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The Future of Europe's Financial Centres

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The growth enjoyed by Europe's financial sector in recent years rendered the question of the future of its financial centres almost superfluous. It seemed as if many financial centres would continue to prosper in Europe – whether big or small, or specialised or regional. Recently, however, the meaning of the phrase 'single market' for financial centres has begun to take on another connotation. As the real impact of the directives arising from the EU's Financial Services Action Plan (FSAP) starts to permeate the market, competition will inevitably increase, resulting in some possibly painful adjustment processes.

'Single' may also mean rationalisation for financial centres, meaning that as national borders gradually become less important in the EU and as competition intensifies, financial centres of the EU member states will also face intensified competition. The role played as a financial *centre* by some places that lack critical mass or specialisation may decline and be transferred to more competitive, neighbouring cities.

The intention of this article is to subject European financial centres to a SWOT analysis, assessing their **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. We start with a closer definition of the term financial centre and a classification of the different kinds of financial centres found in Europe. A second section analyses the extent to which EU legislation and in particular the FSAP may lead to an intensification of financial centre competition. In a final section, we make some assessments for the future.

What is in a name?

The term 'financial centre' is widely used but not often well defined. When is a place a financial centre? Small islands are often called financial centres, whereas large capitals of certain EU member states are hardly seen as such. Overall, the term is used for places where the financial sector plays a dominant role in the local economy, defined in the share of GDP or national income derived from financial services, and/or in total employment, in the number of financial institutions, etc. But there is no commonly accepted definition. In colloquial terms, a place is called a financial centre if it corresponds to most of the following characteristics: it hosts an exchange, houses the head office of several large financial institutions, a reputed supervisory authority, and/or a central bank, and boasts an important number of law firms and consulting companies.

Within financial centres, further distinctions can be made. The International Monetary Fund (IMF, 2000) distinguishes three groups of financial centres:

- *International financial centres (IFCs)* offer the full range of financial services, are characterised by deep and liquid markets with diverse sources and uses of funds, supporting large domestic economies (e.g. London, New York and Tokyo), hosting several internationally active banks. They have the regulatory and supervisory frameworks to safeguard the reliability of contractual relationships and the integrity of the financial system.
- *Regional financial centres (RFCs)* feature well-developed financial markets and infrastructure, associated with smaller domestic economies, and more regionally focused banks, which intermediate funds in and out of their regions.
- *Offshore financial centres (OFCs)* are much smaller and provide more limited specialist services. It refers to countries or territories where the financial sector is large as compared to the domestic economy, moderately regulated, taxed at a low level and providing services mainly to non-residents.

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Another useful distinction is between *functional* centres, where the financial sector is serving a dynamic real economy, and *booking* centres, which mainly serve as intermediaries for transactions where the underlying value is created elsewhere (Walter, 1998). Walter also distinguishes between functions of financial centres that are subject to agglomeration effects, and others that are not. Front office functions, such as securities underwriting, trading and sales, are an example of the former, whereas back office functions, such as clearing and settlement or fund administration, can easily be located elsewhere, facilitated by technological progress.

Financial centres have become a dynamic concept, involving a deliberate strategy to obtain the brand, and to maintain it. Whereas in the past, a financial centre came about organically as the hub for a local economy in a whole series of transactions that are subject to agglomeration effects, it is increasingly part of a deliberate choice and clear strategy by policy-makers or market participants. With financial market liberalisation and globalisation, financial centres are in open competition with each other. Barriers that protected the local economy and the local financial centre from competition have disappeared and no longer provide a cosy environment. Exchanges, banks and insurance companies were privatised, barriers to free competition are challenged by EU and WTO authorities and tax havens are tackled in concerted action by international fora. Hence a forthright and well-defined policy is needed to build and maintain a financial centre. Past examples of successful strategies in Europe are Dublin and Luxembourg. Both emerged from primarily small, local or regional centres, without a financial focus, to become specialised financial centres with a broader vocation. The best well-known example of a new financial centre in the making is Dubai.

Before a financial centre can be developed, some basic conditions must be fulfilled. The following are commonly accepted to be the basic ingredients:

- Successful economy
- Open and international
- Political/legal stability
- Strong human capital base
- Sound regulatory and supervisory framework
- Lenient tax regime and
- Well-developed transport and telecommunications infrastructure, robust payment and securities settlement systems.

