LMA Loan Market Association

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To whom it may concern,

I am writing on behalf of the Loan Market Association (**LMA**), which represents members in the primary and secondary loan markets in Europe, the Middle East and Africa (**EMEA**). Our membership reflects a broad and expanding range of participants in international capital markets, including institutional investors, private and public sector issuers, banks, non-banks, technology solution providers, and market infrastructure entities across EMEA and beyond.[1]

We welcome the European Commission's targeted consultation on the integration of the EU's capital markets, as well as its call for evidence, which aims to address the persistent fragmentation of capital markets and boost the competitiveness of the EU economy, as part of the broader Savings and Investments Union (**SIU**) strategy.

The LMA is a strong supporter of the Commission's upcoming initiatives, notably with a view to improving cross-border provision of capital and reducing operational barriers facing asset managers, and in reviewing the securitisation framework. We believe that these initiatives will be key to improving the single market's global competitiveness, in line with measures that are expected to further incentivise alignment in channelling pension fund savings into the real economy and in the fiscal treat of financial market participants across the EU.

The LMA's core objectives of fostering liquidity, transparency and efficiency in the loan markets is closely aligned with the SIU's overarching objective of ensuring greater liquidity and efficiency through the EU's banking and capital markets. In our role as an association, we have produced guidance notes for our membership to promote a common understanding of new regulations and initiatives and compliance across various jurisdictions.

We therefore welcome the opportunity to provide the loan markets' perspective and its members' expertise on the creation of the SIU. More specifically, we propose below a set of recommendations for the Commission to further integrate its capital markets. These are:

- Facilitating **companies' access to private capital** through product innovation, digital transformation and public-private investment capabilities;
- Identifying and seeking to **reduce regulatory barriers** to cross-border corporate lending within and into the EU;
- Encouraging a **scaling-up of the EU securitisation market**, calling for a holistic and ambitious approach to revitalise this market; and

[1] See Annex 1.

- Looking to incentivise a **diverse investor base** (including insurance companies, pension funds, and other institutional investors) to allocate capital to private credit markets.

We look forward to developing our engagement with the Commission with a view to further supporting its legislative initiatives in this space.

We remain at your disposal for any questions you may have; we would be happy to explain and meet with you to discuss our priorities in more detail.

Best regards

Scott McMunn

I. Facilitate companies' access to capital through product innovation, digital transformation and public-private investment capabilities

As noted in Mario Draghi's and Enrico Letta's reports, the EU is facing an increasingly complex global economic landscape, characterised by intensifying competition from other major economies, rapid technological developments, and the need for strategic investments in areas such as sustainability, digital transformation and industrial resilience (including defence).

The LMA strongly believes that competitive capital markets require diversified financing channels to ensure that European businesses – particularly small and medium-size enterprises (**SMEs**), scale-ups and infrastructure projects – can access their funding needs to grow and compete internationally.

Therefore, we share the Commission's assessment that cross-border financial flows will be essential to driving the EU's global competitiveness objectives and address its broader policy objectives in innovation, green, digital and defence investments.

Below is a list of proposals in relation to further facilitating access to capital for companies operating in the EU. In particular, we believe that the Commission should:

a. incentivise product innovation:

The Commission should support product innovation within the loan markets when looking at effective ways to diversify financing channels, such as:

- the use of credit risk distribution products, such as credit risk insurance and synthetic risk transfers, considered as effective capital management tools.
- alternative investment vehicles, such as the European Long Term Investment Fund, to deliver new sources of liquidity for long-term investments by channelling retail investments into private credit.
- the development of new regimes, such as for open-ended loan originating alternative investment funds, which are already helping to diversify new sources of funding to European businesses, including SMEs which find traditional lending sources more difficult to access.

b. enhance digital transformation in financial markets:

The Commission should facilitate digital transformation in financial markets by promoting a globally competitive regulatory framework that incentivises, rather than prescriptively regulates, the emergence and use of new technologies such as artificial intelligence and distributed ledger technology (**DLT**) in financial markets.

The LMA welcomes the Commission's upcoming omnibus package on digital finance in Q4 2025, and ongoing efforts to support new tokenisation initiatives. We strongly believe that the creation of new digital platforms, powered by standardised documentation and data, can improve the efficiency and accessibility of financial markets. Initiatives that support digital signatures, DLT-based transaction recording, and automated compliance checks will equally help reduce costs and accelerate deal execution.

c. ***strengthen public-private partnerships for strategic investments:***

The Commission should be more ambitious in its consideration of mechanisms that allow more capital from governmental bodies to co-invest alongside financial market participants with a view to meeting the needs of Europe's critical industries, particularly for infrastructure, digital transformation, and sustainability projects. We believe that structured co-investment vehicles can attract more institutional capital and mitigate investment risks, and equally address immediate geopolitical needs, notably in the defence sector.

