# FESE CONVENTION

**DUBLIN, JUNE 2019**
**TUESDAY 4 & WEDNESDAY 5**

> **Every economy needs a strong exchange to facilitate the movement of capital and fund growth and innovation.**
>
> Paschal Donohoe
> Minister for Finance, Public Expenditure and Reform

## PANEL 1: THE ROLE OF EXCHANGES IN CAPITAL MARKETS

- Anthony Attia, CEO, Euronext Paris
- Bernard Byrne, Head of Capital Markets, Davy Group
- Noel O'Halloran, Director-Chief Investments Office, KBI Global Investors
- Petr Koblic, FESE President and CEO Prague Stock Exchange
- Clive de Ruig, Chief Operating Officer, ICE Futures Europe

*Moderator*: Rosa Armesto, Deputy Director General, FESE

The first panel of the day set the scene for what we would need to relaunch CMU, building around the three main core function of an Exchanges:

- Funding: serving investors and companies for the benefit of the real economy;
- Trading: achieving the right market structure which allows for a robust price formation process;
- Risk Management: allowing investor to take risk while maintaining safe hedging

It was agreed that if decisive action isn't taken regarding CMU and if there isn't significant retail investment and SME equity financing we may face the threat of European capital markets losing further importance. Progress needs to be made not just on regulation but on messaging too; it is essential to win both the minds and hearts of citizens.

It was suggested that now was the time to take a more pro-risk approach, stimulate research, and go back to a market structure that supports liquidity in SME trading and SME equity financing at large.

The panel agreed that many factors have contributed towards the problems. One example, is that MiFID II has further increased the share of non-lit trading. On Exchange Traded Derivatives the example was given where a more flexible US Position Limit regime has led to some oil contracts moving to the US, effectively diminishing the role of European capital markets.

It was also mentioned that there is a lack of coordination between CSDR, MiFID II and many other regulations. A holistic view to regulation is needed covering primary and secondary markets, clearing and settlement.

There was a consensus that all new technologies should be welcomed without excessive hesitations and can bring tangible benefits.

The panel final concluded that if exchanges want to deepen capital markets access, they should focus even more on the issuers.

## PANEL 2: PRICE FORMATION AND MARKET DATA - DELIVERING FOR INVESTORS

- Stephen Fisher, Managing Director, Global Public Policy Group, BlackRock
- Guillaume Prache, Managing Director, Better Finance
- Elisabeth Roegele, Chief Executive Director, BaFin
- Santiago Ximénez, Director General, BME Market Data

*Moderator*: John Rega, Financial Services Editor, Politico

The second panel of the day was devoted to price formation and what is needed to consolidate data in a good fashion. It was agreed that better standard flagging and better reporting is the first step for any sort of tape.

The panellists discussed good data quality for SIs and OTC at the source is effectively the issue that needs to be solved. Whilst the quality of exchange market data is high, the flagging of trades by investment firms and brokers is poor and therefore the quality coming from APAs is poor. The real problem of data quality lies in the SI and OTC data not being properly flagged, even if APAs do their best to clean data they have no means to find out whether trades are correctly flagged to them by investment firms or not. Whilst exchanges have implemented the MMT, SIs and brokers have not adopted such methodology. It was suggested that regulators should invite these market participants (investment firms/brokers) to abide by a more stringent/clearer methodology when flagging trades.

In light of these data quality and consistency issues, it would be a mistake to push for a CTP if the quality is not similar. Investors stressed that while data quality issues do exist there should be a starting point to develop a CTP and build from there in order to complete MiFID.

It was agreed that the cost of market data is a high priority topic on a national and European supervisory level which needs to be addressed. While exchange revenues have remained flat, the added complexity and fragmentation may lead to additional charges from other service providers in the industry.

The panel concluded by focussing on the SI regime and generally agreed that this regime has failed to work as intended and is rather contributing to a decrease of transparency. Liquidity continues to shift to SIs. For this reason, SIs should be redirected to carry out their initial purpose (LIS transactions).

FESE

## PANEL 3: EUROPE QUO VADIS?

- Stéphane Boujnah, CEO and Chairman of the Managing Board, Euronext
- Gerry Cross, Director of Policy and Risk, Central Bank of Ireland
- David Wright, Partner, Flint Global

*Moderator*: Rainer Riess, Director General, FESE

Introduction by Ugo Bassi, Director, Financial Markets, European Commission

Ugo Bassi began by informing the audience that the EC has delivered 90/95% of the measures announced as part of its CMU 'toolbox'. He confirmed that the CMU project needs the vision of the EC, the support of the industry as well as strong political support from the EP and the Council. However, the latter is more complicated to get, e.g. on taxonomy, or on the ESAs review and crowdfunding where currently a political agreement is still not reached, The EC, he advised needs to produce an impact assessment, this does not apply to the Council and EP, so the end result of many regulation diverges from the original proposal. He urged the industry that they need to deliver the same message to all co-legislators to ensure it is not diluted.

