

Keynote address

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Good morning, ladies and gentlemen,

It is a pleasure to have the opportunity to address you today. I would like to thank AFME for the invitation.

I understand that I am speaking just before a discussion on the global regulatory landscape: a timely and interesting conversation on which I would like to add a few thoughts of my own, from the European regulators and supervisors' side. I will focus, in particular, on ESMA's work on securitisation – which is such a hot topic at the moment – but I would also like to speak about the importance of operational resilience. Both of these topics may appear rather technical but they are both part of building effective, attractive and resilient capital markets.

Building more effective and attractive capital markets

Nine years after the launch of the CMU initiative, much progress has been made to develop and improve the European capital markets regulatory framework. Unfortunately, we have not yet seen that translate into the real-world growth that we need for our European capital markets. There is an urgent need to improve EU capital markets, to back financing for European companies and to support the green and digital transitions, putting citizens and businesses at its heart.

I believe right now is an exciting time to be a financial markets regulator and supervisor. The last year has brought some fresh and deep thinking on financial markets, including from some of the most eminent economic minds of our time: Mario Draghi, Enrico Letta, the Eurogroup, as well as several national governments and industry associations – including AFME - have all produced reports recently. My own organisation, ESMA, published a position paper in May

with 20 recommendations on how to build more effective and attractive capital markets in the EU - based on our experience and expertise as frontline financial market supervisors.

Our recommendations cover the full range of the capital markets. We advocate for broadening investments opportunities for EU citizens, for enhancing the financing of EU companies, and for improving regulatory agility, supervisory consistency and global competitiveness. Without being exhaustive, I would like to take the opportunity to briefly highlight some of our recommendations.

Firstly, we believe that we should put investors at the core of our capital markets and connect them with EU companies in need of funding. To do this, we need to ensure that investors - especially retail investors - are supported in their investment journey. We need to improve citizens' access to simple, value for money products and independent advice, combined with measures to improve financial education, pensions and targeted tax incentives. For EU citizens, while allocating their savings into capital market investments entails different degrees of risk, it also presents new opportunities to grow their savings - while at the same time supporting the financing needs of the European economy.

We also believe that there should be a focus on some structural market reforms, allowing for more efficient and less fragmented market infrastructure, evaluating further EU-level supervision, and improving regulatory efficiency and agility. I believe that efficient and proportionate rulemaking is crucial so that we can benefit from agile and modern capital markets, able to compete with our global peers.

Reviving the securitisation market in the EU

One of the key structural market reforms that has been much debated in the context of the Capital Markets Union is how to revive the securitisation market in the EU. It is a subject that has received a lot of press over the last months – including in Mario Draghi's report – and it should be one of the priorities to tackle. As we speak, the European Commission is working on a public consultation on the functioning of the securitisation framework which we expect they will open in the coming weeks. On ESMA's side, we highlighted in our position paper on the CMU the importance of reviewing the regulatory framework of the EU securitisation market.

Overall, therefore, there is broad agreement at political level that there is a need to boost the EU securitisation market. Proposals centre around, among others, adjusting prudential requirements, setting up a dedicated securitisation platform, and reviewing key requirements for securitised assets to increase their attractiveness, such as transparency and due diligence rules.

Let me briefly recall that in 2019, the EU implemented a comprehensive securitisation framework. In addition to prudential aspects, it introduced common rules on due diligence, risk retention, credit granting and transparency for all securitisations, and created the simple, transparent and standardised (STS) securitisation products. In 2021, a first revision of the securitisation framework took place which led to, amongst others, the extension of the STS label to synthetic (on-balance-sheet) securitisations.

Overall, following the Global Financial Crisis, the securitisation markets were impacted both by the securitisation reforms and the changes in the behaviours of originators and investors¹, who have become more cautious and more risk sensitive. Investors still perceive securitisations as a complex product with extensive due diligence requirements, while originators have access to cheaper alternative sources of funding, such as covered bonds, with a broader investor base.

While prior to 2008-2009 almost all traditional securitisations were fully placed with investors, placed securitisations decreased from almost EUR 300 bn in 2007 to around 40 to 90 billion. Over the same period, the size of the securitisation market has decreased significantly, from approximately EUR 2trn at its peak to EUR 1.2trn at the end of 2023. Likewise, yearly issuance has dropped from almost EUR 600 bn in 2008 to below EUR 200 bn in 2023.

