The Capital Markets Union for Growth in Europe

Contribution to the Public Consultation on the European Commission's Mid-Term Review

by

Italian Banking Insurance and Finance Federation (FeBAF)

representing its associates
ABI (Italian Banking Association), ANIA (Italian Insurers' Association), ASSOGESTIONI (Asset Management Industry Association), AIFI (Private Equity, Venture Capital and Private Debt Association), ASSORETI (Investment Advisor's firms Association), Assofiduciaria (Fiduciary and Trust Services Association), Assofin (Household Credit Sector Association), Assoimmobiliare (Real Estate Association), Assoprevidenza (Supplementary Pensions Association), and Assosim (Securities Brokerage Association)

Brussels, 17 March, 2017

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Foreword

The Capital Markets Union (CMU) is the largest and most ambitious programme of structural reform launched by the European Commission and Parliament in the 2014-2019 legislature. It not only moves forward the agenda of European financial and institutional integration, but also interacts closely with similar processes in the banking sector (the Banking Union), the Single Market for Services, the forthcoming reform of regulation and supervision architectures, and the overall framework of economic governance in the EU, and for the Economic and Monetary Union (EMU). Most importantly, the CMU represents a fundamental basis - considering the crisis of recent years and its long-lasting consequences - for enhancing investment, economic growth and employment in sustainable, stable conditions of public finance. This is the basic premise underpinning the contents, motivation and aims of this paper, which contributes to the public consultation launched by the European Commission in view of the Mid-term Review of the CMU Action Plan, scheduled for June 2017.

We are contributing to the consultation on behalf of the member organisations of Febaf, representing Italy's main business associations in the field of investment and finance: the Italian Banking Association (ABI), the insurers' association (ANIA), the asset management industry association (ASSOGESTIONI), the private-equity, venture-capital and private debt association (AIFI), the investment advisor's firms association (ASSORETI), the fiduciary and trust services association (Assofiduciaria), the houselhold credit sector association (Assofin), the real-estate association (Assoimmobiliare), the supplementary pensions and assistance association (Assoprevidenza), and the securities brokerage association (Assosim).

It is our hope that this consultation may provide the Commission with useful information and suggestions and count on continuing the dialogue and the cooperation between our institutions and organisations, at the national and international level, and providing further clarification and additional information, if needed. For convenience, below is our e-mail address: info@febaf.it.

Brussels, March 17th, 2017

FeBAF – The Italian Banking, Insurance and Finance Federation – was established in 2008 by the Italian Banking Association (Abi) and the National Association of Insurance Companies (Ania). FeBAF currently associates Abi, Ania, Assogestioni, Aifi and Assoreti, and aggregates Assofiduciaria, Assoimmobiliare, Assoprevidenza, Assosim and Assofin.

Our mission:

- to promote the role of the banking, insurance and financial industry in the pursuit of the country's general interests;
- to represent the positions of member associations on economic and social policies in a systematic relationship with political and monetary authorities, trade associations and the public opinion;
- to spread a culture of free market and competitiveness, by promoting transparency and responsiveness to consumers and savers in the banking, insurance and financial sectors;
- to represent the interests of the Italian financial community in relations with European institutions, with the aim of consolidating dialogue with other Italian public and private stakeholders, so as to act as part of a single national strategy and system in Europe.

The Working Group responsible for drafting this document, led by Dr. Maurizio Sella and coordinated by Prof. Rainer Masera, has seen the participation of FeBAF member associations and enterprises represented in the Febaf Management Committee.

More information at www.febaf.it and @febaf. If you are interested in our English newsletter, it is possibile to subscribe here: Spotlight.

Overview and summary

In response to the European Commission's call for feedback and suggestions on the progress made in the Capital Markets Union (CMU), and in preparation of the Mid-term Review of the corresponding Action Plan, the Italian Banking Insurance and Finance Federation is glad to provide its input, bringing together the views of the different organizations affiliated to Febaf that represent the main business associations of the Italian financial sector.

In the CMU Action Plan (September 2015), it was clearly stated that a Mid-term Review would have to be undertaken to assess the progress made and the achievements obtained so far, and at the same time single-out remaining gaps and new challenges. We think that this Mid-term Review takes place at a critical and delicate time for the EU, and therefore welcome the opportunity of having an in-depth discussion on CMU, and being able to participate in it.

The topsy-turvy world of CMU: an in-depth rethinking and a substantial reorientation is required.

The CMU is one of the most ambitious and significant projects of the EU. It is a fundamental component of the European reform plan to re-launch investment, growth and jobs in the European economy, and marks a leap forward in achieving the Single Market and promoting social and economic integration.

We concur with the Commission's view that "the CMU pipeline is delivering" and express satisfaction for the initiatives of the Action Plan that have already been completed or are in the process of completion. We appreciate that European institutions show great attention to alternative investment tools, as demonstrated by the EuVECA Regulation and the AIFM Directive. However, we believe that it must be recognized that the context within which the project was designed and initiated has profoundly changed, and that those changes affect not only the implementation of the Plan, but above all the concept itself and the strategic orientation of the CMU. This has happened to such an extent that much more than a simple mid-term review is now required. Rather, an in-depth rethinking of the aims, objectives, time-table and priorities of the CMU should be undertaken.

When we talk of unprecedented changes in the context, we obviously refer to Brexit in the first place, which is taking out of the EU framework the most important financial center of the EU to date, i.e. the City of London. Other important novelties have upset and turned upside down the whole picture of capital markets in Europe, and their prospects for the future. These unanticipated and unsettling developments must be accounted for, and taken into consideration. Moreover, the CMU was meant from the start to be a European process moulded and inscribed in a global framework, as it was directed at promoting wider financial integration in the global economy, open economies and societies. The new Trump administration in the U.S. appears to be challenging the long-term tenets of global finance, alongside with trade liberalization and transatlantic relations. This is also a factor that should lead to a fundamental resetting of CMU.

