European Capital Markets: need for strength in uncertain times

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Ladies and Gentlemen, Good afternoon.

I thank ICMA for giving me the opportunity of addressing you today. It is a particular pleasure to be speaking to you here in the impressive surrounds of the Palais Brongniart – a place steeped in financial market history. In its almost 200 years, this building will have been a spectator to some of history's most turbulent times.

And today, times are again turbulent.

When I spoke at last year's AGM in June 2022, the cautiously optimistic "new normal" of the post-pandemic era had begun, but equally war had just broken out on the European continent. The future looked uncertain. We all wondered how the financial system, and our broader society, would cope.

Today the tightening of financial conditions globally continues to weigh on economic activity, and inflation remains very high. Although recent growth forecasts no longer point to a deep recession and inflation is showing signs of moderation, price growth may remain elevated for longer than previously expected. Against the backdrop of economic uncertainty, investor sentiment remains weak. Inflation, which in October reached its highest level in the EU since the early 1980s, acts as a drag on real investment returns and contributes to falling household savings.

The confluence of high risks with fragile market liquidity makes for a very uncertain and volatile market environment.

ESMA, in line with our core duties of preserving financial stability, orderly markets and investor protection, maintained our market monitoring throughout these turbulent times. In line with what I just said, our latest trends, risks and vulnerabilities report emphasised the continued uncertainty and the risks arising from high inflation, global tightening of financial conditions, and the geopolitical environment. It also demonstrated the materialisation of peripheral risks linked to leverage and liquidity, together with growing concerns over business practices in the crypto space. Although economic sentiment has become more positive in early 2023, there is no room for complacency. As such, ESMA is keeping the overall risk assessment across its remit at the highest level.

The current testing market conditions mean that we must do all we can to continue to build a resilient European financial system, capable of providing the capital our economies need to fund their growth and to withstand sudden economic shocks.

My belief is that, thanks to the considerable work done by all parties to strengthen the regulatory and supervisory framework since the 2008 financial crisis, capital markets are in a much stronger position relative to where they were 15 years ago. This is true for the international reform efforts under the global leadership of the Financial Stability Board, and IOSCO on the securities markets side. It is also true for the European efforts to strengthen financial sector regulation and supervision, a part of which was the creation of the European Supervisory Authorities, including ESMA.

However, we can't rest on our laurels. Today, we are faced with new challenges, whether that is the high-inflation environment impacting households and their investments, the energy crisis provoked by Russia's war in Ukraine, or the risks to investor protection and financial stability from new technologies, typified by last year's FTX scandal. In the face of these challenges, continued action to strengthen our capital markets' regulatory framework and supervisory practice remains crucial.

I know that I preach to the converted when I say that transparency is a key tenant of a solid capital market, allowing price discovery and price formation. With ESMA's mission of promoting stable and orderly markets, and enhancing the protection of investors, we have stood firmly on the side of pushing for more transparency. If you look at the ESMA Strategy that we recently published and that will drive our work for the next five years, transparency will be an essential element of our core priorities of a) fostering effective and stable markets, b) enhancing the protection of retail investors and c) strengthening supervision, as well as help us to tackle the cross cutting thematic drivers of enabling sustainable finance and facilitating technological innovation and the effective use of data.

Let me be more concrete on the basis of a few currently topical examples.

The MiFIR review foresees the introduction of the much-anticipated consolidated tape, which I know has long been advocated for by ICMA and its members. ESMA will help to build these consolidated tapes. As a markets regulator, I am pleased to see a system which should streamline and centralise market data covering the price and volume of securities being traded across the EU. A streamlined consolidated tape will bring tangible results by consolidating information on prices and trading opportunities and so making it easier to identify pools of liquidity – particularly important in these times of restricted liquidity availability in some markets in normal times and specifically in times of stress.

In support of the same objective of transparency, the European Single Access Point (ESAP) will make public financial and sustainability-related information about EU companies and EU investment products. It will make this information available in a central location, allowing consultation and comparison of the data by any investor. ESMA has been given a central role in the creation and maintenance of the ESAP, which will give investors the information they need to make informed investment decisions and provide companies with better visibility.

Finally, when it comes to listing on capital markets, I have long believed that the regulatory framework we have in the EU is overall a strong and effective one. Having said that, the proposed simplification of the listing and post-listing process in the Listing Act is very welcome, making, as it will, public capital markets even more attractive for EU companies. It is one part of improving the access to a diverse range of funding and investment possibilities. Particularly in the context of the challenges that the dual transition to a sustainable and digital world entail, it remains important that listed capital markets, but also other means of non-bank financing, are strengthened in the EU. I am glad to hear over recent weeks a renewed push for a Capital Markets Union. We need to build effective and attractive capital markets in the EU. That means continuing to complete the legislative measures that are already under way or will be forthcoming shortly, but also keeping our ambition levels high to ensure EU companies and investors have a strong, liquid and open EU capital market to raise funds and invest in.

