THE ANGLO-ITALIAN FINANCIAL SERVICES DIALOGUE

DISCUSSION PAPER 2014: FINANCE FOR JOBS, GROWTH AND INFRASTRUCTURE IN THE EU

ROME, 24 OCTOBER 2014

CONTENTS

1 INTRODUCTION

The Anglo-Italian Financial Services Dialogue

The Anglo-Italian Financial Services Dialogue is a newly established, cross-sectoral collaboration between the UK and Italian financial and related professional services. Launched in Rome on the 24 October 2014, the dialogue is the product of a collaboration between TheCityUK, the over-arching representative body for financial and related professional services in the UK, and FeBAF, the Italian Banking, Insurance and Finance Federation. In this paper, written for its launch, the Anglo-Italian Financial Services Dialogue presents and explains its initial policy positions aimed at supporting the EU and Italian Presidency of the Council of Europe in promoting a jobs and growth agenda.

The EU economy

After the global financial and European sovereign debt crises, EU regulation and policymakers focused on frameworks and measures designed for financial stability. At the same time, Europe's economic recovery remained fragile. Now, characterised by both low-growth and high unemployment, Europe's economy has underperformed its potential. Despite the low interest rate environment introduced to counter these problems, there has been prolonged de-leveraging in the EU banking, private and public sectors. In addition, falling inflation expectations highlight the ongoing risks of weak economic performance in the EU. Wider structural problems remain, with the EU still facing the challenges of financial fragmentation and an incomplete Single Market.

As the Italian Presidency of the Council of the European Union has made clear, the new European mandate will focus on jobs and growth. With reference to the economic challenges described above, the Anglo-Italian Dialogue actively supports this aim.

The Anglo-Italian Financial Services Dialogue in 2014 and beyond

As an industry forum, the Anglo-Italian Financial Services Dialogue aims to make meaningful contributions to the EU jobs and growth agenda, beginning within the timeframe of the Italian Presidency. With regard to their financial services sectors, the UK and Italy share many strategic interests, not least the desire to contribute to a focus on jobs and growth.

The path to jobs and growth in Europe

The Anglo-Italian Financial Services Dialogue believes that activating new lending sources throughout Europe, the development of EU capital markets, and revitalised securitisation markets will all promote the growth that the EU needs. In addition, developing a more conducive environment for long-term investors in infrastructure is crucial. Initially, this aim will be pursued though policy suggestions aimed at promoting the jobs and growth agenda, communicated to the Italian Presidency through a joint-statement approach. Wider work streams will also focus on the financial services industry's contribution to jobs and growth at this pivotal moment for the European Union's economic, social and political future.

2 POLICY SUMMARY

Policy 1: Ensuring an effective Capital Markets Union

- The development and integration of a Capital Markets Union has the potential to facilitate capital formation and so support jobs, growth and industrial development. A Capital Markets Union can be built for all 28 Member States and its pursuit remain mindful of global competition, financial stability, investor protection and market integrity.

Policies 2-3: Securitisation and SMEs

- The EU's securitisation market can contribute to the EU 2014-2019 jobs and growth agenda. The important role of banks – and their expertise – in the EU securitisation market must be recognised and supported. Moreover, the potential role of insurance sector in this market should not to be de-incentivised. Banks and insurance companies investing in securitisations could be subject to recalibrated rules on the risk-weighting of those assets under the December 2013 Basel Committee re-proposal and the current draft of Solvency II Delegated Acts.
- Policy makers can support efforts to facilitate this market where possible in the improved connectivity of data-sharing and improved contents and connectivity of credit registers.

Policies 4-5: Long-term investment in infrastructure

- The EU and individual Member State institutions can assist in developing a more conducive environment for long-term investors in infrastructure by developing best practices for investors to treat infrastructure assets as a single asset class.
- Working towards greater promotion and protection of cross-border capital flows, especially foreign direct investment (FDI), could mean EU and Member State policy makers promoting broader adoption of existing international standards in the EU and its Capital Markets Union.

3 POLICY 1: ENSURING AN EFFECTIVE CAPITAL MARKETS UNION

1) The development and integration of a Capital Markets Union has the potential to facilitate capital formation and so support jobs, growth and industrial development. A Capital Markets Union can be built for all 28 Member States and its pursuit remain mindful of global competition, financial stability, investor protection and market integrity.

