, the Commission should review the positive elements of the financial system and build CMU around those aspects that work best. In this regard, the IFIA highlighted the success of passporting of services to date and argued that CMU would do well in imitating and strengthening the passporting mechanism to make itself successful.

The IFIA also emphasised the interdependent and globalised environment in which today's financial services operate in. No longer can markets ignore wider global developments. Europe, in terms of building a single market in capital, must therefore bear in mind external investors and make itself an essential component and indeed leader in a global industry context. Europe should be confident in advertising itself as a competent and attractive investment location. CMU offers possibilities for Europe to extend its investment reach, accumulate resources for productive means and grow its way out of the current economic malaise.

In summary, the IFIA notes the contemporaneous timelines of both the CMU and Ireland's recently published national funds strategy. Both publications offer opportunities and choice. The IFIA believes Ireland can benefit from both plans and CMU can enable Ireland to continue to grow and market itself as a world leader in servicing the international funds industry.

3.2 IRISH ASSOCIATION OF INVESTMENT MANAGERS (IAIM)

Mr. Frank O'Dwyer, Chief Executive, presented to the Committee on behalf of the Irish Association of Investment Managers (IAIM). The IAIM is the representative body for institutional investors operating in Ireland. Mr. O'Dwyer began his presentation by acknowledging the discrepancy between the levels of capital market finance available in the United States in comparison to Europe. However, he drew attention to some of the reasons for this.

For a start, the United States is relatively uniform and homogenous on a number of fronts. Sharing a common language and having a relatively uniform legal system marks a significant advantage. Historically, the United States has always been a single market and the preponderance of large scale institutional investors makes the transition to a market based finance system both possible and practicable. Moreover, as Mr. O Dwyer states, *"generally, across all regions of the US, investors have similar attitudes to risk"*.

Europe, in almost all instances, differs from the above example. Twenty-eight different economies operating twenty eight different legal systems coupled with twenty-four languages and eleven different currencies illustrates the diversity prevalent across Europe. Linguistic and legal codes are not the sole boundaries either. Inherited cultural traits and long-standing attitudes towards financial investment are deep rooted and forged through the prism of nationalist lenses. Statistics bear this out. Germans hold 41% of their savings in cash and only 10% in shares or equities but Swedes have 16% cash holdings and 33% in equities. The disparity and cultural financial chasm that needs to be bridged is self-evident.

In principle, the IAIM welcomes the move towards a single market in capital. Nonetheless, a number of issues need to be resolved before any serious appraisal of CMU can occur. The definition of an SME is critical. If CMU is prescribed as a tonic to boost investment in the SME sector, there needs to be clarity about whom the net beneficiaries will be. In Mr. O'Dwyers words: *"It is important to have a common understanding of*

what is the target group of businesses, the target sector, of the real economy that this initiative is meant to address".

Defining the SME class is not merely a methodological concern. Serious ramifications may arise as CMU gradually takes hold. A small-sized enterprise in Germany would be classified as a large business in Ireland. The knock-on implication is that in smaller economies such as Ireland, some of the CMU proposals will have much more relevance than others.

In truth, Mr. O'Dwyer believes the effects of CMU in Ireland will be limited. Both the review of the prospectus Directive and the initiatives to promote mini bond-markets for SMEs are not that relevant to the Irish business landscape. Instead, there is a larger debate to be had. That debate revolves around, what in Mr. O'Dwyer's view, is the single biggest obstacle to CMU gaining purchase. That issue is regulation.

Most commentators and market watchers agree with the need to instil sound and robust regulatory practices. The key term, however, is proportionality. As an example, the IAIM point to an investment class that CMU seeks to boost investment and interest in. Usually, the assets associated with financing SMEs and infrastructure projects are long term, illiquid assets often with a higher risk profile attached to them.

The vehicles that have the resources and wherewithal to invest in these asset classes are pension funds and insurance companies. Between these two investment channels, there is approximately €12 trillion in available liquidity in Europe. But, as Mr. O'Dwyer commented, current prudential requirements prevent these funds from investing in the very same asset classes that CMU aspires to develop. The IAIM argues that a balance between investment and regulation needs to be struck.

The issues surrounding CMU are complex. They will require careful consideration and meticulous planning. Many of the proposed spinoffs will take considerable time to bear fruit. However, for now, the Commission can do some service by instigating a wider debate on the tricky but necessary issue of reconciling and balancing regulation with the overarching goal of fostering investment.

