

Shaping Union in Europe's Capital Markets

Proposal for an ECMI-CEPS Task Force

- Prospectus -

The European Capital Markets Institute (ECMI) and the Centre for European Policy Studies (CEPS) are inviting market participants, policy-makers and academics to engage in debate on the future of Europe's capital markets by joining a Task Force that will work with the European Capital Markets Expert Group (ECMEG).

CONTEXT

In the past five years, the European Commission has put forward several reforms in various areas of the financial system, mainly driven by post-crisis G-20 commitments and responses to the eurozone crisis. Since the achievements in banking union, attention has now shifted to how the quality and depth of capital market integration in Europe can be improved. The newly appointed president of the EC defined this as the "capital markets union".

"Over time, I believe we should complement the new European rules for banks with a Capital Markets Union. To improve the financing of our economy, we should further develop and integrate capital markets. This would cut the cost of raising capital, notably for SMEs, and help reduce our very high dependence on bank funding. This would also increase the attractiveness of Europe as a place to invest." (Jean-Claude Juncker, President-elect of the European Commission, 15 July 2014).

A similar point has been made by the ECB President.

"A single financial market must also ultimately extend to capital market integration. There are still several barriers to such integration, and these call for the attention of policy-makers." (Mario Draghi, President of the ECB, 12 February 2014).

Despite the single currency and years of harmonising regulation, Europe's capital markets remain fairly fragmented. Cross-border financial flows in financial instruments (in particular, equity-based tools) remain sluggish and are hampered by legal and economic barriers. After a successful attempt to boost integration in the wholesale securities markets, in particular with the Financial Services Action Plan (FSAP), the process stalled and then went into partial reverse during the financial and economic crisis in the euro area. As a result liquidity and capital became even more locked within national borders. The European Commission therefore needs to define a new strategy to push ahead with the integration of capital markets and to boost competitiveness in today's highly interconnected global financial system.

Much financial regulation has already been put on the table to this end – also to boost the attractiveness of Europe's capital markets. Yet fundamental differences remain in the underpinnings of financial markets, namely in securities, company and insolvency laws, accounting standards, and tax regimes, among others. But it is not just about law, regulations and their enforcement: these are slowly moving variables that cannot explain the rapid losses in integration that occurred during the crisis.

The fragmentation of capital markets in Europe has so far been unable to reduce the weight of bank financing in the economy; this is endangering Europe's competitiveness and causing an inefficient allocation of capital.

By looking at the revised foundations of capital markets post-crisis, the European Capital Markets Expert Group aims to provide a new and comprehensive approach to the development of capital markets over the next decade and to consider how policy action can make this development more consistent with the needs of Europe's economy.

SCOPE

The Task Force (TF) will work with the European Capital Markets Expert Group (ECMEG), which will provide a contribution to policy-making and its long-term objectives. Discussions will not review current legislative dossiers, but will rather take a broader look at the evolution of financial markets in Europe and around the world. With important pieces of legislation nearing completion, we are entering a new phase of complex implementation that requires sound and clear guiding principles. The architecture of European institutions is also changing. Questions about what they can deliver to improve European financial markets integration inside and outside the monetary union remain open. Can EU rules and institutions for the single market help to rebalance the financial system towards capital markets? Can this process contribute to both economic growth and financial stability?

The TF and ECMEG aim to gather independent experts, academics, policy-makers and market participants. Members of the Group must have longstanding experience and a knowledge of capital markets, as well of the entire financial system, its functioning and its policies. Commercial firms that would like to be involved in ECMEG should propose a high-level representative with corresponding knowledge and experience.

WORK ORGANISATION

The initiative launched by CEPS and ECMI aims at creating a platform for the ECMEG to collect information and contribute to the European debate as constructively as possible. In this regard, ECMI and CEPS will benefit of the input of two types of groups with matching roles:

1. The European Capital Markets Expert Group (ECMEG); and
2. The Task Force (TF).

Members of the TF are expected to participate actively in the meetings (also with presentation) and to provide a general contribution to the Final Report. The TF will interact and discuss the topics on the agenda with the ECMEG, a Group of selected experts from across Europe and beyond. The TF will include Market participants and observers.

