

Annual Review 2019

Europe's Capital Markets:
The next phase and new challenges



The Association for Financial Markets in Europe advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefitting society.



AFME committees

AFME Board

Fixed Income	Equities	Prudential	Policy & Compliance	Technology & Operations	Cross cutting	Global
Credit	Equities Capital Markets	Regulation	Accounting	Technology & Operations	CMU & Growth	Foreign Exchange
High Yield	Equities Trading	Resolution	Tax & VAT		MIFID	Commodities
Primary Dealers	Post Trade		Compliance			
Securitisation	Prime Services					

Advocacy

Message from the Chairman



Michael Cole-Fontayn
Chairman
Association for Financial Markets in Europe

September 2019

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There are opportunities in moving to a more environmentally and socially conscious economy
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As we reflect on AFME's work during the last year it is also an important moment to take stock more generally on the development of Europe's banking and capital markets, and on the significant global forces driving change within wholesale finance.

While there has been strong and steady progress on creating an integrated banking and capital market in Europe in recent years, there is still much more to do. At this moment of significant political change, with new leadership at the European Commission, European Council and European Central Bank we will continue to make the case for reducing fragmentation within Europe's financial markets.

Dismantling barriers to cross-border banking in Europe and the enactment of reforms that will reduce and ultimately remove impediments to the smooth, efficient functioning of trans-continental capital markets will continue to be important objectives. The ultimate goal of such reforms, as we have argued strongly this year, is an integrated Financing Union, in which banks and capital markets work in tandem to create a more diversified and resilient financial system. This would provide material support for Europe's real economy by allocating investment more efficiently, increasing stability, eliminating residual sources of systemic risk and lowering the cost of capital.

This has also been a year when issues around climate change and sustainability have been pushed to the fore. Europe has in a number of ways been leading the charge on creating a greener and all-round more sustainable economy, but even so we are still only at the beginning of what will be a major transition. In the coming years we look forward to seeing the EU's sustainable finance taxonomy come to fruition, as a key cornerstone for the delivery of ambitious plans under the EU Sustainable Finance Action Plan.

In the long-term there are opportunities in moving to a more environmentally and socially conscious economy, and our industry has a big role to play in supporting this shift. But we must also be mindful of the challenges we will face along the way too and AFME will continue to be at the forefront of discussions about how to effectively, and responsibly, move to a financial system with Environmental, Social and Governance principles at its core.

Technological innovation also continues to transform the way our industry operates, creating the possibility of more efficient, effective and client-oriented products and services with AI, cloud computing and big data driving these changes. But with a greater reliance on technology there also comes a growing cyber threat. Ensuring firms are operationally resilient, and able to withstand technical outages and other system disruptions, whilst minimising the impact to the wider economy will need to be a growing area of focus for industry. As the pace and scale of change increases, getting the balance right between empowering firms to innovate while also preserving financial stability and mitigating against harm to end users will be increasingly important, and we will continue to engage with regulators on these complex issues.

As I reach the end of my second year as AFME's Independent Chairman I would like to thank my fellow Board Members for their dedication and engagement over the last year. In particular, we are grateful to outgoing Vice Chair Isabelle Girolami, of Crédit Agricole for all that she has done since taking up the position in 2015. I would also like to thank departing board members Frank Drouet of Société Générale, Jakob Horder of Morgan Stanley and John Pipilis of Deutsche Bank for all their efforts, as well as welcoming all our new board members, including Luc François of Natixis, which is represented on our Board this year, for the first time.

I would also like to thank Simon Lewis, who has served as AFME's Chief Executive for the last nine years, for all that he has done, as he departs for pastures new at the end of October. We are all deeply grateful for his leadership during a crucial time of renewal for Europe's financial sector, and Simon will hand over a flourishing organisation, that will continue to be a leading advocate for Europe's financial markets for years to come.

Chief Executive Review

// There are significant opportunities for Europe to continue to develop competitive, resilient and integrated financial markets //

As we embark on the start of a new five-year legislative cycle there are significant opportunities for Europe to continue to develop competitive, resilient and integrated financial markets.

We have set out our priorities for a strong EU financial sector agenda, in our 2019 - 2024 strategy paper. In particular, we would like see policy makers pursue ambitious policies that promote sustainable growth and competitiveness, as well as addressing barriers to capital market integration in Europe. We have already been engaging with incoming EU policy makers to discuss key areas of focus for the coming five years, and will continue to do so as the new European Commission and EU Parliament begin their work in earnest.

A Financing Union for Europe

Completing Capital Markets Union and Banking Union will continue to be of vital importance for creating a more robust and efficient financial system, which can support long-term economic growth for Europe. This was a key topic of discussion at our inaugural **Supervision and Integration Conference** which we held in Frankfurt in May, where participants discussed how creating the right supervisory framework is essential to support these projects.

In their keynote addresses, Luis de Guindos, Vice President of the ECB and Dr Jörg Kukies, State Secretary at the German Ministry of Finance also highlighted the importance of renewed political momentum in order to make substantive progress on Banking Union and Capital Markets Union. We launched a short explainer document "**Creating an integrated Financing Union for the EU**" and an **animated explainer video** that set out our views on this topic in more detail.

Examining progress to date on Capital Markets Union

It has now been four years since the European Commission launched its Capital Markets Union project, with the aim of developing a true single market for capital across Europe. AFME and its members have been strong supporters of this initiative since its inception and last year we launched "**Capital Markets Union: Measuring Progress and planning for success**", the first in an annual series of publications which will review developments so far.


The report was a joint publication with nine other trade associations and international organisations representing global and European capital markets stakeholders. It highlighted that some important progress has been made, for instance with the availability of pools of capital in Europe showing encouraging improvements. In most EU countries, however, there is also still significant work to be done. Our second CMU progress report will be published in October this year.

2019 European Association Award wins

Our efforts were recognised at the 2019 European Association Awards with AFME winning the Silver Award for Best Association Publication. We were also awarded the Overall Best European Association Award, with judges acknowledging the clear policy successes, pan-European coverage and high-quality events that AFME has achieved this year. I am proud of these awards as recognition of the hard work that colleagues throughout AFME are doing every day.

Brexit

We also remain focused on the challenges facing the sector, in particular the ongoing uncertainty around the Brexit process. Over the last 12 months we have continued our fact-based engagement on Brexit, assessing the potential implications for our



industry and engaging with policy makers and regulators. In July we took stock of remaining no-deal Brexit risks for the financial sector and published **a briefing paper** which sets these out. We also hosted a global member briefing on the subject of **ensuring operational readiness for a no-deal Brexit**, which was open to AFME members in Europe, as well as SIFMA and ASIFMA members in the US and Asia.

In light of Brexit, we are continuing our strong focus on increasing our pan-European presence, including continuing to increase activity in Frankfurt and Paris. This year we will be returning to Paris to host our second annual **Capital Markets and Innovation Conference**, as well as hosting our **Compliance and Legal Conference** in Paris for the first time.

10th anniversary and farewell

This will be my final Annual Review, as I step down at the end of October as AFME's founding Chief Executive. It has been my privilege to lead this organisation for the last nine years and in particular to play a part in ensuring the much-needed process of post-crisis regulatory reform was implemented without significant negative unintended consequences for Europe's capital markets.

A trade group is only as good as its members, and it has been a pleasure to work with engaged and diligent colleagues from across Europe's wholesale banking industry spanning US, UK, European and Asian banks, all with deep roots in Europe's capital markets.

AFME itself is marking its 10th anniversary this year and I am confident that, having spent the last decade creating a strong role and clear identity for AFME, we can, on behalf of our members, look forward to the next 10 years and beyond as a period when we can continue to make the case for capital markets, and their contribution to society. To mark the anniversary we will be publishing a series of essays from distinguished industry figures such as Governor of the Bank of England, Mark Carney, and European Commission Vice-President, Valdis Dombrovskis, considering what the future may hold for Europe's capital markets.

I wish my successor the best of luck in continuing this vital work, I am certain that they will be well supported by AFME's hard working Board, as well as colleagues within the organisation.

I would like to once again thank Michael Cole Fontayn for his service as AFME's Independent Chairman, as well as all of our Board members for all they do. It has been a privilege to work with the AFME Board. I would also like to thank AFME staff for their efforts and dedication over the last year, and throughout my time at AFME.



