Closing remarks: Fresh perspectives for EU capital markets

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Verena Ross
Chair
European Securities and Markets Authority (ESMA)

Good evening, ladies and gentlemen,

I am honoured to be here at the end of this first day of the 6th Annual Capital Markets Seminar in the beautiful city of Luxembourg. I am glad to be able to share some reflections with you, from my perspective as ESMA chair, and with that draw this day to a close.

This year’s event comes at a decisive point for the European Union. Not only are we about to go to the polls to determine the make-up of the next European Parliament. We will also soon have a new European Commission and new set of priorities for the coming 5 years. Many discussions around how best to address Europe’s challenges have therefore been taking place, across many different national and European fora. The subject of today’s conference – EU capital markets, is front and centre of many of these debates.

The truth is, that the challenges faced by Europe need, as part of the solution, stronger capital markets. Yet, the fact is that Europe’s capital markets remain somewhat underdeveloped and fragmented. So fresh perspectives are needed.
Fresh perspectives are what ESMA had in mind, when we published our Position Paper on building more effective and attractive capital markets in the EU two weeks ago. For several months, a small, diverse group of ESMA Board members came together to look into the state of play of EU capital markets and devise new ideas to forge ahead. With the strong support of the ESMA Board, we have put forward a set of 20 recommendations, covering a broad range of issues.

As for many others, for the European securities markets regulators and supervisors the root issue is clear. Despite positive efforts over the past 10 years, guided by two Commission CMU Action Plans, EU capital markets still lack integration and lag behind global counterparts. On this basis, they will struggle to support the growth, innovation, and competitiveness needed to propel the European economy. And if our capital markets cannot support this, our businesses, entrepreneurs, and investors turn elsewhere, thus deepening the dilemma.

It would also be remiss to think that inefficiencies in our capital markets, can be compensated by other forces. The public coffers at national and EU level are already under pressure and cannot support our large-scale investment needs alone. The same is true for bank lending. Despite our reliance on banks to help finance European businesses, the changing economic circumstances mean that a better balance between different funding sources is a must. Ultimately, we strongly believe that private and public market-based financing must play a more fundamental role. As Warren Buffet famously said, “It is only when the tide goes out that we discover who’s been swimming naked”. If we cannot improve the balance and diversity in funding our economic activity, our weak points will be exposed.

With the 20 recommendations in the position paper on effective and attractive EU capital markets ESMA puts forward proposals to improve this situation. By rethinking ways to boost the level of available financing and by reconsidering how businesses can better access market-based capital sources, we strive to make our EU markets both more effective and more attractive.

Some of ESMA’s recommendations may not necessarily be new, and many align closely with suggestions in other recent reports, they reassert the importance of our existing endeavours. We considered it worthwhile to remind people that, while these efforts may sometimes face headwinds, it is important to stay the course.
As discussed earlier here today, the EU’s sustainability agenda is a prime example of an area which we see as a core strength for EU capital markets. The EU is recognised as a leader in sustainable finance and has created a strong regulatory framework and with that has set the bar globally. The EU’s financial and corporate sectors have been orientating themselves towards supporting the European Green Deal, by helping mobilise private capital into sustainable activities. The EU’s Corporate Sustainability Reporting Directive standardises and improves the availability and quality of sustainability information disclosed by companies. According to the OECD Global Corporate Sustainability Report, 86% of companies globally, by market capitalisation, disclosed sustainable-related information in 2022. European companies are in the lead, on scope 1 and 2 GHG emission disclosures, as well as on scope 3 disclosures. In this context, having clear and comparable disclosure standards that can help investors navigate the corporate landscape is hugely important. The EU is also a global leader in the issuance of green bonds – a situation hopefully to be reinforced with the introduction of the EU Green Bond Standard Regulation.

Nonetheless, the challenge with setting such an ambitious pace is, being able to consistently and proportionately implement those frameworks.

We must also be mindful of the need to accommodate and encourage different transition scenarios across various economic sectors. But at the same time, it is also important to see the wood for the trees. We must not lose sight of our overall ambition, and the bigger role that capital markets can play in the sustainability transition. It is for this reason that we promote the idea that the EU can be a global hub for sustainable finance. The challenges we face should be regarded also as opportunities, as a way to meet both growing investor demands for ESG investments and at the same time accelerate the transition to a greener economy.

Balancing the functions of equity and debt

Boosting the financing of European companies is one the pivotal parts of the ESMA position paper. Europe must improve its funding ecosystem to enhance innovation and growth, particularly in critical economic sectors such as tech and energy, and - importantly - for SMEs.

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1 Global Corporate Sustainability Report 2024 | en | OECD
Equity finance is, to my mind, a crucial component of capital markets funding that must be strengthened. Building a stronger equity culture for European businesses can improve their resilience to economic cycles, enhance risk sharing, and help reduce the traditional overreliance on debt financing. Part of the issue is making our public equity markets more attractive. In the EU, average IPO volumes over the last fifteen years have shown a generally flat trend. In 2023, they reached their lowest levels since the global financial crisis. In parallel, the number of companies de-listing from EU markets has increased. Some companies decide to revert to private ownership, while others seek better conditions on other public equity markets, like in the US where they can generally command higher valuations.

The multitude of factors that can influence a company’s decision to list on public equity markets are not necessarily in the hands of financial regulators alone. Yet, where we can play a role, we should. In particular, we are conscious of the need to ensure that the regulatory obligations on listed companies strike the right balance in terms of investor protection and proportionality. There is also the need for policy makers and regulators to address issues that may prevent efficient cross-border market activity. Continuing to work on harmonising related areas of law (corporate and securities law for example) and removing barriers to more pan-EU markets – allowing scale to build and liquidity to flow – can boost our public equity markets.