3.3 BANKING AND PAYMENTS FEDERATION IRELAND (BPFI)

Mr. Gavin Purtill, Head of Capital Markets and Mr. Felix O'Reagan, Head of Communications, represented Banking and Payments Federation Ireland (BPFI) at the hearings. BPFI is the voice of banking and payments in Ireland with over 70 members, including 35 international banks, which are represented by its affiliate organisation – the Federation of International Banks in Ireland (FIBI). The presentation delivered by BPFI addressing CMU is constructed into eight specific segments. The principal themes of the address are laid out in bullet point format below:

- a) CMU should enhance existing markets. The Commission should avoid introducing policies that negatively impact on capital flows and investment;
- b) The Commission must ensure a level playing field between markets and EU and non-EU actors. So called shadow banking activities should not benefit from less onerous or even preferential regulatory treatment and should be subject to the principle of same risk, same rules;
- c) The single rulebook must be completed by close convergence of supervisory practices that must be effectively and consistently enforced across all member states;
- d) CMU should emphasise the importance of liquidity and market making. The intention should be to allocate investment funds away from slow-growing sectors to dynamic innovative industries;
- e) CMU should address cross border investments and existing tax barriers affecting capital flows. The cost and difficulty in obtaining tax relief should be reviewed.
- f) The Commission needs to identify ways and allocate resources to improving financial education. This applies both in terms of educating and assisting retail investors and SMEs.

- g) Revise the Prospective Directive and ease the burden on firms going to market. A revised prospectus directive should make it easier and cheaper for firms to go to market, while still preserving a high level of investor protection;
- h) Restore the economics of and revise the rules for securitisation. This should include a revision of the capital requirements for securitisations and recalibration of regulations on simple, standard and transparent securitisations.

3.4 ISSUES RAISED IN DISCUSSION DURING SESSION II

Deputy Donnelly returned to the dangers associated with capital flows threatening the financial and economic system. He regretted that the Green Paper failed to make any reference to the credit surge in the 2000's that created an asset bubble and contributed to the subsequent economic collapse. The Deputy's opinion was to label the Green Paper as a *"very intellectually and technically weak piece of work"*.

He further added that the latest ECB monetary instrument – Quantitative Easing (QE) threatened to make a bad situation worse. The recovery was not underpinned by real economic productivity but instead is largely the result of "easy money" being printed by the ECB for the European banking sector who in turn are buying sovereign bonds. Such a policy is a recipe for fuelling another credit bubble and simply continuing debt-fuelled consumption. He wondered if CMU might facilitate and accelerate the inevitable crash, which will emerge from another bubble, and whether the Commission has sufficiently taken into account the potential for unintended consequences arising from CMU. In a nutshell, are the safeguards adequate?

Mr. Purtill, from the BPF, reiterated that CMU is very much a concept in the making. Only time will tell if the necessary protections will be put in place. However, his personal view is that there are adequate and substantial safeguards. The two major ones referenced were the implementation of the single rulebook and the added insurance of the convergence of regulatory practices across non-banks and banks. Should both these measures be implemented, the fears raised by Deputy Donnelly should be lessened.

Mr. Lardner offered a straightforward reply when he stated that there will always be risks of capital movement. But, he argued that one should look at the record, to gain a full insight into how the market has functioned to date. He mentioned the existing detailed regulations in the funds sector that have stood the test of time. Indeed, when it comes to funds, Ireland has a strong and well-earned reputation in respect of best practice relating to exchange of information protocols. These actions helped to

underpin confidence, at both domestic and international level, in the investment funds sector.

Mr. Lardner did not agree with Mr. Purtill's assessment that banks and non-banks should be treated in the same fashion. Banks and non-banks have different structures, *modus-operandi* and cannot be portrayed as identical entities. Therefore, the rules and regulations should differ. Mr. Lardner raised an interesting point when he argued that the concept of singularity in itself threatened the financial markets. If the market is dominated by one single financing mechanism and this mechanism fails, the destruction and fallout is widespread. A plurality of financing models is a welcome development and CMU, by intent or design, seeks to promote alternative financing modes.

Mr. O'Dwyer believed behaviourism may be playing a role in some sense with regard to CMU. He acknowledged his view was not a scientific answer but based on instinct. Essentially, his concerns lay in that states may continue to operate CMU along nationalist lines. That is, a French bank may solely concentrate on the French market or *vice versa* German loans may be pooled and only sold to German people. If such financial nationalism takes hold, Mr. O'Dwyer said he may foresee some hidden dangers emerging at some point in the future.

The prospect of increased securitisation and the overall impact on the SME sector also featured prominently in discussions. The witnesses generally agreed that the Irish economy and financial market was perhaps too small to benefit directly. Securitisation did allow for banks to transfer risk off their balance sheets and therefore increase their capacity to lend to the real economy. The witnesses suggest that if a pool of Irish loans could be pooled together to form sufficient scale, this may be one way of marketing and increasing the appeal of Irish securitised assets to international investors.

