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Keynote speech

European Capital Markets Forum – Warsaw stock exchange

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Shaping the future of EU capital markets

Ladies and Gentleman, Dzień dobry,

Introduction

It is my great pleasure to join you in Warsaw today, at the biggest exchange of Central and Eastern Europe, to explore the EU capital markets landscape, share policy and market insights, as well as to gather ideas on what comes next.

When I looked at the focus of today's Forum, my first thought was that it very much aligns with the ESMA strategic objectives that guide our work in this period. Whether it is

(i) Enhancing market resilience;

(ii) Promoting cross border investments; or

(iii) Advancing regulatory harmonization,

all feature very high on ESMA's agenda. In fact, complemented by investor protection, these objectives form the building blocks of ESMA's mission statement. I would therefore like to thank the organizers from the Warsaw stock exchange and the KDPW for giving me the opportunity to participate in this event.

Today, I would like to outline the ESMA perspective on the shaping of the future of the EU capital markets, but also to briefly update you on what keeps us busy in the clearing space these days. Before I delve more into my daily "bread and butter" topics as the Chair of the ESMA CCP supervisory committee, please let me spend few minutes and remind you about the ESMA input to the ongoing discourse on making European capital markets more attractive and effective.

I hope this provides some food for thought and may spark fruitful conversations in the panels to come.

ESMA recommendations for more effective and attractive capital markets in the EU

In the face of a quickly changing world giving rise to unprecedented challenges, ESMA's Board of Supervisors, like many others, recognised the necessity of a more unified and strategic approach to deepening and integrating EU capital markets.

Throughout 2024 a dedicated Board-level Task Force worked on establishing the “diagnosis” and explored three key dimensions, where further initiatives could be undertaken to progress towards what has recently been rebranded as Savings and Investment Union.

The outcome of this work consists of 20 recommendations focused on citizens and investors, EU companies but also on improvements in the EU regulatory and supervisory realm. They are directed at the European institutions, but also at national governments or the private sector. Given their breadth, you may find that they are not all strictly tied to ESMA’s remit. Let me briefly pin-point the key features and start with the investor dimension.

There is no shortage of statistics demonstrating that Europeans excel in saving but tend to underperform when it comes to putting their money to work. We therefore recommended “a nudge” at EU level in the form of a voluntary label for basic investment products that would be tied with simple advice.

However, most of the solutions with the highest transformative potential were identified and must be pursued at the national level. This includes adapting pension systems, education curricula or attaching tax incentives to retail products. There is no need to start from scratch, looking at the neighbours’ experience may do part of the magic. Member States could draw inspiration, for example, in the use of the three-pillar pension model or the tax advantageous investment savings account (“Investeringssparkonto – ISK”) in Sweden.

Let me now move to an area that is at the heart of ESMA’s work. As securities markets’ regulators and supervisors, at ESMA, we are closely involved in the EU rulemaking and implementation processes. We are thus well-aware that they are often perceived to be overly complex, which led us to call for their modernisation to allow for more agility and responsiveness.

The start of the new legislative cycle along with the simplification ambition of the Polish Presidency offers a good opportunity for a bit of “spring cleaning”. Yet, it is important to clarify that while at ESMA we do support streamlining, we do not mean deregulation. A careful balance is needed while we remove inconsistencies or duplications from the single rulebook.

In addition, adjustments to our regulatory and supervisory toolbox could also greatly contribute to better competitiveness of our markets. When it comes to regulatory tools, we recommended equipping ESMA with forbearance powers, which regulators in other key jurisdictions already have at their disposal.

Should there be an appetite for more ambition when it comes to ESMA’s supervisory powers, the ESMA Board further concluded that it might make sense to take a second look at EU level supervision.

The case for EU-level supervision becomes particularly compelling where large infrastructures or entities operate with a pan-European model, their services are not orientated to just one Member State, there is a high systemic risk or significant risk of regulatory arbitrage.

While this, of course, is not for ESMA to decide, in these specific areas of EU capital markets the potential efficiency gains of having just one supervisory reference point in the EU should indeed be acknowledged. For supervisors this would mean more holistic understanding and less resource-intense management of risks, while market players would no longer have to navigate multitudes of authorities and approaches.

To close on the ESMA recommendations, I will finish with the business angle, where we see some concerning trends that deserve attention. First, it is companies leaving our continent in search of capital and better financing opportunities. Second, there is the extremely fragmented market structure with 22 different stock exchange groups, and more than 40 different FMIs[1] [2](CCPs, CSDs and payments systems) operating on a relatively small market, when compared to our international peers.

By now it has become obvious that changing laws and regulations, alone, cannot do the "*CMU trick*". It is important that market participants also see the business case to create more cross-border or integrated solutions to address these issues.

At ESMA we see merit in exploring further the possibility of developing dedicated markets at EU-wide scale, with sufficient size, liquidity, and visibility, to attract EU and international investors. Such market segments could be focused on specialised or critical industries in the EU or be based on size or specific needs e.g. SMEs.