The free movement of capital is an important yet under-developed element of the EU Single Market. While deep and integrated capital markets promote the efficient allocation of capital, in turn promoting job creation and growth in any wider economy, capital markets remain relatively under-developed in Europe. This is especially true when the EU is compared with other advanced economies, such as the US. In short, financial intermediation in Europe remains overly bank-reliant.

In this context, it is important to note how the EU's post-crisis period has also been characterised by prolonged bank deleveraging. This factor, when combined with international moves toward more stringent bank capital requirements, has further constrained the availability of finance in the EU. In turn, given its traditional reliance on bank lending, this environment has negatively impacted the EU's large and important SME sector. Nor has an accommodative monetary policy environment in the euro area reversed these trends and, towards the end of the 2009-2014 mandate, EU policymakers responded, becoming increasingly keen to promote a bigger role for capital markets. On July 15 2014, in his Political Guidelines for the next European Commission, the then President-Elect of the European Commission Jean-Claude Juncker gave this policy direction a name: 'Capital Markets Union.'

Provided the emphasis remains on the free movement of capital, rather than the design of new market structures that may lose sight of the purpose of capital markets, the Anglo-Italian Financial Services Dialogue welcomes this policy emphasis. The deepening and integration of EU capital markets has the potential to facilitate capital formation and so support jobs, growth and industrial development. Technology is disrupting traditional models of intermediation, including through new platforms for retail investors and SMEs, but Europe can benefit from innovation, looking to successful models of unified capital markets from other jurisdictions such as Japan and the United States. The EU can also integrate its capital markets development in a way that is coherent with the wider EU policy agenda for 2014-19.

Market finance solutions such as private placement – and in particular revitalised EU securitisation markets – will become increasingly important in the EU. As these market finance solutions receive increasing support as the alternatives to traditional bank lending in Europe, it will be important to retain the focus of 'Capital Markets Union' on the needs and participation of all 28 Member States, global competition, financial stability, investor protection and market integrity.

As a means of promoting the free movement of capital in Europe, non-legislative and market-based solutions approaches to the development of 'Capital Markets Union' could become a development that is at the heart of, and tested against, efforts towards a successful jobs and growth agenda over EU mandate 2014-19.

4 POLICIES 2-3: SECURITISATION AND SMES

2) The EU's securitisation market can contribute to the EU 2014-2019 jobs and growth agenda. The important role of banks – and their expertise – and insurers in the EU securitisation market must be recognised and supported. Banks and insurance companies investing in securitisation could be subject to recalibrated rules on the risk-weighting of those assets under the December 2013 Basel Committee re-proposal and the current draft of Solvency II Delegated Acts.

3) Policy makers can support efforts to facilitate this market where possible in the improved connectivity of data-sharing and improved contents and connectivity of credit registers.

Providing the practical policy detail for 'Capital Markets Union' is an important task, one which will no doubt feature prominently in the work of both the new European Commissioner and the DG for Financial Stability, Financial Services and Capital Markets Union. The Anglo-Italian Financial Services Dialogue subsequently believes that a revitalised market for high-quality securitisation in the EU could form a large part of 'Capital Markets Union'.

This is because securitisation markets can help solve the EU's dual problem: increased financing needs in deleveraging, risk-averse financial and regulatory environments. Securitised products can also promote growth, widening the financial intermediation options available to SMEs via a liberation of bank balance sheets and the conversion of short to long-term funding. At the same time, securitisation markets can be used in deleveraging efforts, making an important contribution to the EU's important macro-prudential goal of post-crisis financial stability. Revitalised securitisation markets can thus contribute to the EU's jobs and growth agenda. Here, the important role and expertise of banks and insurers is important in establishing and growing new securitisation markets and products in the EU.

As a first step to encouraging these markets, and by way of recognising their crucial role, banks investing in securitisations might be subject to recalibrated rules on the risk-weighting of those assets under the December 2013 Basel Committee re-proposal.

In order to allow securitisations to be a viable investment for insurance companies it is also fundamental to ensure a recalibration of Solvency II capital requirements, which are still set at a much higher level than those set for other assets such as corporate bonds. The long term nature of insurers' investments, together with a neutral regulatory environment, makes them one of the main potential investors in this market.

