

### A FURTHER YEAR AT ECMI

#### Message from Karel Lannoo, ECMI General Manager

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.

### 2011 ECMI STATISTICAL PACKAGE

#### 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.

Download samples and package at [www.eurocapitalmarkets.org/statistics](http://www.eurocapitalmarkets.org/statistics)



## RESEARCH PUBLICATIONS

### The Scenario of an Italian Default

CEPS Commentary | August 2011 | By Diego Valiante

In his latest commentary, Diego Valiante, ECMI Head of Research, considers the impact of a possible Italian default for the economies in the Eurozone. What could happen if Italy would not be able to implement structural reforms and international institutions, such as the EFSF and the IMF, would not intervene with sufficient resources to avoid the Europe's second largest debt default? Potential costs of such a scenario are, as today, unquantifiable. The Italian economic system would certainly enter in a perverse mechanism that can be split in three phases: liquidity crisis and insolvency; deflationary pressures; inflationary pressures and economic and political instability. A situation that must and can be avoided.



### MiFID 2.0 Unveiled

ECMI Commentary 30 | November 2011 | By Karel Lannoo

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. This commentary builds upon the publication of an in depth report entitled 'MiFID 2.0: Casting New Light on Europe's Capital Markets' last April.

### Rethinking Asset Management

Task Force Report | Forthcoming | By Karel Lannoo and Mirzha de Manuel

The final report of this ECMI-CEPS task force will present conclusions and policy recommendations regarding much debated issues affecting the fund industry. Notably, the report will consider product developments in UCITS, including exchange-traded funds, next to the strengths and shortcomings of the current regulatory framework. It will also reflect on the importance of giving investors choice, distinguishing between retail and institutional investors, stressing the importance of high-quality and transparent advice for the former and transparency for the latter. The report will be entitled 'From Resilience to Investor Protection and Economic Growth' and invite reflection on the engagement of institutional investors in corporate governance and the long-term orientation of fund management. It will also set a clear framework to understand the contribution of the asset management industry to financial stability and the different regulatory initiatives taken in this regard.

### Other Research in 2011

- *Economic foundation and impact assessment of the Takeover Bids Directive*, Diego Valiante and Mirzha de Manuel, Research Project for the European Commission, October 2011
- *The Eurozone debt crisis*, Diego Valiante, ECMI Policy Brief 251, August 2011
- *Commodity prices in boom-and-bust cycles*, Diego Valiante, ECMI Commentary, June 2011
- *An investigation into stewardship*, External Publication, June 2011
- *MiFID 2.0: Casting new light on europe's capital markets*, Diego Valiante, Task Force Report, April 2011
- *NYSE Euronext-Deutsche Börse merger: Let the dance go on!*, Diego Valiante, ECMI Policy Brief, March 2011
- *MiFID implementation in the midst of the crisis*, Diego Valiante et al, ECMI Research Report 6, February 2011
- *The forest of Basel III has too many trees*, Karel Lannoo, ECMI Commentary, February 2011
- *Third country rules for alternative investments*, Mirzha de Manuel, ECMI Commentary, January 2011

## RECENT EVENTS

### ETFs and Structured UCITS under Discussion

ECMI Research Seminar | 4 November 2011 | CEPS - Brussels

The growth in exchange-traded funds (ETFs) has raised concerns over the last few months since Srichander Ramaswamy, Senior Economist at the Bank for International Settlements, published his paper 'Market structures and systemic risks of exchange-traded funds' highlighting the risk involved in the use of structured financial instruments by some of these funds in the form of total return swaps. The European Securities and Markets Authority (ESMA) recently held a consultation on ETFs and structured UCITS to gather evidence which should help it establish whether UCITS rules need fine-tuning to adapt to these



vehicles. The seminar took place in Brussels and focused on investor protection in relation to ETFs and the use of derivatives and structured financial instruments under UCITS, but also considered financial stability, including the extent to which swaps provide banks with an opportunity to raise funding from illiquid portfolios. Issues such as transparency and quality of collateral were at the forefront of the discussion.

### MiFID II Proposal: Details and Implications

ECMI Lunch Time Meeting | 16 November 2011 | CEPS - Brussels

After months of discussions, the European Commission officially released the draft level 1 text of the new Market in Financial Instruments Directive (MiFID) and Regulation (MiFIR) on 20 October 2011. This legislative action is bound to ignite sweeping changes in European financial markets. An ECMI lunch-time seminar brought regulators, experts and market participants to discuss the details of the proposal and its impact on markets. Market structure and transparency are key aspects, which will strongly interact with other upcoming regulations such as EMIR (European Market Infrastructure Regulation). Maria Teresa Fabregas (DG MARKT) highlighted the importance of keeping consistency between MiFID and other legislative actions. Market participants, represented by Steven Travers from the LSE Group and John Serocold from ICMA, 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.



### Recent task force meetings

#### Price formation is commodities spot and derivative markets

- First meeting (energy commodities), 30 September 2011
- Second meeting (energy commodities), 21 October 2011
- Third meeting (raw materials and base metal commodities), 18 November 2011
- Fourth meeting (raw materials and base metal commodities), 9 December 2011

#### Rethinking asset management

- Fourth meeting (ETFs, structured UCITS, product complexity), 28 September 2011