Wednesday 21st and Thursday 22nd June 2017

FESE Convention, Paris

EUROPE'S FUTURE IN GLOBAL CAPITAL MARKETS

DEIRDRE SOMERS, FESE PRESIDENT

The FESE Convention 2017 covers a vital topic at what couldn't be a more crucial time. European companies need capital and European investors need investment opportunities. In turn, European operators need to build ecosystems that are able to meet these needs.

European capital markets currently struggle to function as a source of funding and have liquidity problems.

European capital markets are smaller, less liquid and less transparent. Furthermore, we can observe an over-reliance on bank lending in Europe. Such an over-reliance is commonly believed to impede economic growth and increase levels of systemic risk. The situation of secondary markets is even more stark. Europe is, however, faring better when it comes to derivatives.

When we take the UK out of the statistics we find that the EU occupies a relatively poor third place. For this reason, market operators should focus on delivering more to fuel the real economy and take steps to reduce the damage.

THANK YOU

FESE and it's Members would like to thank all our speakers and participants for their contribution and support at our 20th Convention in Paris.

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20 & 21 JUNE 2018

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WHAT IS THE FUTURE OF EUROPE IN CAPITAL MARKETS AT THE GLOBAL LEVEL?

ODILE RENAUD-BASSO
SECRETARY GENERAL, FRENCH TREASURY

Capital markets have a key role to play when it comes to stimulating economic growth and encouraging innovation in Europe. Europe must deliver on its ambitious CMU agenda, however, overall progress in this area has been too slow. We need to renew our ambition.

In order to reverse these trends, we will need to:

(i) Develop a strategic approach to competitiveness;

(ii) Have a more integrated approach to regulatory supervision (call to increase ESMA's powers);

(iii) Reinforce the long-term financing of companies/the economy;

(iv) Reform insolvency law with the EU (discrepancies discourage investors);

(v) Reduce fragmentation (this fragmentation could in turn harm the provision of liquidity). There is also a need for effective market venues to finance our economy.

We are all operating in a world of transition, uncertainties and of opportunities. The key to Europe's future lies in designing a competitive and safe regulatory framework as well as in fostering innovation.

CHALLENGES FACING EXCHANGES

ANTONIO ZOIDO
EXECUTIVE CHAIRMAN, BOLSAS Y MERCADOS ESPAÑOLES (BME)

In 1984, it was predicted that the last publicly traded share would be sold in 2003, despite this not happening, we have still witnessed a falling in total number of listings, especially in the US and in Europe. Public listing is an essential function of the exchange value chain, which complements trading and clearing services. Since the mid-nineties, companies, however, have started to question the value of public listing, in part due to the increasing layers of regulation and the many legal requirements associate with publicly listed companies.

While the number of listings have gone down, it must be recognised that total market cap for all listed companies has risen. This has shown that it is more beneficial for bigger companies to list compared to smaller companies. We must recognise that it is important to have a diversified body of listed companies, i.e. mid-size and smaller companies too. Public policy makers, supervisors, and market participants must work together to promote increased listings in Europe. For exchanges, while there have been a number of both successful and unsuccessful merger attempts between exchanges, we must also consider alternatives to mergers, such as cooperation between market infrastructure This could allow us to serve our own distinct markets while still producing efficiency gains.

PANEL 1: FINANCIAL STABILITY, FREE CAPITAL FLOWS & LEVEL PLAYING FIELD: OUTDATED PROMISES IN THE NEW WORLD


Stephane Boujnah
Euronext


Alexandra Hachmeister
Deutsche Börse AG


Lauri Rosendahl
Nasdaq Nordic


Verena Ross
ESMA


David Wright
Flint Global


Rainer Riess
FESE

The panel questioned what needed to be created to ensure financial stability?

It was argued that action is required now, the planning currently on the table is simply not enough, a transparent and effective European Capital Markets is key for the future of Europe. This will not be achieved without a clear vision which would include a defined set of priorities with clear deadlines.

There are however opportunities for the EU27. In the 80s Zurich was viewed as a financial centre in Europe.

The same cannot be said today. Could the same thing be said about London over time?

Even further integration was preferable and CMU should be delivered as quickly as possible to allow for a highly competitive industry. Focus should be placed on fast-growing companies and Europe should be prepared to be more competitive in this area replicating best practices in some of the jurisdictions.

It was debated that the root of the problem was based on the EU27 competing as individual jurisdictions and not as one which is why further thought and action is needed on what we want for the EU27. There is nothing new about European capital markets' shortcomings. Brexit simply accentuates these problems. Observers are pessimistic and believe that Europe has done too little to develop European capital markets, although it was agreed that the collaborative spirit of the EU should not be challenged as this could risk financial stability.

Above all a supervisory approach should be put in place which does not result in an unlevel playing field and refocus on Europe's inside agenda. We need to provide an agile but safe supervisory environment.

