DET KONGELIGE
FINANSDEPARTEMENT

The European Commission
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On the public consultation on Capital Markets Union from the Norwegian Ministry of Finance

Reference is made to the Green Paper on Building a Capital Markets Union (CMU Green Paper) dated 18 February 2015. The Norwegian Ministry of Finance supports the initiative of the Commission to create a more integrated capital market across European countries, with an aim of widening the investor base and lowering the boundaries for SME-access to direct market funding.

Furthermore, we support a review of the prospectus regime in order to reduce the burden laid on issuers, while focusing on the key elements necessary for efficient investor protection. We also support the initiative of the Commission regarding the framework to build simple, transparent and standardized securitization. In this regard we welcome the work done by the Basel Committee on Banking Supervision (BCBS) which has proposed to revise the securitization framework to make it more prudent and risk sensitive, in particular for higher-rated securitization tranches. In our view it is important to review the EU rules on the capital treatment of securitizations in order to better reflect the risks attached to these instruments as revealed by the financial crisis.

An aim of a CMU will be to encourage direct investment into smaller businesses. In order to achieve this, it is essential that the regulatory burden on SMEs seeking to raise capital from investors is modest and proportional to the gains from regulation. It should be taken into account that SMEs, in particular in smaller countries such as Norway, often are too small or immature for cross border market funding. Increased European standardization, for example of credit information, accounting standards, documentation etc., should be sufficiently flexible/non-mandatory and open for less

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comprehensive national regulation, particularly for SMEs. Strict EU-harmonized rules could easily jeopardize regional markets in which many SMEs are already seeking to raise capital, and rules should not be introduced that may counterproductively limit the current use of bond markets for SME financing.

Furthermore, we consider a low threshold for SMEs to public markets as crucial to support deeper market and start-up finance with a wider investor base, and we are of the opinion that the framework for SMEs raising capital in public markets, eg. MTF/SME Growth Markets etc., should be improved, hereunder with more cost-efficient documentation processes. It is important that any changes to the EU regulations assist in reducing the cost for utilizing the public markets, and take into consideration that fundraising that is not cross-border or does not direct itself towards retail markets may entail fewer associated administrative costs. The complexity and administrative burdens in connection with listing SMEs on an MTF and/or SME Growth market should not increase.

A CMU should increase cross border transactions and flow of capital. It is then important to emphasize the work on market transparency, not only as a measure to increase liquidity and efficiency of the marked and surveillance of market practice rules, but also taking into account the need for efficient taxation, shareholder engagement etc. We would also encourage work on common European rules ensuring increased transparency of ownership of shares and bonds, and cooperation with other jurisdictions to ensure efficient transparency and reporting possibilities when the chain of nominees/ownership reaches beyond the borders of the Union. This should include an issuer's right to know its creditors, which can be crucial to ensure that bond financing is competitive also in a restructuring or refinancing situation.

Furthermore, we specifically wish to comment on the following questions in the commissions green paper:

Q6: Should measures be taken to promote greater liquidity in corporate bond markets, such as standardization? If so, which measures are needed and can these be achieved by the market, or is regulatory actions required?

Norway has a well-functioning and efficient bond market. The flexibility in the Norwegian bond marked related to the issuing and listing process is regarded favorable by issuers. The covered bond market in Norway has over the past eight years outgrown the government bond market. The Norwegian market for high yield bonds is an international active market that provides low cost funding to both Norwegian and international small and medium size issuers, in competition with traditional bank funding and market funding in traditional financial markets.

More than 50 pct. of the Norwegian corporate bond market consists of high yield bonds. It has become a successful source of funding for small and medium size

Norwegian, Nordic and international companies. The Norwegian high yield bond marked consists of close to 60 pct. of the total outstanding volume of corporate bonds. An increasing number of issuers in this marked are international issuers, and non-Nordic issuers amount to more than 50 pct. of the total number of issuers. The international share of investors is very high. Over half of the Nordic high yield bonds are issued in Norway. However, there are now tendencies for a more integrated Nordic market in the near future.

The Norwegian corporate bond market is characterized by efficient market structure with low cost, flexible, standardized and *simple* (non-comprehensive key element based documentation) process for issuing and listings, transparency in the secondary market and professional infrastructure providers that support investor needs. This has included an efficient trustee function, and developing digital bond trading platforms. The Norwegian bond market has furthermore proved to be flexible under the distressed situation that has evolved due to the financial crises, and has hereunder proven to have good systems for efficient handling of distressed bonds, which have been successfully restructured. These features result in a competitive advantage which is important to maintain within the scope of a European capital market union.

A common regulatory framework for issuance of corporate bonds should aim towards improving access to capital markets for small and medium size companies. The growth of the Norwegian high yield marked may however to a large degree be explained by the absence of common and harmonized legal norms for the issuance of high yield bonds. A common regulatory framework should be sufficiently flexible and thus conducive to further emergence of competing European domestic or regional markets as suitable alternatives to the Eurobond market.

The Ministry of Finance is however of the opinion that increased transparency in the bond market can lead to more liquidity in the secondary market. Hence, transparency, as introduced by the EU via MiFID II, is one step towards a more transparent bond market.

Best regards

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