Having cited those figures, I want to be clear that pre-crisis levels should not necessarily be seen as a benchmark to be targeted. However, the question is whether and how the securitisation market could grow prudently to enable market participants to originate and invest in such products, as part of a diversified and efficient capital market system. It is clear that the framework established a few years ago has not produced all the expected results.

¹ FSB (2024), '[Evaluation of the Effects of the G20 Financial Regulatory Reforms on Securitisation: Consultation report](#)', 2 July 2024

I believe that there is not one “silver bullet” but rather a combination of measures that are required to improve the regulatory incentives for market participants to engage in securitisation on a sound basis.

The three European Supervisory Authorities (ESAs), ESMA, EBA and EIOPA, are working closely with the European Commission to draw up proposals through the Joint Committee to improve the functioning of the securitisation regulatory framework. As regards the prudential framework, the Joint Committee of the ESAs made targeted proposals in January 2023 to improve its efficiency and to further align regulatory rules with the actual level of risk. As prudential aspects rather fall in the remit of the EBA and EIOPA, let me from the ESMA perspective focus on other non-prudential aspects:

Firstly, providing greater clarity and predictability around the requirements within which the market can operate. This means reviewing what may have caused investors to limit their investments in - and originators to limit the issuance of - new securitisations. This includes inter alia the jurisdictional scope of application of the securitisation regulation. Changes in this area would help to reduce the legal uncertainty in cases where not all securitisation parties are located in the EU.

Secondly, making the EU regulatory framework more proportionate. The application of the due diligence rules had the effect of imposing the same due diligence requirements on all investors, regardless of the type of securitisation that they invest in. As a result, smaller players might not be able to enter the securitisation market, because they lack the necessary infrastructure to comply with the due diligence requirements. Likewise, due diligence requirements that do not properly take into account the characteristics of STS transactions might also be hampering the growth of the STS market. ESMA is currently preparing draft Guidelines intended to introduce, where the current securitisation regulation allows for it, more proportionality in the application of the due diligence rules. We are looking to publicly consult on these in the coming weeks and hope they can both bring clarity in the application of the current framework and feed the discussion on how to make due diligence more proportionate.

Finally, introducing proportionality within the transparency framework. The transparency framework under Article 7 of the Securitisation Regulation has been a topic of significant discussion in recent years. As you may know, its importance has been emphasised in various

reports and acknowledged by market participants, regulators, and policymakers. While transparency is key to maintaining trust and stability in the European securitisation market, ensuring that this transparency is effective, without becoming an excessive burden, remains a challenge.

At ESMA, we had extensive engagement with stakeholders on the transparency framework and the message we have received is clear: while transparency is important, the current disclosure requirements are seen as overly prescriptive and burdensome. They are not sufficiently tailored to the diverse needs of investors and supervisors across different types of securitisations. In many cases, the complexity and granularity of the requirements have been cited as obstacles to the development of the European securitisation market, particularly for new entrants and smaller market participants.

ESMA is committed to address the feedback received from the market.

Simplification and harmonisation of reporting regimes is front and centre to ESMA's data strategy, in order to reduce where possible the compliance cost for reporting entities.

In the short-term, we are preparing to publish a feedback statement based on the Consultation Paper we launched last December. This document will also propose possible amendments to the ESMA technical standards. The clear focus is on introducing proportionality – especially concerning the disclosure requirements for private securitisations (as far as possible within the current legislative framework).

In the meantime, ESMA will also contribute actively to the European Commission's forthcoming consultation on the review of Level 1. We want to make sure that our insights on the practical implementation of the STS regulation and stakeholder feedback are fully reflected. We will work with our sister ESAs to provide input to the Commission through the Joint Committee report on securitisation. One point we are likely to focus on is reducing the disclosure burden for sell-side parties while ensuring that data usability for investors and supervisors is meaningfully improved.

