Activities Report

European Capital Markets Institute

2017

Contents

Message from the General Manager

The future of Europe's capital markets is uncertain in the face of policy, market and technological developments.

In the wake of the financial crisis, the Juncker Commission set the ambition of further aligning the different markets in Europe and allowing for better risk-sharing mechanisms.

Three years on, it is clear that it remains a useful project, but is probably also a distant objective. Asset allocation patterns in Europe continue to be very diverse. Political events in the most developed European capital markets will create additional barriers. Global technological developments raise big governance questions and market supervisory structures are evolving in a more ad hoc way, rather than being clearly structured.

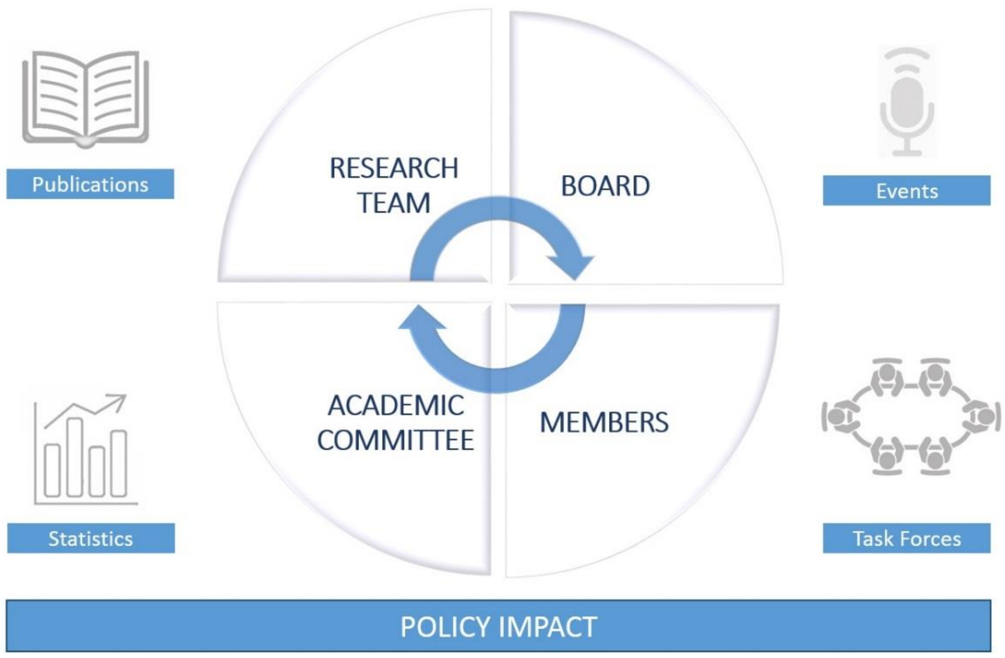
For ECMI, this means that much remains to be done to monitor these developments and remind policymakers of the inefficiencies in Europe's capital markets.

Karel Lannoo

General Manager, ECMI

Overview

Mission statement. ECMI conducts in-depth research aimed at informing the public debate and policy-making process on a broad range of issues relevant to capital markets. Through its various activities, ECMI facilitates the interaction among policymakers, market participants, and academics. The diversity of the membership base and its sound governance model are the best guarantee of ECMI's independence as research institute.



ECMI in figures	
1 084 703	Total visits to ECMI webpage
18 693	Publications downloads
1 348	Social Media (Linkedin, Twitter)
276	Participants at the annual conference
43	Corporate and institutional members
16	Publications and studies
12	Events organised
2	Research projects
1	Active Task Force

Publications

Commentaries

Developing EU Capital Markets for SMEs: Mission impossible?

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. Available here.

At last, a Pan-European Pension Product!

by Karel Lannoo

The proposal for a Pan-European Pension Product (PEPP) 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. Legislators should ensure that it remains an attractive proposition, which will not be easy because of the huge differences in the national administration of pension savings and the acute sensitivity that exists to any changes in this domain. Available here.

How close are we to a Capital Markets Union?

by Apostolos Thomadakis

The Commission has to ensure that the key aim of the CMU and the Action Plan is to improve the capital markets themselves. The focus should be on increasing transparency, making capital markets more accessible to smaller businesses, incentivising long-term private investment in listed equities, encouraging the development and use of disruptive technology and, ultimately, creating jobs. Available here.

Policy briefs

Derivatives clearing and Brexit: A comment on the proposed EMIR revisions

by Karel Lannoo

It is still early to make an assessment of the impact of EMIR. This paper argues that the European Commission should have assessed risk management with CCPs in more detail and should have proposed a more integrated architecture for the supervision and resolution of CCPs. It further argues that the three proposals should have been part of one single package to facilitate the legislative process of such technical measures. Available here.

MiFID 2 and new market conduct rules for financial intermediaries: Will complexity bring transparency?

by Karel Lannoo

The 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. Available here.

Brexit and the Asset Management Industry

by Karel Lannoo

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. Available here.

Research Reports

Creating Long-Term Value in Europe's Capital Markets: Opportunities and constraints

by Cosmina Amariei

European households have been increasing their participation in capital markets in recent years. Nonetheless, a more balanced, diversified asset allocation is needed. Enhancing access to products with a rewarding risk-return profile, transparent pricing and cost structures should remain a priority. In the investment community, generating real positive returns has become increasingly difficult, given the low-yield environment. Some institutional investors have shifted their portfolio allocation further down the credit risk spectrum, also venturing into assets with increasingly longer maturities and the alternative assets space. In particular, the asset management sector is expected to undergo fundamental changes driven by increased regulatory scrutiny and the new competitive landscape. Available here.

