Activities Report

European Capital Markets Institute

2023

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Message from the General Manager

The debate over the design of EU capital markets continues to linger, and is likely to remain a topic of discussion for some time to come.

Since the publication of our report "Time to re-energise EU capital markets", we have continued our work on aspects of capital market policy. Recent areas of research include: the retail investment strategy, taxation and capital flows, crypto and digital currencies, the fall-out of the March 2023 financial troubles, and EU securities and company law developments.

Our crucial work on capital markets is the result of a combined re-emergence of the single market and competitiveness as policy priorities. The lack of a single market undermines the attractiveness of EU capital markets, incentivising Europeans to invest elsewhere, and thus weakening EU competitiveness. In 2024 we aim to help set the priorities for the next EU Commission in this domain, whilst also contributing our own innovative ideas.

Karel Lannoo

General Manager, ECMI

Overview

ECMI conducts in-depth research aimed at informing the debate and policy-making process on a broad range of issues relevant to capital markets. Through its various activities, ECMI facilitates the interaction among market participants, policymakers and academics. ECMI is managed and staffed by the Centre for European Policy Studies (CEPS) in Brussels.

ECMI in figures 2023	
419 723	Total visits to ECMI webpage
1760	Social Media followers
1618	Participants in ECMI events
39	Corporate and institutional members
25	Publications and studies
9	Events organised
2	Research projects completed
2	Concluded Task Force

Publications

Commentaries

The single rulebook is overflowing – it's time to hit the brakes

by Karel Lannoo

Following the regulatory rollercoaster of the last five years, the next European Commission will have the difficult task of slowing down the pace of rulemaking in finance, and consolidating what is already in place. However, with the Banking Union and the Capital Markets Union (CMU) as ongoing objectives, a staff of only around 2 600 people in financial supervision at EU level, review clauses for regulations every three to five years, as well as an ever-growing surge of financial lobbying in Brussels, applying the brakes is easier said than done.

The EU has added an impressive amount of new regulation under the von der Leyen Commission, with several pieces still in the pipeline. The regulatory framework affects capital market operators and infrastructures, investment, payments, crypto assets services providers (including prudential rules for banks and insurance companies), and a framework for digital resilience in financial institutions. On top of that all, an extra layer has been added with the Sustainable Finance Framework. As a result, and due to the objective of a single rulebook, rules have become increasingly detailed. **Available** here.

Post-Brexit, 'Plus ça change' for the City of London

by Karel Lannoo

The clearest result of Brexit, as seen from a financial markets perspective seven years on from the fateful June 2016 referendum, is that nobody in Europe won. A classic case of a lose-lose situation, as was to be expected. Yet the big outflow of banking jobs from London did not happen, nor did any EU-based financial centre clearly emerge as the winner, and nor did any big boost to London materialise, as some Brexiteers had hoped.

Rather, Europe as a whole lost, as liquidity has become even more clearly concentrated in the US, in many different sectors. As both, the EU and UK are slowly converging again, and with a big political shift expected in the UK next year, prospects for the European financial marketplace are improving. But a decade will have been lost, with EU projects such as banking and capital markets union also clearly impacted. **Available** here.

Bank stress tests only lift a tip of the veil

by Karel Lannoo

The latest results of the EU-wide stress test exercise conducted by the European Banking Authority (EBA) and the European Central Bank (ECB) provide a reassuring picture of the health of the European banking sector. After the mid-

March market stress, according to the ECB and the EBA there are no reasons to be concerned about the health of the European banking system. But it is all a matter of the parameters of the stress tests and of the granularity of a bank-specific evaluation, which is very difficult to assess based upon the respective reports. It seems that both started from very static assumptions, and that the lessons of the Silicon Valley Bank (SVB) debacle have not been taken into account.

After the turbulence in the US and European financial markets in March, publishing the bank stress test results on a Friday afternoon in the midst of the holiday season raises suspicions. How are European banks doing? What about their exposure to the bond markets in a year of dramatically rising interest rates? Can they cope with fast deposit withdrawals in the internet age? But also, have climate risks and the green transition been considered? Available here.

The Retail Investment Strategy: Lacking a ban, packing alternatives

by Jelmer Nagtegaal

Retail investment – consumers investing in the opportunities offered by capital markets – is a cornerstone of the Capital Markets Union. Yet retail investment levels in the EU are lagging, hurting the financial prospects of households and businesses alike.

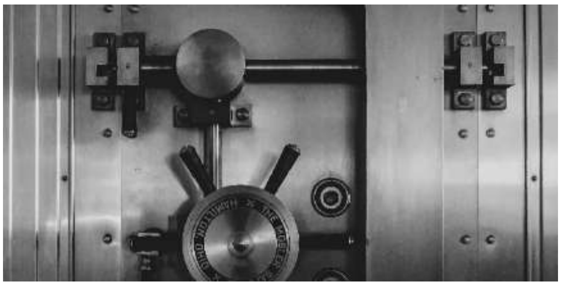
Through the recently proposed Retail Investment Strategy, the European Commission aims to change this. And while those expecting a sea change – particularly in the form of an inducements ban – might be disappointed, a closer look reveals a proposal with potential.

This follows on from a concerted effort to address (1) biased advice, (2) the lack of low-cost, non-complex investment products being offered and (3) the low comparability and comprehensiveness of standardised documents.

The proposal is vast, and contains much more, but these three issues are key to improving competition, lowering costs and increasing trust. Address them successfully and consumers will be enticed to move money from savings accounts to the markets, boosting retail investment levels.
Available here.

SVB and Credit Suisse: When rules yield, it is time to change the system

by Apostolos Thomadakis



There are two countries (the US and Switzerland), two regulators (the Fed and the Swiss Financial Market Supervisory Authority (FINMA)) and two banks (SVB and Credit Suisse). There are also regulatory structures and processes in place for failing banks. The question, however, is whether these processes were followed in the case of SVB and Credit Suisse. It seems that they were not. The regulatory system that was put in place after the global financial crisis was a bail-in system – alongside other tools that were added to the toolkit, like systemic stress testing, living wills, etc. The bail-in process for dealing with failing banks means that a bank's creditors take a haircut in order to cover the losses that the bank has made. But the bail-in process was not applied to either of these two banks.

