17 March 2017

DEUTSCHE BÖRSE GROUP

The Final Response of Deutsche Börse Group to the European Commission Consultation on the Capital Markets Union Mid-term review 2017

Executive summary
The Capital Markets Union Action Plan is one of the most ambitious and forward-looking actions of the Juncker Commission. It has successfully changed the focus from post-crisis regulation to a growth and jobs agenda, which is indispensable at a time when the EU is at a crossroads. First results, such as the Prospectus Regulation, have been achieved – but it is now time to climb up that tree and collect the prizes of further European integration to ensure that the EU remains competitive at global level. As a priority: we do need to change parts of the regulatory and legal framework and develop an "Ecosystem" in order to support the Capital Markets Union. It is important to learn from best practices in successful countries. Small and medium-sized enterprises in Europe still face a funding bottleneck. The European SME landscape is very diverse, SMEs have different company sizes, different business models, and they have different financing needs. In order to address these, no single solution will do. Instead, a whole array of solutions may be applied. We need to look at the "funding escalator": all the different ways of equity and debt financing, whether it is venture capital, securitisation, bonds and the development of the corporate fixed income markets, crowdfunding or any other way of raising capital. The whole spectrum of alternative financing instruments should be taken into consideration and improved in order to provide products and services that respond to SME's financing needs. To achieve a real and thriving Capital Markets Union – it is important to address the debt-equity bias and the harmonizing of insolvency and securities laws will have to be tackled sooner rather than later. The political uncertainty generated by recent events, such as the British referendum and the US elections, emphasize the need for further European integration to enhance the competitiveness and attractiveness of Europe. Uncertainty is the enemy of investment. The decision of the United Kingdom to leave the EU is creating uncertainty e.g. on market access, the evolution of financial regulation and the future of the Capital Market Union. The intention of EU's largest financial market to leave the EU increases the need to accelerate the Capital Markets Union project for the EU27.

The European Commission should carefully consider what impact the UK exiting the EU will have for the financial sector. Financial markets are going to be a very important discussion topic within the upcoming Brexit negotiations with strong impacts on the real economy of the EU27 and its equity financing capabilities.

The European Commission officials continue to back strongly the Capital Markets Union Action Plan, arguing that the project is more than ever necessary for the remaining 27 Member States to improve financing conditions for growth, but also to function as a risk transfer or absorption mechanism between them. Deutsche Börse Group shares this assessment and is convinced that financial stability and financial integrity are important factors to strengthen the competitiveness of Europe's economy and is committed to work further on this European flagship-initiative.

Deutsche Börse Group believes that the private sector and Financial Markets Infrastructures (FMIs) in particular have a significant role to play in making the Capital Markets Union a reality. We are currently in the process of aligning our corporate culture more strongly towards innovation and client service. With a range of innovations that we have initiated we would like to create what we call "Exchange 4.0". Our industry is undergoing fundamental change. Technological innovation will not only change the face, but also the DNA of the entire financial services sector – and this also applies to the exchanges industry.

The development of non-bank funding is at the core of initiatives to drive the economic growth, given that traditional bank-funding sources have been decreasing. However, Europe is bank-centric. Therefore, it is essential to support banks. Deutsche Börse Group strives to offer products tailored exactly to meet the needs of our customers, mainly banks. We can support them in measures ensuring their compliance with regulatory requirements and thereby minimise risks.

Market led initiatives, such as the Deutsche Börse Venture Network (DBVN), can make a substantial contribution by bringing growth companies together with international investors at a critical pre-IPO stage. So far, the Venture Network has been able to raise more than one billion euros for innovative companies.

With our FinTech Hub, we are improving the start-up and investment culture in Germany, at the same time strengthening Frankfurt's position as a start-up hotspot.

In March, we further concentrated our efforts on closing gaps in the funding escalator by launching a new exchange segment "Scale" designed to enhance access to growth capital for SMEs. Scale clearly defines our objective of expanding the existing ecosystem for corporate financing. Our new segment will primarily benefit small and medium-sized companies, as they have a particular need for a better equity base.

With Scale, Deutsche Börse Group intends to improve access to investors and growth capital for SMEs. It is designed for companies with tried and tested business models that have also already been successful with investors. The new segment represents fresh opportunities and is our response to the massive investment needs arising from digitalisation and industry 4.0.

