Introduction of the euro: impact on capital markets

1997/2159(COS) - 02/07/1997 - Non-legislative basic document

OBJECTIVE: to analyse the impact of the introduction of the euro on capital markets. SUBSTANCE: this report was the result of close cooperation between the European Commission, the European Monetary Institute (EMI) and a group of experts chaired by Mr A. Giovannini. The report focused on technical issues that would have a direct impact on the functioning of the capital markets after the introduction of the euro. It examined the consequences of the introduction of the euro on the bond market and the equity market, and in particular the necessary technical preparations. According to the Commission, the start of the two stage of EMU offered the possibility of creating a euro securities market as broad, liquid, deep and transparent as possible by defining a set of common rules, governing various aspects of market operations and to be applied in all participating countries of the euro area. The document drew together the current views of the market on how harmonized the future euro markets should ideally be and set out recommendations for the common technical specifications for these markets. (1) Regarding the bond market, the main topics on which the report presented recommendations were the following: - redenomination of existing debt in euros: this method would enhance liquidity and would enhance the credibility of the process by demonstrating clearly governments' commitment in this respect; - market rules and conventions: harmonized rules would be desirable, since they would provide greater transparency, avoidance of disputes and greater clarity as to the format of the future market; - price sources: continuity in price sources should be ensured; - issuing procedures: some informal coordination of government debt issuing would be beneficial; - benchmarks: in the absence of a federal issuer, the markets would decide which was the benchmark issue on the basis of quality, liquidity and the range of derivative products; - ratings: it had been argued that membership of the euro area could result in an adjustment for some sovereign credit ratings; - repo market: market participants considered that overly aggressive use of the initial margin in the official repo market should be avoided. (2) Regarding the equity market, the main conclusions were the following: - on the Stock Exchanges, exchanges would trade and quote in euro from 1 January 1999. Intermediaries would have to make the necessary conversion in order to account to their clients in the currency chosen by the latter; - coordination and harmonization of market rules and conventions appeared to be less important than for other markets; - redenomination would be a sensible step to take at the same time as the change in the accounting unit; - non par value (NPV) shares: this solution was recommended; it required, however, national legislation to be adopted in most of the Member States.