The path of capital – a road without congestion and accidents

For stable, sustainable and competitive financial markets

"It is now a truism that financial market stability, especially in the 21st century, is a key public good."

Wolfgang Schäuble
President of the German Bundestag and former Finance Minister

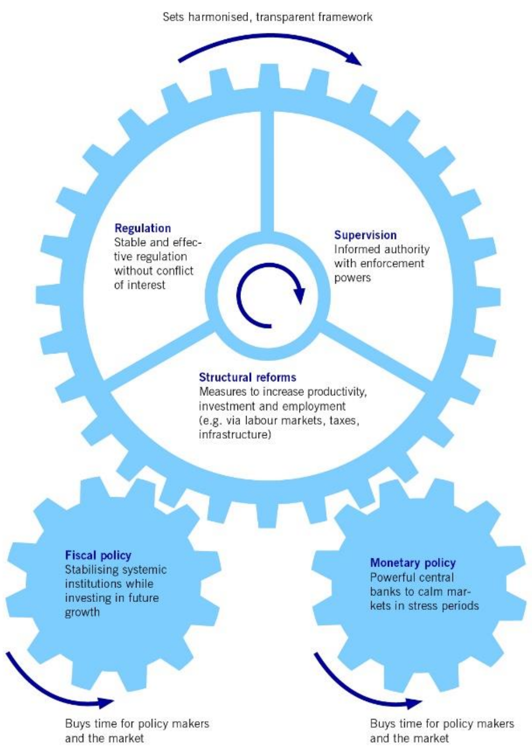
Our financial system is vital to a functioning and efficient economy. The financial sector can be regarded as a "system of roads and paths" for capital in the real economy. This system was improved in the wake of the financial crisis by many (almost) completed "roadworks". Secure markets ensuring the smooth supply of financial means to enterprises, private households and the public sector are crucial to growth. Enterprises, whether start-ups, small and medium-sized enterprises (SMEs) or large international corporations, use financial markets to raise capital, hedge business transactions or grant loans.

Reliable, efficient financial markets ensure that entrepreneurial risks are calculable for the industry so that it can focus on its core competences. Players in the financial system rely on a stable supply of financial services, such as payment transactions, lending and deposit business and investment opportunities, as well as reliable hedging of risks.

How can financial stability be ensured?

The stability of the financial system is ensured by the interplay between various areas: regulation, supervision and structural reforms are the key levers for enabling sustainable stability. Fiscal and monetary policy are further stabilisation instruments for redressing mid-term economic fluctuations.

Complex interplay to ensure financial stability
Mid-term and long-term measures complement each other



The financial crisis has shown that we need more transparency and risk reduction

The costs of the financial crisis were huge. The G20, guided by the Financial Stability Board, therefore adopted an extensive programme of reforms to increase the stability of financial markets. This programme has since been implemented at the international and European level in order to reduce risks and enhance transparency. These reforms are intended to avoid a future situation where taxpayers have to bear the costs of financial crises.

What has been improved thanks to lessons learned from the crisis?

After the last financial crisis, the EU introduced new supervisory structures in the shape of the European System of Financial Supervision. That includes the European Systemic Risk Board for macroprudential oversight of the financial system and three European Supervisory Authorities for banking, financial markets and insurance. The reforms referred to as Basel III make an additional contribution to monitoring the balance between a more stable financial system and avoidance of a credit squeeze. Tighter controls and consistent guidelines were also introduced by the Banking Union, a single European supervisory and resolution mechanism for banks.

There are further regulatory measures to increase transparency, control liability and risks, and to introduce reporting obligations. However, collateralisation, trading and clearing requirements were also established in order to transfer non-transparent over-the-counter (OTC) derivative transactions to regulated markets and reduce the “risk of contagion” from non-regulated areas.

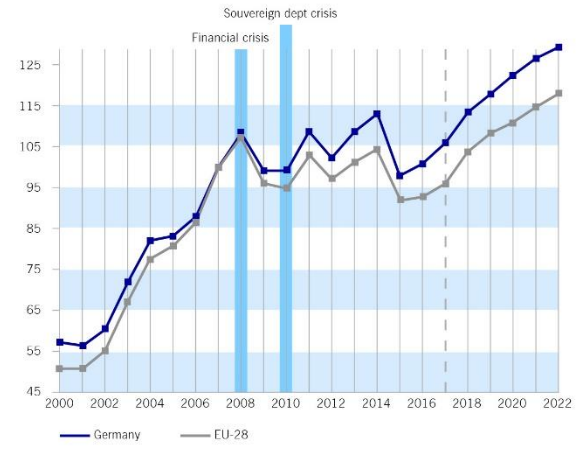
Due to their stabilising functions, regulated trading venues and clearing houses (central counterparties, CCPs) as risk managers and trade repositories are the focus of regulation and their use is explicitly required by law (such as under the central clearing obligation). That is because they, unlike unregulated areas of the financial sector, also worked effectively in the financial crisis and helped stabilise the system.