PANEL 2: GLOBAL RISK:
A CHANGING LANDSCAPE AS DERIVATIVES TURN NATIONAL

Stephen Berger
Citadel

Thomas Book,
Eurex Frankfurt AG &
Eurex Zürich AG

Scott O'Malia
ISDA

Pierre Petit
ECB

Bruno de Saint-Florent
Oliver Wyman

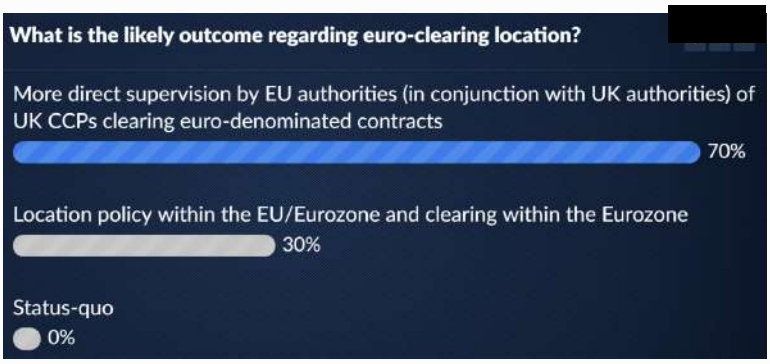
The scene was set by highlighting why central clearing and CCPs matter to central banks. CCPs play an important role in reducing systemic risks and are catalysts in ensuring that central banks are able to perform their main functions – monetary policy.

It was also mentioned that the current EU third country regime concerning CCPs is inadequate from a financial stability perspective. Therefore central banks should have a role in supervision of CCPs, and the EU should apply more direct supervision of systematically important third country CCPs clearing contracts denominated in EU currencies.

The panellists emphasised that derivatives trading and clearing is a truly cross-border business, the majority of panellists argued that there should be convergence in global rules concerning derivatives and CCPs, which would aid market access and cross-border movement of capital, as well as innovation.

They also cautioned against fragmentation of the derivatives markets, which would among other things lead to higher costs and have a negative effect on innovation and efficiency.

The panellists highlighted that 90% of counterparties are still outside the clearing obligation in the EU, and argued that better solutions need to be found concerning client access to central clearing. The panellist also stressed the importance and benefits of trading on trading venues: considerable savings in transaction costs and compression in bid-ask spreads. As with clearing, the panellists agreed that more needs to be done in this regard to fully unlock the benefits of trading on venues.



PANEL 3: TRANSPARENCY: NEW REGULATION, NEW MODELS, LIGHT AT THE END OF THE TUNNEL?

René Karsenti
ICMA

Tilman Lueder
European Commission

Simon Maisey,
EDMA Europe/
Tradeweb Europe

Robert Scharfe
Luxembourg Stock Exchange

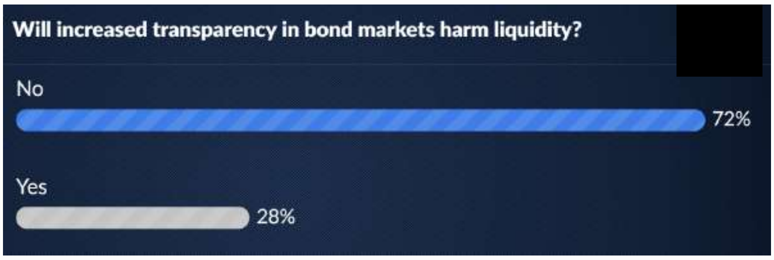
Nandini Sukumar
WFE

Market efficiency is linked to risk taking and efficient markets improve liquidity. However, capital requirements for banks impact their risk taking and thus liquidity. Transparency is beneficial, but there is a point where responsibility is taken away from the investor by overprotection. The panel considered market fragmentation as the biggest risk. The ESAs review represents an opportunity to strengthen supervisory convergence and consistency between Member States, however, more can be done internationally to produce common standards by IOSCO for example. There are also calls for ESMA to be more involved in Level 1.
MiFID II/MiFIR requirements for reference data are challenging as they require market operators to provide transaction reports for non-EU firms; while the latter have no incentives to provide the required information.

The original policy objective was to increase competition but twill produce less platforms and these will be restricted in their innovation. International fragmentation is the biggest risk.

Even if mandates from G20 are being implemented, every jurisdiction is taking a different approach. Inconsistency in application of deferrals for post-trade transparency is a major issue as time spans can vary from 48 hours to two weeks and the issue has been left to NCAs to decide upon. There is still a lack of available data in financial markets. MiFID II/MiFIR aims to correct this by collecting reference data but it is challenging.

Examples where regulation requires calculations of market share is the double volume cap and the SI regime. ESMA should have direct access to trading venue data and not have to make requests via NCAs. The panel also highlighted a relatively small market which is growing fast: Green Bonds. Institutional investors are now managing savings where the objective goes beyond financial return. A new trend is emerging in the market as young savers request a social return and sustainable investment.



PANEL 4: EQUITY FINANCE REVOLUTION: WHEN WILL THE PARADIGM SHIFT?

Anthony Attia
Euronext Paris

Tilman Lueder
European Commission

Irmfried Schwimann
European Commission

Nicolas Véron
Bruegel and Peterson Institute for international Economics

William Wright
New Financial

Generating young, innovative champions is proving to be difficult and this contributes to the overall problem relating to the financial (eco) system. Private equity is underdeveloped in Europe, partly because of the overall corporate culture.

