<u>Restarting European Long Term Investment Finance (RELTIF)</u>

An Assonime-CEPR research project sponsored by Emittenti Titoli

Organisation of the project

a) The project implementation will be guided by the Policy Group, whose mandate is to discuss and approve the Green Paper and the White Paper, set up the data gathering exercise and help identify the research papers to be produced under Pillar Three.

The members of the Policy Group are: Richard Baldwin, Carmine Di Noia, Alex Edmans, Dario Focarelli, Daniel Gros, Alberto Giovannini, Martin Hellwig, Mats Isaksson, Colin Mayer, Stefano Micossi, Marco Onado, Marco Pagano, Paolo Volpin, Deborah Revoltella.

b) Within the Policy group, a small group of **Authors** will prepare the drafts of the Green Paper and the White Paper. The Authors will be coordinated by Colin Mayer and include Alberto Giovannini, Stefano Micossi and Marco Onado.

The Authors will be supported by a Research Officer and a Research Assistant located at the Said Business School in Oxford and a Research Assistant located at Bocconi University in Milano.

The project will comprise three phases, or "pillars", as described below, that will be developed separately, with Pillar One (the "**Green Paper**") starting immediately, Pillar Two (the **Data Bank**) starting shortly afterwards and developing in parallel, and Pillar Three (academic research and a final "**White Paper**") taking off after completion of the first two Pillars. The entire project should be concluded in (less than) three years (i.e. at the latest in Spring 2017).

Pillar One: the Green Paper

This phase will identify the key policy issues related to the functioning of the European financial system, notably as regards its ability to finance long term investment and adequately support and incentivise long term investment. The output will be a "Green Paper" setting out questions which will form the basis of subsequent research work as well as provide a public statement about the significance and profile of the research programme.

The Green Paper will be prepared by a small group of **Authors**, discussed within the Policy Group, and then published as the first deliverable of the project. This phase will start as soon as possible and last for about 9 months.

As the work for the Green Paper gets started, two further initiatives could be undertaken in this phase: first, contract out a survey of all policy initiatives under way within EU public institutions on the issue of long term finance (a new policy communication on this is about to be issued by the European Commission); and, second, VoxEU will launch an eBook to take stock of the ongoing debate on the nature and causes of the observed drop in investment rates throughout the advanced world (the basic question being: how much owing to wrong incentives and regulatory constraints in the financial system, how much due to underlying fundamental changes in, say, demography, technology or other exogenous factors depressing saving and shortening the time horizon of investors).

Pillar Two: the Data Bank

The second pillar will build an homogeneous database on the financing of European companies, comprising national financial accounts, companies' financial statements, and data on specific market segments. The data will be made available as the basis for new academic research.

National financial accounts are very important for understanding and comparing financial systems, as shown by the recent literature (De Bonis-Pozzolo, 2012; Fano, 2011), even though with varying reliability and comparability of data.

A second set of data will come from company financial statements. There are many databases that may be tapped for this purpose (Amadeus, Bankscope, Bureau van Dijck, Datastream and Worldscope), national data collected by central bodies (Deutsche Bundesbank in Germany; Centrale des Bilans in France, Centrale dei Bilanci in Italy), and also some private source with a variety of data covering long time periods, national and European (e.g. Mediobanca).

A third set of data refers to market and institutional data on issues of securities, IPOs, specific financial instruments (crowdfunding, venture capital, private equity, credit funds etc), securitisation programmes, guaranty instruments, and all of this with particular reference to SMEs etc. The Green Paper will identify the segments for which is worth collecting comprehensive data.

The database will belong to the Sponsor which will make it publicly available, perhaps through a public organisation. As has been mentioned, once its scope is defined by the Policy Group, this phase will progress in tandem with the first. The Steering Group will assess whether it is desirable to appoint someone specifically in charge of this data gathering exercise.

Pillar Three: the research and the White Paper

The third pillar will comprise a number of original academic papers and a White Paper of policy recommendations.

The aim will be on one hand to identify the constraints dwarfing the supply of long term credit by traditional channels of finance. The initial hypothesis is that the present difficulties are structural and will continue to act as a drag on economic growth. The research will analyze how markets for long-term finance should function and the emerging divergence between the supply of and demand for long-term finance, as well as highlight the reasons why long-term instruments offer a degree of insulation from the volatility of the business cycle and minimise the potentially disruptive effects of widespread maturity mismatches (G30 2013). This chapter will also discuss the constraints deriving from a scenario of over-indebtedness of the entire economy (Buiter-Rabhari 2012) and/or specific sectors, such as banks (Admati-Hellwig 2013) or non-financial companies in Europe and specific countries (IMF, Italy FSAP, 2013 and IMF, GFSR October 2013). The main inefficiencies hampering the overall allocative efficiency of financial markets will also be examined (Boot 2011, Philippon, 2011), including the diminishing role of stock exchanges, the explanations of short-termism and other critical aspects of modern corporations (Mayer 2013).

On the other hand, separate research will concentrate on the economic and financial conditions of the non-financial companies, with specific reference to SMEs. The policy solutions should aim, on one hand, to enlarge the credit supply and develop also non-bank financing, but, on the other hand, also to strengthen their financial robustness and promote company restructuring. The possible Focus will include such issues as: the financing of SMEs (Esma 2012) and how to ease their access to bank and non-bank financing; SMEs and the stock-exchange "ecosystem"[1] (Grant Thornton 2009; Esma 2012); and further steps to develop venture capital (e.g. funds-of-funds), dedicated markets and networks (e.g. specific accounting rules, new trading platforms), new securitisation instruments (e.g. COSME programme) and "non-traditional" sources (e.g. crowd-funding).

[1]Esma 2012, p. 30: "The Grant Thornton analysis of the US market ("A wake-up call for America") demonstrates that market structure changes implemented over the last decade are causing significant, secular declines in the number of publicly listed companies in the United States. The study reveals how low-cost trade execution has destroyed the ecosystem that once supported the small business economy, undermining job creation, economic growth, and U.S. competitiveness. Since 1991, the number of U.S. exchange-listed companies is down more than 22%, and when adjusted for real (inflation-adjusted) GDP growth, that percentage balloons to a startling 53%.