Michael Cole-Fontayn Chairman AFME

Ladies and Gentlemen, as chairman of AFME, the Association for Financial Markets in Europe, I am delighted to be a part of this distinguished panel. Our board and broader membership represents the major participants in the pan-European wholesale financial markets. From our perspective, 2019 poses many opportunities as well as challenges that we in the industry, as well as those in the official sector must carefully address - together. I would like to pose three key areas of AFME focus.

In the very immediate short term, our members' focus must of course be the impact of Brexit. In the intermediate term, I would like to focus on the important political and regulatory initiative of Capital Markets Union, including many of its key subcomponents which impact the real economy. Lastly, I would like to focus on interconnectedness of European capital markets with the global capital markets, including touching upon work that AFME is doing together with other major trade groups to address the looming transition away from existing LIBOR and EONIA benchmarks, to new benchmarks used by a wide variety of investors, corporates and financial intermediaries.

Brexit

2019 is a crucial year for Brexit

• The shape of the final deal and the transition period will have a profound impact on Europe's capital markets – and on how our members will be able to operate. With a significant proportion of our members running their capital markets businesses out of London, we have an obvious interest in the nature of the EU-UK regulatory relationship post-Brexit. In order to contribute to a smooth transition, AFME has produced ten Brexit-related publications, focusing on the impact on market infrastructure, corporate, investor and SME end users, and banks as markets intermediaries.

• First and foremost, we hope that an agreement is reached to provide certainty on a transition period. This would allow for an orderly withdrawal and help minimise the impact of Brexit for banks, the end users of wholesale markets, as well as financial stability more broadly.

• However, there clearly remains concern over the prospect of no deal. But in the words of the great Roman Senator Marcus Tully's Cicero " whilst there is life there is hope"

Cliff edge risks

• Over the last year, AFME has highlighted a number of cliff edge risks where we consider that cannot be adequately addressed by market participants alone in a no deal scenario.

• The Commission confirmed that a temporary equivalence decision will be made to ensure continued access to UK CCPs in a no deal scenario. We strongly welcome this, though still require greater clarity and legal certainty so that UK CCPs do not have to start the process of offboarding EU clients in December.

• Unfortunately, the Commission indicated that they do not envisage taking action to address the issue of servicing over the counter OTC derivatives contracts and are leaving any action to be taken by member states. A number of countries are planning to pass legislation to address the issue, including France, Germany, Netherlands, Denmark,Sweden, and Finland. I am delighted to know that the Italian Official institutions CONSOB and Banca D'Italia are well aware of the issue and risks for Italian counterparts and are working withe The Treasury and Minister Of Finance. We welcome any action that reduces the likelihood of cliff edge risks, though this approach might lead to a patchwork of solutions being put in place.

Future Relationship

• 2019 will also be important to lay the foundation for the future relationship between the EU and the UK.

• It now seems clear that this relationship will be based on the equivalence framework. Ideally equivalence should be outcomes-based and determined through a transparent process with the aim of ensuring a stable relationship.

• Whatever the future economic relationship between the EU and the UK, the financial services sector needs something that provides a stable and robust framework for market participants going forward, to ensure market efficiency and access to liquidity pools with the aim of minimising fragmentation and supporting growth across Europe.

• At the same time, we need to have mechanisms in place for close supervisory cooperation and regulatory dialogue between the EU and UK, to support financial stability and market integrity and ensure the coherent alignment of regulation.

Capital Markets Union

• Much has changed since the Commission first unveiled its Capital Markets Union plan in 2015, but the fundamental basis for CMU – that in order for businesses to grow and create jobs all sizes of businesses need to be able to easily access capital and attract investment, from across Europe – remains just as true today as it did in 2015.

• We fully supported the measures set out in the original CMU 2015 Action Plan. Today, Europe's capital markets face a number of issues, including Brexit, and we believe that the CMU it is in fact more vital now than it has ever been for the EU to enhance and integrate its capital markets capacity and infrastructure.