Simon Lewis OBE

Chief Executive
Association for Financial Markets in Europe



Celebrating our European Association Award wins in April 2019

AFME in numbers

Our members



179
global and European
market participants



Over **3500**
participants from
160 firms



76 full members
103 associate members

Engagement



5,100
LinkedIn followers



3,200
Twitter followers



184,500
average unique page
views per month

Impact



50+
consultations
responded to



11
expert publications
produced



20
data reports
each year



400+
press
articles

Key issues

Brexit

In the run up to the UK's departure from the EU we have continued to support members in their Brexit preparations to address issues which may cause disruption within the financial sector. This has included senior level engagement with the European Commission, ECB, ESAs and finance ministries as well as regulators across the EU27 and the UK, covering issues arising in a no-deal Brexit scenario such as equivalence for UK CCPs, supervisory cooperation, data transfers, continued servicing of contracts and challenges arising out of the MiFID trading obligations for shares and derivatives.

We have had dialogue across Member States where we made the case for, and inputted into, national contingency legislation to enable certain services to continue in the event of a no deal scenario. We have successfully highlighted no-deal risks and obtained mitigation in areas such as temporary equivalence for UK CCPs, improved clarity on the scope of the EU share trading obligation and the introduction of national contingency measures in most member states, all of which would lessen the impact of a no deal Brexit.

Supporting members' Brexit planning has been a key area of focus, through considering implications across our committees, tracking EU27 national contingency measures and monitoring wider developments. We have continued to work with UK government and regulators in relation to the "onshoring" legislation to transpose EU law into the UK legal framework and the Temporary Permissions Regime.

Given the ongoing political uncertainty, we have held regular briefing calls and webinars with members, to discuss preparedness, key cliff edge risks and possible political scenarios. Following the extension of the article 50 period to 31 October 2019, we published a [paper on remaining no-deal risks](#) for firms, which will form the basis for a further review of risks.

Looking ahead, we have also been engaging in the evolution of EU third country regimes, including for third country CCPs and investment firms. We are currently developing a paper on the EU's equivalence framework and relationship with third countries in the context of Brexit.

While the outcome remains uncertain, we will support members throughout the process, including further developing our positioning on the future relationship between the EU and the UK, and continuing to address developments in the EU's third country regimes.

Capital Markets Union

2018-2019 marked the final year of implementation for the initial Capital Markets Union (CMU) Action Plan, launched by the European Commission in September 2015.

AFME has been involved in several CMU initiatives during this period, including the FinTech and Sustainable Finance Action Plans and related proposals, the review of the European Supervisory Authorities, the review of the regulatory framework for investment firms, reforms to insolvency frameworks and the NPLs Action Plan. We were also active in workstreams in the post trade area and on the implementation of the new Securitisation Regulation, among others.



In September 2018 we published AFME's CMU Key Performance Indicators report ["Capital Markets Union – Measuring progress and planning for success"](#) with support from nine other European associations and a launch event in Brussels. The publication received very positive feedback from the policy community, with AFME being invited to discuss its findings in various fora. A second edition is being prepared for launch in October 2019, which will include a section on FinTech issues among other updates.

We have worked with members to identify and put forward our CMU priorities for the next five years and have maintained a constructive dialogue with the European Commission and authorities across Europe. Recent engagements include meetings and workshops on the CMU 2.0 strategy. We have also met with the NextCMU High Level Group established by the finance ministries of Germany, France and the Netherlands to report on recommendations for deepening the CMU.

The CMU project is set to remain a priority for the next EU legislative cycle and we will seek to maintain AFME's position as a key interlocutor, supporting an ambitious agenda to expand the size, capacity, depth and level of integration of the EU's capital markets. We will ensure that AFME's work on CMU is well integrated with other workstreams such as Brexit and the MiFID 2/R review.

We will also continue to highlight the complementary nature of Banking and Capital Markets Unions in strengthening the EU financial system and promoting integration, showcasing how, via increased cross-country risk sharing, more developed capital markets can help overcome the political deadlock currently preventing the Banking Union project from moving forward.



EU Institutional Changeover

This year marks the end of one chapter, and the start of another for Europe's political institutions. Following May's elections, a new European parliament has been formed with 61% of the MEPs new into the role. It's clear that this parliament will be considerably different from the previous one and possibly more fragmented in how it operates, with the traditional centre-right and centre-left blocs losing their majority and major gains for Liberal parties, especially the Greens. AFME has already begun a programme of meetings and engagement with new MEPs to discuss key priority areas for the European financial sector.

A new European Commission will also take up its mandate at the end of October, led by Ursula von der Leyen. Based on public remarks so far it is pleasing to see that Capital Markets Union, increasing access to finance for SMEs and sustainable finance will continue to be priority areas for the Commission in the coming legislative cycle.

To support our engagement with the Commission and MEPs, as well as policy makers and regulators in other European institutions and in Member States more widely, we have implemented a broad advocacy strategy founded on new AFME publications, ambitious outreach programmes and events. As part of this, we have produced two new publications which highlight AFME's strategic priorities for a strong EU financial sector. The first publication, **"Finance for Europe – Building competitive, resilient and integrated financial markets: A financial services strategy for sustainable growth and competitiveness in 2019-2024"** recommends that the EU prioritises a growth strategy focusing on promoting competitiveness, innovation and deeper integration while transitioning to a greener economy, with a competitive and resilient financial system able to support such a strategy.

The second paper, **"The European banking system: tackling the challenges, realising the opportunities - Achievements and next steps in the reform programme"** looks at priorities for bank prudential and resolution regulation. The paper gives an overview of the steps taken so far towards making Europe's banking system safer and better able to contribute to sustainable growth; it also provides recommendations on the next steps, particularly on how to reduce the persisting fragmentation in the EU.

Across AFME's committees and workstreams work is well underway on considering how to best engage with incoming policy makers in each respective area.

IBOR Transition and EU Benchmark reform

Although the starting gun may have been fired several years ago on efforts to switch from IBORs (Interbank offered rates) to new risk-free reference rates there continue to be many details to work through on this highly complex issue. Within the EU, wider benchmark reform is also taking place under the EU Benchmark regulation (BMR).

AFME is closely engaged with regulators and policy makers in the UK and the Eurozone on these issues and sits on a number of Bank of England and ECB industry working groups. We are also collaborating with other trade associations such as SIFMA, GFMA, ICMA and ISDA to raise awareness with industry and feed into relevant consultations and regulatory discussions on the transition.

In particular, AFME has been leading on IBOR issues related to securitisation. Last year AFME published Model Wording which can be used in securitisation bond documentation to help facilitate the transition from IBORs to new benchmark rates. We have been pleased with the level of take-up of this documentation and we are currently working on an updated version to reflect the most recent developments and market practices.

AFME also supported GFMA in its publication of **resources** to help market participants plan for IBOR transition. The resources comprise a timeline of the transition process, a tracker of the key stages and participants and an overview of the process in each global jurisdiction.

In April we hosted a joint Breakfast Briefing event with EY in Brussels to examine industry and regulatory preparedness on IBOR transition and wider benchmark reform within the EU, featuring speakers from the European Commission and the FSMA.

On the issue of EU benchmark reform, we were pleased that the BMR compliance deadline was moved back by two years to December 2021, AFME along with a number of other trade groups had strongly argued in favour of an extension. This will allow time for industry and regulators to work through remaining challenging areas. For instance, third country benchmarks is an area where considerable uncertainty remains and we will continue to engage on this issue to develop workable solutions which will avoid market disruption.



Sustainable Finance

AFME has been actively involved in Sustainable Finance developments, particularly focusing on the Commission's Action Plan on Financing Sustainable Growth. We have supported this initiative from the outset, acting on our commitment to mainstream sustainability in the financial sector and help re-orient capital flows to build a more sustainable, low-carbon and climate resilient economy. We published **"State of Play - Status of European Legislative and Regulatory Developments on Sustainable Finance"**, a document summarising the key initiatives in this space as of June 2019.

We have been pleased with the progress made by EU legislators and policy makers on implementing the Sustainable Finance Action Plan. Political agreement has been reached on two legislative proposals aiming to enhance transparency about investment products with environmental, social and governance (ESG) characteristics and introducing new categories of climate-specific investment benchmarks, to facilitate more informed and sustainability-conscious decision making by end investors.