Investors and market participants could also be encouraged, particularly as work remains to be done on the post-crisis reputation of securitisation. Transparency and information are key to this end and the Anglo-Italian Financial Services Dialogue believes EU policy makers may support efforts to facilitate the development of securitised financial products by improving, where possible, the connectivity of data-sharing and the contents and connectivity of credit registers.

Securitisation may prove to be one of the building blocks of the recovery in Europe, helping to manage risk, promote macro-economic stability, deepen the Single Market and indirectly support the EU's crucial SME sector.

5 POLICIES 4-5: LONG-TERM INVESTMENT IN INFRASTRUCTURE

4) The EU and individual Member State institutions can assist in developing a more conducive environment for long-term investors in infrastructure by developing best practices for investors to treat infrastructure assets as a single asset class.

5) Working towards greater promotion and protection of cross-border capital flows, especially foreign direct investment (FDI), could mean EU and Member State policy makers promoting broader adoption of existing international standards in the EU and its Capital Markets Union.

In the post-crisis move towards fiscal restraint, the governments of EU Member States have restricted expenditure across a spectrum that includes long-term investment in infrastructure. Infrastructure in Europe, however, requires major investment if the EU's pivot towards a jobs and growth agenda is to be sustained. The need for new, private sources of finance – including a role for Public Private Partnerships (PPPs) – is evident. Consequently, the EU and individual Member State institutions can assist in developing a more conducive environment for long-term investors in infrastructure by developing best practices for investors to treat infrastructure assets as a single asset class. Creating such incentives for private capital to enter the system can go far in countering a dilemma faced by potential infrastructure investors: infrastructure investment is a long-term, illiquid investment in a regulatory environment placing emphasis on short-term, de-risked investing.

Within a transparent pipeline of EU infrastructure products to attract global investors, there should be a single asset class for infrastructure investment. EU policy makers can support the need for the transparent data implied therein. While a single asset class for infrastructure investing is required, however, the EU would do well in not producing policy-maker led product creation. Instead, emphasis could be placed on working towards greater promotion and protection of cross-border capital flows, especially foreign direct investment (FDI) in a way that means EU and Member State policy makers promote broader adoption of existing international standards in the EU and 'Capital Markets Union' as it is developed.

Mindful of global investment and international standards, EU Policymakers can promote investment and confidence in vital infrastructure projects, and develop best practices for investors to treat infrastructure assets as a single asset class.

TheCityUK

TheCityUK represents the UK-based financial and related professional services industry. We lobby on its behalf, producing evidence of its importance to the wider national economy. At home in the UK, in the EU and internationally, we seek to influence policy to drive competitiveness, creating jobs and lasting economic growth.

Banche Assicurazioni Finanza

The Italian Banking Insurance and Finance Federation (FeBAF) gathers the main Italian financial associations: ABI (Banking), ANIA (Insurance), Assogestioni (asset management), AIFI (PE and venture capital), Assofiduciaria (fiduciary and trust firms), Assoimmobiliare (real estate firms), Assoprevidenza (private pensions providers) and Assosim (securities intermediaries). The Federation fosters the role of financial industry, presenting its member associations' views on economic and social policies both in Italy and in Europe, in order to promote sustainable growth and competitiveness. www.febaf.it

THECITYUK

For further information about this analysis, please contact:

Nicky Edwards, Director of Policy and Public Affairs, TheCityUK

nicky.edwards@thecityuk.com, +44 (0)20 3696 0100

Edward Price, Policy Manager, TheCityUK

edward.price@thecityuk.com, +44 (0)20 3696 0100

TheCityUK, Salisbury House, Finsbury Circus, London EC2M 5QQ

ITALIAN BANKING, INSURANCE AND FINANCE FEDERATION, FeBAF

Paolo Garonna, Secretary General, FeBAF

p.garonna@febaf.it , +39.06 4550 7709

Franco Delneri, International and European Affairs, Senior Advisor, FeBAF

f.delneri@febaf.it , +32 2 274 22 91

Via San Nicola da Tolentino 72 - 00187 Roma

Avenue Marnix 30 - 1000 Brussels