1. The role of the ECMEG

The European Capital Markets Expert Group (ECMEG) will provide the main contribution to this initiative. The ECMEG will:

- Steer the research agenda of the meetings and the content of the active discussions with the Task Force and observers;
- Contribute to meetings with active input, including targeted presentations;
- Support the research of the Rapporteurs and provide comments to the various drafts of the reports, including the possibility to produce written contributions (subject to the Rapporteurs approval and editing);
- Ensure that the research behind the Final Report follows the highest standards;
- Have access to all the documents produced during the work of the Group;
- Contribute to the recommendations that will be discussed and added to the Final Report, which will be presented by the Chairman, the Rapporteurs and 1-2 experts from the ECMEG to European institutions around mid 2015.

2. The role of the Task Force

The Task Force is the group that will contribute the many viewpoints of the market and more technical expertise in the individual meetings on specific topics. The TF will:

- Participate to the discussions and actively contribute to the meetings (including targeted presentations), together with the ECMEG, on the topics identified by the ECMEG;
- Be able to see drafts of the Final Report and provide comments that can improve its content;
- Have access to the internal documents and to the presentations made during the work of the Group;
- Interact with the ECMEG members during the plenary discussions.

3. *The role of the Observers*

A group of policy-makers, academics and independent experts, who will not be part of the ECMEG, may attend the joint ECMEG and TF meetings. They will attend in an observer capacity, so they will not be required to provide any contribution (unless agreed otherwise). This group will also include speakers invited by CEPS and ECMI to provide individual contributions to one or more meetings.

The lists of the members of the ECMEG and of the TF will be featured in the Final Report and on the CEPS and ECMI website. TF members and Observers attend the meetings in their personal capacity and do not necessarily endorse the recommendations of the Final Report.

MEETINGS & PARTICIPATION

Based on the research agenda outlined in this note, CEPS and ECMI will organise a number of seminars for the members of the Group. Discussions will be only for members of the ECMEG, the TF and selected invitees (observers), under the Chatham House rule and without press participation. Based on these discussions and its own independent research, CEPS-ECMI will publish a final report drafted by the Rapporteurs to the Group.

Participation in the ECMEG is free of charge. Nonetheless, participation requires members to attend at least 3 out of 5 meetings in person and provide active contributions to the activities and research of the Group, unless agreed otherwise. Members may lose their status of ECMEG member should they fail to meet these requirements.

TIMELINE

The first meeting will take place on **December 2014**. Five full or half-day meetings will take place over the following months, until the second quarter of 2015.

Meeting 1 – 12 December 2014

This introductory meeting aims to determine the agenda of the Group, to propose and discuss ideas on capital markets issues for the following meetings and to consider the scope of the final report. In general, each meeting will host presentations by members and other independent experts/academics, followed by discussions among members. The topic for this meeting will be:

Capital on the move: Assessing the drivers of capital markets developments over the past decade and the status of financial integration in Europe

Historically, the capital markets of the different European countries have been very heterogeneous in terms of size, structure, liquidity, sophistication and interconnectedness. Over the past decade, both financial reforms and important market developments have been driven and altered by technological breakthroughs. Global consolidation among market infrastructures, greater interconnection among financial markets and institutions and newly applied trading technologies have pushed the structure of financial markets to the next stage. Yet Europe seems only partly able to lead these developments as it struggles to evolve from a mostly bank-funded economy to more balanced funding. These difficulties are also affecting the global reach of its financial centres. In the pre-crisis period, the surge in cross-border credit flows outstripped equity flows. This type of financial integration was far from complete and led to sudden stops and liquidity crises. The crisis taught us that it is not just the intensity, but also the quality of the process that matters.

The meeting will contribute to the following areas:

- How deep and persistent are the damages from the crisis?
- Measuring the quality of financial integration: Assessing financial integration in the post-crisis period and the role of new indicators
- The future of European financial centres: What is their role in promoting financial integration?
- How can pan-European market competition help to increase financial integration and economic growth?
- What are the guiding principles for an ideal process of financial integration?

