

## FOREWORD

ECMI started 2017 with two projects regarding key issues for Europe's capital markets, MiFID II implementation and the challenges for asset allocation, both related to ongoing and future regulatory initiatives of the EU. This year will herald other, greater challenges, related to the preparations for the departure of the most developed capital market from the EU, and the implications for the EU's capital markets union (CMU) initiative. The mid-term review of CMU is ongoing, but so far, not much more union in capital markets has been achieved. A re-think of the initiative is thus required. We will endeavour to contribute to this in the coming months.

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

## 2017 WORK PROGRAMME

### Getting Ready for the Implementation of MiFID II / MiFIR

A dedicated series of events | 06 April - September 2017, Brussels

The European Capital Markets Institute (ECMI) invites industry representatives, policymakers, investor associations, academics and other interested stakeholders to take part in a series of special events on the topic of MiFID II/MiFIR to discuss the readiness of market players and the supervisory community to comply with the provisions set out in new legislative framework. Three public panel debates will be organised at CEPS in Brussels, with high level speakers (regulators, policymakers, industry representatives, investors or academics) keen to engage audiences in discussion. Registration will open at least four weeks before each of the events on:

- Pre- and post-transparency for non-equity markets (first meeting **6 April, 13:00-15:00**, Place du Congrès 1, 1000-Brussels)
- Data publication arrangements, consolidation and reporting (June)
- Investor protection provisions (September)

A detailed description is available in the [PROSPECTUS](#).

Registration to the first meeting **Unravelling Ariadne's Thread: Pre- and post-trade transparency for non-equity markets** is now open! Please register [here](#).

ECMI also offers interested stakeholders the opportunity TO BECOME A SPONSORING PARTNER for this series of events. Sponsorship will allow partners to have a greater expert presence and corporate visibility at the events(s). The benefits and sponsorship options are outlined in the application form in the prospectus.

If you are interested in participating in these events, please do not hesitate to contact Dr Apostolos Thomadakis by email at: [apostolos.thomadakis@ceps.eu](mailto:apostolos.thomadakis@ceps.eu) or by phone: +32 (0)2 229 39 14.

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

New ECMI-CEPS Task Force | April-December 2017, Brussels

CEPS and ECMI are inviting industry representatives, policymakers, investors' associations, academics and other relevant stakeholders to take part in a new Task Force on the challenges and opportunities of asset allocation in the context of the CMU project. The purpose of this Task Force is to contribute to the public debate on the availability of long-term savings products across the EU, and the reconciliation of market practices and policy/regulatory frameworks with long-term investment.

This Task Force wishes to engage a diverse group of stakeholders in a structured dialogue, in order to:

- identify the factors at macro- and micro- level (macro-economic conditions, political uncertainty, policy mix – monetary, fiscal and structural measures, financial markets dynamics, interest rate outlook, regulatory requirements, business models and strategies etc.) that will drive investment decisions in Europe in the short, medium and long run;
- analyse the impact on households/retail investors and on different categories of financial intermediaries (asset managers, investment banks, insurance companies, pension funds); and
- put forward a targeted list policy recommendations to strengthen the long-term savings - investment channel in Europe.

The tentative agenda and the timeline of the meetings can be found in the [PROSPECTUS](#).

If you are interested in joining this Task Force, please do not hesitate to contact Cosmina Amariei (Researcher, European Capital Markets Institute) by email at: [cosmina.amariei@ceps.eu](mailto:cosmina.amariei@ceps.eu) or by phone: +32 (0)2 229 39 55.

## RECENT PUBLICATIONS

### How close are we to a Capital Markets Union?

Commentary | March 2017 | by Apostolos Thomadakis

*The European Commission's flagship initiative of the Capital Markets Union (CMU) aims to unlock funding for capital markets and find ways of linking investors and savers with growth. A number of very disparate measures will, it is hoped, have a cumulative but significant impact on the creation of a single market for capital. By the end of 2017, the Commission expects to have finalised and implemented the first phase of CMU measures, which include: an EU framework for simple, transparent and standardised securitisation; prospectus rules that facilitate access to capital markets and generate more, but less costly, financing opportunities; and improvements to the current venture capital and social entrepreneurship regulations. This year will therefore be crucial for the successful implementation of the CMU Action Plan and the delivery of its full potential to support growth in Europe. Nevertheless, notes the author of this ECMI Commentary, the impact of Brexit and the French and German national elections on CMU remains to be seen. The current climate of political instability and uncertainty places the EU at a crossroads, and it appears that the goal of completing the Capital Markets Union by 2019 is an increasingly remote one. Publication available [here](#).*