Mr. Felix O'Reagan confirmed that 91% of SMEs in Ireland employ fewer than ten people. He believed that the larger profile SME class that CMU was directed at may only reflect 3-4% of the companies operating in Ireland. This is a major concern and he intimated that the typical Irish small business may not be the typical SME that will benefit in any way from the capital markets union.

Contemplating the potential impact for the SME sector, Mr. Lardner saw two distinct benefits. He divided them into direct and indirect categories. The direct category refers to the transfer of risk through securitisation and the enhanced ability of banks to lend to the SME sector. The indirect benefit is more subtle and focuses on "added value" and demand. The central argument is that if one SME announces expansion in one particular area, this creates ancillary services and generates a chain reaction for other businesses in that environment. Ireland could gain from this ripple effect.

Mr. Lardner stated that demand is of equal importance in highlighting financing requirements as just one element of the SME market. CMU, through its transmission mechanism, may lead to added demand which, in turn, generates its own finance that can be reinvested into the SME sector. In this way, Mr. Lardner stated that *"we can create a broader employment footprint as we look at the opportunities in the direct and indirect sense provided by CMU"*.

Whether CMU will lower costs for consumers, mortgage-holders and SMEs, remains to be seen. All witnesses referred to the theoretical premise that lower transaction costs and increased competition should lead to reductions for consumers. Mr. Reagan drew attention to the banking sector and specifically banks cost of funds. Of course, this is one of the key variables in the strategic and day to day operations of banks. It affects interest rates and a whole other range of activities and services. Mr. O'Reagan did say that CMU should create a wide range of financing options. This in itself should help to bring a competitive dynamic to the marketplace. If this dynamic led to a lowering in the cost of funds, it could give rise to scope for lower retail-priced finance at the consumer or SME stage.

Mr. O'Dwyer was less convinced that CMU can contribute to lowering borrowing costs. Too many impediments remain. Insolvency and contract law across Europe are too varied and these would require significant harmonisation and overhaul before the benefits of the magnitude suggested above can be attained. Moreover, these are difficult and long-term objectives. For now, the focus should remain on accomplishing short-term goals that are achievable.

Mr. Lardner concurred that the priority should be on taking incremental steps. He did recount though, that from his experience in dealing with investment fund provision, as the market increased in breadth and depth, the associated costs have declined. This could be a portent for the effectiveness of CMU if competition levels increase and the market responds in a similar way.

SECTION 4– ACADEMIC/EXPERTS PERSPECTIVE

After hearing the views of the business and institutional practitioners, the Committee sought an academic perspective which offered a broad range of expertise and knowledge. Mr. Peter Brown lectures in Finance at the Institute for Investment and Financial Trading (IFIT) in Dublin. Mr. Brown also has his own company and has detailed knowledge of the bond markets. Dr. Constantin Gurdgiev is an economist and lectures in Trinity College Dublin (TCD). He is a renowned economic commentator and contributor to numerous publications – both online and in the print media. The Committee discussed a number of issues emanating from the potential implementation of CMU. The primary themes explored during the course of the exchanges are detailed below.

4.1 MR. PETER BROWN

Mr. Brown stated that he was very much in favour of building a capital markets union. Opening up alternative financing mechanisms, outside of traditional banking, is welcome and a positive step. He categorised the Commission's initiative as ambitious. This does not mean that the Green Paper covers all angles. The single biggest flaw, he argued, is the lack of attention to financial education. As he said: "*The paper is massively short on education*".

Lack of financial education is a significant drawback in any effort to expand the utility of capital markets. Ireland offered a good example in this context. Irish investors, ignorant of alternative investment products have chosen to deposit circa €90 billion in banks that are offering little or no interest. At the same time, the country has witnessed the second biggest bond market rally in its history. Foreign hedge funds have been the main beneficiaries.

There are several reasons for this situation but the failure to educate and inform the general retail investor and his/her SME counterpart is the predominant failure. Therefore, the Green Paper must address this information gap and Mr. Brown called for a greater focus on education.

4.2 DR. CONSTANTIN GURDGIEV

Dr. Gurdiev stated that he was generally a supporter of the CMU initiative but would be more cautious in his outlook. He agreed with Mr. Brown that the lack of emphasis on education in the Green Paper stuck out. As for the overall contents, Dr. Gurdiev agreed that the Commission was correct in its assessment of the current and pre-crisis difficulties afflicting SMEs and capital markets. There was and remains an overreliance on bank funding for European SMEs. This financing mechanism is inappropriate for smaller enterprises. Dr. Gurdiev argued that it is a higher-cost, higher-volatility and uncertain source of funding.

