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Putting investors and companies at the heart of effective and attractive EU capital markets

Ladies and gentlemen, good morning,

I would like to extend my sincere thanks to Eurofi for giving me the opportunity to speak to you this morning. It is a particular pleasure to do so here in Budapest. Twenty years ago, Hungary joined the European Union. The addition of ten new member states marked a true milestone in the history of the EU. With over 74 million[1] new EU citizens and potential consumers, the EU became the world's largest single markets. This led the new member states into an era of rapid economic growth through their connections with the rest of Europe.

Together we have made this bigger single market a success!

What is true for trade is also true for capital. Hungary's development serves as a strong argument for continued integration efforts. A more integrated and effective capital market will benefit companies and investors, and ultimately help to drive growth and the dual transition, in the whole of the European Union and in each Member State.

The topic of a Capital Markets Union (or a European Savings and Investment Union), features in several of today's panel sessions. I welcome the opportunity to lead you into this part of the conference with a few thoughts from the ESMA perspective.

Some of you will be aware that we recently published a Position Paper setting out 20 recommendations for deepening the EU's capital markets. These recommendations are based on the experience of the 27 national authorities who make up the ESMA Board. They represent what we agree is needed to push forward more effective and attractive capital markets in Europe. Most of the recommendations require collective efforts, not just from us as market supervisors in the ESMA family, but also from Member States, the EU co-legislators, the financial industry, and (importantly) from the European Commission. I believe that we have a real opportunity to unlock the full potential of our capital markets - ensuring they are effective and attractive - and putting the needs of investors and companies at the heart of our actions.

Capital Markets are built on Confidence.

EU capital markets have performed quite well, and their resilience has considerably improved over the past years. Still, they are not efficient and attractive enough. By making necessary adjustments to the functioning of our capital markets we can change that. Yes, we need more Confidence (in our financial markets). Yes, our companies need better access to market financing. And yes, our investors need the trust and confidence that their money can do more for them (and, ultimately, for the European economy).

Before I move on to discussing how we can address those needs, I would like to shine a light on what makes the European market so unique: The European Union represents one of the world's largest economies, offering a vast internal market with more than 450 million consumers. It constitutes the largest single market in the world, generating 25% of the EU's gross domestic product. When the single market was first conceived, it was considerably smaller and less complex. Tremendous growth and transformation have taken place over the past few decades, and combined with the structural shifts we are seeing in the global economic system, there are new challenges for our single market, as Enrico Letta sets out in his report “Much more than a market”.

Despite many significant and unexpected external events in recent years, our financial markets have proven remarkably resilient to various shocks. We should never forget that it was our collective efforts that allowed us to steer European financial markets through (these) stormy waters. We should also not forget that, through the CMU action plan, some progress has been made towards developing European capital markets further. As a side note, I want to mention that as part of this, we at ESMA are busy working on establishing the European Single Access

Point and on launching the consolidated tapes. We are also getting ready to launch the first consultations under the Listing Act and to take on some further supervisory tasks.

Unwelcome barriers to cross-border financing and investing however still impede genuine pan- European market integration. Earlier this week, Mario Draghi in his report on European Competitiveness said that 'a key reason for less efficient financial intermediation in Europe is that capital markets remain fragmented and flows of savings into capital markets are lower'. I fully agree that now is the time to further stimulate investment and help companies and investors in any member state tap into the vast pool of European savings. To lay the foundation for this, we need to continue to, and perhaps do so a little more emphatically, invest in capital markets that are genuinely pan-EU - built on European standards, harmonised regulation, and seamless supervision. Bringing our markets from where they are today – functioning and resilient – to where we need them tomorrow - deeper, more liquid, more attractive and more closely integrated - requires strong commitment and new energy from all of us. We might not be able to see the whole road ahead, but we have to meet the needs of European companies and investors. And our confidence - in what EU markets can still achieve for them - will be our guide.

Capital Markets for citizens and investors.

