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MiFID and Reg NMS

A test-case for 'substituted compliance'?

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This paper explores whether MiFID and Reg NMS could be accepted as equivalent by regulators on both sides of the Atlantic. Apart from many similarities, the most important one being that the main purpose of both measures is to enforce best execution in equity trading, there are many differences as well in the definition of best execution, the structures of the markets, and the role and powers of supervisory authorities. It calls upon the European Commission to make a detailed comparison between both measures and to take the opportunity to negotiate a mutual recognition agreement with the US.

Introduction

Two substantive pieces of legislation came into force on both sides of the Atlantic at roughly the same time – MiFID in the EU and Reg NMS in the US – both aimed at updating regulation to reflect technological changes and market developments. Should this coincidence be taken as a sign of a well-functioning regulatory dialogue or of capital market integration? At the heart of each regulation is the introduction and specification of the best execution concept. MiFID (Markets in Financial Instruments Directive) intends to complete the process started with the 1993 Investment Services Directive (ISD) and further liberalises Europe's capital markets, by abolishing the monopoly of exchanges. Reg NMS (Regulation National Market System) aims to modernise and strengthen the National Market System (NMS) for equity securities trading. Although the latter is more limited in scope than MiFID, a closer look reveals substantial differences in the regulation of equity trading on both continents. With the establishment of the first transatlantic exchange and the significant activity of several large firms in both markets, the question emerges whether a managed convergence approach is feasible and desirable, or whether this will come about as a result of market forces.

In comparing these two pieces of regulation, one needs to keep in mind the substantial differences in the market and regulatory structure on the two sides of the Atlantic. The US has a much longer tradition of securities markets regulation than the EU, but at the same time it has kept elements that Europe has abandoned in the meantime. Reg NMS is a further adaptation of the 1934 Securities Exchange Act, which laid the basis of the US structure as we know it today, with a powerful regulator, the SEC (Securities and Exchange Commission), at the centre, but with important powers assigned to self-regulatory organisations (SROs). EU efforts to create a single capital market started in the 1980s, with the Investment Services Directive as the centrepiece. This happened against the background of limited experience with capital market regulation at member state level, a heterogeneous supervisory structure and a high degree of self-regulation. The Financial Services Action Plan (FSAP) succeeded in streamlining this structure, but largely eliminated self-regulation.

This ECMI Policy Brief starts with an overview of the key points of both measures. In a second step, a closer analysis is made of the definition of best execution as provided for in each measure, and the effects it will have on the market. In a third part, we analyse whether and how both pieces of regulation could become part of the regulatory dialogue between the EU and the US and ask whether the new approach of 'substituted compliance' could be applied.

MiFID and Reg NMS in a nutshell

Although *"omnis comparatio claudicat"* (every comparison is to some extent flawed), the similarities between the two regulations are too great to simply chalk them up to coincidence. Reg NMS is based on the 1934 Securities Exchange Act, which requires that investors receive financial and other relevant information concerning securities being offered for public sale; and prohibits deceit, misrepresentations, and other fraud in the sale of securities.

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To enforce these stipulations, the Act created the Securities and Exchange Commission and endowed it with large rule-making powers. Many of the current US securities laws are based upon this Act. The ISD and MiFID are based upon the EU Treaty, and their objective is to create a single market. EU directives or regulations flesh out and detail the relevant freedoms set forth in the EU Treaty, namely the free provision of services and the free movement of capital.

MiFID

The ISD, which was adopted in 1993, introduced the freedom to provide services for exchanges, i.e. licensed regulated markets, and broker dealers in the EU. Although the directive clearly had a liberalising effect, the harmonisation of conduct of business rules was insufficiently detailed, with the effect that free provision of services did not work effectively on a cross-border basis, especially for retail clients. To correct this shortcoming, MiFID introduces a far-reaching degree of harmonisation of conduct of business rules, aimed at achieving a single rule in the EU. In addition, it abolishes the option provided by the ISD for the concentration of trades on the regulated market, and allows systemic internalisation of equity trading by banks.

The key provisions of MiFID are as follows:

- A far-reaching harmonisation of conduct of business rules for securities trading, including strict rules on best execution of trades, client categorisation and client reporting;
- Rules on the internal governance of investment firms, requiring them to tackle conflicts of interest, maintain good governance and ensure continuity of their services;
- Abolition of the concentration rules of the ISD, by which member states could require trades to be executed on the main exchange or the 'regulated market';
- Systematic internalisation of trades, subject to strict pre- and post-trade transparency requirements within certain thresholds, or less limited above that;
- A European passport for Multilateral Trading Facilities (MTFs), which can be created by investment firms and exchanges; and
- The extension of the single passport regime to some other services (investment advice and non-discretionary asset management) and some other markets (commodities, more derivative instruments).