Meeting 2 – 4 February 2015

Addressing short-termism in the financial system and the interaction with monetary policies: What role for capital markets for more long-term investments?

Short-termism in the financial system is clearly a topic that goes beyond the borders of the European Union. However, the EU, in particular the eurozone, has paid greater attention than other jurisdictions to possible ways of dealing with short-termism in the financial system. Short-termism in the governance of financial institutions concerns not only individual risk-taking behaviours, where capital markets already play a role (e.g. stock options remuneration), but also broader investment strategies and the nature of access to funding. However, the underlying structural causes that push financial institutions to invest with a short-term horizon remain unaddressed. On investments, the Commission proposed a European wrapper for long-term investments, i.e. a product that can attract more long-term investments, but that does not necessarily address the structural problem of the demand for more long-term investments. Product rules on asset allocation (such as UCITS) and competition in the asset management industry across Europe play a key role for capital markets. Finally, on the liabilities side, monetary policy interventions to support the financial system have been flattening the interest rate curve (across asset classes) and increasing even more reliance on short-term funding, despite attempts to increasingly rely on longer-term financing tools. Short-term funding thus creates endogenous risk, i.e. incentives to shorten maturity even further (the so-called “flight from maturity”; Gorton et al., 2014), which may end up creating systemic risk and the conditions that set off sudden liquidity crises. Capital markets can offer more maturity diversification in funding, but this result very much depends on how they interact with monetary policies.

The meeting will contribute to the following areas:

- Is short-termism driving asset allocation in our financial system and how does it impact the governance of financial and non-financial institutions?
- How can capital markets interact with monetary policies to foster long-termism?
- What are the guiding principles for developing a financial system that is more oriented towards the long-term?

Meeting 3 – 16 March 2015

The changing face of financial (dis)intermediation and trading technologies: Their impact on market accessibility and price discovery processes

As the banking system, with its intermediation role, loses ground because of the deleveraging process and tighter regulation, pure capital markets operators are regaining market share as a direct channel for access to funding or investments. Market accessibility for (large) corporates, as well as investors' choice, are on the rise. Greater accessibility for SMEs is still an issue. However, the global consolidation process among key market infrastructures and the competition unleashed by regulatory intervention are putting even stronger downward pressures on transaction costs, including switching costs for competitors and final users. Access to capital markets finance is changing, also thanks to significant technological developments, and with it the price discovery process at microstructural level. Nonetheless, a lot remains to be done to ensure a real consolidation process that fosters the single market. The underpinnings of financial markets lie in market infrastructure, as well as in the law that creates certainty around the enforcement of contracts. But bankruptcy, securities and company laws (among others) are insufficiently aligned in Europe, and with them, the fiscal policies (such as tax treatment) that shape incentives to trade cross-border. The insufficient progress on the road to harmonising these laws seems to be a major obstacle for the development of European capital markets. This has long been a ‘pending’ political decision. The alternatives to that path are still unexplored and the current muddling-through of Europe's capital markets appears to reduce future growth prospects. A fully-fledged financial integration requires a single market for capital, with limited compromises.

The meeting will contribute to the following areas:

- Is the way in which demand and supply of capital access markets changing? If so, how?
- Is there sufficient pan-European market competition among infrastructures to lead to a pan-European architecture in key asset classes? If not, what is holding back competition?
- What is left of the Giovannini barriers? What is missing to complete that ambitious project?
- What are the guiding principles for developing a truly single market for capital in Europe?
- What minimum progress is required in bankruptcy, securities and company law to achieve a genuine European capital market?

Meeting 4 – 14 April 2015

The competitiveness of European capital markets in a globalised economy

The globalisation of financial markets (following the globalisation of international trade) has deepened financial integration and increased mobility of capital at global level. This situation has had a deep impact on firms seeking capital, on international investors trying to diversify their portfolios, and on financial intermediaries that are international in nature. The competitiveness of European capital markets has become a source of both hope and concern, as other regions develop fast-growing financial centres. Financial integration is a necessary but not sufficient condition to improve the competitiveness of Europe's capital markets and its financial centres. Market structure and regulatory/legal regime for both issuers and investors have also become a tool to boost competitiveness of local markets. The EU regulatory regime will have to ensure the implementation of international standards with a competitive regulatory and legal regime, which can ensure the flexibility that global dynamic markets need.