The SVB and Credit Suisse cases illustrate the failure of (part of) the global regime put in place after the great financial crisis – a failure of supervisory practice. Neither SVB nor Credit Suisse should have failed in the first place. When politics meets rules, rules yield. What happened in both the US and Switzerland, was a political resolution at the highest possible political level. In taking it, the rules became secondary. If we keep changing the rules without changing the system, we won't get far. Instead of regulating by risk and buffers, it is now time to make the financial system more shock-absorbent and diverse, and to bring individual accountability to the forefront. Available here.

Mutual funds hold the key to a genuine capital union in Europe

by Karel Lannoo

Not a week goes by without EU policymakers repeating the need for more capital markets financing in Europe. They argue that the huge costs of the green and digital transitions cannot be financed with state funds alone. They are correct — but that's where it stops. Concrete proposals are lacking.

This is because those same policymakers defend national turfs. The Capital Markets Union, launched in 2015 to stimulate the creation of a pan-European market for investment and trading, remains an abstract notion. Although many harmonising measures have been adopted, market development remains very uneven across the continent and has not advanced at all in southern and eastern Europe. Available here.

The collapse of SVB: A mix of poor risk management and regulatory failure

by Apostolos Thomadakis

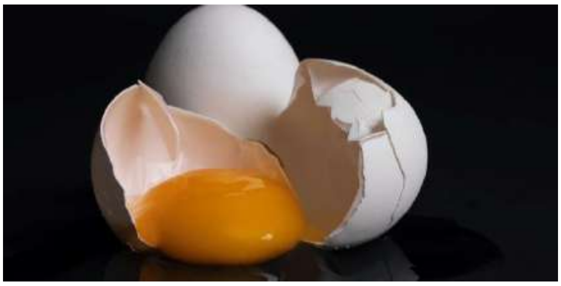
The collapse of Silicon Valley Bank (SVB) – which served 50 % of the tech and life sciences start-ups in the US – is the largest institutional failure since the global financial crisis. It is a classic case study that should (if not already) be taught to economic students on how not to manage a bank and cause a bank run.

It has exposed the inadequacy of the bank's risk management practices, the (in)effectiveness of some of the post-2008 regulatory reforms, and the (delayed) responsiveness of the authorities. It has also highlighted the significant differences between the US and the EU, in the structure of the banking sector, regulation and supervision.

For Europe, the fall of SVB should be a wake-up call to advance its two pillar projects, the Banking Union and the Capital Markets Union. Available here.

Clearing made easier and more resilient – but you can't make an omelette without breaking eggs

by Karel Lannoo



Further reform of the rules on market infrastructures under the European Market Infrastructures Regulation (EMIR) aims to bring more clearing (from the UK) to the EU. However, once again it does not integrate supervision into the process and avoids confrontation with Member States on the matter. EU-based users of central counterparty clearing houses (CCPs) abroad will also be required to have active accounts at EU CCPs. Although this may reduce financial stability concerns with third countries, it will create competitive disadvantages for EU banks.

If the EU's aim is to make the European CCP ecosystem more attractive and competitive, then avoiding confrontation is not the answer. It's time to start breaking some eggs. **Available** here.

Policy Briefs

The EU's new crypto and cyber rules
by Karel Lannoo

Crypto currency matters are seemingly in the news every day, but the EU's new tailor-made regulatory regime is not. EU regulation is now in place setting down a dedicated framework for crypto-assets, stablecoins and digital money, and the related trading platforms and virtual networks. Only authorised providers will be allowed to offer crypto currencies in the EU, and they will need to have an EU registered office. As a corollary, the EU will also regulate and supervise the digital resilience of financial institutions. The EU's 'crypto regulation' is the first act by an international institution to regulate this sphere. In this policy brief, we note:

The lack of a common approach across countries for a global phenomenon such as crypto, and the profound differences with the US, which regulates crypto as a security under existing securities laws, whereas the EU is creating an entirely new regime, rendering implementation and user interpretation more difficult, and creating confusion across regulatory regimes;
Diverse approaches enable regulatory arbitrage and a race to the bottom, where the providers are the winners, and the investors the victims;
Much remains to be done to render the crypto world more transparent, in single data feeds, but also in the development of commonly agreed valuation and accounting methods, let alone the issue of taxation;
The crypto hype emphasises the need for a more efficient network for international payments, outside the realm of the global reserve currencies;
The new acts considerably increase the tasks for supervisors: in a complex set-up, national and European authorities will need to authorise and supervise virtual asset providers, and control ICT suppliers of the financial sector;
Crypto is often associated with money laundering, mostly through third country providers. Strong international cooperation in the 'cryptosphere' is needed to detect criminal networks, but this is where the lack of a common global regulatory approach matters.
To European policymakers, we recommend:

To advance the debate on transparency in the valuation of crypto assets;
Enhanced international cooperation on crypto assets to tackle money laundering, fraud and the criminalisation of international payment networks;
The need for more awareness raising and debate of the EU's efforts in this domain. **Available** here.

Tackling offshore tax evasion and avoidance: progress has been made, but this is not enough

by Apostolos Thomadakis

Offshore tax non-compliance and lost revenues on hidden assets overseas, are long-standing issues. Tax competition and economic unfairness, as well as the opacity that offshore tax non-compliance leads to, can undermine effective markets. On top of this, bank secrecy can enable money laundering and increase income and wealth inequality. However, this is not only a problem for one country, but rather an international one that requires strong international commitment and coordination – unilateral actions are not enough by themselves to curb tax evasion and avoidance.

For this reason, there is a set of information exchange frameworks negotiated at the OECD and delivered through its member countries. The landmark framework that enables the automatic exchange of information to the tax authorities is the Common Reporting Standard (CRS), or the Directive on Administrative Cooperation (DAC) in the EU. With 167 members participating in the Global Forum on Transparency and Exchange of Information for Tax Purposes, around EUR 114 billion in additional revenue has been generated through voluntary disclosure programmes. However, this number is just a bit more than 1 % of the EUR 10 trillion of assets that are held offshore.

The progress made has been substantial, but much remains to be done. Implementation should be enforced, not only with the automatic exchange of information, but also in the context of beneficial ownership registries. Information exchange frameworks should be adapted to the current realities (i.e. crypto-assets) and there should be an expansion of the assets under their scope (e.g. real estate, art, gold). Tax authorities need to be equipped with all the necessary tools (e.g. artificial intelligence) and rules that will allow them to identify tax compliance risks and process the collected data. International cooperation and communication between jurisdictions and different standard setters should be strengthened, as well as within-country communication between the relevant authorities. **Available** here.