Therefore the intention to move the SME sector in a different direction towards bond and equity markets is understandable. However, Dr. Gurdiev pinpointed a crucial flaw in the papers main thesis that a greater degree of capital markets reorganisation is required to improve the situation. He referred to the variety of specialised and niche markets operating in the United States and the similar diversity that exists in Europe. Yet, the results that are obtained in the US continue to elude Europe's capital markets. Market diversity is not the main issue, sources of funding is.

Moving onto other aspects of the paper, Dr. Gurdiev welcomed the proposal to standardise SME information. Streamlining the prospectus directive is another positive measure. However, he cautioned that the above policies would only be successful if the overall regulatory and compliance burden is reduced. Dr. Gurdiev identified regulation as a key issue. Better regulation and, more importantly supervision and enforcement of regulation, will be paramount as will providing investor protection.

Dr. Gurdiev drew attention to what he perceives are competing and contradictory objectives outlined in the Green Paper. The first example relates to the goal of increasing investment in long-term infrastructure projects. In itself, this is fine, but another key aim of CMU is to increase the amount and choice of finance for SMEs. SMEs traditionally shy away from long-term investment products. As there is only a limited amount

of available liquidity in the market at any given time, there is a real danger that monies directed towards long-term investment goals will crowd out and displace funding for SMEs.

A similar situation exists in regard to reviving securitisation. On its own, securitisation has innate qualities. But there is a contradiction in viewing securitisation as a tool to help raise equity finance for SMEs. Securitisation relates primarily to bank lending so it is very much a case of more of the same funding model for SMEs. In no way can securitisation be seen as an inducement to switch SMEs away from bank loans towards forms of equity or direct debt issuance.

It is not so much as what the Green Paper contains as to what it omits that concerns Dr. Gurdgiev. In his view the paper misses the four key priorities that the Commission should address immediately. These are:

- The need to reduce regulatory and tax incentives for SMEs to raise debt over and above equity;
- The need to expand access to existing pools of investors instead of first trying to attract external investors;
- The need to enhance, streamline and reform the EU wide system of insolvency resolution, resolution of bankruptcy and resolution of non-performing loans; and
- The need to identify key objectives in longer term reforms.

Throughout Europe, tax systems generally favour debt over equity investment. Dr. Gurdgiev compares the current practice as effectively a subsidy for companies involved in debt raising and debt issuance over equity. The minimum that authorities can do is to create a “level-playing” field so that debt and equity are treated on an equal footing. Moreover, the capital gains taxes applied to equity trades do not apply to bonds trades. In effect, this practice acts as a disincentive to equity investment and companies participating in equity products.

The second priority concerns the existing pool of investors who largely remain untapped within the SME sector. These are the employees of those businesses. Dr. Gurdgiev argues much progress can be made in enticing workers to invest in the companies and businesses they help to grow and develop. Changing the tax code to make employee share ownership schemes and employee equity more efficient would increase access to an available and readily accessible band of resources.

The third priority focusing on insolvency and resolution law is arguably more complicated in delivering short-term benefits. The IMF has already considered this matter in detail. Dr. Gurdgiev drew the Committee's attention to the IMF publication entitled: *"Tackling Small and Medium Sized Enterprise Problem Loans in Europe"*, released on 31 March 2015.

The final priority is one that warrants careful examination and forces policymakers to set out what the strategic focus will be for Europe in the future. There is a choice involved and two possible routes to travel. One route involves maintaining the status quo and continued dependence on bank loans and traditional finance models. The other involves a transition to market finance, specifically, equity instruments. If Europe is serious about taking the alternative road, policymakers will have to provide and offer the necessary incentives. This will involve, in Dr. Gurdgiev's view, the reduction of capital gain's tax to a zero rate.

4.3 ISSUES RAISED IN DISCUSSION DURING SESSION III

The discussion followed a similar pattern to engagement with the previous witnesses. The same high-level goals and potential impacts arising from CMU were debated. Both Mr. Brown and Dr. Gurdgiev accepted that capital markets by their nature are risky and part of the boom-bust cycle. Both witnesses went so far as to say that future crises are inevitable. Efforts and regulations can be constructed but economic history tends to confirm that human behaviour always finds the means and tools to overcome these restrictions.

Noting that nothing in the EU's approach would prevent this vicious cycle from repeating itself, Dr. Gurdgiev nevertheless said the lack of substantive assessment, analysis, listing and pricing in the Green paper worried him.