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Recently, and significantly, the President of the ECB Mario Draghi reaffirmed the concept that deep financial integration (as implied by the CMU) and the single currency are to be two sides of the same coin. He argued that integrated financial markets in Europe would be necessary for an effective single currency. The CMU project therefore not only affects the wide community of the 27 countries of the EU, but impacts more deeply into the Euro-zone. It represents a necessary ingredient for the stability and performance of the Euro-area, as a single currency area. It is a required complement of the Banking Union and an integral part of the inescapable strengthening of EMU. As a matter of fact, the operationalization of Target2-Securities (T2S) by the ECB (2015) should be seen as laying one of the basic foundations for CMU, by providing the necessary market infrastructure. Therefore, the implications of CMU for, and its impact on, the Euro-area give CMU an added component of synergy, consistency and urgency.

For the reasons above, we cannot help giving the *Mid-term* Review a much broader significance, and place it in the context of the revisitation and adaptation of the whole approach, and of the concept itself. CMU needs a new beginning and an overall redesign, moving from CMU mark 1 to CMU 2.0, and correspondingly re-adjust deliverables, priorities and methods of work.

This reconsideration should follow **five basic directions**, summarised below, which will be spelled out in more specific terms and comments in our response to this consultation:

1. **Put institutional reforms at the fore-front.** The first point to consider is the institutional framework, and the need for institutional adjustment at the European and national level. Following the "British inspiration" of the initial approach, CMU was thought to proceed very softly and with great prudence on introducing changes in the institutional architecture and the legislative frameworks. This reflected not only pragmatism, but above all the fact that the City of London, which was evidently going to play the leading role in the CMU, had already developed institutional arrangements capable of providing some of the necessary infrastructure. The basic frameworks therefore of legislation and oversight required by the markets, particularly wholesale markets, were to some extent already operational, and had only to be marginally adjusted and adapted to accommodate the extension of capital markets to the whole of the EU, in areas where they were absent or not well developed. As a matter of fact, we – among others – had already expressed some doubts and hesitation on accepting the dominant view at the launch of CMU that the issue of simplification and consolidation of the complex and baroque architecture of 27-28 different legislations and institutional frameworks were to be put on the back-burner. The assumption then was that the market itself should be able to adopt the best practice in terms of institutional performance, and operate accordingly. However - we objected - if the market could accomplish the CMU by itself, it would have already done so. In other terms the market is imperfect, and only institutional reforms can correct for market imperfections and thus eliminate institutional obstacles and barriers, particularly cross-border. A similar line of reasoning was put forward in the Five Presidents' Report.
   After Brexit, the issue of institutional adequacy takes on a sense of much greater momentum and significance. The risk is in fact, with the UK out of the EU capital markets institutional infrastructure, that fragmentation, duplication and overlap severely hinder the operation of capital markets, creating greater obstacles (and higher costs) to capital

market development, particularly where it is most lacking and needed, and notably for cross border operations. Think for instance of the convoluted system of oversight for capital markets in Europe that would result from Brexit. The issues therefore of regulatory harmonization and supervisory convergence for European capital markets become a priority, particularly for the Euro-area. More in general the CMU financial institutional architecture becomes highly relevant to insure a consistent regulation and oversight of critical financial infrastructures after Brexit, and reconcile regulation with financial innovation and sustainable growth.

2. **Multiple speeds capital markets integration: Euro and non-Euro.** The reform of the institutional arrangements for an effective CMU would also benefit from a more flexible (variable geometry) pattern, such as the *two or multiple speeds approach* suggested by Chancellor Merkel and other European leaders. However, this should not be a way of crystallizing double standards or fragmenting the single market space. The CMU should remain a project open to all the 27 countries of the EU, as it was originally conceived. But its design and implementation would have to reflect both the Euro and the non-Euro possibly different requirements, the willingness of different countries to cede prerogatives to the European levels, and the different speeds of individual countries in getting ready for accessing higher and higher levels of institutional integration.

3. **A level playing field of uniform norms and regulation across the single capital market space.** The other area where a change of pace and priorities is required is that of regulatory convergence. The notion of a "single rule-book" was inscribed from the beginning in the role and mandates of the EU financial regulatory authorities. However, insufficient progress has been made on creating a really level playing field of norms and rules, considering the number of players involved (the several national regulators), the wide-spread practice of gold-plating and the comprehensible reluctance of individual agencies to give up their specific national or sectoral prerogatives. In the end, therefore, the "single rule book" principle has become nothing more than a myth, or a polar star to enlighten the complex and tortuous road of intergovernmental and inter-agency coordination. In this context, the appearance on stage of the Banking Union has marked a definite U-turn. Consolidating the different supervisors into a single mechanism, and standardizing the various national and local practices has given a strong push toward the simplification and the harmonization of the regulatory space. The Italian financial community has greatly appreciated the simplification and harmonization implied by the SSM, but it has also lamented that the normative framework for Banking Union has not yet been adjusted correspondingly. Hence the demand that "Testi Unici" at the European level - the Italian formulation of the "single rule book" philosophy - be enacted in all areas relevant for banking operations.
   The European Commission in its 14 September Communication has rightly called for an acceleration of reforms, and has recognized the "need to speed up the legislative process". We appreciate that in the above-mentioned Communication the Commission has reaffirmed its commitment to the CMU. We appreciated also that as a consequence, and considering the new scenario, the Commission has reviewed its priorities and shown a new thrust towards bolder legislative and harmonization initiatives. Concrete examples of such a more ambitious and more effective approach can be found in the September Communication: for instance, the new initiatives undertaken for the harmonization of the

fiscal and insolvency frameworks. This new approach – in our view- should be highly commended and supported. It is well known that divergent legislative frameworks, particularly in insolvency regimes and around tax barriers, represent major obstacles to (cross-border) capital market development. In the field of the fiscal treatment, the advantages offered to debt vis-à-vis equity are a major obstacle to equity investment, risk-sharing, and more broadly financial stability itself. Europe continues to be characterized by excessive levels of debt. Moreover, the negative interest rate environment has exacerbated this problem. As, in principle, fiscal affairs are issues of national responsibility, efforts of fiscal harmonization have proceeded very slowly in the past, often without tangible results. Therefore, the Commission's proposals for an integrated European approach to corporate taxation mark a significant break-through and an instance of bold and effective reform. The same should be said of insolvency regimes: achieving a consistent and harmonized framework at the European level in this field would give a formidable boost to cross border deals and improve the effectiveness and timeliness of jurisdiction by national courts.