Why harmonising multiple voting rights for SMEs may be a bad idea

by Jesper Lau Hansen and Apostolos Thomadakis

On 7 December, the European Commission presented the Listing Act package which contains three proposals. These aim to improve and simplify current EU law on listing securities to help small and medium enterprises (SME) make better use of European trading venues. Thus, they are an important and much needed step in the right direction.

The package also contains another proposal for a directive that aims to address differences across Member States' national law on corporate governance and allow shares with multiple voting rights (MVR) for national SMEs that seek admission to an SME growth market. Although MVR shares are well known in many Member States as being not only harmless, but also a very useful tool, this Policy Brief argues that the proposal is an unjustified incursion into national law. It lacks the empirical and logical support necessary for EU harmonisation to proceed. If MVR shares are to spread across the EU, it should rather be by the power of example, and not by the brute force of harmonisation. Available here.

Scaling up climate adaptation finance during periods of growing public debt, inflation and natural disasters

by Marie Brière, Irene Monasterolo, Kevin Gallagher, Charlotte Gardes-Landolfini, Nicola Ranger

In 2021, economic losses from natural catastrophes were USD 270 billion. Poor physical climate risk assessment limits the scaling up of adaptation finance, which is still lagging behind mitigation finance in emerging markets and developing economies (EMDEs) but also high-income countries.

Physical climate risk pricing and portfolio risk assessment is still at an early stage. Most analyses are focused on firm level shocks, but they neglect the asset-level dimension of risks, which in turn leads to a severe underestimation of losses. Risk assessment and estimation of the transition investments needed should be incorporated into corporate valuation and sovereign debt sustainability analysis.

Adapting to physical climate risks requires massive investments. Because of high upfront costs, risks and the long-time horizons of infrastructure projects, adaptation finance faces larger hurdles than mitigation investments. Climate vulnerable countries are sometimes in a vicious circle of debt and climate change.

Limited fiscal space and debt sustainability challenges frequently prevent them from adapting to climate change. Innovations in adaptation technologies are still slow and still primarily rely on public funding.

Financing could consist of multiple layers. Public finance should play a central role, followed by the international climate finance pledges, such as the adoption of the Glasgow Climate Pact. Private finance is also key, with blended finance arrangements by development finance institutions and multilateral development banks, in addition to the issuance of sustainable debt instruments such as 'pay-for-success'.

Finally, there is a crucial need to develop climate-aligned debt restructuring accompanied by substantial debt relief in some countries, as well as countercyclical financing instruments such as the IMF Catastrophe Containment and Relief Trust. This would allow EMDEs to have systems in place for the quick release of finance when disaster strikes. Available here.

Unleashing retail investors' potential - the key ingredient for enhancing the EU's investment funds and capital markets

by Karel Lannoo and Apostolos Thomadakis

The size of EU investment funds and capital markets lags well behind the US. Repeated calls for a better performing Capital Markets Union, to support investments in biotech, or the green transition, have so far not led to any change. Investment fund markets in Europe continue to grow in the number of funds, but not in size, while household savings are largely held as bank deposits. Unless we manage to address the supply side, capital markets in Europe will remain below par.

A grand plan is therefore needed to streamline Europe's fund markets. Available here.

How To make Capital Markets Union work

by David Harrison and Paul Woolley

Europe has a high rate of savings and using those savings to increase productive investment is the right approach.

However, Capital Markets Union (CMU) will not do this simply by removing barriers to competition in the European single market. The reason is that nearly all financial markets activity in the world today is carried out by professional intermediaries like asset managers and banks (agents), on behalf of actual end savers (principals).

Their interests are not identical. Competition between intermediaries can either be on the basis of expected cash flow (the stream of income from holding a financial asset), or on the basis of expected changes in the market price of assets. Intermediaries have incentives causing them to favour the latter approach, but the more widely it is adopted in the market the greater the instability of asset prices and the fewer the savings put to productive investment.

The solution is to make it a condition of cross-border access to the European capital market that a specified minimum proportion of assets of each portfolio under professional management is invested for savers solely on the basis of expected cash flow. This method of competition should be promoted by an audited publication of the results. **Available** here.

Research Reports

Study on the Adequacy of the Information to be Disclosed under Article 89(1) of the Capital Requirements Directive IV

by Willem Pieter de Groen, Beatriz Pozo Pérez, Fredrik Andersson, Agustina Koremblit

Since 2014, credit institutions and investment firms subject to the Capital Requirements Regulation (EU) No 575/2013 (CRR) and Directive 2013/36/EU (CRD) are required to publish once a year specified information on a country-by-country basis. This requirement was included under Article 89(1) CRD IV at the proposal of the European Parliament, which aimed to enhance trust in the financial sector through more transparency regarding their activities

The study provides an assessment of the adequacy of the indicators covered in the current country-by-country reporting (CBCR). Member States have (almost) literally transposed Article 89(1) CRD IV in the national legislation. Nevertheless, there are significant differences in the practical implementation. Many credit institutions are not reporting at all, or are not reporting the information for each of the jurisdictions separately. Activities of branches are not always covered. Similarly, the credit institutions use different definitions for turnover, number of employees, tax on profit or loss and public subsidies.

The total administrative costs are insignificant, estimated at about EUR 2 million per annum in total for the more than 4,000 credit institutions in the EU, meaning that these costs are on average EUR 450 per credit institution every year. The incremental costs are estimated to be only about a quarter or EUR 0.5 million, due to other requirements and practices, including segment reporting and reporting to tax authorities under DAC4 (Council Directive 2016/881 amending Directive 2011/16/EU, which is the EU implementation of OECD BEPS Action 13).

CBCR is further still relevant as trust in the financial sector has still not fully recovered to the levels before the 2007-09 global financial crisis. **Available** [here].

Study on the Audit Directive and the Audit Regulation

by Willem Pieter de Groen, Damir Gojsic, Fredrik Andersson, Agustina Korenblit

In 2014, the European Union (EU) adopted an important reform of the EU Statutory Audit Market through two legislative instruments: Directive 2014/56/EU amending the first Audit Directive (2006/43/EC) and Audit Regulation (537/2014). The reform had four objectives: enhance transparency for investors; reinforce independence of auditors towards their clients; promote competition in a highly concentrated market dominated by the 'Big Four'; and strengthen pan-EU supervision.