However, there is still work to be done on finalising the unified EU classification system of environmentally friendly activities (EU Taxonomy) and political agreement on the respective primary regulation to be achieved. We believe that the EU Taxonomy Regulation is a key cornerstone for delivering on the Sustainable Finance Action Plan's objectives. In particular we have been advocating for a practical, scientific-based, flexible, progressive and proportionate taxonomy that would promote convergence at the global level and truly shift capital towards more sustainable investment.

Besides work on the main legislative package, we contributed to the development of the Commission's updated non-binding "Guidelines on reporting climate-related information", under the EU Directive on Non-Financial Reporting which aims to achieve better availability and quality of climate-related information through improving corporate disclosure practices. We have also advocated for flexible and progressive approaches to integrating ESG considerations into product governance and suitability assessment requirements under MiFID II.

To help facilitate green financing through debt capital markets, and securitisation markets in particular, we are developing voluntary principles to define "green" securitisation.

Another area of interest is initiatives by regulators and central banks to incorporate sustainability in prudential regulation and risk management frameworks, including the development of stress-tests and scenarios. We would like to see regulators take a joined up, consultative approach that takes into account the development of the EU Taxonomy, which at this stage is focused on investors and will need to be adapted for prudential treatment, as well as that market practices still need to mature in terms of the availability of robust climate-related information.

Looking ahead, with sustainable growth being an overarching global issue, we think that a more coordinated approach would be necessary across industries and global jurisdictions to encourage the transition to a strong, sustainable economy. Our view is that, with the EU being at the forefront of the sustainable finance agenda, adopting and operationalising the new regulation requirements will be pivotal in achieving the objectives set by the regulations at the EU level and could lay a foundation for better global convergence.

Update from the Divisions

Capital Markets

Equities

The Equities Division remained the key voice for wholesale market participants on vital issues impacting European equities markets including the share trading obligation, tick sizes, periodic auctions, direct electronic access (DEA) and market data.

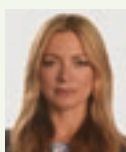
On the share trading obligation, AFME engaged with various policy makers and regulators in order to voice its support for mutual equivalence to be granted by EU and UK authorities. In the absence of equivalence, AFME has engaged with relevant authorities to advocate for alternative practical solutions.

Concerning DEA, AFME conducted a review of European jurisdictions to highlight where the provision on DEA may not be permissible. This was followed by meetings with competent authorities where AFME provided legal analysis which argues that third country firms do not need to be licensed under MiFID II in order to receive DEA.

AFME responded to ESMA's call for evidence on periodic auctions and followed up on its response with key regulatory authorities. Throughout this process AFME ensured that its positions were coordinated with buy-side and relevant exchanges.

In relation to systematic internalisers, AFME advocated for an appropriate application of the tick size regime which is set to undergo amendments agreed under the Investment Firm Review in early 2020.

On market data, AFME coordinated with other associations and industry stakeholders to call for further scrutiny of the rising costs of market data. Looking forward, this will be a priority area as regulators consider how to address this important issue.



"The Equities Division remained the key voice for wholesale market participants on vital issues impacting European equities markets including the share trading obligation, tick sizes, periodic auctions, direct electronic access (DEA) and market data."

April Day

Managing Director, Head of Equities

Equity Capital Markets

AFME's Equity Capital Markets (ECM) Division has continued to support the development of more efficient and coordinated equity capital-raising processes.

In September 2018, AFME produced a record keeping protocol for banks in relation to communications between unconnected analysts and issuers as required by COBS 11A.1.4 in the FCA's Conduct of Business Sourcebook.

We published a Q&A for issuers on steps to enable certain ECM mandates to continue seamlessly in the event of a "no deal" Brexit. Prior to the Prospectus Regulation coming into force on 21 July 2019, AFME updated its selling restrictions for equity transactions to reflect this change.

In addition, we also published two briefing notes on the impact of the US Qualified Financial Contact (QFC) Stay Rules on ECM transactions in Europe. One note set out certain agreements often used in the context of ECM transactions in Europe and provided high-level guidance as to the applicability of the QFC Stay Rules. The other note summarised the requirements for and the practical implications of including language relating to the US QFC Stay Rules in ECM agreements in Europe.

On PRIIPs, AFME responded to the FCA's Call for Input, as well as engaging extensively with the Commission, EIOPA, ESMA and national competent authorities on issues relating to the scope of PRIIPs, which AFME has argued is ambiguous and has led to fewer vanilla corporate bonds being made available to retail investors (which is contrary to the aims of the capital markets union).

The Frankfurt ECM Roundtable group, which comprises bank and law firm representatives based in Frankfurt, remains engaged on a range of ECM issues. This year the group contributed significantly to the briefing notes on the US QFC Stay Rules and has examined topics such as the MiFID II rules on product governance and inducements.



"AFME's Equity Capital Markets (ECM) Division has continued to support the development of more efficient and coordinated equity capital-raising processes."

Olu Oluwale

Associate, Capital Markets

Fixed Income Trading

The Fixed Income trading division monitors developments in regulation, policy and market structure that affect the rates, corporate and covered bonds markets and formulates industry-wide responses to these developments.

On MiFID II data quality issues AFME continues to actively engage with the European regulators. Successful advocacy earlier in the year focusing on erroneous data sets has contributed to avoiding a potentially negative move to tighter transparency thresholds.

AFME's 13th annual Government Bond Markets Offsite took place on 14 June in Brussels. This annual dinner followed by a half-day roundtable event provided an opportunity for Primary Dealers, investors and the Debt Management Office (DMO) community to exchange views on current topics that impact the market in an informal setting. This year, discussions focused on green bond issuance, (taxonomy, additionality, secondary market liquidity, future green bond developments), auction and syndication processes (including the proposal on a European Distribution of Debt Initiative (EDDI)), innovation, FinTech and key impact driver for European government bond markets for the year ahead.

Planning is under way for the 14th Annual European Government Bond Conference taking place in Brussels, in November.



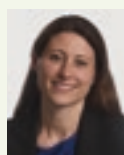
The Primary Dealers Board (along with AFME's Post-Trade division) recently submitted a joint response to the ECB consultation on EDDI and will be monitoring next steps from the ECB/ESM. The Board remains mindful of the objective within the EU's Capital Markets Union Action Plan on developing a Eurozone safe asset. The Harmonised Reporting Format (HRF) working group has carried on engaging with the European Commission around harmonising adjustments and reducing recent fragmentation to the Euro Market Activity reporting requirements.

AFME's 3rd annual Credit Board offsite took place on 20 June in London. Discussions focused on artificial intelligence, evolution of electronic trading, changing structure of the sales force and exchange traded funds.

The Credit Board remain intent on encouraging the Commission to make progress towards adopting 22 recommendations from the Commission-appointed Corporate Bond Expert Group. Separately the Board is monitoring developments around the mandatory buy-in aspect of the Central Securities Deposit Regulation regime and the scope of PRIIPS regulation.

The Covered Bond trading group continues to track on developments towards the EU-wide covered bonds framework and any unforeseen impacts on trading or secondary markets that may materialise.

This year is the 250th anniversary of the Pfandbrief and preparations are underway for AFME's annual Covered Bonds Market Conference.



"Successful advocacy earlier in the year focusing on erroneous data sets has contributed to avoiding a potentially negative move to tighter transparency thresholds."

Victoria Webster
Director, Fixed Income

High Yield

The High Yield Division has engaged with ESMA, the European Commission and various national regulators regarding the proposed EU Directive on preventative restructuring frameworks. We are currently reviewing and assessing the latest proposals and liaising with members to decide next steps.

With increasing regulatory scrutiny of European high yield markets evidenced by the Market Abuse Regulation (MAR), MiFID II and LIBOR replacement (among other things), the AFME High Yield 'Legal and Regulatory Compliance Committee' meets regularly to discuss and analyse current and potential legal and regulatory issues for high yield (and, when appropriate, to engage in advocacy relating these matters). As these issues and oversight become more important to the high yield market, we expect that the work of this committee will become even more extensive, both as a means of keeping abreast of relevant developments and also as a means of "self-regulation".

We are currently reviewing and revising the first ever 'European High Yield Primary Market Practice Guidelines', which we drafted approximately one year ago. These Guidelines include an overview of the issuance process and certain recommendations on how European HY primary market transactions should be conducted. The Guidelines also address some of the regulatory issues mentioned above, and demonstrate that the European high yield market is taking them seriously.



