ICSA
INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

25 January 2015

European Commission Call for Evidence

EU Regulatory Framework for Financial Services

The International Council of Securities Associations (ICSA) welcomes the opportunity to respond to the call for evidence published by the European Commission as a part of the Capital Markets Union (CMU) project.

Founded in 1988, ICSA is the organization of securities industry associations representing securities firms across the world, including Europe, East and West Asia, Latin America, and North America. ICSA assists regulators and government authorities in understanding the global and consolidated position of industry as it relates to proposed policy and regulatory reform initiatives in global capital markets. ICSA provides a forum for member associations to understand developments, exchange views, and collaborate for more efficient capital markets. ICSA is comprised of 18 member organizations. (www.icsa.bz).

ICSA's response focuses on market liquidity. ICSA member associations have recognised the importance of the issue and worked closely with the market to gather observations and information. Starting with ICMA in 2014, eleven members associations have published or contributed to ten publications on liquidity.

Following the Global Financial Markets Crisis, market liquidity has become a leading issue. Many of the most prominent figures in finance – from the ranks of the buy-side, sell-side, regulators, government, and academia - have expressed concern and are monitoring developments closely. This sensitivity has been prompted by several market disturbances in recent months during which market liquidity has abruptly diminished or temporarily dissipated. Examples include the mini flash crash in US Treasuries on 15 October 2014, the turmoil after the Swiss central bank unexpectedly removed the euro peg on 15 January 2015, and the market shocks on 24 August 2015 sparked by concerns over the Chinese economy. While market participants and authorities may debate the degree to which change in market liquidity is a problem, almost none dispute that it is diminished in some forms compared to pre-crisis levels.

ICSA has taken a measured approach to working with policy makers and authorities in addressing liquidity challenges.

Banks and securities firms fully recognise that the “status quo” of the pre-2007 financial system is not appropriate, but do not believe that striking the right balance between solidifying the banking sector and financial markets stability in any way constitutes “rolling back the clock.”

It is wholly appropriate to

- Consider the aggregate impact of current regulation and its calibration, and weigh the incremental financial stability benefits of new rules against the incremental costs of diminishing market liquidity
- Consider elements which may have an impact on liquidity such as accounting rules and provisions of services to issuers
- Gather, improve quality and availability, and analyse broad market data across sectors for a better understanding of liquidity conditions and the link between regulation and liquidity

Examples of ongoing reform areas which need scrutiny for liquidity impacts include the Fundamental Review of the Trading Book, EU Bank Structural Reforms, MiFid reporting, and Financial Transaction Taxes. Some believe the FRTB could result in incentives for banks to shun tradeable assets in favour of more risky ones, and lessen the link between credit quality and capital requirements.

Central to ICSA’s purpose is to help strive for global cooperation and a level regulatory landscape across international borders. Global standards must be implemented with consistency and coherence to avoid liquidity fragmentation, and as well as protectionism, barriers to entry, and regulatory arbitrage. All regulatory changes in Europe must e considered from a global perspective.

ICSA serves as a leading interlocutor with the International Organisation of Securities Commissions. For the past two years, ICSA has be integral to the Cross Border Regulatory Forum which provided extensive input into IOSCO’s Cross Border Regulation Task Force. The CBRF has highlighted numerous issues where inconsistent regulation across borders threatens efficient global markets liquidity, including lack of recognition of non-domestic trading venues, lack of agreement on regulatory equivalence, diverging approaches to bank reform, and differing standards on reporting and confidentiality.