MiFID is also one of the first EU financial regulation directives to assign extensive scope for implementing measures, i.e. secondary (or 'level-2' in Lamfalussy parlance) legislation, to the EU Securities Committee, which is composed of Ministry of Finance officials of the member states and chaired by the European Commission. Some 20 of the 73 articles of the 'level 1' (or framework) Directive assign implementing powers to this committee, shielded from direct parliamentary scrutiny. Implementing measures, consisting of a directive and a regulation, were adopted in September 2006 (see reference in Table 1), and almost double the total size of the 'level 1' Directive.

The ISD is credited with having allowed trading in stocks to concentrate on the home market of the listed companies, and hence to enhance liquidity, reduce spreads and improve the price discovery process. It also brought increased competition between financial centres and more concentration of business in certain centres.

Reg NMS

While the core issue of the debate generated by Reg NMS was similar to that of MiFID, i.e. to what extent does one need to concentrate securities trading for the sake of liquidity and an orderly price formation process, the outcome was radically different in each case. Reg NMS protects the incumbent stock exchanges against competition from 'alternative' markets, whereas MiFID increases the competition to exchanges. Unlike in Europe, which had seen a concentration of blue chip trades on the home stock exchanges, the US had experienced a much stronger growth of alternative execution venues, such as internalisers, ECNs, ATSs and crossing networks, raising concerns with regulators that it reduces market liquidity, diminishes the price discovery process and dampens the appetite of investors to display limit orders. But the SEC's solution was certainly not uncontroversial, as illustrated by the formal and open dissent of Commissioners Paul S. Atkins and Cynthia A. Glassman to the adoption of Reg NMS (see Atkins & Glassman, 2005).

Reg NMS builds upon the establishment of the National Market System (NMS) from 1975. The latter was intended to connect the different individual markets that trade securities, through a unified system that links the different buy and sell orders in a particular stock in order to give the best quote to investors. This culminated in the establishment of the Inter-market Trading System (ITS), which did not include NASDAQ. NMS aimed to simulate competition between markets and competition for individual orders. The first should stimulate innovation of trading systems, the second efficient pricing of stocks. Unlike other national markets, which are dominated by a single public market, the SEC asserts that the US has vigorous competition between different types of markets, including national and regional exchanges with different degrees of automation, purely electronic markets, market-making securities dealers and automated matching systems.[2] In its words, the NMS has thus been "remarkably successful" in promoting market competition, but because of growing fragmentation, this has come at the expense of competition among orders for individual stock, affecting the quality of the price discovery process, the market depth and liquidity. Hence, there is a need for tighter regulation of best execution.

Reg NMS contains the following four key provisions:

- *Order protection rule.* Designed to enforce best execution and protect limit orders, this rule reinforces the fundamental principle of obtaining the best price for investors when such price is represented by quotations that are immediately accessible for automatic execution in trading centres. It requests firms to have written

[2] SEC, Release No. 34-51808, pp. 12-15.

policies and procedures in place to prevent trade-throughs for NMS stock, which occur when trades are executed without regard for immediately available and better-priced quotations in other trading centres. Trade-throughs reduce liquidity and transparency and increase transaction costs. They also discourage investors from displaying limit orders, which are seen to be the building blocks of price discovery and efficient markets. There are many exceptions to the rule, for example, for intermarket sweep orders (block transactions), flickering quotes and benchmark trades, which raise questions about enforcement.

- *Access rule*. Establishing fair and efficient access to quotations in NMS stock, the rule enables the use of private linkages by a variety of connectivity providers. It limits the fee a trading centre can charge to access protected quotations to no more than €0.003 per share. And it requires SROs to maintain written rules prohibiting their members from locking or crossing protected quotations of other trading centres.
- *Sub-penny rule*. This prohibits market participants from displaying, ranking or accepting quotations that are priced at an increment of less than 1 cent, unless the quotation is less than $1.
- *Market data rules*. These amend the rules for the functioning of the single market data consolidator, changing the formula for the allocation of the revenues to provide the right incentives to those SROs that provide the most useful data for investors.

