

**Keynote address**  
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Good afternoon Ladies and Gentlemen, Guten Tag meine Damen und Herren

I am delighted to be here at International Investors' Conference on the European Capital Markets Union and I want to thank the Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW) and Better Finance for inviting me to attend this event today.

The Capital Markets Union (CMU) initiative is crucial for building an integrated European Union's single market as a unique area of investment opportunities. One of the key objectives of the European Commission's Investment Plan for Europe is to create a more predictable, stable and clear regulatory environment to promote investments. In this context, the various initiatives

stemming from the Capital Markets Union Action Plan launched in 2015 and its Mid-term review (June 2017) aim at reducing fragmentation in the financial markets. They also aim at increasing the supply of capital to businesses and investment projects through preserving and/or improving both a predictable, stable and clear regulatory environment and the effective enforcement of rights.

Today, I want to give you the sense of the progress made with regards to the CMU initiative with a particular focus on how ESMA is dealing with it and why we believe that the work toward building better and stronger capital markets for a resilient and prosperous Europe should be continued and completed.

### *CMU progress*

The Commission's CMU Action Plan came at a time when the European economy was slowly recovering, but there were still a number of impediments that restricted the access to funding that businesses needed to truly grow. As illustrated in the Green Paper published by the Commission, when compared with other jurisdictions, capital market based financing in Europe appeared underdeveloped and fragmented, and too much reliance was placed on traditional bank financing models. In order to achieve

the ultimate goal of strengthening growth and stimulating investment in the EU, it was crucial to develop stronger and deeper capital markets to allow funds to flow to European companies, thus benefiting the real economy. This was considered particularly important for new entrepreneurial initiatives (notably startups) and other unlisted firms, including SMEs, who normally face the greatest challenges in accessing financing at early stages and do not enjoy the same level of direct access to capital markets as large companies do.

For investors, the CMU aims to bring about enhanced competition, better transparency and improved relevance of information provided regarding the choices and costs of their investments. A deeper and wider CMU would provide European institutional investors with many more options for a better asset allocation. This is vital also for households, who need to have access to the necessary range of products and returns to grow their savings sufficiently for future plans, such as housing, education, and retirement.

More importantly, while ensuring better access to financing and investment opportunities is essential, the more diversified approach promoted by the CMU initiative can also support the creation of a more stable financial system as a whole. An integrated CMU can improve cross-border risk-sharing, thereby

reducing or limiting the effects of regional shocks. Stability inspires confidence, and with this confidence a more efficient allocation of capital across the EU can be achieved.

There are a range of legislative proposals that stem from the 2015 CMU Action Plan. The various proposals are too numerous for me to cover in detail today, so instead I just want to touch upon a few of the most notable initiatives in which ESMA has been, and continues to be, centrally involved.

- *Prospectus*

In June 2017, the new Prospectus Regulation was published. The new rules that will in general streamline the process of raising capital in EU financial markets. As part of this, the Prospectus Regulation will not apply to small capital raisings under EUR 1 million. Disproportionate associated costs of producing a lengthy and expensive prospectus for these types of issues will therefore be removed. Furthermore, and to cater for different types of national corporate structures, Member States will be able to set a threshold of up to EUR 8 million to exempt issuers from the obligation to produce a prospectus.

Under the Prospectus Regulation, ESMA has proposed a large number of simplifications and adaptations of the prospectus regime, aimed at balancing the need for maintaining a strong

level of investor protection while also making it easier and cheaper for companies, and in particular smaller companies, to access capital. At the same time the aim is to improve the accessibility of prospectuses for investors, opening up new possibilities for companies to diversify their financing and reducing the administrative burdens associated with the prospectus regime.

In particular, in March this year, ESMA provided advice to the European Commission for the preparation of the delegated acts of the Prospectus Regulation on three main topics.

In relation to the format and content of prospectus, the advice takes as a starting point the existing prospectus regime, largely proposing to maintain what has proved to be a set of requirements that works well. In addition, ESMA has developed the content of the new Universal Registration Document (URD), a new registration document for issuers of securities that are listed on a regulated market or an MTF. This URD is intended to function as a useful *shelf* registration document, allowing issuers to quickly offer securities to the market.

Secondly, in terms of disclosure, the technical advice proposes for secondary issuance lighter disclosure requirements by better taking into account already publicly available information.

