FESE BLUEPRINT TO BOOST EUROPEAN GROWTH

FEDERATION OF EUROPEAN SECURITIES EXCHANGES

Funding Gap:

FINANCING INDUSTRY & BUSINESS

1 trillion EUR

European investment needed for transport, energy and telecom infrastructure networks by **2020.**

11 thousand

number of European SMEs (out of 23 million total) which are already accessing capital markets.

CREATING JOBS

6 million European jobs lost because of the financial crisis

For every **5 jobs lost** by large companies during the crisis in the 4 largest EU members, **small and mid-sized firms** created **1 new job**.

92% of new jobs typically created by companies after listing.

MOBILISING SAVINGS

4,5 million individual investors and savers accessing markets today (potential is much larger as 43% financial assets are held by households).

10 trillion EUR assets managed by European investment funds

As populations age, demand from European investors for equity between 2010-2020 expected to fall short of the supply by **2 trillion EUR.**

MORE MARKET-BASED FINANCING → INVESTMENT JOBS WEALTH → GROWTH

European Capital Markets Must Provide:

ECONOMIC GROWTH

- **Innovation**
- **High Quality Jobs**
- **Enterprise Capture**

INVESTORS

- **Meeting diverse risk appetites and needs**
- **Transparency and investor protection**
- **Direct and indirect investment in markets**

COMPANIES

- **Accessible and attractive to both large and small companies**
- **Enabling funding through a variety of financial instruments**
- **Allowing companies to hedge against risk**

OPENNESS TO THE WORLD

- **Open to the world & at the forefront of international standards**
- **Ensuring investor protection, proper supervision, and fair competition**
- **Promoting the European regulatory model as best practice**

SAFETY

- **Building investors' trust**
- **Ensuring sound supervision**
- **Avoiding taxpayer bail-outs**

Regulated Markets Critical to European Growth

- FESE Members operate some **40 exchanges** underpinned by **transparency, liquidity, neutrality, efficiency,** and **safety**. These platforms set reliable prices of assets, enable capital raising for large and small companies, ensure efficient allocation of assets, create wealth among broad segments of the population, and fuel sustainable and dynamic growth.
- FESE is home to some of the world's largest and safest **on-exchange derivative markets**, which enable risk management for a diverse range of enterprises as well as households.

HOW CAN WE UNLEASH THE POTENTIAL OF EUROPEAN CAPITAL MARKETS TO FINANCE THE ECONOMY?

Investing in economic growth

Europe needs to set itself the ambition of significantly increasing the **size of capital market financing of enterprises** in relative terms to GDP. As of 2013, **stock market capitalization** was only **55% of the EU GDP**, whereas **bank credit** to the private sector was **104%** – almost the reverse of the ratios in the US, 136% and 43%, respectively.

This will require a concerted effort by all industry participants to develop a range of market and regulatory initiatives. We need to orient more investor flows into listed instruments by **avoiding** any new or existing tax and regulatory **disincentives** (and providing tax **incentives**); to **improve the attractiveness of listing** by focusing company disclosure on clear goals of investor protection and market integrity; and to develop an **equity culture**.

In this context, FESE and its Members have played a central role in the establishment of the **European IPO Task Force**, alongside EuropeanIssuers and EVCA. It will develop concrete recommendations in respect of how capital markets can best serve all companies and investors.

Serving all investors

The last crisis led to a massive loss of **confidence** in the European financial system. To regain this lost trust, all segments of capital markets must not only be fair and safe, but they must be perceived to be so.

In addition, we need to **improve direct retail investor** access to capital markets as a complement to investors' use of collective investment mechanisms. Retail investors must have access to primary and secondary markets in equity and bonds, with appropriate protection.

The buy-side needs to be able to invest through secondary **markets that are fair and transparent**. We need to improve the transparency and neutrality of non-equity/bilateral markets.

We need a more neutral environment that allows **pension funds** to invest in public equity and public corporate bonds and gives **investors** more control over their portfolios.

We need to **avoid unnecessary complexity** in both the chain of distribution and in the trading environment. This will also help increase the ratio of **active** to **passive** investment.

In all policies relating to cost, the focus should be on **end-user costs** (investors and companies).

Serving all companies

When markets finance companies, the economy gains jobs. As an example, the US economy might have produced up to **19 million more jobs** over the last two decades **-** if its IPOs had kept pace with GDP growth.

Europe needs to act now to enhance the ability of its IPO markets to finance growing and dynamic companies. Structural constraints – above all the disappearance of the **local ecosystems** – are holding back IPOs around the world, which is producing only a third of the IPOs it generated per year in the 1990s.

There has to be a **vibrant ecosystem** at each level (national, regional, European, international) at which companies may wish to access markets, and not just a concentration of professional services for issuers at the European level/for blue chips.

In parallel, we need to help SMEs to access pan-European investors by making them **more visible as an asset class** and by increasing the scale of investment through **fund-of-fund** solutions.

Finally, capital markets must continue to provide **key benefits** to companies other than capital raising (in particular hedging against risks).

Positioning Europe in the world

The European capital markets are governed by the principle of trust in the mutually shared principles of other jurisdictions. The EU must remain **open to 3rd countries' investors, companies, and financial institutions**, while ensuring adequate protection for European investors, proper supervision by European supervisors, and fair competition based on a level playing field among all institutions. While avoiding extraterritoriality, Europeans should continue to promote the European regulatory model as **best practice** around the world whenever appropriate.

Improving safety

Equity, bonds and derivatives traded on **Regulated Markets** play a crucial role in maintaining the long-term safety of Europe's capital markets – and have shown to reduce systemic risk during the crisis.

Going forward, Europe needs to implement the **agreed reforms** to improve the safety and integrity of all derivatives trading and clearing while maintaining their positive contribution to the economy and the financial sector. In line with G20 reforms, all standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties.

In addition, **new ways** of accessing markets such as crowd-funding should be regulated appropriately to ensure **investor protection** and maintain **confidence**.

Please see the FESE website (www.fese.eu) for sources and further details.