

## The State of European Financial Markets

European Securities and Markets Authority Conference Name – Paris

Steven Maijoor  
Chair

Dear Vice-President,

Dear Honourable Members of the European Parliament,

Ladies and Gentlemen,

As Chair of the European Securities and Markets Authority (ESMA) it is an honour to welcome you all here today to Paris for the first major ESMA conference since our foundation in 2011.

MIFID II, the last major piece of the post-financial crisis regulatory agenda, will come into effect in less than three months. This, combined with a strengthening economic recovery, financial innovation opportunities, our largest financial centre moving outside the European Union (EU), and Europe's continued heavy reliance on bank financing, prompts us to reflect on the State of European Financial Markets today and in the future.

I am pleased that we are able to offer you today a unique and diverse programme, with panel sessions focusing on trading and market infrastructures, on the EU's commitment to establish a Capital Markets Union (CMU), on the role of investors and innovation, and on the future of financial regulation.

I would ask that you allow me a few words on where we have come from and where we may be headed, before I officially open this event by giving Vice-President Dombrovskis the floor.

The G20 Pittsburgh Statement of September 2009 was a landmark in financial services with its globally coordinated push for a stronger financial regulatory system. In all honesty, I am not



sure whether it would still be feasible in today's political and economic environment - but it formed the start of the biggest international coordinated reform of our financial system in recent history.

Earlier that year the EU, under Jacques de Larosière's leadership – and I am pleased that Jacques will join us later today – the establishment of the European System of Financial Supervision (ESFS) began – a fundamental altering of the framework and approach to financial regulation and supervision in the EU.

I think we may say that ESMA has been instrumental in the quantum leap the EU has taken in the creation of an EU single rulebook for securities markets and its consistent application across the Union. Alongside this, we have successfully put in place credible and effective risk-based supervision at EU level for credit rating agencies and trade repositories – even before the creation of a Single Supervisory Mechanism for banking supervision.

Now we must maintain our direction of travel and progress on what we need to achieve:

- (i) To build a Capital Markets Union, especially by protecting retail investors;
- (ii) A strong convergent European supervisory culture; and
- (iii) Improving our understanding of trends, risks and vulnerabilities in financial markets.

Let me briefly reflect on those three points.

### **(i) Capital Markets Union**

Let me start with the need to develop the EU's capital markets by protecting retail investors.

Economic growth needs the willingness to take risks. Not the type of risks associated with exotic financial instruments, but the kind of risks that allow companies and entrepreneurs to conduct their business and to innovate, start new projects, and generate new revenues and jobs. The real economy needs capital through channels other than the traditional banking one and it should be more often equity rather than debt.

Nevertheless today almost ten trillion EUR is parked in EU savings accounts, that do not offer interest rates above the ECB staff's projection of 1.5% inflation. Retail investors and

households are losing money while in reality they need above-inflation returns for their plans regarding education, housing, and pensions.

As a regulator, I am of course the first to point out the higher risks for households when they invest in securities markets compared with saving via deposits. However, we all know that households allocating their long-term investments to deposits will miss badly needed investment returns.

When we facilitate better access to capital markets for retail investors, we must acknowledge that a high level of investor protection is essential for a successful CMU. Only when investors feel sufficiently protected will they be willing to enter and participate in the financial markets.

Many retail investors still do not have sufficient trust in financial markets. There may be various reasons for that but one of them is surely that they have too often experienced poor service performance resulting from a lack of transparency, promises of unrealistic expected returns and unexpected hidden costs.

MiFID II will bring a range of measures that will help protect investors further. These include better transparency and granularity on costs and charges, product governance rules to ensure that the investors' best interests are paramount, and powers for ESMA and national authorities to prohibit or restrict products in certain circumstances. As we proceed to implement and realise these positive developments, we should remember that these measures are only as good as how they are supervised and enforced. Also based on our peer reviews, it is clear to me that we should increase our ambition towards supervision and enforcement of consumer protection requirements. National supervisors and ESMA should work together on a stronger European enforcement culture.