"As regulatory issues and oversight become more important to the high yield market, we expect that the work of this committee will become even more extensive."

Gary Simmons

Managing Director, High Yield and Equity Capital Markets

MiFID

The MiFID2/R review period is now open, with The European Commission required by law to report to the European Parliament on the implementation of more than 20 aspects of MiFID/R2 from Q4 2019. AFME anticipates ongoing substantive revisions to the regime in advance of, and following, the review period supported by the Commission's reports. More substantive reviews may be undertaken following a possible no-deal Brexit.

AFME responded to the German Ministry of Finance's (BMF) consultation "on the experience and possible need for amendment with regard to MiFID2/R" (Q1 2019) and attended the BMF MiFID2/R hearing in Berlin (Q2 2019).

On the Investment Firm Review (IFR), AFME actively advocated around the legislative package including developing and deploying position papers, responding to MiFID2/R amendments tabled by MEPs, issuing press releases, coordinating joint trade association letters, and bilateral meetings with member state officials across the EU. We are pleased that the package retains the current scope of services covered under the MiFID2/R third country equivalence regime for investment firms.

As part of the transposition of the EU acquis into UK law, AFME was asked by Her Majesty's Treasury to take a leadership role in the cross-industry analysis of the MiFID2/R statutory instruments, reflecting our perceived expertise on this file.

Successful advocacy (supported by extensive data analysis) in the first half of 2019 stressing data concerns, resulted in a postponement to the annual fixed income liquidity assessment. AFME is focused on addressing outstanding FI MiFID data quality issues and remains in touch with European regulators. Areas of specific FI focus included scope of application for Systematic Internalisers and new issue thresholds being applied to existing bonds.

A key focus over the last year has been on the impact of MiFID2/R and Brexit on European equities market structure. AFME has engaged with stakeholders on the Share Trading Obligation; on ESMA's call for evidence on periodic auctions; and on the application of the tick size regime to SIs (which fell short of the application in all sizes, as proposed by the Parliament).



"AFME was asked by Her Majesty's Treasury to take a leadership role in the cross-industry analysis of the MiFID2/R statutory instruments, reflecting our perceived expertise on this file."

Julian Allen-Ellis

Director, MiFID

Post Trade

With the implementation of key regulatory milestones on the horizon, AFME is leading industry efforts to ensure preparedness for a significantly altered post trade landscape. The Shareholder Rights Directive II (SRD2) will be transposed in national law by September 2020. AFME Post Trade has documented the issues and impacts of the Directive, helping to drive discussion at the Industry Steering Committee, which is co-chaired by AFME.

Also, in September 2020, a new Settlement Discipline Regime will come into force as part of the Central Securities Depository Regulation (CSDR). Through regular meetings of the CSDR Task Force, AFME is a forum for members to consider the challenges faced and develop guidance to aid members in navigating these challenges. AFME also chairs the CSDR Industry Working Group, bringing infrastructure together with market participants to reach consensus. We have worked with members to submit Level 3 guidance on a number of outstanding issues requiring regulatory clarification, whilst leveraging our strong working relationship with ESMA to engage in dialogue.

AFME Post Trade has also continued with its advocacy efforts, targeting key Member States to endorse the Capital Markets Union project as a key pillar of the next European Commission, and highlight the importance of dismantling certain EPTF Barriers, such as withholding tax reclaim procedures, legal inconsistencies and corporate actions, in achieving the goals of CMU.

Over the last year, AFME submitted a number of consultation responses to the European Commission, ESMA and the ECB, on topics such as harmonisation standards devised for the collateral management project (ECMS) and the European Distribution of Debt Instruments (EDDI), which we responded to in conjunction with the Fixed Income Trading Division.

Our **Due Diligence Questionnaire** was significantly revised during 2018, and the latest iteration is now widely used, providing a standardised and simplified process for participants.

This year we also said a fond farewell to Werner Frey, who is now enjoying a well-earned retirement from AFME. Werner played a key role in the work of the Post Trade division throughout his ten years at AFME, as well as having a wider impact within the regulatory community, such as in his role as a co-editor of the European Post Trade Forum Report. We wish him all the best.



"AFME Post Trade has also continued with its advocacy efforts to highlight the importance of dismantling certain EPTF Barriers, such as withholding tax reclaim procedures, legal inconsistencies and corporate actions."

Stephen Burton

Managing Director, Post Trade



Prime services

Securities Financing Transactions Regulation ("SFTR") has been a major area of focus this year. This has included meeting with, and responding to requests from, the Commission and ESMA, including participating in open hearings, workshops and bi-lateral meetings. We have also engaged with trade repositories with respect to their Validation Rules for accepting prime broker SFTR reports.

We recently responded to an ESMA consultation on SFTR reporting, and are currently setting up a workshop with the AFME Prime Brokerage (PB) group's hedge fund clients to discuss SFTR requirements and required information and procedures for each of these constituencies.

Other areas that the PB group is currently reviewing include the EMIR refit and certain aspects of the Shareholders' Rights Directive.

Securitisation

On 1 January 2019 the new regulations setting out a common framework for all securitisations, as well as the rules for “Simple, Transparent and Standardised (STS)” securitisation came into force. While this was in many ways a considerable achievement, the fact that so much of the underlying technical framework (known as “Level 2 Regulatory Technical Standards or “RTS”) remained incomplete created considerable uncertainty for the market.

As a result, January 2019 was the first January since 2009 without any European ABS issuance at all. However, despite this very slow start issuers and investors took the plunge and March saw the first STS securitisations reach the market. Since then the pace of issuance has quickened such that at the time of writing some 41 STS securitisations have been notified to ESMA. Overall ABS issuance (STS and non-STS) as of Q2 2019 has also picked up with new issuance standing at EUR 93.1bn at the end of June 2019.

AFME has hosted a number of workshops with members to help market participants get to grips with the new rules and to discuss practical approaches to their interpretation and implementation. We proactively engaged with the authorities to finalise RTS covering the STS criteria, homogeneity of underlying portfolios and third-party assessment of STS compliance. The RTS on risk retention are now not expected until late 2019, although following our advocacy we do not expect major changes from the well-developed existing regime. The biggest challenge remains the rules on disclosure and reporting, where ESMA's proposals continue to be problematic especially for trade receivables and ABCP conduit transactions. We continue to be actively engaged, with our members' support, to mitigate any negative impact as much as possible.

The regulatory capital treatment of securitisation for issuers and investors remains key. We responded to the EBA on the Purchased Receivables Approach (a mitigant for higher capital charges), whose opinion is now with the European Commission for review. We also continue our engagement with the EBA on other key aspects of the securitisation framework including significant risk transfer, possible extension of the STS concept to synthetic securitisation and greater use of securitisation in managing non-performing loans.

In the coming year we also expect to increase our focus on “green” securitisation which is of increasing interest to both investors and policy makers.

Lastly, we have played an active part in preparing for the approaching discontinuation of Libor in December 2021, where the “AFME Model Wording” on negative consent has been widely adopted in the market and praised by the authorities. The primary market has also made rapid progress in switching to SONIA, which is encouraging, although considerable challenges remain for legacy deals.



“AFME has hosted a number of workshops with members to help market participants get to grips with the new STS rules and to discuss practical approaches to their interpretation and implementation”

Richard Hopkin

Managing Director, Head of Fixed Income

Policy

The Policy team focused on key areas in conduct regulation, data, financial crime, sustainable finance and financial reporting.

EU Enforcement and Supervision

AFME's Compliance Committee, working with Linklaters, held a roundtable on EU Enforcement Trends, focusing on current issues in France, Germany, the Netherlands and Sweden. The Committee has scoped out a report on conduct supervision in Europe, to be delivered through Linklaters European network.

EU Conduct Regulation

Our working groups focused on EU Directives on market abuse, whistleblower protection, remuneration, data protection and AML:

Market abuse

AFME was invited to contribute to the ESMA peer review on supervision, and we established a MAR Review working group to provide industry input to the European Commission's overall review of MAR. Related to this, we worked with members to scope a report on the Future of Surveillance. We have appointed KPMG to prepare the report, which will be based on interviews with surveillance teams. The project is underway, with publication planned for Autumn 2019.

Whistleblower protection

AFME advocated strongly, at a key stage in the trilogue process, for flexibility in permissible reporting channels, and AFME's priorities were adopted by the Council and the Parliament. This reinforces the industry's positive approach to supporting a culture in which individuals are able to raise their concerns.