In this context, the European Commission requested an in-depth study to provide data and to analyse the impact of the transposition and implementation of specific provisions of the Audit Directive and Regulation on achieving the reform’s objective. These provisions include assurance and reporting requirements for statutory auditors, mandatory rotation and appointment of auditors, prohibition of certain non-audit services, and caps on fees for non-audit services.

The study shows that the reform effectively increased levels of independence but did not impact competition as intended. The analysis shows that most of the audit reports for public interest entities (PIEs) are led by members of the Big Four. The audit reports do not contain information about corporate governance practices that goes beyond what is required at national and EU level. Additionally, there is a cost disparity in audit fees between sectors. **Available** [here].

2022 ECMI Statistical Package - Key findings

by Apostolos Thomadakis, Danielle Pintacasi

Offering a comprehensive collection of the most relevant data on various segments of European and global capital markets, the ECMI Statistical Package enables users to trace trends so as to highlight the ongoing transformation of capital markets, including the structural changes brought about by competitive forces, innovation and regulation. It represents an important step towards overcoming the existing data fragmentation on the evolution of European capital markets by offering a ‘one-stop-shop’ for market participants, regulators, academics and students. The 2022 version contains data on equity markets, debt securities, securitisation, covered bonds, exchange-traded and over-the-counter derivatives, asset management, mutual funds, insurance companies and pension funds, and global comparative data. **Available** [here].

Working Papers

Unveiling the Liquidity Greenium: Exploring Patterns in the Liquidity of Green versus Conventional Bond

by Annalisa Molino, Lorenzo Prosperi, Lea Zicchino

The green bond market has grown significantly since the first green bond was issued in 2007, supported by the global commitments made in Paris in 2015 (Paris Climate Agreement). By combining standard bond features with a requirement to use the proceeds to finance green projects, green bonds are seen as an important tool for mobilising private capital to support the transition to a low-carbon economy. While most of the previous studies have focused on the existence of a yield premium, or 'greenium' (i.e. green bonds may offer a lower market return than conventional bonds due to their special feature of investing proceeds in green projects), this paper examines whether green bonds traded in the secondary market benefit from a 'liquidity greenium' (i.e. they are more liquid compared to conventional bonds).

Using a dataset of global bonds issued between 2009 and 2022, we show that green bonds issued by governments and supranationals are more liquid. However, this is not the case for corporate bonds, with the exception of those issued by companies operating in the energy sector. Moreover, a liquidity premium for corporate green bonds exists if there is an external verification or alignment with international standards, or a proven environmental reputation of the issuer. Results indicate that the liquidity premium of corporate green bonds has increased during periods of higher market illiquidity and after the recent monetary policy strategy of the ECB in favour of green assets. Finally, there is also evidence that the liquidity of conventional bonds improves for firms that announce the issuance of green bonds, but only in the case of multiple issues. Available here.

Book-to-Market, mispricing, and the cross-section of corporate bond returns

by Söhnke Bartram, Mark Grinblatt, Yoshio Nozawa

The bond market is by far the largest securities market in the world. In 2022, the global bond market totalled USD 133 trillion compared to USD 122 trillion equity market capitalisation.

Corporate bonds' book-to-market ratios predict returns computed from transaction prices. Senior bonds (even investment-grade) with the 20 % highest ratios outperform the 20 % lowest by 3 %–4 % annually after non-parametrically controlling for numerous liquidity, default, mi-crostructure, and priced-risk attributes: yield-to-maturity, bid-ask-spread, duration/maturity, credit spread/rating, past returns, coupon, size, age, industry, and structural model equity hedges. Spreads for all-bond samples are larger.

An efficient bond market would not exhibit the observed decay in the ratio's predictive efficacy with implementation delays, small yield-to-maturity spreads, or similar-sized spreads across bonds with differing risk. A methodological innovation avoids liquidity filters and censorship that bias returns. Available here.

Books

A digital euro beyond impulse – think twice, act once

by Apostolos Thomadakis, Karel Lannoo, Farzaneh Shamsfakhr

A new study highlights that to ensure widespread adoption, the digital euro must offer a compelling value proposition and clear benefits to consumers and merchants in the EU, while the EU's legislative framework should allow for these benefits to gradually emerge over time. There is a need to minimise the risk of crowding out European private solutions, which would impact competition and the attractiveness of the European payments market, while at the same time hinder the digital euro's adoption.

Formed in April 2023, a CEPS-ECMI-ECRI Round Table brought together a working group of market operators and infrastructure providers, central bank representatives, regulators, and academics to take part in research and in-depth discussions over a six-month period.

Prior to deciding whether to proceed with the digital euro project, the study argues that:

1. The benefits of an eventual digital euro and its added value for end users (i.e. individuals, merchants and businesses), compared with existing payment solutions, should be crystal clear, well understood and clearly communicated.

2. The digital euro should be cost efficient, economically viable and contribute to making payments – and ultimately the European economy – more competitive.

3. The effectiveness of holding limits should be better justified and explained.

If a decision is made to proceed with the digital euro project, our study proposes approaching it as follows:

4. Start with a digital euro that is as simple as possible and includes only the most basic functionalities.

5. Rely on and build upon existing mechanisms in the payment infrastructure as much as possible and take full advantage of current service processes.

6. Establish a regulatory framework that ensures a level playing field for the payment ecosystem, between providers and between currencies (public and private money).

7. Finally, so as not to impact the euro's attractiveness as a means of payment relative to other major currencies, decisions on the digital euro (either a retail or wholesale one) cannot be taken in isolation from central bank digital currency developments in other major jurisdictions.

Available here.

EU Corporate taxation in the digital era - The road to a new international order

by Apostolos Thomadakis

The current international system that coordinates corporate income tax is increasingly unable to deal with a highly integrated and digitalised economy. To avoid taxes, multinational enterprises (MNEs) exploit the system's inadequacies by shifting profits to low or non-tax jurisdictions – about 40 % of EU MNEs' profits have been shifted to low-tax jurisdictions.

