The European Association of Corporate Treasurers

Response to the European Commission's consultation on CMU mid-term review

17 March 2017

The European Association of Corporate Treasurers (EACT)

The EACT is a grouping of national associations representing treasury and finance professionals in 18 countries of the European Union. We bring together about 13,000 members representing 6,500 groups/companies located in the EU. We comment to the European authorities, national governments, regulators and standard-setters on issues faced by treasury and finance professionals across Europe.

We seek to encourage professionals across treasury, corporate finance and risk management, promoting the value of treasury skills through best practice and education.

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Introduction

The EACT welcomes the opportunity to respond to this consultation.

We are naturally supportive of the Capital Markets Union initiative and support the Commission's agenda for jobs and growth. We hope that the CMU project can deliver concrete benefits to non-financial companies by creating a well-functioning single market for capital and ensure diversified funding sources.

We have already contributed in the Commission consultation on Capital Markets Union and the Call for Evidence on EU financial services legislation, and are limiting our comments in this consultation to certain specific aspects that we believe should be taken into consideration in the future and on-going work on CMU.

Responses to specific questions

Section 2- Making it easier for companies to enter and raise capital on public markets

Question: Are there additional actions that can contribute to making it easier for companies to enter and raise capital on public markets? Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation

Review of EU corporate bond markets

Our first comment relates to the on-going Commission review EU corporate bond markets. We support and understand the need to analyse more in-depth the functioning and possible problems in this market. We would however caution that any practical solution for improving the functioning of the corporate bond market should not in effect lead to worsened conditions for corporate bond issuers. This holds particularly true with regard to the push by certain market participants for further harmonisation of issuance. Whilst harmonisation may bring benefits to certain market participants, we are against any developments that would make bond issuance disconnected from issuers' underlying funding requirements, which are not susceptible to harmonisation. Such developments would go completely against the very objectives of the Capital Markets Union of diversifying companies' funding sources and facilitating capital market access and would make funding by capital markets more inflexible, possibly deterring issuance.

In general the current situation with market liquidity is not a major source of concern for corporates. Typically corporates have not experienced liquidity issues in the primary issuance market. There are mixed views as to whether secondary market liquidity has in fact deteriorated but even if secondary market activity is thin at times, this has generally not impacted corporates' ability to understand pricing dynamics and issue in size if necessary. We would note that secondary market is partly less liquid by design due to buy-and-hold investors, which are favoured by many corporates.

We would support standardisation of documentation but we strongly oppose standardisation of issuance conditions, sizes, maturity dates or similar. Harmonisation would dramatically reduce corporates' flexibility to fund when required in line with their business needs and cash flow cycles. Issuance window opportunities are already limited due various factors ("closed periods" before results announcements, market "holidays" (e.g. August in Europe), availability of internal resource, time taken to prepare issues etc.) and cannot be further limited. Standardizing issuance timing or size could prove very counterproductive by creating liquidity problems for issuing corporates and by impacting pricing competitiveness. Underlying business flows can take place on any day of the year and are variable in volume, therefore standardising will impair companies' ability to match bond issuance with their funding needs.

Moreover, standardisation might in effect lead to worsened liquidity and saturation of the

market if issuers are forced to issue on same dates.

Impact of mandatory clearing and margining requirements on non-financial corporates

A second topic we would like to raise is the impact of clearing and margining requirements for OTC derivative transactions on non-financial counterparties (NFCs). Currently NFCs that do not exceed defined thresholds for their non-hedging transaction benefit from an exemption for such requirements. We would like to reiterate that it is vital to maintain this exemption with the forthcoming EMIR review, as otherwise EU corporates would have to post hudreds of billions of euros as collateral, therefore considerably reducing funds available for investment and growth.

Furthermore, the current EMIR framework should be amended with regard to non-financial counterparties above the defined clearing thresholds that are subject to clearing and margining requirements (NFC+s). EMIR puts an obligation on non-financial counterparties exceeding the clearing threshold in one asset class to centrally clear or exchange bilateral margin for all transactions in all asset classes, including hedging transactions. In our view the current design is illogical and counterproductive from a broader economic perspective as it effectively withdraws liquidity from companies for transactions that are not risky to the financial system. The balance sheets of NFC+s are likely to be significantly impacted by EMIR margining requirements. Imposing variation margin on hedging transactions below the clearing thresholds will expose NFC+s to daily volatility up to the settlement date of the underlying commercial transaction and will entail higher levels of working capital. This will divert financial resources that could otherwise be invested in the real economy.

Therefore NFC+s should have an obligation to centrally clear or exchange margin only their non-hedging transactions for the asset class above the clearing threshold but should benefit from the same exceptions as NFC-s for their hedging transactions. The clearing thresholds should also be kept at current levels and not lowered.

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