Remuneration

Under the remuneration aspects of the European Commission's Investment Firm Review, AFME's main advocacy ask on the bonus cap was to maintain recital language to provide NCAs with the discretion to set thresholds for specific types of investment firms, rather than introducing an EU harmonised hard cap. The final agreement reflects AFME's position.

Data protection

We held a number of roundtables to support members with implementation of GDPR.

Anti-Money laundering

The European Commission published a series of papers on strengthening the European supervisory framework. AFME's Financial Crime working group prepared a detailed position paper and used this as a basis for proactive engagement with European regulators. AFME also played a major role in the drafting of the Financial Action Task Force guidance for the securities sector.

IBOR reform and financial reporting

We participated in industry panels on the conduct risk and impact on hedge accounting. We prepared a position paper on financial reporting implications, where the main advocacy ask is for transitional reliefs. The IASB is actively considering the issue. We were also invited to join the ECB working group on financial reporting aspects of the transition to risk-free rates.

Conduct and Culture

AFME's Working Group organised a roundtable with the head of the FCA's Culture programme, which provided an opportunity for members to raise questions on how culture is supervised, and on the interpretation of conduct rules in the case of non-financial misconduct. On the senior managers regime, AFME advocated that the Head of the Legal Function should be excluded from the regime to preserve the independence of the function and the privileged nature of legal advice. The final rules are in line with AFME's position.

Tax

We highlighted challenges with the scope of the proposed EU Digital Services Tax, which would inadvertently have applied to a range of financial services activities. This proposal has since been put on hold.



Conferences and events

We delivered AFME's second annual European Compliance and Legal conference, which brought together some 300 compliance and legal professionals for two days of panel discussions and keynotes, including the European Commission, ESMA and national regulators from across Europe. At the conference, we launched our joint report with EY on the Scope and Evolution of the Compliance Function. The report outlines some of the key considerations for firms as they seek to adjust and enhance the role of the compliance function in a changing regulatory and technological environment. The third annual conference will be taking place in Paris.



"We have provided evidence to the ESMA Peer Review on the collection and use of STORs under MAR. Based on our members practical experience of the regime so far."

Louise Rodger
Director, Compliance

Prudential Regulation

AFME, through GFMA, continues to work on the remaining set of targeted policy initiatives on the Basel Committee on Banking Supervision's ('BCBS') work programme. We have successfully achieved a re-design and re-calibration of the market risk framework in revisions made by the Committee in January 2019, as well as revisions to the treatment of client-cleared derivatives for purposes of the leverage ratio in June 2019. There is now a focus on seeking improvements to the CVA framework and a re-opening of SA-CCR.

Work also continues on a comprehensive assessment of the full impacts of the Basel III package finalised in December 2017, taking into account the later revisions achieved to the market risk framework. In this regard, advocacy persists still on issues that arise in the new credit and operational risk frameworks, the leverage ratio and the capital floor, extending our outreach with policy makers to seek refinements to policy areas considered closed by the BCBS.

More widely, AFME in conjunction with GFMA is engaging with the Financial Stability Board on relevant policy and has successfully advocated for adjustments to the implementation timeline related to minimum haircut standards for non-centrally cleared securities financing transactions (SFTs).

At a European level, this year has seen the culmination of advocacy on the Risk Reduction Measures (RRM) package, with the final legislative acts published in the Official Journal of the EU, in June 2019. The final agreement covered a number of AFME's core priorities, and our key issues of interest have been addressed in full or materially progressed, as detailed below:

Fundamental Review of the Trading Book (FRTB)

The initial Commission proposals were re-written to allow changes being made at Basel level to be incorporated into the EU, with the standard introduced as one for reporting only, and with a significantly longer implementation timeframe for both Standardised FRTB (2021) and IMA FRTB reporting (2023) versus the original 2019 deadline. Changes being made at Basel level were as a result of successful advocacy by AFME through GFMA. Additional calibration wins were achieved beyond those made at Basel level, such as a lower risk weight for covered bonds.

Net Stable Funding Ratio (NSFR)

The liquidity add-on for derivative liabilities was reduced to 5% from 20%. This reflected changes to the Basel standard, which moved from a fixed 20% charge to a range of 5-20%. A reduction to 5% was a change AFME had advocated for through GFMA. Additionally, there was a reduction in the required stable funding factor for Reverse Repos collateralised by Level 1 High Quality Liquid Assets (HQLA) and Level 2 HQLA to 0% and 5% respectively.

Capital and Large Exposures

AT1 and T2 capital instruments that were impacted by changes to the definition of these instruments were allowed to be grandfathered for a period of 6 years, with perpetual grandfathering of eligible liabilities. Minority interests of

third country subsidiaries within a group were allowed to be recognised in consolidated group capital, subject to those entities being conditional upon regulation similar to the EU's. Use of internal models for the measurement of SFT exposures within the Large Exposures framework was retained, despite proposals to remove the use of internal models for large exposures purposes altogether.

Software

The deduction previously applied to intangibles to exclude software from capital resources, will no longer apply to "prudently valued software whose value is not negatively affected by the resolution, insolvency or liquidation of the institution". The EBA is to develop an RTS to specify the application of the non-deduction and AFME will actively contribute to any related consultation.

Non-Performing Loans

Firms will be allowed to disregard the effect of large NPL disposals from loss given default (LGD) estimates, subject to certain qualifying criteria, until June 2022. Outside of the CRR2 process, AFME has been at the forefront of trade association engagement on the Commission's NPL Action Plan. Off the back of our NPLs conference in May 2018 we launched an advocacy strategy which resulted in a revised scope of application of the 'Pillar 1 backstop' to future NPLs (not existing stock as was first envisaged), as well as a longer, more flexible timetable for provisioning, which better reflects the potential for recoveries to be made over time. AFME continues to advocate on the development of a Credit Servicers Directive which is still under negotiation by legislators, and has made a considerable contribution to the development of EBA technical standards on NPL management and disclosure.

Pillar 2 Guidance (P2G)

We successfully opposed the introduction of new requirements proposed by the European Parliament, which would have seen the introduction of a P2G floor as well as an inability to offset P2G with combined buffers.

Leverage Ratio (LR)

We successfully opposed the gold-plating of Basel requirements, such that the LR measure will only need to be met with Tier 1 capital. Alignment with the Basel standard was also achieved through the calibration of the new LR buffer. Certain exemptions were also achieved, most significantly the exemption for central bank exposures on a temporary basis, available in extraordinary circumstances and subject to an LR adjustment.

G-SII assessment methodology

A new alternate methodology has been introduced alongside the existing methodology. The competent authority or designated authority has the discretion to apply a lower capital charge on the basis of an alternative methodology, which excludes intra-SSM assets and liabilities from the cross-border indicator, subject to the floor of 1%.

Intermediate Parent Undertaking

We successfully advocated for flexibility in the structural IPU requirements, allowing for two IPUs under certain conditions, as well as providing for a longer implementation period of four years.

Beyond these key priorities, we also achieved improvements in proposals related to CCP exposures, the infrastructure scaling factor and the treatment of equity investments in funds. The main area where progress was lacking was in persuading EU countries, which host banks headquartered in other Member States, to grant waivers which would allow those banks to transfer capital and liquidity to their operations in other parts of the Union, including their home country of incorporation. This failure to address the so-called home-host waiver issue is symptomatic of the lack of progress on the Banking Union, against a background of continued mistrust between Member States of the Union.

We also worked on the new prudential regime for investment firms, where large firms carrying out bank-like activities will now be treated as credit institutions. Here we were successful in securing the possibility for firms which would otherwise have had to use the new investment firm regime to be able opt-in to the CRR regime under certain conditions. We also sought to make sure that the links between the investment firm proposals and the CRD5/CRR2 were well understood by policy makers and that the two texts are interoperable, particularly with respect to the scope of application of the CRD5's IPU requirement.

Alongside the RRM package, work has continued on remaining CRDIV Level 2 issues with 16 consultations submitted, including on important areas of the LCR such as the treatment of operational and retail deposits, and on continued and wide-ranging reporting, disclosure and interpretative issues. AFME has also led bilateral engagement with the ECB and EBA that has resulted in the EBA significantly revising the timetable for its IRB repair work programme. This provides member firms a much more logical and effective implementation process, which will limit the operational burden and reduce the potential for bottlenecks when requesting supervisory model approvals.

