

## Editorial

# 10 Years of Providing Solutions for the Financial Sector

Reto Francioni

2003, the year when the E-Finance Lab started its academic work, was the year of the Enron accounting scandal. As it turned out, the ensuing confidence crisis was just a frontrunner (if I may be allowed this expression) of the so-called subprime mortgage crisis, which quickly spread from the US to Europe. Triggered by excessive risk-taking, made possible by moral hazard and a lack of transparency in the unregulated parts of the financial market, the knock-on effect was a full-fledged financial crisis starting in 2007-2008. The subsequent collapse of several major players forced governments to step in with a series of bailouts, sparking the on-going European sovereign debt crisis. By now, though a global recession in the real economy has been averted, at the same time some member states of the European Union proved and continue to be vulnerable.

It has been in this operating environment that Deutsche Börse Group has sought to offer contributions that enhance market efficiency and risk management. Likewise, the E-Finance Lab

has remained consistent in its dedication to developing methodologies that promote the use of information technology to support the transparency, safety and integrity of markets. In other words, when looking back now on its first ten years, the E-Finance Lab can be proud that, like Deutsche Börse Group, it has devoted itself to developing solutions through making use of IT from a hands-on, business-oriented point of view, but always keeping in mind the larger picture.

If measured in the milliseconds at which today's high-frequency trades can be made, a decade is a long time. After all, new automated systems mean that billions of shares can be processed in a single day, a far cry from the times when paper stock certificates were literally passed around the trading floor. While IT has indeed revolutionized the stock market and OTC trading in a plethora of positive ways (one needs to think only of the real-time risk management now possible globally), it has also made their regulation a far more difficult task, an aspect that the E-Finance Lab has also



**Dr. Reto Francioni**  
CEO, Deutsche Börse AG

investigated. Not that we should shift the blame for the economic turbulence of the past years onto technology; after all, there's a real person behind every computer.

The world in which Deutsche Börse Group as an integrated exchange provider operates, and most certainly Europe, is now about to embark on a new era, one many have described as the epoch of re-regulation. The latter is not to be construed as some necessary evil, but rather as the means to an end that, in spite of the many short-term challenges it poses, in the long term will facilitate, though not guarantee, systemic stability – hopefully. This new epoch of macroprudential regulation begins on our immediate doorstep not only with ongoing discussions on the establishment of a single banking regulator for the Euro area, with the implementation of the European Market Infrastructure Regulation (EMIR), or with the revision of the Markets in Financial Instruments Directive (MiFID), but globally with the final implementation of the clearing obligations required by the Dodd-Frank Act in the

United States and the global capital requirements prescribed by the Basel III rules.

Integrated exchange organizations reduce post-trading risk by providing innovative instruments that enable the financial industry to meet the new challenges in clearing, for example for standardized OTC derivatives such as interest-rate swaps, and offer risk management in the form of central counterparties. Another solution we have devised to bundle effective collateralization is the Global Liquidity Hub we offer through our international central securities depository and asset service provider Clearstream.

With our own stringent insistence on transparency, we hope the next decade will be one in which our diversified exchange organization helps ensure that financial markets are characterized by serving the economy as a whole. It will be one in which IT will no doubt be taken to the next level – and thus one in which the E-Finance Lab will have an important role to play.