



Annual Report

European Capital Markets Institute

A large, abstract graphic composed of several overlapping, semi-transparent geometric shapes in various shades of blue and teal. The shapes are arranged in a way that creates a sense of depth and movement, with some shapes appearing to be in front of others. The overall effect is a modern, architectural design.

2011

Informing policy on European capital markets

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1. Welcome to this Report

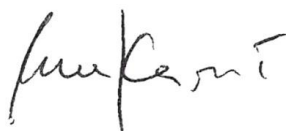
As Chairman of the Board of ECMI I am honoured to present this annual report to you. Throughout the past year ECMI researchers have produced an impressive volume of high quality analysis and data to inform the many debates on capital markets in Europe. Among the research lines undertaken I would like to highlight two that have been particularly successful. In early 2011, ECMI published a Task Force Report on the review of MiFID which focused on transparency, market structure and the provision of investment services. "MiFID 2.0: Casting New Light on Europe's Capital Markets" has been widely recognised by policy-makers and market practitioners for the quality and depth of its content, its balanced approach and its usefulness in informing the complex discussions spawned by the directive.

The second line of research ECMI pursued in 2011 has been the economic impact assessment on the takeover bids directive carried out for the European Commission. Scheduled to be published in June 2012, this study will play a pivotal role in the debate over the review of the Directive. In carrying out this project, ECMI deeply explored into key issues related to corporate governance from the perspective of capital markets —a field of research that ECMI would like to continue in the future. Moreover ECMI conducted two task forces in 2011: the Task Force "Rethinking Asset Management" will bear fruit in April 2012 with the publication of an ambitious report on the future of the industry after the financial crisis and the AIFMD. The Task Force "Price Formation in Commodity Spot and Derivative Markets" continued to run in 2012 to study the mechanisms that underlie price formation in a diverse selection of commodities.

Beyond these landmark studies, ECMI continued in 2011 to track regulatory developments by publishing a stream of commentaries and organising multiple research seminars and open discussions. It also upgraded its annual conference by bringing together top speakers from academia, policy-making and market practice, to help bridge the gap between these stakeholders. Moreover it expanded the content and analysis in its statistical package, which offers probably the most comprehensive overview of Europe's capital markets available today.

These achievements would not have been possible without the dedicated and highly professional work of our energetic General Manager, Karel Lannoo and his expert colleagues Diego Valiante and Mirzha de Manuel, who I would like to thank warmly. I would also like to thank the members of the ECMI board for their advice and monitoring —further strengthened in 2011 with the incorporation of four high-calibre academics: Professors Caselli, Lamandini, Silanes and Vermaelen.

It is an honour therefore to present to you this overview of the ECMI activities in 2011, as always characterised by their relevance, quality and independence. May 2012 be as prolific at ECMI if not better.



René Karsenti - Chairman of the Board of ECMI
President of the International Capital Market Association



2. Overview

During 2011, internet downloads of ECMI research more than doubled in comparison to the previous year. ECMI research can be downloaded for free from its own website and from the website of the Centre for European Policy Studies (CEPS). Part of it is also available through other platforms such as the Science Research Network (SRN) or Ideas. In 2011 ECMI published 11 studies; including commentaries, policy briefs and research reports. We attribute the sharp increase in downloads (over 150% compared to 2010) to the quality of the research output and its relevance to ongoing debates in capital markets. Throughout the year ECMI organised 16 events and Task Force meetings, including a high-level full-day annual conference. In 2011 ECMI also improved the depth of its flagship Statistical Package by adding 73 new tables, bringing the total number up to 133 tables, in addition to 102 figures. The Package now features several new sections, next to a qualitative analysis of main global capital market trends. These initiatives have been accompanied by a steady increase in the number of visits to our website throughout the year. In effect, total visits to www.eurocapitalmarkets.org were up by 13% compared to 2010. Most importantly, the average visitor spent significant time viewing our online content, which was improved once more in 2011 with a thematic access to our research and events.

The year at ECMI in numbers

| | |
|---------------|--|
| 21,362 | • Number of times our research has been downloaded |
| 11 | • Studies published |
| 133 | • Statistical tables compiled |
| 16 | • Events organised |
| 2 | • Completed Task Forces |
| 48 | • Members during the year |
| 525 | • Daily visits to our website |
| 5.78 | • Pages per visitor online |

ECMI's financial situation also improved in 2011. The Centre for European Policy Studies (CEPS) in Brussels continues to successfully manage ECMI activities and research, furthering its membership and financial situation. Indeed, membership contributions reached EUR 137,000 in 2011. The stability of ECMI's income ensures the continuity of its activities and has allowed us to start a program of internships with the ambition of hiring an additional researcher.

3. Research Projects

[Access content @ eurocapitalmarkets.org](http://eurocapitalmarkets.org)

A. Economic foundation and impact assessment of the Takeover Bids Directive

ECMI Research | Commissioned by the European Union

In 2011 ECMI conducted a research project on the market for corporate control commissioned by the European Union. The study was carried out for the European Commission together with the law firm Marccus Partners, part of the international audit and professional services firm Mazars. The object of this research was to study the application of Directive 2004/25/EC on takeover bids. It covered both an analysis of its implementation in the EU Member States and its application in the market for corporate control. It also evaluated the stakeholder perceptions of the directive's obligations and surveyed control structures and barriers to takeover bids that are not covered by the directive. Marccus Partners and ECMI were awarded this study in an open tender process organised by the European Commission.

Researchers Diego Valiante and Mirzha de Manuel carried out a comprehensive review of the scientific literature with regard to corporate control in general and takeovers in particular. The main conclusions of the literature were critically analysed and put into context with regard to the implementation of the directive and the activity in the market for corporate control. For this purpose, a score was given to the implementation of the key provisions of the directive in each member state, based on the legal review by Marccus Partners. Statistical and econometric techniques were employed to analyse a comprehensive data on takeover deals kindly provided by Thomson Reuters.