The meeting shall contribute to the following areas:

- What is the status of global financial integration?
- What is the competitive position of Europe and its financial centres?
- To what extent can global regulatory convergence be achieved?
- What are the guiding principles for increasing the competitive position of European capital markets and attracting more capital and investments?

Meeting 5 – 8 May 2015

Review of the draft final report.

Launch of the final report (Q2 2015)

A report of 20-30 pages will be prepared, based on the discussions during the meetings, which will set out a series of recommendations supported by in-depth analysis. The report will be discussed in detail with the Group members and Task Force with a view to publication and presentation.

PARTICIPATION

Participation in the TF is subject to a fee to cover organisational expenses. CEPS and ECMI members are entitled to a discounted fee and non-members (with a commercial interest) pay the full fee.

The fee covers:

- The research carried out by CEPS and ECMI for the purpose of this Group
- Organisational, catering and other costs of all meetings
- Web access and documentation
- Launch of the final report in Brussels at a public event to maximise exposure
- Press release and communications management
- Printing and editing costs of the final report
- Distribution of the final report to key stakeholders in industry and policy-making
- It does not cover travel and accommodation costs for members of the Group

The final report will be launched at a public event in Brussels, open to the press, with the presence of high-level policy-makers and market participants. Additional launch events in other European capitals may be organised.

Fee Structure (+21% VAT)	
ECMI Corporate Member	€ 1500
CEPS Corporate Member	€ 1500
Non-Members	€ 6000*
Observers	free of charge [upon internal approval; mainly academics, policy-makers, and independent experts non-affiliated to commercial firms or NGOs representing commercial interests]

* Discount available if non-members decide to become a member of CEPS and/or ECMI.

IMPORTANT NOTE

To join the Task Force, please fill in the registration form. A Member of the TF can be any individual that participates in the activities of the Group in his/her personal capacity.

- Commercial firms or other bodies with or without commercial interests should indicate in the registration form a representative with longstanding experience and knowledge of financial markets as the official member of the Group.
- A CV and bio shall be attached to the registration, including for observers.
- The ECMI team will then review the credentials and inform applicants about acceptance as soon as possible.

THE TEAM

Chairman

The chairman will steer the discussions and contribute to the success of the project.

**Francesco Papadia**

Mr. Papadia has served as Chairman of the Board of the Prime Collateralised Securities (PCS) since November 2012. He is also an Affiliate Fellow of the Bruegel Institute and has lectured at universities in Frankfurt (Goethe Universität), Milan (Politecnico) and Pisa (Scuola Superiore S. Anna). Mr. Papadia has also been an advisor to a hedge fund and to a bank. Between 1998 and 2012, he was Director General for Market Operations at the European Central Bank. Previously he worked at the Banca d'Italia, first as Director of the International Section of the Research Department and then as Deputy Head of the Foreign Department, and as Economic Advisor at the Directorate General for Economic and

Financial Affairs of the European Commission. Francesco has written extensively in the fields of monetary economics, international economics, international finance, and economic development. He has a degree in Law from the University of Rome and attended postgraduate courses in Economics and Business at the Istituto Adriano Olivetti in Ancona and at the London Business School. He also spent short periods in 1982 and 1987 as a visiting scholar at the Massachusetts Institute of Technology (MIT).

Rapporteurs

The rapporteurs are CEPS-ECMI researchers in charge of configuring and leading the research agenda, organising the Group meetings and drafting the final report.

**Diego Valiante, Ph.D.**

Mr. Valiante is a Head of Capital Markets Research at ECMI and Research Fellow at CEPS. He is also member of the Group of Economic Advisers (GEA) to European Securities Markets Authority (ESMA). His expertise is 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. Mr. Valiante holds a BSc in Business Economics, MSc in Economic Analysis of Law and Ph.D. in Law and Economics from LUISS - Guido Carli in Rome, and an LL.M. Master in Law and Economics (EMLE) jointly from Hamburg and Bologna University.