Investors are at the core of the effective capital markets debate (and the reason why more recently we are talking about the Savings and Investment Union). Earlier, I said we need to inspire (confidence and) trust in our markets. Inspiring trust in capital markets is about inspiring trust in investments. And in the end, trust is built by increasing knowledge and understanding. Did you know that despite notable differences across Member States, recent Eurobarometer results illustrate that a staggering 64% of EU citizens score rather poorly on measures of financial knowledge? We need to do better. And we can only do so by equipping European citizens with the knowledge they need to access and navigate capital markets safely.

Cost and fees remain a critical component when evaluating the benefits of an investment. As is complexity. We believe that in general, European investors need simpler investment products. Rather than putting ever more complex and costly products on the market, which might cater to a small minority of investors, we should create a voluntary EU-label for "basic" investment products. Such a label could be used by certain financial instruments, such as for example a sub-set of UCITS funds or a plain vanilla corporate bond. Simple advice that meets basic investment needs should go hand in hand with that. Such 'simplified' advice (which could be based on streamlined suitability assessments) would be a step that could also benefit firms by reducing compliance costs.

With a new label and simplified advice, we propose to pave the way for easy-to-access and cost-efficient products. This will empower European retail investors to make informed decisions - based on simple, accurate and reliable information and support. At the same time, Member States should review their pension systems – effective ways to save for retirement would also help to strengthen EU capital markets.

Investors provide the fuel for the engine of capital markets. To build efficient EU markets, we therefore need to put investors at the core of our efforts. ESMA stands ready to continue this important work.

Capital Markets must serve Companies.

The ability of companies to access capital efficiently and effectively is the lifeblood of economic growth and innovation. It is what allows businesses to expand, create jobs, and compete at a global scale. Small and Medium-sized enterprises are the backbone of the European economy. In the past five years, they have created around 85% of new jobs and provided two-thirds of the total private sector employment in the EU[2]. Yet, these companies often face the greatest challenges when it comes to raising capital, especially in an environment as diverse and complex as the EU. Market fragmentation is undermining a true flow of capital across national borders and making it difficult for European companies to identify and secure the financing they need at different stages of their development.

We need to connect European investors with European companies, and in particular with SMEs, creating an eco-system to the benefit of all. By developing effective pan-European markets we can create sufficiently large and liquid market segments dedicated to specialised and critical industries, and with that providing alternatives to bank and debt financing. In our recent ESMA Position paper, we also emphasise the need to strengthen Europe's equity culture by promoting public markets (as well as funding through venture capital, private equity, and crowdfunding).

One way to do this would be for the European Commission and the financial sector to mobilise institutional and retail equity capital through dedicated funds, including public-private partnerships. The focus should be on partnerships that mobilise resources to provide financing and guarantees, bridging the gap between private investors and small businesses.

We need to revitalise our financial markets in a way that allows capital to flow freely from Dublin to Ljubljana, from Lisbon to Warsaw. Only this way can we be sure that European businesses secure the financial means to grow, innovate, and compete on a global scale. More deeply integrated financial markets are the best investment in our companies, and ultimately, in our economic growth and global competitiveness.

Capital Markets require convergent supervision.

Strong and effective supervision of capital markets is an important factor in building the confidence that encourages retail investors to invest and EU companies to operate beyond national borders. I am the first to agree that reforming the structure of supervision alone will not deepen our capital market. Rather, I believe we should think of it as one necessary element in building a seamless and consistent capital market ecosystem.

From the early days, our focus at ESMA as the European supervisor has revolved around convergence: ensuring consistency across the EU's national supervisors, the NCAs. ESMA's supervisory convergence framework has evolved towards an increasingly common risk-based and outcome-focused approach. We have also expanded the toolkit we use to drive this greater supervisory convergence. Our Founding Regulation was revised in 2019 to include for example the new tool of Union Strategic Supervisory Priorities. Less formally, together with the NCAs, we actively use 'Common Supervisory Actions', to undertake coordinated supervisory activity across all European markets on a commonly faced risk or problem. We have also established voluntary supervisory colleges for some large asset managers and investment firms in the EU.

