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ESMA's strategic priorities in a changing environment

Introduction

Good morning, ladies and gentlemen

I am very grateful to ALFI for inviting me to address the ALFI Global asset management conference. This is an important event and gives me the opportunity to come to Luxembourg, which I always appreciate. Today I will share some insight into our strategic priorities at ESMA in this changing world - covering in particular our thoughts on an emerging Savings and Investment Union (SIU).

But first, let us consider today's context, much changed since the last time I was at this conference in 2023. We have a new European Parliament, a new Commission, we saw elections and new governments in many EU countries and with changes also beyond the EU borders, we have seen a new geo-political world emerging. All these changes have had and will continue to have an important impact also on ESMA and our priorities.

Our five-year strategy which we articulated in 2023 stands, to my mind, the test of time. We said we would focus on three strategic priorities, namely fostering effective and stable EU financial markets, enhancing retail investor engagement and protection and strengthening supervision in the European Union markets, as well as embracing the thematic topics of enabling sustainable finance and facilitating technological innovation and the effective use of data.

All of this still holds true and provides a stable foundation for ESMA and its work. It is also fair to say that we – like everyone else – need to be conscious of what is changing and need to remain agile. We no longer talk about the CMU but now emphasise (rightly so) the importance of connecting EU savings with the necessary investments in the EU economy through the Savings and Investment Union. We focus much more on competitiveness and strategic autonomy of the EU, given the changing geo-political environment. In that context, we need to make the regulatory framework in the EU more efficient, accessible, and responsive to the needs of our businesses and citizens alike.

At ESMA, we aim to play our part in simplifying the regulatory framework and reducing unnecessary reporting burdens wherever feasible. We are committed to look at our entire remit, including data, policy and supervision, to identify ways to ensure that the measures applicable to market participants are easy to implement consistently and are proportionate. We have taken first steps in the direction of reducing the data reporting burden, for example, when announcing a few weeks ago that we are focusing on using transaction reporting under the

MiFIR review, allowing us to stop the separate transparency and volume cap reporting regimes.

Our approach is to foster efficient simplification and burden reduction, while of course always keeping in mind our main objectives of financial stability, orderly markets and investor protection. So, this effort is not about a deregulatory race to the bottom. It is about finding for the EU the right regulatory framework that provides a solid foundation for a competitive and attractive EU capital market.

So it is within this context that I want to share with you ESMA's views on the Saving and Investment Union as well as a few other related points on non-bank/private finance and sustainable finance.

Savings and Investments Union Strategy

As it is fresh off the press, I wanted to start today by sharing some of our views on the European Commission's Savings and Investments Union Strategy, which was unveiled last week. This long-awaited Strategy pulls together many of the ideas that were put forth in the Draghi and Letta reports last year, as well as many other reports. It seeks to enhance the efficiency in our financial system, offering citizens broader access to capital markets and providing companies with improved financing options.

At ESMA, we welcome the SIU Strategy. It sets us on a pathway, with clear timeframes, on delivering key actions to make SIU a reality. I was glad to see the alignment between the SIU Strategy and the perspectives outlined in our own ESMA position paper on the topic last year. Both emphasise the necessity of integrated capital markets to finance critical innovation and enhance competitiveness. By developing integrated capital markets, the SIU aims to effectively connect savings with investment needs [important signal of the name change], to bolster economic growth and competitiveness across the EU.

A level-playing field for more integrated markets

A cornerstone of a truly integrated capital market is a consistent and clear regulatory framework. A framework that is uniformly applied and consistently supervised across all Member States of the Union. Regulatory and supervisory consistency will provide investors and businesses with the confidence needed to navigate cross-border financing opportunities efficiently. It is only with such an EU-level framework that we will be able to build a truly single market in capital and ensure that the EU's markets reach the necessary scale and liquidity. Achieving this requires a more ambitious approach not only by the EU institutions, but also better policy coordination and harmonisation among Member States. This includes removing national barriers and avoiding the gold plating of rules, proposing legislation in the form of regulations rather than directives, and being more stringent in enforcing consistent implementation. This also extends to the topic of supervision.

The SIU Strategy acknowledges that supervisory convergence is critical to ensure that the same rules apply uniformly across Member States, preventing regulatory arbitrage and market inefficiencies. ESMA is strongly committed to the continued use of our convergence tools to ensure a more common supervisory approach. This is not just about rules being aligned, but also about how these rules are applied and supervised in practice. We need to achieve a truly level playing field that allows for competition and enables financial market players to scale across the EU, without facing barriers and fragmentation.

