European Commission
DG Internal Market and Services
Financial Services Policy and Financial Markets
B-1049 Brussels
Belgium

The Hague, 28 April 2014

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Subject: Eumedion response to the Communication from the Commission to the European Parliament and the Council on Long-Term Financing of the European Economy (COM(2014) 168 final)

Dear Sir/Madam,

Eumedion welcomes the European Commission's Communication on long-term financing of the European economy (hereafter: Communication). Eumedion is the dedicated representative of the interests of 70 long term institutional investors – all with a long term investor horizon – and aims to promote good corporate governance and sustainability in Dutch and European listed companies. Together they have more than € 1 trillion assets under management.
Eumedion supports and appreciates the Commission's proactive approach to meet the long-term financing needs of the European economy, as evidenced by the actions and initiatives set out in the Communication. The Communication contains a number of actions that Eumedion has called for and strongly supports. We look forward to seeing more details of the more than 20 actions outlined in the Communication and to contributing to their development.

1. General position on long-term financing
In principle institutional investors are ideally placed to contribute to the long-term investment and financing required to underpin economic growth, since they offer risk-transferring and long-term

savings products and are able to invest long term. Several initiatives across the EU have been launched to promote institutional investors to move into illiquid asset classes (e.g. mortgages, infrastructure and renewable energy) that support sustainable growth. These projects could produce predictable, inflation adjusted and stable cash flows over the long term, matching long institutional investors' existing liabilities and reducing their portfolio volatility.

At the same time, it is clear that the long-term duties and liabilities of an institutional investor are not synonymous with keeping illiquid assets in an individual project for the long term. Allocation to long-term finance can be done to the extent that the defined long-term investment project is in line with the institutional investor's objectives and liabilities and within the risk constrains that it can tolerate. For projects that are illiquid by nature, the return on the investments needs to be high enough to include an illiquidity premium for the investment to be competitive with other investment projects.

2. Developing European capital markets

We fully support the Commission's conclusions that EU ***public equity markets*** must provide better opportunities for companies to finance themselves and that they are currently not attractive enough for mid cap and small cap companies. The strength of and access to EU equity markets are important determinants of economic growth in the near future. Developing deeper and more liquid stock markets should therefore be a key priority. However, we are not convinced whether setting up an IPO Task Force, which might benefit from more buy side representation, and promoting the SME growth markets concept under MiFID II is sufficient to fully achieve that goal. We believe that the Commission should also:

- stimulate to reduce information asymmetry between issuers and investors, to ensure that investors understand the investment case and asset appropriately;
- counteract that institutional investors are deterred from public equity by overly restrictive capital requirements (e.g. Solvency II) because this will only block much needed investment in European listed companies.

We also welcome the Commission's objective to further develop EU ***corporate bond markets***. There is some evidence that already indicates a shift away from bank lending, but at the moment bond markets are accessible mainly for large corporates domiciled in countries with more developed corporate bond markets. A change in corporate and regulatory culture is needed to strengthen the debt capital market so that more medium-sized companies have realistic options to replace bank loans by issuing bonds. This process of disintermediation may also free up a significant amount of capital that then can be allocated by banks to the smaller companies in need of credit.

3. Securitisation

Eumedion welcomes the Commission's efforts to promote the policy and regulatory framework for securitisation. Revitalising the securitisation market can assist banks to meet their new regulatory capital targets while offering liquid investment opportunities to investors and providing finance to the economy. Obviously, new style securitisations should be much safer and less complex compared to the securitisations sold to investors before the crisis. Originating banks should be induced to significantly mitigate information asymmetries between originating banks and improve screening and monitoring of borrowers. Supporting high quality securitisation products by standardisation and enhanced transparency across the global securitisation markets, as aimed by the European Commission, would help to improve investors' confidence in securitised instruments.

4. Corporate governance

For many years, Eumedion has been advocating the importance of good corporate governance in listed companies as a key driver for long term performance. The way in which assets are managed plays an important role in terms of aligning the incentives of institutional investors and companies on their long-term strategies and mitigating short-termism and speculation. Therefore we much welcome:

- the Commission's proposal of 9 April 2014 for a revised Shareholder Rights Directive which promotes shareholder engagement and encourages that long-term interests of institutional investors and listed companies are better aligned;
- the Commission's approach to further promote the quality of governance reporting and incentivising institutional investors to take environmental, social and governance (ESG) information into account in their investment decisions;
- the Commission's initiative for a study on fiduciary duties and sustainability.

5. Accounting standards

In the light of the Communication and the Maystadt report[1], we are slightly concerned about the creation of a potential trade-off between long term investor behaviour and the paramount continuing investors' need for accurate information in the form of corporate reporting that enables them to judge the risks and rewards of investments adequately at any moment in time, even if they intend to hold on to securities for many years. Fair value is very often a suitable measure for financial assets and provides institutional investors with the most transparent and decision-useful information.

If for specific line items the fair value is not provided, users of financial statements will need to make their own time-consuming and much more inaccurate estimate of fair value based on the non-fair

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[1] Report by Philippe Maystadt, ' Should IFRS be more European?', October 2013, http://ec.europa.eu/internal_market/accounting/docs/governance/reform/131112_report_en.pdf.

value data provided. The unintended consequence of these judgments is that this causes significant uncertainty among investors for which they will require an additional risk premium. This higher risk premium may cause a number of investors to decide not to invest at all, even though the underlying risk and reward characteristics of the investment would justify an investment. If there is short-termism, we do not believe it has been caused by the accounting treatments required or permitted by IFRS.

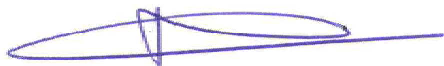
We consider that the accounting currently required and in the future by the revised IFRS 9 provides appropriate and decision useful information in the financial statements. In addition to performance statements we would welcome that listed companies disclose relevant and concise information regarding their business model, investment strategy, the nature of the investments and the long-term expected performance of the investments made. The Integrated Reporting Framework, developed by the International Integrated Reporting Committee, offers listed companies an adequate framework to do so.

6. Tax and legal environment.

We recognise the Commission's analysis that a large majority of corporate tax systems in Europe prefers financing by debt to equity by allowing deduction of interest costs, while there is no similar treatment for the costs incurred in raising equity. Giving companies tax relief on financing costs is sensible, but loading it all on to debt rather than equity is not. It creates a tax bias towards debt financing. Therefore, we welcome the Commission efforts to recommend EU Member States to more incentivise equity investment within their tax systems.

We hope that our response is of any assistance. If you would like to discuss our views in further detail or need additional clarification, please do not hesitate to contact us. Our contact person is Wouter Kuijpers (wouter.kuijpers@eumedion.nl; tel. + 31 70 2040 302).

Yours sincerely,



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