European financial centres

Europe hosts the highest concentration of financial centres in the world, certainly in number, but most likely also in total volume of business. Following the classification discussed above, Europe hosts four international financial centres, a dozen regional and half a dozen offshore financial centres. North America hosts three international financial centres, but much fewer regional financial centres, and one offshore financial centre, although there are many in the immediate neighbourhood in the Caribbean. South-East Asia is comparable to the US, although it is rapidly changing, and will likely host more financial centres in the future. This classification is somewhat arbitrary, since no or only partial comparative studies exist on financial centres. Most studies that exist are based on surveys and only a few offer hard data on the comparative size of financial centres.

Table 1. Financial centres in Europe, North America and South-East Asia, in order of importance (author's own ranking), with GFCI ratings in brackets

	International FCs	**Regional FCs**	**Offshore FCs**
Europe	London (1) Paris (11) Frankfurt (6) Zurich (5)	Madrid (34) Milan (32) Geneva (7) Brussels (27) Stockholm (26) Amsterdam (16) Munich (29) Luxembourg (17) Dublin (15) Vienna (35) Copenhagen (38) Athens (46) Istanbul	Jersey (23) Liechtenstein Monaco Guernsey (23) Gibraltar Isle of Man (21) Malta Cyprus Andorra
North America	New York (2) Chicago (8) Toronto (13)	San Francisco (14) Boston (12) Washington (18) Vancouver (31) Houston	Bermuda (25)
South-East Asia/Australia	Tokyo (10) Hong-Kong (3) Singapore (4)	Sydney (9) Shanghai (30) Being (39) Seoul (42) Osaka (36)	Macau

London is undoubtedly the leading financial centre in Europe, if not in the world. A recent ranking put London at the top of the Global Financial Centres Index (GFCI), although it is considerably smaller in total financial sector employment than New York. Paris follows London very closely in total employment, but comes further behind in terms of reputation.[2] Frankfurt is much smaller than the two top European centres, but has certainly grown in importance over the last years, being the seat of the European Central Bank. Zurich is probably a border case as an international financial centre, but scores high in competitiveness and size, together with Geneva. Both are seen to be strong niche centres with an international vocation in private banking and asset management.

Of the 50 centres ranked by Global Financial Centres Index, almost half are European (24), although there are only four in the top ten. Eight financial centres are North-American

[2] According to "The Economist Survey on Financial Centres", *The Economist*, September 2007.

and seven are in South-East Asia, which again emphasises the high concentration, or fragmentation, of financial centres in Europe. The GFCI assesses financial centres in terms of five key competitiveness areas: people (human capital), business environment (regulation and taxation), market access (trading volumes and clustering effect), infrastructure and general competitiveness, and is based on surveys with professionals.

As can be noticed from Table 2, on some indicators, such as total bank assets, the high concentration of financial centres in Europe could be justified. On others, however, such as national savings or domestic equity market capitalization, this seems less warranted.

Table 2. Main indicators of the size of the Europe's financial markets ($ billion)

Year	*Indicator*	*World*	*EU*	*%*	*US*	*%*
2007	GDP	53,352.35	16,574.44	31%	11,535.94	22%
2007	Gross national savings	12,591.15	3,414.33	27%	1,534.28	12%
2006	Equity domestic market capitalisation	50,635.24	13,893.37	27%	19,568.97	39%
2005	Total bank assets	57,165.00	32,429.00	57%	10,242.00	18%

* Data for total bank assets in Europe include Liechtenstein, Norway and Switzerland.

Source: IMF, WFE.

The impact of EU legislation

The most important factor of financial centres' competitiveness is regulation, according to the GFCI 2006 index, before people and skills. Concerns about the level and the negative impact of regulation have moved up on the agenda in the US, leading to the publication of several reports on how to regain its status as the world's pre-eminent financial centre. Europe on the other hand seemingly managed to keep the right balance, although it also went through a heavy regulatory agenda with the Financial Services Action Plan (FSAP).