In July 2021, to ensure that profits are taxed where economic activities take place, the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) agreed on an historic two-pillar solution. Following this, in December 2021 the European Commission proposed a directive to implement Pillar Two in the EU. In December 2022, after several attempts to harmonise taxes, Member States finally and unanimously agreed to adopt the Directive, ensuring a global minimum level of taxation of 15 % for MNEs.

A new study 'EU corporate taxation in the digital era', highlights the main developments in corporate taxation over the last few decades in both the EU and the US. It analyses MNEs' activity and profit shifting, and the impact of a 15 % minimum corporate tax. It also discusses the critical points in Pillar Two's design that have raised concerns and require careful calibration. Finally, it proposes recommendations on how to improve Pillar Two's functioning and how to implement the Business in Europe: Framework for Income Taxation BEFIT, stressing the importance of simplicity and uniformity.

Launched in February 2022, a CEPS-ECMI Task Force brought together a working group of industry experts, corporates, academia and EU/international institutions for research and discussion over a period of 18 months.

To improve the functioning of Pillar Two, the study specifically proposes that:

1. There should be consistency between the sequencing of the Global Anti-Base Erosion (GloBE) rules in the EU Directive and the OECD's Administrative Guidance.
2. The principles of the single market must be adhered to, while the constant streamlining of national rules should be promoted.
3. Cleary defining safe harbours should stabilise and substantially simplify the GloBE rules, and if this takes longer than anticipated to finalise, extending the transitory country-by-country safe harbour rules should be considered.
4. The rules for settling litigation should be a high priority within the Inclusive Framework, while special rules at EU level should also be considered.

To ensure the coordination of Pillar Two with the BEFIT, the study recommends that:

5. BEFIT should aim for simplification, a reduction in compliance costs and uniformity within the EU to increase the EU's competitiveness. In short, it should build on Pillar Two rules as much as possible. The optionality of rules could be considered, at least on a temporary basis.
6. BEFIT should be based on strict derivation from financial reporting, with very few corrections. For the sake of simplification and uniform application within the EU, International Accounting Standards and International Financial Reporting Standards should apply and, contrary to the GloBE rules, the use of national accounting rules should not be allowed.
7. As for when to implement BEFIT, an adequate timespan relating to the implementation of the GloBE rules would be best, to avoid overburdening tax administrations and taxpayers.

Available here.

Events

Regular events

Banking supervision: What can we learn from the March 2023 banking turmoil?

House of the Euro, December 7

The March 2023 banking turmoil, that erupted in the United States and Switzerland, is the most significant system-wide banking stress since the Great Financial Crisis.

The Basel Committee on Banking Supervision and the International Monetary Fund have recently released reports on the lessons learned from this crisis episode. These reports emphasise the importance of strong and effective banking supervision. Not only do supervisors need to be able to actively identify weaknesses in banks, but they also need to have the appropriate powers, ability, and will to remedy such weaknesses.

European banking supervision has been operational for nearly ten years now. The Single Supervisory Mechanism (SSM) has evolved from a start-up to a mature, well-established, and respected supervisor. The SSM has recently adapted its supervisory processes to become more risk-based, agile and effective in a rapidly changing external risk landscape.

This event, jointly organised by CEPS, ECMI and the European Central Bank, is an opportunity to discuss what lessons the SSM takes from the March banking turmoil for the effectiveness of its supervision.

With the participation of: **Frank Elderson**, ECB; **Jonás Fernández**, European Parliament; **Gonzalo Gasós**, EBF; **Judith Arnal**, ECRI.

Agenda available here.

CMU: How to bring the CEE region into the fast lane?

CEPS, November 28

In Europe, capital markets reached varying stages of development. In the Central and Eastern Europe (CEE) region, a region with very high potential, these are relatively small, lack sufficient liquidity and depth, and are split along national borders. The heavy reliance on the banking sector and the low share of capital market financing leaves companies and investors (both retail and institutional) in the region without an important source of funding diversification and attractive investment options. The share of

debt securities markets as a percent of GDP is three times higher than that of public equity markets, while stock market capitalisation in the region has remained stable over the last ten years.

The Capital Markets Union (CMU) initiative – one of Europe's flagship projects – is essential to unlock the region's full potential and strengthen citizens' wealth. However, the project has so far failed to consider the distinctive challenges faced by the CEE countries and lacks a regional perspective. CMU's success story cannot be written without catering for the CEE region.

With the participation of: **Michael Thiel**, DG FISMA; **Lukáš Bonko**, Bratislava Stock Exchange; **Jim Turnbull**, EBRD, **Ingo Bleier**, Erste Group Bank; **Andrzej Pawluczuk**, WTT S.A.; **Katarzyna Grodziewicz**, Baker McKenzie.

Agenda and recording available here.

A digital euro beyond impulse – think twice, act once

CEPS, October 25

With the launch of an official digital euro, the ECB will enter into the uncharted territory of payment systems and bank accounts. This raises fundamental questions about the role of a central bank and the possible impact on the private provision of credit. It's not out of the realm of possibility that retail client accounts with the ECB could become trigger for a new crisis. Before embarking on this ambitious endeavour, the ECB needs to stop and think twice.

The concept of central bank digital currencies (CBDCs) has emerged as one of the possible building blocks of the future payments ecosystem and central banks around the world are exploring what role they should play. The ECB has conducted thorough research over the past two years and is now ready to present the conclusions of its investigative phase of a retail digital euro.

As a retail CBDC, the digital euro is intended to serve different objectives, including as a new means of retail payment, as well as serving as a monetary anchor for the payments system, and increasing financial inclusion. Additionally, a digital euro – depending on its specific design features – has the potential to deliver benefits for end users (e.g. individuals, merchants and businesses) in terms of costs, settlement, privacy, and innovation. However, this combination of objectives and benefits comes with a set of complexities and risks, all of which require thorough consideration and a careful design.

Set up in April 2023 to examine how the digital euro could contribute to the future of payments and the role it should play in it, a dedicated CEPS Round Table brought together a balanced working group of market operators and infrastructure providers, central bank representatives, regulators, and academics to exchange views in several high-level discussions.

The report, 'A digital euro beyond impulse – think twice, act once', explores how the digital euro could contribute to the objectives being pursued with the project and analyses the main challenges that will need to be addressed for it to succeed. The report puts forward recommendations on what is necessary to be done prior to making the final decision over whether to issue a digital euro, as well as the approach to be followed once such a decision has been made.