Last but by no means least, in such a complex field, we must examine closely the consistency of the supervisory framework to avoid divergent supervisory practices across the EU. We need to be conscious of the resources and costs associated with the multiplication of common functions across jurisdictions and authorities. These can also hinder efficient cross-border

transactions. Therefore, it is necessary to enhance supervisory convergence and cooperation among Competent Authorities.

Improving the operational resilience of the financial sector

To my mind, improving the securitisation market needs to be one – even if maybe not the most important – area to tackle, if we want to ensure more diverse funding sources for EU companies and push forward the Savings and Investment Union.

Let me now focus on the second topic I wanted to cover this morning. It is equally important when we talk of building effective, attractive and resilient EU capital markets.

The pace of the digital transformation is accelerating. Ten years ago, it would have been unthinkable that I could sit in Paris and deliver a speech in London, as if I were amongst you. Equally, over the last decade, we have experienced a series of impactful innovations that have changed the financial sector landscape entirely. Modern financial services are increasingly dependent on ICT tools and systems, as well as ICT service providers. The rapid innovations in ICT bring many benefits but, when not managed properly, ICT incidents can lead to serious disruptions and risks for the whole market.

We have experienced an increased operational interconnectedness between financial entities and ICT third-party providers, and the reliance of financial entities on their services. This remains an ongoing trend, especially for the provision of Cloud services, into which financial entities keep outsourcing an increasing share of their network and information system. Financial institutions themselves have also become more technologically complex entities, where legacy applications need to coexist with more innovative technologies. The provision of financial services itself is increasingly taking place through digital rather than traditional channels, increasing the risks of system failures or disruption for market players and investors.

Therefore, as European supervisors, we are facing multiple challenges, as these risks are growing and need to be mitigated. For some time now, the ESAs have been setting guidelines in relation to ICT risk management and ICT outsourcing to converge supervisory practices in these areas. In order to harmonise the digital operational resilience requirements for the whole financial sector, European legislators introduced the Digital Operational Resilience Act (DORA). It came into force in January 2023 and will be applicable mid-January next year. It

establishes a comprehensive framework to enhance the digital operational resilience of the EU financial sector, thus targeting continuous and uninterrupted provision of financial services to customers and safety of their data.

The three ESAs have worked tirelessly – together with all other involved stakeholders - to support the implementation of DORA in the EU's financial sector. The latest published package of policy products, in July 2024, focuses on the reporting framework for ICT-related incidents, on threat-led penetration testing, on subcontracting and introduced some requirements on the design of the future oversight framework. In June, based on the standards published by the ESAs in January 2024, the European Commission also adopted the Level 2 requirements complementing DORA on ICT risk management, third-party risk management and ICT-related incident classification.

Apart from that, the ESAs still have one feasibility study to deliver by mid-January 2025, about the potential set up of a single EU Hub for major ICT-related events.

As the ESAs have delivered most of the mandated policy products, we are also currently actively working on considerations regarding DORA supervision, particularly in the early stage of 2025, to support competent authorities in the consistent and proportionate application of the new framework. DORA requirements are an evolution of existing sectoral guidance and regulations, hence some financial entities should be well ahead on their DORA compliance journey but we are conscious for others this is a more difficult and demanding exercise. That is why we will try to continue to provide support and assistance, to the financial services industry but also to the competent authorities – for whom the journey is equally daunting.

A crucial pillar of DORA for the ESAs will be the new oversight responsibilities allocated to us over those third-party ICT service providers that will be designated as critical (nicknamed “CTPPs” for Critical Third-Party Providers). Together with our colleagues at EBA and EIOPA, we are working as a single team to ensure that the oversight framework will be operational as early as possible. The oversight framework will complement the supervision of the ICT third-party risk conducted by competent authorities in relation to their financial entities. As such, the Oversight framework will require close and continuous cooperation between the ESAs and competent authorities. Also, it will be essential to progressively build our knowledge of the critical providers, to ensure their procedures, mechanisms and arrangements do not expose the financial entities to unmanageable ICT risk.

Closing

Ladies and gentlemen, I end where I began, by insisting that this is a time for excitement and optimism. While the scale of the challenges we face - whether they are to ensure the competitiveness of our markets or to guarantee their resilience - should not be underestimated, I believe that we can work together to unleash the potential of the EU capital markets.

Thank you.