The next legislative cycle will see the introduction of CRR3, which seeks to transpose the standards finalised in Basel in December 2017 into the EU. AFME has already commenced work in this regard and has responded to the European Commission's targeted exploratory consultation on the finalisation of Basel III, which resulted in the Commission issuing a Call for Advice to the EBA on the finalised Basel III standards.



"This year has seen the culmination of our advocacy efforts on the Risk Reduction package of measures, with the final legislative agreement addressing or materially progressing many of AFME's core priorities."

Michael Lever

Head of Prudential Regulation

Recovery and Resolution

The past year has continued to be a very active one in the area of resolution policy, with engagement across a number of key areas at EU and global level. A key priority was the negotiation of the Risk Reduction Measures (RRM) package. This made significant amendments to the resolution framework including implementation of the Total Loss Absorbing Capacity (TLAC) standard. Key areas of focus included calibration and distribution of the Minimum Requirement for own funds and Eligible Liabilities (MREL), addressing the risk of an extended moratorium tool, securing grandfathering and a more accommodative approach to the imposition of Maximum Distributable Amount (MDA) restrictions following a breach of MREL, as well as avoiding the prospect of early ineligibility for MREL instruments containing issuer call options. Less progress was made on calibration of internal MREL due to the political nature of home/host discussions, but we continue to advocate for further integration as part of furthering the Banking Union. We continue to support members with implementation of the requirements and are commencing level 2 work.

Alongside the RRM package, we have been addressing key policy issues such as funding in resolution, implications of Brexit for cross-border recognition of resolution actions and held roundtables with the European Commission, MEPs, and leading resolution authorities, including the Single Resolution Board (SRB) and the Bank of England. We also responded to the Bank of England's consultation on its Resolvability Assessment Framework which sets out its approach to resolvability assessments and introduces new disclosure requirements for banks. We saw several comments reflected in the final policy.

We have continued close engagement on policy development at global level through the Global Financial Markets Association (GFMA) including responding to consultation papers on topics including the evaluation of the impact of too-big-to-fail reforms, the technical implementation of the TLAC Standard, discussion papers on the solvent wind-down of derivative and trading portfolios, and public disclosures on resolution planning and resolvability. We also participated in a FSB workshop on the continuity of access to Financial Market Infrastructures for firms in resolution.

Over the coming year we expect continued focus on the implementation of the RRM package and the priorities of the new European Commission, including a potential review of the available tool-set of resolution authorities to deal with failing banks, the need to implement a solution to 'funding in resolution', and the potential to harmonise elements of bank insolvency regimes. We also expect the SRB to further develop its policy on resolvability expectations.



"Alongside the RRM package, we have been addressing key policy issues such as funding in resolution, implications of Brexit for cross-border recognition of resolution actions."

Oliver Moullin

Managing Director, Head of Recovery and Resolution

Technology and Operations

The Technology and Operations Committee has continued its strategic delivery against three priority themes: innovation and new technologies, cybersecurity and operational resilience, and industry utilities.

In September 2018 we commissioned a report by PwC on **trends in technology and innovation** and their impact on the investment bank of the future. The paper, shared widely with regulatory and industry contacts, promoted our views on the opportunities, challenges and future policy for emerging technologies. The success of the paper in Europe led to a subsequent **global version** being published by AFME and PwC, under the GFMA, in April 2019.

In October 2018 we responded to the Bank of England (BoE), Prudential Regulatory Authority (PRA), and Financial Conduct Authority (FCA) joint discussion paper on operational resilience and hosted an industry-first roundtable with PwC, and members, in January 2019 to further discuss the implications for capital markets. As an emerging and significant priority for the industry, we now continue to work with the tri-trades, under GFMA, to develop a set of principles to support regional and global regulators aims to strengthen operational resilience within financial services.

In November 2018 we published our second white paper on artificial intelligence that was focused on considerations for its ethical use in capital markets. The paper reinforced with regulators the expertise of AFME on artificial intelligence, following our first paper in April 2018, and has now secured us an active role with the Commission on this priority for the EU Digital Single Market.



In July 2019 we published a second **report on industry utilities** within capital markets. The report, building on our March 2018 paper on best practices for utilities, provided 16 recommendations for developing an industry utility and increasing their success in coming to market. The report continued to highlight cost and efficiency opportunities for our members, and the important role of AFME in supporting collaboration with existing industry service providers and new market entrants.

We have also participated in several consultation responses this year as the focus on new technologies and cybersecurity remains central to the regulatory agenda. These included responses to: implications of big data and artificial intelligence (BaFIN), guidelines for outsourcing and the implications for Cloud Computing (EBA), ethics guidelines for trustworthy AI (European Commission), the regulatory perimeter for Cryptoassets (FCA), and guidelines for IT and security risk management (EBA).

We also led several initiatives this year focused on increasing the visibility and wider engagement of the Committee across the region. These included: our first annual Paris conference in September 2018 that provided a strategic agenda across new technologies and a platform for the work of AFME, and the launch of a pilot 'Premium Associate Membership' in June 2019 for increasing our engagement with global technology providers and professional services firms.



"The Technology and Operations Committee has continued its strategic delivery against three priority themes: innovation and new technologies, cybersecurity and operational resilience, and industry utilities."

David Ostojitsch

Director, Technology and Operations

Advocacy in Brussels

The Advocacy team has played a key role in AFME's work and Europeanisation efforts and has continued to make sure that AFME's perspective is heard, and reflected, in the policy choices made in Brussels and across the European Union.

The past year has been a period of extremely intensive AFME advocacy activities, due to the conclusion of the legislative cycle and the need to reach agreements on many dossiers before the May 2019 European Election.

Under the strategic guidance of the European Public Policy Committee (EPPC), we have designed and implemented wide-ranging advocacy and outreach strategies and contributed significantly to shaping European decision-makers' views, including highlighting the key contribution of financial markets to European growth. The team has led hundreds of meetings and produced accessible and impactful advocacy materials which resonated with our interlocutors. Our meetings included, among others, very productive senior meetings with the upcoming Council Presidencies in Vienna, Bucharest and Helsinki.

On the legislative front, this work has secured important results in all key priority dossiers: from CMU to the Risk Reduction Measures, from Mifid/IFR to Benchmarks, from Brexit cliff edge risks to NPLs and from technology issues to FX markets.

The Advocacy Team has designed and led AFME's activities on the EU institutional changeover with the following objectives:

- Helping EU leaders set the agenda for the new legislative cycle
- Establishing new relationships and further developing existing ones
- Positioning AFME as a key interlocutor
- Providing education on the importance of financial markets and on the many reforms and industry actions undertaken so far.

This has resulted in the two AFME publications **"Finance for Europe – Building competitive, resilient and integrated financial markets"** and **"The European banking system: tackling the challenges, realising the opportunities"** (July 2019) which have represented key tools for an ambitious outreach effort during Summer 2019 (and which will continue throughout the remainder of 2019 and into 2020). Moreover, the Advocacy Team has produced a set of educational resources – available in **a new section of the AFME website** – to help familiarise a non-technical audience with important concepts.

We have met with a large number of new MEPs, establishing a constructive dialogue and have also engaged with the new "Next CMU" expert group (promoted by DE, FR, NL) and positioned AFME as one of the leading interlocutors.

The Advocacy function, in addition to contributing to the work of other AFME divisions, has also led or coordinated policy work in a number of areas, including CMU, EMU and Banking Union issues, equivalence/third country relationships and tax policy issues.

AFME has built advocacy alliances with a broad range of stakeholders and undertaken numerous joint initiatives with European and national trade associations representing investors, corporates and SMEs in areas of common interest. This continued dialogue has been very important and productive in raising awareness on crucial issues and in mobilising all actors affected.



The many EPPC events in several EU capitals (including Berlin, Brussels, London, Amsterdam and Paris) have seen the participation of key and increasingly senior EU policy makers from EU institutions and from Member States. Also, we have continued to organise workshops, dinners, roundtables and seminars in Brussels in support of our work on our advocacy priorities.



We have also worked with media colleagues to enhance AFME's media visibility in Brussels and continental Europe.



"The team has led hundreds of meetings and produced accessible and impactful advocacy materials which resonated with our interlocutors."

