

20100223 CFA: European Investors' Working Group Sets Out Steps to Restore Investor Confidence in European Capital Markets

Source: CFA

Today the European Investors' Working Group (EIWG) released "Restoring Investors Confidence in European Capital Markets" (PDF), a report that strives to restore investor confidence in European capital markets by identifying six objectives for EU regulatory reform.

The EIWG is an independent, non-political group, organized by the European Capital Markets Institute (ECMI) in partnership with the CFA Institute Centre for Financial Market Integrity. It is chaired by Fabrice Demarigny, global head of capital markets activities of Mazars group, former secretary general, CESR, and is composed of members from the pan-European retail and institutional investment community.

The report provides a framework of recommendations for the EU regulatory and supervisory agenda from the investor's perspective. The six objectives of the report are:

- Investor protection
- Better transparency
- Market integrity
- Market efficiency
- Quality of supervision
- Competitiveness of EU markets

In total there are 46 recommendations, from fiduciary duty in the sale of financial products to independence for the new pan-European supervisory authorities.

The EIWG seeks to offer missing investor representation to EU institutions, where currently sell-side interests provide intense input. The EIWG believes that the financial crisis has exposed flaws in professional behavior in some sectors of the financial market. In response, the EIWG urges market participants to practice the ethical principles of responsibility, accountability, and transparency. These are necessary preconditions for restoring investor confidence in the capital markets.

The formation of EIWG reflects the desire to restore economic vitality. Investors are the primary source of funds for capital markets, which provide opportunities for growth and employment in the European economy. The general loss of confidence in the functioning of EU markets and its agents places a restriction on the normal flow of capital, thereby impeding the much sought after economic recovery.

The report calls for:

Investor Protection

The consolidation of investor protection through: the harmonization of rules across the EU; improvements in business conduct standards; better enforcement of best execution; financial literacy; corporate governance; and tighter regulation of sales of financial products, including the creation of a unit with the future European Securities and Markets Authorities (ESMA) to proactively monitor selling practices.

Better Transparency

Transparency driven by: making material information more easily accessible to investors; improving the collection of information by regulators and financial authorities in the area of short selling; disclosure of regulatory information; consolidated solutions for OTC and trading data; and prospectus development.

Market Integrity

Restoring trust through: the adoption of ethical practices; disclosure of conflicts of interest; the national extension of market abuse rules to exchange-regulated markets; the timely disclosure of material information by government institutions; the creation of European emergency rules to

suspend trade across markets; harmonization of sanctions across the EU.

Market Efficiency

Improving market efficiency through: the harmonization of market rules for investment products; tackling market fragmentation, consolidating pre- and post-trade data; enhancing cross-border competition; extending (where relevant) MiFID to non-equity markets (OTC, derivatives, and bond markets); restoring confidence in the quality, reliability, and independence of neutral market information such as that provided by credit rating agencies.

Quality of Supervision

The new supervisory architecture enhancements through: increasing the level of investor representation within market participants committees; favoring decisions by majority on financial regulation; binding standards for regulation and the future Rulebook (with opt-outs only due to fundamental differences in the legal systems); the creation of a single set of emergency procedures across Member States; independence of the supervisory bodies.

Competitiveness of EU markets

The avoidance of regulatory and supervisory arbitrage in the areas of: compensation; implementing EU standards; global convergence standards; and the creation of a more competitive framework for: the listing of small- and mid-cap companies; pan-European risk management within firms.

Commenting on the report, Demarigny said, "Investors have been badly knocked by the financial crisis, therefore much needs to be done to restore their confidence in the system. The regulatory and supervisory bodies need to work together effectively to recreate a trustful environment. With the new structures, we have a unique window to build more efficient and effective European capital markets. This report sets out requirements needed to restore trust."

Karel Lannoo, CEO, ECMI and CEPS, and member of EIWG, remarked, "A comprehensive program is needed to bring investors back to risk capital markets. This requires a coordinated approach to strengthen investor protection, improve transparency, reinforce market integrity, and upgrade supervision. While the EU has already taken action in some of these areas, more initiatives will have to be taken in the coming months."

Charles Cronin, head, CFA Institute Centre for Europe, Middle East, and Africa, said, "The EIWG report incorporates the thinking of some of the most influential minds in the investment and capital market arena and sets out recommendations that champion the investor voice. All members of the working group share the values that investors require agents to act in the client's interest, be accountable and transparent. This report is a regulatory manifesto for restoring investor confidence."

To read the report [click here](#).

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