**Karel Lannoo**

Mr. Lannoo has been the CEO of CEPS since 2000 and currently leads the three units working in financial markets at CEPS. Mr. Lannoo is a member of numerous formal and informal advisory bodies and has published widely on financial regulation and supervision, as well as other EU-related matters. He is also an Independent Director of BME (Bolsas y Mercados Españoles), the company operating the securities markets in Spain. He holds a graduate degree in Modern History and International Relations from the University of Leuven and an MSc in European Studies from the University of Nancy.

Research and secretarial support

Cosmina Amariei is a Research Assistant at ECMI. She previously worked at the National Bank of Romania (EU Affairs department) and Romanian Commercial Bank, Erste Group Bank AG (Financial Institutions division). She is particularly interested in central banking and financial markets related topics. She holds a BA in Economics from Babes-Bolyai University of Cluj-Napoca and an MA in International Economics and European Affairs from Hogeschool-Universiteit Brussel and Bucharest University of Economic Studies.

REGISTRATION FORM (*NOT to be filled in by academics/policy makers*)

Person attending the meetings (1)			
Title:	First name:	Last name:	
Job title:			
E-mail:		Telephone:	
Person attending the meetings (2) – not compulsory			
Title:	First name:	Last name:	
Job title:			
E-mail:		Telephone:	
Company / Institution			
Company / Institution name:			
Postal address:			
	Postcode:	City:	Country:
Contact Person:			
E-mail:		Telephone:	
Billing information			
Tax register number (VAT for Europe):			
Your reference, Customer Purchase Order No. or Cost Code N:			
Department:			
Postal address:			
	Postcode:	City:	Country:
Contact person:			
CEPS and ECMI members – check the applicable fee (+21% VAT)			
<input type="checkbox"/> ECMI Corporate Member EUR 1,500		<input type="checkbox"/> CEPS Corporate Member EUR 1,500	
PLEASE INDICATE THE NAME AND POSITION OF THE MEMBER YOU PROPOSE (and please attach a résumé)			
Non-members - check the applicable box (+21% VAT)			
<input type="checkbox"/> Full Fee EUR 6,000		<input type="checkbox"/> My company is interested in becoming a member of CEPS and/or ECMI	
PLEASE INDICATE THE NAME AND POSITION OF THE MEMBER YOU PROPOSE (and please attach a résumé)			
Date:		Signature:	

APPENDIX

Principles and Guidelines for the ECMEG and the Task Force

This appendix offers guidance to the ECMEG and TF members and other interested parties in understanding the functioning of the initiative and the drafting process of the final report. Expert Groups are structured dialogues among industry representatives, policy-makers, and academics, who discuss topics in dedicated meetings. The Final Report is the result of the research carried out independently by ECMI-CEPS Rapporteurs.

Participants

- The *Chair* is an expert appointed by CEPS-ECMI to steer the dialogue during meetings and advise as to the general conduct of the activities of the Group.
- *Rapporteurs* are CEPS-ECMI researchers who organise the Group, conduct the research independently and draft the final report.
- *Members* are any individuals, such as academics, policy-makers, regulators, supervisors, representatives of commercial companies, trade associations, consumer interests groups, NGOs, who participate in the activities of the ECMEG or TF in their personal capacity. They must have expertise in the topics discussed and provide input to the discussions through presentations and relevant material for the Final Report.
- *Observers* are any experts who are invited to attend individual Group meetings and, in some cases, provide oral and written input.

Objectives of the Final Report

- The report is meant to contribute to the policy debate by presenting a balanced set of arguments, based on the discussions among participants and internal desk research.
- The report seeks to provide readers with a constructive basis for discussion. Conversely, they do not seek to advance a single position or misrepresent the complexity of any subject matter.
- The report also fulfils an educational purpose, and is therefore drafted in a manner that is easy to understand, with technical jargon fully defined.

