

## FOREWORD

ECMI is happy to welcome the FSMA and MFSA as members, the Belgian Financial Services and Markets Authority and the Maltese Financial Services Authority, and as such to strengthen its outreach to the public sector. We hope that other national supervisory authorities will follow. Our busy fall season will certainly give possibilities for involvement, with the MiFID II seminar on investor protection on 26 September, the second meeting of the Task Force on asset allocation on 24 October, and the annual conference on 23 November. After the AGM, the ECMI members will be invited to a special dinner on 22 November discussing the ESAs Review.

**Karel Lannoo**, General Manager of ECMI, CEO of CEPS

## 2017 ECMI ANNUAL CONFERENCE

### Towards a variable union in Europe's capital markets

ECMI Annual Conference | Brussels | 23 November 2017

For six years running, ECMI has brought together an excellent line-up of leading academics, policy-makers and market participants to share their expertise on capital markets at its Annual Conference, attracting more than 300 participants from across Europe and beyond. This year's event aims to take stock of the progress made so far in building a genuine European capital market, to identify the many challenges and opportunities that lie ahead and most importantly to assess whether more ambition is required.



- Session 1** Short vs long-term investment: What will capital markets deliver?
- Session 2** Reforming the derivatives markets: Is the puzzle complete?
- Session 3** 2017 ECMI Best Paper: Presentation and Award Ceremony
- Session 4** DLT and its applications: Revolution or evolution?

Confirmed speakers:

**Ugo Bassi**, Director of Financial Markets, DG Financial Stability, Financial Services and Capital Markets Union, European Commission

**Ulrich Bindseil**, Director General of Market Operations, European Central Bank

**Claudia Buch**, Deputy President, Deutsche Bundesbank

**Laurent Clamagirand**, Group Chief Investment Officer, AXA

**Daniel Maguire**, LCH Group Chief Operating Officer, London Stock Exchange Group

**Fabrizio Planta**, Head of the Markets Department, European Securities and Markets Authority

**Angela Walch**, Associate Professor of Law, St. Mary's University and Research Fellow, Centre for Blockchain Technologies, University College London

*Others tbc.*

Click [here](#) for the full programme and speakers.

## ECMI NEWS

### ECMI Annual General Meeting

*Date:* Wednesday, 22 November 2017

*Time:* 17:30 to 19:00, CET

*Place:* CEPS, Place du Congrès 1, Brussels 1000, Belgium

### New members

- Institutional: FSMA, MFSA
- Corporate: AGMinfo, Allen & Overy, Covea, Prometeia

More information about membership available [here](#).

## 2017 ECMI CALL FOR PAPERS

### Towards a variable union in Europe's capital markets

ECMI Annual Conference | Brussels | 23 November 2017

For a second year, ECMI is calling for a submission of research papers on European capital markets and their functioning. A committee of academics and international experts will select the best paper and award the winning author €5,000 and give him/her the opportunity to present the findings at the 2017 ECMI Annual Conference in Brussels, an international event that brings together hundreds of policymakers, academics and industry representatives.

Research papers should cover one or more of the following areas:

- European capital markets integration
- Impact of monetary policies on capital markets
- Impact of financial technologies (FinTech) on the investment value chain and capital market structure (e.g. blockchain, digital currencies or robot advisers)
- Law and finance
- Behavioural finance (applied to capital markets)
- Capital markets microstructure and its effect on market efficiency and liquidity (e.g. trading mechanisms, price formation and discovery, market structure and design, information and disclosure)
- Primary markets activity (e.g. IPOs, rights issue, private placement, preferential allotment)
- Secondary markets for derivatives, equities and fixed income (e.g. transparency, market abuse, central clearing, risk management, post-trading activity)
- Market integrity
- Capital markets regulation

Deadline: 29 September 2017.

Detailed information and submission requirements can be found [here](#).

## UPCOMING EVENTS

### How to cleanse NPLs from EU banks' balances?

ECMI-ECRI- CEPS Lunchtime Seminar | Brussels | 25 September 2017

In the aftermath of the financial crisis, banks have accumulated about a trillion euro of non-performing loans (NPLs) in their balance sheets. The high levels of NPLs in countries such as Italy, Greece and Portugal constrain their banks' lending abilities, which causes delays in the countries' economic recovery. Various potential private and public solutions have been promoted to resolve the problems caused by NPLs, but they persist. The seminar will assess the need for further public intervention to resolve NPLs based on the main proposed solutions and best practises.