Capital Flows: Shocks or shock absorbers?

by Cosmina Amariei

Capital controls (also called capital-flow management measures, or CFMs) and macro-prudential measures (MPMs) are complements rather than substitutes. Both can be employed alongside standard macroeconomic policies, like monetary or exchange rate policies. The optimal mixture depends on the available policy space and the objectives pursued in individual countries and their suitability at a given time in the business/financial cycles. A key development for the future is that the intermediation of capital flows is changing. Non-banks, in particular asset managers, are now managing larger shares of capital flows. Available here.

Recent Developments in European Capital Markets

by Apostolos Thomadakis
& Robin Lechtenfeld

This report presents the key developments on the European and global capital markets. The report 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). Available here.

External studies

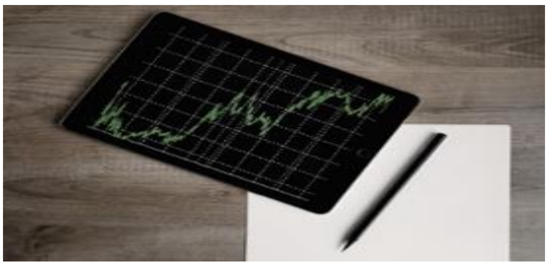
Improving the Investor Base for Local Currency Bond Markets in China, India and Indonesia

by Cosmina Amariei,
Willem Pieter de Groen and Diego Valiante

There are substantial differences in the market structure and investor base in the analysed jurisdictions. This study looks at the possibility to further develop the local currency bond markets in general, and to broaden and deepen the institutional investor base in China, India and Indonesia in particular. It lists a series of recommendations to make the bonds markets more attractive to both issuers and investors by looking into capital markets functions: price discovery, execution and enforcement. This report was prepared in the framework of the Emerging Market Sustainability Dialogues (EMSD), which is implemented by GIZ, the German international cooperation agency, on behalf of the German Ministry of Economic Cooperation and Development.

Financial Instruments: defining the rationale for triggering their use

by Jorge Núñez Ferrer, David Rinaldi,
Apostolos Thomadakis, Roberto Musmeci



The use of financial instruments within the EU budget is becoming more and more common. The present study first revises key concepts in determining the use of those instruments, before providing an analysis of the functioning and consistency of the ex-ante assessments, which are required by regulation to help identify the rationale and scope for financial instruments. It offers recommendations to improve the ex-ante assessment process and on the use of these instruments across the EU. The study was commissioned by the European Parliament's Committee on Budgets to a consortium formed by CEPS, LSE Entreprise, and IEEP. Available here.

Working Papers

The Failure of a Clearinghouse: Empirical Evidence

by Guillaume Vuillemey & Vincent Bignon

This paper provides the first detailed empirical analysis of the failure of a derivatives clearinghouse. Using archival data, the authors find three main causes of the failure: i) a weak pool of investors, ii) the inability to contain the growth of a large member position and iii) risk-shifting decisions by the clearinghouse. Risk-shifting incentives aligned the clearinghouse's interests with those of the defaulting member, induced delays in the liquidation of the defaulted position and led attempts at private renegotiation to fail. The results have implications for current policy debates on the design and resolution of clearing institutions. Available here.

Capital Markets, Debt Finance and CMU: A law and finance critique

by Vincenzo Bavoso

Contrary to conventional wisdom, this paper contends that the excessive development of capital market finance has been one of the catalysts behind the crises and scandals that have unfolded over the past 15 years. In particular, innovative debt transactions have proven instrumental to the creation of excessive levels of risk-taking and leverage, which have had catastrophic consequences, both at the firm and systemic level. This paper finds that the European policy design fails to appreciate the dangers associated with capital markets finance and its ensuing debt-creating effects. It argues that, despite some regulatory efforts, a suitable architecture for the regulation of disintermediated capital markets is still missing. Available here.

Cyclical Investment Behaviour across Financial Institutions

by Yannick Timmer

This paper contrasts the investment behaviour of different financial institutions in debt securities as a response to price changes.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. Available here.

The Transmission Mechanism of Credit Support Policies in the Euro Area

by Jef Boeckx, Maite De Sola Perea, Gert Peersman

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. Available here.

CoCo Design, Risk Shifting Incentives and Financial Fragility

by Stephanie Chan & Sweder van Wijnbergen

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. 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. Available here.

Contracts awarded

Study on the accounting regime of limited liability companies

for DG FISMA, the European Commission (with LSE Enterprise and Bureau van Dijk)

This study will assist the Commission in fulfilling the task of examining the situation of micro companies as required by Article 36(9) of Directive 2013/34/EU. It therefore aims to: obtain information on the number of companies by size criteria at national level, with a particular focus on the number and proportion of micro companies; and assess the reduction of administrative burdens resulting from the micro-regime, and in particular from the exemption from the publication requirement. The tasks to be performed are structured into two main work streams: 1.a data collection exercise, in relation to the number of limited liability micro companies per each Member State; 2. a survey exercise, aiming to assess the burden reduction, if any, in quantitative and qualitative terms, resulting from the implementation by certain Member States of super simplified accounting regime for micro-companies as offered by Article 36 of the Accounting Directive.

Evaluation of the application of the EIB's external lending mandate

for DG ECFIN, European Commission (with Ecorys)

Under the External Lending Mandate (ELM) the EIB can benefit from an EU guarantee on part of its lending outside the EU. The ELM thus enables the EIB to support EU external policy objectives in a wider range of countries by investing in projects which would otherwise not be able to be financed by the EIB. For projects in the private sector, the guarantee covers political risk only. For projects in the public sector, the EU provides a comprehensive guarantee. The contract will cover: 1) support activities related to the required public consultation and impact assessment as regards possible options for a stand-alone legislative proposal building on the external lending mandate for the post-2020 period or a new legislative proposal as part of a larger framework for external financing instruments as described in the Better Regulation Guidelines; 2) work related to an evaluation of the current mandate as required by newly amended legislation when it enters into force.