The role of the Participants (see also description above)

- ECMEG and TF members contribution may take the form of active participation in debates, a formal presentation during the meetings, or a written submission.
- Input from members is encouraged and will be made available to all members, if it is to be used for the final report.
- Members are expected to provide a contribution based on facts and withhold input that deviates from the topic of individual meetings.

Drafting of conclusions and recommendations

- The Final Report features a set of policy recommendations. These recommendations are meant to reflect the discussions that the ECMEG and TF had during the process. The Rapporteurs, in cooperation with the ECMEG, will elaborate this set of recommendations.
 - For a recommendation to be featured in the report, there needs to be enough information being discussed in the open debates between the ECMEG and the TF.
 - In all cases, the report will seek to identify the points where there is some sort of common understanding of market issues.
- Both policy recommendations and the content of the Final Report will be summarised at the beginning of the report in the form of an 'executive summary'.
- ECMEG Members will be given ample opportunity to review the Final Report. TF Members will be able to provide their input on a draft Final Report. Nonetheless, the authors (the Rapporteurs) shall be solely responsible for the content of the Final Report.

Drafting of the main text

- In the main text, rapporteurs detail the results of the research carried out independently in the framework of the Task Force. This part of the report will refer to the discussions during the meetings but also to available data and literature.
- Scientific literature may be cited in this part of the report. Members are not expected to endorse any reference to this literature. A general disclaimer is inserted to clarify this aspect.
- The conclusions of each section will be clearly presented. For the drafting of these conclusions, please refer to the previous section.

Use of data

- The Final Report features data that are considered both relevant and accurate by the rapporteurs.
- ECMEG and TF members are encouraged to contribute with any data or propose any source of data that Rapporteurs shall consider as relevant.
- ECMEG members may question either the relevance or accuracy of any given data. After consultation with other Group members, the rapporteurs may decide either to exclude this data or to mention these concerns in the main body of the text.

Sample structure of an Expert Group report

1. Editorial information
2. Disclaimer
3. Executive summary
4. Outline
5. Main text
6. Summary of conclusions
7. References
8. Annexes, if any
9. List of participants

Sample disclaimers

Disclaimer. The findings of this Final Report do not necessarily reflect the views of all the members of the Expert Group. Members contributed to the Group meetings and provided input to the discussions through presentations and material relevant for the Final Report. A set of principles has guided the drafting process to allow all of the views expressed in the Group to be heard and to comment on each chapter of the Final Report. Wherever fundamental disagreements arose, the rapporteurs have made sure that all views have been explained in a clear and fair manner. The Final Report was independently drafted by the main authors, who are solely responsible for its content and any errors. The Group members do not necessarily endorse the content of the Final Report.

Disclaimer. Affiliations are provided for identification purposes only. The Group members participated as individuals; the report reflects their own views and not those of organisations with which they are affiliated. The report is approved and supported by all Group members. However, members may not necessarily agree on all the detailed issues.



About CEPS – Centre for European Policy Studies

Founded in Brussels in 1983, the Centre for European Policy Studies (CEPS) is among the most experienced and authoritative think tanks operating in the European Union today. CEPS serves as a leading forum for debate on EU affairs, and its most distinguishing feature lies in its strong in-house research capacity, complemented by an extensive network of partner institutes throughout the world.

CEPS' funding is obtained from a variety of sources, including membership fees, project research, foundation grants, conferences fees, publication sales and an annual grant from the European Commission.



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About ECMI – European Capital Markets Institute

ECMI is an independent non-profit organisation created to provide a forum in which market participants, policy-makers and academics alike can exchange ideas and opinions concerning the efficiency, stability, liquidity, integrity, fairness and competitiveness of European capital markets and discuss the latest market trends.

These exchanges are fuelled by the publications ECMI regularly produces for its members: topical commentaries and analytical research papers, as well as the frequent workshops and conferences it organises. ECMI also advises European regulators on policy-related matters, acts as a focal point for interaction between academic research, market sentiment and the policy-making process, and promotes a multidisciplinary and multidimensional approach to the subject.

ECMI is managed and staffed by the Centre for European Policy Studies (CEPS) in Brussels. Its membership is composed of private firms, regulatory authorities and university institutes.



www.eurocapitalmarkets.org

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