24 May 2024
ESMA24-450544452-2177

Building more effective and attractive capital markets in the EU

ICMA AGM & Conference, Keynote speech, 23 May, Brussels

Verena Ross

ESMA Chair

Good afternoon, Ladies and Gentlemen,

It is a pleasure to be here with you today. Thank you to ICMA for the invitation. Yesterday, we officially launched our paper on 'Building more effective and attractive capital markets in the EU.' This is the result of the work of a ESMA Board Level Task Force, which was launched at the end of last summer, culminating in the collective support of the position paper by our Board last week.

The position paper outlines our observations regarding the state of EU capital markets and includes our strategic messages on how these can be strengthened. At this moment, at the end of the legislative cycle and just before the upcoming EU elections, we are far from alone in putting forward our ideas on how to make a step change in building EU capital markets. As ESMA we share the view that there is an urgent need to improve EU capital markets, to support the financing for Europe, putting citizens and businesses at its heart.

The renewed urgency and momentum to strengthen our capital markets comes from the realisation that we face challenges that we cannot easily overcome without rethinking how our capital markets function. We need robust capital markets capable of mobilising substantial long-term investments to finance the green and digital transitions. We also need a balanced and sustainable financial ecosystem, that offers businesses reliable and varied sources of funding to complement our heavy reliance on bank financing in the EU. Market-based financing is currently underutilised in the EU, compared to some of our international peers. This has a substantial and obvious impact when it comes to the attractiveness and competitiveness of EU markets globally, as businesses and investors turn to markets outside of the EU to satisfy their needs. Crucially, we also need investment – as capital markets are not much use without capital. For this, we need to have strong capital markets and financial firms that put the interests of investors at their core.

The ESMA position paper builds on these considerations and develops a set of ideas that we believe could "shift the needle". Naturally, given that there is consensus on the overarching need for stronger capital markets, several of our recommendations broadly align with the actions being considered by the Eurogroup and the Council, as well as those put forward by other wise minds such as in the recent report by Enrico Letta. Yet, importantly, the ESMA paper introduces the perspective of capital markets supervisors. It brings the views to bear of those who oversee the day-to-day functioning of capital markets.

ESMA has therefore sought to take a holistic approach and be comprehensive in our considerations. We are putting forward 20 different recommendations that cover 3 dimensions of capital markets – the interests of investors, the needs of businesses, and the regulatory and supervisory framework. These recommendations vary in terms of significance, priority, and detail – but collectively, they reimagine the functioning of capital markets in the EU today, setting the wheels in motion to build more effective and attractive EU capital markets for the future.

Firstly, to put investors at the core of our capital markets, we need to ensure that they are supported in their investment journey – especially retail investors. We believe we need to improve citizens' access to simple, suitable products and independent advice, combined with measures to improve financial education. As you are no doubt aware, EU citizens currently often hold a big share of their financial assets in bank deposits which means, over time, their savings may reduce rather than grow, especially in a higher inflation context. This is important to ensure that citizens can realise their financial goals, whether these are in relation to saving for their old age, buying a house, or supporting their children's education.

At the same time, putting savings into projects with a more long-term view might not only provide citizens with an interesting return, but also support economic growth and innovation. In fact, according to the think tank New Financial, a 5% shift in household savings from deposits into capital market investments in the EU could unlock an extra €1.8tn. To help citizens navigate different savings options, better financial education is a must. Improving financial education cannot happen overnight, but it must be reinforced to support current and future generations in building financial knowledge across their lifetime. This is particularly important at crucial stages in their life, such as during their formative years in school and at points where life-changing financial decisions are being made.

Secondly, to create more liquid European markets that can better serve companies' funding needs, we must have a capital market that provides diversified funding sources. In this regard, we support measures to strengthen the ecosystem for public companies and reducing market fragmentation. We collectively should address barriers to market integration proactively. Particularly with regards to market infrastructures, we should remove obstacles to allow pan-European markets to emerge and grow. Beyond listing, we also see a need to support diverse funding options, including venture capital and private equity, which can provide alternatives to, or lead the way to, a company eventually going public.

Thirdly, as I mentioned earlier, the ESMA Board has also considered how the regulatory and supervisory framework in the EU can be improved. As regulators and supervisors, we are particularly au fait with the rulemaking and supervisory processes in the EU. We are therefore well-place to observe the need for more agility, responsiveness, consistency, and efficiency in our framework - to reflect the modern realities of how capital markets function. Being more forward-looking in our approach, allowing for greater adaptability and responsiveness to market developments and emerging risks, we believe a more dynamic regulatory and supervisory model can improve both resilience and competitiveness at the same time. To get there, we need to look at how legislation is formed in the EU, at the legislative process, so that co-legislators do not get bogged down in lengthy, detailed discussions – but instead trust in the regulators to take forward their strategic visions in the technical details.

And once in place, we need to be able to react to developments that can affect the practical functioning of our rules. ESMA should have effective forbearance powers, like other global regulators, to handle those situations in a swift and appropriate manner. When we talk about the attractiveness of our capital markets, these regulatory framework issues may not always be at the forefront of our minds. Yet, they are crucial parts of the capital market ecosystem, and it is only when this ecosystem operates symbiotically that it can be competitive and attractive for both firms and investors.

