E C M I

European Capital Markets Institute

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PUBLICATIONS

EU Financial Market Access after Brexit

CEPS Researcher's work published externally | September 2016 | By Karel Lannoo

CEPS CEO Karel Lannoo has contributed a policy analysis to the Forum section of the latest issue of Intereconomics, which is devoted to the broad question of 'Post-Brexit European Union'. It can be downloaded here, along with other contributions on this topic. Lannoo opens his contribution by observing that it is understandable that the UK attaches immense importance to retaining access to the EU's single market, given that financial services account for about 8% of the country's GDP. He warns, however, that putting a mutually acceptable regime in place will take years of negotiations, and the final agreement will clearly allow much less access than UK-licensed firms enjoy today. He further finds that the 'equivalence' assessment – the basic tool used under current EU financial services legislation to recognise that a third country's legal, regulatory and/or supervisory regime is equivalent to the corresponding EU framework – offers a fairly bleak basis on which the City might continue to thrive as a global financial centre in Europe. Full publication at ceps.eu.

FIRST CALL FOR PAPERS

Understanding Europe's Capital Markets

Call for papers | Brussels 2016

This year, for the first time, ECMI has issued a call for papers in the area of capital markets and their functioning. The best paper, selected by a Committee of academics and international experts, will be presented at the ECMI Annual Conference on 9 November and awarded a prize of €5,000. We have received 28 submissions covering a wide range of topics: European capital markets integration; the impact of monetary policies in capital markets; trading activities and technologies; behavioural finance; secondary markets activities; structured products; bank lending; and risk sharing.

Academic committee

Chair: Andrei Kirilenko, Director, Centre for Global Finance and Technology, Imperial College London
Vice-Chair: Florencio Lopez de Silanes, Professor of Finance, EDHEC Business School
Alistair Milne, Professor of Financial Economics, Loughborough University
Lieven De Moor, Associate Professor of Finance, Vrije Universiteit Brussel
Mark Van Achter, Assistant Professor of Finance, Erasmus University Rotterdam
Secretary General: Apostolos Thomadakis, Researcher, ECMI

UPCOMING EVENTS

How to deal with the resolution of financial market infrastructures?

Launch of CEPS task force interim report | Brussels | 19 October 2016

In a new report, a CEPS Task Force welcomes international efforts to devise guidelines to facilitate the resolvability of financial infrastructures, without calling for detailed rules. European rules on the subject should focus on easing coordination between supervisors; they should call for restraint from authorities before triggering action, because of the nature of the entities, but at the same time ensure strong vigilance and identify and remedy impediments to FMI resolvability. The latter should also ensure that the loss allocation ('waterfall') process, especially in a CCP, can be completed, if necessary, over a 'resolution weekend', and that the default fund can be replenished.

As banks become resolvable, attention is now shifting to financial market infrastructures. High on the policy agenda is the question of how to deal with trouble in central counterparties (CCPs), the entities with net out derivatives exposures of counterparties in derivatives trading. The European Commission is expected to release a proposal on this subject very soon, but market participants are concerned that it will further increase the requirements already set out in the rules on market infrastructures (EMIR).

This timely and authoritative report is the result of deliberations in a CEPS Task Force that examined the rules on resolution of banks and financial market infrastructures. The group is chaired by Thomas Huertas and attended by financial sector representatives, experts and officials. The full text will be available at www.ceps.eu.

The launch of the report will take place on 19 October, from 13:15 to 14:30. Register here to attend the event.

Speakers

Thomas F. Huertas, Partner, EY & Chairman of the CEPS Task Force
Patrick Pearson, Head of Unit, DG FISMA, European Commission
Dennis McLaughlin, Chief risk Officer, LCH Clearnet
Karel Lannoo, CEO, CEPS (moderator)

Towards the right policy mix for a thriving European capital market

ECMI Annual Conference | Brussels | 9 November 2016

The European Capital Markets Institute 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 Imperial College London, the conference consists of the following five sessions, with keynote speeches and presentations, followed by panel debates.

Session 1. *Macroeconomic and institutional outlook: What is the impact of negative interest rates on Europe's financial system? How do we get back to normal?*
Session 2. *Law and Finance: Market-based solutions to bank restructuring: Can active financial markets help to clean up bank's balance sheets?*
Session 3. *Presentation of award to author of the winning paper*
Session 4. *Governance: Reshaping the governance of Europe's capital markets: Is enforcement the weakest link?*
Session 5. *Market structure: Block chain and other new technologies: What will capital markets look like as the 21st century unfolds?*

Confirmed keynote speakers

Peter Praet, Executive Board Member and Chief Economist, European Central Bank
Gert-Jan Koopman, Deputy Director-General for State Aid, DG Competition, European Commission

Confirmed keynote presenters

Miles Kimball, Professor of Economics, University of Michigan
Fernando Restoy, Deputy Governor, Banco de España
Sebastien Raspiller, Deputy Director, Corporate Financing and Financial Markets Division, French Ministry of Economy and Finance

To register for the conference visit http://www.eurocapitalmarkets.org/2016AC

Asset Allocation in a Low Interest Rate Environment: Where do we stand?