Events

Regular events

Global Financial Stability: How stable are we?

Brussels, 25 October 2017

The October IMF report "Global Financial Stability Report: Is Growth at Risk?" was presented at a meeting hosted by CEPS and ECMI. The key message delivered at the meeting by representatives of the IMF and the European Commission was that both policymakers and market participants should remain alert, avoid complacency and set up additional safeguards against a build-up of financial vulnerabilities. Financial crises have a series of common elements and fundamental economic forces that work as amplifiers; namely leverage, maturity transformation, interconnectedness, currency mismatch, and asset valuation. The speakers noted that although the banking sector is now more resilient, there are concerns related to legacy issues and business model challenges. In order to strengthen the overall financial system, the non-bank financial sector should also be closely monitored and regulated. The search for yield is expected to continue, coupled with low market volatility. Most importantly, vulnerabilities are moving to the non-financial sector, given the boost in leverage by governments, corporates and households, in particular. Easy financial conditions can fuel economic growth in the short run, but when coupled with a rise in medium-term financial risk, economic growth is threatened. So far, macro-prudential polices have proved to be more effective in the emerging rather than advanced economies. **Agenda available here.**

With the participation of:
Tobias Adrian, IMF; **Marco Buti**, European Commission; **Daniel Gros**, CEPS.

Download event report by **Cosmina Amariei.**

How to cleanse NPLs from EU banks' balances?

Brussels, 25 September 2017

Since the financial crisis, banks have accumulated about a trillion euro's worth of non-performing loans (NPLs) on their balance sheets. The high levels of NPLs in Italy, Greece and Portugal, for example, constrain their banks' lending abilities and cause delays in economic recovery. Various potential private and public solutions have been put forward to resolve the problems caused by NPLs but they persist, despite some improvement in recent quarters. Panellists discussed resolving NPLs and the need for further public interventions. Banks can reduce their stock of NPLs in various ways. Depending on the type of NPL portfolio and a bank's capacity, a bank-specific strategy should be chosen. Whether it is optimal to keep the NPLs or to sell them to investors or a public asset management company depends on a bank's capacity to maximise the recovery value. Indeed, smaller banks do not often have the staff or the knowledge to recover the most from NPLs themselves, in which case the sale of NPLs to investors should be the preferred strategy. Investors in NPLs often require high returns and are small in number. In order to attract more investors, supervisors are improving the information they give to potential investors. There is, however, still room to improve the resolvability of NPLs, and especially to foster the efficiency of the judicial system and insolvency law. **Agenda available** here**.**

With the participation of:
Ramón Quintana Aguirre, ECB; **Stefano Del Punta**, Intesa Sanpaolo; **Massimo Massimilla**, Algebris Italy; **Piers Haben**, EBA; **Cinzia Alcidi**, CEPS.

Download event report by **Willem Pieter de Groen.**

Mid-Term Review of the Capital Markets Union Action Plan

Brussels, 4 July 2017

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 that Banking Union: it is more eclectic, more diffuse and a lot harder to communicate and sell. Agenda available here.

With the participation of:
Niall Bohan, European Commission; **Georg Ringe**, University of Hamburg; **Vincenzo Bavoso**, University of Manchester; **Fabrice Demarigny**, ECMI.

Download event report by **Apostolos Thomadakis**.

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

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 CPP 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. Agenda available here.

With the participation of:
Patrick Pearson, European Commission; **Stephen Fisher**, BlackRock; **Willem Sprenkeler**, Optiver; **Jan Bart De Boer**, ABN AMRO Clearing; **Ron Berndsen**, De Nederlandsche Bank & Tilburg University; **Elisabeth Ledrut**, SRB; **Demetria O'Sullivan**, ICE Clear Europe; **Cora van Nieuwenhuizen**, European Parliament; **Karel Lannoo**, ECMI.

Download event report by **Willem Pieter de Groen.**

Blockchain application and its impact on securities value chain

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. **Agenda available** here.

With the participation of:
Garrick Hileman, Cambridge Centre for Alternative Finance**;** **Patrick Armstrong**, ESMA; **Peter Bidewell**, Applied Blockchain; **Greg Allen**, LSEG; **Karel Lannoo**, ECMI.

Download event report by **Apostolos Thomadakis**.

Removing Information Barriers to Investment in SMEs

Brussels, 8 February 2017

Following the European Commission's public consultation on the Capital Markets Union (CMU), which it launched in January with a view to completing the midterm review of the CMU by June 2017, the European Capital Markets Institute (ECMI) organised a lunchtime seminar to discuss the Commission's strategy. The 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. Moreover, the ECB's Ana Credit 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. **Agenda available** here**.**

With the participation of:
Pierre Schammo, Durham University; **Ricardo Bonci**, ECB; **Gerhard Huemer**, UEAPME; **Alexis Marchand**, European Commission; **Karel Lannoo**, ECMI.

Download event report by Apostolos Thomadakis.

Special series

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

Brussels, 26 September 2017

By broadening the reach of the regulatory framework to the full product and service cycle, MiFID II emphasises the role of product governance (manufacturing and distribution) and the product intervention in preventing harmful products from reaching the market. Despite recent progress, such as the European MiFID Template (EMT, which is expected to standardise the information shared between product manufacturers and distributors) and ESMA's latest guidelines for the Target Market identification, further work and clarification are needed. The research reforms in MiFID II involve significant challenges for firms (particularly in relation to fixed income, commodity and currency research). Concerns were expressed by seminar participants about the ability to pay for research outside of the EU (e.g. in the US), and the danger of having a mechanism for research payment that will be overly prescriptive. The regulatory patchwork (PRIIPS, MiFID II, IDD and other national legislation) creates contradictions that may inhibit the enhancement of investor protection. There is thus an important coordinating role for ESMA (together with national competent authorities) in strengthening the monitoring of financial markets and the development of appropriate tools for doing so. Certainly, more regulatory convergence between member states, and regulatory initiatives within states, would contribute to a more uniform approach. **Agenda available** here.