The question of the scale of impact and likely changes for the Irish SME sector also arose. Mr. Brown believes the Irish market is simply too small to gain in any meaningful way from CMU. The funds and investment portfolios are geared towards much bigger markets. Dr. Gurdgiev also agreed that the probable beneficiaries of improved access to capital markets will be externally traded enterprises which represent a minority of Irish SMEs. This in turn raises an interesting dilemma. CMU may in fact pit small domestic businesses against their larger export orientated enterprises in competition for funds. Dr. Gurdgiev hinted this polarisation is certainly one aspect to monitor when considering the impact of CMU.

Dr. Gurdgiev also relayed doubts about the extent to which credit scoring and uniform information registers will assist Irish SMEs. To some degree, credit scoring is largely irrelevant as Irish SMEs will still be competing against European equivalents operating in much larger markets. Market size will be a more critical factor in most cases. It is vital that the Commission limit the new credit scoring and information requirements to the capital market sphere.

There is a fear that the new CMU measures will impact on SMEs that have no involvement or relationship with capital markets. The associated

compliance costs and additional regulatory burden would only serve to undermine businesses for no additional gain. Dr. Gurdgiev's main reservation relates to flexibility and scope of the implementation of CMU. He elaborated by saying: *"...my concern with the Green Paper is that it is unclear how much room it gives Ireland to work and how flexible we will be allowed to be in shaping a properly functioning market."*

Deputy Boyd-Barrett registered significant concerns about CMU. Bank financing, despite its woes, has at its centre a relationship framework with its customer base. CMU, he feared, will actually facilitate anonymous investment whose sole motivation will be to *"make a quick buck"* and leave a negative, if any, imprint on the real economy.

The final aspect of the discussion centred on the proposed revival of securitisation. The Chairman mentioned the association between the onset of the Great Recession in 2007 and securitised products that contributed to the credit crunch. His question focused on the appropriateness and timing of reactivating the asset-backed security market at this juncture. Both Mr. Brown and Dr. Gurdgiev responded by saying that securitisation in theory is a viable instrument. Mr. Brown confirmed that securitisation acts as an accelerant of credit in the market and, therefore, heavy levels of securitisation are not a good idea.

Dr. Gurdgiev took a slightly different approach in answering the Chairman's question. Securitisation in itself is not bad. In fact, markets work better when they are diversified and a suite of different instruments are available. The danger arises from abuse of any particular instrument. This is also the case with securitisation. One example, he cited, is the mispricing of risk, but this can be overcome and there are practical steps to counter this phenomenon. The simplest mechanism is to hold those who have responsibility for pricing risk to account. Placing the risk of mispricing asset risk with the evaluators is a logical solution. This action, coupled with the robust enforcement of regulations, should help stem nefarious activities occurring in the realm of securitisation.

SECTION 5—OFFICIAL INSTITUTIONS

The final hearing involved officials and representatives from both the Department of Finance and the Central Bank of Ireland. Clearly, the Department of Finance will play a central role in engaging with the Commission as the CMU initiative develops over time. Furthermore, the meeting with the officials was timely as the Department had hosted a workshop on the theme of Capital Markets Union earlier that day. The Central Bank also has an important role and contribution to make. Many of the concerns and issues deriving from the CMU and the Green Paper refer to regulatory affairs. The Committee particularly wished to elicit the Central Bank's stance on CMU given its expertise and remit in terms of regulatory and supervisory duties.

5.1 DEPARTMENT OF FINANCE

Mr. Aidan Carrigan, Assistant Secretary, Ms. Rosie Keane and Mr. Niall O'Sullivan, Markets and Securities Division, attended the final hearing. In his opening statement, Mr. Carrigan emphasised the early phase nature of CMU. The Department of Finance had just held a workshop seminar that day and had officially launched its public consultation. Thus, the views presented by officials were preliminary in scope.

The Department proceeded to outline the main facets of the CMU initiative. It mentioned the high-level objectives and the fact that most parties are supportive of the push to achieve higher investment and economic growth. CMU, as a policy was not created, in isolation or a vacuum. The backdrop was the difficulties in the banking sector and the subsequent retreat by banks, primarily due to deleveraging, to lend to the real economy.

CMU was clearly motivated by a desire to kick-start lending and to fill the hole that banks had left behind in the financing arena. CMU offered a further incentive in making Europe more resilient to future shocks. Overreliance on the banking sector was akin to placing all one's eggs in a single basket. The diversification and multiplicity envisioned in CMU also sought to strengthen and shock-proof the EU financial system against future crises.