With the participation of: **Jose Antonio Alvarez**, Santander; **Miki Kuusinen**, Bank of Finland; **Bruno Monteil**, Banque de France; **Michiel Hoogeveen**, European Parliament; **Teresa Mesquita**, SIBS; **Peter Bofinger**, University of Würzbürg; **Karel Lannoo**, ECMI.

Agenda and recording available here.

Making the OECD's corporate tax agenda work for the EU - Launch of Task Force Report

CEPS, September 18

A historic process is under way in the EU with the unanimous agreement to implement the Minimum Tax Directive (Pillar Two), and a forthcoming proposal for the apportionment of corporate tax income (Pillar One). This will put an end – at least for the EU – to the current system of international coordination on corporate income tax, which is based on the individuation of separate entities, the reference to intra-group transactions, and the 'arm's length principle' for transfer pricing between related parties.

Set up in February 2022 to examine the two-Pillar solution agreed at OECD level, a dedicated CEPS Task Force brought together a balanced working group of industry experts, academia, EU institutions and national authorities to engage in both research and several high-level discussions.

The report, 'EU corporate taxation in the digital era – The road to a new international order', discusses the critical points in the design of the two-Pillar solution agreed at OECD level. The focus is primarily on Pillar Two, where there has been significantly more progress than Pillar One. The report puts forward concrete recommendations on how to improve the functioning of Pillar Two and how to implement the Business in Europe: Framework for Income Taxation (BEFIT) in the EU, stressing the importance of simplicity, the reduction of compliance costs and uniformity.

This seminar discussed how international cooperation on corporate taxation can be achieved and how Pillar Two will be implemented in Europe and coordinated with BEFIT.

With the participation of: **Apostolos Thomadakis**, ECMI; **Gerassimos Thomas**, DG TAXAUD; **Jaime Salmerón**, Repsol, **Marlies de Ruiter**, EY; **Maarten de Wilde**, Erasmus University Rotterdam; **Vieri Ceriani**, Chair of the Task Force; **Elodie Lamer**, Tax Notes.

Agenda available here.

The EU's bank regulatory woes – where do we go from here?

CEPS, June 28

The fissures in banking markets have renewed interest in the regulatory approaches over the last few months. The EU is now finalising a banking package, the final notch of measures agreed upon after the financial crisis and as a part of this package has proposed upgrades to its crisis management and deposit insurance regime. Both are closely related to what are still matters of great concern, namely effective regulation.

The banking package aims to strengthen banks' capital, further consolidate the EU banking market and align the application of rules between home and host countries, close loopholes in the EU regulatory system, and harmonise prudential provisions. But the proposals have met with a lot of resistance from banks and Member States. Trust between Member States still seems to be lacking to allow for a fully integrated banking system, and banks argue that capital levels are becoming too high – and too costly.

The need to further strengthen the crisis management and deposit insurance framework was evident from the various bank liquidations that have happened over the last few years, and from the specific upheavals of the last few months. But the question that emerges is whether it is enough, and whether it will be respected by all parties in the case of a new bout of financial trouble. Moreover, deposit insurance systems still need to be further aligned, above all regarding the funding of the systems. All of this will, of course, take time.

This seminar discussed the banking package in the context of the renewed concerns about efficient bank regulation.

With the participation of: **Jonás Fernández**, European Parliament; **Almoro Rubin de Cervin**, DG FISMA; **Rym Ayadi**, Euro-Mediterranean Economists Association; **Nicolas Charnay**, S&P Global Ratings; **Ulrik Nødgaard**, Finance Denmark; **Karel Lannoo**, ECMI.

Agenda available here.

Harnessing high-quality data for climate resilience

CEPS, April 20

If we are to take a decisive step towards greater climate resilience, then alongside understanding the physical and transition risks posed by climate change we must also design and deploy effective adaptation measures.

High quality data is needed to assess climate risks and build efficient mitigation measures. Such data may either relate to a company itself (e.g. the location of physical assets and suppliers) or to external factors (e.g. natural hazards or climate change data). Conventional tools – including hazard maps, zoning maps, and building codes – rely primarily on historical data. However, as global warming is leading to changes in the frequency, intensity, and duration of extreme climate events, historical data needs to be accompanied by forward-looking data.

The EU has started to draft sustainability standards for corporate reporting. This should over time lead to a consistent set of data to measure and compare sustainability across sectors and countries. In the meantime, a variety of entities are collecting and 'certifying' data, which may lead to varying interpretations. Core EU-endorsed data will also remain an evolving area in the foreseeable future – following the adoption of the 'double materiality' concept, companies and authorities will need time to familiarise themselves with the use of financial and non-financial data.

Collaboration between public and private entities is equally important for introducing open-source data standards, creating risk data inventory databases, as well as to incentivise the private sector to invest in disaster risk reduction projects. As global experience demonstrates (e.g. the Insurance Development Forum), the expertise of the private sector (e.g. open-source risk modelling platforms and data standards) can support governments by improving their understanding of natural hazards and disaster risks, as well as assisting them to quantify the data collected.

Can data help identify potential climate risks – and if yes how? In which ways can data assist policymakers in developing strategies to build climate resilience? What role data can play in closing the protection gap through better risk management and risk sharing? How can academic research and science-based knowledge be converted into preventive action and responsible behaviour?

With the participation of: **Elina Bardram**, DG CLIMA; **Alison Martin**, Zurich Insurance Group; **Michael Gloor**, Correntics, **Swenja Surminski**, Marsh McLennan and London School of Economics and Political Science; **Luis Tejero Encinas**, Madrid City Council; **Karel Lannoo**, ECMI.

Agenda available here.

Tackling offshore tax evasion and avoidance

CEPS, March 21

Over the past decade, the Organisation for Economic Cooperation and Development (OECD) has led the development of pivotal tax transparency agreements in an effort to put an end to bank secrecy and tackle offshore tax evasion and avoidance.

One of them, the Common Reporting Standard (CRS), agreed in 2014, revolutionised tax transparency by requiring financial institutions to report information on taxpayers' offshore income and financial assets, which jurisdictions across the world then automatically exchange to help identify non-compliance. The digitalisation of the economy and the rapid development of crypto and other intangible assets resulted in the OECD revising the CRS and approving a new Crypto Asset Reporting Framework in August 2022.