Click [here](#) for the full programme and registration.

### Investor Protection Under MiFID II: A step too far or a golden opportunity?

ECMI Half-Day Conference | Brussels | 26 September 2017

With the aim of improving investor protection, MiFID II takes a firmer stance by imposing new/additional requirements in several areas, including dealings with eligible counterparties, suitability and appropriateness, inducements, conflicts of interest and cross-selling practices in the financial sector. The implementation of these requirements poses multiple challenges for both financial service providers and investors. The focus of this half-day conference will be on: product governance and product intervention (Session 1), and disclosure of inducements, independent advice and obligations for buy-side and sell-side firms (Session 2).

Click [here](#) for the full programme and registration.

## Asset Allocation in Europe: What challenges and opportunities lie ahead?

ECMI-CEPS Task Force 2nd meeting | Brussels | 24 October 2017

Many factors - the central banks' stance on tapering, changing economic conditions, evolving demographics, regulation as well as technological developments - will impact asset allocation in the coming years. [The first meeting](#) (14 June 2017) focused on short vs long-term investment issues and the outlook for the asset management industry. [The second meeting](#) (24 October 2017) will delve into asset allocation trends by/for institutional investors (pension funds, insurance companies). The third meeting (January 2017) will examine in more detail the challenges for retail investors. The final report will be launched at a public event in Brussels, open to the press, in the presence of high level policymakers and market participants. If you are interested in joining this task force, please review the prospectus and return the registration form.

Detailed information is available [here](#). Please do not hesitate to contact Cosmina Amariei by email at [cosmina.amariei@ceps.eu](mailto:cosmina.amariei@ceps.eu) or by phone on +32 222 93 955.

## RECENT EVENTS

### Unravelling Ariadne's MiFID II Thread: Pre- and post-trade transparency for non-equity markets

ECMI Half-day Conference | Brussels | 6 April 2017

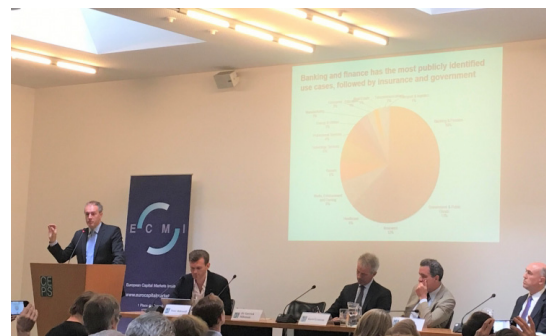
Pre- and post-trade transparency requirements under MiFID II are expected to cause a big bang effect in non-equity markets, especially for bonds and derivatives markets. As underlined in the discussions among the participants at a half-day conference organised by ECMI on April 6th, much more remains to be done between now and January 2018. While a higher level of transparency is of great importance, its effect on liquidity is expected to be negative for a number of reasons. The lack of clarity surrounding the Systematic Internaliser (SI) regime – the process followed by firms that aspire to become an SI – and the liquidity thresholds pose many questions that need to be urgently addressed. The trading obligation requirements, according to which only the most standardised liquid derivatives will be traded on a trading venue, is of primary significance. It is essential for ESMA (European Securities and Markets Authority) to get these requirements right in order to avoid misinterpretations. Moreover, greater attention and precision should be given to best execution, particularly to the questions of when and under whose rules – EU rules, venues rules or overseas rules – execution occurs. Although time is running out, solutions can be found, which hopefully will not be too detrimental to the market. The phase-in approach will certainly help and allow regulators to carefully monitor the implementation of the new requirements and make adjustments or improvements where necessary. [For a detailed report and speakers presentations, please visit the event page.](#)