Table 1. MiFID vs. Reg NMS at a snapshot

	MiFID	**Reg NMS**
Objective/scope	• Upgrade Investment Services Directive (ISD) • Further integrate Europe's capital markets through a single set of conduct of business rules	• Strengthen and modernise regulatory structure of US *equity* markets • Reflect technological and market developments
Main measures	• Abolition of concentration rule for trading and data • Best execution • Harmonised MTF regime • Rules on systematic internalisation	• Order protection rule • Access rule • Sub-penny rule • Market data rules
Trading venue classification	• Regulated markets • MTFs • Systematic internalisers	• Fast markets (automated quotes) • Slow markets (manual quotes)
Best execution approach	• Several parameters (price, costs, speed …), depending on characteristics of client, order, financial instrument and venue • Prior consent for internalisation • Policy to be set by firms, to be reviewed annually	• Price precedes • Prohibition of 'trade-throughs' • Firms are requested to maintain written policies
Regulatory authorities	European Commission, ESC, CESR, national authorities	SEC, SROs
Entry into force	1 November 2007	Over a series of five dates starting in October 2006 and ending 8 October 2007
Likely market impact	• Increased competition among trading venues • Concentration on sell side	• Markets to become fully electronic • Protection of larger markets, supports liquidity • Further concentration, international mergers
Problems	• Compliance costs: Industry needs to make important modifications to their order routing systems to obtain best price • Demand for clarifications • Request for delays • Enforceability	• Compliance costs: Industry needs to make important modifications to their order routing systems to obtain best price • Demand for clarifications • Request for delays • Enforceability
Outstanding issues	• Price transparency in bond markets • Data consolidation • Impact on buy side institutions (e.g. UCITS) • Clearing and settlement	• Role of SROs • Block trading
Reference	Directive 2004/39/EC; implementing measures Commission Directive 2006/73/EC and Commission Regulation (EC) No 1287/2006	Exchange Act Release No. 34-51808 (9 June 2005)
Size	128 pages in OJ; 67,000 words	52 pages (amendments to part 242 of the Securities Exchange Act of 1934)

The trade-through prohibition applies to automated quotations in all trading centres, that is, displayed quotations that are immediately accessible for execution in national securities exchanges, exchange specialists, ATSs, OTC market-makers and internalisers. Thus, according to the trade-through rule, once a best bid or offer has been posted for a stock, any order must be routed to that trading venue for execution. Unlike MiFID, the obligation of best execution thus also applies to exchanges under Reg NMS, but only for automated quotes.

At first sight, both rules are thus highly comparable. Although MiFID is wider in scope than Reg NMS, which is solely concerned with equity markets, both measures impact market structure, set and define best execution and regulate the market for market data. Moreover, both also stimulated wide-ranging and polarised discussions. Both rules are coming into force at about the same time, and the expectation is that both measures will have a fundamental impact on market structure, as well on exchanges and their respective broker communities.

A closer look reveals very substantial differences, however, demonstrating that each measure developed independently within its own institutional environment. There are important differences, for example, in the way each measure defines best execution: under MiFID, it is more of a principle, whereas it is a rule under Reg NMS. In defining best execution, MiFID takes a series of criteria and characteristics into account – thus allowing best execution requirements to be tailored to each investor's profile – whereas price alone matters under Reg NMS. As a consequence, there are many exceptions to best execution under Reg NMS, whereas there are virtually none under MiFID, with the proviso of eligible counterparties. In addition, Reg NMS has some elements that are seen, from a European perspective, to be alien to a liberal economic system, as the US is viewed from Europe. The regulation if seen as a form of price regulation (the access rule and sub-penny rule) and mandates consolidation of equity market data in a single consolidator, with a complex method for allocating fees, whereas MiFID just opens market data to competition.

Table 2. Best execution and market data rules in MIFID vs. Reg NMS

	MiFID	Reg NMS
Best execution	Art. 21 of MiFID defines best execution as not only a matter of the price of a trade, but also "costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order". Investment firms are required to establish and implement order execution policies, including the factors affecting the order execution venue. These policies will be assessed by investment firms on a regular basis.	Rule 602 b of Reg NMS obliges trading centres to execute buy and sell orders at the best price. Rule 611 requires trading centres to establish, maintain and enforce written policies that are designed to prevent trade-throughs of protected quotations. The trading centre must perform regular surveillance to ensure the effectiveness of the required policies and procedures.
Markets for financial market data	MiFID liberalises data markets, without imposing a structure. Regulated markets (Art. 45), MTFs (Art. 30) and systematic internalisers (Art. 28) are requested "to make public the price, volume and time of the transactions … as close to real time as possible … [and] on a reasonable commercial basis".	NMS instituted a single data consolidator. Reg NMS gives more freedom to SROs to disseminate their trade reports independently, but still requires them to communicate best prices to the data consolidator.