The EU is also increasingly interested in this area. Over the last 10 years, there have been efforts to strengthen the cooperation among Member States through the Directive on Administrative Cooperation (DAC), as well as proposals to tackle the misuse of shell companies for tax purposes and the role of tax intermediaries in facilitating tax abuse.

More broadly, in the anti-money laundering and illicit finance space, countries globally have been moving towards the use of beneficial ownership registers as a key transparency tool to combat economic crime. This has already positively benefitted the tax transparency system but there are still unresolved questions about how such tools can be made truly global and bespoke to tax to combat offshore non-compliance.

This half-day conference organised by CEPS and the UK Mission to the EU discussed the effectiveness of existing transparency frameworks in tackling offshore tax evasion and tax avoidance, and the future holds in terms of challenges to overcome and opportunities to exploit.

With the participation of: **Andrew Wood**, UK Mission to the European Union; **Philip Kerfs**, OECD; **María José Garde**, Spanish Ministry of Finance; **Jon Sherman**, HMRC; **Elisa Casi-Eberhard**, Norwegian School of Economics; **Karel Lannoo**, ECMI; **Dr. Achim Pross**, OECD; **Benjamin Angel**, DG TAXUD; **Kira Marie Peter-Hansen**, European Parliament; **Dr. Rahul Sahgal**, Swiss State Secretariat for International Finance; **Aikaterini Pantazatou**, University of Luxembourg; **Elodie Lamer**, Tax Notes.

Agenda available here.

Members-only events

Where are markets heading in 2023, after a dull 2022?

CEPS, February 16

2022 saw a big change in financial markets. Inflation returned very prominently to markets, reaching highs of over 10%. The ECB reacted, bringing interest rates back into positive territory and it allowed banks to have more healthy income levels. Bond and equity markets reacted with a big sell off, signalling a radical change in the financing conditions we have become accustomed to over the last few decades.

During this seminar we discussed what changed in 2022 and the implications for 2023.

With the participation of: **William de Vijlder**, BNP Paribas; **Petra de Deyne**, EMMI, **Daniel Gros**, CEPS.

Announcement available here.

Annual Conference

ECMI Annual Conference 2023 – The Road to 2030: Setting Priorities Now for Europe's Capital Markets

CEPS, November 7

This year's ECMI Annual Conference focussed on setting priorities for Europe's capital markets up to 2030 and on ideas for the new European Parliament and the European Commission that will begin their mandates in 2024. In addition, we exchanged views on the sustainability rating providers and the regulatory framework around them, as well as the consolidated tape and the market for market data.

Detailed overview is available here.

Download post-conference report by Apostolos Thomadakis, Karel Lannoo and Jelmer Nagtegaal.

6 November 2023

Dinner with **Armi Taipale**, Head of Department, Capital Markets Supervision, Finanssivalvonta-Financnial Supervisory Authority (FIN-FSA)

7 November 2023

Opening Remarks: Europe's capital markets in perspective
Panel debate: A vision for Europe's capital markets in 2030
Panel debate: Regulating the ESG rating providers
Panel debate: Consolidated tape and the market for market data
Paper presentation: Book-to-market, mispricing, and the cross-section of corporate bond returns

With the participation of:

Kian Abouhossein, JP Morgan
Neil Acres, MSCI
Söhnke Bartram, University of Warwick
Fabrice Demarigny, Mazars and ECMI
Danuta Hübner, European Parliament
Stéphane Janin, AXA Investment Managers
Karel Lannoo, ECMI
Florencio Lopez de Silanes, SKEMA Business School
Fabrizio Planta, ESMA
Rainer Riess, FESE
Lorenzo Sáa, Clarity AI
Paul Tang, European Parliament
Sallianne Taylor, Bloomberg
Petr Wagner, DG FISMA
Jamie Whitehorn, FCA
Susan Yavari, EFAMA

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Sponsors

Statistical Package

The ECMI Statistical Package presents a comprehensive collection of the most relevant data on various segments of European and global capital markets. It enables users to trace trends so as to highlight the ongoing transformation of capital markets, including the structural changes brought about by competitive forces, innovation and regulation. It represents an important step towards overcoming the existing data fragmentation on the evolution of European capital markets by offering a 'one-stop-shop' for market participants, regulators, academics and students.

The 2023 version contains data on equity markets, debt securities, securitisation, covered bonds, exchange-traded and over-the-counter derivatives, asset management, mutual funds, insurance companies and pension funds, and global comparative data. Each table is associated with a corresponding illustrative figure, giving a visual overview of the most important trends. A user-friendly navigation is embedded in the programme allowing users to explore the comprehensive package in an easy and purposeful manner.

The package is available in Excel format on this dedicated webpage, free of charge for ECMI members. Non-members may purchase it here.

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Contracts awarded

- **Study on the disclosure of (sustainability) information accompanying insurance-based investment products (IBIPs) in Hungary (execution of Mystery Shopping activities)**
  for EIOPA (with Kantar Public and BARE International Europe)

- **Study on the disclosure of (sustainability) information accompanying insurance-based investment products (IBIPs) in Croatia, France, Greece, Hungary, Italy, Latvia and Lithuania (execution of Mystery Shopping activities)**
  for EIOPA (with Kantar Public and BARE International Europe)

- **Provision of large scope sustainability data at EU level**
  for MSCI

About ECMI

Mission and governance

ECMI produces various outputs, such as regular commentaries, policy briefs, working papers, statistics, task forces, conferences, workshops and seminars. In addition, ECMI undertakes studies commissioned by the EU institutions and other organisations, and publishes contributions from high-profile external researchers. ECMI regularly organises workshops, seminars and task forces on a variety of issues facing European capital markets. Participation in ECMI events offers multiple networking opportunities. The Annual Conference is a unique event in Brussels, bringing together high level speakers and hundreds of participants.

ECMI is a non-profit organisation, funded through its membership base in addition to externally commissioned research, events/task forces fees and publications sales. The diversity of the membership base and the governance model are the best guarantee of ECMI's independence as a research institute.

