A. Financing for innovation, start-ups and non-listed companies

Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation.

While UEF does not agree on the often stated premise that there is a lack of available capital on the European market to be found in the banking sector, spreading the sources of financing somewhat would increase resilience in the case of a crisis. UEFs suggestion in this case would be to promote the hybrid type loans, where a certain percentage of the loan is provided by the bank, typically a local branch that would know the customer due to frequent interaction, and the rest is raised through the capital market with the help of the bank. In this way some of the constraints put on smaller finance institutions, due to lacking proportionality, can be circumvented and more trust/dependability is injected into this transaction, through the seal of approval of the bank, benefitting both customer and capital market investors. The primary aim of the Commission should meanwhile, in UEFs opinion, be to tailor current capital requirements better through new proportionality rules, allowing banks to resume providing investments for their local societies. Further, particular attention should be paid to avoid the risk to foster the shadow banking system either for the reason that it is actually almost unregulated (that means less if any protection for investors) and for the reason that there is no empirical evidence that non-banking lending provides better results.

B. Making it easier for companies to enter and raise capital on public markets

Making it easier should not be to the detriment of the level of protection guaranteed to (especially retail) investors. That also means proportionality and equal opportunities for all different kinds of companies, including SMEs.

C. Investing for long term, infrastructure and sustainable investment

It is UEF’s view, that the Commission is correct in its assessment that more long-term investment is needed, both to secure a good level of infrastructure for the future and to change the way investment is viewed in general, with short-term gains being clearly favoured. While UEF does see problems in increasing the amount of Public-Private Partnership in order to secure good
infrastructure, it also recognises the limitations of some MSs national budgets preventing them from making these investments. Making sure that such investments are made with much attention paid to their environmental impact is important and that is why the Expert Group on Sustainable Finance is a good first step. However, this step must be followed up and more attention paid specifically to increasing financing in carbon neutral solutions. Further, there is widespread evidence that employee shareholders are mostly stable investors acting for the long-term, this way contributing to the solidity and stability of capital markets. Employee share ownership plans should be a major part of the solution, providing appropriate incentive legislation, needed to concretely foster them, as well as a legislative intervention to promote European convergence of national provisions, where existing. With the same long term perspective, also pension funds should be adequately incentivized.

### D. Fostering retail investment and innovation

It is UEFs opinion, that when asking retail investors to invest capital they have put aside for pensions and times of financial difficulty, it is essential that a high degree of security is afforded to them. It is hence very important that investor protection legislation is harmonised across MSs and that as much as possible is done to provide investors with useful, wholesome and easy to understand information about the investment they’re about to undertake. This includes language limitations, giving realistic estimates of risk and clarifying recourses in case of fraud. Committing to retail investment should however remain a practice limited to individuals with a certain amount of understanding of the risks involved and enough available capital to be able to overcome any potential losses. This is why bank investment should remain the primary source of investment, as banks are better equipped to assess risks and potential, while also having the capacity to absorb losses much better than most individuals can, except for the top 1%. With the same aim, the participation of retail investors should be fostered in its indirect form, that is through the action of pension funds, paying the necessary attention to guarantee individual limits and appropriate fiscal incentives.

### E. Strengthening banking capacity to support the wider economy

Since the banking sector has traditionally been the largest investor on the European market, the latest initiatives to further strengthen the ability of banks to provide available capital is seen as positive by UEF. While the STS should not repeat the mistakes that led to the crisis in 2008, the covered bonds initiative and insolvency legislation convergence are important developments. As mentioned under point A, local banks are the best judges of the potentials and limitations of customers seeking capital, but many of the smaller institutions are finding it very hard to cope with the increased capital requirements. While UEF is aware that the Commission is aware of the problem and aiming to remedy it, we just want to make sure the point is made that more proportionality is essential in the current financial regulation.

### F. Facilitating cross-border investment

As previously expressed, it is UEFs concern, that facilitating cross-border investment opens up new hazards for retail consumers and favours only larger companies. By allowing retail consumers to invest more actively across Europe a great deal of risk is also transferred onto them due to lack of information and language/culture differences. While this is somewhat remedied with the new prospectus rules the hazard will still be there. This always needs to be at the forefront when
dealing with this topic. Cross-border investment will also favour larger companies, as they will be better positioned to take advantage of the new possibilities. This will potentially create an even more difficult situation for local investment institutions that are already in a difficult situation due to the regulatory reforms of past years. Attention must thus be paid to ensuring that the diversity of the European investment market remains intact.

Retail consumer protection should indeed be top priority. This means, for many reasons, that their direct participation, in either national or, even more, cross-border investment, should be limited, while on the contrary their indirect participation should be promoted through the (in part already) available financial tools such as investment funds and above all pension funds.