When it comes to supervisory convergence, this has been a key priority for ESMA for many years. Together with the National Competent Authorities, including in the front line the CSSF, we have done a lot to drive more consistent supervisory outcomes across all the areas under ESMA's remit – including asset management. We need to admit though this push for convergence does not always help to simplify and reduce the regulatory burden. When you try to converge among 27 EU national authorities, there is often the call for more clarity, more detail, more prescription. So, we add to the guidelines, supervisory briefings, Q&As – often on the request of market players, I hasten to add. Convergence work requires lots of efforts, time and resources.

This convergence effort will need to continue if we want the single market in capital to work, as for most of the EU financial market national authorities will remain in charge of the day-to-day supervision. However, I would argue that it also calls for serious reflection on whether - in some specific cases – national level supervision and EU supervisory convergence efforts alone will remain the best and most efficient solution for the EU market. As ESMA we argue, as does the Commission in its Strategy, that it is appropriate to consider the transfer of supervision to EU level in certain circumstances. In particular, we feel that large, cross-border infrastructures such as CCPs and CSDs, or new and emerging sectors such as crypto-asset service providers, are the areas where serious consideration should be given to an enhanced EU supervisory role.

The role of private markets

Of course, agreeing on the application of consistent regulation and aligned supervision is just one [and one could argue important but maybe not the most important] aspect of achieving a true SIU. The Commission's SIU Strategy is clear that much more emphasis must be placed on the needs of EU citizens and companies. It is essential that companies have access to more diversified funding sources to support them through their lifecycle. From startup phases to growth stages and eventual public offerings. While public capital markets remain the backbone of corporate financing, private markets, including venture capital and private equity, play a vital role in filling financing gaps that banks alone cannot meet.

Private capital markets have experienced significant growth in Europe over the past fifteen years, with private equity funds domiciled in the EEA reaching a net asset value of €0.9 trillion by the end of 2023 – more than five times greater than in 2017. However, they remain relatively small compared to public markets and counterparts in the US and Asia. This disparity suggests untapped potential within Europe's private capital markets, which we must work to unlock.

To further mobilise and scale institutional, but also possibly retail, capital in private markets, the EU should explore new initiatives, including public-private partnerships, to better support the growth of critical business sectors in the EU. Equally, where regulatory frameworks exist that are designed to boost these markets, we should ensure that they are suitably calibrated to function as intended.

For example, the European Long-Term Investment Funds (ELTIF) regime can be instrumental in facilitating growth in long-term physical assets. Recent changes to this regime, introduced in 2024, are already showing signs of impact, with almost as many ELTIF funds registered in 2024 as in the previous seven years combined. This demonstrates the power of well-designed frameworks in unlocking investment potential. Similarly, the European Venture Capital Funds (EuVECA) regulation can support venture capital investments, and the Commission's SIU Strategy includes plans to review and upgrade this regulation to make the label more attractive, including by widening the scope of investable assets and strategies.

At the same time, it is crucial to acknowledge that these diverse financing options should complement, not totally replace, traditional bank financing and credit provision. Care is thus needed to strike the right balance between encouraging private capital for the benefit of the economy against measures to mitigate potential risks.

Scaling up retail investment while ensuring protection and stability

Turning our focus to retail investors, their participation in capital markets remains relatively low in Europe compared to other major economies. One of the reasons for this may be that European citizens often have higher social contributions, for which they subsequently benefit from guaranteed public pensions. This reduces the perceived need and also incentive for some citizens to think about long-term investment in capital markets. They may then determine that bank accounts are straight-forward enough, safe, and sufficient to harbour their savings. However, with changing demographics, societal imperatives, and geopolitical circumstances, it may be better for both citizens and businesses if more of those savings were transformed into suitable investments that support economic growth and wealth sharing. While there are many avenues through which citizens can do this, investment funds are often the most cost-effective and diversified way.

UCITS investment funds are considered the epitome of the European fund industry. For a long time it has been the only fully harmonised fund label available at the European level. It is generally considered to be an example of the success of a well-regulated financial retail product with net assets, according to EFAMA, equal to €15.2 trillion at the end of 2024. It is a label with a clear design – a retail vehicle aiming at investing in very liquid instruments.

However, we also see disparity between US and EU citizens, even when it comes to investing in funds. In 2023, households held 88% of total net assets in US mutual funds[1], whereas in the

[1] Investment Company Institute, Investment Company Factbook – A review of trends and activities in the investment company industry, 2024, p. 45.

