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Opening Statement

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Chair
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Economic and Monetary Affairs Committee
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Dear Chairman, honourable Members of the European Parliament,

I am pleased to have the opportunity to give you a brief outline of ESMA's key activities over the past 12 months and of some of the upcoming challenges for the EU's capital markets and ESMA. In this context, I would like to thank the Members of this Committee for their continuous and constructive dialogue with ESMA. I am convinced that ESMA's participation in ECON Scrutiny Slots on the AIFMD 3rd country passport, Benchmarks Regulation and the CRA Regulation as well as Public Hearings on Fintech, CCP Recovery and Resolution and the EU 3rd country equivalence regime, made a valuable contribution to the political debates of this House.

Today, my update, as in previous years, relates to ESMA's four main areas of activity: single rulebook, supervisory convergence, risk assessment and direct supervision. However, for that purpose, and to demonstrate ESMA's contribution to financial stability, orderly markets and investor protection, I will focus on what are, in my view, two important current topics for EU securities markets: MiFID II implementation and Brexit. I will also say some words about the development of the Capital Markets Union and related challenges.

I will begin with MiFID II implementation and use this opportunity to underline how important and, at the same time, resource-intensive this implementation is. We all know that 3 January

2018 is the starting date, but at the same time we should not forget that MiFID II implementation will keep the large part of the regulatory community and financial sector busy for many months afterwards. ESMA has made very extensive efforts to deliver the Level 2 implementing measures in a timely fashion, including the latest one on the Trading Obligation for Derivatives published last month.

Having said that, MIFID II implementation highlights that the single rulebook needs to be complemented by supervisory convergence measures. Therefore, in the past 12 months ESMA issued a large number of guidelines and Q&As – often in response to demands from market participants and National Competent Authorities (NCAs) – to ensure coherent and consistent application of the rules coming into force. A distinctive part of this convergence work relates to ESMA's efforts to strengthen consumer protection, which was clearly one of the main aims of the entire MiFID reform. In addition, ESMA has published specific Opinions on commodity position limits and pre-trade transparency waivers – which number in the hundreds. Finally, together with the NCAs we have set up complex IT systems for trade reporting to facilitate the technical delivery of the legal requirements.

I remain optimistic about our overall readiness to operate within the new framework in less than three months from now. However, one should not underestimate the size and complexity of this project, and thus the risk of potential glitches in the initial operational period. ESMA does acknowledge the multiple challenges for everyone involved, and will address all issues with available tools as the implementation progresses. That said I would also like to draw your attention to resource constraints at ESMA's end, which require some prioritisation of tasks and projects. One example of this is our recent agreement with NCAs to go-live with the new pre-trade transparency and position limits regimes as of January 2018, with certain ESMA Opinions to come only in the months afterwards, where necessary.

This brings me to some Brexit-focused considerations that I would like to share with you, given they relate to all of ESMA's main activities. Let me start with saying that the reality of certain market participants needing to re-locate from the UK to the EU-27 in order to maintain Single Market access sparked some concerns about regulatory arbitrage between the EU-27 Member States in order to attract this business. A timely response was required, and ESMA used its currently available tools to react. We issued one general Opinion in May and three sector-specific ones in July for investment firms, secondary markets and asset management, and tackled key aspects of outsourcing and delegation to third countries. We relied strictly on existing EU legislation, and aimed at providing appropriate guidance to the NCAs, which are dealing with requests from re-locating entities. Moreover, in the interest of supervisory and regulatory convergence, ESMA launched the Supervisory Cooperation Network, offering a forum for NCAs to discuss individual relocation cases on an anonymous basis.

Obviously, Brexit may pose significant financial stability risks, in particular in the event that the UK would leave without any arrangements in place. ESMA has been looking closely at the areas where a cliff-edge effect could mean higher risks for investors and markets as a whole, and, together with other relevant authorities, is working on possible mitigating actions. In addition, as a direct supervisor of Credit Rating Agencies and Trade Repositories within the EU, with a number of entities headquartered in London, ESMA requests appropriate contingency plans from individual supervised entities. ESMA will maintain an ongoing dialogue with stakeholders to reduce as much as possible the risk of disruptions under any scenario.

Brexit also triggered broader political discussions, including in this Committee, as to whether the current 3rd country equivalence model is fit for purpose. ESMA has also recently commenced its work on reviewing its Guidelines for Endorsement of 3rd country Credit Rating Agencies. However, it is clear that some significant legislative changes need to be considered soon, potentially in a horizontal manner. The first steps have been made by the European Commission in relation to the EMIR Regulation, and I welcome the proposal to assign certain supervisory powers over 3rd country CCPs to ESMA, in particular in relation to CCPs having a significant impact on the stability of the EU financial market. Also, the recent ESAs review proposal of the European Commission would not only require ESMA to monitor the equivalence-related developments on an ongoing basis, but also become the direct supervisor of certain key 3rd country benchmarks and prospectuses. In the same vein, assigning supervisory powers for ESMA towards non-EU trading venues could be considered, as suggested in ESMA's consultation response from earlier this year. I believe that such a step to centralise the third country supervision would bring a number of benefits for the Union as a whole, and I would be delighted to have an opportunity to discuss this with you and other elements of the ESAs review proposal in the coming weeks and months.

Let me now turn to the development of the Capital Markets Union (CMU) project, which is supported by two main pillars: financial stability and investor protection, which are both needed to ensure the participation of ordinary consumers in capital market activities. In addition to the work assigned to ESMA under the new Prospectus and Securitisation Regulations, ESMA will continue to progress in its work on the performance and fees of investment services, in particular in a cross-border context. We will also carry on our peer review work, where the most recent one in the area of financial reporting, allowed us to draw some meaningful conclusions on certain Member States' inconsistent supervisory practices. This and other supervisory convergence tools, hopefully to be strengthened in the course of the ESAs review, will surely help ESMA in contributing to enhanced consumer protection across the EU. While in the capital markets area the freedom to locate in one Member State and offer services in others does create various opportunities, we will also need to remain vigilant about the associated risks.

One element of the CMU worth mentioning here, which links to the post-crisis era when ESMA was established, is reporting and data collection. ESMA has put significant resources into building various reporting systems, while at the same time trying to avoid duplications and building on existing requirements. We believe that these investments will particularly benefit our risk analysis work, which in turn will support all of ESMA's objectives in a growing EU capital market.

In conclusion, I would argue for further bold steps to maintain the momentum in the delivery of the CMU following on those initiatives already taken. Now, more than ever there is a need for the strengthening of the EU's capital markets. I would like to reassure you that ESMA will support these aims and I will be looking forward to our continued cooperation on this important topic.