The decline of New York has much to do indeed with regulation, not only with the negative impact of the overreaction to the financial market scandals of the start of the century, but also with the capacity of other jurisdictions to create the right regulatory environment for a well-functioning financial system. The figures are telling: the US share of global initial public offerings (IPO) – those outside a company's home country – fell from 50 percent in 2000 to 5 percent in 2005. In 2005, 9 of the 10 largest IPOs took place outside the United States. The share of New York's stock exchanges declined from about half of the world's stock-market capitalisation to 37 percent today. In the lucrative field of investment banking, sales and trading revenues, European revenues are now nearly equal to those generated in the US.

The European regulatory initiatives started well before the Financial Services Action Plan (FSAP). The single market programme, launched in 1985, was all about allowing for rationalisation and consolidation of financial services operations in the EU. The basic rules for the creation of a single market are minimum harmonisation and mutual recognition. In finance, this means that in the fields of banking, insurance or securities markets, regulators agree on minimum common prudential standards that are acceptable to all the EU member states. On the basis of compliance with these basic rules and a licence from the home country authorities, financial service providers can provide their services throughout the EU, via the so-called 'single passport'. In banking, for example, the second banking Directive (1989) established the basic conditions that must be met to be allowed to provide banking services in all EU member states. The same happened for broker/dealers and exchanges in the investment services directive (ISD, 1993) and for insurance in the third insurance directives (1992).

The European single licence allowed banks to group their activities and to consolidate their capital base in certain financial centres, which has been a clear benefit for places like London. The ISD allowed exchanges to sell their services all-over the EU, i.e. placing trading screens in other member states, which re-directed trading in equity securities to the home countries of the listed companies, but it maintained their monopoly and thus strengthened the local financial centres. In insurance, the minimum solvency requirement was not sufficiently harmonised to allow for a real single licence in the area of insurance, but it lead to a consolidation of activities in the field of large risks.

The FSAP, launched in 1999, started from the realisation that the single financial market with the euro was far from perfect, certainly in the area of wholesale financial markets. Hence finance ministers decided in May 1999 to launch the Financial Services Action Plan (FSAP), or a set of 42 measures which had to be completed by 2005 to create a truly integrated market. And they succeeded: by 2005, 40 of the 42 measures had been adopted, with the 2 outstanding ones being in the area of company law. Several measures under the FSAP have a direct bearing on financial centre competition, most importantly the following three crucial ones: 1) the prospectus directive, 2) the markets in financial instruments directive (MiFID), and 3) taxation on savings directive.

1) The prospectus directive allows firms to organise European-wide, capital-raising exercises on the basis of a single document.[3] Whereas previous EU measures for pan-European offerings did not work because of an insufficient degree of harmonisation, the 2003 prospectus directive goes for a maximum harmonisation of standards, meaning that member states cannot set additional requirements for issuers based in their jurisdictions, which would than have to be recognised mutually between administrations. This means that financial centres, where most issuance activity is located, can no longer compete on differences in standards, or indirectly protect the local centre from capital-raising activity by other EU centres. It also intensifies competition between financial supervisory authorities, which can only compete in supervisory performance, not on differences in regulatory standards.

[3] Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and amending directive 2001/34, OJ L 345 of 31.12.2003.

The prospectus directive also introduces free choice of the home country for approval of the prospectus, and thus the issuance, at least for non-equity securities with a denomination of at least €1,000 (or the equivalent in another currency) and for securities for professionals. It means that also from this perspective competition between financial centres increases. This is not yet the case for equity issuers and non-equity issuers below €1,000, which need to have the prospectus vetted in their home country, that is, the country where the issuer has its registered office.

The prospectus directive is however not exclusive, meaning that it does not stop member states from maintaining separate regimes which are not 'passportable', i.e. securities issuance regimes for which the single licence does not apply. Some EU financial centres reacted to the heavy compliance burden of the prospectus directive and created alternative regimes to try to pre-empt any possible negative impact on local securities issuance. The London Stock Exchange (LSE) successfully started the Professional Securities Market, which is regulated by the exchange, but which does not fall under the new prospectus directive. The Luxembourg Exchange created the Euro MTF, which does not fall under the prospectus directive either, and for which the stock exchange itself acts as listing authority. Luxembourg transferred most private bonds to its Euro MTF platform. The Irish Stock Exchange from its side started the Alternative Securities Market.

