

ANNOUNCEMENT

Diego Valiante leaves ECMI

ECMI | June 2016



After seven eventful years as head of research at ECMI, Diego is leaving CEPS to devote his talent to other goals. His time at ECMI has been extremely productive in terms of publications, activities and project management. Diego coordinated several research areas at ECMI, in line with the initial objectives of the Institute, covering equity and debt markets, derivatives markets, clearing and settlement and corporate governance, each in relation to the EU's regulatory agenda. Diego's tenure at ECMI was also marked by an extended outreach to the academic community, which was another ambition of ECMI's, as well to the ECMI Board of Directors. He was also instrumental in upgrading the ECMI Annual Conference into a high-profile and prestigious annual forum. His books on MiFID II, Commodities Markets and Europe's Capital Market will remain fundamental contributions to the literature in this domain. We wish him all success in his future career!

PUBLICATIONS

Europe's Untapped Capital Market: Rethinking Integration after the Great Financial Crisis

CEPS Paperbacks | February 2016 | By Diego Valiante

In the aftermath of the great financial crisis, the lack of risk diversification in the European financial system, i.e. limited cross-border banking and capital markets activities, is the main cause of the fast retrenchment of capital flows within national boundaries. Europe needs private risk sharing mechanisms to withstand asymmetric shocks, such as the recent financial crisis. An EU-wide action to promote competition among national capital markets could free up to €1.8 trillion in cash and deposits to invest cross-border in more profitable and riskier projects to create growth and jobs. In December 2014, ECMI and CEPS formed the European Capital Markets Expert Group (ECMEG) with the aim of providing a



long-term contribution to the debate on the Capital Markets Union (CMU) project, proposed by the European Commission. After an intensive, year-long research effort and in-depth discussions with ECMEG members, this final report aims to rethink financial integration policies in the European Union and to devise an EU-wide plan to remove the barriers to greater capital markets integration. It offers a methodology to identify and prioritise cross-border barriers to capital markets integration and provides a set of policy recommendations to improve its key components: price discovery, execution and enforcement. This report was drafted by Diego Valiante, Head of Financial Markets and Institutions at CEPS and Head of Research at ECMI, based on extensive research and discussions with the members of ECMEG, chaired by Francesco Papadia, former Director General of the European Central Bank and other international experts. ECMEG interacted with a broader Task Force including members from industry, as well as observers from EU institutions, national authorities and academia. Launch events were organised in [Brussels](#), [London](#), [Paris](#), [Milan](#), and [Madrid](#). The book is co-published with Rowman and Littlefield International (RLI) and can be purchased for £24.95/\$45.00 in paperback or for £24.99/\$44.95 as an e-Book from the RLI [website](#). It is also available for free downloading in a PDF file on the CEPS [website](#).

More Union for the EU's IPO Market

ECMI Commentary | March 2016 | By Karel Lannoo

In his assessment of the latest draft prospectus Regulation, Karel Lannoo argues that the text goes somewhat further than the European Commission has previously entertained, but it falls short of creating a European market. In his view, the Commission is hostage to its own (or member states') unwillingness to expand the powers of the European Securities and Markets Authority (ESMA) to become an EU-wide listing authority. In short, the Union that the EU wants to create for capital markets still seems a distant ambition. [Full commentary at ceeps.eu](#).

The ECB's latest gimmick: Cash for loans

CEPS Commentary | March 2016 | By Diego Valiante, Willem Pieter De Groen, Daniel Gros

Among several important monetary policy initiatives decided by the European Central Bank on 10 March 2016 was the launch of a new set of targeted longer-term refinancing operations (TLTRO II), expanding on the previous TLTRO. In assessing this scheme, which might cost up to €24 billion, this Policy Brief finds that while it could become important, it is questionable whether it will achieve its goal of encouraging the extension of credit for novel investment, as banks can easily window dress their loan book. [Full commentary at ceeps.eu](#).

CALL FOR PAPERS

Understanding Europe's capital markets (Deadline: 28 August 2016)

To be presented at the ECMI Annual Conference | Brussels | 9 November 2016

ECMI has issued a call for the submission of research papers in the area of capital markets and their functioning. The best paper, selected by a committee of academics and international experts, will be awarded a prize of €5,000, plus travel (economy) and accommodation expenses for the participation of one author in the ECMI Annual Conference. The research findings will be presented at the ECMI Annual Conference, which is an international event in Brussels, bringing together hundreds of policy-makers, academics and experts. The deadline for the full-text submission is 28 August 2016. Please click [here](#) for more information.