Finally, efforts in this area should also include identifying and eliminating barriers that may hinder better collaboration as well as obstacles which prevent innovative solutions that could enhance interoperability, efficiencies, and network effects between systems.

Colleagues,

While I surely haven't mentioned all the ideas, we spelled out in the ESMA recommendations, I now stop here with this short overview. As promised, I would also like to use this opportunity to provide you with a glimpse into our work on EMIR 3 review, which entered into force on Christmas last year.

ESMA work on EMIR 3 implementation

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[1] https://www.newfinancial.org/reports/the-problem-with-european-stock-markets
[2] https://www.esma.europa.eu/sites/default/files/2024-05/ESMA50-164-3688_ESMA_statistics_on_securities_and_markets.pdf

Let me say that it was definitely a big present in terms of the amount of work this brought for ESMA, both in terms of developing the necessary implementing measures and establishing new processes and structures.

As you know, the EMIR 3 review contains several legislative measures aiming to mitigate the excessive EU exposures to TC-CCPs identified previously by ESMA, as well as to enhance the efficiency and the competitiveness of EU clearing services.

To bring the legislative text to life, ESMA was mandated to develop no less than 28 Regulatory and Implementing Technical Standards as well as Guidelines, most of which will have to be finalised by this December.

Given these ambitious timelines, we had to strictly prioritise and sequence the preparation of this work:

- First, we decided to focus on the measures addressing financial stability risks stemming from EU participants to third-country CCPs of substantial systemic importance, i.e. the implementation of the so-called "active account requirement" which requires the most active EU participants to hold an operational and representative account at EU CCPs. We have taken a major step already end of November with the publication of a consultation paper on the AAR conditions. The consultation drew the attention of many stakeholders, and ESMA is now on track to deliver a draft RTS to the European Commission well before June 2025. In that context, I also welcome the intent of the European Commission to extend further the equivalence of the UK framework for a limited period of 3 years. Upon endorsement from the co-legislators, this decision will indeed give sufficient time for the active account requirement to take effect as well as for ESMA and the Commission to assess its impact on the exposure of EU counterparties to Tier 2 CCPs.
- In addition, ESMA will develop measures and processes aimed at streamlining and shortening supervisory procedures, reducing time to market and enhancing the competitiveness of EU CCPs, requested by private and public sectors alike.
- Finally, ESMA will also work on strengthening the resilience of EU CCPs and the wider clearing ecosystem, particularly in light of the lessons learnt from the 2022 energy crisis. We were mandated to improve the transparency of margin requirements collected by CCPs and clearing members and to consider the potential procyclical effects of haircuts on collateral on the broader ecosystem, as well as to clarify the minimum participation requirements for clearing members, in particular Non-Financial Counterparties (NFCs).

  But EMIR 3 also strengthens the role of ESMA in order to reinforce consistency between supervisory approaches and to enhance the resilience of the EU clearing ecosystem. ESMA will be co-chairing the supervisory colleges of EU CCPs and will be even more comprehensively involved in all aspects of EU CCP supervision, including with a possibility to adopt opinions on the NCAs' annual reviews, or to assess the CCPs' compliance with EMIR provisions.

While such provisions are very useful and important steps to build a common supervisory approach for EU CCPs, there is a sense of missed opportunity in building the next steps of the European Capital Market's Union, in particular for given the EU-wide membership and the systemic relevance of CCPs.

Clearing members and clients are very often situated in Member States different from the place of establishment of the CCP. In the event of a disruption at a CCP, the impact is not confined to the national fiscal domain. It may not even fall primarily on the CCP home jurisdiction, as the CCP itself did not accrue the risk. The repercussions can permeate across borders, affecting key financial and corporate entities across the Union – and beyond.

Therefore, as I alluded to the in the first part of my speech, a much more integrated and coordinated supervisory framework at EU level would be warranted, taking into account the situation of all Member States which may be most exposed in case of a CCP failure.

A national authority on its own can intrinsically not achieve such a holistic assessment of the cross-border picture (and on top it needs to main a hugely specialised supervisory team for mostly just one domestic CCP). The creation of a Joint Monitoring Mechanism is a positive move in the direction of a more horizontal view on central clearing. However, more is needed to recognize and reconcile the multiple fiscal responsibilities which exist in the Union, as a disruption at a CCP can reverberate across the EU, necessitating a collective and comprehensive response.

Acknowledging the broader implications of CCP disruptions and fostering collaboration among relevant authorities are indispensable steps towards ensuring the stability of the European Union's financial system in an increasingly interconnected world.

Conclusion

Ladies and gentlemen,

I have now outlined several areas, where ESMA sees an opportunity to progress and improve the efficiency of the EU capital markets including the clearing area.

As with everything in life, some things are easier said than done, but if we move collectively, I'm sure we can build an ambitious agenda for a truly successful Savings and Investment Union.

Whether you represent a Member State government, a supervisor or an industry player, being here today means you are interested to also contribute to this effort, so I will be very interested to learn about more about your perspectives throughout the day.