4. **Safeguarding the diversity of the financial eco-system: the principle of proportionality**. This fundamental approach that can be dated back to the Prussian times had been until recently neglected and ostracized in Europe, creating obstacles to the operation of small financial institutions, which in many countries play an important role in local communities, and a competitive disadvantage with those countries, like the U.S. where proportionality is highly respected, including in legislation and regulation. Recently, the issue of proportionality has gained wider support in Europe, as indicated also by the European Commission. It must be recognized that proportionality finds greater recognition and support in some countries, like Germany or Italy, but also in the European periphery. Moreover, an application of this principle would benefit start-ups and fintech, and promote therefore financial innovation.

5. **Putting ordinary citizens first: the focus on retail markets.** A fifth direction to consider in the overhaul of the CMU approach is the role of consumers, both savers and investors, in financial markets. We are glad to notice that in the Action Plan one of the six policy area on which CMU should focus is devoted to "fostering retail investment and innovation". Moreover, this area appears to move up in the priority scale of the plan. This is the right approach: the ultimate beneficiary of CMU in fact is the European citizen. But this truth is not generally perceived and appreciated by the public opinion and the man of the street. A way to contribute to bridging this gap is by placing much greater emphasis on retail markets. Making capital markets more inclusive, and giving ordinary citizens access to it, should be a top priority of the whole CMU project. We also support the emphasis placed on financial "culture" and education. In this context, specific initiatives of dissemination and information should be undertaken to enable the widest possible picking up of the opportunities offered by CMU. For instance, a "roadshow" on the opportunities offered by CMU particularly for retail markets – consumers and SMEs – could be organized in Italy, and elsewhere, and organisations such as Febaf could offer support to such initiatives. Attention to the interests of "retailers/consumers" is to some extent intertwined with the issue of proportionality, but it can also have a broader application. This focus appears especially relevant in the case of personal pensions and Fintech products, but it could also apply to the mortgage

market or advisory services. It must be recognized in this respect that an effective CMU would bring to the fore the issue of competition or competitive complementary, between markets and intermediaries, an obvious example being that of shadow banking and of securitisation schemes. The balancing of retail vs wholesale and, more generally, the costs and benefits of regulation, and its sometimes-excessive burden, requires pragmatic, concrete and equitable measures.

The comments and suggestions provided below in response to the questions of the consultation span a wide range of policy areas and issues: from regulation (or legislation) to information and reporting; from accounting standards to financial innovation; from financial education to capital requirements, from infrastructure to start-ups and green finance; from consumer protection to financial inclusion.
We provide here a **listing of a few topics raised in the paper**, to give an idea of the breadth and scope of our approach:

- Prudential rules affecting the capacity of banks and insurers to invest in the real economy, particularly SME and innovative enterprises
- Conditions for encouraging the development of Private Placement
- Simplification of international accounting standards for SMEs
- Reduction of administrative and bureaucratic burdens for innovative start-ups
- Encourage crowdfunding through ad-hoc European platforms and tax incentives
- Improve and extend the more favorable capital treatment for infrastructure investment
- Provide Government guarantees to support EFSI investment, particularly by insurers
- Explore financial instruments to finance supply chains or clusters of SMEs
- Eliminate information overload and duplication stemming from the cumulative application of the Solvency II Directive, the PRIIPs Regulation and the Insurance Distribution Directive (IDD), etc.
- Consider the long-term features of EU personal pension products (PEPP)
- Promote identification at distance through harmonisation of rules, interoperability of systems and common databases
- Promote portability of data and effective exchange of information across Member States while respecting privacy requirements
- Diversify transparency rules to focus protection on those investors that most need it
- Invest in financial education and promote an equity culture among investors
- Ensure a level playing field in supervisory requirements between traditional financial services and FinTech providers
- Extended to retail investors suitable products, such as the senior tranche of simple and transparent securitization
- Promote securitization (particularly by insurers and pension funds) through standardisation, more appropriate calibrations of rules and better information
- Promote the establishment of a single market for covered bonds across the EU through the harmonization of quality and information standards
- Review the treatment of intragroup exposures, recognizing a single European jurisdiction and facilitating cross-border capital and liquidity flows

- Remove barriers that currently hinder competition, such as tax distortions, different sanctions envisaged by fiscal and accounting prescriptions, and different supervisory practices, etc.

Answers to the questions raised in the consultation document

1. Are there additional actions that can contribute to fostering the financing for innovation, start-ups and non-listed companies?

A. European prudential rules concerning banks' private equity exposures

European prudential rules concerning banks' private equity exposures, most recently affected by CRD4/Regulation 375/2013 (CRR3), penalize banks' private equity investments as such type of investments are considered "riskier" than other types of investment.

The disadvantageous treatment of such investments is one of the main reasons that have led banks to leave this market gradually and reduce the financial resources allocated to the creation and development of enterprises, with negative effects on the economy at large.

Banks' contributions to total new financial resources raised by private equity funds in Europe declined from 15% in 2011 to 5% in 2015, resulting in a decrease in the flow of funds from this channel in support of the growth of enterprises.

In this context, it would be appropriate also to revise the prudential rules concerning banks' direct and indirect exposures to private equity instruments within the framework of the standard and IRB approaches.