2) The markets in financial instruments directive (MiFID) is beyond doubt the single most important directive of the FSAP, and for financial centres.[4] It abolishes the monopoly of exchanges and allows internalisation of equity trading by banks, and is thus a direct threat for the status symbol of financial centres, the stock exchange. At the same time, the directive radically upgrades the conduct of business requirements for the securities trading departments of banks, which are required to apply "best execution" rules for retail trades, apply know your customer rules and set policies to prevent conflicts of interest. These conduct of business rules will also apply to all institutional investors when managing retail clients' assets. MiFID is expected to revolutionise the capital market landscape in Europe: it will see banks operating as exchanges for some activities, exchanges offering alternative execution services, and the decentralization of order execution among a panoply of venues in markets previously governed by concentration rules.

   The other part of the revolution to come is the increasing competition between financial centres. Although the basic MiFID directive was adopted in April 2004, it has taken most member states and firms well over 3 years to be ready! Almost all member states failed to meet the deadline for transposing the text into national law, 1 February 2007, and about half missed the deadline for application by firms, 1 November 2007.[5] In a few member countries – those that were ready in time – financial institutions have been regularly informed by their authorities two years ahead of implementation about what it takes to plan for MiFID. In other big states, however, absolutely nothing was circulated until a few months before the deadline for application. No wonder that also firms were delayed with their preparations, or not prepared at all. From a financial centre perspective, this means that some will be fairly or very well prepared, but many others are not or hardly prepared. As EU law is irrevocably applicable from the deadline for implementation, those states that were not prepared will have no basis on which to stop firms from other member states providing services on their territory, and leave their own firms incapable of doing the same. The MiFID implementation process will therefore be characterised by a 'variable geometry', where we will most likely have not only countries 'with different speeds' (as in the case of the differentiated EMU), but also financial centres, industry sectors, financial regulators and end investors 'with different speeds' or opportunities.

3) The taxation of savings directive, adopted in March 2003 after years of negotiations, could be considered as a direct threat to smaller financial centres in the EU, which benefited from tax avoidance in high tax jurisdictions, and to centres outside the EU, such as Switzerland and smaller states.[6] Information exchange becomes the norm within the EU, whereas savings in third countries will be highly taxed, thus leading to a repatriation of savings to the home country, and supporting the established financial centres in the EU.

   The directive provides for automatic exchange of information concerning interest income derived from savings in another Member State from 1 July 2004, whereas Austria, Belgium and Luxembourg will until 2012 apply a withholding tax on savings held by residents of other Member States (15% from April 2004, 20% from January 2007 and 35% from January 2010) and share the revenue with the country of residence (handing over 75% and keeping 25%). The agreement was conditional to "equivalent" measures by six third countries (Andorra, Liechtenstein, Monaco, San Marino, Switzerland and the United States). The Council considered on 21 January 2003 that this condition was effectively satisfied in the case of the United States and on 3 June 2003 in the cases of Switzerland, Liechtenstein, Monaco, Andorra and San Marino.[7] Under the agreement, Switzerland commits to withhold a retention tax also on non-Swiss source income at the

[4] Directive 2004/39/EC on markets in financial instruments, OJ L 145 of 30.04.07

[5] In June 2007, the European Commission sent warning letters to 22 member states for their failure to implement the directive – Ireland, Lithuania, Slovakia, Romania and the United Kingdom being the exceptions.

[6] Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments, OJ L 157 of 26.06.2003.

[7] The Channel Islands are dependent territories of the UK and participate in the exchange of information.

same rates as Belgium, Luxembourg and Austria under the savings directive. The scope of the agreement includes, *inter alia*, the definition of the paying agent, definition of interest, including interest paid on fiduciary deposits and by Swiss investment funds. Switzerland shares the revenue of the tax withheld on non-Swiss source income, transferring 75 per cent of the revenue to the tax authorities of the resident's EU member state. Identity of taxpayers will only be revealed for all criminal or civil cases of fraud.