The study was completed by an assessment of the impact of the takeover bids directive on the competitiveness and growth of the European economy. This assessment employed an original methodology, based on the pillars of the global competitiveness index of the World Economic Forum. Finally, a further assessment considered the impact of the Directive on employees and employment. This study was handed to the European Commission in October 2011 and constitutes the kick-off to the process of reviewing the directive. The European Commission is expected to release this study to the public in 2012.

B. Price Formation in Commodities Spot and Future Markets

ECMI-CEPS Task Forces | September 2011 – 2nd qtr. 2012



The unstoppable race of commodity prices comes at a critical moment, when European and US economies are languishing in regaining the ground lost as a result of the recent financial crisis. Policy makers and the public opinion are shrouded in a mist of mounting worries and anger around commodity prices. Regulators worldwide have agreed in the G20 to address price volatility and are bringing forward a number of regulatory proposals to improve the regulation, functioning, and transparency of commodity markets. This task force has brought together financial and non-financial firms with regulators and academics to shed light on the price formation mechanisms in spot and future markets, focusing on three major areas: trading, market abuse, and competition. ECMI has partner with the Centre of European Policy Studies (CEPS) to engage the European institutions and the major experts in this area to provide input to this group. The final report will be launched in the first half of 2012.

Chairwoman: Ann Berg, Senior Consultant to UN-FAO, leading expert on commodities.

Rapporteurs: Diego Valiante, European Capital Markets Institute (ECMI), and Christian Egenhofer, Centre of European Policy Studies (CEPS).

C. Rethinking Asset Management

ECMI-CEPS Task Force | December 2010 – January 2012

ECMI and the Centre for European Policy Studies (CEPS) engaged market participants, international experts, academics and regulators in the discussion of the future of the asset management industry and its contribution to the EU economy throughout 2011. The focus was placed on moving from the defensive stance of the industry since the AIFMD to a more proactive approach that should engage with regulators to provide answers to the many challenges that both the industry and Europe's economy face together.

ECMI and CEPS provided high-quality and independent expertise throughout this Task Force; a team able to cover legal and economic issues, and produce a meaningful framework for evaluation of policy actions. A final report will be published in February 2011 and make a significant impact on the ongoing policy debates around the industry and its contribution to the Europe 2020 Agenda.

The task force benefitted from the active involvement of the European Commission, under the direct supervision of Ugo Bassi and Tilman Lueder, former and current Head of Unit. ESMA was also engaged in the works of this task force, together with national regulatory and supervisory authorities. EDHEC Risk Institute, the leading scientific research institution for asset management in Europe, also participated.

Chairman: Jean-Baptiste de Franssu, former CEO Invesco Europe, former Chair of EFAMA.

Rapporteurs: Karel Lannoo, Centre of European Policy Studies (CEPS), and Mirzha de Manuel, European Capital Markets Institute (ECMI).



D. MiFID Review: What is next for European Capital Markets?

ECMI-CEPS Task Force | January 2010 – February 2011

As outstanding conclusion to months of work, the launch of the ECMI-CEPS task force report in February 2011 gathered a large number of industry practitioners and experts, together with MEPs Kay Swinburne and Markus Ferber. The report titled 'MiFID2.0: Casting new light on Europe's Capital Markets' provides a generous set of findings drawn from current legislative proposals, academic literature, and market views. These views were collected from senior stakeholders who met over the past months to discuss the review of MiFID, under the chairmanship of Pierre Francotte, former CEO of Euroclear.

Chairman: Pierre Francotte, former CEO of Euroclear.

Rapporteurs: Karel Lannoo, Centre of European Policy Studies (CEPS) and Diego Valiante, European Capital Markets Institute (ECMI).

4. Research Publications

[Access content @ eurocapitalmarkets.org](http://eurocapitalmarkets.org)

A. The Gloomy Scenario of Italy's Default

ECMI Commentary 31 | December 2011

This commentary explores what will happen if Italy is not able to implement structural reforms and if international institutions, such as the EFSF and the IMF, do not intervene with sufficient resources to prevent Europe's second-largest economy from defaulting on its debt. It warns that the Italian economic system would certainly embark on a perverse path that would follow three phases: liquidity crisis and insolvency; deflationary pressures; and finally inflationary pressures and economic and political instability. The author, Diego Valiante, is ECMI Head of Research and CEPS Research Fellow.



B. MiFID 2.0 Unveiled

ECMI Commentary 30 | November 2011

Although the drafts of MiFID 2.0, published on October 20th, follow largely what had been proposed by the CESR (Committee of European Securities Regulators) and the European Commission, the documents took observers by surprise in both their approach and length. This CEPS Commentary explains how the original legislation has been amended with the principal aim of levelling the playing field and examines its novel features. Coming together at the same time as several other pieces of draft financial regulation that have recently been proposed or announced, the author finds that they portend a very heavy workload for the European Parliament and the EU Council in the coming year. Karel Lannoo is Chief Executive Officer and Senior Researcher at CEPS and General Manager of ECMI.

C. The Eurozone Debt Crisis

CEPS Policy Brief 251 | August 2011

As the Eurozone debt crisis reaches a turning point, ECMI Research Fellow Diego Valiante argues for a more organised intervention by the ECB to stop contagion through the creation of a quantitative easing programme, coupled with a political agreement among member states on a more federalist budget for the Eurozone. The roots of this crisis and how institutions have repeated some of the mistakes of the Argentine crisis, both in 1998 and 2010, are considered in this paper. The author analyses the reasons why the ECB should start a quantitative easing programme to contain government bond yields, and shows that it can be done with limited impact on inflation targeting policies. The importance of reinforcing the new policy announced by the ECB, which has lain rather dormant during the Eurozone crisis, is also highlighted as a pre-condition for a broader political agreement on more harmonised fiscal policies and to stabilise market conditions. Valiante finds that responses should be organised on three levels: institutional competences, monetary policy support, and fiscal policy coordination.