The Annual General Meeting of Members is usually organised in October/November on the eve of the Annual Conference. Board Meetings are organised twice each year, usually in February/March and June/July, respectively. The board is very well diversified, composed of highly reputed individuals in their field of expertise. The board members provide the strategic direction of the organisation, supervise the work of the management team and the financial performance of the institute. The research staff works on the basis of an independent agenda; they are assisted by the academic committee

Board Members

Fabrice Demarigny, Chairman
Global Head of Financial Advisory Services, Mazars

Martin Bresson
Invest Europe

Hans Buysse
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Godfried De Vidts
Advisor to the Board

Carey Evans
BlackRock

Jillien Flores
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Josina Kamerling
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Jacqueline Mills
Association for Financial Markets in Europe (AFME)

Pedro Porfirio
Finastra

Pablo Portugal
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Rainer Riess
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Julia Rodkiewicz
International Capital Markets Association (ICMA)

Jean Paul Servais
Financial Services and Markets Authority (FSMA)

Michalis Sotiropoulos
Depository Trust & Clearing Corporation (DTCC)

Academic Committee

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Amundi and Paris Dauphine University

Pierre-Henri Conac
University of Luxembourg

Marco Lamandini
Università di Bologna

Jesper Lau Hansen
University of Copenhagen

Florencio López de Silanes
SKEMA Business School

Niamh Moloney
London School of Economics (LSE)

Research Team

Karel Lannoo, CEO, CEPS and General Manager, ECMI

Karel Lannoo has been CEO of CEPS since 2000, a leading think tank and forum for debate on EU affairs. He has published extensively on financial regulation, and contributes as regular speaker in public hearings, international conferences and in briefings for executives. He acted as rapporteur for many task forces on capital markets chaired by senior officials and business leaders. He is the General Manager of the European Capital Markets Institute (ECMI) and the European Credit Research Institute (ECRI), both operated by CEPS, and also serves as non-executive member in boards of foundations, supervisory authorities and market operators.

Apostolos Thomadakis, Head of Research, ECMI

Apostolos Thomadakis joined ECMI in October 2016. Prior to this, he was a Visiting Scholar at the Applied Macroeconomic Research Division at the Bank of Lithuania (BoL) and a Visiting Scholar at the Foreign Research Division at the Austrian National Bank (OeNB). He has also completed a Traineeship in the Capital Markets and Financial Structure (CMT) Division of the European Central Bank (ECB) and a PhD Internship in the Country and Financial Sector Analysis Division of the European Investment Bank (EIB). Apostolos has held academic positions and taught Econometrics and Finance courses at University of Warwick, London School of Economics, University of Bath and University of Surrey. He has a PhD Economics (University of Surrey, UK); MSc Business Economics & Finance (University of Surrey, UK); BSc Physics (Aristotle University of Thessaloniki, Greece)

Jelmer Nagtegaal, Research fellow, ECMI

Jelmer Nagtegaal is a Researcher in the Financial Markets and Institutions unit at CEPS and ECMI. He is a graduate (with Honours) from the Johns Hopkins University School of Advanced Studies where he studied International Economics and International Relations. Before that, Jelmer studied Computer Science at the Amsterdam University College. Prior to joining CEPS, he gained work experience at the European Bank for Reconstruction and Development (EBRD) and the Dutch Central Bank. Mother tongue Dutch, he is fluent in English and has advanced knowledge of German and Italian.

Membership

The membership of ECMI is open to private companies/organisations, regulatory authorities and academic institutions.

Corporate/Institutional	EUR 3,500/year EUR 4,000 (from July 2024)/ year
Board	EUR 5,850/year EUR 6,700 (from July 2024) / year
Academic/University	EUR 500 (12 months)

Benefits

- Stay well-informed on the latest market and regulatory developments in European capital markets
- Support policy-oriented research to enhance the growth potential of European capital markets
- Benefit from our in-house expertise through meetings, conference calls or webinars with our staff
- Engage with extensive networks of market participants, regulators and academics
- Gain preferential access to Task Forces, with up to 70% discount over non-member fees
- Attend our events (annual conference, seminars, workshops, symposia) at no extra cost
- Become a partner/co-host in the organisation of dedicated events
- Participate at public consultations (interviews, questionnaires, roundtables)
- Receive regular updates with our publications (commentaries, policy briefs, working papers)
- Gain free access to our statistical package, a comprehensive overview of Europe's capital markets
- Subscribe to our quarterly newsletter including our recent and forthcoming activities
- Participate in the board meetings and/or annual general meeting of member

More information on how to become a member is available here.

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ABN·AMRO Clearing | Amafi – Association Française des Marchés Financiers – Financial Market Professionals | afg – association française de la gestion financière | afme/ | ASF – Association Française des Sociétés Financières

AXA | BME Group – Spanish Exchanges | BlackRock | BNY Mellon | CFA Institute

City of London | CONSOB – Commissione Nazionale per le Società e la Borsa – Autorità italiana per la vigilanza dei mercati finanziari | Covea | DTCC | EBF – European Banking Federation

EFAMA – European Fund and Asset Management Association | EFFAS | European Central Bank – Eurosystem | euroclear | EMMI – European Money Markets Institute

FESE | FIA | FIA EPTA – European Principal Traders Association | Finastra | FSMA

Freshfields Bruckhaus Deringer | ICMA – International Capital Market Association | Invest Europe | irish funds | ISDA

London Stock Exchange Group | MFSA – Malta Financial Services Authority | Managed Funds Association | mazars | Moody's Investors Service

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European Capital Markets Institute

ECMI conducts in-depth research aimed at informing the debate and policymaking process on a broad range of issues related to capital markets. Through its various activities, ECMI facilitates interaction among market participants, policymakers, supervisors and academics. These exchanges result in commentaries, policy briefs, working papers, task forces as well as conferences, workshops and seminars. In addition, ECMI undertakes studies externally commissioned by the EU institutions and other organisations, and publishes contributions from high-profile guest authors.

Centre for European Policy Studies

CEPS is widely recognised as one of the most experienced and authoritative think tanks operating in the EU. CEPS acts as a leading forum for debate on EU affairs, distinguished by its strong in-house research capacity and complemented by an extensive network of partner institutes throughout the world. As an organisation, CEPS is committed to carrying out state-of-the-art policy research leading to innovative solutions to the challenges facing Europe and to maintaining the highest standards of academic excellence and unqualified independence. It also provides a forum for discussion among all stakeholders in the European policy process that is supported by a regular flow of publications offering policy analysis and recommendations.