

Opening Statement

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Chair

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Economic and Monetary Affairs Committee

European Parliament

24 October 2022

Dear Chairwoman,

Dear Members of the Economic and Monetary Affairs Committee,

Thank you for the invitation to address you this afternoon. As is customary, I will be glad to provide you with a brief outline of ESMA's key work in the past months. However, please let me start by saying how honoured I am to appear before you for the first time as ESMA Chair.

In taking up my duties about one year ago, I knew that ESMA would have to face various challenges. At the same time, I was and remain convinced that ESMA has the strength and capability to manage through difficult times and has to, and is able to, play an important role in contributing to a sound system of European financial markets supervision.

The economic backdrop to the EU's financial markets has darkened, first with the pandemic (from which we saw a nascent recovery) and now the war in Ukraine. Moreover, Russia's unprovoked military aggression on Ukraine, which is taking a devastating human toll, is testing our European values and unity.

Even though at ESMA we are aware of being a small organisation in the grand scheme of things, we are firmly committed to playing our role in the EU's overall response to the crisis and to continue to support the EU's efforts to build stronger EU capital markets, for the benefit of all.

That is why today I will focus my remarks on how ESMA has helped foster financial stability and ensure efficient supervision to cope with the recent market developments. I will also touch upon ESMA activities aimed at enhancing investor protection, in a context where European citizens and firms are struggling with higher prices but are also more sensitive to sustainability considerations.

Fostering financial stability and ensuring efficient supervision in turbulent times

Firstly, [regarding the war in Ukraine,] not only has ESMA been closely monitoring the impact of Russia's invasion on financial markets in coordination with NCAs. We have also issued guidance in key areas under our remit taking supervisory and coordinating actions to mitigate negative consequences.

As we are approaching what is likely to be a tough winter, the big issue which is now on everyone's minds is of course the energy crisis. While the root causes of rising energy prices are of geopolitical nature, the pain is already felt directly by many European citizens and companies.

ESMA's work in this field has focused on monitoring the degree of stress that some financial markets have been experiencing, and on recommending possible avenues to alleviate part of the strain, without bringing undesirable levels of risks into the EU financial system.

In this respect, at the request of the European Commission following President von der Leyen's latest speech on the state of the Union, we have drawn up a set of proposals aimed at taming some of the adverse consequences observed in the energy markets.

In order to contain excessive volatility and improve the overall functioning of commodities markets, we consider for instance that it could be useful to implement a new EU trading halt mechanism. If well calibrated, such a circuit breaker could support a more orderly price discovery process during times of extreme market stress, by giving participants sufficient time to digest information.

With regards to the substantial margin increases required by central counterparties to cover related exposures, our recommendations include extending the scope of assets that can be used as collateral, on a temporary basis and under strict conditions. I want to emphasise that in general the quality of margins and their timely collection are fundamental characteristics of the resilience of CCPs. Margins have proven their worth since introduced following the Global Financial Crisis. Accordingly, we should ensure that any measures we take do not transfer risk from the energy sector into the financial sector.

More broadly, we would see merit in improving regulatory reporting on commodity derivatives trading by providing EU regulators with better visibility on transactions and daily positions involving wholesale energy products such as gas and electricity. They for now escape the MiFID II and EMIR transparency requirements, as they do not qualify as financial instruments.

Finally, we would consider it appropriate to have commodity traders that act like investment firms properly regulated and supervised, by ensuring that the entities with the biggest footprint on financial markets are duly subject to the same stringent requirements laid out in financial regulation.

Honourable Members of the European Parliament, as we continue to navigate geopolitical challenges, we should always think about ways to enhance the resiliency, efficiency, and transparency of our capital markets. What additional tools, competencies, and data do supervisors need to do their job? Which rules may we need to meet the promises and challenges of technological innovation and to support the Union's necessary shift towards a more sustainable model?

In an environment marked by soaring inflation, keeping the retail investor perspective in mind when answering these questions is of the essence.