Similarly to the existing provisions for exposures to SMEs in the form of bank loans, we propose that a deduction from capital requirements be introduced for banks' indirect (through private equity funds) investments in a previously identified segment of enterprises. The mechanism should:

a. allow banks that make equity investments in enterprises access to a maximum reduction coefficient for capital requirements determined on a fixed basis;

b. set limits on participation in individual investment transactions and profitability requirements for invested enterprises on the basis of the private equity market targets.

More in details: we propose to extend the reduction coefficient currently used for banks' exposures in the form of loans to SMEs (“SME Supporting Factor”) of 0.85 to the investments up to 150 million euro in unlisted companies with turnover up to 150 million euro in the previous year.

B. Absorption of capital for banks’ investments in venture capital funds or start-ups

Some recent regulations which will come into force in the next year (for example IFRS9) are likely to create serious problems in terms of absorption of capital by banks that invest in venture capital funds or start-ups. It would be appropriate while assessing the implementation of the new regulations to take into account the above.

C. Foster insurers' investments in innovation, start-ups and SMEs

Insurers are the largest European institutional investors, with a significant asset base of nearly €9.8tn and they have a great interest to invest in a wide range of assets classes and investment vehicles. Most of insurers' assets back long-term liabilities, therefore there is a clear incentive and potential for the industry, driven precisely by the business model, to invest with a long-term perspective and in the type of illiquid investments involving long-term risks that the Commission identified as crucial for European growth.

Unfortunately, the current design and calibration of the Solvency II framework assumes that insurers are acting like traders and they are exposed to short-term risks even where there is no realistic risk of early or forced sales and the investments are illiquid and have no market price. This leads to a significant over-estimation of the capital that the industry needs to hold when investing. Instead of using the current approach which wrongly assumes that insurers are always and fully exposed to the market volatility of assets, the framework should investigate and reflect the real risk exposure of insurers, which is often exposure to long-term risks as opposed to short-term risks. For example, in the case of debt including private placements, the actual credit risk exposure is generally to actual defaults as opposed to market/spread risk. Against this background, we strongly support action to address the current unnecessarily conservative capital requirements for particular types of equity and debt in Solvency II. Such action would support the Commission's objectives to foster investments in innovation, start-ups and SMEs.

a. Debt-type assets:

Debt-type assets are a natural choice for insurers to match their (often long-term) liabilities, and insurers have a key interest in diversifying their allocation between various types of debt assets, including corporate debt, but also SME debt and private placements. In the case of SME debt, the existing capital charge is the same as for any other unrated corporate bond and does not reflect higher recovery rates not even if the debt is backed by embedded guarantees. A more appropriate calibration of the Solvency II framework would provide economic incentives for insurers to optimise their allocations and support the Commission's objectives. Under banking rules loans to SMEs benefit from a reduced capital requirement (the so-called SME factor) in connection with the diversification effect implicit in portfolio pooling. The effects of the "SME supporting factor" defined in the Capital Requirements Regulation for banks could be extended to insurance regulation, where the prerequisites of diversified portfolio obtained, i.e. essentially in the case of purchases of SMEs' STS securitization tranches. Offering insurance companies the right incentives through capital requirements aligned with those applying to banks and enhancing transparency and information on the securitizations and their underlying assets would significantly increase insurers' ability to finance SMEs, albeit indirectly.

Private placement represents the instrument chosen by insurers for the direct financing of SMEs. S&P argues that the current search by mid-market companies for alternatives to traditional bank loans suggests that the eventual European capital market may not prove to be dominated by public bonds, especially if the market-led initiatives to harmonize PP-documentation in Europe are successful and investors become more familiar with the PP asset class. Insurance companies, like investors more generally, in their search for yield, are set to drive the growth of European PP markets in the next few years, as interest rates are likely to remain ultra-low and the gradual disintermediation of European banks continues.

Another important issue in this regard, is to determine to which extent agents' preference for private placement may be induced by the excessive cost of listing on regulated markets. Nevertheless, a thorough analysis of this point is needed, and the fact is that the CMU voluminous documentation contains no trace of it. Two necessities must be satisfied: greater contract harmonization and standardization and a regulatory treatment which, if linked to the actual risk of the transaction, could also constitute a formidable tool for information sharing and the development of the market.

In any case, careful consideration must be accorded to the fact that by their very nature private markets are less transparent than regulated markets and that the SMEs interested in finance other than bank loans are often the riskiest. It is indispensable to give investors the greatest possible security in terms of due diligence, price discovery, and deal execution. One key point is the necessity of high quality credit assessment. The experience of the NAIC in the US with rating and the consequent with credit assessment for purposes of insurance regulation should be studied more closely, to see whether in some way if can be imported into Europe. It is equally important for the private sector to devise common methods of information sharing, like credit bureaus in the banking sector, and that the rating agencies provide leadership in setting credit assessment methodologies.

b. Equity-type assets:

In the area of equity, data shows that over a period of ten years, between 2004 and 2014, the total assets portfolio of the industry almost doubled from €5.8tn to €9.6tn. However, the weight of equity in insurers' portfolios has been shrinking significantly as it remained at approximately the same level of €800bn. One of the key underlying factors of this significant shrinking in equity holdings was the expectation of Solvency II implementation and its unnecessarily conservative capital requirements. Therefore, there is a clear potential in the industry for higher allocations to equity assets.

Funding for innovation and start-ups often comes in the form of private equity. Unfortunately, the current treatment of private equity is identical to that of hedge funds with a capital charge of 49%. This approach does not reflect the non-volatile nature of unlisted SME investments and creates unnecessary capital burden for insurance companies wishing to invest in SMEs. We believe that the capital charge on unlisted SMEs equity should be aligned with the capital charge on strategic participations (i.e. 22%) and unlisted equities, similar to listed ones, should benefit from the Solvency II transitional clause, which would allow for a phase-in of a standard capital charge over seven years from the beginning of Solvency II. The Commission should look into the Solvency II treatment of equities, and this should include not only private equity, but also SMEs and listed equity. All of these types of equity can be, and are in practice, held by insurers with a long-term perspective and can contribute to European growth.