RESEARCH PROJECTS

Improving the investor base for local currency bond markets in China, India and Indonesia

Policy Report | November 2015 - ongoing

CEPS was commissioned to prepare this policy report in the framework of the Emerging Market Dialogue on Finance (EMDF), which is being spearheaded by the German Agency for International Cooperation (GIZ). The study, which is currently being prepared by a CEPS research team composed of Diego Valiante, Willem Pieter de Groen and Cosmina Amariei, benefited from valuable contributions from the Research Bureau of the People's Bank of China, the Observer Research Foundation in India and the Economic Research Institute for ASEAN and East Asia. The preliminary findings of the policy report were presented at the ADB Annual Meeting in Frankfurt (3 May 2016) and the 3rd Annual Symposium on EU-Asia Relations in Financial Services in Beijing (26 May 2016). The report is structured as follows: 1) rationale for local currency bond markets development, 2) the macroeconomics of local currency bond markets, 3) market structure of local currency bond markets, 4) the investor base for local currency bonds and 5) improving the investor base for local currency bonds (price discovery, execution and enforcement). A policy roadmap for each of the three jurisdictions is currently being drafted. Once completed, the final report will be presented at workshops hosted by the relevant supervisory authorities and with the participation of institutional investors.

RECENT EVENTS

Asset management in the EU: Which way forward?

ECMI half-day conference | Brussels | 10 March 2016

The European asset management sector remains highly fragmented, resulting in a suboptimal size of funds and higher costs for investors. As underlined in the discussions among the participants, much more needs to be done in order to achieve a truly pan-European market that is competitive, attractive and transparent vis-à-vis its investors (in particular the retail segment). In this context, the Retail Distribution Review, scheduled to be conducted at EU level throughout 2018, aims to investigate whether the current distribution channels are fit for purpose. It will also examine whether adequate incentives have been put in place to induce new business models to emerge, e.g. cross-border online platforms.



At present, the differences in the general notification procedure, registration fees, local paying agent requirements, review of marketing materials by national regulators, additional obligations around investor disclosure and even

different tax treatment of foreign vs local funds simply make it more burdensome and ultimately more costly for providers to distribute funds on a cross-border basis. The growth of the asset management sector has also drawn the attention of policy-makers towards the industry's business model and the different risks involved, including risks to the system, to individual institutions and to clients. The rules currently applicable to asset managers are much more related to conduct of business rather than micro- and macro-prudential rules. The panellists agreed that steps should be taken to avoid regulatory spill overs from the banking sector to the asset management sector. Nevertheless, the existing links between asset managers and banks need to be analysed much more carefully. Increased information on liquidity and leverage risk across asset managers will provide an essential tool for understanding the risks posed to financial stability by the asset management sector. A detailed report is available on the [event page](#).

RECENT EVENTS

3rd Annual Symposium on EU-Asia Relations in Financial Services

Symposium | Beijing | 26-27 May 2016

Following the success of two previous editions in Singapore (2014) and Hong Kong (2015), the 2016 Symposium on EU-Asia Relations in Financial Services took place in Beijing on 26-27 May.



The implementation of Basel III requirements is impacting banks' trading book, but the full extent of it is still unclear. A more proportionate approach could be considered. The over-reliance on the banking sector remains a threat to financial stability. The development of local currency bond markets in both Europe and Asia is key to diversify the financial system, but significant barriers remain for the development of a sound legal and market infrastructure, especially in Asia. Meanwhile, shadow banking has developed differently across jurisdictions, e.g. market-based finance in the US and Europe compared to bank-like financial intermediation in Asia. In China, this form of unregulated banking service is gradually approaching the size of traditional banking services. The shift towards more inter-institutional shadow banking activities could give rise to potential systemic risks. But volatility in the Asia's stock markets

suggest that more defaults are still to come, especially in China, where the capital to output ratio is at historical peak. Less discretionary actions by local governments and greater diversification of the investor base for local financial markets in main emerging economies can increase the soundness of the Asian financial system and the economy overall.