### Blockchain application and its impact on securities value chain

CEPS-ECMI-ECRI Annual Conference on FinTech | Brussels | 30 May 2017

Distributed Ledger Technology (DLT) is often described as one of the most disruptive innovations of the last decade, with the potential to bring a number of benefits to financial markets, including more efficient post-trade services, enhanced reporting capabilities for risk management or supervisory purposes and reduced costs. However, its arrival may be accompanied by important challenges, e.g. interoperability, governance and privacy issues, that should be carefully addressed before it becomes widely dispersed. Also, DLT may create or exacerbate some risks, although the exact nature and level of those risks are difficult to assess at this stage. Despite a number of promising 'proof of concepts' and some targeted applications, the technology is still in its infancy. Close and active collaboration between regulators, FinTech firms and existing service providers is crucial to ensure that technological innovations bring tangible value to clients. Financial market infrastructures are key in this collaboration due to their knowledge of the market, the customers and the experience of performing the regulated functions. While some will argue that any regulatory action would be premature given that the technology is still at an early stage and practical applications are limited both in number and scope, several concepts or principles (e.g. legal certainty attached to DLT records or settlement finality) may require clarification. Finally, beyond pure financial regulation, broader legal issues, such as corporate law, contract law, insolvency law and competition law, may affect the deployment of DLT. [For a detailed report and speakers presentations, please visit the event page.](#)



## CCP Recovery and Resolution: How to avoid pro-cyclicality and increased systemic risk in distressed markets?

ECMI Half-Day Conference | Amsterdam | 9 June 2017

The failure of Lehman Brothers almost a decade ago showed the shock-absorbing capacity of CCPs. However, what is missing today from the CCP legislation is a recovery and resolution framework. Two elements are critical for the credibility of this framework: i) the distribution of the losses from the resolved CCP (e.g. cash calls and variation margin gains haircuts), and ii) the coordination of the resolution activities (e.g. disclosure of the resolution plans). Regarding resolution colleges, even though their role is vital in coordinating the preparation and execution of the CCP resolutions, there is a broad consensus that it will be very challenging to make them work effectively. Supervisory colleges are already large, but resolution colleges are even larger (involving ministers, competent authorities, resolution authorities, etc.). Experience with the banking crisis has shown that such a group should be small and flexible. Given the lack of experience with CCP resolution using colleges and their complexity, it will be essential to regularly conduct simulations on all the potential crisis scenarios. A switch from the currently foreseen rule-based approach to a more principle-based approach, could also be helpful. For a detailed report and speakers presentations, please visit the event page. [For a detailed report and speakers presentations, please visit the event page.](#)



## Drowning in MiFID II Data: publication arrangements, consolidation and reporting

ECMI Lunchtime Seminar | Brussels | 28 June 2017

The increased reach of MiFID II compared to MiFID I will pose a significant data collection and analysis challenge, not only to market participants themselves, but also to the regulators. As underlined in the discussions among participants at a half-day conference organized by ECMI on June 28<sup>th</sup>, firms will need to take adequate and timely steps in order to prepare for MiFID II and comply with its new regulations on transaction reporting and best execution. On the regulator's side, it is unclear whether ESMA (the European Securities and Markets Authority) will be able to establish a reliable database for reference. This will be the case for instrument identification, specifically. While the LEIs (Legal Entity Identifier) are necessary for the effective enforcement of the regulations, they certainly complicate matters for firms, especially those with third-country clients. Concerning CTPs (Consolidated Tape Provider), the regulations might be too ambitious, while the market will still provide consolidated data, outside the regulations for CTPs. Overall, while MiFID II, which will be launched in January 2018, has set out to improve price transparency across all asset classes (not only equity and debt, as was the case for MiFID I), its huge and complex implications invite justified skepticism about firms' readiness to deliver. [For a detailed report and speakers presentations, please visit the event page.](#)