Mr. Carrigan traced the long-term goal of expanding capital integration in Europe. He recalled the *financial services action plan* of the 1990's that represented one milestone on the journey taken to date in this field. CMU involves a wide range of initiatives and legislative proposals in a variety of fields. He noted that the ultimate objective and easiest indicator of success is the ending of fragmentation across the EU capital markets sector.

The Department broke CMU into two distinct segments. One relates to advancing different types of capital markets in Europe and this was labelled the "*market segment element*". The second segment was listed as the "*horizontal integration approach*". The second element has a much wider remit and is concerned with removing impediments that act as a brake on the free flow of capital across EU borders.

Delving into the detail of the Green Paper, the Department chose to highlight two key areas: funding for SMEs and securitisations. As with earlier witnesses, the Department noted that the definition of an SME remains problematic and open to interpretation. The Green Paper fails to shed any more light on the SME profile that CMU is intended to assist. Bearing this in mind, the Department stated its intention to ensure that smaller companies are not excluded from the benefits of capital markets union.

Ireland is set to introduce a credit register in 2016 and this mirrored CMU's preoccupation in establishing and standardising credit scoring and credit information for SMEs across Europe. As regards securitisation, the Department is unequivocal in holding the Commission's line that the securitisation market should only be facilitated by legislators on the basis that such instruments are safe and sustainable. The Department referred

to potential growth opportunities for Ireland in positioning itself as a securitisation hub arising from CMU. However, its support for the CMU initiative primarily resides in the prospect and potential to expand overall investment and assist employment and growth on a macro-level throughout Europe.

5.2 CENTRAL BANK OF IRELAND

Mr. Oliver Gilvarry and Mr. David Owen attended on behalf of the Central Bank of Ireland. In broad terms, the Central Bank welcomes the Commission's Green Paper and the proposed multi-staged approach. In his address to the Committee, Mr. Gilvarry referred to the fact that academics remain divided on whether market based financing or debt financing models are better than one another. Market based financing may have an edge in terms of shock absorption. Mr. Gilvarry stated that the provision of equity-based financing is found to be more inherently stable compared to debt financing.

Once economic shocks occur, debt financing seems to lead to a greater degree of capital flight. The structure of equity financing, long-term in nature with little or no refinancing needs, suggests that it is less likely to move on the basis of economic shocks. The Central bank believes that CMU will not supplant bank finance but complement it. Banks and their centrality in financing the SME sector will remain.

The Central Bank was keen to address a number of regulatory issues. Firstly, their position in regard to maintaining and enforcing the requisite retail investor provisions is steadfast. No dilution should occur in any way that reduces or softens the protection afforded to retail investors.

Similarly, CMU cannot disassociate itself from the broader macro-prudential framework introduced in recent times. The Capital Requirements Directive (CRD IV) and the new requirements laid out under this directive is an example in point. There are genuine concerns that entities may use CMU and capital markets as a means to escape the recently introduced regulations on a macro-prudential level. There is no

point in addressing risks in the banking sector if those very same risks are merely transferred to the capital markets.

Confidence is also a factor in analysing the merits or otherwise of CMU. This is one of the reasons, in the Central Banks eyes, that post-crisis protections should be maintained at all costs. Should investor confidence in financial instruments evaporate, there are obvious negative implications for businesses raising capital elsewhere and invariably the uncertainty will seep into secondary markets and affect liquidity in those markets too.

Finally, the Central Bank reiterated its commitment to follow developments in regard to CMU and to maintain and continue its engagement with the various European Supervisory authorities that are involved in the process.

SECTION 6—OBSERVATIONS

1. Any initiative that aims to contribute to investment, growth, employment and economic prosperity is welcome. The objective of increasing jobs and growth should remain at the heart of the CMU initiative.
2. There should be a greater focus on financial education in the Green Paper. Capital Markets are complex by nature and if CMU is to succeed, time and energy should be devoted to educating both retail investors and the SME sector.
3. The Green Paper should consider all the potential implications arising from CMU. The Commission should carry out detailed counterfactual analysis and/or a risk assessment_of the various facets of CMU.
4. The concept of an SME remains undefined in the context of CMU. The Commission should clearly state and identify the SME characteristics and target sector that will typically benefit from CMU.
5. Whilst there are advantages in standardising SME credit information and credit scoring across Europe, the administrative burden and associated compliance costs should be kept to a minimum.
6. The provision of investor protection is paramount, especially if the intention is to attract retail investors into capital markets. Retail investors should be afforded maximum levels of investor protection.
7. The Commission should review the relationship between the treatment of debt and equity finance. The stated goal of CMU is to spur alternative financing models i.e. corporate bonds issuance and equity finance. The current bias in favour of debt over and above equity finance needs to be reviewed.
8. The balance between promoting capital markets and maintaining regulatory oversight is delicate. The regulatory framework and prudential requirements instituted on a macro-prudential level since the crisis should be enforced in both the banking and so called “shadow-banking” spheres. CMU should not allow companies to bypass regulatory measures by relocating to Capital markets.
9. Securitisation, and the revival of asset-backed securitised markets, should only occur if the basis for securitised products is simple_and transparent.