On the other hand, private equity and venture capital can be equally important, especially at key junctures in the lifecycle of SMEs. The European Investment Bank, and particularly the European Investment Fund, play an important role in channelling investment into venture capital and private equity funds that support high-growth and innovative small businesses in Europe. The EIB Group’s direct co-investment activity also allow it to become an investment partner, thereby boosting funding into core EU priorities like Climate and Deep tech.

Over the last decade, private funding markets in both the EU and globally have grown substantially. This has been largely driven by a favourable low-interest rate environment and a search for yield by large institutional investors. As an important alternative source of financing, this sector remains a critical part of a well-functioning capital markets ecosystem.

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2 Refinitiv EIKON data
3 ESMA50-165-2438 ESMA Report on Trends, Risks and Vulnerabilities, No. 1, 2023 (europa.eu)
While strengthening equity financing in the EU is crucial, we also recognise the important complementary role that public and private debt markets play, as the EIB and ESM understand well.

Different financing options can play different roles for corporates (including SMEs), depending on their specific funding needs during different stages of their lifetime. Therefore, the balance and diversity which I referred to earlier is essential.

Before I came on stage, a panel spoke with buoyancy about how ‘bonds are back’. It is certainly true that corporate bond markets have bounced back after a couple of challenging years. The performance and attractiveness of these markets had suffered with changing monetary policy and economic conditions. But more recently, with interest rates poised to possibly start falling, the dynamics are shifting on the back of a wave of large investor demand, seeking to lock in higher yields. In 2023, European corporates accessed capital market funding mainly through fixed income markets.

Again, corporate debt is an essential component of a well-rounded financing strategy for businesses, offering reliability and flexibility. Equally, bonds play a key role in an investors’ portfolio by providing stable returns and diversification opportunities.

**Investors at the heart of capital markets**

Speaking of investors, of course we cannot achieve our funding goals in Europe without that key ingredient – investment capital. The funding choices of companies can be significantly influenced by the behaviours of investors, so even small changes can have consequential effects. This is why we firmly believe that investors, and particularly retail investors, should be at the heart of what we do in bolstering our capital markets.

The often-quoted fact, that EU households are good savers, but they tend to rely on bank deposits to safeguard those savings, remains a telling fact in our capital markets. For several possible reasons, EU citizens generally avoid investing in securities. This may be down to a lack of trust. It may be due to the complexity of financial markets. It may be a lack of appropriate incentives. Or it may be the difficulty in accessing suitable products and being supported by
appropriate education, help and advice. Most likely, it is a combination of all of those, and more. While there are noticeable differences across Member States, Europe as a whole has struggled to create a true investment culture.

These patterns of how EU citizens save and invest result in a lack of wealth sharing opportunities for the vast majority of the population and accentuate the importance of banks as the main intermediaries and funding providers for the economy. For individuals, this opportunity cost can have an impact on their ability to prepare for their long-term financial and retirement needs.

Recognising this reality, the ESMA paper explores ways to remedy these shortcomings. It is vital to reassure citizens that capital markets can serve their investment needs and allow them to benefit from wealth created through these markets.

**Supervising with agility and consistency**

As a final point to close with this evening, I want to touch upon a subject that is close to the day-to-day life of ESMA – the regulatory and supervisory framework in the EU. How rules are developed and how supervision is conducted may not be the flashiest part of capital markets, but this architecture is fundamental to ensuring well-functioning markets, which in turn contribute to a sound, stable financial system and are an important basis for building effective and attractive EU capital markets.

Our hosts today are of course more than familiar with how the EU’s rulemaking machinery operates. For financial services, regulation is developed through a multi-layered approach which has served the needs of the European financial system overall well. Yet, like all heavy machinery, it needs to be continuously assessed and serviced. Without regular maintenance and adjustments, the machinery becomes less efficient and outdated over time. Modern financial markets, which innovate and develop rapidly, pose this same challenge to our regulatory machinery in the EU. This is why we believe that more agility, responsiveness, consistency and efficiency should be introduced in the framework to allow regulators and supervisors adapt more effectively to evolving circumstances. Adjusting certain rules, powers and processes, even if just to match the tools that regulators in other key jurisdictions such as the US and UK have at their disposal, can also contribute to enhancing EU competitiveness and the attractiveness of the EU capital market overall.
On the supervisory side, aspirations of more integrated markets must be supported by effective and consistent supervision across the EU. Over the years, this has been one of ESMA’s core purposes. Our supervisory convergence powers and activities have grown gradually to help accomplish this. In addition, our direct supervisory responsibilities in targeted areas of capital markets, like for Credit Rating Agencies, have allowed us to play a more direct role in building high-quality supervision – and ultimately contribute to the proper functioning of key pan-European markets and pan-EU market players.

Supervision will always be an important aspect in how capital markets are functioning. We should therefore always strive to find ways to supervise better. This includes considering where further supervision at an EU-level can benefit EU capital markets overall. In this respect, we believe that the strongest case for centralising supervision at EU level is for large, pan-European market infrastructures like, for example, Central Counterparties and Central Securities Depositories.

Ladies and gentlemen, there is a collective realisation that we have not yet done enough to unleash the potential of EU capital markets. With this realisation, comes a fresh wave of support to go the extra mile. We have seen this in the recent positions taken by the Council, the Eurogroup, various Member States and industry bodies, as well as Enrico Letta in his report on the single market.

There is an old Chinese proverb which says that “The best time to plant a tree was 20 years ago. The second-best time is now.” So, in 20 years’ time, I hope that we can look upon this as a pivotal moment in the planting, nurturing, and growing of our EU capital markets.

I thank you for your attention and wish you a pleasant evening and another day of stimulating discussions tomorrow.