D. Commodity Prices in Boom-and-Bust Cycles

ECMI Commentary | June 2011

The sharp and widespread increase in most commodity prices has alarmed the world and raised questions around the sustainability of our economies. As shown in this ECMI Commentary, the reasons for this dramatic rise are

multiple, and engaging in a witch-hunt benefits neither the market as a whole nor our economies. Solutions need to be more differentiated and oriented towards two factors: preventing price manipulation (through controls on net positions and on anti-competitive market structures) and fostering sustainability. ECMI is running a task force to study price formation in spot and future markets together with the Centre for European Policy Studies (CEPS) in Brussels. Please refer to the section above.

E. An Investigation into Stewardship

External Publication | June 2011

'Engagement between investors and public companies: Impediments and their resolution' addresses the question of stewardship (thoughtful ownership) in the UK and the European Union, after the financial crisis. Sponsored by the CFA Institute and the FGRE and written in cooperation with ECMI, this report considers the potential inadequacy of stewardship by the investment industry and the degree of integration of corporate governance analysis in the investment process.

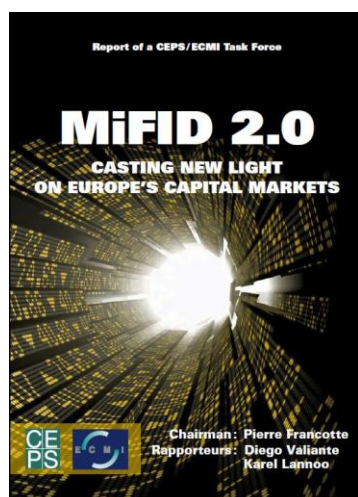
It does not suggest that there are no examples of good practice on both the corporate and investment sides, but rather that good stewardship practice is not sufficiently robust and universal. The report analyses three key impediments to stewardship, namely, the lack of direction on the part of asset owners in mandates, the costs of carrying out diligent stewardship, and the cultural and structural barriers within the investment management industry. It proposes solutions under three headings: the investment chain and fiduciary duty, shareholder engagement and the investment management practice.

The report is authored by *Charles Cronin*, former Head of Standards and Financial Market Integrity EMEA at CFA Institute, and Dr. *John Mellor*, Founder and Executive Director of the Foundation for Governance Research and Education (FGRE). It has also benefited from the active contribution of the European Capital Markets Institute and other stakeholders:

- Karel Lannoo CEO, Centre for European Policy Studies
- Dr. Diego Valiante Research Fellow, European Capital Markets Institute
- Alan Brown Group, Chief Investment Officer, Schroder Investments Ltd
- Howard Jacobs, Trustee Director, Universities Superannuation Scheme, formerly Partner, Slaughter and May
- David Pitt-Watson, Chairman, Hermes Focus Asset Management
- Dr. Carmine Di Noia, Deputy Director General, Head Capital Markets and Listed Companies, Assonime

F. MiFID 2.0: Casting New Light on Europe's Capital Markets

ECMI Task Force Report | February 2011



In the legislative procedure to revise the Market in Financial Instruments Directive (MiFID), the ECMI-CEPS task force report entitled 'MiFID 2.0' is an ideal support for market participants and policy makers to better understand the issues behind the review of this fundamental piece of legislation. Written by Research Fellow Diego Valiante, the report provides independent research and commentary on transparency, market structure, and provision of investment services, next to a set of policy recommendations put forward by task force members.

In a context of growing uncertainty upon the future of Europe's capital markets, the review of a fundamental piece of legislation such as MiFID represents a significant opportunity to strengthen the role of the internal market and to regain investors' confidence, hampered by the financial crisis. MiFID has unquestionably changed the landscape of European (secondary) capital markets in many ways. Most notably, the Directive has led to a more

competitive environment, huge investments in technologies, and greater investor protection. It has at the same time brought the EU and the US markets closer.

The Task Force Group, run by ECMI/CEPS and chaired by Pierre Francotte, former CEO of Euroclear, has gathered 31 representatives of European financial markets, including stock exchanges, multilateral trading facilities, asset managers, investment banks, and commercial banks.

As rapporteurs of the Task Force CEPS Research Fellow Diego Valiante and CEO Karel Lannoo find that the review of MiFID should clarify intended scopes, fill gaps in the legal text, and harmonise supervisory practices among member states. It should make sure that the benefits of a new competitive environment are spread along the value chain and passed-on to final users, retail and wholesale investors, as appropriate.

G. NYSE Euronext – Deutsche Börse Merger: Let the dance go on!

ECMI Policy Brief | March 2011

Research Fellow Diego Valiante offers his insights into the motivations, potential synergies and implications of the proposed merger between NYSE Euronext and Deutsche Börse, which he sees as a continuation of the intricate series of dances begun two decades ago between exchanges worldwide and which now escalates at global level in the non-equity business. The author finds that the liberalization process and regulatory changes brought about by the financial crisis have revived this long-term process. Finally, Valiante points at the importance of following a dynamic approach in the merger test, which would induce the Commission to impose rigorous conditions to clear the deal. In an updated version, the Policy Brief also comments on the merits of the competing bid recently launched by NASDAQ OMX and ICE on NYSE Euronext.



H. The Forest of Basel III Has Too Many Trees

ECMI Commentary | February 2011

Senior Research Fellow Karel Lannoo surveys the radical shift in bank capital requirements confirmed by the new Basel III Accord, with its focus on more and better quality capital, especially for the large banks. He finds, however, that the new framework is becoming very complex, and asks the big question that emerges: how does one determine when a bank is effectively Basel III-compliant, as some will soon start to claim.

I. MiFID Implementation in the Midst of the Crisis

ECMI Research Report 6 | February 2011

This report summarises the main results of a survey conducted by the European Capital Markets Institute (ECMI) during the period December 2009 - July 2010. The survey aims at investigating the actual implementation of the Markets in Financial Instruments Directive (MiFID), two years after it came into force. A general finding of this survey is that MiFID rules have had a positive impact, in particular through a greater competitive environment that promoted most of all cuts in trading fees and massive investment in technologies and infrastructures. The impact of the Directive, however, remains highly controversial in terms of data quality and implementation costs.