Concretely, the above-mentioned areas should be investigated as matter of urgency. Our reading of the follow-up actions in the areas of private equity and private debt suggests that their review in the context of the ongoing Solvency II review process is now linked to the long-term guarantee assessment and implicitly pushed to 2020. We urge the Commission to envisage actions in a much shorter timeline, in line with its ambitions to foster economic growth in Europe. We do not see how the CMU project can be achieved by 2019 when the few proposed actions for long-term investment are linked to the Solvency II review processes in 2018 or even 2020. Overall, our industry would welcome a more ambitious list of actions, with a wider scope in the area of long-term investments and a shorter timeline.

D. SMEs budget information for institutional investors (venture capital and private equity)

In addition to tax incentives, the adoption of simplified international accounting standards for SMEs would be instrumental in making their budget information comparable and in reducing costs for opening their capital to institutional investors.

E. Liability regime of market intermediaries related to private placement

We favor the standardization of the processes and the documentation related to private placements. We would also stress though the need for a revision of the liability regime to which market intermediaries are subject regarding the information included in the offering materials pertaining to the placing of third party issues they undertake.

F. Competition with the UK capital market

Successful initiatives in venture capital tend to identify markets characterized by less regulation and wider availability of capital. In this context, the recent decision of the United Kingdom (Brexit) puts the London market as the main competitor of the European geographical area, rather than as a partner. To avoid polarization of investments in UK and penalization especially of the countries where this market is less developed, all initiatives should be reviewed in parallel to those in place or planned in the UK in order to be more competitive.

G. Administrative and bureaucratic burden

Time of authorization, procedures for resolving disputes, administrative and bureaucratic burden required in order to start a business, rigidity of certain rules are often inconsistent with the speed required by innovative start-ups that need more flexibility.

H. Tax treatment of crowdfunding

We suggest the possibility for individuals to obtain favourable tax treatment for losses arising from financing through crowdfunding in order to encourage the use of this channel.

I. Co-financing opportunities from crowdfunding and banks

A missing link in the funding escalator is represented by the limited exploitation of the synergies and co-financing opportunities between companies that have successfully raised (or that are about to) a first round of funding through crowdfunding and the banking sector. In order to enhance a mutually beneficial interaction between start-ups and the banking world it would be useful to develop bankability indicators to be disclosed (on a voluntary base) by companies active on crowdfunding platforms in order to help banks in the identification of projects which are mature for banks financing. Once the indicators are developed, ad-hoc European platforms could be created in order to make projects and the relevant information available to the investor community. The development of such platforms would avoid viable companies, which have already been successfully screened by crowdfunding investors and are ready for scaling-up their business, to be underfinanced or limited in their growth potential.

J. A harmonized definition of the proportionality principle for small and medium sized insurance companies

In order not to make compliance to Solvency II too burdensome for small and medium sized insurance companies, the Directive provided for the possibility to apply the regulation according to the so-called “proportionality principle”. This principle should refer to the requirements to which insurance companies should comply, but also to the scope and actions of prudential supervision.

The definition of a proportional regulatory framework has been appointed to national authorities; the insurance industry, on the other hand, would prefer EIOPA to formulate guidelines on this topic, in order to ensure a more harmonized definition of the proportionality principle.

The proportionality principle envisages calibrated regulatory requirements and actions in relation to the "nature, scope and complexity of the risks to which an insurance company is exposed".

According to a recent report by EIOPA, 11 UE countries have exempted, or limited, insurance companies from certain reporting obligations under Solvency II. In Italy, no exemptions or limitations have been granted.

In general, potential applications of the proportionality principle would entail:

a. Exemptions: the insurer is exempted to comply with a specific regulatory request, in relation to one or more risk areas deemed immaterial.

b. Timing modifications: the regulatory requests may be carried out with a different timing as opposed to the one the regulation originally envisages.

c. Simplification: simplified procedures (which entail, for example, the use of proxies) are put in place as opposed to the standard methodologies the regulation originally envisages.

ANIA is coordinating a project group which aims to elaborate a proposal of proportionality principle application which would work for the Italian insurance market. The project follows the following steps:

a. Definition of drivers on which to base the application of the proportionality principle

b. Definition of a set of indicators for each driver

c. Definition of ranges and thresholds for each indicator in order to determine proportionality clusters.

d. Definition of exemptions, simplifications and timing variations for each proportionality cluster.

Companies should self-assess their position according to the above-mentioned steps, thus following a theoretical model which should refer to the peculiarities of the Italian market and which should be examined and approved by the national regulator.

K. Promotion of the equity culture

We would suggest to devote efforts and resources to promote financial culture within the entrepreneurial and the investing community.

We believe there is a lack of knowledge on how to access to financing instruments which could be filled by creating a network of incubators or accelerators in which:

a. Entrepreneurs
   - Create a network where experiences, information and technologies can be shared
   - Acquire financial and regulatory knowledge through meetings, seminars or courses
   - Organize meetings with Business Angels or mentors
   - Meet with financial analysts

b. Investors
   - Develop financial and regulatory skills
   - Have direct access to SMEs and their projects
   - Obtain formation and certifications to invest in risky products

2. Are there additional actions that can contribute to making it easier for companies to enter and raise capital on public markets?

A. Review regulatory barriers to SME admission on public markets and SME growth markets

It is important to support financial research on financial instruments excluded from market indices. Including financial research within the scope of fiscal incentives currently applying to industrial research would actively encourage economic growth. As a matter of fact, financial research fosters market liquidity which in turn lowers the cost of funding for real economy firms.