The third panel moved into a more visionary discussion on how to take Europe forward. David Wright suggested that a high-level expert group similar to De Larossiere or Lamfalussy, which helped provide an excellent direction of travel in the past, should be established.

EP elections showed diversified results but overall the panel agreed that there wasn't a need to be too pessimistic. With Brexit, the EU27 showed that Member States can cooperate well. It was commented that Brexit has already happened in many organisations as many firms have already taken necessary steps to be prepared, if there would be a U-turn it's unlikely these companies would go back to where they were three years ago.

On the ESAs, the core of the discussion should have been: how do we ensure that supervisors across Europe do the same thing? The process of supervisory convergence is important, but there is resistance from MS when trying to formalise the process. The real issue is not on the regulatory side, but how to ensure cross-border accountability and trust.
When discussing CMU, it needs to be an integrated part of global financial markets. Financial stability concerns need to be integrated with global openness -– Europe making the right steps to reach this objective.

In relation to the CMU, Europe needs a fundamental economic analysis of all measures and all regulatory changes required and an agreed timetable. It was suggested that perhaps the CMU should change its name to be intuitively connected with the impact on the real economy, e.g. jobs.

Europe needs a consolidated vision and a pragmatic approach. Now, ahead of this new legislative term, is the right moment to brainstorm and prepare such a vision. Regulators should not forget the bigger picture when focusing on the technical details e.g. agreeing on issues such as harmonised insolvency rules should be much easier to achieve than it was to create the single market or the Euro.

When the panel were asked what their vision is for European Capital Markets they concluded with the following:

- One successful measure to be ideally achieved in 2024;
- European investors investing in European companies;
- New vision for SMEs financing through capital markets;
- Rebuild trust and reputation in capital markets.

## PANEL 4: SUSTAINABLE CMU IN A DIGITAL WORLD

- Ann-Charlotte Eliasson, Vice President and Head of European Fixed Income Listing, NASDAQ
- Mari Pekonen-Ranta, Director EU Affairs, Finance Finland
- Robert Scharfe, CEO, Luxembourg Stock Exchange
- Kristian Uppenberg, Head of Division of Advanced Materials, European Investment Bank

*Moderator*: Josina Kamerling, Head of Regulatory Outreach, CFA Institute

In our final discussion of the day, we got inspiration for a sustainable CMU in a digital world.

The panel agreed that Europe needs to shape its future in a difficult geopolitical world. There is approximately ten years left to solve the challenge of climate change. Whilst there has been a change in finance towards short-termism, equity has the potential to provide long term investment and to be patient capital.

It was agreed that the starting point should be to keep a sustainable CMU as a target for all regulatory actions. There are two layers of CMU where both EU and national actions are needed. It was suggested that if a suitable regime for finance is created, it will create investment opportunities and transparency which could help CMU overall.

Sustainable projects are fast growing but often riskier, therefore substantial equity involvement is necessary.

An example given was that of the green bond market, its purpose is to change the path for the EU economy and not just to make investors feel good about themselves. Sustainable finance only works if the incentive structure is correct. Investing in decarbonisation should not be motivated as a moral obligation, but ultimately must make sense in terms of profitability.

Sustainability will lead to massive shifts of capital and therefore risks and opportunities that every CEO needs to consider. The consequences of non-action might be felt only in the future so we should also provide correct incentives in the short-term.
While many costs are immediate, some profits only come in 10 or 15 years.

Establishing a taxonomy will help inform and provide incentives. Mainstreaming sustainable investment is key. However, there is a lot of uncertainty in this field and it was suggested that regulators could provide more certainty to market participants regarding regulatory requirements.

Sustainability is also an opportunity for financial markets to improve financial literacy and involve retail customers by promoting discussions about return and knowing the impact of your investment. It can also be a good example of investors receiving information about where their money is actually going and what the impact it has.

The panel agreed that we need something practical that works, not a situation whereby hundreds of pages are added to disclosures and legal text. What we need is data that is tangible and comparable. Artificial intelligence and new technology can help provide this.

The panel concluded by confirming that there is a sense of urgency, therefore change is needed quickly. Every market operator needs to have a sustainable offering. Regulators should not have to lead on something that market participants can do themselves. It was suggested that we should not wait to define the taxonomy as this could take years.