The technical advice identifies also the minimum disclosure requirements for the EU Growth prospectus. In order to ensure a proportionate regime for SMEs, ESMA has adapted the disclosure requirements for an EU Growth prospectus to the issuer's size and the complexity of its operations and balanced this consideration against the needs of investors.

The final set of technical advice is targeted at the approval process of the national competent authorities and sets out criteria for scrutiny and procedures for approval and filing of the prospectus. Here ESMA proposes that standard criteria for scrutiny of the completeness, comprehensibility and consistency of the prospectus should be adopted, and that, beyond these standard criteria, NCAs should have a certain level of flexibility, which in ESMA's view is necessary to ensure investor protection.

- *Securitisation*

Turning to securitisation, as you are aware, the Securitisation Regulation is a key element of the Capital Markets Union project. There was a need to restart high-quality securitisation markets, without repeating the mistakes made before the 2008 financial crisis. Securitisations are highly complex instruments involving many different types of information. The development of a

“simple, transparent and standardised” (STS) securitisation market under the CMU agenda aims to reinvigorate this funding channel to support job creation and a return to sustainable growth. At the same time, the Securitisation Regulation incorporates the lessons from financial crisis. Not surprisingly therefore the work of ESMA under this Regulation has focused on stability, orderly functioning, transparency and investor protection.

In fact, the Securitisation Regulation requires ESMA to act in four distinct capacities: as a regulator, supervisor, mediator, and information hub. I would now like to spend a few minutes summarising ESMA’s recent activities on each of these areas.

Starting with regulatory work, ESMA is tasked with developing numerous draft technical standards, i.e. detailed legislative text to supplement the Regulation. The most impactful of these are the disclosure requirements. The disclosure templates we proposed provide information on the securitisations and aim to provide investors, potential investors, competent authorities, and other public authorities with sufficient information to meet their due diligence and supervisory obligations in the Regulation. Here we were guided by the wish of the co-legislators to ensure a high level of transparency while being conscious of not creating unnecessary additional regulatory burdens on the securitisation

market participants. We also submitted several other technical standards to the Commission this past summer and more recently, on 13 November, we published a set of technical standards on securitisation repositories. These firms will act as central nodes for receiving the disclosure templates that I mentioned above and making them available to investors and other users. This aspect also directly links to ESMA's supervisory role under the Regulation, since securitisation repositories will be registered and supervised by ESMA.

Two other items are on ESMA's radar in the near future. The first concerns ESMA's role as a mediator. Here, we will soon be publishing a set of technical standards on the cooperation arrangements between national competent authorities and the European Supervisory Authorities. ESMA role in supporting the harmonisation of the application and enforcement of the new European securitisation framework is crucial to building a single European securitisation market, as one of the aims of the Capital Markets Union.

The second upcoming item is about ESMA's role as an information hub, which relates to publishing so called STS notifications. This is a key part of the STS arrangement under the Securitisation Regulation. Indeed, a securitisation can only be confirmed as having the STS label, and thus lower capital

requirements, if it appears on ESMA's official website. We are doing our utmost to establish a system that is both robust and as user-friendly as possible. Bearing this in mind, ESMA recently published reporting instructions for providing these STS notifications to ESMA, so that originators and sponsors can test their systems and prepare for the official go-live date in 2019.

- *FinTech and Sustainable Finance*

Let me now move on to two other recent developments intrinsically linked to the CMU, namely the Commission's Action Plan on FinTech and the Action Plan on Sustainable Finance. Both are very important for ESMA. The EU has been proactive in embracing both initiatives, to ensure that we in Europe can be at the forefront of fostering growth and investment in these areas, within a safe and stable environment. The FinTech Action Plan aims to facilitate the digital revolution in finance, everything from crowdfunding to delegated ledger technology, and to help innovators access capital and grow. On the other hand, the Sustainable Finance Action Plan has three main objectives: a) reorienting capital flows towards sustainable investment (in order to achieve sustainable and inclusive growth), b) managing financial risks stemming from environmental, social and governance (ESG) issues and c) fostering transparency and long-termism in financial and economic activity.

Specific actions and mandates are set for ESMA (and the other two European Supervisory Authorities) in the Action Plans. Working on these issues, as a regulator we not only aim to foster the objectives of these plans, but to ensuring that any proposed measures are justified from a risk and financial stability as well as investor protection perspective.