3. Are there additional actions that can contribute to fostering long-term, infrastructure and sustainable investment?

A. Foster insurers' investments in infrastructure

We strongly support the Commission's ongoing work to reduce barriers to investing in the specific asset classes of infrastructure, securitisations and its interest in additional work on innovation, start-ups and non-listed companies. As noted in the response to question 1.B, addressing disincentives to long-term investment requires that Solvency II reflects in its design and calibration the long-term nature of investments and the long-term risks that insurers face when investing.

There can be a very large difference between the risks involved in trading versus long-term investment. Unfortunately, this incorrect focus on the trading risks leads to unnecessarily high capital requirements and creates investment disincentives for illiquid assets like private placements, private equity (see question 1.B) and infrastructure.

We understand that there may be a view that further work will be done in 2020 on Solvency II, but given the urgent need to boost growth and long-term investment now, further alignment of calibration with true risks should be included in the 2018 review.

Infrastructure investments:

In the specific area of infrastructure, the insurance industry welcomed the Commission's work in 2015 which led to the identification of infrastructure project finance in Solvency II and to a more tailored calibration of the capital of these assets. However, the criteria used by EIOPA should prove to be effective in a real-world scenario. More broadly, it is essential to improve both the supply of and access to suitable assets, insofar as insurers must have available a sufficient supply of products that match the risk/return criteria of their liabilities. In particular, insurers are attracted to instruments characterized by high issuer quality, returns that can enable them to meet their obligations to policyholders, an adequate guarantee framework, and product standardization and portfolio transparency. Moreover, we regret that this work did not cover infrastructure corporates, which are an important part of the infrastructure universe and are still subject to unnecessarily conservative capital charges. We support the extension of the capital treatment for infrastructure projects to qualifying infrastructure corporates, applying the same capital treatment where qualifying infrastructure corporates have similar risk profile of infrastructure project entities.

Regarding Juncker Plan, "additionality" of EFSI infrastructure and innovation projects – that is, their ability to enable valuable but risky projects to find funding that they cannot obtain from other sources – is an important feature for the success of such initiatives. The most appropriate instrument to this end could be greater recourse to guarantees, even at the cost of reducing the leverage effect on the projects. Moreover, this would encourage the involvement of non-bank investors – first and foremost insurance companies – whose participation to date has been quite modest, in any case committing a negligible portion of their overall portfolio.

B. Green Finance

In order to foster the creation of new "circular" business models and the cooperation among enterprises operating in the same value chain, we suggest the launch of a feasibility study on a financial instrument issued to a group of companies involved in a business value chain rather than to a single company. The underlying argument being that the merit of each enterprise is enhanced by the cooperation generated in the value chain justifying overall better financing condition (the instrument could receive favorable prudential treatment). The funding could be supplied to some kind of "special purpose vehicle" or could be shared between the enterprises of the value chain according to their necessities, with a common pricing which should consider the value added of the whole project. We also suggest to evaluate the evolution of criteria used today for the issuing of so called "Green Bonds" in a way more in line with circular economy principles: in this way the EU would be the main Institutional stakeholder promoting a new kind of "Circular Bonds".

4. Are there additional actions that can contribute to fostering retail investment?

A. Transparency and disclosure: information overload and duplication (PRIIPS, SII, IDD)

Product disclosure is key for consumer and retail investor confidence. As part of the call for evidence exercise, we pointed to the negative consequences for consumers of information overload and duplication stemming from the cumulative application of the Solvency II Directive, the PRIIPs Regulation and the Insurance Distribution Directive (IDD). We also underlined the problem of having to make these disclosures on paper, as a default requirement, which is a significant barrier to digitalisation. The follow-up action plan to the call for evidence is very disappointing in this regard, and does not meet the CMU objectives. Identifying a clear path and timeline to address these problems would be a decisive step towards making insurance regulation consumer- and digital-friendly as well as future-proof.

B. Personal pensions

Personal pensions are a very important driver of long-term growth. This is notably the case when private pension products aim at providing an income in retirement, which usually translates into features that make it possible to allocate the funds to long-term investments. Long-term investments can only be made on the basis of long-term liabilities. We therefore welcome the EC's endeavor to link its initiative on the EU personal pension product (PEPP) to the CMU.

This link was however not properly reflected in the recent consultation on personal pensions, where the Commission did not give proper consideration to the long-term features of these products. We believe that unless this is addressed, the Commission's ongoing investigations into personal pensions will not bring the expected results in relation to the CMU.

Specifically, we uphold that for the PEPP to be an appropriate solution to reach the Commission's CMU objectives, the following is required:

a. The PEPP needs to allow providers to generate long-term liabilities. For this to be the case, consumers have to be incentivised to save for a long period, ideally until retirement. Minimum investment periods should therefore be included in the PEPP framework.

b. PEPP providers should be subject to an appropriate prudential treatment. We believe that the "same risks, same rules" principle should apply to ensure a level-playing field between all providers. For PEPPs with minimum return guarantees and/or biometric risk coverage, the applicable framework should be Solvency II. However, it should be ensured that providers' ability to manage market volatility in the long-term is duly taken into account.

c. The PEPP needs to include the option for the consumer to ask for additional biometric risk coverage, either during the accumulation phase or decumulation phase (taking into account national practices).

d. Since pension products are generally defined by their objective to provide an income in retirement, the protection of longevity risk should be considered among the options offered to consumers, in line with national rules.

e. From a consumer protection perspective, the PEPP should entail an appropriate level of security for policyholders.

C. A different regime for the "portfolio advice"

The consultation document on the CMU mid-term review highlights retail investors lack of confidence in capital markets and the need to ensure that rules under MiFID II, PRIIPS and IDD are appropriately implemented across the EU.

In this regard, we believe that a driver that can help to boost investor confidence in capital markets, also in order to draw a due distinction among investors, thus enabling greater focus without unnecessary "dispersion", is to introduce diversified transparency rules applicable to investors that require investment advice service on the portfolio basis.