5. Conferences and Seminars

[Access content @ eurocapitalmarkets.org](http://eurocapitalmarkets.org)

A. MiFID II proposal: Grasping the details and understanding the implications

ECMI Meeting | 16 November 2011 | CEPS - Brussels

After months of discussions, the European Commission released the draft level 1 text of the new Market in Financial Instruments Directive (MiFID) and Regulation (MiFIR) on October 20th 2011. This legislative action is bound to ignite sweeping changes in European



financial markets. Among the speakers, Maria Teresa Fabregas highlighted the importance of keeping consistency between MiFID and other legislative actions. Market participants stressed the importance of supporting the bold regulatory actions proposed by strong empirical evidence and avoid killing market liquidity. MiFID II promotes competition to open up market infrastructure and lower the cost of widespread investment services. Diego Valiante, ECMI Head of Research, argued that the shift from a functional to a more rules-based approach could lead to circumvention and constrain legitimate and efficient market activities, ultimately increasing costs for final investors.

Speakers

- Maria Teresa Fabregas, Deputy Head, Securities Market Unit, DG MARKT, European Commission
- Steven Travers, Head of Regulatory Law and Strategy, London Stock Exchange
- Jhon Serocold, Senior Director, International Capital Markets Association
- Karel Lannoo, Senior Research Fellow and CEO, CEPS and ECMI
- Diego Valiante, Research Fellow, CEPS and ECMI

B. ETFs and structured UCITS under discussion

ECMI Research Seminar | 4 November 2011 | CEPS – Brussels



The growth in exchange-traded funds (ETFs) has raised concerns since Srichander Ramaswamy, Senior Economist at the Bank for International Settlements (BIS), published his paper 'Market structures and systemic risks of exchange-traded funds'. This ECMI research seminar brought together Mr. Ramaswamy with all the major actors on the regulatory and industry scenes to discuss both investor protection and financial stability issues regarding ETFs. Regulators showed their concern about the use of exchange-traded funds (ETFs) by banks to raise funding for their investment banking portfolios. They highlighted the practice does not present a risk to financial stability today but could grow exponentially given cost savings in comparison to more traditional funding sources such as repurchase agreements. The industry however has taken important steps to manage these concerns, as recognised by participants in this seminar. The European Securities and Markets

Authority (ESMA) explained the steps it will follow in 2012 to strengthen investor protection for UCITS ETFs.

Speakers

- Srichander Ramaswamy, Senior Economist, Bank for International Settlements
- Clement Boidard, Investment Management Committee, European Securities and Markets Authority

- Rostislav Rozsypal, Asset Management Unit, European Commission
- Manooj Mistry, Head of ETF Structuring, Deutsche Bank
- David Gardner, Head of EMEA Sales, Blackrock iShares
- Alain Dubois, ETFs and Structured Funds Committee, French Asset Management Association
- Moderated by Chris Flood, FTfm Reporter, Financial Times

C. Stewardship: UK and EU perspectives

ECMI Meeting | 6 October 2011 | CEPS – Brussels

The presentation of the external report 'An Investigation into Stewardship' gathered representatives from the capital markets, banks, accountancy organisations and international law firms. Authors Charles Cronin and John Mellor highlighted the importance of stewardship (investor engagement) to maximize risk adjusted returns. When investing long-term on behalf of their beneficiaries, institutional investors should discuss strategy, risks and business opportunities. So should do asset managers as part of their investment mandate. Eddy Wymeersch, Chairman of the European Corporate Governance Institute, stressed that comply-or-explain corporate governance does not work without shareholder engagement. In the same line, MEP Sebastian Bodu pointed out that regulation alone will not work without a genuine compromise from the investment industry. Alan Brown, CIO at Schroders, considered that while engagement by investors is important, stronger corporate governance is also needed, for instance, to improve monitoring of management by boards.

Speakers

- Sebastian Bodu, Member of the European Parliament, Rapporteur on corporate governance, JURI Committee
- Eddy Wymeersch, Chairman, European Corporate Governance Institute
- Alan Brown, Chief Investment Officer, Schroders
- Marc Hertgen, Corporate Governance Unit, European Commission
- Charles Cronin, CFA, Former Head Standards and Financial Market Integrity EMEA CFA Institute
- John Mellor, Founder and Executive Director FGRE, Visiting Professor in Governance Bristol Business School
- Rene Karsenti, Chair of the Board, European Capital Markets Institute (moderator)



D. Unravelling the puzzle: Challenges for global asset allocation

ECMI Annual Conference | 27 June 2011 | Palace of the Academies - Brussels

The 2011 ECMI Annual Conference brought together well-known capital market experts from industry and policy making, to discuss the challenges for global asset allocation in four sessions:

1. The Global Outlook in Asset Allocation: Where will systemic risk reside?
2. Funding Corporate Governance: Opportunities and challenges coming from debt markets
3. Asset Management at a Crossroads: Do we need new regulatory and theoretical foundations for a better asset allocation?
4. Economic and Regulatory Challenges for Capital Markets: The results of liberalisation and future steps

Keynote speakers

- Luigi Zingales, Professor of Entrepreneurship and Finance, Chicago Booth School of Business
- Ed Fishwick, Managing Director and Co-head of Risk & Quantitative Analysis, BlackRock
- Ian Domowitz, Managing Director, ITG, and former Professor, Northwestern University

Key ideas

- o The eurozone debt crisis is here to stay. Only stronger long-term actions, such as strengthening the single market, can provide relief. Systemic risk for Western economies may also come from the commodities markets (in particular, oil prices) and the US budgetary position.
- o A good corporate governance system must be capable of dealing with bad news in a transparent manner and channelling this information into prices. Creating the right incentives is a complex exercise that entails actions at different levels. It is difficult to induce shareholders to become engaged and may need to be supported by further regulatory actions.
- o Asset allocation theories need an overhaul. Volatility is only a measure of risk and not a suitable tool with which to forecast risk. Returns are mainly driven by events that we cannot model with traditional allocation theories (they are not normally distributed). How can we better equip ourselves to face liquidity risks?
- o The structure of capital markets has undergone sweeping changes thanks in part to the liberalisation process started by MiFID. The benefits of a more competitive environment must now be passed on to final users, such as retail investors. More should be done to ensure that competition delivers on its promises, e.g. by reinforcing intellectual property rights and discouraging anti-competitive market practices.



