

Current challenges in financial markets: a European supervisory perspective

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Chair

Ladies and Gentlemen,

Thank you for having me among you this afternoon.

We have just heard Professor Snyder discuss the very fundamental notion that is democracy. I'm no historian, nor am I a political scientist, so if you don't mind, I will stick to financial regulation. For those of you I might not have met before, my name is Verena Ross and I am a financial regulator and supervisor. I chair the European Securities and Markets Authority – or ESMA, an organisation responsible for financial markets regulation and supervision at the EU level, and I work with my colleagues in charge of financial regulation and supervision across Member States to enhance investor protection, promote orderly markets and safeguard financial stability across the EU.

A bit of background: ESMA was established in 2011, as part of a broader set of regularly reforms initiated in response to the global financial crisis of 2008. The idea was to address regulatory gaps, inconsistencies and vulnerabilities that became apparent during the crisis by reaching for a unified regulatory framework and consistent supervision of financial markets in the EU. And so ESMA works hand in hand with the Member States' national competent authorities (NCAs), such as the KNF here in Poland – at all levels, from technical experts to the top management. The heads of the NCAs form together ESMA's key decision-making body, the Board of Supervisors. They ensure that the regulatory framework for EU financial markets, and the supervisory practices, are coherent and consistent, avoiding loopholes and regulatory arbitrage that would impair financial stability, market integrity and investor protection.

When ESMA was created, back in 2011, it was in reaction to an event which was intrinsic to financial markets. But the past few years have shown that crises in financial markets can also be triggered by much more external (and in some cases geopolitical) pressures and events. Certainly the ESMA community has been kept very busy over recent years.

In the past few years, EU capital markets, like the rest of the economy, have been affected by a series of events, such as the COVID-19 pandemic and the Russian aggression against and invasion of Ukraine, as well as the resulting energy crisis and inflationary pressures. At the same time, the development of digital finance and the growing investor interest in sustainable finance come with numerous risks and opportunities. This leaves us with a significant to-do list for the development and implementation of a suitable regulatory and supervisory framework to accompany these changes.

Let's start with the twin new developments of sustainability and digitalisation.

As the human species, we are beginning to reckon with the importance of the implications on the environment and society of our day-to-day actions. With that sustainability is becoming a crucial point of interest for many investors. It also means capital markets should play a part in ensuring an orderly transition to a low carbon, sustainable economy. But in order to do so, legislation at the EU level must ensure that the relevant information is made accessible and understandable to investors. With the increasing demand for sustainable investment products, comes the risks of investors being misled, of greenwashing. What seems clear is that enhanced transparency on underlying assumptions and parameters is necessary to help investors make informed decisions and judge the ambition and the credibility of various sustainability commitments. As detailed in our Greenwashing Progress Report that we've published last week – sustainability indicators are complex and greenwashing can be anything from unintentional to purposeful deception. What matters to us as supervisors is whether sustainability claims are misleading or have the potential to mislead consumers and investors. With that in mind, the simplification and clarification of ESG-related requirements, together with their effective supervision, are critical outcomes for ESMA.

At the same time, digitalization is constantly changing and shaping the way capital markets operate and the way intermediaries provide financial services. For many years, firms have adopted digital technologies to reduce costs and to gain efficiencies. Firms across the financial sector are increasingly linked digitally as they transact and communicate electronically. Digital transactions can be conducted faster than ever before, and vast amounts of information can be stored and retrieved with ease. Improvements in trading and in back-office processes are of major benefit to firms and investors alike. We as supervisors need to keep up, both in terms of technology and data usage. At the same time, digitalisation is creating new interactions with investors, and retail investors in particular. As platforms facilitate retail investors' access, and social media encourages investments, we as supervisors need to ensure they are not misled and that they do not face a level of risk they do not understand or cannot afford. I know the KNF is doing great work on that at the moment.

At the same time, post-COVID-19, and with the Russian invasion of Ukraine and the effects on energy market prices, we see high inflation everywhere. Citizens do not necessarily comprehend the implications for their savings and investments. There is a big financial education campaign to be done. In this context, ESMA and its sister authorities, have recently

published an interactive factsheet on inflation and the rise of interest rates which is available in all EU languages. For the past decade, the economies have grown used to very cheap capital. But it seems that time is now over. In that environment, access to funding is becoming more expensive and more complex.

Now, I am aware of who I am talking to. I know the scepticism some of you might feel when discussing the idea of a single EU capital markets union. Be it because you have concerns over the proportionality of rules and the relative attractiveness of smaller and bigger capital markets in the EU or because you simply don't believe in the materialisation of a single market for financial services. However, I think we should not look at things as a fight for competencies between the national and European levels. On the contrary, we all have the same objectives, which in practice are to ensure the best financial circumstances for the companies that require funding and the citizens that seek returns on their savings. I think that's what the CMU should be seen as, a joint effort between the national and European regulators, pooling resources and data to achieve effective and attractive capital markets in the EU.

We know that solely through the banking sector, we will not be able to face the funding required for stepping up to the challenges of digitalisation and the sustainable transition.

With that in mind, I have some hope and belief in the single market's ability to provide access to wider capital and liquidity than an individual national capital market can. I know CMU is a long, complex and ambitious project, but I believe it is truly in the European citizens' interest. We need to put in the regulatory and supervisory effort required to make it work, particularly in relation to the effective supervision of cross-border services. I hope we will see some tangible movement in the coming months that should facilitate the development of European capital markets and the CMU.

Without going too much into detail, let me give you a few examples:

First, the ongoing MiFIR review foresees the introduction of the long-awaited consolidated tape – a tool that will bring tangible results by consolidating information on prices and trading opportunities and thereby making it easier to identify pools of liquidity. Of course, nothing is black or white and there has been some concern regarding the impact on the market data-related revenue of entities, such as the Warsaw Stock Exchange. But I have no doubt about their ability to make a net positive of this, by adjusting their market data propositions, and more importantly by benefiting from the more widely available information, to attract a wider set of market participants.

Next, the European Single Access Point will make public financial and sustainability-related information about EU companies and EU investment products available in a central location. This will facilitate the consultation and comparison by any investor, and will give easy, digital, and free access to companies' information. It will therefore help investors make sound decisions and foster sustainable investment, while limiting the duplication of disclosures required from corporates.

Finally, the Listing Package (currently being discussed) aims to facilitate European companies, and particularly small and medium enterprises' access to funding via capital markets. It intends to provide a more cost-effective regulatory regime by limiting the administrative burden for companies, and in particular by streamlining the requirements related to prospectuses.

I think these are a few things that we can get excited about in the quest towards working together to provide European citizens and companies with the full possibilities of the EU single market in finance. This – if done right - can positively affect their day-to-day lives.

To wrap up, what I think is for certain is this. The world is becoming increasingly complex, with new challenges and opportunities developing at increasing speed. It is only by working together, politicians and technical experts, at national, European and international levels, that we will get to coherent policies that allow us to move forward. We should not fall into the trap of regulatory arbitrage, of wedges being driven between us. Of course, rules have to be proportional, and supervision has to be risk-based, but there needs to be a high standard of supervision and a high level of trust among supervisors. There needs to be supervisory convergence across the board if we are to actually have an impact in any domain. We have to rise to that challenge! At ESMA we are committed to working with the national authorities day to day, to achieve real convergence across the EU.

Thank you.