Furthermore, the Scale All Share Index has been added to our index offering. The index tracks the performance of the launched Scale segment. As an All-Share index, the Scale index describes the overall performance of all companies listed in the Scale segment for shares. The Scale All Share Index is calculated in real time and available in euro as a price and performance index. All stocks in the index are equally weighted. Currently 37 equities and 10 corporate bonds are listed on the Scale segment.

It is also crucial that Europe becomes the forefront of innovation and digitalization. We see great potential in the development of the Distributed Ledger Technology (DLT), especially when it comes to overcoming market barriers. By combining new technologies with our financial market infrastructure savoir faire, we believe such developments could provide important efficiency gains and help us reinvent FMIs in Europe and bring Capital Markets Union forward. Simply speaking, distributed ledger technology is a digital register for electronic transactions. Its proponents compare the innovative potential it holds for today's financial services sector to that of the internet in the 1990s. Technology leads to more efficiency of systems and allows solving complex processes - whether they are cross-instruments, cross-currencies or cross borders.

Through our investment vehicle DB1 Ventures, we invest in fintech enterprises – in order to further modernise Deutsche Börse Group, as well as Frankfurt as a financial centre. One of them is figo, a financial services provider based in Hamburg which offers application programming interfaces – so-called APIs. We can use these APIs not only to facilitate access for our clients in the future, but also to explore new client groups.

With our shareholding in Digital Asset, we are driving an innovative technology which – over the longer term – has the potential to trigger a real quantum leap for the exchange industry.

Another area of importance is "datafication". Deutsche Börse Group launched initiatives on this front and we see a real value in helping investors realise the full potential of their portfolios through the use of enhanced data and information tools. Deutsche Börse Group together with its entities offer value-added services around this new topic along the complete valuechain (e.g safekeeping, data reporting services, GFF services etc.).

These initiatives can make a serious difference by facilitating the financing opportunities for the backbone of the European economy, if the ecosystem is set right.

In fact, enabling growth in the real economy is an integral part of the Deutsche Börse Group's mission. Yet, the overall ability to continue the successful path of European integration will largely depend on a collective effort to combat both internal as well as external attempts to divide the world's biggest economy.

Today, the European financial sector is facing strong competition from other growth regions. Thus, the EU should continue concentrating its forces on how to jointly stimulate growth and raise its competitiveness, to avoid a potential weakening of its (internal) markets. It is important to ensure that global investors will be able to invest within the EU without barriers or cumbersome administrative burdens.

T2S must be seen as a catalyst for harmonisation in the EU capital markets. Deutsche Börse Group's central securities depository Clearstream successfully migrated to the Eurosystem-operated TARGET2-Securities platform, proving once again that we are capable of managing complex technology-based projects on a large scale, ensuring they go off without a hitch – for the benefit of our customers and for the benefit of a united Europe boasting a strong common financial market infrastructure.

Our clients and the real economy in Europe are under pressure, from many angles: low interest rates, capital requirements, pricing and margin pressure, new technologies, digitalisation, regulation. That is why we must strengthen our economy. That is our responsibility as a market infrastructure provider. Efficient and resilient post-trade infrastructures are key elements of well-functioning capital markets and important for facilitating cross-border investment in the EU. It is important to ensure a global level playing field and maintain European competitiveness. High European standards (safety, risk mitigation etc.) should be preserved and a "race to the bottom" should be avoided.