The directive has a broad scope, covering interest from debt-claims of every kind, including cash deposits and corporate and government bonds and other similar negotiable debt securities. The definition of interest extends to cases of accrued and capitalised interest, including so-called "zero-coupon bond" and investment funds (UCITS). But loopholes remain, such as trusts and life insurance funds.

European financial centres: A critical future

Whereas in the past, established financial centres could enjoy the quasi protection of national borders, this is less and less the case. The most revealing example of this change in Europe is the takeover of ABN-AMRO and the reaction by the Dutch authorities.

A Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis, often used in management evaluations, is an interesting point of departure to examine the competitive position of European financial centres. This analysis could be further refined for the different leading financial centres or clusters. According to a rapid overview, the two most important weaknesses of European financial centres are labour market rigidities and the continuing market fragmentation. Labour market rigidities, with inflexible hiring and firing rules, high non-wage labour costs, tax disincentives are anathema for financial centres. The flexible UK regime, which is an exception to what is in place in most other European countries, is often mentioned as one of the main elements behind the attractiveness of London. Certain continental European banks are said to have moved market operations to London precisely for that reason.

Fragmentation or insufficient harmonisation is another burden for the development of European financial centres. Although continuing differences in the regulatory and supervisory set-up can often be used as a form of protectionism by local authorities, it hampers the competitiveness of the European financial industry overall. The most celebrated example was the takeover of the bank Antonveneta in Italy in 2005 by ABN-AMRO bank, which led to the dismissal of the governor of the bank of Italy, Antonio Fazio, and a European Commission proposal to limit the discretionary powers of supervisory authorities.[8] Other areas that have been insufficiently harmonised so far are securities settlement, taxation (dividend income, corporate taxes and VAT) and insurance regulation.

Regulatory burden, encompassing all the rules coming from the EU, is often mentioned as a threat to the competitiveness of Europe's financial centres. This complaint however is mostly made in an indiscriminate way. As indicated above, a well-balanced regulatory system and well-functioning supervisory framework are key competitive factors for financial centres. Although the EU has substantially updated the regulatory framework in recent years, there is no clear indication that the financial industry has suffered. On the contrary, in comparison with US, the EU is doing much better. Since 2005, the EU overtook the US in several fields of capital markets activity, such as the issuance of corporate debt and the number and total value of IPOs. Draft directives were often heavily criticised for being overly bureaucratic and anti-competitive, but a post facto analysis, such as with the prospectus directive mentioned above, demonstrates that the effects were not negative, on the contrary (see Casey & Lannoo, 2005).

However, this relative strength should be no reason to relax. Continuous vigilance is needed by all parties involved to make sure that the regulatory set-up matches the need of providers and users of financial services. London, for example, which has a significant investment in maintaining its reputation as a well-regulated financial centre, suffered a serious setback when the UK experienced its first bank run in 140 years, with the near-default of the mortgage bank Northern Rock in September 2007. As observed by the director of the Confederation of British Industry (CBI), bank runs happen in banana republics, not in a world class financial centre.[9]

Table 3. A SWOT test as applied to European financial centres

Strengths	***Weaknesses***
– Single market & euro – Political stability – Human capital base – Multi-cultural – Regional specialisation	– Labour market rigidities – Personal income taxation – Fragmentation – Latent protectionism – Lack of service orientation
Opportunities	***Threats***
– EU enlargement – EU's regional role (neighbourhood policy) – Financial innovation – Accumulated wealth – Globalisation	– Over-regulation – Limited economic growth prospects – Financial sector consolidation, agglomeration effects – Globalisation

Despite some clear threats, European financial centres also have opportunities. The successful enlargements of the EU have extended the single market to almost 500 million citizens today. In the financial sector, the recent eastward enlargements have mainly been to the benefit of the West European bank and insurance companies, which control the financial sector in Eastern Europe. It is no coincidence that none of the new member states hosts a financial centre

[8] Proposal as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector, European Commission, 12 September 2006.

[9] *Financial Times*, 28 September 2007.

worthy of that name. Beyond the EU, there is also the standard-setting role of the EU for its neighbours, which again benefits the financial sector of the EU. In the context of association agreements, neighbouring countries are asked to adopt the same standards as in place in the EU, which facilitates access for EU financial institutions.

