CAPITAL MARKETS UNION

OPINION OF THE WARSAW STOCK EXCHANGE ON THE CAPITAL MARKETS UNION PROJECT
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EXECUTIVE SUMMARY

- The goal of the Capital Markets Union (CMU) is to facilitate the flow and transfer of capital to companies in the 28 member states of the European Union (EU). Another goal of the CMU is to attract investment from the rest of the world. The means to achieve the CMU goals include increasing the share of financing through the capital markets as compared to bank financing.

- In the last 10 years (2005-2014), Poland’s economy was growing at a CAGR of 3.9%, and grew by 46% in aggregate. The EU’s GDP grew by 9.3% in that period. During the financial crisis, Poland was the only EU member state to report positive GDP growth, mainly thanks to its sector of small and medium-sized enterprises (SME).

- The Capital Markets Union focuses on SMEs. SMEs are the driver of Poland’s growth and created Poland’s economic advantage during the last crisis. Note the difference in the size of SMEs in Poland and in Western Europe. The average capitalisation of companies listed on GPW is ca. EUR 171 million, compared to capitalisation of companies listed on Western exchanges at more than EUR 1.5 billion. From the perspective of the CMU, the vast majority of Polish companies should be classified as SMEs in view of the capitalisation of Western European companies.

- Warsaw Stock Exchange (GPW) is the largest exchange in Central and Eastern Europe (CEE) by capitalisation and turnover, but it is small compared to the EU’s entire capital market. GPW represents 1.7% of the capitalisation and 0.8% of the turnover on EU exchanges.

- In the opinion of GPW, the first steps of the Capital Markets Union project should focus on the following initiatives:
  - making the capital market more attractive as a platform of raising and investing capital;
  - improving the transparency and safety of trade in financial instruments;
  - encouraging mid-term and long-term saving and mid-term and long-term investing;
  - elimination of barriers to capital market access, especially for SMEs;
  - ensuring scalability of solutions combined with their uniform implementation on the national level.

- The local specificity and size of the markets should be taken into account when drafting new regulations and improvements. Risks to the Polish capital market and domestic companies include creation of conditions that would support only further growth of large European exchanges.
GOALS OF THE CAPITAL MARKETS UNION

Warsaw Stock Exchange (GPW) is attentively following the debate initiated on European level concerning the concept of a single capital market known as the Capital Market Union (CMU), whose main goals were presented in the European Commission’s Green Paper – Building a Capital Markets Union published on 18 February 2015.

Until 2019, the European Commission plans to lay the foundation of a Capital Markets Union of the 28 member states.

The Commission intends to implement solutions which:

- unlock direct flows of capital from investors to companies, especially small and medium-sized enterprises (SME);
- attract investment into the European Union from the rest of the world;
- make the financial system more stable by opening up a wider range of funding sources;
- improve the effectiveness of the capital markets, thus reducing the cost of financing.

The following examples taken from the CMU paper illustrate the potential benefits:

"Compared with the USA, medium-sized companies, the engines of growth in many countries, receive five times more funding from capital markets than they do in the EU."

"If our 'high-risk' capital markets were as deep as in the USA, as much as €90 billion of funds would have been available to finance companies between 2008 and 2013."

"If SME securitisations could return – safely – even to half the levels they were in 2007 compared with today, this could be equivalent to some €20bn of additional funding."

AN INVESTMENT PLAN FOR EUROPE

On 1 November 2014, Jean-Claude Juncker was confirmed as President of the European Commission. He defined his mission as follows:

"My first priority as Commission President will be to strengthen Europe’s competitiveness and to stimulate investment for the purpose of job creation."

Juncker’s strategy includes improvement of the conditions of financing of the EU economy through further growth and integration of the capital markets. These objectives were detailed in An Investment Plan for Europe published on 26 November 2014. According to the Plan, the European economy should mobilise more than EUR 300 billion of additional financing in three years. The bold investment plan is to be accompanied by improved conditions for entrepreneurship.