For further information www.deutsche-boerse.com/regulation

A	*Financing for innovation, start-ups and non-listed companies*
A1	*Are there additional actions that can contribute to fostering the financing for innovation, start-ups and non-listed companies?* *Yes, no, no opinion*
	Innovative and fast-growing companies are essential to our economic development! As a priority: we do need to change parts of the regulatory and legal framework and develop an "ecosystem" in order to support the Capital Markets Union. It is important to learn from best practices in successful countries. Deutsche Börse Group believes that the private sector has also a significant role to play in making the Capital Markets Union a reality. Built on this believe, Deutsche Börse Group has been engaging in different market led initiatives expected to make a substantial contribution to ease the access to capital: **DB1 Ventures**, the instituted corporate venture capital (CVC) arm of Deutsche Börse Group has been established with the mission to invest in fintech enterprises strategic to the company. The rational is to foster a broader and deeper cooperation with financial technology solution companies to identify new technology solutions and opportunities, as part of the venture ecosystem. DB1 Ventures provides not only capital, but also expertise, guidance, and connectivity to its portfolio companies.DB1 Ventures' vision is to be a strategic partner of choice for early- to growth-stage companies, generate attractive investment returns and add strategic value to its growth plans. DB1 Ventures considers itself as Deutsche Börse Group's "eyes and ears" in the venture ecosystem. Its focus is set on areas of strategic interest to the Group to help the company drive innovation. http://deutsche-boerse.com/db1ventures/ Deutsche Börse Group has invested in the first **German growth fund** for fast-expanding B2B-software companies. The fund has been initiated by Digital+ Partners, while the first subscription tranche of 'Digital Growth Fund I' has been closed with an amount of 131.5 million euros. Deutsche Börse has invested jointly with other institutional investors from Germany such as ZEISS. With its fund, Digital+ Partners contributes to the successful digitization of the German industry and the financial sector. Our investment in the fund launched by Digital+ Partners is the perfect supplement to our own direct investments in fintech firms via the DB1 Ventures platform." The '**Digital Growth Fund I**' invests directly and exclusively in technology companies with established, successful business models, which generate revenues between 5 to 25 million euros, and have a broad base of existing clients. The average investment per company - distributed over several tranches - has a target value of between 20 and 30 million euros, and an investment horizon of 5

	years. The aim is to build global world market leaders from Germany, the 'next-generation German Mittelstand' (SME sector). http://deutsche-boerse.com/dbg-en/media-relations/press-releases/Deutsche-Boerse-participates-in--Digital-Growth-Fund-I-/2919726 In light of the possibly disruptive potential of the **distributed ledger technology**, established market infrastructure providers servicing the whole value chain, such as Deutsche Börse Group, can play an important role when it comes to leveraging this new technology while at the same time fulfilling industry standards. These include legal and regulatory provisions, security standards, risk management as well as cost efficiency aspects. An important question that still needs to be answered is whether the equivalent result to current ways of operating – in terms of transparency, stability and regulatory compliance – can rather be achieved with such alternative technology, by improving existing technology or possibly through a combination of both. Among the biggest hurdles when it comes to implementing blockchain technology within the highly regulated financial industry are its early stage of maturity as well as the necessity to abide by the regulatory framework. There is also a need to develop standards in order to ensure that there is interoperability both between different blockchain environments, and between blockchain and legacy systems. Deutsche Börse Group is at the forefront in exploring opportunities for the use of Distributed Ledger Technology in the financial industry. In addition to the projects outlined in more detail below, Deutsche Börse Group takes part in Linux Foundation's Hyperledger Project, where it has become a premium member. Moreover, Deutsche Börse Group has taken a minority stake with a board seat in Digital Asset Holdings, a New York-based company developing blockchain technology software for financial intermediaries foremost. As a provider of financial markets infrastructure covering the whole value chain through trading, clearing and settlement, Deutsche Börse Group is in the position to investigate possible applications across all of these stages while combining the advantages offered by the blockchain technology with the tested, trusted and supervised entities of the group. http://deutsche-boerse.com/dbg-en/regulation/regulatorytopics/reg-topic-fintech-regtech/reg-topic-fintech-regtech We are the first organisation who has developed a real Blockchain model, together with a central bank: in cooperation with Deutsche Bundesbank, we showcased a