Overall, these measures have proven to be effective, but there is more we can and should do to genuinely improve the collective efficiency and effectiveness of our supervision in the EU. In this context, let me highlight one of the recommendations from the Position Paper: The need for more joint supervisory work (and potential for ESMA to centralise certain supporting tasks).

An example could be to collect and analyse EU-wide data and build common risk indicators, based on data flowing to ESMA centrally (instead of being collected and analysed through 27 different IT systems). Such risk indicators would then be used by the NCAs to direct their supervisory efforts, focusing on the highest risk firms or products.

We are often asked if we advocate more direct ESMA-level supervision. ESMA's Board did ponder this question and made one specific recommendation. Crucially, the question should not be if we advocate such a move, but under what circumstances EU-level supervision would benefit our capital markets.

Let me be very clear, our existing supervisory framework in the EU is not fundamentally broken. It generally functions well enough, particularly when it comes to supervising national markets and national market players. The EU financial markets – as fragmented as they are – are home to a large variety of entities, many of them small and operating only at national level. In cases where market entities serve local markets, national supervision is likely to continue to be the most effective form of supervision.

However, we should not forget that EU financial markets are not what they used to be when the single market was first created over 30 years ago: Large, pan-European entities, operating cross-border, provide critical services to today's companies and investors. This poses new risks, that are difficult to supervise in a fragmented framework, where each national supervisor first and foremost focuses on his domestic business. This can lead to regulatory and supervisory arbitrage and ultimately make our markets less efficient. When different EU supervisors are called to the scene, we see inconsistent approaches, which give rise to an unlevel playing field. And companies themselves do not stand to gain either, with the added administrative burden of doing business across the EU which leads to significant inefficiencies.

We at ESMA have accumulated significant experience from the different (and evolving) direct supervisory tasks we have been entrusted with over the past 13 years. Based on that experience, we consider (as outlined in our Position Paper) that pan-European market infrastructures would benefit the most from direct EU-level supervision, simply because of their critical role in the European financial system. Furthermore, we think that for services that are vital to the functioning of EU capital markets AND are provided by entities based outside the EU, ESMA should act as the gatekeeper.

An urgent and thorough evaluation of direct supervision at the EU level is called for. I think that ESMA has built up experience in direct supervision and expertise in relation to pan-European market infrastructures, which would allow us to support a more effective EU supervisory framework for such entities. I firmly believe that more EU-level supervision is an important step towards more effective, fully integrated capital markets. Accordingly, I invite the European Commission and the co-legislators to be open minded and conduct a serious assessment of where a strengthened role for the EU financial markets supervisor would make sense.

Closing

Ladies and gentlemen, allow me to conclude my reflections by stating the obvious. It is time to chart a better path towards deeper and more effective EU capital markets. I appreciate that many of the proposed initiatives will require additional measures beyond our ESMA remit, such as fiscal incentives and pension reforms at the national level. It may be challenging to make improvements in all these areas in the short term, but I believe we need to step up our ambition. As Isaac Newton famously said: "When two forces unite, their efficiency doubles." We are stronger together.

I welcome the growing awareness among policymakers that it is paramount to build a more effective and attractive EU capital market. Only then will we be able as Europe, to fund the dual transition and to remain competitive in an increasingly complicated world. Many recent reports have supported this ultimate goal and have made proposals on how to set it in motion. Strong commitment is an important first step to guide us on this journey. But real action needs to follow. And for that, I call on all of you in this room – whether you represent a member state government, a supervisor or an industry player – let's work together to build an ambitious agenda for a truly single, efficient and attractive EU capital market.

Thank you.

1. Source: European Commission
2. Source: EUROFOUND: https://www.eurofound.europa.eu/en/topic/small-and-medium-sized-enterprises#:~:text=SMEs%20are%20the%20backbone%20of,sector%20employment%20in%20the%20EU