With the participation of:
Danny Busch, University of Nijmegen; **Andreas Stepnitzka**, EFAMA; **Michele Leoncelli**, Prometeia; **Joris Lauwers**, KBC Asset Management; **Salvatore Gnoni**, ESMA; **Stephen Hanks**, FCA; **Karel Lannoo**, ECMI.

Download event report by Apostolos Thomadakis.

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

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 discussions, market participants will need to take adequate and timely steps to prepare for MiFID II and to comply with its new regulations on transaction reporting and best execution, from January 2018 onward. 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 regulations, they certainly complicate matters for firms, especially those with third-country clients. Overall, while MiFID II has set out to improve price transparency across all asset classes (not only equity and debt, unlike MiFID I), its far-reaching complexity invites justified scepticism about firms' readiness to deliver. **Agenda available** here.

With the participation of:
John Mason, Thomson Reuters; **Elena Gaetini**, RegTek Solutions; **David Nowell**, LSEG; **Tom Kennedy**; Thomson Reuters; **Karel Lannoo**, ECMI.

Download event report by Apostolos Thomadakis.

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

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. **Agenda available** here.

With the participation of:

Jorge Yzaguirre Scharfhausen, Bolsas y Mercados Españoles; **Bas Dommerholt**, AFM ; **Julian Allen-Ellis**, AFME; **Per Loven**, TRADEcho; **James Roberts**, ISDA ; **Alex McDonald**, Wholesale Markets Brokers' Association; **Tom Springbett**, UK FCA, **Uwe Hillnhütter**, Tradeweb; **Karel Lannoo**, ECMI.

Download event report by Apostolos Thomadakis.

Annual Conference

Towards variable union in Europe's capital markets

Brussels, 22- 23 November 2017

ECMI brought together an excellent line-up of leading academics, policymakers and industry representatives at its 7th Annual Conference to present their views on long-term investment, supervisory architecture, derivatives markets and fintech. The key message was that capital markets union must go beyond the actions set for end-2019. CMU is certainly a long-term project that will require the support of multiple stakeholders from both the public and private sectors. Capital markets, in particular equity, and long-term institutional investors, are best suited to finance real assets in the economy. There are certainly areas that should be brought within the remit of ESMA, but achieving supervisory convergence will be the main objective where this is not yet possible or necessary. Brexit-driven relocation might lead to a more balanced landscape of the euro-denominated clearing activities in Europe. With respect to the potential of DLT, it is essential to establish a critical mass of market players and interoperability with the existing infrastructures. **Detailed overview is available** here.

PROGRAMME

22 November 2017

Dinner debate: Review of the mandate, governance and operations of the ESAs

23 November 2017

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?

Download post-conference report by **Cosmina Amariei and Apostolos Thomadakis.**

With the participation of:

Andrei Kirilenko, Imperial College London
Angela Walch, St. Mary's University
Carmine di Noia, Consob
Claudia Buch, Deutsche Bundesbank
Daniel Maguire, LCH Group
David Ostojitsch, AFME
Eric Litvack, ISDA
Fabrice Demarigny, Mazars
Fabrizio Planta, ESMA
Florencio López de Silanes, SKEMA
Franklin Allen, Imperial College London
Guillaume Vuillemey, HEC Paris
Haoxiang Zhu, MIT Sloan
Jan Bart de Boer, ABN AMRO Clearing
Jean-Paul Servais, FSMA
Karel Lannoo, ECMI
Laurent Clamagirand, AXA
Martina Macpherson, Sustineri
Merel van Vroonhoven, AFM
Rick Lacaille, State Street Global Advisors
Simon Toms, Allen & Overy
Tom Casteleyn, BNY Mellon
Ugo Bassi, European Commission
Ulrich Bindseil, ECB
Vincent Bignon, Banque de France

Partners

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Task Forces

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

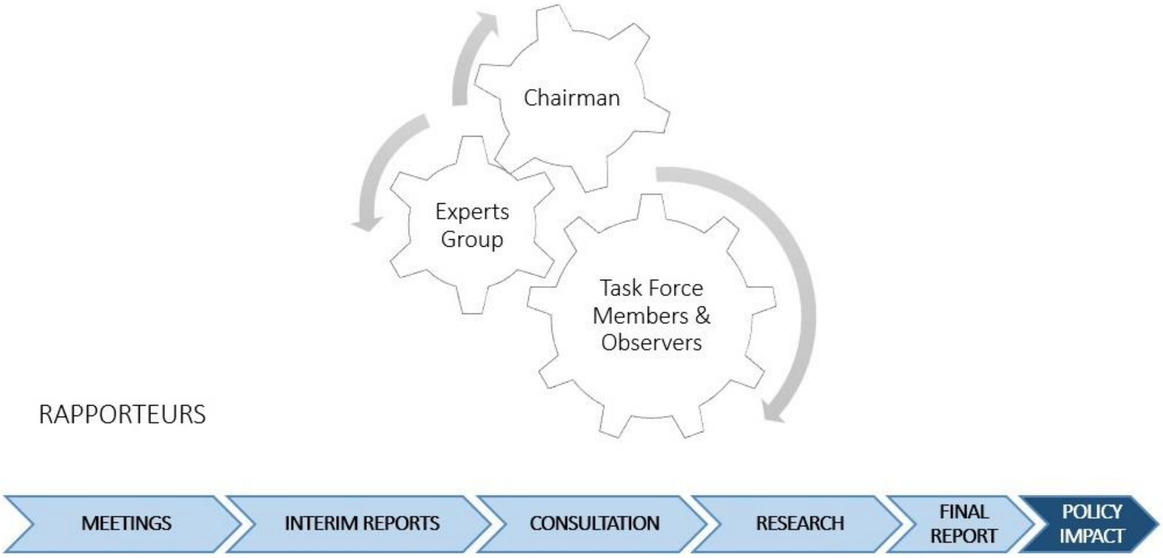
Background. Many factors – changing economic/financial conditions, evolving demographics and regulatory as well as technological developments – will impact asset allocation in the coming years. The purpose is to contribute to the public debate about the need to facilitate European households' access to savings/investment products with stable returns over time, and to promote long-term investment across the EU through more capital markets-based financial intermediation.