Stefano Mazzocchi
Managing Director, Advocacy &
Deputy Head, Brussels

Update from Frankfurt

Our Frankfurt office continues to build AFME's profile with the ECB and SSM and is focussed on ensuring they are aware of how policy and supervisory approaches impact our members' businesses.

Over the course of the year, we have maintained close contact with senior ECB officials on issues ranging from Brexit preparedness and no deal risks, to international supervisory cooperation and the consequences of national ring fencing. The ECB has, of course, been a key interlocutor on priority legislative files, including the CRD5/CRR2 proposals, its IPU requirements and the implications of changes to the classification and supervision of investment firms. We have also engaged them on non-regulatory matters, such as their proposals for an NPL transaction platform and the potential initiative to create a European-wide debt issuance and distribution mechanism. We are also involved in the workstreams to develop a term rate structure for €STR as well as the work considering the accounting and risk management implications of transitioning to the new rate. Multiple AFME staff are active on ECB contact groups, and this year saw AFME's Head of Prudential Regulation, Michael Lever, being invited to take part in the ECB's Financial Stability Contact Group.

ECB staff also joined all our various Frankfurt-based meetings this year, including those of our SSM supervisory committee and the Frankfurt Advisory Board (FAB), with the latter continuing to advise us on members' needs from our Frankfurt presence. In April we organised a roundtable with ECB officials specifically tailored to helping "incoming firms" understand the ECB's expectations for internal capital and liquidity adequacy planning (ICAAPs/ILAAPs).



With the input of the FAB, we organised the **AFME Supervision and Integration conference** in May, our first standalone event in Frankfurt. The programme featured keynotes from the German Finance Ministry's Jörg Kukies and the ECB's Vice-President, Luis de Guindos, with other sessions bringing together the international supervisory community, policy makers and senior industry figures. A key point of discussion was what needs to be done to build integrated financial markets in Europe and how to strike the balance between holding resources at local level for prudential purposes and the efficiency gains arising from centralising group functions for international businesses.

Taking place just before the European elections, the conference was a good opportunity to showcase the reinforcing benefits of developing integrated European banking and capital markets in tandem. We launched a **publication** and **short explainer video**

at the event stressing the importance of moving forward with a "Financing Union", or the combination of the Banking and Capital Market Union projects, during the next legislative cycle.

Under the guidance of the FAB and in conjunction with our advocacy colleagues, we have proposed a specific engagement plan for Germany where we will put greater focus on reaching out to relevant local supervisory authorities, civil servants and politicians. This will be important to gain insight into how Germany intends to approach financial services policy during the next legislative phase. Establishing a more in-depth dialogue with German authorities will also be helpful in the run up to the German Presidency of the Council of the EU, scheduled for second half of 2020.

The SSM supervisory committee has worked hard to engage ECB Banking Supervision, under the leadership of its new Chair, Andrea Enria, on the need for operational improvements in daily ECB supervision, particularly in the areas of supervisory planning and industry consultation and communication. The group also provided feedback to both the EBA and ECB on the running of the 2018 EU-wide stress testing exercise, suggesting methodological and process improvements for future exercises. It will be providing further recommendations later this year as the EBA kickstarts the process of fundamentally revising the EU stress testing framework.

The committee has increased its collaboration with other AFME groups and divisions, ensuring that wider AFME operations and membership benefit from our Frankfurt presence. A few examples include work with Tech & Ops on the development of the EBA's Outsourcing Guidelines (where cloud outsourcing is a major issue), joint efforts with the Compliance Division to better understand the role of the ECB's new AML office and collaboration with FRTB subject matter experts on the ECB's intended approach to model approval under the new capital rules for the trading book. Together with our securitisation colleagues we have been engaging the ECB on significant risk transfer assessments as these are key for capital relief.

To ensure continuous and up-to-date information sharing, we are planning to launch a regular newsletter in the coming months. This will be designed for AFME committees interested in keeping abreast of the latest developments in the ECB's supervisory expectations and their thinking on key policy issues.



"Under the guidance of the FAB and in conjunction with our advocacy colleagues, we have proposed a specific engagement plan for Germany where we will put greater focus on reaching out to relevant local supervisory authorities, civil servants and politicians."

Jacqueline Mills

Managing Director, Head of Frankfurt Office



The Global Financial Markets Association (GFMA) brings together three of the world's leading capital markets trade associations, AFME in Europe, ASIFMA in Asia and SIFMA in the United States ("Affiliates"), to provide a forum for the largest globally active financial and capital market participants to speak with the clarity of one voice in support of efficient market functioning, economic growth and financial stability to global international standard setters, as well as national competent authorities on global capital market issues.

Over the past year, GFMA has engaged with global bodies such as the Basel Committee, Financial Stability Board and the International Organisation of Securities Commissions on important global issues including market fragmentation, sustainable finance, the transition to new reference rates, operational resilience and the opportunities and risk from new technology, among others.

GFMA has also published several documents on important global issues including frameworks, principles, research papers and educational resources. These include **"The New Financial Global Capital Markets Growth Index (January 2019),"** the **"GFMA Financial Data Handling Principles for Banks and Non-Banks,"** a GFMA and PWC report on **"Technology and Innovation in Global Capital Markets,"** the **"GFMA Sustainable Finance Survey Report,"** and **"GFMA IBOR Transition Materials."** All documents were developed with input from Affiliates' staff and member firms for circulation with international and domestic regulatory bodies around the world.

As a complement to AFME's extensive work on issues with upcoming deadlines impacting European financial markets including Brexit and the transition away from LIBOR, GFMA has met with European, UK and other major regulators to offer global perspectives on actions needed to be addressed prior to each deadline.

FX

GFMA's Global FX Division is committed to promoting an efficient, robust and well-functioning global FX market. The Division currently has 25 member firms, representing a significant portion of the FX inter-dealer market.

Throughout 2019, the GFXD has been active on a number of regional and global fronts. We successfully advocated for proportionate treatment of FX in the final 2019 BCBS market risk requirements (FRTB) and achieved positive regulatory changes in relation to the application of uncleared margin to FX in the EU and South Africa. Furthermore, the GFXD was instrumental in securing a two-year extension to the EU Benchmarks Regulation transitional period until 31 December 2021, so that concerns relating to third-country benchmarks may be addressed.

In June 2019 we held our **"Next Step FX"** event in London to promote careers in the FX market to women, which had strong attendance and was well-received.

Looking ahead, we will continue to assist our members to assess the impact of the ongoing phasing-in of initial margin for uncleared derivatives, assess and take action as necessary in respect of the CFTC's swaps reforms, explore and promote new avenues to increase capital efficiencies and cost savings and identify areas where new technology may provide opportunities for market development.

Commodities

The Commodities Working Group (CWG) maintained its emphasis on the creation of a more level playing field within commodities markets.

In April 2019, the CWG submitted a joint response with FIA and ISDA to the European Commission's consultation on the role of the euro in energy markets. It stated that enhancing the international role of the euro should be seen as a gradual and long-term process closely linked to global - and European - economic and market developments. We noted our concerns that regulatory intervention in the currency used by market participants could lead to market fragmentation, which in turn would lead to inefficiencies and higher costs for derivatives market participants, and ultimately to increased risk.

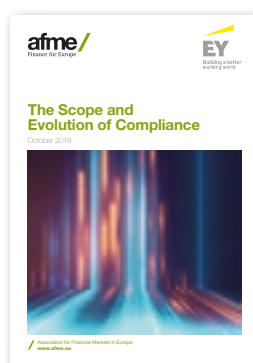
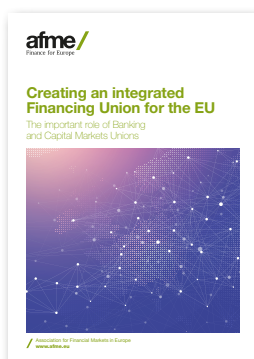
With respect to Brexit, during the past few months CWG has monitored the UK's EU Exit Statutory Instruments relevant to commodity trading, and various relevant notices/workshops from government and agencies.

On EU Securities Financing Transactions Regulation (SFTR), we have continued to prepare for SFTR reporting to begin in April 2020. At the end of July 2019 we submitted a response to ESMA's consultation on SFTR reporting, noting the need for additional guidance for commodities transactions. We continue to work with Clifford Chance on how to interpret SFTR's requirements respecting commodities transactions and are engaged with other trade associations, in particular FIA, the London Bullion Market Association (LBMA), and European Federation of Energy Traders (EFET).

