

Financial markets challenged by regulators and innovation

Over the last years Austria became an important point of intersection within the Financial Markets. Its banking network was amongst the pioneers moving towards emerging countries in the Central Eastern and South Eastern Europe and beyond. Not only Austria and its banks are benefiting from the enormous developing countries, vice versa they are granting and delivering high and qualified contributions and standards to the region. This produces a smooth and quick development garnished with competence and quality for upcoming areas.

Amongst that background I became the newly elected President ACI The Financial Markets Association in Montreal, May 2007. It is for the first time, that an Austrian is on the top of that world wide recognized association, together with affiliated financial markets associations from 63 countries. – A huge mission in favour to our members.

Treasury is a challenge in itself. Not even enough being a money maker machine within banks and enterprises Treasury does need to stay “state of the art”. New products are arriving nearly daily. How to value and risk measure them? How to price them? We at VOLKSBANK AG do see our role as designers for customized tailor made products with huge growth potential. Many other banks took that train too. On the other hand volumes in FX markets reach some 3.000 bn USD per day (!). Foreign currency reserves skyrocket, turnovers in compound structures add enormous liquidity to the markets – altogether we can say business is great.

BUT – there is no time for a break. The Financial Markets are always flowing: For instance eTrading is directly changing/influencing the market environment and the market behaviour of Treasury whilst regulators are challenging the banking industry in a different way: BASEL II or MiFID on one hand, and SEPA on the other. As BASEL II is already bathetic I shall spot a few words on MiFID and SEPA and their impact to Austrian banks.

To implement **MiFID** (*Markets in Financial Instruments Directive*) in time (November 1st), Austrian banks are under pressure (but other countries too!). Very lately, at their last parliamentary meeting before the summer pause, the Austrian Government approved MiFID code 2004/93/EG which now becomes national legislation. The majority of this directive will be regulated at the “Wertpapieraufsichtsgesetz 2007 – WAG 2007”, whilst other amendments will occur at the “Börsegesetz”, “Bankwesengesetz”, “Kapitalmarktgesetz” and “Finanzmarktaufsichtsbehördengesetz”.

Core elements of the new guideline will be a) the categorization of customers, b) the obligation of “best execution” and c) the obligation of comprehensive information but also education. But MiFID further contains other requirements for banks and financial advisors: e.g. instalment of compliance functions for all of them but also to ensure, that legal rules are followed.

From November on new regulations will be installed for qualification to license as well as its cross border business. Beside the existing licensees a so-called investment firm will be implemented. Trading of securities for own accounts or for customers remains within financial institutions.

MTFs – multilateral trading platforms will be installed beside the classical exchanges (the existing regulated market). In Austria we may expect, that the present “third market” at the Vienna Exchange will be carried on as MTF in future.

There is no doubt: MiFID will be of influence to the European capital markets. To implement the new directives all banks are currently working on internal regulations, organizational changes etc. Which consequences (e.g. cost reduction on order execution, revision of fees ...) will be long lasting and how big they will be, that remains to be seen.

Whilst TARGET was established in 1999 as large-value payment system by the central banks (we may call it the backbone of the financial system in Euro) the **SEPA** (*The Single European Payments Area*) project will be the logical consequence towards a closer European integration.

Austria has always been committed to a modern infrastructure and is therefore fully supporting the realisation of SEPA. To get the project realized a SEPA-preparation-committee, the so called Austrian Payments Council (APC) was established. The Austrian National Bank, the Austrian Bankers’ Association, the Banking department of the Austrian Federal Economic Chamber and all major banks are represented in this committee.

For more than three years local banks are preparing themselves for the adoption. SEPA will start in a parallel run to the existing systems by January 2008. At the present time banks inform their customers. Some banks will further participate at the international pilot run in autumn this year.

Following figures of the SEPA area show the dimension affected by the project:

- 73 billion wire transfers/yearly
- 9.000 banks
- 325.000 ATMs
- used by about 470 mio citizens

The Austrian Payments Council estimates the total costs (implementation, migration and coordination costs) by 2010 of some 100 – 180 Mio EUR. It is expected that additional migration costs for the enterprises will further exceed that numbers. Besides that effect, SEPA is another important step for the European integration. At the end all national payment systems will be replaced by one. Customers will experience significant simplification and quickening of European payments transactions.

MiFID and SEPA will be big steps for banks retail and commercial customers. Increased transparency, simplification and probably reduced costs might arise. For the financial markets innovation remains the driving force. Those banks which will accept the challenge of markets and regulators, those which are pioneering towards new targets will be a step ahead of the industry. Quality and tailor made services will lead to success.

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Vienna, July 19th 2007