10. The review of the Prospectus Directive is welcome. Any process that makes it easier and reduces costs for SMEs/businesses to access capital is desirable.
11. CMU should take into account the size, variation and differences prevalent that exist across the EU. CMU should provide for a degree of flexibility in regard to the implementation of CMU. Equally, the Commission should confirm the impacts on smaller scale economies/markets that are likely to arise from CMU.
12. The commission should be aware and mindful that CMU may exacerbate existing divergences between the core and periphery.
13. The multi-stage approach laid out in introducing and implementing CMU is pragmatic. The sub division into short-term and long-term objectives acknowledges the hurdles and impediments that need to be overcome. The focus should remain on what is achievable to garner momentum.
14. The Commission should continue to engage with all the principal stakeholders during the development of the CMU initiative. This engagement should involve national parliaments and their elected representatives.

APPENDIX 1

JOINT COMMITTEES TERMS OF REFERENCE

a. Functions of the Committee – derived from Standing Orders [DSO 82A; SSO 70A]

- (1) The Select Committee shall consider and report to the Dáil on—
 - (a) such aspects of the expenditure, administration and policy of the relevant Government Department or Departments and associated public bodies as the Committee may select, and
 - (b) European Union matters within the remit of the relevant Department or Departments.
- (2). The Select Committee may be joined with a Select Committee appointed by Seanad Éireann to form a Joint Committee for the purposes of the functions set out below, other than at paragraph (3), and to report thereon to both Houses of the Oireachtas.
- (3). Without prejudice to the generality of paragraph (1), the Select Committee shall consider, in respect of the relevant Department or Departments, such-
 - (a) Bills,
 - (b) Proposals contained in any motion, including any motion within the meaning of Standing Order 164,
 - (c) Estimates for Public Services, and
 - (d) Other matters

as shall be referred to the Select Committee by the Dáil, and

- (e) Annual Output Statements, and
- (f) Such Value for Money and Policy Reviews as the Select Committee may select.

- (4) The Joint Committee may consider the following matters in respect of the relevant Department or Departments and associated public bodies, and report thereon to both Houses of the Oireachtas:
- (a) matters of policy for which the Minister is officially responsible,
 - (b) public affairs administered by the Department,
 - (c) policy issues arising from Value for Money and Policy Reviews conducted or commissioned by the Department,
 - (d) Government policy in respect of bodies under the aegis of the Department,
 - (e) policy issues concerning bodies which are partly or wholly funded by the State or which are established or appointed by a member of the Government or the Oireachtas,
 - (f) the general scheme or draft heads of any Bill published by the Minister,
 - (g) statutory instruments, including those laid or laid in draft before either House or both Houses and those made under the European Communities Acts 1972 to 2009,
 - (h) strategy statements laid before either or both Houses of the Oireachtas pursuant to the Public Service Management Act 1997,
 - (i) annual reports or annual reports and accounts, required by law, and laid before either or both Houses of the Oireachtas, of the Department or bodies referred to in paragraph (4)(d) and (e) and the overall operational results, statements of strategy and corporate plans of such bodies, and
 - (j) such other matters as may be referred to it by the Dáil and/or Seanad from time to time.
- (5) Without prejudice to the generality of paragraph (1), the Joint Committee shall consider, in respect of the relevant Department or Departments—
- (a) EU draft legislative acts standing referred to the Select Committee under Standing Order 105, including the compliance of such acts with the principle of subsidiarity,
 - (b) other proposals for EU legislation and related policy issues, including programmes and guidelines prepared by the European Commission as a basis of possible legislative action,

- (c) non-legislative documents published by any EU institution in relation to EU policy matters, and
 - (d) matters listed for consideration on the agenda for meetings of the relevant EU Council of Ministers and the outcome of such meetings.
- (6) A sub-Committee stands established in respect of each Department within the remit of the Select Committee to consider the matters outlined in paragraph (3), and the following arrangements apply to such sub-Committees:
- (a) the matters outlined in paragraph (3) which require referral to the Select Committee by the Dáil may be referred directly to such sub-Committees, and
 - (b) each such sub-Committee has the powers defined in Standing Order 83(1) and (2) and may report directly to the Dáil, including by way of Message under Standing Order 87.
- (7) The Chairman of the Joint Committee, who shall be a member of Dáil Éireann, shall also be the Chairman of the Select Committee and of any sub-Committee or Committees standing established in respect of the Select Committee.
- (8) The following may attend meetings of the Select or Joint Committee, for the purposes of the functions set out in paragraph (5) and may take part in proceedings without having a right to vote or to move motions and amendments:
- (a) Members of the European Parliament elected from constituencies in Ireland, including Northern Ireland,
 - (b) Members of the Irish delegation to the Parliamentary Assembly of the Council of Europe, and
 - (c) at the invitation of the Committee, other Members of the European Parliament.