As has been vividly demonstrated by the US Sarbanes-Oxley Act of 2002, capital markets are increasingly interconnected and globalised. Rules that are seen to be too burdensome or protective will turn business away to other centres. Specifically in equity trading, in the context of large broker dealers with a global presence, trading in stocks can easily be moved to other jurisdictions. Moreover, with the opening of the first transatlantic exchange and a second one in the near future, integrated transatlantic trading floors will soon emerge, facilitating the execution of trades under the most favourable regime. Should the MiFID-Reg NMS nexus therefore be discussed urgently in the context of the EU-US regulatory dialogue? Or should one expect the dictates of the market to resolve any problems? Based on our analysis of the expected effects of both measures, this subject is addressed in the next section.

Comparative effects of MiFID and Reg NMS

While it is still too early to assess the effects of both measures on the markets, there is broad criticism in the US that Reg NMS is excessively protectionist, prescriptive and anti-competitive. The open dissent of two SEC Commissioners to the adoption of Reg NMS is probably the clearest sign of this criticism, but there were also wide-ranging and contentious debate throughout the country prior to the adoption of the measure (which is summarised in the 437 pages preceding the text of adopted rules). MiFID has also been heavily criticised as being burdensome, excessively detailed and costly, although there a timid consensus is emerging that its long-term effects could be positive for Europe's capital markets as a result of its market-opening effects, albeit with some caveats.

As with MiFID, Reg NMS is expected to provide markets with a strong incentive to innovate and to adopt technologies that allow them to be more responsive to the speed of execution and thus to market efficiency. It entices manual venues to accelerate their automation process. It places the different execution venues on a more equal footing and does away with the asymmetric regulation that existed before. It is expected to stimulate consolidation and reduce the number of alternative trading venues in the US, a trend that was already evident over the last two years (Gentzoglanis, 2006). At the same time, however, it protects the dominant exchange, which has the liquidity advantage to offer the best price. But this may slow future innovation in US equity trading (Gkantinis, 2006).

The criticism expressed by SEC Commissioners Atkins & Glassman (2005) focused on the prohibition of trade-throughs, which, in their opinion, is not warranted. They claim that the figures used on trade-throughs by the SEC, which point to a degree of fragmentation, were not correctly measured, and do not point to a lack of liquidity (pp. 9-19). They assert that Reg NMS will not achieve its goals. Current trade-through rates do not mandate the action proposed, nor will its prohibition improve best execution (pp. 20-21). In addition, they argue that narrowing-down best execution to the price criterion reduces competition to the detriment of other factors of execution quality, and to the detriment of the market structure and innovation (p. 30). According to the Commissioners, the trade-through rule imposes government-controlled competition, increases barriers to competition and represents a misguided attempt to micro-manage the markets. The Commissioners also criticised the 'codification' of the single data consolidator model, which "grants a monopoly for the consolidation of market data", constituting another barrier to competition and increasing the cost of implementation (pp. 41-42). This criticism has also been voiced by academics (see e.g. Blume, 2007 and Wallison, 2006).

These critical remarks are a useful reminder of the context of the European MiFID debate. While the market environments are similar on both sides of the Atlantic, the EU has taken a radically different route, which is more in line with the criticism voiced by the two US Commissioners. The most serious criticism one could level at MiFID, and which was an important issue during the discussions of the directive, was that it would contribute to fragmentation. Hence, the last-minute addition of pre-trade price transparency for internalisers. Nevertheless, overall, regulation under MiFID goes in the opposite direction from Reg NMS. It abolishes monopolies and opens up the securities markets to more competition. Whereas exchanges have exercised a formal or effective monopoly in many EU markets until today, this changes radically under MiFID, which allows three forms of execution venues (exchanges, multilateral trading facilities and systematic internalisers), and also opens up the market for (equity) financial market data. Hence, with a restructuring of today's regulated markets, the emergence of new specialised regulated markets and MTFs, a much higher degree of competition can be expected between execution venues. Moreover, exchanges will also face challenges to their financial market data revenues. From a best-execution perspective, the biggest challenge for market operators will be to provide fast linkages between all these execution venues to allow best execution to work in practice, as exists in the US. If they fail to meet this challenge, Europe could be heading towards the same situation the SEC is trying to avoid with Reg NMS, that is, strong competition between markets, but achieved at the expense of a transparent and effective price formation process.