Among the panellists

- Olivier de Bandt, Director, Banque de France
- John Berrigan, Director Macro-financial Stability, European Commission
- Anton Brender, Chief Economist, Dexia Asset Management
- Carmine Di Noia, Deputy Director General, Assonime
- Claudia Kruse, Head of Governance and Sustainability, APG All Pensions Group
- Florencio López de Silanes, Professor of Finance, EDHEC Business School
- Fabrice Demarigny, Global Head Capital Markets, Mazars, former Secretary General, CESR
- Sergio M. Focardi, Founding Partner, Intertek Group, and Professor of Finance, EDHEC
- Daniel Lehmann, Managing Director, Allianz Global Investors
- Tilman Lueder, Head of Unit, Asset Management, European Commission
- Robert Parker, Chairman, ICMA Asset Management and Investors Council
- Jeremy Grant, Editor, FT Trading Room
- Raj Mehta, Executive Director, Principal Strategic Investments, Goldman Sachs
- Peter Randall, CEO, Equiduct
- Kay Swinburne, Member of the European Parliament
- Steven Travers, Head of Regulatory Law and Strategy, London Stock Exchange
- Tatjana Verrier, Head of Financial Services Antitrust, DG Competition

Report from the conference

A full report of the 2011 ECMI Annual Conference is available at our website www.eurocapitalmarkets.org/2011AC together with the presentations of the speakers.

E. A different credit rating industry for Europe?

ECMI Meeting | 25 May 2011 | CEPS - Brussels

Overreliance on external ratings by investors has come under scrutiny since the crisis, where it emerged as a source of systemic risk –difficult to mitigate save by increasing transparency and encouraging own due diligence by investors. At the same time, rating agencies face a difficult position in the context of the Eurozone crisis, with legal challenges being launched in several member states. In this joint CEPS-ECMI event, Karel Lannoo met Frédéric Drevon, EMEA Head of Moody's, and Michael Bangert, Vice President of E.ON, to discuss how this industry could better serve markets. While participants agreed that regulation should not favour reliance on credit ratings as final arbiters of risk, the debate highlighted the inordinate amount of influence rating agencies have on investors anyway. The conflicts of interest faced by these agencies invite regulators to reconsider current business models and competition in the market place.



Speakers

- Frédéric Drevon, Managing Director, Regional Head for Europe, Middle East and Africa, Moody's
- Dr. Michael Bangert, Vice President, Finance, External Mandates, E.ON
- Karel Lannoo, Senior Research Fellow and CEO of CEPS and ECMI

F. Organised trading for non-equity financial instruments: The MiFID crusade

ECMI Research Seminar | 23 March 2011 | European Parliament - Brussels

In addressing the forthcoming revision of MiFID, the European Commission needs to comply with its G20 commitments. Proposals under discussion seek to push non-equity asset classes (such as bonds, structured products and OTC derivatives) onto 'organised' trading platforms.

At this ECMI event at the European Parliament, Prf. Thierry Foucault, from HEC University Paris, highlighted that the transition from over-the-counter (OTC) trading to electronic trading for standardized OTC products would be a 'big step'. He considered that improving post trade transparency is likely to be beneficial while the effects of pre-trade-transparency are unclear, given the low frequency of securities transactions.

In the following discussion, experts and industry practitioners favoured a phased approach, which would help to assess the effects of the proposed changes on market quality and at the same time capture the evolution of the market. Maria Velentza, Head of Unit for Securities Markets, explained that the Commission does not intend to reintroduce a concentration rule but to propose time-resistant rules that are coherent with US legislation.

Speakers

- Gunnar Hökmark, MEP
- Maria Velentza, Head of Unit, Securities Markets, European Commission
- Thierry Foucault, Professor of Finance, HEC University Paris
- Martine Doyon, Head of International Strategy, Financial Services Authority
- Diego Valiante, Research Fellow, CEPS and ECMI
- Joerg Kukies, Managing Director, Equities Division, Goldman Sachs International (moderator)
- Carlos López Marqués, Deputy Director International Affairs, BME
- Mike Sheard, Director Corporate Affairs, ICAP

- Eric Kolodner, Managing Director, Tradeweb
- Robert D. Ray, CEO, CME Operations Ltd
- Paul Christensen, Managing Director, Principal Strategic Investments-Market Structure, Goldman Sachs International
- Luke Jeffs, Market Structure Correspondent, Thomson Reuters (moderator)



G. European Parliament debriefing: Financial transaction tax

Joint ECMI - VoteWatch.eu Event | 15 March 2011 | CEPS - Brussels

The introduction of an EU-wide tax on financial transactions is set to be a topic for discussion during the next months. In a non-legislative report on 'innovative financing' adopted in March by the EP, a wide majority asked for a tax on financial transactions of between 0,01 and 0,05% to be introduced in Europe. This proposition will be followed by several cost-benefit analyses carried out by the European Commission and discussions among member states.

In this event, organised by VoteWatch.eu in partnership with ECMI, Research Fellow Diego Valiante discussed the possible introduction of this tax with MEPs Anni Podimati and Danuta Hubner, rapporteur and shadow rapporteur for this report. According to the EP, the amount collected by this tax would reach 200 billion euros per year. While the report as a whole was adopted with a comfortable majority, one provision in particular brought fierce disagreement, namely, whether the EU should go ahead with this tax before its international partners do so.