Moreover, companies' financial technologies (FinTech) are increasingly put to multiple applications, e.g. instant payments, digital currencies and monetary policies, artificial intelligence and advisory services, blockchain and securities settlement and even regulatory compliance. These new tools redefine the financial industry, but the full extent of such developments are still to be fully understood. Asia leads these developments, especially in retail financial services. The neutrality of technology for regulation has led to a 'wait and see' approach by the regulators, which aims to balance the need for innovation with risk mitigation actions. For more details, please see the [final programme](#).

UPCOMING EVENTS

Simple, transparent and standardised securitisation: is it possible?

ECMI lunchtime meeting | Brussels | 22 June 2016



In the context of the Capital Markets Union plan, the European Commission has proposed an initiative to re-launch securitisation, with harmonised rules across the EU for a subset of standardised offerings. It has also proposed amendments to the new capital requirement rules (CRR/CRD IV), calling for adjustments to capital charges to provide for a more risk-sensitive treatment for such instruments. Securitisation is key to reducing the balance sheets of banks and making individual loans more liquid. Securitisation, however, still provokes raised eyebrows with many users and policy-makers, who question whether a distinction can easily be drawn between standardised and transparent securitisation, on the one hand, and complex, opaque and bespoke securitisation, on the other. The intention of this

lunchtime meeting is to discuss the feasibility of STS, and its potential. [Click here](#) for more details and registration.

UPCOMING EVENTS

Capital Markets FinTech: Beyond the hype

CEPS-ECMI half-day conference | Brussels | 28 June 2016

The financial sector is no stranger to innovation. Nevertheless, over the past few years, the exponential growth of FinTech companies suggests that more disruptive change will be required in order to bring the financial system fully into the 21st century. Providers of investment services have begun to revisit their product portfolios and distribution channels, making massive investments in FinTech start-ups, accelerator/incubator programmes and even appointing chief innovation officers.

Distributed ledger technology (DLT) has the potential to bring issuers and investors into direct contact, leading to further disintermediation in the securities industry. It can achieve greater efficiency, transparency and even 'democratisation' of finance (financial inclusion). Trading and post-trading operators have already started to test blockchain technologies and to integrate them into their business models. Potential savings for investors could be significant. [Click here](#) for more details and registration.



Europe's future: What policy mix for a thriving European capital market?

ECMI Annual Conference | Brussels | 9 November 2016

The ECMI Annual Conference is a landmark event in Brussels that brings together policy-makers, academics and international experts to discuss European capital markets integration policies and global financial reforms. Jointly organised with the Brevan Howard Centre for Financial Analysis at the Imperial College, the conference consists of five sessions with keynote speeches and presentations, followed by panel debates.

This year's conference will discuss what are the long-term implications for Europe's financial system of the current policy mix and governance structure. In the year of the Brexit discussion, the mix of regulatory and monetary policies is crucial to foster integration and to promote the stability of the European Union. Monetary policies are under the threat of becoming increasingly ineffective to support the stability of the financial system and higher inflation expectations. The Capital Markets Union project is still lacking an organic and coherent set of



actions to bring down cross-border barriers and create a single market for capital, which could support the effectiveness of monetary policies. Capital markets can also support the ongoing restructuring of the European banking system, which will require significant market funding to offload non-performing exposures. In the midst of this process, Europe's capital market infrastructure continues its consolidation process, also thanks to the role of disruptive technologies, like blockchains. As they promise to bring financial markets into the XXI century with real-time settlement, corporate actions and risk management, Distributed Ledger Technology (DLT) brings both opportunities and challenges. As a consequence, this

structural change for Europe's capital markets requires a sound and consistent governance, which is currently weak and dominated by national interests. Is Enforcement the 'weakest link' for European capital markets? More details will be available on <http://www.eurocapitalmarkets.org/>

ECMI BOARD

In memoriam: Chris Golden, ECMI Vice-Chairman

ECMI | 10 May 2016

It is with great sadness that we learned of the death of Chris Golden, Vice-Chairman of ECMI and a long-standing supporter of serious and independent academic research in the area of capital markets development. Chris was an active and inspiring member of the Board of ECMI, where he represented EFFAS (European Federation of Financial Analysts Societies), one of the founding members. We extend our deepest condolences to his family and friends. A memorial/celebration of Chris Golden's life will be organised in London later this year.