	prototype for securities settlements based on Blockchain technology in November of last year. http://deutsche-boerse.com/dbg-en/media-relations/press-releases/Joint-Deutsche-Bundesbank-and-Deutsche-Boerse-blockchain-prototype/2819826 Moreover, we are working on two additional and very promising prototypes in the area of clearing and collateral management. We have taken on projects such as a global blockchain-based initiative which is set to simplify the cross-border transfer of securities collateral. Participants include the central securities depositories of Canada, Luxembourg, South Africa and Norway. http://deutsche-boerse.com/dbg-en/media-relations/press-releases/-Liquidity-Alliance--builds-blockchain-solution-for-cross-border-collateral-transfer/2877238 Our third blockchain project involves a collateralised digital currency – the so-called collateral coin. By using Eurex Clearing as a central counterparty, we mitigate credit risk associated with the transfer of digitised commercial bank money. The interface between Eurex Clearing and Clearstream could also enable this new concept to increase the efficiency of our post-trading services. http://deutsche-boerse.com/dbg-en/media-relations/press-releases/Deutsche-Boerse-presents-blockchain-concept-for-risk-free-cash-transfer/2883236 These three prototypes cover the relevant parts of our value chain as far as blockchain is concerned. The focus here is on further efficiency gains for our clients. **Datafication:** Another area of importance is "datafication". Deutsche Börse Group launched initiatives on this front and we see a real value in helping investors realise the full potential of their portfolios through the use of enhanced data and information tools. Deutsche Börse Group together with its entities offer value-added data driven services around this new topic along the complete value chain (e.g safekeeping, data reporting services, GFF services etc.).
A2	*Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation.*
	In light of the changes that may incur as a result of further adoption of distributed ledger technology in financial market, there is an ongoing need for dialogue between regulators and market participants to ensure the regulatory framework is adequately developed if necessary for the business models emerging around digital ledger technology use cases with a view to ensure the integrity and stability of the financial markets going forward.

B	*Making it easier for companies to enter and raise capital on public markets*
	Since the global financial crisis, confidence in financial markets and financial institutions has fallen dramatically. It is important to restore investor trust by integrating the financial system to be seen as part of the economic mainstream and not cut off from society. Bringing companies and investors together is at the heart of the role of financial market infrastructures: We have staked a first claim in the pre-IPO equity section by launching the **Deutsche Börse Venture Network (DBVN)** in June of 2015. The DBVN connects growth and later-stage or pre-IPO companies from various sectors and investors and so effectively helps improving the funding situation for high-growth companies. We are aiming at creating an entire ecosystem for growth by giving growth companies access to a strong network of attractive partners. But we won't stop there and are looking into further ways of financing using further instruments. http://deutsche-boerse.com/dbg-en/media-relations/press-releases/Growth-companies-from-Deutsche-Boerse-Venture-Network-finance-more-than-one-billion-euros/2895486 **Scale:** First of March 2017 we saw the successful launch of Scale, Deutsche Börse Group's new segment for small and medium-sized enterprises (SMEs). As of the start of trading 46 equities and corporate bonds had listed on Scale and further issuers are expected, based on applications already received. Scale shall provide further help for those small- and medium-sized enterprises which need to obtain access to the capital markets on attractive terms via the financial centre of Frankfurt. It is our duty as an exchange operator to create an environment in which businesses can more easily achieve their growth targets. Scale is aimed at companies with proven business models which have already been successful with investors. Admission requirements for the segment include meeting minimum standards in terms of key financial figures and cooperating with one of the 34 Deutsche Börse Capital Market Partners, who will confirm a company's suitability for the segment and monitor their post-IPO performance. Deutsche Boerse will also commission and pay for mandatory research reports on entrants, which will be produced by Edison Investment Research and Morningstar. Scale is the successor to the Entry Standard for equities and corporate bonds. http://deutsche-boerse.com/dbg-en/media-relations/press-releases/Deutsche-Boerse-launches-new-SME-segment--Scale-/2931012 Furthermore, the Scale All Share Index has been added to our index offering. The index tracks the performance of the launched Scale segment. As an All-Share index, the Scale index describes the overall performance of all companies listed

	in the Scale segment for shares. The Scale All Share Index is calculated in real time and available in euro as a price and performance index. All stocks in the index are equally weighted. Currently 37 equities and 10 corporate bonds are listed on the Scale segment. With regard to **corporate bond markets**, we share the view of the European Commission to improve the conditions of these markets. We are looking forward to the review of the functioning of EU corporate bond markets the Commission Services are undertaking.
B1	*Are there additional actions that can contribute to making it easier for companies to enter and raise capital on public markets?*
	Of course we need to work further on the field of financial integration to improve and overcome the unintended consequences of the interplay between several regulatory dossiers. Further convergence – also in the Member States - is needed to achieve a real and thriving Capital Markets Union – diversifying sources of financing beyond banks, addressing the debt-equity bias and harmonizing insolvency and securities laws will have to be brought forwards sooner rather than later. There is a wide spectrum of initiatives that aim to support companies' access to funding in Europe. Going forward, private sector, non-bank involvement is crucial. Deutsche Börse's long-term goal is to create a flourishing ecosystem for growth in Germany and Europe, supporting companies through the successive stages of their growth right up to listing, thereby bringing about more IPOs.
B2	*Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation.*
	Complementary policy measures to create favourable European as well as local ecosystems are thus essential to support companies of different sizes and at different stages of funding – from the seed stage right up to the pre-IPO stage. The EU should be made an attractive for various types of investors. **A complete ecosystem is needed:** - Reduce the complexity around listing in order to incentivise the use of equity markets by SMEs - Enhance the quality of information available about SMEs. This includes information that SMEs disclose for regulatory compliance as well as that from third-party and research - Set incentives for analysts and researchers to invest resources into smaller IPOs