When we talk about capital markets, we mostly think of traditional financial markets (exchanges, brokers, post-trade market infrastructure, etc). But financial markets are changing rapidly. I briefly alluded to the FTX scandal in my earlier remarks, however, I am no luddite; I firmly believe it is important to welcome digital innovation where it can bring benefits to the EU financial markets.

Digital technology has already, and continues to, shape the way capital markets operate and the way intermediaries provide financial services. Firms across the financial sector are increasingly linked digitally as they transact and communicate electronically. This technological innovation challenges existing market practices. It has the potential to disrupt market structures with both positive and negative effects.

On the one hand, these technologies provide new business opportunities and ways to offer better, cheaper financial products to consumers.

On the other hand, they should be harnessed in a safe way that does not undermine our capacity to regulate and supervise Europe's financial system.

This is precisely the aim of MiCA, the first comprehensive regulation of previously unregulated crypto assets in the world. The new European MiCA Regulation is setting up a framework for this market, that will bring legal certainty to the regulatory treatment of crypto assets, while also introducing the appropriate levels of investor protection and market integrity. I consider this to be a valuable development. While the evolution of crypto has led to broader participation in financial markets in recent years, it presents unique risks particularly to retail investors. Having a common EU-wide regulatory framework for this new activity is important.

ESMA will work with the European national competent authorities (NCAs) towards a common regulatory regime and converged supervision in five main areas under MiCA: investor protection, governance of crypto assets issuers and providers, market integrity and cooperation between NCAs, transparency, and record keeping and reporting. This will require the delivery of a number of guidelines and technical standards over the next couple of years. Equally important, ESMA is already starting to bring NCAs together to discuss common day-to-day authorisation and supervisory challenges - building strong coordination, cooperation and convergence.

At the same time, MiCA has certain limitations. For a start, it is inevitably limited in geographic scope. Service providers outside the EU have a prominent role in crypto markets, and it seems likely that this will continue to be the case. If consumers in the EU seek out the services of providers based outside the Union, they will be outside the scope of MiCA. Moreover, even among crypto asset service providers (CASPs) within the EU, the protections for investors are not at the level of those in MiFID. Nor are the market integrity rules as stringent as those in MAR. In short, crypto asset markets will not suddenly turn into mature, established securities markets and it is important that we make that distinction clear to investors.

Another difference is the surveillance capability that authorities have in traditional financial markets compared to crypto assets markets. In traditional markets, reporting and market surveillance regimes have been developed and strengthened over many years. Competent authorities have extensive information at hand to supervise firms and assess risks. This is not the case in crypto markets. On top of this, crypto-assets markets continue to evolve quickly, and MiCA will therefore need to be kept under review.

The challenges presented by the digital transition of financial markets leads me to another related topic. With the digital transition, but also within the current geo-political climate, concerns about operational resiliency have moved up the agenda. The new EU regulation aims to improve the EU's readiness and defences against all types of ICT-related disruptions and threats, given the ever-increasing dependency of the financial sector on software and digital processes.

The Digital Operational Resilience Act, or DORA, is now in force. DORA is an important piece of legislation, designed to address the fundamental threat of cyberattacks and ICT disruptions in the EU financial sector.

Cyber risk is perhaps an inevitable side effect of technological innovation and is, in part, driven by the online provision of financial services, reliance on vast datasets and growing operational interconnectedness across and beyond the financial sector. Digitally-based and highly interconnected financial infrastructures result in a greater 'attack surface' for malicious actors to target, and provide channels through which an operational incident may propagate. At the same time, the current global instability that I have already referenced, heightens the risk level.

As global events and the latest technological changes have both shown us recently, we live in a volatile and increasingly interdependent world. In ESMA we are very conscious that the world does not stop at the border of the European Union. We have, de facto, a global financial system and therefore need global consistency. Whilst that may make strengthening financial markets more difficult, it also makes it even more important. We know that well-developed, efficient, and stable capital markets will play an instrumental role in helping us confront the various geopolitical and technological challenges. Such effective capital markets will also help us to meet various long-term societal needs, including economic growth, the prosperity of citizens and financing the green transition. Therefore, we need to keep adapting and moving forward. Let me therefore conclude today with the following: Let us not lose sight of our common goal to create strong capital markets that can serve our economy and citizens, both at EU and at global level.

I thank you for your attention and wish you a pleasant evening and a fruitful rest of conference.