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CMU AND COVID 19

RE-EQUITISING THE EUROPEAN ECONOMY

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COVID-19 is not only a health crisis but also an economic crisis. We are gradually emerging from confinement and there will now be a need to ensure the recovery is sustainable and that digitalisation is promoted. It is not only about the speed but also about the sustainability of the recovery.

The first phase of the economic crisis focused on ensuring liquidity. The next will be about addressing solvency by enhancing access to financing for small and big companies through equity financing.

Banks have played a key role in channelling liquidity, without which the crisis would be even deeper, but there are limits to their capacity and it will be essential to extend the funding channel to capital markets.

The corporate bond market did not perform well during the height of the crisis but remains a source of financing. However, relying on debt financing will not be enough to support a robust recovery. The corporate sector went into the crisis highly leveraged and will emerge even more leveraged.

Since 2015, diversifying funding sources and promoting more robust risk-sharing have been key objectives of CMU. A third objective will now be added to re-equitise the corporate sector post-Covid. Supporting primary issuance and enhancing liquidity in secondary markets is a key objective of the Commission.

The CMU High-level Forum report will be published in June and an updated CMU Action Plan in September. CMU is a medium-term project but there will be a need to front-load some ideas to get the economic recovery up and running. Renaming CMU to focus on sustainable savings and investments will make it easier for politicians to explain the value added to citizens and show the purpose of the project.

The recovery plan could focus on key strategic sectors for European autonomy, including supporting re-locations. Funds from the recovery plan could be dedicated to equity investment in strategic sectors to allow companies to raise funds for growth and relocation. Ultimately long-term available capital is needed. There needs to be more investment in equity as this creates a solid base for growth.

Europe has been too timid. Measures need to be taken to have competitive eco-systems and more integrated markets. Agreement at the highest political level with deadlines to be monitored and enforced will be crucial for success.

RE-EQUITISING THE EUROPEAN ECONOMY

Europe needs to come together collectively to move forward. If not, the recovery will be slower and longer. Start-up financing needs to work to promote European companies.

Equity is unique as it is the best long-term funding for users and investors. Unlike other instruments, equity gives ownership – meaning rights and responsibilities.
However, European equity markets are underdeveloped compared to the US, even though the EU has a much bigger population. Addressing this would be a major game changer.

Studies show that employee share-ownership increases sustainability and that companies become more long-term minded with a higher share of employee share-ownership.

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In addition to guarantees and loans, governments should consider equity infusions to support companies. Examples from the crisis in 2008 shows that this is an effective and much less costly method for taxpayers to save companies.

Exchanges have shown high operational resilience during the Covid-19 crisis. This is a commitment by all exchanges to support stability and allow crisis management. Exchanges defended the decision to keep markets open. This decision helped prevent further market chaos and panic. It is important to consider the design of equity market structure going forward and to improve price formation by ensuring SI trading is restricted to large in scale.

Some argue that MiFID II did not cause the decline in equity research for SMEs but it is clear that the decline was accelerated. Small brokers should be able to send fund managers research without having to establish a research contract. Ambition is needed to increase the size of equity financing to ensure more public companies. The conditions should be created to have more of our economy on public market. EU citizens need to re invested in the real economy which is made possible through public markets. Public companies allow transparency and public control. Rather than supporting private equity companies operating from tax havens or funding by sovereign wealth fund, companies going public should be championed as this will increase transparency, also in terms of ESG reporting. In the context of the crisis, some companies will likely leave the public markets due to nationalisations but these should return to the public markets as soon as possible.

CMU has to be attractive and citizens need to understand what it means. The focus should be for it to work better for all citizens. We need more cooperation as our generation will decide the future of Europe.