- Increase secondary market liquidity in SME stocks: e.g. dedicated market makers, help smaller brokers
- Increase secondary market liquidity in corporate debt instruments perceived as being “illiquid”.
- Expand and diversify the investor base
- Encourage corporates to understand the options available for accessing securities market infrastructures
- Facilitate the access of CSDs - acting on behalf of their participants – to the primary market distribution windows of national debt management offices in order to facilitate the cross border flow of capital

It is important to consider that many capital market funding options would be eligible for taxation. Tax policies of Member States should stimulate long-term investment and ensure a fair treatment of debt and equity financing. From a company/issuer perspective, equity is more heavily taxed than debt in most countries, which disincentivises equity investment. Rebalancing the current bias towards debt financing should be a goal of the Capital Markets Union.

A financial transaction tax (FTT) under the enhanced cooperation would increase transaction costs in European financial centres and impede the goals of the Capital Markets Union. An FTT would hamper European real economy’s growth through higher capital raising costs, in particular for smaller and start-up companies. Further, an FTT in only 10 member states would contradict the aim of the Capital Markets Union to harmonise financial legislation to reduce barriers and ensure a level playing field for investors and issuers of financial instruments in the EU. Existing regulatory initiatives should be aligned with and not contradict the goals of the Capital Markets Union project - this is especially important in the context of the upcoming Brexit-negotiations.

Additionally streamlined policies and harmonisation of withholding tax – whilst difficult to implement given the national competencies for raising taxes – would provide the securities services industry with reduced costs of production and benefit investors with a clearer and simpler system.

Deutsche Börse Group supports the Federation of European Securities Exchanges (FESE) in its argumentation with regards to the definitions of the systematic internaliser in MiFID II and the impact on integrity and transparency of price discovery. Closing the loophole is therefore in the interest of transparent and efficient markets.

MiFID II extends trade transparency requirements from shares to equity-like and a number of non-equity instruments. This welcome development could however be put at risk because of ambiguities in the definition of the systematic internaliser. More specifically, the type of trading activity which is allowed to be

	conducted by a systematic internaliser – bilateral or multilateral, on a principal or riskless principal basis – may be misused in order to introduce a major loophole in the MiFID II transparency framework. The reasoning is the following: an SI operating on a riskless principal basis or any other kind of back to back trading would essentially replicate the functioning of a multilateral venue, therefore reducing dramatically the trading risk, albeit having to fulfil limited transparency requirements. This holds true even more where Systematic Internalisers are interconnected, thereby effectively replicating broker crossing networks which were meant to be eliminated with the application of MiFID II. We are convinced that this would clearly go against the Directive's basic principle of 'same business – same rules' and violate the essential idea and spirit of MiFID II which is to foster trading on transparent markets for the benefit of the public and investors alike. We consider it essential that legislators clearly intended to safeguard the integrity and transparency of the price discovery process as a necessary prerequisite for stable and efficient trading in a multipolar environment, which is one of the primary functions of transparent trading venues. In that regard, we share and support the serious concerns raised by major stakeholders from the European Parliament as well as ESMA over the last weeks and join their calls to the European Commission for taking action and close this loophole. Hence, **we would support consideration by the Commission and ESMA of targeted amendments to MIFID II Level 2** (with additional Q&A at Level 3) to ensure that market developments in this space are aligned with the original intent and spirit of the legislation. Please refer to further details in the response of FESE.