The EU regulatory framework already contains a distinction of rules based on the nature of the investor. And also according to AIFMD, the applicable rules vary when investors subscribe for or purchase units in the fund for an amount not lower than euro 500,000.

In the same way, when the advice is portfolio-related, instead of product-related, we believe that the protection system – product governance, suitability, information to client – might be sometimes redundant and harbinger of costs only to business.

We hope therefore that it could be provided a special regime for the "portfolio advice", that might be more appropriate for a context objectively different from the one in which the advice is based on the single financial instrument.

We would appreciate a cooperation in this direction.

D. Home country control vs host country control on marketing and distribution of financial products

We believe that removing remaining barriers to cross-border business if any, would not prompt any further retail investments unless EU citizens have a clear perception that their savings are granted the same level of protection wherever they are invested within the EU single market. To this end, because of the differences in the supervisory models adopted by EU competent authorities in their respective countries, it might be worth questioning the viability of the home country control principle. More to the point, we propose that host country authorities are granted supervisory responsibility on marketing and distribution of financial products with respect to retail activities as a minimum. As a matter of fact, it is well known retail investors' attitude in some countries to access financial markets directly, namely without the protection they would be afforded when investing through the medium of an institutional vehicle (such as portfolio managers) as well as when investing with the assistance of a financial advisor. In these countries, the competent authorities have developed supervisory models specifically tailored to protect direct investments by retail investors, which have little correspondence in countries where investors, on the contrary, access financial markets indirectly. We believe that these investors should be afforded the same level of protection irrespective of the country of origin of the financial intermediary they are dealing with. Accordingly, they should be protected by the supervisory schemes in force in their own country when they are canvassed from abroad by a financial intermediary acting cross-border.

E. Foster Financial Education

It is of the outmost importance to both continue developing financial education projects to enhance retail customers' perception of their cognitive limits and favour retail customers' access to financial advice. As a matter of fact, retail customers should be encouraged to seek financial advice when making investment decisions.

F. Supervisory requirements for FinTech providers

We reckon the need to enable an appropriate development of FinTech on a pan-EU basis. Still, we believe it essential to preserve investor confidence and, to this end, to make FinTech subject to supervisory requirements equivalent to those applying to traditional financial services' providers, which among other things would be heavily hit by reputational contagion in the event of default of a FinTech company.

G. Extend specific products to retail investors

Some products currently only intended for institutional investors (for example senior tranche of simple and transparent securitization) should also be directed to the retail market. In this way, it should be possible to have a wider market for these instruments with positive effects on business financing.

H. Single rulebook for identification at a distance

Harmonisation of national regimes is pivotal in order to provide strong and homogeneous legal grounds allowing for identification at distance. This is very important for the setup of common rules for electronic identity certification and digital authentication of documents for the private sector. It would also enhance coordination among National Authorities with regard to the mutual recognition of either public or private identification keys. For example, using identification keys provided by banks for accessing internet banking services could replace electronic identification or signature, shall this mutual recognition be set-up. These actions would ease the remote opening of a current account, and hence, allowing the purchase of financial products in countries where there is no physical presence.

I. Interoperable systems for clients' identification

An EU interoperable system for clients' identification - bearing in mind also anti-money laundering and anti-terrorism financing requirements. This could be achieved by the setup of independent third party sources that ensure interoperability of identification processes – possibly also an EU database. Ensure that legislation allows the use of latest digital identification systems and certified systems of remote identification is key to support the development of financial markets for retail customers. Digital identification should be delivered systematically in order to allow interoperability and mutual recognition and digital signature should be binding as much as hand written signature.

J. Portability of data

Measure that allow portability of data – in order to process clients' application for financial services several data are requested, but accessibility is not always easy – quite the opposite. For example, for insurance products, clients should be allowed to have a transcript of their insurance history, or new providers should be allowed to access such data in order to adequately profile the client. Likewise, to allow for the cross-border provision of mortgages, uniform rules regarding the access to information stored in local credit bureau should be set up. Actions could be taken to uniform at EU level the credit worthiness criteria to be gathered in a European unified credit bureau, allowing for effective exchange of information across Member States while respecting privacy requirements. Also, an option to support clients' data portability, could be via the set-up of EU data archives gathering clients' relevant data.

5. Are there additional actions that can contribute to strengthening banking capacity to support the wider economy?

A. Securitisation and covered bonds

The CMU Action Plan explicitly states that the primary objective, to be attained rapidly, is to "build EU securitisation markets". The securitization package comprises a proposal for simple, transparent and standardized (STS) securitizations and a revision of the capital calibrations for banks.

According to the Commission, if EU securitizations could be brought – safely – back up to pre-crisis levels, this could provide additional funding to the economy of more than €100 billion, while enhancing financial stability. Specifically, there is no SME securitization market. Yet long-term investors like insurance companies and pension funds have the size and the resources for significant investment in SME securitization. However, they face regulatory problems and information asymmetry. The information difficulties stem from the heterogeneity of the asset pool and the lack of standardized conditions for determining the structure of placements and their documentation. Enhanced standardization, transparency and quality of securitizations (including risk retention requirements) will support insurers' access to and interest in this asset class.

The final version of the Delegated Regulation on Solvency II (Commission Delegated Regulation (EU) 2015/35 of 10 October 2014) made significant improvements, such as by lowering the calibration for "high quality" securitizations (Type I) by comparison with previous drafts. The EC Proposal for simple, transparent and standardized securitizations (STS) contains several additional positive elements (e.g. the inclusion of junior tranches within the scope of STS). However, the current Solvency II calibrations still need to be reduced further in order to reflect the true risks.