The priorities include “simpler, better and more predictable regulation at all levels”. The idea of a Capital Markets Union is mentioned in the context of the Investment Plan; its role in the implementation of the Plan is defined as follows:

"Compared with the USA, medium-sized companies, the engines of growth in many countries, receive five times more funding from capital markets than they do in the EU."

"If our 'high-risk' capital markets were as deep as in the USA, as much as €90 billion of funds would have been available to finance companies between 2008 and 2013."

"If SME securitisations could return – safely – even to half the levels they were in 2007 compared with today, this could be equivalent to some €20bn of additional funding."

"My first priority as Commission President will be to strengthen Europe’s competitiveness and to stimulate investment for the purpose of job creation."

"Compared with the USA, medium-sized companies, the engines of growth in many countries, receive five times more funding from capital markets than they do in the EU."

"If our 'high-risk' capital markets were as deep as in the USA, as much as €90 billion of funds would have been available to finance companies between 2008 and 2013."

"If SME securitisations could return – safely – even to half the levels they were in 2007 compared with today, this could be equivalent to some €20bn of additional funding."

"My first priority as Commission President will be to strengthen Europe’s competitiveness and to stimulate investment for the purpose of job creation."
GPW POSITION ON THE CAPITAL MARKETS UNION PROJECT

"Investment remains heavily reliant on bank intermediation; long term finance for infrastructure remains constrained. Many SMEs still have limited access to finance and the free movement of capital across the EU remains a work in progress."

"Over time, the creation of a Capital Markets Union (CMU) will reduce fragmentation in the EU's financial markets. This will also help bring about a more diverse supply of finance to SMEs and long-term projects by complementing bank financing with deeper, more developed capital markets. A genuine single capital market will help to reduce the cost of funding for the rest of the economy. The Capital Markets Union is therefore an important medium to long-term component of this Plan."

POLAND’S ECONOMIC GROWTH

In the last 10 years (2005-2014), Poland’s economy grew at a CAGR of 3.9%, the highest growth rate of the 28 EU member states. Poland’s GDP grew by 46% in aggregate over that period. Slovakia was the second fastest-growing economy: its cumulative GDP growth was 44.7%. Other countries grew at a rate that was at least 25% lower. The EU’s GDP grew by only 9.3% in that period, which was still good compared to the countries most harshly affected by the crisis, including Portugal (-1.8%), Italy (-4.8%) and mainly Greece (-18%).

Figure 2. 10-year cumulative GDP growth in the EU, Norway, Switzerland and Iceland

The distinctive feature of Poland against Europe was its positive GDP growth during the financial crisis which peaked in 2009, when the EU economy contracted by 4.4% and the US economy by 2.8%. Poland’s GDP grew by 2.6% that year, the only positive growth rate in the EU. What spared Poland the effect of the crisis was its strong internal market and well-developed corporate sector, especially SMEs which are more agile in adjusting to changing conditions in the business environment.

GPW’S MISSION

The idea of a Capital Markets Union and its goals are consistent with the fundamental principles followed by GPW since inception and the objectives it pursues.

The mission of the Exchange is to develop effective capital and commodity flow mechanisms by offering trading and clearing services of competitive quality and price which address the needs and expectations of clients: companies, investors and intermediaries.

GPW supports economic growth, builds a culture of investing and creates conditions for the development of an international capital hub.

Figure 1. GPW’s mission

As an institution of public trust, the Exchange follows the highest standards in its operations and ensures safety of trading using world-class technology.
IMPORTANCE OF THE CAPITAL MARKET TO THE ECONOMY

An efficient capital market is one of the main pillars of the economy as it allows companies to diversify the sources of financing and investors to allocate and invest capital in diverse ways. In addition, corporate funding through the capital market makes companies more transparent, fosters corporate standards among them and builds repositories of analytical expertise about sectors of the economy.

A comparative analysis of countries’ per capita GDP and size of the capital market suggests that a well-developed capital market supports economic and general welfare growth.

According to the analysis, Poland’s capital market is more advanced (it has a higher ratio of capitalisation of shares to GDP) than the peer countries with a similar GDP per capita. Nevertheless, Poland still lags behind the most developed economies in Europe and the world.