C	*Investing for long term, infrastructure and sustainable investment*
	Long term and sustainable investment cannot be viewed as a fleeting trend in capital markets. Indeed, a robust and transparent market for sustainable investments is necessary for meeting concrete international environmental targets and funding essential infrastructure projects. Deutsche Börse Group aims to organise the capital markets to be sound, transparent and safe. One key aspect when it comes to achieving this goal is the availability of high-quality information, which the company continuously strives to enhance. In this context, providing sustainability information is as important as conducting a constructive dialogue on the sustainability of the international capital markets, not only with customers but also with society in general. Transparency initiatives directed by Deutsche Börse Group include: operating exchange segments with particularly high transparency demands, providing free-of-cost access to information on sustainable securities, hosting dialogue events on sustainability reporting in the financial services sector, partnering with international ESG reporting organizations, and engaging with issuers on ESG reporting best practices. Furthermore, Deutsche Börse Group offers a wide range of sustainability indices that investors can use as the basis for sustainable investments.
C1	*Are there additional actions that can contribute to fostering long-term, infrastructure and sustainable investment?*
	The success of transitioning capital markets towards long term and sustainable capital flows necessitates further action in the areas of corporate transparency and standardization of definitions. **Increased corporate transparency** In order for capital market actors to be able to decide which investments carry heightened long-term risk, comparable and high quality ESG information is necessary. At the time being, the quality and comparability of this data is deficient and the availability of data differs between member states. In this vein, Deutsche Börse Group will be updating its best practice guide, Communicating Sustainability – Seven Recommendations for Issuers, in 2017. This update will include recommendations on implementing the EU CSR Directive, among other topics. Additional action is necessary, however, to ensure that high quality and comparable ESG data becomes available across all European markets.

	Standardization of definitions It is well understood that differing definitions and standards for certification act as an inhibitor for growth in the Green Bond market in particular, and for Green Finance in general. While consensus has been missing on this topic in the past, initiatives like the Climate Bond Initiative (CBI) and Green Bond Principles are working towards a common global understanding. For this reason, in 2017, Deutsche Börse Group became a CBI partner, and is exploring possibilities to strengthen the Sustainable Finance market. It is of particular importance that questions of standardization are answered with a multi-stakeholder approach. Further, developing the "bank loans" market and developing these as a safe securitised set of instruments. These new instruments should ultimately be safekept at licensed CSDs where they could be used within collateral programmes with strict guidelines to enhance their appeal.
C2	*Please propose complementary policy measures, explain their advantages, and illustrate any foreseeable challenges to their implementation.*
	In addition to the policy measures necessary for enhancing transparency and standardization, the incentives for transitioning to a long term and sustainable capital market must be created. Capital market participants are often characterized as short-sighted and only motivated by quick gains. Especially since the global financial crises, pressure has mounted on the financial industries to prioritize stable and sustainable investments. At the current time, many of the same incentive structures which privilege short term position taking are still in place. Complementary policy measures to create incentives for investing in sustainable products and projects are essential. The EU should be made an attractive market for Sustainable Finance for various types of investors. By examining taxation incentives for supporting the transition to renewable energy, the EU may be able to identify comparable programs to transpose onto capital market relevant tax regimes.

D	*Fostering retail investment and innovation*
	Investor confidence in the markets remains low and there is still public mistrust in the financial sector. Lack of trust results for example in a preference for saving via deposits – even in a low interest environment. Improvements in the quality and quantity of financial education are to be welcomed to counter this mistrust and change the attitudes of market participants. The Capital Markets Union should advocate initiatives aimed at giving the wider public a greater understanding of the function of capital markets within the financial system, as well as of the benefits and attractive economics which can be achieved trough non-bank financing. Education with regard to the different market actors and their roles as well as explaining the different financial products with their risk profiles is essential in order to bring retail investors into these markets. In addition to strengthening retail investors' knowledge of cash equity and bond markets, education regarding the functioning, the risks and the benefits of derivatives is to be promoted. Equity index futures, as one example, can offer investors the possibility to gain exposure to a basket of stocks by trading a single product. Amplifying the knowledge about derivatives, would enable more investors to benefit from the advantages derivatives offer, which include risk diversification at relatively lower transaction costs, and a range of trading strategies an investor can chose to invest. Eurex, Europe's largest derivatives exchange, is constantly enhancing its product offering to meet the broadest possible range of investors' needs and interests. Deutsche Börse Group supports the analysis of the European Commission concluded in the chapter "fostering retail investment and innovation" and welcomes the proposed measures. We established the Capital Markets Academy of Deutsche Börse Group which offers training in key capital markets subjects. With innovative teaching methods and technologies, we provide know-how "from the market, for the market' – professional, practice-related and efficient. Already in 2007, the European Commission worked on the dossier of financial literacy, we should integrate those findings in the debate.