EU, retail investors accounted for only 65% of UCITS assets. This illustrates the potential for more retail involvement and puts an onus on asset managers and intermediaries to provide greater access, and to make these products more attractive through focusing on value for money and cost effectiveness.

I mentioned earlier the need to strike the right balance between promotion and the need to remain focused on risk mitigation, whether that is looking at the objective of investor protection or that of stable and orderly markets.

This is why, on several occasions, including here at the 2023 ALFI annual conference[2], I explained the importance of appropriate macro supervision of investment funds. This topic is still very high on ESMA's agenda. Last November, ESMA replied[3] to the consultation of the European Commission on the review of the EU macro-prudential policy framework for NBFI. In this response, we expressed our concerns about possible remaining buckets of unmitigated liquidity mismatches in Open Ended Funds (OEFs) and the need to keep an eye on excessive leverage. In that context, all the provisions on liquidity management under the review of AIFMD and the UCITS Directive, in particular the ones on Liquidity Management Tools (LMTs) and loan-originating AIFs, are important areas of work that we are currently focused on.

Leverage is another topic. I want to be clear that leverage is not necessarily a bad thing from an investor perspective, assuming they understand the associated risk. However, excessive leverage can present risks to financial stability as leverage can amplify existing risks such as market risk, liquidity risk or counterparty risks and interconnectedness. In that context, ESMA plays its role as it participates in the annual risk assessment done by NCAs for AIF under the Article 25 of the AIFMD. This risk assessment consists in identifying individual or group of funds that could pose risks to the financial system and for which leverage limits or any other restrictions might be considered. This is the case, for example, for liability driven investment (LDI) funds denominated in GBP, on which last year CSSF and CBI imposed restrictions on the interest rate risk they can take.

The sustainable finance agenda: focus on implementation and supervisory convergence

Let me now turn a very complementary topic to the SIU, sustainable finance. Despite global headwinds to ESG and sustainability investing, ESMA remains committed to its role in making the sustainable finance rule book work and promote convergence application by all NCAs. Supporting the transition of the economy to a more sustainable basis remains a priority for me and for ESMA over the coming years.

We also recognise the importance and potential benefits that the emerging simplification and burden reduction agenda could have for sustainable finance. We will play our part in helping

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[2] ESMA34-466-295 Speech VR ALFI conference March 2023_2.pdf
[3] ESMA50-43599798-9960 Response to the European Commission consultation on the review of the EU macro-prudential policy framework for NBFI

identify areas of the regulatory framework where there may be duplication and unnecessary reporting burdens.

But let us not undersell the advances we have made in Europe and not forget the important objectives of the Green Deal: the need to green the economy to ensure a more sustainable future for the whole planet. I believe we can continue to prioritise this agenda while also considering how to achieve this in a balanced, less burdensome way.

One practical application aspect of the sustainable finance framework relates to our work in protecting investors through our guidelines on ESG and sustainability-related terms in fund names. We started this work to ensure that one of the most important identifiers of investment funds does not mislead investors: the name. We published our guidelines last year and they will start applying for all funds from 21 May this year – an important date in the calendar for all funds with relevant terms in their names. We are monitoring the market and have taken note of many prominent name change announcements. For instance, we have noted that after years of increasing use of ESG terms in fund names, there has been a recent downturn in that use – this is intended and reflects moves to ensure that sustainable and ESG-related names correspond substantively to what those funds do. We will soon publish research we have undertaken into this area to show the current trends, including a positive impact on fund inflows for funds including ESG terms to their name.

You may have seen that last week we published the compliance table for the guidelines, showing that almost all NCAs in the EU are complying with the guidelines. I believe it is a positive signal of the ongoing commitment within the EU supervisory community to the sustainable finance agenda.

Conclusions

Ladies and gentlemen,

I had a number of interesting conversations yesterday here in Luxembourg and one message was very clear, we all have an important role to play in making the SIU a reality. This goal cannot be achieved just by the public or just by the private sector, it cannot be achieved just at EU or just at national level. We all need to work to create integrated and effective capital markets that can finance the critical innovation, transition and security that the EU needs.

To ensure Europe is competitive and attractive, we need to look for opportunities to simplify and reduce unnecessary burdens, but we should not make this a regulatory race to the bottom – a stable and well-regulated and supervised market can be an asset. Finally, we also need to continue to strengthen the vital work on supervisory convergence among NCAs and look at ways to make supervision even more effective and efficient to create a true European single capital market.

I wish you a good rest of the day, enjoy the conference and as always, I look forward to keeping our dialogue open.