ECMI stressed the importance of clearly establishing which objective is pursued by this tax. Diego Valiante explained that the cause of the financial crisis did not lie in the number of transactions but rather in the level of leverage. He stressed the importance of putting the right instruments in place to solve imbalances. Valiante believes it would be very difficult to define the tax base, that is, provide a consistent definition of transaction. Further, he believes it is uncertain that a tax of this type would reduce volatility. Stronger supervision and better regulation of market manipulation were some of the alternatives proposed to the introduction of this tax.



Speakers

- Karel Lannoo, Director at ECMI and CEO at CEPS (Chair)
- Anni Podimati, MEP and Rapporteur
- Danuta Hubner, MEP and Shadow Rapporteur
- Doru Frantescu, VoteWatch.eu
- Diego Valiante, Research Fellow at ECMI-CEPS

H. Launch of the task force report MiFID 2.0 – London

ECMI-CEPS Publication Launch | 15 March 2011 | Watermen's Hall – London

ECMI and CEPS launched the report from the Task Force Group 'MiFID Review: What is next for European Capital Markets?' in London following a very successful presentation in Brussels. The final report aims at describing and analysing policy options, bridging different proposals with market developments and existing scientific literature. The report focuses on three core areas –transparency, market structure, and provision of investment services. Its author, Diego Valiante, finds that the review of MiFID should clarify intended scopes, fill gaps and harmonise supervisory practices. Most importantly, he illustrates actions to spread benefits of competition along the value chain so that they are passed-on to final users, including retail investors.

I. Launch of task force report MiFID 2.0 – Brussels

ECMI-CEPS Publication Launch | 9 February 2011 | CEPS – Brussels



As outstanding conclusion to months of work, on February 9th, the launch of the ECMI-CEPS task force report gathered a large number of industry practitioners and experts, together with MEPs Kay Swinburne and Markus Ferber. The report titled 'MiFID2.0: Casting new light on Europe's Capital Markets' provides a generous set of findings drawn from current legislative

proposals, academic literature, and market views. These views were collected from senior stakeholders who met over 2010 to discuss the review of MiFID, under the chairmanship of Pierre Francotte, former CEO of Euroclear.

6. Statistical Package

Access content @ eurocapitalmarkets.org

The most comprehensive overview of Europe's capital markets

The 2011 Statistical Package offers users the most up to date information on the state of European capital markets in the aftermath of the financial crisis. Contents are divided into six sections: equity markets, debt securities markets, exchange-traded derivatives markets, over-the-counter derivatives markets, asset management and global comparative data. Internal links, as well as a complete table of contents, facilitate the internal navigation of the document; and the most important datasets are represented in charts in order to demonstrate trends visually.

The 2011 version includes disaggregated data on equity markets for each stock exchange belonging to the same group. The package also compiles, for the first time, a wide range of MiFID statistics for pan-European and national trading venues. Moreover, the debt securities section has been upgraded with data about securitization and the section on exchange-traded derivatives now includes a complete stock and index options and futures overview. The asset management section has been then enriched with data about pension funds and insurance companies. Finally, a brand new section on global comparative data presents a qualitative analysis by our senior staff of main global capital market trends.



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

The package is available PDF and Excel format at www.eurocapitalmarkets.org free of charge for ECMI members. Non-members may purchase it via the bookshop of CEPS at www.ceps.eu.

ECMI Statistical Package 2011

| Covers: | Data on: |
|---|---|
| <ul style="list-style-type: none"> - Disaggregated data on 42 stock exchanges - 133 tables - 102 figures - Up to 20 years (1990-2010) - Tables and figures on global comparative data with qualitative analyses of main global capital market trends | <ul style="list-style-type: none"> - Equity market - MiFID statistics - Debt securities market - Exchange-traded derivative market - Over-the-counter derivative market - Asset management - Gross domestic product - Exchange rate |

7. Preview for 2012

Message from ECMI General Manager Karel Lannoo

Capital markets and financial institutions are going through a sea change in the way they are regulated and supervised, which will profoundly affect business strategies and value chains for years to come. The year 2012 will be dominated by discussions on the several key directives and regulations, some of which were proposed by the EU Commission only recently and some others which will soon be the object of formal adoption or implementation. It concerns vast initiatives covering the almost entire agenda of the post-crisis response, with pieces such as MiFID II and MiFIR; the market abuse directive; the much discussed financial transaction tax; a further round of rules on credit rating agencies (CRA III) and the finalisation of EMIR. New rules are expected also on depositaries in UCITS V and for CSD's. The research agenda of ECMI in 2012 will consider MiFID/R and the extension of price transparency rules to non-equity markets but will also focus on asset management and long term objectives, as well as on the interoperability of clearing and settlement infrastructures. The ongoing task force on price formation in commodity markets will be finalised with a report to be published in the second half of 2012. A new task force report on the asset management industry will focus on the impact of the crisis and on the repositioning of the industry. It will set the scene for further work on the long term objectives of the industry, and the aptness of the regulatory environment. Infrastructural issues will also be on our agenda, as a result of industry trends, the reinforcement of segregation and the depository function, and the new rules governing the settlement industry.