Speaking of crucial elements of proper functioning capital markets, effective supervision remains pivotal. National supervisors do tireless work in keeping capital markets in check, as does ESMA – where our experience in directly supervising certain capital markets players has grown over the past 13 years. Starting with credit rating agencies we now have quite a few responsibilities in this space covering trade- and securitisation repositories and certain data reporting services providers, as well as certain CCPs and benchmarks. Based on our experience and reputation as a direct supervisor, the co-legislator has recently entrusted us with increased supervisory responsibilities in relation to the consolidated tapes, external reviewers of green bonds and ESG rating providers.

In the various contributions to the debate on the future of EU capital markets published over the recent months, we have of course noted that many of them cover the supervisory set-up as one key aspect. Enrico Letta, in his report, suggested shifting the supervision of the most integrated markets or significant market players to ESMA and Christian Noyer indicated ESMA should be entrusted with larger supervisory mandates. Personally, you won't be surprised to hear, I believe these proposals merit consideration.

For most areas of financial markets, it makes sense for supervision to remain at national level but where large entities operate with a pan-European model, and their services are orientated to a number of different Member States, I believe there is merit in considering European level supervision, on a case-by-case basis. For these types of entities, a more centralised supervisory model would enable a more holistic overview of the risks they may pose, looking beyond the national home supervisory perspective. It could also enhance efficiencies in how such pan-EU players operate, and improve the consistency in how they are supervised, as well as remove the need to deal with multiple supervisors across the EU. As most supervision is and will remain at national level, I want to also emphasise (as does the ESMA position paper) that we should continue to improve in terms of supervisory convergence and further enhance tools that allow us to, for instance, increasing cooperation in cases involving large cross-border firms, strengthen cooperation on selected tasks (e.g. coordinated supervisory teams) and centralising data collection and processing.

Based on our experience and expertise, and drawing on the ideas presented in the paper, we will continue engaging with policy makers. We want to actively contribute towards moving forward decisively and urgently in further developing our EU capital markets and making them more effective and attractive.

Let me move on to an area where progress is being made already in addressing market fragmentation. The creation of consolidated tapes (CT) will finally make it possible to assess the evolution of prices and trading across the whole EU market in a timely manner. In the US, the CT is an integral part of the market landscape since decades, with investors benefitting from the transparency it brings. Going forward, EU investors will have the same possibilities and it is worth noting that the UK is also taking similar steps to set up a bond CT which is welcome.

ESMA's support for the establishment of consolidated tapes is long-standing and I am glad that the co-legislators have now completed our role in authorising and supervising CT providers, with a mandate to select the most suitable provider for each of the three CTs for bonds, equities, and OTC derivatives. As this is a new endeavour for ESMA, and for European markets, it is important to have feedback from stakeholders across the spectrum on how best to do this. The setting up phase entails not only preparing the technical standards needed for the CTs to function, but also specifying the expectations placed on applicants in the selection procedure. The ensuing authorisation and supervision of the future CT providers will also be a new task for ESMA to take on, equally important, if not more. From the workshops held in February and March, we understand that the governance of the CT providers, the associated costs, and fees for data users, as well as the CT provider's ability to process data, are paramount for the attractiveness and the functioning of the CTs. To continue the fruitful dialogue on these important topics, I would invite you all to respond to our consultation which we are launching today. The ambition on our side is to finalise the first selection process for a CT provider for bonds in the first half of 2025 and we will thereafter proceed with the work for establishing the CTs for equity and finally for OTC derivatives.

Apart from the process for the set-up of the CTPs, the MiFIR Review also included major changes to the transparency regime for non-equity where the intention is to further differentiate between bonds and derivatives, adapting the respective disclosure requirements for pre- and post-trade transparency.

As you may have seen, ESMA has just published a consultation on the review of the RTS on bond transparency. Our proposals aim at enhancing and improving transparency in the bond market and further strengthening the information available to stakeholders. Our intent is to ensure the regime is simpler and more effective than what we have currently. We have a clear objective of subjecting more transactions to real-time transparency but, at the same time, ensuring appropriate protection for large orders so as not to expose liquidity providers to undue risk. Our proposal aims to ensure the right balance between an adequate level of transparency and appropriately calibrated deferrals. As always, we are eager to read your feedback and I would invite you all again to respond to the consultation. We intend to publish our final draft RTS by the end of year.

In conclusion, I am delighted having been able to share the main recommendations in our paper on effective EU capital markets with you, which we published yesterday. I very much hope that the recommendations will be taken forward in the next European legislative cycle. To really make progress, we will, however, also need the commitment of industry and of policy makers at national level. At the end we should all pull together to make our European markets more resilient and competitive.

In the meanwhile, at ESMA, we will continue to do our part to build European capital markets day-by-day. Our implementation work related to the MiFIR Review is a good example of how at technical level we can make progress. To move forward decisively, we are glad to see the political commitment and urgency at the most senior level and stand ready to support and advise.

Thank you for your attention.