Figure 3. GDP per capita v. size of the capital market

Source: GDP - Eurostat (for USA, Russia, Turkey: World Bank), capitalisation of shares – FESE and exchanges (2014.12)

FINANCIAL ASSETS AND ALLOCATION OF SAVINGS

According to the National Bank of Poland (NBP), Poland’s financial assets stood at PLN 8 trillion at the end of Q2 2014, which is more than 4.5 times the GDP. The biggest investor groups are foreign investors and Polish financial institutions: they jointly hold ca. PLN 1.8 trillion of assets. The third largest investor group are households, whose assets are close to PLN 1.6 trillion, followed by non-financial companies, government institutions, investment funds, pension funds, and insurers.

Figure 4. Financial assets in Poland (PLN bn)

Source: NBP, Q2 2014

Investors of all these categories look for appropriate assets that are effective in terms of expected returns and risks.

The primary source of assets in the financial markets are households’ savings invested in financial assets either directly or through intermediaries (banks, funds, insurers, etc.). Consequently, the Capital Markets Union attaches great importance to ensuring efficient investment options for households’ savings.
The assets of Polish households include banks deposits and cash (44%), investment fund shares (6%), and shares traded on GPW (only 3%). Other assets are illiquid assets, mainly shares of unlisted companies, limited liability companies and pension funds’ participation units, as well as insurance policies.

**Figure 5. Households’ financial assets**

<table>
<thead>
<tr>
<th>2014 3Q</th>
<th>PLN bln</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank deposits</td>
<td>579</td>
<td>37%</td>
</tr>
<tr>
<td>Cash</td>
<td>117</td>
<td>7%</td>
</tr>
<tr>
<td>Non-listed shares (private stock and limited liability companies)</td>
<td>294</td>
<td>19%</td>
</tr>
<tr>
<td>Listed shares</td>
<td>45</td>
<td>3%</td>
</tr>
<tr>
<td>Investment funds</td>
<td>91</td>
<td>6%</td>
</tr>
<tr>
<td>Pension funds</td>
<td>185</td>
<td>11%</td>
</tr>
<tr>
<td>Insurance entitlements</td>
<td>103</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>187</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>1,582</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: NBP

The direction set in the Capital Markets Union is to unlock some assets invested in bank deposits and channel them through the capital markets to companies. As a result, savers could earn higher returns while companies would have access to less expensive capital. The potential in Poland is significant, considering that bank deposits represent 37 percent of households’ savings while listed equities only 3 percent.

**FINANCING THE ECONOMY**

Companies in the European Union are financed using bank funding (60%) rather than other sources including the capital markets (only 40%). The proportions in the USA are markedly different: companies are mainly financed with non-bank funding (80%) compared to bank loans (only 20%).

Banks are and will remain an important part of financing the European economy. The objective of the European Commission, however, is to reduce the dependency of companies on banks and to increase the availability of non-banking sources of funding.

**STRUCTURE OF POLAND’S CAPITAL MARKET**

The capitalisation of listed equities in Europe is lower than the capitalisation of issued bonds (both exchange-listed and others).

In Poland, the capitalisation of shares listed on GPW is currently higher than the value of corporate debt (both exchange-listed and other).

The total value of equities and bonds in relation to Poland’s GDP is more than 50%, which is one of the lowest indicators in Europe. This is due to the relatively low capitalisation of shares but mostly due to the historical underdevelopment of Poland’s market of corporate and bank bonds.

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1 Source: European Investment Fund: *Institutional non-bank lending and the role of Debt Funds*
Figure 6. Value of equities and bonds to GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Capitalisation/GDP</th>
<th>Bonds / GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>518%</td>
<td>334%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>310%</td>
<td>264%</td>
</tr>
<tr>
<td>Denmark</td>
<td>247%</td>
<td>177%</td>
</tr>
<tr>
<td>United States</td>
<td>158%</td>
<td>156%</td>
</tr>
<tr>
<td>Sweden</td>
<td>137%</td>
<td>120%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>112%</td>
<td>108%</td>
</tr>
<tr>
<td>France</td>
<td>108%</td>
<td>103%</td>
</tr>
<tr>
<td>Spain</td>
<td>100%</td>
<td>96%</td>
</tr>
<tr>
<td>Poland</td>
<td>80%</td>
<td>60%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>47%</td>
<td>41%</td>
</tr>
<tr>
<td>Hungary</td>
<td>41%</td>
<td>37%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>26%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: GDP - Eurostat, capitalisation of shares - FESE and exchanges (2014.12), value of bonds - BIS (2014.06)

However, the picture is changing very dynamically with the strong growth of the Catalyst bond market. In the long term, the value of the corporate debt market could exceed the capitalisation of the equity market.