In Europe, there are problems of scale, , different languages, cultures and legal regimes. Micro-credit systems work, but access to finance remains a big issue, especially when companies want to scale-up. The European Commission has launched initiatives in the venture capital sector, such as the Venture Capital Fund of Funds, and is investigating the potential of the crowdfunding sector to support these champions.

Panellists agreed that the discussion should focus on an evolution of equity funding rather than a revolution.

Observation was made that CMU appears to be more a rhetorical process rather than a policy one, although, positively, it has helped create a momentum in re-surfacing discussions on what the role of equity funding is. It was stressed that changing the ecosystem is a collective task which needs to consider the risk averse EU society.

Panelists were asked whether the measures outlined in the CMU Mid-Term Review will achieve their aim of stimulating equity finance in Europe and what has worked so far. Mention was made that the professional investors qualification mechanism should be simplified and that supervisory architecture is key otherwise it is not possible to have a real CMU.

On Prospectus rules, specifically the SME Growth Prospectus should be available to SME listed on Regulated Markets; simplicity and materiality are key elements to ensure a successful regime. Furthermore, it was agreed that pension funds should be able to access capital markets and PEPP will possibly incentivise investors.

PANEL 5: OPEN MARKETS: COMPETITIVENESS OF EUROPE IN THE GLOBAL CONTEXT

Pervenche Berès
MEP

Benoît de Juvigny
AMF

Frank Hatheway
Nasdaq

Chris Landis
SIX Swiss Exchange

Kay Swinburne
MEP

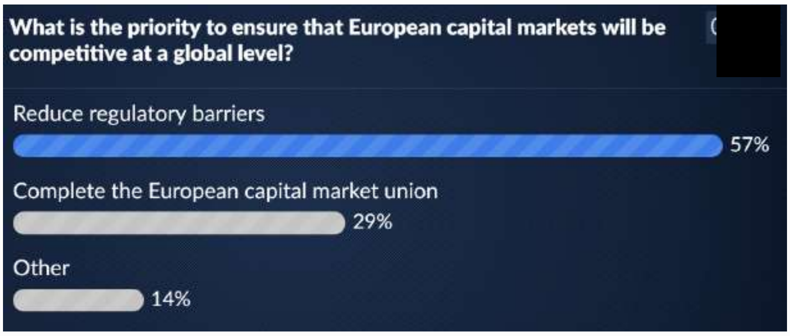
John Rega
MLex

MiFID II will boost confidence and improve the regulatory environment. The Directive will remedy the drawbacks of MiFID I, while availability of new data will increase transparency. We aim at a global standardisation of regulations. Brexit represents an opportunity to review the current regulation. The EU has around fifteen different equivalence regimes: we need to simplify the landscape. In the new regulatory setting ESMA should hold a more prominent role. The assessments of regulatory impacts are crucial for our activity.

Equivalence is an issue for the competitiveness of the European financial markets. It is now time for horizontal, consistent regulations.

Different market sizes require different approaches: the UK should not be considered the same as Singapore. ESMA should be responsible for assessing third-country equivalence at the same time the European Commission should not be excluded from the process.

The EU needs to increase the capital inflows, and third-country regimes should be amended to this end. We need to give access to satisfactory foreign regulations. Brexit should not affect the third country provisions; these should be based on the quality of the foreign regulations, not on the size of the markets. EU regulation can be a model for the rest of the world. For example, European rules on CCPs became a global standard, they have been adopted by the G20 and the US in the Dodd-Frank Act. A good regulatory environment alone is not enough for stimulating the economy. We need to work on tax incentives, investments, and other elements.



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Other Highlights

Keynote speech:
Gérard Mestrallet
Chairman, Paris Europlace

Mr. Mestrallet gave a keynote speech introducing Paris Europlace, an organisation in charge of promoting and developing the Parisian financial marketplace.

He highlighted that Paris is the European leader in equity and fixed income markets, including green bonds and tech-securities, serving as a prime gateway for investing in the eurozone. He also emphasised that Brexit reinforces the need for an EU Capital Market Union (CMU), and that the CMU project needs to find the right balance between investor protection and stronger market financing.

Closing Remarks:
François Villeroy de Galhau
Governor of the Bank of France

Highlights included:

- Do not let sources of systemic risks for the EU grow outside the EU
- Speed up the creation of a “Financing Union for Investment and Innovation"

To view the full speech visit: https://www.banque-france.fr/en/intervention/fese-convention-europes-future-global-capital-markets-paris-thursday-22nd-june-2017

FESE and Oliver Wyman released a new report titled:
"Strengthening Europe's Position in Global Capital Markets"

Which includes analyses of three fundamental purposes of capital markets, namely:

- Enabling funding, allowing firms to access funds to invest and grow - and investors to generate a return on savings;
- Facilitating secondary trading, providing liquidity to investors, entering and exiting positions as needed;
- Providing access to risk management products, i.e. derivatives and clearing services for companies and investors alike.