• In fact, we have just recently published a report to measure the progress and planning for success of the CMU through seven Key Performance Indicators, quantifiable at both member state and EU level. We believe it is important to keep track of the progress on the CMU, which is such a vital project and key to stimulate Europe's capital markets and its economy more widely. Notably, the European Commission provided active guidance to AFME as well as the many other pan-European associations who worked with this on this project. Notably, it is the first report which enables reader to compare on a country by country basis how each member state is or isn't progressing against these benchmarks, as well as on an aggregate basis. My AFME colleague Rick Watson will be discussing the details of this report in more detail this afternoon.

• The end of the current legislative cycle is fast approaching. While there have been some legislative steps towards achieving the CMU's objectives, such as the introduction of a new framework for simple, transparent and sustainable securitisation, reforms of the prospectus regulation and, the promotion of SME growth markets expected to facilitate SME listings on public markets, there is still much more to be done. Valdis Dombrovskis, Vice President of the European Commission, spoke earlier this year of the 'intensive work' still required to ensure the key 'building blocks' for CMU would be in place by the end of the legislative term. We hope that progress will be made in the short term on sustainable finance issues as well as the ESA review. It is clear that for CMU to be a success, 2019 cannot be viewed as the end of the story. Now is the time to reinvigorate the CMU with a renewed sense of purpose and a clear vision for the future.

• It is important to maintain momentum for CMU to continue to develop EU capital markets as part of an open, integrated and resilient financial system that supports financial stability and economic growth. The future relationship with the UK as well as other 3rd countries such as the US on financial services will clearly be an important element of this debate.

• There are a number of incomplete initiatives of CMU could target, which with further focus could significantly boost the effectiveness of Europe's capital markets.

• For example, as part of the aims of the CMU and in view of the increasing retirement savings gap, Member States need to encourage households to invest more savings in productive assets (in the form of equity, for instance, through private pension funds). Currently, EU households have high levels of savings, but they prefer to accumulate these in conservative cash products or bank deposits. As a result, the stock of EU household savings held in capital markets instruments is only 1.18 times GDP, compared with 2.9 times the annual GDP in the United States. In continental Europe, there are less than EUR 1 trillion of private pension assets, while in the US there are over EUR 15 trillion, as detailed in a report commissioned by AFME.

• Another example would be improving the functioning of the EU's insolvency frameworks. Europe's conflicting insolvency rules create uncertainty among investors, discourage cross-border investment and delay the restructuring of companies facing financial difficulty.

• Addressing the general gap for all forms of risk finance for SMEs and Growth companies should also remain a priority within the next CMU project. There is still a lack of availability of risk capital in Europe which threatens Europe's competitiveness and future prosperity. This is a priority of AFME who published together with other major European trade groups a report on the Shortage of Risk Capital in Europe in 2017, together with 12 trade associations and European institutions,

• Imagining CMU for the future: The decision of the UK to leave the EU has fundamentally modified the context of the initial CMU launched in 2015. As we enter the next phase of the CMU, AFME would urge policymakers to take stock of this new context, the work done so far, and the scope for further progress, and to develop policy measures that balance market resiliency, market integrity and appropriate supervision that ensures the level playing field with keeping Europe's capital markets sufficiently open and competitive to grow their capacity, boost the stimulation of investment, reduce reliance on banks, and create jobs.

Cross-Border Issues, including IBOR Transition

Amongst all this, it is important to remember the interconnectedness of European and global markets. AFME actively speaks to our affiliate associations in the US and Asia constantly about major prudential, securities markets and related issues on disclosure, transparency and financial stability.

One topic that we and our colleagues at ISDA, SIFMA and ICMA are working on is the transition away from existing LIBOR, EONIA and other benchmarks which beginning in 2020 will be ineligible in the EU. There are currently over $150 trillion each of swaps linked to USD LIBOR and EURIBOR. The head of the UK Financial Conduct Authority, Andrew Bailey, has been very vocal that starting in 2021, it is unlikely that they will continue to encourage banks to provide quotes for existing benchmarks. The ECB Reference Rate Working Group has announced the launch of a new ESTER benchmark for European transactions, however it will only be available starting in late 2019. We are actively trying to raise awareness of these issues with not only governments but also a wide variety of impacted market participants, including corporates and investors.

With this I will stop and look forward to hearing from other panel participants.

Michael