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WHAT EU QUOTED COMPANIES WANT FROM FINANCIAL MARKETS AS USERS

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INTRODUCTION

The financial markets crisis and the resulting sovereign debt crisis have sparked a tsunami of regulation at EU level. While it is unfair to stigmatise large-scale financial institutions as the sole drivers and causes of the crises haunting the European and global markets, it is certainly fair to say that the main bulk of listed companies serve the real economy by providing tangible goods and services, and above all, growth – the key to overcome the crisis.

However, EU regulation, aimed at eliminating the root causes of the crisis, sometimes affects actors that are crucial to generate growth and overcome the crisis – the companies who try to refinance their operations and investments on capital markets.

So EU financial markets regulation, audit requirements for companies, corporate governance initiatives and policies should not be considered as ends in themselves, but as means to incentivise investors to access capital markets for companies which seek to grow.

Stricter capital requirements will reduce bank lending to companies, and that is why we need easier access to capital markets so companies can unfold their growth potential. Regulation must focus on serving the end users of financial markets– investors and companies alike.

KEY MESSAGES

- EuropeanIssuers believes that capital markets exist to serve the real economy – companies and investors. EU regulation should be judged as to whether the outcomes created actually help the real economy.
- The key outcomes that EU quoted companies seek from capital markets are: flexible access to capital, good risk management, transparency of ownership, effective dialogue with investors, access to market information, sound advice from corporate advisers and transparency of costs charged by intermediaries.
- EU legislation should create an environment in which companies can deliver growth in end shareholder value over the longer term; and can raise capital through public markets, grow and create jobs whilst stakeholders are informed and protected. Changes in market structures and regulation must benefit corporate users of markets as well as investors and should focus on structural incentives to do the right thing, rather than preventative regulation.
- Measurements of success should focus more on investment, rather than trading, on the effectiveness of supervision, as well as regulation, on the delivery of capital to the end users, and on the long-term rather than the immediate.

- EuropeanIssuers believe that there is a need for more flexible markets for companies at different stages of growth, for the ease of listing and de-listing, recognition of smaller companies' reliance on external advisers, and the simplification of administrative burdens to reduce advisory costs.

- The global volume of IPOs (Initial Public Offerings) is at its lowest level since the depth of the financial crisis in 2009. EuropeanIssuers thus calls for a holistic review of the incentives and disincentives for companies to list, given the reductions in bank lending.

- EuropeanIssuers supports in principle the creation of an optional regime for smaller companies. 20% of companies are listed on growth or alternative markets, which should be able to choose between national and EU regimes. They should not be subject to the same EU rules as the main markets. "Think Small First" should be applied to quoted as well as unquoted companies.

- Listing Requirements: the Transparency, Market Abuse Directives and the delegated acts of the Prospectus Directive must aim at simplification, while companies must be able to understand what is happening to their own shares in MIFID.

- The US Sarbanes Oxley Act led to an explosion of audit costs and to companies leaving the US market. EU Audit requirements must consider the nature and size of companies, especially smaller quoted companies operating in the EU, given that audit costs are already one of their major costs.

- European risk requirements are already in place under the 4th, 7th and 8th Company Law Directives, the Transparency, Market Abuse and Prospectus Directives, and in IFRS. Legislation must contain irresponsible behavior, but it must also take into account the size and nature of listed companies. Any new rules on country-by-country reporting should recognize that growth has to be the main objective.

- EuropeanIssuers endorses the best practice exchange of corporate governance codes across Europe. National legislation rather than not EU harmonisation better reflects the culture, interests, size and nature of businesses, with their different historical backgrounds and traditions such as one- or two-tier boards. Comply or explain against national codes is key.

- Shareholders and companies need to better communicate with each other. EuropeanIssuers wants greater transparency and reconciliation of securities from all intermediaries along the investment chain. Companies should have a realistic option to identify shareholders and communicate with the relevant decision-makers within the investment chain. Better communication and transparency can increase investment and thus growth.

- EuropeanIssuers seeks transparency of costs charged by intermediaries. In order for competition to be effective, companies need to understand charges for different services.

- EuropeanIssuers is concerned that a future Financial Transaction Tax may not raise the desired public revenues, but instead lead to reduced transparency and / or to costs being passed on to the end users of financial markets.

- Finally, EU Impact Assessments should include an analysis of the consequences for the quoted companies sector, as well as non-listed SMEs and financial institutions.

***EuropeanIssuers** was set up to represent the interests of publicly traded companies across Europe, which are subject to complex rules on issues such as shareholder rights, corporate governance and reporting and market regulations. We seek well functioning European financial markets which serve the interests of their users, as well as good corporate governance and responsible share ownership. More information can be found at* *www.europeanissuers.eu*