E	*Strengthening banking capacity to support the wider economy*
	The development of non-bank funding is at the core of initiatives to drive the economic growth, given that traditional bank-funding sources have been decreasing. However, Europe is bank-centric. Therefore it is essential to support banks. Deutsche Börse Group strives to offer products tailored exactly to meet the needs of our customers, mainly banks. In this unique position as a link between regulators and customers, we can for example make sure that customers are able to meet the increased capital requirements due to Basel III, CRD IV/CRR. We can also support them in measures ensuring their compliance with regulatory requirements and thereby minimise risks. Further, in order for banks to offer financing to the economy, it is essential for them to have liquid re-financing and hedging possibilities. Banks typically use derivatives market to re-finance / hedge their financing activities. As such, it is important to support and incentivize liquidity to build up on regulated exchanges, and clearing being conducted via regulated CCPs. To achieve this, harmonization of insolvency laws and cross boarder harmonization is crucial as well as defining the right incentives, also from a risk- and non-risk based capital requirements perspective for market making activities and CCP clearing. Incentives to concentrate liquidity on regulated market and to foster CCP clearing are also essential to ensure transparent, efficient and highly secure financial market activity, reducing potential adverse effects to the economy by disruptive financial market developments to an absolute minimum. Two examples how Deutsche Börse Group support banks: Significant regulatory change, following the G20 commitments, has had an enormous impact on the way financial institutions have to manage their financial exposures: the whole market needs better collateral management to unlock collateral buffers and optimise the usage of scarce recourses. Central securities depositories (CSDs) offering a wide range of post-trade services relating to issued securities, are well positioned to provide support in the field of **collateral management** as they already act as a central service point for both asset holdings and market connectivity, whilst being a well-regulated and neutral trustee that is not engaged in proprietary trading. To improve the efficient use of collateral, CSDs play an important role. The "**collateral value chain**" would allow banks to reduce their equity capital requirements by 20per cent. Adequately securing risk via collateral management provides appropriate

	risk mitigation in line with regulatory requirements and therefore reduces the quantity of equity capital to be allocated. As of 2 December 2016, Eurex, Europe's largest derivatives exchange, offers **Total Return Futures** on the EURO STOXX 50® Index. The new futures complement the Eurex suite of equity index derivatives and support the market in complying with new financial market legislation. Banks face increased capital requirements when entering Over-the-Counter (OTC) transactions. The product is launched ahead of the bilateral margin rules on non-cleared swaps which are likely to be introduced in Europe in early 2017. The new requirement to set aside more capital for OTC derivatives transactions already applies in the US and Japan. It is likely to further change the structure of derivatives markets by supporting the trend to Exchange Traded Derivatives that regulators are aiming for. We expect market participants to cut back on their OTC swap positions and instead choose futures to meet their trading and hedging needs in the months to come. Another key argument for futures products is their standardisation. Contracts that offset each other can be netted out through clearing, offer cross-margining, and the processing of trades is greatly simplified. On top, Eurex Clearing acts as central counterpary, mitigating counterparty risks. We expect that larger market participants will adopt the new Total Return Futures, and the transparency and fungibility they provide, to meet their hedging needs in the months to come. The launched Total Return Futures allow the market to continue trading in the new regulatory environment with stronger capital requirements by replicating OTC products whilst introducing the liquidity and position netting available in a standardised futures. Eurex has a long standing track record of product innovation and constantly continues to innovate in order to meet the market needs. The new futures contract design is aimed at replicating the payout profile of the funded purchase of a cash equities basket representing the components of the underlying index. In line with current market convention the Total Return Futures will trade in „spread“ in basis points and allow the implied repo rate associated with cash basket replication to be traded for the first time. http://deutsche-boerse.com/dbg-en/media-relations/press-releases/Eurex-supports-market-participants-and-regulatory-change-with-Total-Return-Futures/2767714 Deutsche Börse Group/Clearstream supports banks endeavouring to manage their balance sheets more effectively through a suite of comprehensive collateral management solutions.

