

SPEECH

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Welcoming Remarks, 2016 Global Capital Markets Conference

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As prepared for delivery.

Good afternoon, and welcome everyone. Thank you for joining us this afternoon for our Global Capital Markets Conference.

As some of you know, we have held a similar event for the past four years — our Global Trading and Market Structure conference. In thinking about this year's forum, however, we decided to rename it, in part to reflect a growing trend that we're seeing around the world: many countries are recognising that strong and diverse capital markets are critical to stimulating economic growth, and are striving to develop and strengthen their markets.

For example, in the European Union, the Commission is working on advancing its Capital Markets Union initiative. In Japan, the government created the Panel for Vitalizing Financial and Capital Markets, to support the Abe government's determination to broaden and deepen capital markets in Japan.

Then there's the developing world. From China, India, and Brazil to smaller nations in Latin America and Southeast Asia, governments are pursuing policies to develop stock exchanges, enhance market-based debt financing, and encourage investment.

Key to the development of robust capital markets is a regulatory framework that supports the fair and efficient operation of securities markets and that fosters investor confidence.

Regulated funds and their investors play a critical role in capital markets by providing a flexible, stable source of financing for businesses, infrastructure, and governments.

As such, funds have a strong interest in ensuring that global financial markets are highly competitive, transparent, and efficient. Accordingly, ICI Global believes it is crucial that we come together to have a dialogue about the issues affecting funds and their investors to support the fair and orderly operation of global financial markets.

Another important reason to focus on global capital markets is that political developments in Europe and elsewhere have raised concerns about a rising threat to the continued openness in these markets, including cross-border investment opportunities.

In facing the challenges and opportunities of Brexit, for example, ICI Global is taking a firmly international perspective: stressing the importance of giving priority to investors' interests across Europe and around the world. The answer to the question, "What is Europe after Brexit?" is not a parochial one: it is a profoundly global one.

We ask those forging the political solution to minimise disruption to investors who are saving for their long-term needs. We urge policymakers and politicians to remember the unique global success of the UCITS brand, with its sophisticated network of cross-border expertise and services across the world. Perhaps, most importantly though, we encourage them to work towards a future that keeps Europe's borders open—both for investment flows into and across Europe, and for a full range of outward investment choices and opportunities for European investors. Nothing less is needed for a future that brings security, success, and prosperity to all Europeans.

This is a period of tremendous political uncertainty: we have many questions, and not nearly enough answers. But we move forward, continuing to tackle the very real challenges that exist for efficient and effective cross-border investment. Which brings me to our programme today, where our panels are focusing on two distinct aspects of global capital markets.

Our first panel will focus on equity markets, specifically the buy-side's expanding role in evaluating execution quality in these markets. Institutional investors—including regulated funds—and asset managers are receiving more information than ever about order handling practices and execution quality from brokers and trading venues. Our panel will examine a number of questions, including:

How will clients and regulators expect the buy-side to use this information? What tools are available to funds and their managers for analysing all this new information? And how could asset managers adjust their order-routing practices to deliver alpha to clients and fund investors?

Our second panel will focus on liquidity and trading practices in bond markets. Liquidity, particularly in the corporate bond market, has been an increasing area of focus for regulators. As key end holders of corporate bonds, regulated funds have a vested interest in the smooth and orderly functioning of corporate bond markets.

Unfortunately, however, misperceptions abound about how regulated funds and their investors behave in these markets. For example, some commentators and regulators theorise that during times of market stress, bond fund investors can create a destabilising spiral of outflows and falling bond prices.

ICI Global's analysis of the US high-yield bond fund market demonstrates, however, that far from being a destabilising force, bond funds and their investors are a source of strength and stability for three main reasons:

- First, US bond fund investors take a long view and redeem only modestly, even during times of market stress.
- Second, bond funds continue to buy bonds, even during falling markets.
- Finally, ETFs provide an additional source of liquidity for bond markets.

Throughout the year, ICI Global has been sharing these findings with policymakers around the world, to help better inform their understanding of how funds and their investors behave.

We most recently shared our findings with the International Organization of Securities Commissions, or IOSCO, in our response to its consultation on its examination of liquidity in the secondary corporate bond markets.

In our letter, we also commended IOSCO for conducting its liquidity analysis and encouraged the authority to keep studying the corporate bond markets as they continue to evolve and more data become available.

In a moment, we will have an opportunity to learn more about IOSCO's work, as we are honoured to have with us Jean-Paul Servais, vice-chairman of IOSCO and chairman of the Belgium Financial Services and Market Authority, or FSMA.

Jean-Paul is our opening keynote speaker, and I look forward to hearing his thoughts about the issues on our agenda today, and about some of IOSCO's other key initiatives. In addition, we have a senior policy expert from IOSCO joining the bond market panel, and hopefully, he can give us some more detail about IOSCO's work as well.

We also are delighted to have with us Verena Ross, Executive Director of the European Securities and Markets Authority, or ESMA. Verena has spoken at some of our previous conferences, and we are very pleased and honoured to have her back. She will deliver our closing keynote address, and will no doubt have much to say about the Authority's work as it prepares for the implementation of MiFIR and MiFID II.

We are living in interesting times. But no matter what is going on in the world, ICI Global's focus is—and must always continue to be—on investors. Investors, and the regulated funds they invest in, power capital markets. The issues that we will talk about today are critical to the functioning of those markets, and I look forward to what I'm sure will be a lively and insightful dialogue this afternoon.

We are pleased that our sponsors want to support this robust dialogue as well. Thank you to all of our sponsors for their support.