## ECMI Roundtable on the Mid-Term Review of the Capital Markets Union Action Plan

ECMI Roundtable | Brussels | 4 July 2017

At present, capital markets have attained different stages of development throughout Europe, and matching of supply and demand on a cross-border basis is still uneven. Strengthening the long-term savings and investment channel through well-functioning, deeper and highly integrated capital markets remains a priority. This would then lead to more alternative financing sources for companies, better options for retail/institutional investors, and enhanced market-based, private risk-sharing mechanisms. In particular, although there are some signs of change in internal markets, notably in debt instruments (corporate bond issuance and private placement of small debt), which are very useful for project financing and longer-term maturities for corporates, Europe is still struggling with equity issuance (pre-IPO and IPO). Despite Commission's efforts (especially for venture capital and asset managers), there is a need to make it rewarding and interesting for the suppliers of capital (e.g. institutional and retail investors). Importantly, capital markets should become useful to banks in terms of meeting refinancing needs, for example using covered bonds and other instruments to fund their loans and bank balance sheet management (through securitisation). A big chunk of the Commission's work is dedicated to the development of a secondary market for NPLs, however, various frictions, such as tax and legal barriers, inhibit progress. In conclusion, Capital Markets Union will not be completed in the next few years; there is no finish line in capital markets construction and there always be a next step. CMU is a more complex and challenging process than Banking Union: it is more eclectic, more diffuse and a lot harder to communicate and sell. [For a detailed report and speakers presentations, please visit the event page.](#)



## RECENT PUBLICATIONS

### New market conduct rule for financial intermediaries: Will complexity bring transparency?

ECMI Policy Briefs | May 2017 | By Karel Lannoo

The EuroThe financial crisis led to a raft of new or updated EU conduct rules to ensure the orderly functioning of markets and market operators. The core measure is known as MiFID II, which is a radical update of the 2004 Markets in Financial Instruments Directive. MiFID II is now in the implementation phase and may bring further structural change to Europe's securities markets. Other measures have also been issued or updated, such as the rules against market manipulation and on short selling, and the formation and use of benchmarks. This ECMI Policy Brief reviews these new measures and discusses their effects.

Publication available [here](#).

### The Transmission Mechanism of Credit Support Policies in the Euro Area

ECMI Working Paper | June 2017 | By Jef Boeckx, Maite De Sola Perea and Gert Peersman

In this ECMI Working Paper, the authors use a sample of 131 banks and find that the credit support policies of the Eurosystem (i.e. the ECB and the national central banks) have been successful in stimulating bank credit to the private sector. The impact appears to have been greater on the loan supply of smaller, less liquid, less capitalised banks and those more dependent on wholesale funding. The role of bank capital is, however, ambiguous. Besides the above mentioned favourable direct effect on loan supply, lower levels of bank capitalisation also mitigate the size, retail and liquidity effects of these policies. The low capital drag on the other channels was even dominant during the sample period.

Publication available [here](#).

### Cyclical Investment Behaviour across Financial Institutions

ECMI Working Paper | July 2017 | By Yannick Timmer

This paper contrasts the investment behaviour of different financial institutions in debt securities as a response to price changes. For identification, the author uses unique security-level data from the German Microdatabase Securities Holdings Statistics. Banks and investment funds respond in a pro-cyclical manner to price changes. Insurance companies and pension funds act counter-cyclically, however; they buy after price declines and sell after price increases. The heterogeneous responses can be explained by differences in their balance sheet structure. Within-sector variation in the financial constraint is used to show that tighter constraints are associated with more pro-cyclical investment behaviour.

Publication available [here](#).

### At last, a Pan-European Pension Product!

ECMI Commentary | August 2017 | by Karel Lannoo

Discussions are now starting in earnest in the Council and Parliament on a proposal for a Pan-European Pension Product (PEPP), which fills an important gap in the EU regulatory maze and also responds to the call in the CMU Action Plan for a long-term savings instrument for households in Europe. In this ECMI Commentary, Karel Lannoo appeals to legislators to ensure that the PEPP remains an attractive proposition, which he warns will not be easy because of the huge differences in the national administration of pension savings and the acute sensitivity to any changes in this domain.

Publication available [here](#).

### Developing EU Capital Markets for SMEs: Mission impossible?

ECMI Commentary | September 2017 | By Apostolos Thomadakis

Bank lending is the most common source of external finance for SMEs, but it doesn't suit all of them. Young, innovative and fast-growing SMEs, in particular, do not have the required cash flows and collateral for bank financing and need alternatives to unlock their growth potential. Market-based finance is one alternative to help finance the activities of these SMEs. The European Commission's renewed activities to develop market-based financing need to be stepped up in order to develop a credible capital market to finance SMEs in the EU.

Publication available [here](#).

For more information, please visit our website [www.eurocapitalmarkets.org](http://www.eurocapitalmarkets.org)