F	*Facilitating cross-border investment*
	It's important to increase the role of capital markets in the financing of the economy in the EU and lead towards further integration of financial markets to allow for growth. Eliminating obstacles to the free flow of capital across borders will reinforce the Economic and Monetary Union by supporting economic convergence, risk diversification and helping to cushion economic shocks in the Eurozone. Despite significant progress towards the European single market, capital markets are still fragmented, creating barriers that hamper the free flow of capital. Many of the so called Giovannini Barriers, firstly identified in 2001 have been addressed, through the combination of market and regulatory driven solutions, such as TARGET2-Securities (1-5, 7) and the CSD-R (3, 6, 8, 9). This integration and harmonisation of infrastructures has resulted in increased efficiency and reduced risk. Market related barriers (e.g. 1, 3, 4, 6, 7 and 8) have been addressed by service providers. Harmonisation is the most effective way to remove barriers, and in this regard T2S must be seen as a catalyst for harmonisation in the EU capital markets. Deutsche Börse Group's central securities depository Clearstream successfully migrated to the Eurosystem-operated TARGET2-Securities platform, proving once again that we are capable of managing complex technology-based projects on a large scale, ensuring they go off without a hitch – for the benefit of our customers and for the benefit of a united Europe boasting a strong common financial market infrastructure. http://deutsche-boerse.com/dbg-en/media-relations/press-releases/Clearstream-successfully-migrates-to-TARGET2-Securities/2901694 With T2S cross-border settlement becomes identical to domestic settlement as required by a single market and currency. All under one technical platform, with harmonised operating times and deadlines, operational rules and communication messages under a common legal framework. This ultimately means, domestic securities settlement in Europe becomes harmonised. The benefits of further harmonisation/standardisation are obvious: 1) reduced cross-border transaction costs and streamlined operations 2) better overview 3) reduced systemic risk in post-trade 4) improved IT synergies T2S has required Deutsche Börse Group/Clearstream to remodel its business model in order to maximise the advantages that a standardised settlement system delivers. In addition to flexible settlement options (Central bank vs commercial bank money), we have been able to focus our resources on

	developing best-in-class asset services which are flexible and can be tailored to meet customer needs. We believe other CSDs will follow suit and this will contribute greatly to the appeal of the EU post-trade landscape as a differentiator to other regions. Economies of scale and settlement fees will trickle-down to investors over time. T2S brings us one step closer towards a Capital Markets Union. http://deutsche-boerse.com/dbg-en/regulation/regulatorytopics/reg-topic-t2s Having said the above, the European Post-Trade Forum (EPTF) is currently assessing the level of effective removal of these Barriers. In this most recent optic, only Barriers 2, 4, 5, 7 and 10 can be considered as fully and properly removed. The remaining 10 barriers, continue to exist today or have transformed themselves to new barriers, and some additional ones have been identified. The question of legal certainty in the context of different national securities laws continues to dominate in the list of the EPTF barriers, among which the most relevant are insolvency law, taxation, account segregation, registration practices, settlement finality, non-harmonised CCP practices and company law as the next candidate for further EU harmonisation. We at Deutsche Börse Group have constantly expressed our support for the revival of the so called “Securities Law Legislation” under the Capital Markets Union legislative package. And as FMI operator are committed to the G20 objectives to increase resilience and ensuring the future stability of financial markets and avoiding any repetition of taxpayers’ bail-outs. Considering that DG FISMA recently announced that it would enter a more ambitious phase in 2017 to address the obstacles to a ‘real’ Single Market such as insolvency laws, withholding tax procedures.

F1	*Are there additional actions that can contribute to fostering long-term, infrastructure and sustainable investment?*
	Developing access to the national Debt Management Offices' primary market distribution windows for CSD participants located within the EU CSD access to non-EU central bank financing windows with the support of NCAs and ESMA. Allowing CSDs to more easily develop payment bank services in the context of T2S in order to maximise the benefit of this settlement platform.