Objective. This Task Force aims to engage a diverse group of stakeholders in a structured dialogue in order to: 1) identify the factors at macro- and micro- level driving investment decisions; 2) analyse their impact on households/retail investors and on different categories of financial intermediaries; and 3) put forward a list of policy recommendations to strengthen the long-term savings & investment channels in Europe.

A detailed overview of the proceedings is available on this dedicated [webpage.]

CHAIRMAN **Jean-Pierre Pinatton**, Supervisory Board, Oddo BHF

RAPPORTEURS **Karel Lannoo**, CEO, CEPS and **Cosmina Amariei**, Researcher, ECMI



Participation. These are closed-door meetings, with the participation being limited to the members of the experts group and broader task force, academic/policy/industry observers and selected invitees.

ECMI or CEPS Corporate Member	€ 1,500
Non-Members	€ 5,000*
Academic/Policy Observers	free of charge (academics, policymakers, regulators, supervisors, independent experts, consumer/retail investors associations)
Industry Observer	€ 500 (per meeting)

** Discount available if non-members decide to join ECMI, namely the participation in the task force at the reduced rate (€1,500) and 1-year ECMI membership at a preferential rate (€3,000).*

MEETING 1 - 14 June 2017

Topic 1: short vs long term investment

In the past 7 years, the investment climate (real economy and financial sector) has been characterised by falling short- and long-term interest rates, with cyclical and structural drivers reinforcing each other. Most financial intermediaries had to re-examine the notion of risk-free assets, make changes to the composition and risk/return profile of their portfolios and question whether their asset allocation techniques were still working. Higher rates and steeper yield curves are envisaged soon in Europe, provided that several critical factors materialise, such as strong economic recovery and growth, inflationary pressures, less accommodative monetary policies, etc

- What topics are likely to dominate the investment space in Europe (reflation, low returns, sources of yield, risk diversification)?
- How to foster the participation of households in capital markets? Does the current supply of products meet their needs?
- Are investors equipped for major markets/regulatory/technological shifts? How will these impact their business models and asset allocation strategies?
- Does the current regulatory framework (at national or EU level) provide the incentives for long-term, sustainable investment, on a cross-border basis?

Topic 2: asset managers

The asset management industry (investment funds and discretionary mandates) is undergoing fundamental changes. The shift to passive funds is well understood. Active managers are facing growing fee pressures, struggling with the low interest environment and in some cases underperforming their market benchmarks. As QE reverses, seizing alpha opportunities will become critical for active managers, e.g. cross-over into illiquid and lower rated alternatives and factor-based investing. End investors will continue to put emphasis on the absolute level of returns after costs. Regulation, fintech, evolving demographics will also change the contours of the asset management industry.

- What factors will affect the asset managers' value proposition for retail and institutional investors, respectively, in the long run?
- What is the outlook for asset allocation (equity, fixed income, alternatives) and investment strategies (active or passive) for the next 5 years?
- Will fintech (robo-advisors, big data, DLT) bring about operational efficiencies in the funds' industry and expand the client base?
- Are asset managers ready to comply with new regulatory framework, in particular MiFID II?

Amlan Roy, State Street Global Advisors
Anders Damgaard, PFA Pension
Bernard Delbecque, EFAMA
Guillaume Prache, Better Finance
Jean-Pierre Casey, J.P. Morgan
Philipp Hartmann, ECB
Rhodri Preece, CFA Institute
Sven Gentner, European Commission

More information is available here.

MEETING 2 - 24 October 2017

Topic 3: insurance companies

The insurance sector is the largest institutional investor in Europe and remains highly concentrated in a small number of countries. Despite a shift towards products featuring lower guarantees and a more flexible return structure, non-unit-linked still constitute the bulk of the policies on the balance sheets of life insurers. On the assets side, the process of de-risking has come to a halt and has started to reverse in recent years. Some insurers have been gradually increasing their exposure to higher-yielding debt instruments but also to infrastructure, private equity and direct lending. On average, non-life insurers operate at higher shares of equity than life insurers.

- What are most relevant constraints/opportunities on the balance sheets of insurers?
- Are the concerns about the increasing duration mismatch and re-investment risk warranted? What types of risk management strategies are currently being employed?
- What are the drivers behind externalising portfolio management and other types of services (reporting, data analytics etc)?
- Should prudential regulation be used as tool to (dis) incentivise investment in certain asset classes? Is the current regulatory framework (Solvency 2) conducive to long-term investment?

Topic 4: pension funds

Europe’s pension savings gap is projected at around €2 trillion a year, and there is no one 'silver bullet' for solving this increasingly complex problem. Over the last ten years, European pension funds (defined benefit or defined contribution, occupational or personal, mandatory or voluntary plans) have experienced an increase in their investments. At present, there is significant heterogeneity in the asset allocation among member states, with respect to direct or indirect holdings of equity in particular. When it comes to future challenges, the pension product mix (and underlying investment strategy) will have to accommodate the longevity ‘risk’ and deliver satisfactory and stable returns over time.