The jury is still out as to which form of best execution will prove to be the most effective. Even if in theory it may be better to have a broader set of criteria to judge best execution, this may give rise to arbitrariness and create legal uncertainty. The broad set of criteria under MiFID gives firms a large degree of flexibility and discretion in applying best execution, adapted to the wishes of their clients, but at the same time it creates uncertainty as to which interpretation supervisors will apply. This argues in favour of Reg NMS, which is one-dimensional, clearer and easier to apply for regulators (Gentzoglanis, 2006). The laborious discussions surrounding the implementation of MiFID's best execution provisions in the context of CESR and the concerns expressed by intermediaries about the priority of the criteria are an early warning of the possible difficulties to come in Europe. In addition, these rules can be implemented differently at national level by the EU member states, whereas the US has a single body in charge.

A test-case for 'substituted compliance'?

In a remarkable change of policy direction, the SEC has recently indicated an interest in a form of selective bilateral mutual recognition to adapt to growing international portfolio diversification of US investors.[3] In the past, the SEC strictly applied the territoriality principle, which meant that foreign providers of services on US territory were asked to follow US rules. The principle was adduced, for example, as the justification for forbidding the display of screens of foreign exchanges in the US.[4] Under the new regime, the SEC would negotiate a bilateral 'substituted compliance' regime with another regime deemed to be substantially comparable to the US. This would be based on an initial agreement on minimum standards and information-sharing arrangements. Could the MiFID Reg NMS conundrum be a test case for this new regime?

The concept of 'substituted compliance', a phrase coined by Tafara & Peterson (2007), is comparable to the mutual recognition approach, bolstered by minimum harmonisation, as we know it in the context of the EU's single market. It has been experimented with in the context of the EU-US regulatory dialogue, which started in February 2002, between the European Commission on the one hand, and the US Treasury Department and the respective US supervisory authorities on the other. It has for example led to agreements on the equivalence of rules for auditor oversight (March 2004) and the equivalence of accounting standards (April 2005 and 2006). Although there are many elements of

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[3] The SEC organised an open hearing on mutual recognition on 12 June 2007 (see SEC release 2007-105).

[4] The Multi-jurisdictional Disclosure System, concluded between Canada and the US in 1985, is an exception to this principle. It provides for mutual recognition of securities offerings meeting certain standards. But Canada has not managed to get any further (see Wolburgh Jenah (2007).

comparability and pressing market developments, MiFID and Reg NMS have so far not been discussed in detail in the context of this dialogue.[5] A possible structure for mutual recognition in the areas of trading screens and broker dealers is developed by Tafara & Peterson (2007).

The justification for substituted compliance is to bring more competition to both the US capital market and the US regulatory model as well as to reduce transaction costs. It would create more investment opportunities at a lower cost with greater protection. In this context, Tafara-Peterson draw a distinction between regulatory competition and regulatory arbitrage. Since the SEC would only be interested in concluding a bilateral agreement with a jurisdiction with a similar regulatory philosophy, involving a considerable degree of prudential and information-sharing, there would be no 'race to the bottom'. On the contrary, by setting minimum standards, poorly regulated markets would have the incentive to upgrade their regulatory system to gain access, thereby triggering a 'race towards optimality' (Tafara & Peterson, 2007, p. 67). Investors would be protected by a mandatory disclosure statement informing them that trading conducted on a foreign stock exchange or through a foreign broker dealer may entail different forms of protection. This would at the same time insulate the US market from any adverse effects arising from these trades (p. 57). Only fraud would remain fully subject to US provisions.

The proposed framework would consist of a four-step process:

1) The foreign firm would submit a request to the SEC seeking an exemption from registration.
2) Discussions would be held between the SEC and the home country regulator of the foreign entity, based initially on an assessment of the degree to which the two countries' prudential rules and enforcement capabilities are comparable. A second step would involve technical arrangements regarding enforcement, inspections and information- sharing arrangements, requiring a high degree of oversight coordination between both regulators. This could be laid down in a bilateral arrangement in the form of a memorandum of understanding (MoU).
3) A dialogue would then ensue between the SEC and the firm petitioning access.
4) A public notice of the request by the foreign firm and solicitation of comments would then be posted, followed by the final decision.

Apart from the standard assessment criteria of exchanges and broker dealers, the comparability assessment would also cover disclosure rules for securities issuers and a broader assessment of the general legal and enforcement comparability of the host country. The extension of reciprocal access to US firms in the host country would be an important criterion in granting exemption.