A number of improvements in the Solvency II approach for qualifying securitisations are needed:

a. the STS criteria proposed in the securitisation regulation have to be quickly aligned with the "Type 1" standards of Solvency II;

b. in line with a look-through approach, capital charges for STS securitisations should be aligned with those for corporate bonds;

c. all tranches of STS securitisations should receive a more risk-sensitive treatment, avoiding the current "cliff effect" between the senior and junior tranches within the same STS (today, the junior tranches of high-quality securitizations are treated as Type 2 under Solvency II);

d. Collateralised Loan Obligations (CLOs) should be recognized as part of Type I, qualifying securitisations;

e. high-quality short-term securitisations (e.g. Asset Backed Commercial Paper - ABCP) should be considered as cash instruments, with similar prudential treatment;

f. capital charges for securitisations of residential loans should be capped at the level of charge applied to the underlying pool of residential loans.

The new European framework on securitisations has the potential to strongly contribute to reinforcing banks' capacity to support the wider economy. For the first time in Europe, securitisations will have a harmonized regulatory regime which will introduce a set of appropriate criteria to target those transactions that are "Simple, Transparent and Standardised" (STS) which deserve a fairer liquidity and capital treatment. Securitisation finance can support SME economic activity both directly and indirectly, sustaining demand for SMEs' goods and services across the economy. Direct benefits can be seen in the securitisation of bank loans to SMEs. These securitisations are then sold to investors, which in turn frees up banks' balance sheet capacity that can then be used to grant new credit. Indirect benefits to SMEs can arise from the development of other securitisation segments that free up space on banks' balance sheets. For example, Tranched Covers – a specific category of synthetic securitisations of SME loans assisted by public authorities or public guarantee schemes – can enhance access to finance for SMEs. The public guarantee for such instruments is generally provided by public entities to banks with the condition that the latter commit to use the capital relief obtained by the use of securitisation in favour of new SME lending.

While we have welcomed efforts to develop a new regulatory framework, we remain concerned that the proposed capital calibration is still excessive in relation to the actual risks carried out by European securitisations. In fact, the proposed calibration was devised by the Basel Committee, which was heavily influenced by the US subprime experience. This does not reflect the European reality and will be particularly harmful for those securitisations that do not meet the STS criteria, thereby hampering the revival of the securitisation market in Europe.

With respect to covered bonds, greater liquidity can be achieved by harmonisation, at EU level, of quality and information standards. This could lead to the creation of a single market for covered bonds across the EU and would help enlarge the investor base as investment analysis would be easier to carry on a cross-border basis. Any EU initiatives aimed at harmonising quality and information standards should leverage on existing national frameworks that have proven experience and a track record of high investor protection. In particular, existing and well proven standards and financial instruments should not be put at risk.

The harmonisation of Covered bond framework in the EU should be structured in a balanced way to be beneficial for both issuers and investors. It is important to consider the difference existing in term of structures and models of each country, promoting market integration without hurting the best practices adopted across the various jurisdictions. Such a framework could be beneficial where it allows the continuation of each existing best practice across jurisdictions.

The reform, in fact, should not impair existing programmes and existing issuances; it could be the chance for a complete review of certain aspects which are not clear in the current framework or which may drive to unwanted fragmentation consequences and uncertainties.

The role of Covered bond as a funding instrument is even more relevant in view of the implementation of the TLAC and MREL framework within the EU. This is especially crucial for smaller banks, which have more difficulties in raising funds throughout capital markets. In this light, it is of extreme importance that all authorised banks in the European jurisdictions would be allowed to issue covered bonds, regardless of their size and/or level of capitalization. The issuance of covered bonds is an ordinary mean of funding and therefore within the full control of banks sound and prudent management policy.

If a bank satisfies the prudential requirements, it should be allowed to issue covered bonds without any additional capital requirement condition. Therefore, we believe that the current Italian legislation - which forbids the issuance of covered bond by banks with own funds below euro 250 Mlns - should be removed.

From the investor's perspective, covered bonds offer diversification, low risk and good quality investment, in that they are typically rated higher than the unsecured senior debt of the same issuer. From the issuer's standpoint, covered bonds offer a cost-effective alternative form of wholesale funding, which according to the European Commission "remained resilient against the background of stressed market conditions, in particular when compared in issuance volumes to unsecured debt and asset-backed securities".

B. Free flow of funds

The European Commission should review the treatment of intragroup exposures and recognize the European Union, or the Banking Union at the very least, as a single jurisdiction.

Currently this is not the case, since EU requires the application of those standards at both solo (individual) and consolidated levels to all credit institutions in the EU. Thus, in the EU, prudential regulatory standards also apply to exposures between two entities within the same group (referred to as "intragroup"). To facilitate cross-border capital and liquidity flows, the treatment of intragroup exposures should be properly revised and the wide range of different types of discretions that currently exist for Competent Authorities and Member States in relation to the treatment of intragroup exposures properly streamlined so that the movement of funds within groups is not unduly hampered by regulatory restrictions.

There are significant, recognized economic benefits to removing obstacles to the free flow of funds. In particular, the efficient internal capital allocation within banks allows resources to flow to where they are most in demand from businesses and households. The free flow of capital and liquidity also enables integrated, open, competitive and efficient financial markets and services. It allows European companies and sponsors of infrastructure projects of all sizes to raise money where it is cheapest, matches investors with investment opportunities and enables financial institutions to extend credit where it is most needed. Ultimately, efficient capital allocation provides a foundation for sustainable economic growth in the EU and helps ensure continued funding of the real economy through cyclical downturns, thus contributing to the greater resiliency of the banking sector in general.

6. Are there additional actions that can contribute to facilitating cross-border investment?

A. Remove barriers

It is essential to remove barriers that currently allow competition on factors other than quality of products/services.
This requires:

a. removing tax distortion between economic operators carrying on the same activities;
b. harmonizing the nature and the level of penalties applying to financial intermediaries in all respect (including accounting and fiscal breaches);
c. harmonizing EU supervisory practices (among many, see recent conclusions adopted by the Joint Meeting of Board of Supervisors and the Securities and Markets Stakeholder Group on "supervisory convergence").