Figure 7. Capitalisation of shares and value of bonds traded on markets organised by GPW

The EU’s biggest market is the United Kingdom with a capitalisation of listed companies at more than US$ 3 trillion (Poland: USD 178 billion) and annual turnover at nearly USD 2.5 trillion (Poland: USD 67 billion; 2012 figures).

Poland represents 1.7% of the capitalisation and 0.8% of the turnover in shares of all 28 European Union markets.

Figure 8. Capitalisation of listed domestic companies in EU member states (USD bn; 2012)

In the European Union, Poland’s capital market ranks 10th by the capitalisation of listed companies and 11th by the value of trading in shares.

POSITION OF POLAND’S CAPITAL MARKET IN THE EU

In the European Union, Poland’s capital market ranks 10th by the capitalisation of...
Figure 9. Turnover in shares of domestic companies in EU member states (USD bn; 2012)

Source: World Bank

**STRUCTURE OF THE EQUITY MARKET**

The equity markets operated by the Warsaw Stock Exchange (the regulated market and the alternative market) currently list almost 900 domestic companies whose total capitalisation is close to PLN 650 billion.

In Europe, GPW is the largest market in CEE but it is much smaller than Europe’s most developed markets: London, Berlin or Paris. The average market value of companies listed on GPW (regulated and alternative market) is ca. EUR 171 million, compared to EUR 3,363 million for the Euronext Group, EUR 2,850 million for Deutsche Boerse, and EUR 1,532 million for NASDAQ. The capitalisation of ca. 84% of companies listed on GPW is less than EUR 100 million each, and the capitalisation of 96% of companies is less than EUR 1 billion each, which is often defined as the SME threshold. These facts should be taken into account when drafting regulations dedicated to the SME sector. In Poland, nearly all companies whose shares are traded on the regulated market could be classified as SMEs under the European criteria.

Figure 10. Structure of capitalisation of companies listed on the GPW markets

Source: GPW

**STRUCTURE OF THE BOND MARKET**

The Polish exchange-operated market of debt instruments currently lists 523 series of bonds and mortgage bonds issued by 197 issuers.

The total value of listed debt instruments is more than PLN 560 billion; however, the majority are bonds issued by the State Treasury. The value of corporate bonds stands at over PLN 60 billion, municipal bonds - PLN 3.2 billion, and co-operative bonds ca. - 0.7 billion. More than 60% of listed series of non-Treasury bonds are corporate bonds.
and help to boost investment without increasing debt.

According to a Polish Agency for Enterprise Development (PARP) report, companies in Poland generate nearly three-fourths of GDP, of which small and medium-sized enterprises (SMEs) account for almost one half (48.5%).

Poland had 1.79 million active enterprises in 2012, of which 99.8% are micro, small and medium-sized enterprises. Under the Eurostat methodology, Poland has more than 1.5 million companies and ranks sixth in the EU by their number. Compared to other EU member states, Poland has a high share of micro-companies; however, the share of small enterprises is 50% of the EU average. Since 2008, however, the structure of Polish companies has been approaching the EU structure: the share of micro-companies has been falling while the share of the other categories of companies has risen.

According to GUS, the number of employees of enterprises in Poland was 8.9 million in 2012, including 6.3 million (70.1%) employed by SMEs. According to Eurostat, the share of SME employees in total employment in Polish enterprises was moderately above the EU average (69% vs. 67.2%, respectively).