ECMI Event | Brussels | 1 December 2016

Interest rates have been on a downward trend for the past four decades. In Europe, the financial and sovereign debt crises and the ensuing weak macroeconomic environment – persistent output gap, low growth and excessively low inflation – together with the expansionary monetary policy responses, in particular QE, have contributed to a further decline in interest rates. One of the key concerns is the extent to which a lasting low interest rate environment has the potential to undermine the ability of insurance undertakings and pension funds to fulfil their long-term financial promises to policy holders and beneficiaries. The consequences are likely to vary widely across companies, largely depending on their business models, balance sheet structures and risk management strategies. Some of these institutional investors are also among the main sellers, i.e. the main counterparties, in the asset purchase programme implemented by the ECB.

- Have the insurance undertakings and pension funds significantly changed the composition/risk profile of their investment portfolios (fixed income, equity, and other investments) in the past five years?
- What type of asset/liability-driven strategies will be employed by insurance undertakings and pension funds in order to deal with the challenges posed by a prolonged period of low interest rates?
- Is there any evidence of negative impact on the profitability and solvency of insurance undertakings and pension funds as a result of the unusual operating conditions?
- What kinds of responses can regulators and supervisory authorities take in the future with respect to the activities of insurance undertakings and pension funds? Is there a need for further action at EU level?

Speakers

Dimitris Zafeiris, Head of Financial Stability, EIOPA
Other speakears to be confirmed

Organised in the context of Invest Week

INVEST WEEK

The event will take place on 1 December from 10:30 to 12:00 at CEPS, followed by a lunchtime meeting (12:30 to 14:00) with the participation of Xavier Rolet, Chief Executive Officer, London Stock Exchange Group. Registration links will soon be available at ceps.eu

RECENT EVENTS

Simple, transparent and standardised securitisation (STS): is it possible?

ECMI lunchtime meeting | Brussels | 22 June 2016

In an effort to revive securitisation markets, the European Commission proposed a special 'STS' label and related capital charge reductions. The criteria stipulate: i) simplicity, i.e. the loans must be bundled and transferred to a special purpose entity (SPE), ii) transparency, i.e. the data regarding the performance of the underlying assets must be readily available to investors and updated on a regular basis, iii) standardisation, i.e. the financial management must follow generally accepted practices. The proposal does not harmonise the national rules for SPEs, nor does it tackle the differences in national insolvency laws, which affect the claims on the underlying assets. On the supervisory side, notification of STS products should go to ESMA, which publishes the information on its website.

Market participants indicated that the market performance in European asset-backed securities has been very good so far. Also, that there had been hardly any defaults in the aftermath of the crisis. In addition, they argued that the current capital charges are too high today in proportion to the risk incurred. Banks consider securitisation as a vital funding tool that can help free up their balance sheets and allow them to lend more to households and businesses. Institutional investors stressed that it allows them to achieve the desired portfolio diversification and exposure to consumers and SMEs.

Opponents explained that the proposal will not remove the complexities of these securitised products. Most likely, it will increase interconnectedness, pro-cyclicality and leverage in the financial system, rather than create diversity or contribute to financial stability. In their view, the risk retention should be much higher, at 20% instead of 5%. The latter element was retained in the European Parliament's initial report on the proposal, together with an enhanced role for ESMA in the European Securitisation Data Repository, a single reporting entity for all STS instruments. Click here for a detailed report.

Capital Markets FinTech: Beyond the hype

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

Panellists debated the issue of automation in financial advice (so-called 'robo advisors'), and the application of distributed ledger technology in the trading and post-trading space, in two separate discussion sessions. Robo-advisers have already stormed the market, but are mostly based on exchange-traded funds (ETFs). Contrary to popular belief, the field is populated with 'hybrid' models, combining algorithm-based investment techniques with traditional human professional advice. The impact of automated financial advice is likely to be greater for retail investors than for institutional investors and high-net-worth individuals, as the latter will still require a higher degree of sophistication. Reduced cost, increasing access to advice, and better product choice were mentioned as being among the potential benefits of automated advice. Nevertheless, flaws in the algorithms, mis-selling risks and privacy and data protection concerns could negatively impact the take-up of automated financial advice.

Distributed ledger technology offers multiple opportunities to improve operational processes in the financial services industry, provided that the different players in the financial ecosystem understand that this is the sustainable alternative from now on. To this end, trading and post-trading infrastructure operators have already started to test such technologies and to integrate them into their business models. Questions around the robustness, governance, supervision, interoperability and cyber-security are yet to be answered.

With respect to regulatory approaches on financial innovation, it was mentioned that a number of supervisory authorities in Europe (e.g. the UK, BE, CH) have put in place regulatory 'sandboxes', through which they encourage businesses to test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory consequences of pilot activities. Click here for a detailed report. Click here for a detailed report.