Key research priorities for 2012 and beyond

- MIFID/MIFIR: Critical aspects of the legislative proposal to review MiFID. Interaction with EMIR and broader market implications with regard to market infrastructure, investor protection and transparency.
- MAD/MAR: Introduction of a common market abuse regime for commodities and OTC financial instruments. Consideration of an EU harmonised regime for sanctions.
- Corporate bond market: A look at the evolution of corporate bond markets and future prospects.
- Black swans: Disentangling market crashes from tail risks is one of the frontiers of capital markets research. ECMI would like to engage academic experts on this issue.
- Market microstructure: The introduction of new trading methodologies (HFT) has changed the way prices get formed and informed. Technological glitches and crashes, however, have casted doubts on resilience.
- Competition policy: Competition policy has entered the discussions on financial markets services. New investigations have started, which will look at commercial agreements among capital markets operators..
- Price formation in spot and derivative markets: Completion of the Task force started in 2011. Final Report expected in Q2 2012 with launch events in London, Brussels and potentially in Washington/Chicago.
- Long-term savings and pension provision: Task force to be launched in September 2012, with a preparatory meeting before the summer.
- Eligible assets under UCITS: The European Commission has asked ESMA to harmonise the scope of eligible assets under the UCITS Directive and may envisage a more profound revision of the Directive.
- AIFMD, UCITS IV / V and their implementation: Introduction of depositary and compensation rules into UCITS following the AIFMD (although scope may broaden given debate on eligible assets).
- Fee approaches in asset management: Comparison of the performance-based versus management-based compensation systems in a low return environment.
- Supervisory architecture: Looking at the state of play of supervisory authorities and the implementation of regulation.
- Shadow banking and financial stability: Follow-up on the conclusions of the Cannes G20 meeting which invites the Financial Stability Board to put forward proposals to regulate 'shadow banking' in 2012.
- Takeover regulation and stakeholder protection: A new set of stakeholder, employment, creditor, shareholders, and minority shareholders protection indexes.

8. Website

Visit www.eurocapitalmarkets.org

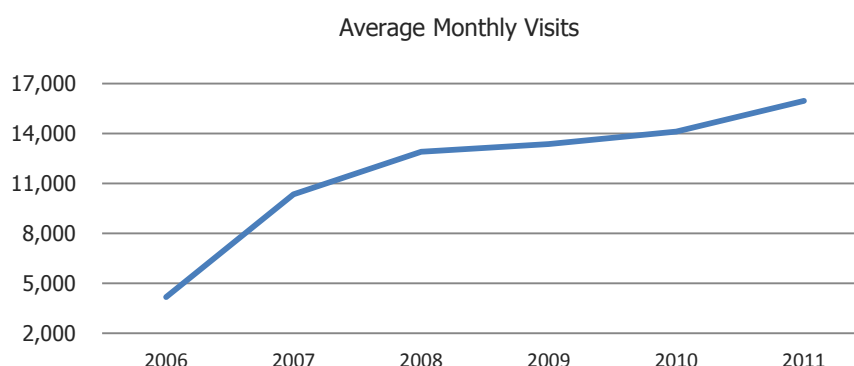
New layout and functionalities

In 2010 ECMI redesigned its website to make it more user-friendly. One step further, in 2011, ECMI re-organised all its content under thematic headings to ease the search to any interested party. All our research projects, publication and seminar are now accessible by theme: financial markets, asset management, commodities, credit ratings and deposit. This access is also available from the homepage, the easiest way to access our online content. Visit www.eurocapitalmarkets.org to access our research and keep track of our news and events.



Increasing access to the website

By end December 2011, ECMI's website received a record number of visits, almost 15,967 per month, an increase of 13% compared to last year's average. Each visitor viewed an average of 5.78 pages, slightly less than last year, which we attribute to the effort that we have done to improve navigability of our content online. Visits to www.eurocapitalmarkets.org increased in 2011 at a faster pace than in previous years, as reflected in the figure below. Compared to the other institutions that form part of the CEPS network, ECMI's website continues to attract the highest number of visits.



9. About ECMI

[Access content @ eurocapitalmarkets.org](http://eurocapitalmarkets.org)

Informing policy on European capital markets

In the aftermath of the recent financial crisis, the G20 has committed to leave no area of the financial markets unregulated. As a result, a sweeping wave of regulatory initiatives has made policy research on European capital markets even more important. The European Capital Markets Institute (ECMI) conducts original research into European capital markets, thereby informing current debate and policy-making. Through its various activities, ECMI acts as a focal point for interaction between market participants, policy-makers and academics.

ECMI was established as an independent non-profit organisation in 1993, in a collaborative effort by the European Federation of Financial Analysts Societies (EFFAS), the Federation of European Securities Exchanges (FESE) and the International Capital Market Association (ICMA). Membership of the institute is composed of private firms, regulatory authorities and university institutes. Since 2005, ECMI has been managed and staffed by the Centre for European Policy Studies (CEPS), a highly reputed, independent think tank in Brussels.

Through the publication of commentaries and policy briefs, ECMI analyses the latest regulatory developments and puts forward proposals at the vanguard of regulatory debates. ECMI also produces detailed research reports on key policy issues and market developments. In addition to conducting in-house research, ECMI responds to calls for proposals from external entities and hosts 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 the chance to take part in workshops with senior business representatives and regulators on critical themes; to size up market developments that will shape the future of European capital markets and to network with practitioners and academics from the regulatory community.

In addition, ECMI compiles a yearly statistical package with a substantial set of charts and tables that trace the evolution of European capital markets over time. Bond, equity and derivatives markets are also covered in the package, together with asset management related data. This gives members a 'one-stop shop' or broad snapshot of where European capital markets stand. The package compares trends across asset classes, market segments and countries, so as to track market growth, integration and convergence.

Board of Directors

- René Karsenti, Chairman, ECMI
- Karel Lannoo, CEO, CEPS
- Philippe Breyer, Managing Director, Euroclear
- Fabrice Demarigny, Head of Capital Markets Activities, Mazars
- Godfried De Vidts, Head of European Affairs, ICAP
- Giampaolo Trasi, Chairman, EFFAS
- Mark Austen, Interim CEO, AFME
- Ramon Adarraga, Director, BME
- Claire Fargeot, Head of Standards and Financial Market Integrity, CFA Institute
- Stefano Caselli, Professor of Finance, Bocconi University
- Marco Lamandini, Professor of Commercial Law, University of Bologna
- Florencio López de Silanes, Professor of Finance and Law, EDHEC Business School
- Theo Vermaelen, Professor of Finance, INSEAD

10. Academia

In 2011 ECMI took a further step to increase the quality of its research and ensure its independence. By appointing four academic board members, ECMI consolidated its expertise on capital markets in Europe. Stefano Caselli, Marco Lamandini, Florencio López de Silanes and Theo Vermaelen actively contribute to the activities of the Institute by providing invaluable advice on research priorities and quality control. Their profiles, at the forefront of academic knowledge in financial markets, are both diverse and complementary, which no doubt enhances the outreach of ECMI's policy oriented research.