**IMPORNTANCE OF THE ATS**

Small and medium-sized enterprises are the focus of attention for the European Commission, as demonstrated by the goals set for the Capital Markets Union. According to the Commission, reduced cost and diversified sources of capital raised by SMEs will make European economies more resilient.
In this context, Warsaw Stock Exchange fully agrees with the Commission’s view and notes that GPW has for many years successfully pursued the goal of supporting SMEs through exchange listings. GPW has established NewConnect, the equity market dedicated to SMEs. Furthermore, GPW introduces to public trading smaller issues of corporate bonds on Catalyst.

NewConnect opened in 2007 as an Alternative Trading System - a platform dedicated to smaller companies.

NewConnect now lists ca. 430 companies, including 11 foreign companies. The market capitalisation is close to PLN 10 billion. As a measure of success in its eight years in operation, 37 companies have transferred to the GPW Main Market from NewConnect, which now ranks second among all European platforms dedicated to SMEs by the number of listings.

CHALLENGES OF POLAND’S CAPITAL MARKET

The capital markets are facing a very competitive and dynamically changing business environment. The position of the Polish market is very specific in that, while being the largest market in Central and Eastern Europe, it is much smaller than the markets of the well-developed Western European economies.

The key challenges facing the Polish capital market include:

- attracting new investors and issuers;
- offering incentives for long-term saving to individual investors;
- supporting transparent trade in electricity, gas and other commodities on the Polish Power Exchange;
- offering incentives to issuers to go public and remain listed;

Figure 13. Contribution to GDP of groups of enterprises by number of employees in Poland (2012)

Source: Report on the condition of small and medium-sized enterprise sector in Poland in 2012-2013, PARP 2014

Figure 14. Number of listings on markets dedicated to SMEs (2014)

Source: FESE, PwC IPO Watch Europe, LSE Group
GPW POSITION ON THE CAPITAL MARKETS UNION PROJECT

- harmonising national regulations with the standards of more advanced financial markets:
  - pro-market implementation of EU legislation taking into account the interests of domestic market participants;
  - curbing regulatory arbitrage, including liberalisation of outsourcing rules;
  - enabling banks a direct market access (single banking licence);
  - liberalisation of the investment policy of pension funds, allowing for investment in derivatives and securities lending;
  - modification of the financing model of market supervision;
  - integrated market development strategy.

The Capital Markets Union will bring value to Polish participants if it supports the development of the Polish capital market.

RISKS OF THE CAPITAL MARKETS UNION

GPW sees the potential of the Capital Markets Union for the Polish economy. It stems in particular from the elimination of barriers to the capital market and from the implementation of advantageous legislative solutions. GPW also acknowledges some risks. They could materialise in the absence of precisely defined means of pursuing the CMU goals aligned with the actual needs of the Polish market.

In the opinion of GPW, the creation of a competitive internal market requires not only the elimination of barriers and obstacles in capital market access but also, first and foremost, new incentives for stable and sustainable market development.

Under the existing conditions, the European capital markets need stimuli which incentivise different groups of issuers and investors to participate in the markets, more than harmonisation and further legislative initiatives. Therefore, the European Commission and the member states should focus on providing such stimuli. Hence, the key elements of the Capital Markets Union should include a system of incentives and improvements (including regulatory ones) that would make the capital market more attractive and thus provide market participants with genuine benefits, such as reduced operating costs and less onerous conditions of market access.

It is important that these goals are not pursued on a one-size-fits-all basis; the approach should take into account such factors as the structure and the different stage of development of the national markets. Large markets are better fit for large companies while SMEs need strong local markets where they can reach a large pool of investors. It is also important to ensure that the Capital Markets Union equitably serves stakeholders in all 28 member states. Some markets should not grow at the expense of undermining the position and importance of others. This is particularly relevant to maintaining the local specificity of less developed markets. If they are affected by steps taken by advanced markets, SMEs’ access to capital may suffer because investors will flock to more developed markets.

Here a special role should be played by the European Commission. The Commission should initiate measures that make the capital markets more attractive and
implement specific regulatory solutions that promote raising of capital on the capital markets. The Commission should be the leading promoter of mid-term and long-term investing and saving using capital market mechanisms.