- What is the outlook for asset allocation (traditional vs alternatives) and investment strategies (active vs. passive, cash flow vs liability driven) in the medium and long run?
- Do the main risks for pension funds appear to be on the return portfolio, or rather on the matching portfolio? Does the business model play a significant role?
- Are pension funds re-considering their in(out)-sourcing of asset management or co-investment/partnerships with other institutional investors?
- Is PEEP going to be sufficiently attractive for savers and providers?

Nathalie Berger, European Commission
Christian Jochum, Zurich Insurance
Mireille Aubry, Covea
Claudio Bocci, Prometeia
Dimitris Zafeiris, EIOPA
Matti Leppälä, PensionsEurope
Hans van Meerten, Utrecht University
Martin Parkes, BlackRock

More information is available here.

MEETING 3 - 20 March 2018

Topic 5. Retail investors

Retail investors are and should remain at the core of the CMU project. To this end, a more balanced and diversified allocation of their financial assets is needed. Compared to the US, European households have more than double the amount of their savings in deposits, but only half as much in investment funds and shares. Moreover, due to a variety of reasons – savings rates/net financial wealth, investor preferences/behavioural aspects, market structure and access, regulatory/supervisory frameworks and tax regimes – the composition varies considerably across Europe. Retail capital markets services are also barely developed on a cross-border basis, and this translates into very limited cross-border holdings of financial assets.

- What are the main factors influencing demand for savings/investment products across Europe? How to foster (in) direct retail participation in capital markets?
- Is the current supply fit for purpose, i.e. products with a rewarding risk-return profile, transparent pricing and cost/fee structures?
- Are the developments in manufacturing, marketing, distribution and financial advice moving into the right direction? How to tackle the lack of financial literacy?
- How effectively are the ESAs and NCAs overseeing the interaction among the different sectoral EU rules affecting retail investors?

Martin Špolc, European Commission
Steffen Kern, ESMA
Ole Stæhr, Nordea Wealth Management
Guillaume Prache, Better Finance
Emmy Labovitch, OECD
Hans-Ulrich Beck, Sustainalytics
Jean-Francois Coppenolle, Aviva

Topic 6. Sustainable investment

In Europe, the capital markets ecosystem is expected to further develop in line with the overall objective of enhancing long-term value creation in the real economy. Institutional investors and asset managers have a fiduciary duty to act in the best interest of their end investors, and therefore should be equipped to seize the opportunities and tackle the risks arising from materially relevant ESG factors. Retail investors have also been increasing their direct presence in this segment. With respect to non-financial data and integrated reporting, there seems to be a huge learning curve for companies, investors, service providers, policymakers and other stakeholders. Transparency, proportionality, reliability, and ultimately financial performance will allow the market to develop in size and maturity.

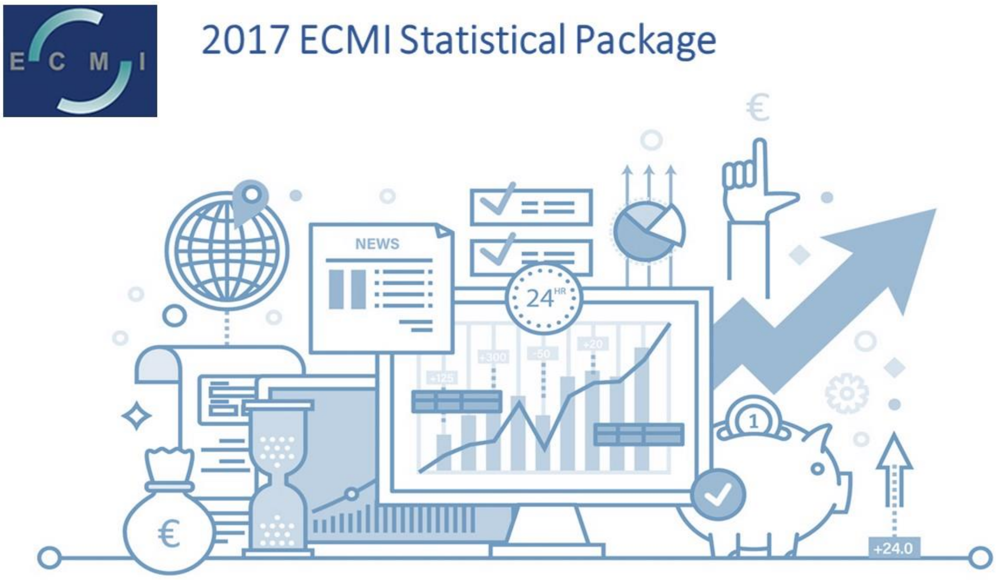
- Are investors mainstreaming the integration of sustainability factors? What are their approaches to ESG assessments, preferred asset classes and investment strategies?
- Is there a real 'scarcity' of sustainable assets/projects in Europe? Would fully-fledged taxonomies, labels and standards improve the conditions for investments?
- What drives the take-up of sustainability ratings/scoring, indices and benchmarks? How to ensure that SMEs are not underrepresented in the investors' portfolios?
- Should prudential regulation incentivise such investments?

More information is available here.

MEETING 4 - 21 June 2018 — REVIEW OF THE FINAL REPORT
MEETING 5 - 11 September 2018 — LAUNCH OF THE FINAL REPORT

Statistical Package

The ECMI Statistical Package is a comprehensive collection of the most relevant data on various segments of European and global capital markets. It enables users to track trends and 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 2017 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 has a corresponding illustrative figure that gives a visual overview of the most important trends, and user-friendly navigation is embedded throughout the programme.



- Data for over 40 stock exchanges
- Data for 40 Countries
- Time frame of 26 years of capital markets transactions (1991-2016) Equity market
- Data are rendered in over 150 tables and 120 figures.