b. Scope and Context of Activities of Committees (as derived from Standing Orders [DSO 82; SSO 70])

- (1) The Joint Committee may only consider such matters, engage in such activities, exercise such powers and discharge such functions as are specifically authorised under its orders of reference and under Standing Orders.

- (2) Such matters, activities, powers and functions shall be relevant to, and shall arise only in the context of, the preparation of a report to the Dáil and/or Seanad.
- (3) It shall be an instruction to all Select Committees to which Bills are referred that they shall ensure that not more than two Select Committees shall meet to consider a Bill on any given day, unless the Dáil, after due notice given by the Chairman of the Select Committee, waives this instruction on motion made by the Taoiseach pursuant to Dáil Standing Order 26. The Chairmen of Select Committees shall have responsibility for compliance with this instruction.
- (4) The Joint Committee shall not consider any matter which is being considered, or of which notice has been given of a proposal to consider, by the Committee of Public Accounts pursuant to Dáil Standing Order 163 and/or the Comptroller and Auditor General (Amendment) Act 1993.
- (5) The Joint Committee shall refrain from inquiring into in public session or publishing confidential information regarding any matter if so requested, for stated reasons given in writing, by—
 - (a) a member of the Government or a Minister of State, or
 - (b) the principal office-holder of a body under the aegis of a Department or which is partly or wholly funded by the State or established or appointed by a member of the Government or by the Oireachtas:

Provided that the Chairman may appeal any such request made to the Ceann Comhairle / Cathaoirleach whose decision shall be final.

APPENDIX 2

JOINT COMMITTEE MEMBERS

Deputies:	Tom Barry (FG)
	Richard Boyd Barrett (PBP)
	Ciaran Cannon (FG)
	Ciara Conway (LAB)
	Michael Creed (FG)
	Pearse Doherty (SF)
	Regina Doherty (FG)
	Stephen S. Donnelly (IND)
	Timmy Dooley (FF)
	Alan Farrell (FG)
	Seán Fleming (FF)
	Ciarán Lynch (LAB)
	Mary Lou McDonald (SF)
	Michael McGrath (FF)
	Paul Murphy (SP)
	Kieran O'Donnell (FG)
	Pat Rabbitte (LAB)
	Arthur Spring (LAB)
	Peadar Toibín (SF)
	Liam Twomey (FG) (Chairman)
	Brian Walsh (FG)
Senators:	Seán D. Barrett (IND)
	Marc MacSharry (FF)
	Paul Coghlan (FG)
	Michael D'Arcy (FG)
	Aideen Hayden (LAB) (Vice-Chair)
	Tom Sheahan (FG)

APPENDIX 3

LINK TO TRANSCRIPT OF HEARINGS

<http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/FIJ2015033100002?opendocument#B00100>

APPENDIX 4

WITNESS LIST

Hearings on the European Commission's Green Paper on Capital Markets Union

Meeting 31 March 2015

Session A

Name	Organisation
Mr Mark O'Mahoney, Director of Policy	Chambers Ireland
Ms Regina Breheny, Director General	Irish Venture Capital Association

Session B

Name	Organisation
Mr Pat Lardner, Chief Executive	Irish Funds Industry Association
Mr Frank O'Dwyer, Chief Executive	Irish Association of Investment Managers
Mr Gavin Purtill, Head of Capital Markets	Banking and Payments Federation Ireland
Mr Felix O'Reagan	Banking and Payments Federation Ireland

Meeting 31 March 2015

Session C

Name	Organisation
Mr Peter Brown	Lecturer in Finance, Institute of Investment and International Trading
Dr. Constantin Gurdgiev	Economist and Lecturer in Finance, Trinity College Dublin

Session D

Name	Organisation
Mr Aidan Carragher, Assistant Secretary	Department of Finance
Ms Rosie Keane, Markets and Securities Division	Department of Finance
Mr. Niall O'Sullivan, Markets and Securities Division	Department of Finance
Mr. Oliver Gilvarry	Central Bank of Ireland
Mr. David Owens	Central Bank of Ireland