### Brexit and the Asset Management Industry

Policy Brief | February 2017 | by Karel Lannoo

In this ECMI Policy Brief, Karel Lannoo observes that Brexit will have a big impact on the asset management industry for three reasons: 1) the passport will disappear for UK-licensed companies, which will stop or certainly seriously hinder the trend of concentration towards the UK; 2) the equivalence regime, which serves as the basis for third-country access to the EU, is unevenly developed across the different segments of asset management; and 3) the value chains in asset management will be affected, with implications for supporting firms or infrastructures. Against this prospective scenario, Lannoo first reviews recent trends in the asset management industry and offers an overview of the UK asset management industry from a European perspective. He then discusses the applicable EU rules, the equivalence regime and the impact of Brexit. Given the special status of the UK as a financial centre, the paper concludes that it would be advisable to have a more comprehensive equivalence agreement, covering all the different regulations and directives, rather than taking the current third-country regime as the base. This should be part of a bilateral procedure between the UK and the European Commission. As it looks now, Lannoo anticipates that Brexit will be fairly abrupt, leaving asset managers limited time in which to adapt their value chains, which will be disruptive for the entire European industry. Publication available [here](#).

### Recent Developments in European Capital Markets – Key Findings from the 2016 ECMI Statistical Package

Research Report | February 2017 | by Roberto Musmeci and Apostolos Thomadakis

This paper presents the key findings reported in the 2016 ECMI Statistical Package, a comprehensive and up-to-date database compiled annually on the dynamics of European and global capital markets (covering the US, Japan, China and all other relevant markets). The Package aims to enable users to trace trends and illustrate the ongoing transformation of capital markets, including the structural changes brought about by competitive forces, innovation and regulation. This paper follows the same structure as applied in the ECMI Statistical Package, and consists of five main sections: equity markets, debt securities, exchange-traded derivatives, over-the-counter derivatives and asset management (mutual funds). Publication available [here](#). Information about the 2016 ECMI Statistical Package can be found [here](#).

### CoCo Design, Risk Shifting Incentives and Financial Fragility

Working Paper | January 2017 | by Stephanie Chan and Sweder van Wijnbergen

Contingent convertible capital (CoCo) is a debt instrument that converts to equity or is written off if the issuing bank fails to meet a distress threshold. The conversion increases the issuer's loss-absorption capacity, but results in wealth transfers between CoCo holders and shareholders, which in turn gives rise to risk-shifting incentives to shareholders. Using the framework of call options, this paper finds that the risk-shifting incentives arising from issuing CoCos relative to subordinated debt have two opposite effects: higher risk increases the probability of CoCo conversion, while lowering the benefit of the wealth transfer relative to the same amount of subordinated debt. For writedown CoCos, the risk-shifting incentive is always positive, while for equity-converting CoCos, it depends on the dilutive power of the CoCo. While recent regulation has deemed CoCos suitable for increasing loss absorption capacity, our results show that some CoCos are potentially riskier than issuing subordinated debt in their place. To sidestep these consequences, their use by banks must be tempered by increasing capital requirements, and as such, they should not be treated as true substitutes for equity. Publication available [here](#).

## Towards the Right Policy Mix for a Thriving European Capital Market

Event Report | December 2016 | by Cosmina Amariei

At the 7th Annual Conference of the European Capital Markets Institute, participants engaged in in-depth discussions on the right policy mix for creating a thriving European capital market. This high-level event featured four separate sessions with keynote speeches/presentations followed by panel debates on: i) the consequences of a prolonged low interest rate environment for the financial institutions and the real economy, ii) the suitability of capital markets-based solutions in dealing with the portfolios of nonperforming loans straining the banking sector, iii) the need for a single European capital markets supervisor, iv) the impact of the distributed ledger technology on trading and post-trading market infrastructure. Most participants expressed the view that advancing with CMU is even more important in the current economic and political environment. Overall, bolder actions are needed in the coming years, and the mid-term review of the CMU Action Plan (scheduled for 2017) should not be relegated to becoming a mere tick-box exercise. *Event report available [here](#). More information about the ECMI Annual Conference available [here](#).*

## Nothing ventured, nothing gained: How the EU can boost growth in small businesses and start-ups

Research Report | November 2016 | by Apostolos Thomadakis

Venture capital can be a lifeline to innovative and growth-oriented start-ups and small businesses in need of external capital. In this ECMI Research Report, Apostolos Thomadakis argues that the recently proposed changes to the Regulation on European Venture Capital Funds (EuVECA) fail to address three important issues that could further boost financing: the extension of the EuVECA Regulation to third-country managers, the reduction of the €100,000 entry ticket, without further compromises on investor protection, and the harmonisation of rules on managing requirements. He proposes a number of measures that could facilitate access to financing for start-ups and SMEs. *Publication available [here](#).*