II. Identify and seek to reduce regulatory barriers to cross-border corporate lending within and into the EU

Cross-border financial flows are essential to the integration of capital markets across the EU. The Commission should therefore look to review current points of regulatory and supervisory friction in cross-border financial flows as a result of a lack of harmonisation in the implementation of EU regulatory initiatives across member states.

Diverging approaches across different member states can lead to legal uncertainty which translates into reduced financial flows and can act as a barrier to liquidity. Any review of regulation should be done with extensive industry input (from across different sectors, including financial institutions) in order to avoid unintended consequences.

We have recently seen examples of a lack of harmonisation in EU legislation in relation to Article 21c of the EU Capital Requirements Directive (**CRD6**) which has created uncertainty for market participants.

The Commission should further look to identify and remove fiscal barriers to cross-border financial flows so as to facilitate the flow of capital across and into the EU. The Commission should continue to encourage member states to recognise the positive benefits of greater harmonisation.

III. Encourage scaling-up of the EU securitisation market

A revitalised European securitisation market is critical for unlocking capital, distributing risk, and supporting lending to households and businesses.

We therefore welcome the Commission's upcoming review of the Securitisation Regulation and urge the Commission to use this opportunity to address key points of regulatory friction within the existing framework. We strongly encourage the Commission to be ambitious in its review in order to ensure that the framework is fit for purpose and meets the objective of reviving the European securitisation market.

IV. Look to incentivise a diverse investor base (including insurance companies, pension funds, and other institutional investors) to allocate capital to private credit markets

The Draghi Report has highlighted Europe's heavy reliance on bank lending as a source of financing, particularly when compared to the US. At the same time, the Draghi Report also noted the limitations on traditional bank lending in Europe, including constraints on banks' ability to lend as a result of regulatory tightening.

Whilst Europe is still heavily reliant on bank lending in comparison to the US, there has however been a significant shift since the global financial crisis of 2007-08. Lending by banks has fallen by market share in Europe since 2008, creating a financing gap to be filled in the market. Over the same period, the private credit market has grown rapidly, and is predicted to continue this trend. According to Financing the Economy 2024, private credit now represents more than USD 3 trillion assets under management worldwide.[2]

Accompanying the growth of the private credit market, the types of investors in private credit have also become increasingly diverse, with retail investors expected to play a growing role in this market alongside insurance companies, pension funds and other institutional investors. Whilst growth in the private credit market was originally driven by direct corporate lending, it has diversified to cover other areas including asset-based lending (**ABL**), SME lending, project finance, data centre financings and real estate finance. ABL, real estate debt and infrastructure debt are now a significant part of the market, making up 40% of private credit assets under management.[3] ABL, in particular, is a strong growth area where banks are increasingly working alongside private credit funds to provide liquidity to finance assets.

The private credit market therefore represents a significant and resilient source of long-term and SME financing in the market. It further helps to shift risk away from historic concentrations in the banking sector.

The Commission should therefore review the existing regulatory framework with a view to identifying any existing barriers to the deployment of capital by institutional investors to the private credit market, noting that these are often a result of restrictions imposed by individual member states (France and Italy being notable examples where lending by NBFIs is restricted in some capacity).

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[2] Financing the Economy 2024, EY, ACC, AIMA (https://www.ey.com/en_lu/future-of-private-credit).

[3] As above.

Annex 1
LMA

Since our foundation, the LMA has supported the loan markets, with a focus on enhancing liquidity, transparency, and sustainability. Today, with 850+ members in 69 jurisdictions, we represent an ever-growing diversity of participants in international capital markets, including institutional investors, private and public sector issuers, banks, non-banks, technology solution platforms and market infrastructure providers, spanning the UK, US, EMEA, and Africa.

Through member representation on the LMA's various institutional committees and working groups, we actively engage with our members to ensure their voices are heard. Their input and guidance help shape the future of the loan markets, and these groups drive the delivery of positive outcomes.

Today, our activities are busier than ever, with a rapidly growing range of services offered to members. This includes an expanded library of documents, LMA Academy and training offerings, LMA Player and on-demand podcasts and webinars, increased focus on ESG and sustainability initiatives, and operational enhancements aimed at reducing settlement times.

Our goal remains to ensure the loan product retains its place as a critical financing tool in the market.

For more information, please visit our website: www.lma.eu.com