- Equity market
- Debt securities market
- Exchange-traded derivatives market
- Over-the-counter derivatives market
- Comprehensive data on asset management
- Gross domestic product
- Global comparative data

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

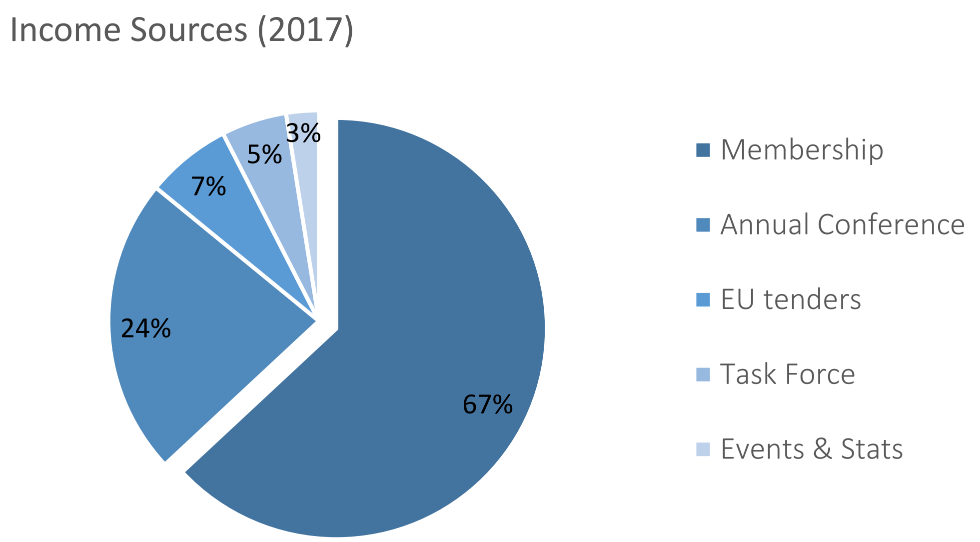
About ECMI

Mission and governance

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 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 over 30 high level speakers and more than 300 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

Ramon Adarraga
Bolsas y Mercados Españoles (BME)

Joanna Cound
BlackRock

Hans Buysse
European Federation of Financial Analysts Societies (EFFAS)

Godfried De Vidts
NEX

Andrew Douglas
DTCC

Patrik Karlsson
International Capital Markets Association (ICMA)

Rhodri Preece
CFA Institute

Rainer Riess
Federation of European Securities Exchanges (FESE)

Tanguy van de Werve
Association for Financial Markets in Europe (AFME)

Academic Committee

Marco Lamandini
Università di Bologna

Florencio López de Silanes
SKEMA Business School

Jesper Lau Hansen
University of Copenhagen

Pierre-Henri Conac
University of Luxembourg

Research Team

Karel Lannoo, CEO, CEPS and General Manager, ECMI

Karel Lannno has published numerous books and articles in newspapers, specialised magazines and journals on general European public policy, and specific financial regulation and supervision matters. His latest book is 'The Great Financial Plumbing, From Northern Rock to Banking Union', published in 2015. Karel is a regular speaker in hearings for national and international institutions (EU Commission, European Parliament and related), at international conferences and in briefings for executives. He is also the rapporteur for many CEPS task forces, chaired by senior European officials and business leaders (with Helmut Schlesinger, Tommaso Padoa-Schioppa, Jose-Maria Roldan, Thomas Huertas). He is also the General Manager the European Capital Markets Institute (ECMI) and the European Credit Research Institute (ECRI), both operated by CEPS. Karel is also an independent director of BME (Bolsas y Mercados Espanoles), the listed company that manages the Spanish securities markets. He is also a member of the Euribor Steering Committee, European Money Markets Institute (EMMI) and a non-executive director of Lannoo Uitgeverij Group.

Apostolos Thomadakis, Researcher, 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)

Cosmina Amariei, Researcher, ECMI

Cosmina Amariei joined ECMI and the Financial Markets and Institutions at CEPS in May 2014. Her main research areas include: financial integration & stability, asset management, retail and institutional investment, trading and post-trading market infrastructure, sustainable finance, fintech. She follows a series of legislative dossiers, such as CMU, MiFID 2/MiFIR, EMIR, UCITS, AIFMD, PRIIPS, PEPP, IDD, Solvency 2, IORP. In the past, she worked at the National Bank of Romania and the Romanian Commercial Bank - Erste Group Bank AG. She has a MSc in International Economics and EU Affairs (Bucharest University of Economic Studies and) and a BSc in Economics (Babeş-Bolyai University of Cluj-Napoca) and participated in an Exchange Programme in International Finance (University of Leuven - Campus Brussels).

Membership

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

Corporate/Institutional	EUR 3,000/year (36 months) EUR 5,000 (12 months)
Board	EUR 5,000/year (36 months)
Academic/University	EUR 500 (12 months)

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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.

Selected Activities 2010-2016

CEPS-ECMI Task Force Reports

- How to deal with the Resolution of Financial Market Infrastructures, Interim Report, Thomas Huertas, October 2016
- Europe's untapped capital market: Rethinking integration after the great financial crisis, Report of the European Capital Markets Expert Group (ECMEG), Diego Valiante, Cosmina Amariei, Jan-Martin Frie, February 2016
- Price Formation in Commodities Markets: Financialisation and Beyond, Diego Valiante, September 2013
- Saving for Retirement and Investing for Growth, Mirzha de Manuel Aramendía, September 2013
- Rethinking Asset Management: From Resilience to Investor Protection and Economic Growth, Mirzha de Manuel Aramendía and Karel Lannoo, April 2012
- MiFID 2.0: Casting New Light on Europe's Capital Markets, Diego Valiante and Karel Lannoo, February 2011
- Restoring Investor Confidence in European Capital Markets, Report of the European Investors Working Group (EIWG) and ECMI, in collaboration with the Centre for Financial Market Integrity (CFA), February 2010