## Towards a better European securitisation market

Commentary | November 2016 | by Apostolos Thomadakis

The European securitisation market experienced constant growth for almost a decade prior to the financial crisis, but it then plunged precipitously and has never fully recovered. Since 2009, in an effort to revive securitisation and channel funds to the real economy, European authorities have introduced a considerable amount of new regulations/legislation, for example, in the areas of banking, insurance, asset management and credit rating agencies. In this ECMI Commentary, however, Apostolos Thomadakis finds that these measures have not achieved the expected results and calls for more to be done. In concrete terms, he calls upon Europe to: 1) issue securitisation products with transparent and easy-to-understand structures, 2) issue securitisation products with transparent and easy-to-understand structures, and 3) devise smart ways of making cross-border investments easier. *Publication available [here](#).*

## Eliminating the cost of non-Europe in capital markets

Commentary | November 2016 | by Karel Lannoo

Capital markets in Europe currently lack the necessary depth, scale and integration to provide the funds for innovative firms to grow, thereby imposing a high cost on both firms and investors. In response to this grave deficiency, Karel Lannoo calls upon the European Commission to undertake a radical upgrade of the Capital Markets Union (CMU), along the lines of the Single Supervisory Mechanism (SSM), but with a focus on strengthening the role of the European Securities and Markets Authority (ESMA) and the European supervisory authorities (ESAs). Given that much of the rulemaking is complete, he observes that an empowered capital markets supervisor is the only way to deliver the benefits of a single market. *Publication available [here](#).*

## ECMI NEWS

- Now available: **2016 Annual Activities Report** - the detailed overview of our activities can be found [here](#).
- Visit the new **ECMI website** on [www.eurocapitalmarkets.org](http://www.eurocapitalmarkets.org) to be up to date with our recent events and publications.

## RECENT EVENTS

### Removing information Barriers to Investment in SMEs

Venture Following the European Commission's public consultation on the Capital Markets Union (CMU), which it launched in January with a view to completing the mid-term review of the CMU by June 2017, the European Capital Markets Institute (ECMI) organised a lunchtime seminar at CEPS on February 8th to discuss the Commission's strategy. Entitled: "Removing Information Barriers to Investment in SMEs", the ECMI seminar aimed to take a critical look at the strategy and to explore alternatives. It was argued that the Commission should switch from self-regulation to a market-driven approach, with market-building measures, greater emphasis on policies of quasi-mandatory information sharing, and market-correcting measures, for example. Another topic of discussion was the importance of feedback provided by banks to SMEs, the heterogeneous landscape across Europe in terms of credit information systems, and the role of SMEs as distributors of data and information. The ECB's AnaCredit initiative was presented, which aims to improve information on credit developments in the euro area by providing harmonised 'granular' data on credit and credit risk; no granular information (e.g. lender's and borrower's identity, balance sheet, etc.) will be disclosed to users outside the ECB and participating NCBs. By way of conclusion, delegates noted that there is still room to improve the quality of feedback; that technology can play a better role in matchmaking platforms and that the principle of proportionality should be kept in mind because not all SMEs are interested in seeking alternative sources of funding. *For a detailed report and speakers presentations, please visit the [event page](#).*

Lunchtime Seminar | 8 February 2017 | Brussels



### Asset Allocation in a Low Interest Rate Environment: Where do we stand?

ECMI - Invest Week event | 1 December 2016 | Brussels

Early in December, in the context of the first edition of the "Invest Week" and in cooperation with Pensions Europe, ECMI staged an event on "Asset allocation in a low interest rate environment". Moderator (and ECMI General Manager) Karel Lannoo explored with his fellow panellists the extent to which current conditions can potentially undermine the ability of insurance undertakings and pension funds to fulfil their long-term financial promises to policy holders and beneficiaries. On the assets side, it was observed that the search for yield will remain the norm for years to come, together with an increasingly higher reinvestment risk. On the liabilities side, a notable trend is the acceleration of the move towards unit-linked insurance products and defined contribution pension plans, which shifts the risks from the providers to consumers. Insurance companies have reacted so far by narrowing the duration mismatch and investing in alternative assets (real estate, infrastructure, renewables and private equity). In addition, asset managers reduced their fees and are confronted with declining returns on their portfolios. *For a detailed report and speakers presentations, please visit the [event page](#).*



## ECMI NEWS

- ECMI is very pleased to announce that **Andrew Douglas** (CEO, European Trade Repository, DTCC) and **Patrik Karlsson** (Director, Market Practice and Regulatory Policy, ICMA) have recently joined the ECMI Board.
- **Jesper Lau Hansen** (Professor of Financial Markets Law, University of Copenhagen) and **Pierre-Henri Conac** (Professor of Commercial and Company Law, University of Luxembourg) were confirmed on February 8th as the new members of the Academic Committee.
- **The European Money Markets Institute** became a member of ECMI in February 2017 and the membership of **Invest Europe** will be effective from October 2017. More information about membership is available [here](#).