The Key Information Document (KID), like MIFID II, introduced as part of the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs) will help to protect investors. It is probably one of the most tangible joint deliverables of the European Supervisory Authorities, for millions of users across the continent. Again, all regulators involved, at national and EU level, need to ensure that it does what it aims to deliver and that it enables consumers to compare different offerings based on a maximum three-page document drafted in plain language. I know that this is also close to the heart of the European Parliament.

Based on a mandate of the European Commission, together with EBA and EIOPA, we are embarking on a large-scale study assessing the reporting of costs and past performance of retail investment products, in order to increase investors' awareness of the net return of these products, and the impact of fees and charges. The implementation of MIFID II and PRIIPS, which will both increase the transparency on costs and charges, provide the right framework for such a study. For securities markets we will initially focus on the costs and performance of UCITS funds. In that context, we will also look into the differences between active and passive investing, and the impact on costs and charges, and long-term return.

## **(ii) Supervisory Convergence**

Let me now move to another focal point for ESMA in the current and future environment – the need for a strong and convergent European supervisory culture. As the EU Single Rulebook took shape, ESMA's strategic orientation began to shift from a focus on developing rules, to an era of ensuring a consistent understanding and application of those rules throughout the Union. Today I believe we need to step up both on supervisory convergence and on supervision itself.

We cannot rest on our laurels after achieving international alignment and developing an EU Single Rulebook. Regulation should also be applied and supervised consistently within the EU Single Market. Or to borrow the words of Tommaso Padoa-Schioppa, – former Member of the ECB Executive Board – : “cross-border supervisory cooperation should be so strong and effective that the collective behaviour of supervisors would appear as a single one”.

We have used all the tools available to us to achieve this objective. Guidelines, Opinions, Q&As, Peer Reviews... to name but a few. They have been vital in setting market participants and national regulators on the same path. However, the enhancement and refinement of these tools is always necessary as our experience grows.

The recent legislative proposals from the Commission recognise this reality, and provide for enhancements to convergence measures in vital areas, such as coordinating the effective supervision by national authorities of outsourcing, delegation, and risk-transfer arrangements to third countries. I also support examining alternative governance arrangements for convergence work. I have seen that our Board with 28 National Competent Authorities (NCAs) works very well for standard-setting but has its limitations for supervisory convergence work:

we need to have a governance of our convergence work which ensures sufficient independence.

Of course, supervisory convergence is not just about ensuring consistent supervisory approaches and outcomes. It also aims at making it easier and smoother for market participants to do business in the EU. Supervisory convergence means consistency across countries – and achieving this means that remaining barriers to cross-border business can be removed, and a truly integrated EU financial market can be created.

### Brexit

Our work on supervisory convergence has become even more important in the context of the UK's withdrawal from the EU. The ESMA Board agreed that we could not allow competition on regulatory and supervisory standards to attract UK entities relocating to the EU27. We have re-emphasised, and published, important general and sectoral principles on fostering consistency in authorisation, supervision and enforcement related to relocation. I would like to use the opportunity to express my gratitude for the good co-operation we have with, and between, NCAs as part of our Supervisory Coordination Network where we discuss important relocation decisions before they are taken at national level.

However, Brexit could also impact the stability and functioning of EU financial markets as the divorce proceedings continue. We have been, and will continue to, monitor closely the risks associated with a withdrawal without appropriate arrangements and, if needed, identify possible mitigating actions. In addition, as the supervisor of Credit Ratings Agencies and Trade Repositories, we have maintained an ongoing dialogue with them and requested their contingency plans to ensure that their post-Brexit set up complies with the relevant legislation.

Having said that, Brexit certainly does not mean that the EU should turn its back on the UK and the rest of the globe. Our pasts are fundamentally interwoven and built upon cooperation, trust and commonality, and our futures should be too – albeit naturally under different circumstances. The UK will not become your average third country. It is worth remembering that today the UK makes up about two thirds of EU equity trading, while representing around a tenth of the EU's population. This will not change in the near future, and business ties with London and the rest of the world will remain. We should not lose sight of that and not let our discussions with the UK affect our global attractiveness.

Therefore, I warmly welcome the European Commission's proposals for EMIR 2.2 and the ESMA Regulation in relation to the centralisation of third country supervision. I believe that this could bring benefits for the Union as a whole and for third countries. Indeed, ESMA can play a strong, central role in the future, as a single access point for third country entities and ensure consistent supervision of those entities across the EU.