Interim conclusion: in the EU, a lot has already been achieved

Today, the EU’s financial markets are in a more stable and healthier shape than ten years ago. Looking at the EU’s gross domestic product (GDP) over the past 18 years, you can see that, following a decline after the outbreak of the financial crisis in 2007, GDP has not only recovered, but is now above its pre-crisis level and continues to rise sustainably.

GDP has more than recovered after the crisis

GDP, current prices (in US$ billion); indexed: 2007=100%



Source: IMF. Database.

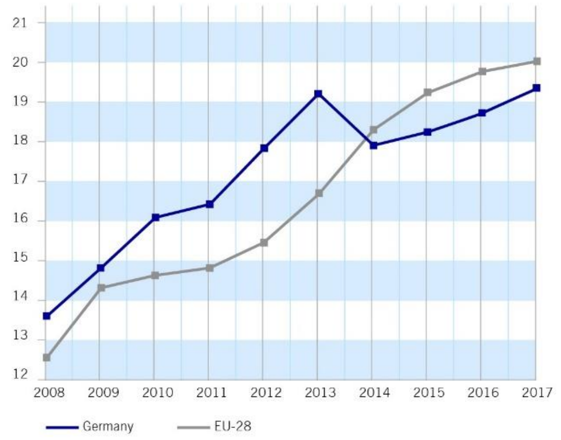
Fundamental improvements are also visible in many other areas: for example, there is a growing proportion of derivative transactions where buyers and sellers secure their business transactions against counterparty defaults by depositing collateral or even centrally clear them through a clearing house.

The results of stress tests, which were conducted by the EU’s oversight authorities to examine what would happen in the event of a crisis, as well as real life tests prove that the EU’s financial markets have become more stable. For example, they were able to cushion the surprise vote in favour of Brexit in June 2016 without any problems. Despite record volumes and volatility, there were no irregularities on the markets.

Since the crisis banks have also had to provide higher capital backing for risky business transactions, which is intended to protect them against the risk of insolvency or illiquidity. The International Monetary Fund (IMF) now attests that the EU's banks have sustainable financial soundness.

IMF confirms financial soundness of EU banks
More risk weighted capital to puffer shocks in the EU

Bank regulatory capital to risk-weighted assets



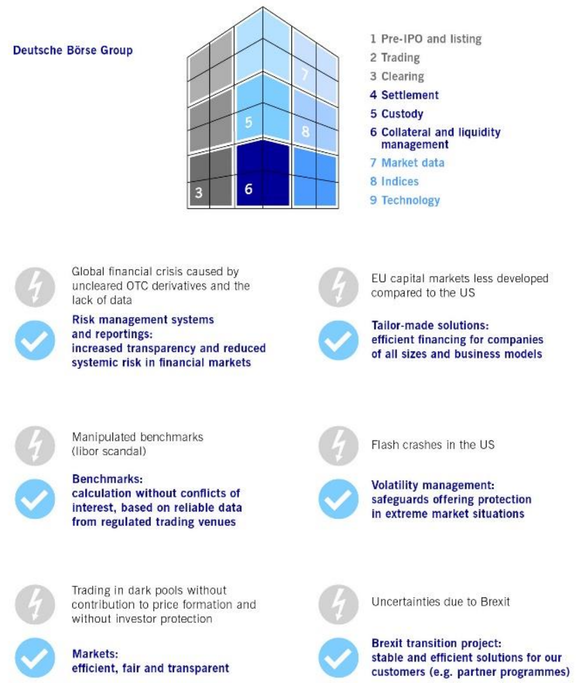
Source: IMF. Database.

It is important moving ahead for the hard-won framework for maintaining financial stability to be upheld, especially as regards trends towards deregulation or Brexit. That means sticking to consistent implementation of the regulatory standards in the EU and preventing regulatory arbitrage and a race to the bottom.

What role does Deutsche Börse Group play?

Deutsche Börse Group's financial market infrastructures remained stable and transparent also during the last crisis. With its infrastructures and services – e.g. in the form of its CCPs or trade repository – it also contributes to greater transparency and financial stability.

Deutsche Börse Group provides solutions to protect against turbulence, market abuse and to deal with political uncertainty



Deutsche Börse Group – we make markets work

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Deutsche Börse Group is now more than just a trading venue or exchange – it is a provider of financial market infrastructure. Its products and services span the entire finance value chain – its business areas range from pre-IPO services and the admission of securities, through trading, clearing, settlement and custody of securities and other financial instruments to collateral management. It also offers IT services, indices and market data worldwide.

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