Against this background, the wake-up of European financial centres has been rather late. Although London, Paris and Frankfurt have for some time promoted the role of their financial centre at European and global levels, others have only started to appreciate what's at stake. Amongst the established centres, the competition has intensified. An interesting example was the election campaign trip on 30 January 2007 of the then candidate president Nicolas Sarkozy to address French nationals working in London.[10] Sarkozy promised that, if elected, he would tackle some of the weaknesses discussed above, such as labour market rigidities or high personal tax rates. Only a few days after being in office, the French President received a delegation of Paris-Europlace, the organisation in charge of promoting the role of the Paris financial centre. In October 2007, the French Finance Minister Christine Lagarde announced measures to promote Paris as an alternative to London, proposing amongst others a new segment for initial public offerings, falling outside the prospectus directive. However, she did not develop proposals to reduce the personal tax rate.

Among the other financial centres, the initiatives of the Dutch authorities and the Swiss financial institutions were revealing. As a direct fall-out of the takeover of the biggest Dutch bank ABN-AMRO by banks of other EU countries, the Dutch Ministry of Finance woke up to the possible negative impact on the future of the Dutch financial centre and started "The Netherlands: International Financial Centre" action plan. It covers, amongst others, the regulatory and supervisory environment, the human capital base, government's responsiveness to business needs and the corporate tax regime, with no mention again of the personal tax matters. In September 2007, the leading Swiss financial sector associations announced their action plan to put the country among the world's top three centres of international finance by 2015. Amongst the action items figure training, efficient regulation and supervision, an internationally attractive corporate and fund tax system, and strong financial infrastructure, with apparently no mention again of the personal tax regime.

Against this background of intensified competition, smaller financial centres in particular will need to be extremely vigilant. With a playing field that is increasingly levelled in the area of regulation and taxation, many of the points of attraction of the past have disappeared, or have been hollowed out. Growing consolidation and size enlargement in the sector will add pressure to the competitive position. To survive, smaller centres should focus on human capital and specialisation, as some have already done. With increasing specialization and continuing innovation in the sector, niches will always remain. The examples of Dublin and Luxembourg show what is possible. In addition, given the importance of human capital, personal income tax levels leave much room for differentiation.

So far, data indicate that smaller financial centres have withstood the new environment extremely well. Although there may have been some decline in the rate of growth of bank deposits, the asset management sector has seen impressive growth rates.[11] The negative impact of the EU's taxation of savings directive has been limited so far, and smaller centres have withstood well the international action for more transparency and tighter supervision in the wake of 9/11. But also for them there is no reason to sit back. Maintaining the competitive position of smaller financial centres requires strong vigilance at all levels.

Conclusion

European financial centres face a future of intensified competition, as the single market starts to affect their prospects as well. Although the European financial sector is thriving, the current strong growth should be no reason for complacency. The new EU measures, most importantly the prospectus and MiFID directives, directly affect the competitive position of financial centres. The prospectus directive brings financial centres in open competition with each other for bond issuance. MiFID abolishes the monopoly of exchanges, allowing trades to be executed wherever possible for the lowest price. While the taxation of savings directive gives some comfort to the main EU financial centres, it should not dissuade them from urgently addressing the personal income tax regime, which acts as a strong disincentive to finance executives.

Some financial centres have reacted, in the realization that they no longer possess a captive market and therefore need to defend their position in a proactive effort between the private sector, policy-makers and supervisory authorities. Many other centres seem to be only vaguely aware or completely unaware of the threats: they are far behind in implementing EU directives, notably MiFID, and contemplating its strategic implications. They are unmindful of the role of the local financial sector for economic growth and jobs, and how these could be endangered by increased competition, and they fail to promote their role abroad.

The smaller financial centres seem to have realized this threat more acutely than the mid-sized European ones. Given their size and their lack of clout compared to their big brothers in the international arena, they had to be much more attentive to changes in their operating arena, and accordingly seem to be withstanding increased competition fairly well. But past success is no guarantee for future gains. *Caveat emptor*.

[10] "Sarkozy woos French expats working in London", *Financial Times*, 31January 2007.

[11] See a forthcoming CEPS study on European offshore financial centres, to be published in 2008.

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About ECMI

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

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

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

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