Enhancing protection of retail investors through an improved disclosure framework

Ensuring that retail investors are provided with clear and reliable information as well as with unbiased investment advice has always been core to ESMA's mandate. In the last year, we have conducted significant work and delivered detailed recommendations in support of improved disclosure requirements.

For instance, we have carried out a common supervisory action on costs and fees for UCITS funds across the single market with the NCAs to assess, foster and enforce the compliance with fundamental cost-related provisions in the EU framework. This thorough exercise demonstrated that there was room for improvement on the supervisory side, showed that some asset managers tended to over-rely on delegated portfolio managers for the pricing of the fund, and stressed the importance of ensuring fair compensation to retail investors charged with inappropriate costs and fees.

By proposing to establish the European Single Access Point and a consolidated tape, the European Commission has already shown its commitment to putting investors' information needs at the heart of the Capital Markets Union. I am confident that you, as legislators, will give ESMA the appropriate powers to do what is necessary, so that we can ultimately ease access to information and improve market transparency.

I also trust that you – like us – will be keen to see the European Commission putting forward an ambitious retail investment strategy. As part of this, we believe there is a need to initiate a broader review of the PRIIPs Regulation to resolve long-standing issues regarding for example performance information in the PRIIPs KID. ESMA also issued a report covering disclosures, digital tools & channels as part of our contribution to the retail investment review. We have notably proposed to define minimum 'vital information' that retail investors need to be able to make informed decisions. We also suggested ways to harness the opportunities offered by digital tools, such as using so-called 'layering techniques' to gradually provide investors with the information they need to help address overload and complexity of information.

Enabling sustainable finance and preventing greenwashing

Moving on, I would like to convey a few thoughts on one of the most crucial topics today, namely sustainability.

To say that the demand for sustainable financial products is strong is to state the obvious. At the same time, we should also acknowledge that, without undermining the significant achievement that the various legislative and regulatory initiatives represent, there remains great complexity and real challenge in terms of interpretation and implementation. Navigating through the many different products and offerings and understanding the differences in terms of sustainability remains extremely difficult. Furthermore, ESMA is concerned that the potential mis-selling of ESG-labelled products may lead to a loss of trust in sustainable finance products.

ESMA is determined to help in the pursuit of the transition towards sustainable finance and where possible to provide guidance to address some of the outstanding challenges. In doing so, we will be driven by the need to increase comparability, reduce complexity and, more broadly, to ensure that investors get the right picture to make informed choices about how to best engage in sustainable investing.

In this spirit, and in addition to the extensive work done jointly with EBA and EIOPA, ESMA has published a statement clarifying several areas of regulatory technical standards pertaining to the Sustainable Finance Disclosure Regulation, as we know this is a field where some market participants consider requirements too complex.

We also issued a supervisory briefing on sustainability risks and disclosures in the area of investment management. Supervisory briefings are a useful instrument in ESMA's supervisory convergence toolbox. This particular briefing promotes convergence in the way NCAs should supervise investment funds with sustainability features.

Finally, in response to the lack of transparency and comparability of methodologies underpinning ESG ratings, we have launched a call for evidence to map the landscape of providers operating in the single market. We hope that the European Commission, with your support, will pick the issue of ESG ratings up and take it forward soon in the form of a legislative proposal.

Moving into the future – ESMA 2023-2028 strategy

Dear Chair, dear Members of the Economic and Monetary Affairs Committee,

ESMA has published earlier this month a strategy for the next five years. This strategy will focus on fostering effective markets and financial stability, strengthening supervision, enhancing the protection of retail investors, enabling sustainable finance, as well as facilitating technological innovation and effective use of data.

This mid-term strategy is inspired by ESMA's track record, but also takes into account the future challenges that the EU and its markets and citizens will likely face. I hope the few examples I provided today of ESMA's activities over the last year have been able to reassure you that ESMA (as Europe's financial markets regulator and supervisor) is well prepared to weather the storms ahead.

Nevertheless, we will only be successful if we can count on the constructive cooperation with, and backing from, the European Parliament that ESMA has enjoyed since the very beginning. I would therefore like to stop here by thanking you for your kind attention and for your continued support in the years to come.

I now stand ready to take your questions.