Ultimately the CMU will only succeed if investors are willing to invest in the EU capital market, bringing funding to those who need it. Regulators and supervisors have an important role to play in contributing to the building of a pan-European environment where investors can enjoy the benefit of clear, comprehensive and comparable information and where the boundaries are broken down to create a genuinely European investment market. This needs a level playing field across Europe and an environment where investors feel well informed and safe when putting their money at risk.

I therefore would like to spend the final few minutes to talk about two core aspects of ESMA's work in this context.

### *Investor Protection*

Firstly I would like to mention the goal of rebuilding investors' confidence through improving the quality of information on costs that is provided to investors. While it is not the role of supervisors and maybe not even of legislators to reduce the costs of financial services and financial products, it is however our mission to ensure that consumers are able to understand what are the costs associated with the investment option they choose and thus are able to assess whether they make a cost effective choice that can be compared with other available options. Enhancing transparency on costs and performance is needed in Europe especially in the current low interest rate environment. This is why important pieces of legislation such as PRIIPS or MIFID II increased the level of information on costs that financial institutions must provide to consumers. I am convinced, despite some teething problems, that such increased information on costs in a comparable format will create healthier competition among financial institutions. It will also mean that investors will be better informed, able to make choices and ultimately final consumers might also see reduced costs .

In the same vein, the new MiFID II framework aims at rebuilding investors' confidence by improving transparency and the quality of information in relation to the services provided to clients. In this context, the new MiFID II rule on inducements and in particular

on investment research contribute to fostering investors' confidence and the transparency on costs. MiFID II bans inducements for independent advice and portfolio management, while for other services, inducements are permitted provided that they genuinely improve services provided to individual clients.

### *Supervisory convergence*

The second aspect in achieving a successful pan-European capital market is the need to attract capital from investors, also cross-border.

For that purpose, the existence of new sets of harmonised European legislations is certainly a first and very significant step. But only a consistent and EU-wide convergent interpretation and application of those rules can ensure that in practice the goal of a European CMU is achieved. In that context, ESMA's work on supervisory convergence aims to mitigate risks of divergent practices and ensure a level playing field of high quality regulation and supervision without regulatory arbitrage or a race to the bottom between Member States and national competent authorities. The consistent implementation and application of rules ensures the safety of the financial system, protects investors and ensures orderly markets – wherever you happen to be living or doing your business.

Supervisory convergence also implies that investors receive the same level of protection across the EU independently of the location of the firm providing the services. Only if we can achieve that investors feel equally protected, whether they invest in their own country or in another one in the European Union, will we create the incentives for investors to enter into cross-border investments. In this sense, we believe that consistent and effective supervision significantly contributes to well-functioning pan-European capital markets by eliminating barriers to cross-border investment. Moreover consistent and effective supervision contributes to simplifying the business environment and reducing compliance costs (which result from divergent implementation) for firms operating on a cross-border basis. More effective supervision creates additional single market opportunities to financial entities and investors, and enables companies to access funding in a wider and deeper market. Consistent and effective supervision also contributes to enhancing investor protection, building confidence in capital markets, and to preserving financial stability.

My previous statements on the importance of effective supervisory convergence for building a genuine pan-European capital market allow me to say a few final words on the ESAs review. ESMA has welcomed the Commission's proposal and

notably the draft provisions aiming at strengthening the convergence of supervision across the EU. This proposal builds upon the finding that ESMA's powers and instruments are currently not sufficiently strong to deal with all cases of regulatory or supervisory arbitrage, such as ensuring consistent authorisation scrutiny and consistent supervisory outcomes. We support the idea of the Commission's proposal that ESMA (and other ESAs) should be given the ability to achieve greater convergence among national approaches and decisions because, as I mentioned, this is essential to further the development of the EU single market and the Capital Markets Union. Therefore the general support for the CMU project should go hand in hand with supporting the necessary tools and powers for ESMA to foster further convergence.

### *Conclusion*

Ladies and Gentlemen, it just remains for me to thank DSW and Better Finance again for their invitation today. I do not think I have to convince anyone of you that deep and integrated capital markets in Europe will foster cross-border private risk sharing, thereby boosting the productive and innovative use of private capital, and diversifying the sources of funding to the real



economy. I hope I was able to give you today some insight into ESMA's specific role in this endeavour. We at ESMA are strong supporters of the CMU, as we share the objective of eliminating barriers that are hampering the Single Market in financial services. The arguments supporting the acceleration of the CMU have only become stronger, also in light of Brexit.