INITIATIVES PRESENTED IN THE GREEN PAPER THAT MERIT PARTICULAR ENDORSEMENT

The initiatives presented in the Green Paper are general and wide-ranging; among them the following initiatives merit particular endorsement:

- revision of the Prospectus Directive to reduce the administrative burden, especially for SMEs, and help them comply with the registration requirements;
- development of more transparent and simplified rules of securitisation to create a deeper and more liquid secondary securitisation market dedicated to a larger pool of investors;
- development of standardised credit information on SMEs;
- reducing the cost of access to the EU capital markets, including fixed costs, incurred by issuers of financial instruments.

RECOMMENDED NEXT STEPS

It is also important that work on the CMU project follows these rules:

- In the first place, current legislative initiatives at European and national level should be carefully reviewed to ensure consistency with the concept of the Capital Markets Union and make sure that the practical implementation of the project is not undermined by contradictory legislative solutions. In the opinion of GPW, work on the implementation of the Financial Transaction Tax is a good example.
- It is also important that work on the Capital Markets Union draws upon existing solutions available in the market, which may help to accelerate the change. Five reports on the capital market and long-term financing have been published in Europe in the last two years (2013-2014). The reports provide 99 ready-to-use solutions.
- The existing European legislation should be reviewed and adjusted, where necessary, to limit new regulations to the absolute minimum. The scope of legislation should be reduced wherever possible without prejudice to the market.
- It is equally important that potential new requirements imposed on the financial sector draw upon existing solutions or recently enacted regulations in order to avoid additional costs.

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PRIORITY PROJECTS

The Capital Markets Union outlined in the Green Paper is accompanied by a broad range of initiatives of different kinds and time horizons. GPW endorses the implementation of many such initiatives; however, we propose that work on the CMU, at least in the first step, should focus on priorities, i.e., projects which may be implemented in the near future to attain the goals of facilitating the market operation of investors, issuers and market infrastructure institutions (exchanges, clearing houses, depositories, brokers, advisers).

Consequently, in the opinion of GPW, the projects to be undertaken in the first step should include mainly projects that promote:

- a more attractive capital market as a platform of raising and investing capital;
- improved transparency and safety of trade in financial instruments;
- implementation of solutions encouraging mid-term and long-term saving and mid-term and long-term investing;
- elimination of barriers to capital market access, especially for SMEs;
- uniform implementation and application of EU legislation in the member states.

It is important that the national debate on the future of the Capital Markets Union takes into consideration further dynamic growth of the Polish capital market. It is also important to ensure that the structure of the Capital Markets Union takes into account the interests of the Polish market at large as well as the interests of all its participants. Many local capital markets within the EU are smaller than the biggest European financial hubs in terms of capitalisation, the value of trading, the size of issuers and investment firms, the structure of investors, etc. However, such markets must not be discriminated against and their interests should be treated on an equal footing in any initiatives.

Furthermore, in order to support the development of the capital market, the agenda of Capital Markets Union initiatives should cover derivative instruments. Derivatives play a key role in the capital market value chain as they help to hedge investment risks.

In view of expectations created by the debate on the Capital Markets Union, it also seems important that every member state should designate a national central body responsible for the implementation of the project. In the opinion of GPW, it is imperative that such a body is established within the public administration because adequate co-ordination of initiatives of all member states could help to ensure comprehensive and systemically coherent solutions in the long term.

PRIORITY PROJECTS – INITIATIVES

The priority project should include the following initiatives:

1. Making the capital market more attractive as a platform of raising and investing capital:

   - Simplification of the rules of issuers’ access to and operation on the capital market, resulting in reduced costs and other related burdens (e.g., single reporting to different authorities,
enhanced standardisation of public documents such as the prospectus).

- Elimination of unequal taxation on investment in equity and debt instruments across EU markets.

- Improvement of corporate governance principles and raising the awareness of corporate managers on financing opportunities through issuance of shares and bonds on the capital market.

- Enabling banks a full and direct access to the regulated market in all member states. Banks are and will remain the main liquidity provider in the market. Giving them direct market access will help to facilitate dynamic growth of the non-Treasury bond market (improved liquidity and narrow spreads, resulting in less expensive and more competitive financing offered to investors).