CEPS-ECMI Paperbacks

- The Great Financial Plumbing: From Northern Rock to Banking Union, Karel Lannoo, October 2015
- A Legal and Economic Assessment of European Takeover Regulation, Christophe Clerc, Fabrice Demarigny, Diego Valiante and Mirzha de Manuel Aramendía, December 2012

ECMI Research Reports

- Towards the Right Policy Mix for a Thriving European Capital Market, Cosmina Amariei, December 2016
- Nothing ventured, nothing gained: How the EU can boost growth in small businesses and start-ups, Apostolos Thomadakis, November 2016
- Navigating the storm: Setting long-term goals in volatile market conditions?, Cosmina Amariei and Diego Valiante, October 2015
- The five Years Ahead – A new action plan for Europe's financial markets?, Cosmina Amariei and Diego Valiante, January 2015
- Supporting Access to Finance by SMEs: Mapping the initiatives in five EU countries, Federico Infelise, April 2014
- Setting the Institutional and Regulatory Framework for Trading Platforms: Does the MiFID definition of OTF make sense?, Diego Valiante, April 2012
- The Impact of Collateral Policies on Sovereign CDS Spreads, Giovanni Calice, December 2011
- MiFID Implementation in the midst of the Financial Crisis: Results of an ECMI Survey, Diego Valiante and Bashir Assi, February 2011
- Shaping Reforms and Business Models for OTC Derivatives: Quo vadis? Diego Valiante, April 2010

ECMI Working Papers

- A Life Cycle Approach to Investor Protection, Mirzha De Manuel Aramendía, Diego Valiante, September 2014

ECMI Policy Briefs

- EU Financial Market Access after Brexit, Karel Lannoo, September 2016
- Which Union for Europe's Capital Markets?, Karel Lannoo, February 2015
- A Proper Yield Curve for Greece to Kick-Start Financial Intermediation, Christian Kopf and Miranda Xafa, December 2013
- The New Financial Regulatory Paradigm: A transatlantic perspective, Karel Lannoo, March 2103
- Prospects and Challenges of a Pan-European Post-Trade Infrastructure, Karel Lannoo and Diego Valiante, November 2012
- Reviewing the EU's Market Abuse Rules, Carmine Di Noia, May 2012
- The Eurozone Debt Crisis: From its origins to a way forward, Diego Valiante, August 2011
- NYSE Euronext-Deutsche Börse Merger: Let the dance go on!, Diego Valiante, March 2011
- What reforms for the credit rating industry? A European perspective, Karel Lannoo, October 2010
- The MiFID Metamorphosis, Karel Lannoo and Diego Valiante, April 2010
- Regulatory Challenges for the EU Asset Management Industry, Karel Lannoo, April 2010
- Comparing EU and US Responses to the Financial Crisis, Karel Lannoo, January 2010

ECMI Commentaries

- Towards a better European securitisation market, Apostolos Thomadakis, 3 November 2016
- Eliminating the cost of non-Europe in capital markets, Karel Lannoo, 2 November 2016
- More Union for the EU's IPO Market, Karel Lannoo, 23 March 2016
- Light and shadows in Europe's new Action Plan for Capital Markets Union, Diego Valiante, 6 October 2015
- Detailed CMU Action Plan, but more (ambition) is required, Karel Lannoo, 2 October 2015
- Keep capital markets union simple, Karel Lannoo, 15 July 2015
- Why the regulatory witch-hunt for 'closet trackers' is a dead-end, Jean-Pierre Casey, 9 December 2014
- The OTC derivatives markets after financial reforms, Cosmina Amariei and Diego Valiante, 23 May 2014
- Why a more accurate EU definition of SMEs matters!, Federico Infelise and Diego Valiante, 15 November 2013
- Implementing the AIFMD: Success or Failure?, Mirzha de Manuel Aramendía, 28 March 2013
- Will the PRIPs' KID live up to its promise to protect investors?, Mirzha de Manuel Aramendía, 6 July 2012
- The Euro Prisoner's Dilemma, Diego Valiante, 24 February 2012
- The gloomy scenario of Italy's default, Diego Valiante, 16 December 2011
- MiFID 2.0 Unveiled, Karel Lannoo, 4 November 2011
- Commodity Price Formation in Boom-and-Bust Cycles, Diego Valiante, 1 June 2011
- The forest of Basel III has too many trees, Karel Lannoo, 10 February 2011
- Third Country Rules for Alternative Investments: Passport flexibility comes at a price, Mirzha De Manuel Aramendia, 16 December 2010
- Where does Europe stand on the regulation of alternative investments? Dispelling Myths and Challenging Realities, Mirzha De Manuel Aramendia and Diego Valiante, 27 September

About ECMI – Informing policy on European capital markets

ECMI conducts in-depth research aimed at informing the debate and policy-making process on a broad range of issues related to capital markets. Through its various activities, ECMI facilitates interaction among market participants, policymakers and academics. These exchanges are fuelled by the various outputs ECMI produces, 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.

About CEPS – Thinking ahead for Europe

CEPS is one of Europe's leading think tanks and forums for debate on EU affairs, with an exceptionally strong in-house research capacity and an extensive network of partner institutes throughout the world. CEPS' commitment to institutional independence is rooted in the independence exercised by each member of its staff. As an organisation, CEPS is committed to carrying out state-of-the-art policy research that addresses the challenges facing Europe and maintaining high standards of academic excellence and unqualified independence and impartiality. It provides a forum for discussion among all stakeholders in the European policy process and works to build collaborative networks of researchers, policy-makers and business representatives across the whole of Europe.