[5] SEC Commissioner Campos suggested in a speech to a conference in Amsterdam to discuss MiFID and Reg NMS between the EU and the SEC (see Campos, 2007).

Tafara-Peterson insist that exemption will only be granted to exchanges and broker dealers if "all the objectives of the SEC's registration and oversight regime are otherwise met by the comparable regulatory regime in the … home jurisdiction" (p. 64). They will in addition need to provide a clear risk disclosure statement to US investors that the orders or transactions are not subject to SEC oversight (p. 65). Foreign broker dealers will need to maintain in a separate account assets in an amount that at least is sufficient to cover all their current obligations to US investors.

Does this new scheme finally provide easier access for EU exchanges and broker dealers to the US market? This is still an open question, in light of the brief comparisons drawn above between MiFID and Reg NMS. Possible problems might arise before granting exemption as a result of the following differences in the two systems:

- the definition of best execution, and the role of execution venues in applying best execution,
- the role played by data consolidators in both markets,
- the role and performance of clearing and settlement systems, and
- the supervisory set-up on both sides, with a big role for self-regulatory organisations in the US, and varying degrees of supervisory effectiveness and enforcement in the EU.

The EU has long insisted that EU companies should be granted greater reciprocal access to US capital markets. The European Commission should take this opportunity to make a detailed comparison between the requirements for exchanges and broker dealers in both jurisdictions, as a basis for a bilateral agreement between both jurisdictions. It should demonstrate how certain provisions of MiFID provide more advantageous access for US firms to the EU market than vice versa. It should also emphasise the high degree of investor protection as contained in MiFID's best execution provision and other aspects of its conduct of business rules.

Conclusion

Although MiFID and Reg NMS may at first sight seem comparable, because of the prominent role each assigns to best execution, the two regulations have developed independently within their respective markets and policy environments. Accordingly, they differ importantly in many regards. Seen from the EU, Reg NMS is more protective of US exchanges and execution venues providing automated execution, applies a narrower definition of best execution, contains outdated forms of price regulation and maintains a monopolistic data consolidator. MiFID, on the other hand, is more orientated towards market opening, but it may lead to a higher degree of order fragmentation, and hence reduce liquidity, if connectivity is not assured. It has a broad and flexible definition of best execution, but this raises at the same time two weak points: enforceability and precisely how it would be enforced by national authorities.

The coming into force of MiFID provides a unique opportunity for the EU to negotiate a mutual recognition agreement with the US to allow reciprocal access to exchanges and broker-dealers. With MiFID, the policy goals for regulating both sets of institutions have come much closer, as have also many of the detailed provisions. Although it is still early days to judge whether the SEC is really willing to move to some form of mutual recognition, the European Commission should seize upon this opportunity and actively start to explore the differences and similarities of the regulatory regimes governing brokers and exchanges on both sides of the Atlantic. This would give European exchanges and banks much better access to the US market, which has been on the EU agenda for a long time.

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About ECMI

The European Capital Markets Institute (ECMI) was established as an independent non-profit organisation in October 1993, in a collaborative effort by the European Federation of Financial Analysts Societies (EFFAS), the Federation of European Securities Exchanges (FESE) and the International Securities Market Association (ISMA), now the International Capital Market Association (ICMA). ECMI is managed and staffed by the Centre for European Policy Studies (CEPS) in Brussels. Its membership is composed of exchanges, banks, trade associations and academics.

European capital markets have experienced rapid growth in recent years, corresponding to the gradual shift away from relationship banking as a source of funding and at the same time, have had to absorb and implement the massive output of EU-level regulation required to create a single market for financial services. These developments, combined with the immense challenges presented to European financial institutions by the globalisation of financial markets, highlight the importance of an independent entity to undertake and disseminate research on European capital markets.

The principal objective of ECMI is therefore to provide a forum in which market participants, policy-makers and academics alike can exchange ideas and opinions concerning the efficiency, stability, liquidity, integrity, fairness and competitiveness of European capital markets and discuss the latest market trends. These exchanges are fuelled by the publications ECMI regularly produces for its members: quarterly newsletters, annual reports, a statistical package, regular commentary and research papers, as well as occasional workshops and conferences. ECMI also advises European regulators on policy-related matters, acts as a focal point for interaction between academic research, market sentiment and the policy-making process, and promotes a multidisciplinary and multidimensional approach to the subject.

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