As the EMIR 2.2 proposal is now a few months old, and discussions on its substance are intensifying, let me make one comment on the proposal. I strongly believe that the key function of EMIR 2.2 is to safeguard stability of the EU financial markets in a clear and predictable manner for everyone, both in the EU but also outside. Therefore, I think we should try to reduce the complexity of some of the proposed arrangements, and reduce the risk of delayed decision-making and stalemate.

(iii) **Improving our understanding of trends, risks and vulnerabilities in financial markets**

Finally, let me touch upon the need for even further strengthening our understanding of developments in financial markets. First of all we should acknowledge that we have made significant progress in this area since the Financial Crisis, resulting in an improved ability to understand and analyse risks in the financial system. The time that we, as securities regulators, rely upon private sector reports for our risk assessments has passed. Today, ESMA produces its semi-annual Trends, Risks and Vulnerabilities Report, which provides granular information on EU financial markets across various dimensions, upon which we base our policy considerations.

Of course, our ability to continue and improve upon the work in this area depends on one vital ingredient – data. The economist and author Steven Levitt describes data as being one of the most important mechanisms for telling stories. For ESMA and other authorities, we need to become more adept storytellers about what is happening in financial markets today and tomorrow. More specifically, increasingly differentiated data analysis will help us in our core businesses, namely by ensuring regulation and supervision which is data-driven and evidence based. For all this, we need a more uniform and efficient approach to the collection and usage of data.

Like other legislation implemented in response to the Financial Crisis, MiFID II/MiFIR will contribute to this over the years to come. The introduction of new data collection infrastructures like the Financial Instruments Reference Data System and the Access to Trade Repositories Project, luckily more easily referred to as FIRDS and TRACE, will allow even more harmonised and efficient data collection. The delegation of these projects by National Authorities to ESMA also illustrates the desire for a more centralised EU approach and makes ESMA a key part of the global financial markets infrastructure.

While it is clear that much of the post-crisis reform has provided a good basis for increasing our intelligence on underlying risks in the financial system, more can be done to make it more process and cost efficient for firms reporting this information. This in turn will enhance the ability of EU and National Authorities to collect and effectively use this data to fulfil their objectives.

I believe that ESMA should further increase its central role in developing EU-wide databases. Such a concept would allow for mutual access by EU and National Authorities, and the public as necessary, which would in turn reduce duplication of data collection and processing by multiple authorities. The recent Commission proposals on the ESMA Regulation build on this concept by providing a role for ESMA in relation to the collection and dissemination of transaction data directly from market participants to better identify and coordinate market abuses with significant cross-border effects.

Furthermore, I personally believe that we need a common EU financial data strategy amongst EU and National Authorities, paving the way to a more streamlined approach to the collection, transfer and usage of data in the EU. In the first instance, it would help us to harmonise data reporting between different sets of legislation. In the longer term, such a strategy should follow the principle that market participants should only have to report the relevant information once, and to one authority, in one format.

Ladies and gentlemen, it is time to conclude. Financial markets have come a long way since the Pittsburgh Agreement and the De Larosière Report. Since then, we have established a stronger framework of regulation and supervision in the EU, and we are now continuing to ensure consistent supervisory outcomes, built on a more progressive foundation of enhancing the efficiency of capital markets in the EU. The progress made is underpinned by the recent proposals by the European Commission on the ESMA Regulation and on EMIR 2.2, which



suggest that ESMA should play an even stronger role in the future in improving the functioning of the EU Single Market and strengthening financial supervision in the EU. I truly hope we can make another leap forward.

Finally, on a personal note, when I look around the room at the wide variety of participants here now, it becomes clear to me how EU financial markets would not be where they are today, with this promising outlook for the future, were it not for your commitment and contributions. The same holds true for the dedicated work of the staff in ESMA. I would like to thank Verena Ross and all ESMA staff warmly for their strong commitment to ensuring that ESMA achieves its objectives.

Building strong financial markets will continue to be a collaborative effort of EU and national authorities, consumers and financial sector, and I look forward to continuing on this path with all of you.

On that note, I would now like to introduce, and give the floor to, our distinguished keynote speaker today: European Commission Vice-President Valdis Dombrovskis.