Stefano Caselli is full professor of Banking and Finance at Department of Finance, Università Bocconi, where he's Academic Director of the MSc in Finance and of the Master in International Management-MIM for CEMS. He's also Director of the Executive Education Division for Banks and Financial Institutions at SDA Bocconi School of Management and research fellow of CAREFIN and ENTER, the research centers of Università Bocconi devoted to finance and entrepreneurship. He has several publications about private equity and venture capital, corporate finance, corporate banking, SMEs and family firms' financing.



Marco Lamandini's research interests are in the area of company law, corporate governance, banking law, securities law, and intellectual property. He obtained his law degree cum laude from the Università di Bologna, where he teaches commercial law, and a master of laws degree from London School of Economics and Political Science. He also teaches securities law at the Università Cattolica del Sacro Cuore in Milan. A visiting fellow at the Max Plank Institut in Munich, at Magdalene College in the University of Cambridge and at Boalt Hall, School of Law of the University of California at Berkeley, he does consulting work for the European Parliament.



Florencio López de Silanes is one of the world's five most cited academics on business and economics topics. A co-author of the LLSV index, he taught at Harvard, Yale and the University of Amsterdam before moving to EDHEC Grande École in France. He is also a research associate at the National Bureau of Economic Research and a member of the Academic Board of the Fraser Institute. In 2003, the World Economic Forum's Management Board selected him as one of the 100 young outstanding international leaders for business and society.



Theo Vermaelen is Professor of Finance at INSEAD and has taught at the University of British Columbia, the Catholic University of Leuven, The London Business School, UCLA and the University of Chicago. He has published several articles on corporate finance and investments in leading academic journals, including the Journal of Finance, the Journal of Financial Economics and the Journal of Banking and Finance. He is co-editor of the Journal of Empirical Finance, associate editor of the Journal of Corporate Finance and the European Financial Review and advisory editor of Teaching and Case Abstracts.

11. Researchers



Karel Lannoo (1961) has been the Chief Executive of the Brussels-based think tank Centre for European Policy Studies (CEPS) since 2000 and a Senior Research Fellow since 1997. He is also General Manager of ECMI and coordinates a number of other research networks in relation to financial markets and regulation. Karel Lannoo is a member of numerous formal and informal advisory bodies, including the European Shadow Financial Regulatory Committee (ESFRC), and has published widely on financial regulation and supervision, as well as other EU-related matters. He holds an MA in History from the University of Leuven, Belgium (1985) and a postgraduate degree in European Studies from the University of Nancy, France (1986). Karel Lannoo is also an Independent Director of BME (Bolsas y Mercados Españoles), the company running the Madrid Stock Exchange.



Diego Valiante, Ph.D. (1982) is a Head of Research at ECMI and Research Fellow at CEPS, where he coordinates the research activities and projects on capital markets. He holds a BSc in Economics (2004) and an MSc in Law and Economics (2006) from LUISS - Guido Carli in Rome, both degrees summa cum laude. He also earned a LL.M. Master in Law and Economics (EMLE) jointly from Hamburg and Bologna University, and in 2010 the Ph.D. in Law and Economics from LUISS University. As a result of his interdisciplinary studies, Diego specialises in financial and securities regulation, capital markets, market structure, competition policy and corporate governance. He has published extensively on economic and regulatory aspects of financial markets and services. In 2011, Diego was included by the Financial News in the list of the "Top 40 Rising Stars in Trading and Technology" under the age of 40 in the EMEA.



Mirzha de Manuel (1985) is a Researcher at ECMI and CEPS since September 2010. His research relates mainly to asset management regulation where he has coordinated a task force with various industry participants and regulator. He has also carried out research on takeover regulation for the European Commission. His publications at CEPS have so far referred to the AIFMD and its implementation. He has also contributed on these issues for the Financial Times. Mirzha is MA in European Economic and Legal Analysis from the College of Europe in Belgium (2010) and a qualified lawyer from the Bar of Madrid. He holds both a master in Business Economics and master in Spanish and Common Law (2009) from the University of Valladolid (Spain).

12. Membership

ECMI members in 2011

For a full and updated list consult our website



13. Joining ECMI

Why become a member?

There are many reasons why becoming a member of ECMI is a good idea; by becoming a member you will:

- Support the activities of an institute which is attempting to enhance the efficiency, growth and better regulation of European capital markets.
- Attend for free our research seminars and workshops on topical and technical issues.
- Receive invitations to closed meetings reserved to members only.
- Have free access to our statistical package online, the most comprehensive overview of Europe's capital markets.
- Obtain a complimentary copy of each study, carried-out by our own researchers and in co-operation with the leading universities and business schools in Europe.
- Be informed first about our task forces and research projects. For task forces, where additional fees apply, obtain preferential access and a substantial discount.
- Receive a quarterly newsletter giving you a concise account of the outcomes of our research and a summary of our events.
- Be able to attend the Annual General Assembly, where relevant market issues are discussed by top speakers from academia, industry and regulators.
- Become part of a think-tank that helps to bridge the gap between market participants, regulators and academics, in a moment of intense regulatory activity.

Membership options

Membership is open to institutions, associations and corporations as well as universities and business schools. There are three different types of membership options at ECMI:

Founding Members EUR 5,000
Corporate Member EUR 3,000
Academic Institution EUR 500

Next steps

Learn more at www.eurocapitalmarkets.org/becomemember. For more information please contact us at our email address info@eurocapitalmarkets.org or phone as at +32 2 229 39 56.



European Capital Markets Institute
Informing policy on European capital markets

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