AFME research and publications

In 2019, both independently and also working with expert partners, we have published a wide range of reports and publications. Our publications seek to raise awareness and highlight key issues for those with an interest in European capital markets, as well as offering practical guidance and information on operational matters.

Our full range of publications for the year from September 2018 – September 2019 is listed below:



Data Reports

We publish quarterly data reports on Prudential, Equity primary and secondary markets, Securitisation, Government Bonds and European High Yield and Leveraged Loans. These reports offer data, statistics and in-depth research in these key market areas which are often used by market participants, policy makers, journalists, academics and other interested parties.

Find out more: www.afme.eu/reports

Membership

Who we are

- Our members** We represent the leading global and European banks in wholesale financial markets and other significant capital market players.
- Our work** We advocate for stable, competitive and sustainable European capital markets that support economic growth and benefit society.
- Our role** We act as a bridge between market participants and policy makers across Europe, drawing on our strong relationships, technical knowledge and fact-based work.



What makes us different

- European perspective** Focus on wholesale banking issues from a European perspective.
- Direct participation** Direct participation by members, not an association of associations.
- In-house expertise** Deep in-house expertise from highly qualified staff with market backgrounds.
- Member-led committees** Unique member-led committees that address wholesale financial industry topics from a market, prudential and policy perspective.
- Evidence-based** Expertise in producing evidence-based research and content, including position papers, publications and events.

Join us

AFME membership is open to all wholesale financial market participants. Membership is on a corporate, not individual, basis and all applications are reviewed and approved by the AFME Board.

Full members

Global, regional and national banks, corporate finance advisors and brokers with access to all committees.

Associate members

Law firms, accounting firms, stock exchanges, rating agencies, service and data providers and investors with access to the High Yield and Securitisation committees.



Find out more: www.afme.eu/membership



Media profile

AFME's media profile continues to be driven by the strategic priority of increasing our reach and impact with the EU27 press, as well as increasing our fact-based thought leadership and delivering our key messages through digital channels, such as video and social media.

In our proactive communications, we have continued to focus on pan-EU capital markets issues, promoting AFME's advocacy agenda on topics including: Capital Markets Union and Banking Union, Brexit, sustainable finance and MiFID II implementation, among other core regulatory and public policy issues. Given the institutional changeover within the EU institutions this year, we have also placed particular focus on explaining capital markets topics for the new cohort of MEPs and policy makers.

On CMU, AFME has been especially visible over the past year, particularly following the launch of AFME's flagship publication tracking the progress of the CMU through key performance indicators, which received widespread EU media coverage.

AFME has also sought to prominently communicate the impact of a no-deal Brexit. For example, in May, AFME was on the front page of the Financial Times with a quote warning on the impact of the Share Trading Obligation on access to pools of liquidity in the event of a no-deal Brexit.

We continue to maximise the visibility of all our reports and data in the media. Over the past year we have published 10 expert publications as well as 20 data reports, which have all received substantial media coverage, helping to position AFME as the leading voice of Europe's wholesale financial markets. AFME also continues to produce its series of animated explainer videos covering topics, such as creating an integrated financing union in Europe and looking at whether the CMU is on track.

AFME has cemented its reputation in Europe over the last few years, which is demonstrated through the increasing EU press coverage the Association receives year-on-year. For example, AFME increased its EU press coverage by 10% at the end of 2018, mainly due to the strong media coverage of AFME's various conferences, positions and advocacy work in Europe.

Charity update

AFME recognises it has a responsibility to participate in – and contribute towards – the wider community in which we work. We do this by making corporate donations to charities in our local area, supporting individual charitable giving through our matching donations scheme, and encouraging local charitable and community involvement by AFME employees.

Our Charities Committee has a team of 10 committed staff and they work hard throughout the year, developing new initiatives to encourage employee involvement. AFME Staff once again volunteered at the East End Community Foundation (EECF) Annual Tea Dance which AFME co-sponsored.

Over the last year a variety of both office-based and external fundraising initiatives have taken place including a 'Quiz Night' and 'Scavenger Hunt' with proceeds directed towards AFME's three supported charities – Centrepont, Richard House Children Hospice and The Whitechapel Mission.

Some members of staff took part in July's Standard Chartered City Run, a 5km run through the streets of London raising money for Marine Conservation Society.

Following on from last year's successful internship, AFME once again hosted a Career Ready student in the office for four weeks working within Technology and Operations, Events and IT. We were keen to give them a broad look at the business as a whole and develop skills in many areas.

AFME hosted their annual 'Charity Week' with activities happening both in and out of the office. Staff raised money through raffles and team games. Groups of AFME staff volunteered at Community Links a charity in Canning Town, East London as well as at the BPCA (Bangladeshi Parents and Carers Association), who are supported by the East End Community Foundation.

Rick Watson, a member of the AFME senior management team joined the board of the EECF in November 2017 as a non-executive director. AFME also hosted an informal 'Meet and Greet' with head of CSR from member organisations. This was to enable the East End Community to network with a larger group of companies and gain further support in the local area.



Conferences and events



Bruno Le Maire (French Minister of the Economy and Finance)

During a time of significant change for Europe and its capital markets, our calendar of expert events is at the forefront of wholesale finance developments.

In October we hosted our annual dinner in Paris for the first time and were honoured with a keynote speech by French Minister of the Economy and Finance, Bruno Le Maire,

who discussed the important role that the financial services industry will continue to play in the future of Europe's economy.

In April, together with EY we ran a breakfast briefing in Brussels featuring speakers from the European Commission and Belgian Financial Services and Markets Authority on industry preparedness for IBOR Transition and EU Benchmark reform. The event featured lively debate and discussion on this issue of huge importance for the financial sector, globally.

This year also saw our inaugural Conference on Supervision and Integration in Frankfurt bringing together leading policy makers, supervisors and industry figures to address the interplay between the EU's flagship Banking Union and Capital Market Union projects,

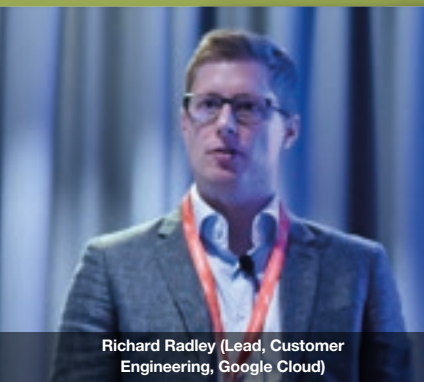
how to enable greater cross-border supervisory cooperation and what supervisory architecture do we need in order to support greater integration. Luis de Guindos, Vice President of the ECB and Dr Jörg Kukies, State Secretary at the German Ministry of Finance both provided keynote addresses.

We have also been pleased to collaborate with UK regulators and supervisors this year, hosting an address by FCA Director of Market Oversight, Julia Hoggett, where she outlined the FCA's approach to Market Abuse Regulation and in July we jointly hosted a breakfast briefing with ICMA and ISDA where the Bank of England's Executive Director for Markets, Andrew Hauser provided updates on the Bank's approach to managing its balance sheet.

In the coming year we're looking forward to hosting our popular Compliance and Legal in Paris for the first time, as well as returning there for our second annual Capital Markets Technology and Innovation Conference, building on the success of our first event last year, which attracted more than 260 delegates and leading figures in FinTech, including Richard Radley from Google. We will also be partnering with the Spanish Banking Association AEB to further expand our Spanish Funding event and the Italian Banking Federation FeBAF to host the Rome Investment Forum.

Find out more:
www.afme.eu/events

Increasing the diversity of panels and speaker line-ups continues to be a priority for us, as well as examining these issues as part of our event programmes. In particular this year we have focused on supporting the women in finance agenda. In May we hosted a first of its kind event to promote career opportunities for women in Foreign Exchange, featuring leading FX industry speakers followed by structured networking with FX leaders and HR reps from global banks. We also partnered with Women in Banking and Finance to host an event on Women Entrepreneurs in Financial Services. In November we will jointly host the fourth annual Women Leaders in Financial Infrastructure event.



Richard Radley (Lead, Customer Engineering, Google Cloud)



Ayesha Hazarika (Comedian and Political Commentator)



Dave Ramsden (Deputy Governor, Markets and Banking, Bank of England)



More than
6,000
people have attended
our events in the last year



Featuring
600
speakers



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*With effect from 19/09/19





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