2. Improved transparency and safety of trade in financial instruments, supporting investor confidence in the market:

- Promoting trade in financial instruments on organised trading platforms which are subject to strict requirements of pre-trade and post-trade transparency (resulting among others in adequate valuation of financial instruments) and the requirement of trade clearing in a CCP (which mitigates systemic risk).

In this context, it is important that as many financial market institutions as possible are subject to independent supervision so that they do not enjoy preferential treatment in view of relaxed or non-existent regulatory requirements at the expense of other institutions which are subject to that supervision. A level playing field should be fully ensured so that providers of similar services in the financial sector are subject to the same service provision requirements.

- Initiatives improving pre-trade and post-trade transparency of OTC transactions and reinforced supervision of OTC market (in particular, forex and CFD platforms which serve large numbers of retail clients but do not clear trade through a central counterparty, i.e. CCP, which results in trade being non-transparent and potentially generates significant clearing risks) as well as dark pools in order to improve the safety of trade and eliminate market manipulation and insider trading. In the absence of effective sanctions for such behaviour, investor confidence in the capital market is seriously impaired.

- Uniform standards of national capital market supervisory authorities’ operation.

Currently the supervisory authorities of different member states use different legal and organisational models and follow very different rules of procedure.

The following factors discourage from the capital market: excessively strict regulations and procedures; complex and rigid procedures (e.g., not available to carry out in languages other than the official language of the country); prolonged proceedings.

- Reinforced supervision of issuers whose securities are not traded in the home country.
The supervisory authorities in some member states are excessively liberal in approving public information documents and lack in quality of supervision over the compliance of issuers of securities with the reporting requirements. Such attitudes of some home supervisory authorities in the absence of genuine cooperation among supervisory authorities erodes investor confidence in the market.

- Harmonisation of securities regulations governing investor rights, including rights of shareholders, to improve confidence in the capital markets and facilitate risk assessment and enforcement of claims in the event of corporate fraud, bankruptcy, delisting, etc.

- More extensive promotion of professional and ethical standards and their implementation in the capital market.

- Promotion of best practice of corporate governance in companies to protect minority shareholders.

3. Implementation of solutions encouraging long-term saving and investing:

- Incentives for private pension savings through quasi-mandatory requirements and support of the state (tax reliefs or subsidies) to popularise this form of saving.

- Revision of EU and national legislation on investment policies including investment limits and categories allowed for different groups of institutional investors (pension funds, investment funds, insurers) and measures to eliminate identified obstacles.

- European harmonisation of rules governing investing allowed for funds, including pension funds.

- Effective forms of educating the general public in investment instruments and promotion of long-term saving.

4. Elimination of barriers to capital market access, especially for SMEs:

- Revision of the Prospectus Directive to reduce the administrative burden, especially for SMEs, and help them comply with the registration requirements;

- Simplified financial reporting standards for SMEs.

- Standardised credit information on SMEs.

5. Uniform implementation and application of EU legislation in the member states:

The implementation and application of EU legislation was discussed by the European Commission in An Investment Plan for Europe of 26 November 2014, where the Commission advocates for simpler, better and more predictable regulation as one of the three components of the Plan.

According to the Commission, "Member States are also responsible for the timely and full application of EU law. They need to ensure that transposition measures are as simple, clear and light as possible, avoiding creating additional burdens or so-called 'gold-plating' when transposing EU law into national law."

Furthermore, "[r]egulation should remove obstacles to growth, allow new opportunities to flourish, minimise costs and guarantee social and environmental sustainability."
In this context, it seems necessary to change the approach to the implementation of EU legislation in Poland’s legal system. In the opinion of GPW, it is key that market participants and the public administration take joint initiative to eliminate the obstacles faced by the national market due to different implementation or application of European regulations. It also seems necessary to intensify these efforts in order to ensure that all identified barriers and limitations are removed at the latest during the implementation of MiFID II / MiFIR and MAD/MAR in the national legal system.
GPW POSITION ON THE CAPITAL MARKETS UNION PROJECT

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