

Opening Statement

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Economic and Monetary Affairs Committee **European Parliament**

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Dear Chairwoman, honourable Members of the European Parliament,

Thank you for inviting me to speak before you today. I am pleased to have the opportunity to give you a brief outline of ESMA's key activities over the past 12 months and share some challenges with you.

Before doing so, let me start by saying that my mission as ESMA Interim Chair began on 1 April 2021 following the end of Steven Maijoor's mandate as ESMA Chair. It seems like the transition period is finally reaching its last stage and I particularly would like to thank the Members of the European Parliament for their swift co-operation. *I sincerely hope that Verena Ross can start shortly as ESMA Chair and provide strategic steer so that ESMA can continue to fulfil its mission.*

Allow me to say two things on the ESMA Chair appointment process. Firstly, my term as Interim Chair would not have been possible without ESMA staff, who always remained committed and professional. I would like to thank them for their invaluable support. Secondly, since the ESA review, the appointment of the ESMA Chair lies with the Council and the European Parliament. If we collectively want to be able to attract good candidates for the European Supervisory Authorities (ESAs) also in the future, including from the private sector, the process will need to be streamlined.

Let me now touch upon three key achievements.

Firstly, **governance**. Indeed, there have been important changes to the governance framework, starting with the set-up of the CCP Supervisory Committee under the leadership of Klaus Löber as Chair and Nicoletta Giusto and Froukelien Wendt as Independent Members. *The CCP Supervisory Committee is an important addition and strengthens ESMA's role in enhancing the safety and efficiency of central clearing parties (CCPs) both in the EU and in third countries.*

I am also pleased that following the end of Verena Ross' second mandate as ESMA Executive Director (ED), ESMA's Board of Supervisors appointed Natasha Cazenave as ED from the 1st of June 2021. With the upcoming completion of the ESMA Chair appointment process, ESMA will have a very strong senior management team. *Together they will develop ESMA further also as supervisor, including from next year the supervision of data reporting service providers and benchmark administrators for which we have been actively preparing.*

Secondly, and let me now move closer to ESMA's mission, **investor protection**. Financial technology is rapidly impacting markets. Most young people have never heard of an investment advisor and are buying products on their smartphone. Digitalisation can bring new investment opportunities more accessible and lower costs by fostering competition.

Yet, it is not exempt of challenges. We have seen a surge in cross-border retail trading during the pandemic. *Using sometimes gamified features, innovative online and mobile trading platforms have managed to offer easy-to-use investment services. While the zero-commission business models may attract consumers, they also prompt investor protection concerns, as firms often receive "payment for order flow" compensating for the lack of direct client commissions.*

Consequently, events like the GameStop episode urged ESMA to publish a warning on the use of social media and a statement on "payment for order flow". Furthermore, given the market developments and the significant increase in market activity with regards to Special Purpose Acquisition Companies (SPACs), ESMA issued a public statement, highlighting the complexity of the transactions, *illustrated for example by the risks related to dilution which can have an impact on investor return.*

The rapidly changing landscape and current economic situation emphasize the importance to promote financial literacy of investors. While financial education is critical to ensure investors are capable of making informed decisions, this objective goes beyond the ESAs' remit and touches upon investment cultures and national educational systems.

Thirdly, **supervisory convergence**. Since the last ESA review, and thanks to the European Parliament, ESMA is much better equipped to promote supervisory convergence. The first peer

review under the new framework, led by a senior ESMA Staff Member, was the fast-track peer review on Wirecard. *The peer review focused on the supervisory system for financial reporting in one Member State and identified some impediments. Based on the lessons learned, ESMA suggested changes to the Transparency Directive to the European Commission.*

Beyond Peer reviews, ESMA has a variety of tools at its disposal to foster further convergence in supervisory practices across the EU. In addition, as highlighted in ESMA's upcoming report on NCAs' independence, which is based on International Organization for Securities Commissions' (IOSCO) principles, NCAs' independence is vital to ensure a level playing field of high-quality regulation and supervision.

Through the Union Strategic Supervisory Priorities ESMA and national authorities set common priorities to address risks and problems simultaneously. ESMA's first Supervisory Priorities focus on cost and performance for retail investment products and data quality.

Indeed, costs and fees impact investors' return and can affect their trust in financial markets. We believe that investment firms and fund managers should have their clients' best interests at heart and ensure that costs and charges are disclosed in a transparent and non-complex manner. As we continue to observe differences in the application of MiFID requirements across Member States, ESMA conducted a Common Supervisory Action on suitability requirements and will work together with NCAs on the areas of improvement.

The second priority is data quality. Data is becoming the backbone of well-functioning markets with almost all pieces of EU legislation including a reporting element which are often interlinked. Data is crucial for investors and supervisors for example in providing transparency calculations, to detect market abuse and to identify risk building up in jurisdictions.

Let me now move to three big **challenges** for EU securities markets: digital finance, sustainable finance and the Capital Markets Union (CMU).

First challenge, **digital finance**. Financial markets around the globe have been transforming rapidly.

Threats to cybersecurity have become threats to *our security and we should work together with all authorities to be prepared for such threats as they could pause the functioning of financial markets*. ESMA has provided guidelines to help firms dealing risks arising from cloud outsourcing arrangements and supports the Commission's proposal on DORA, a key step forward notably with regards to the oversight of critical ICT third-party providers.

Digital finance means reliance on data. The volume and complexity of data in securities markets have grown substantially. ESMA intends to further expand its function as an EU financial markets data-hub in cooperation with NCAs by bringing information together and facilitating its use and exchange.

Second challenge, **sustainable finance**. Channelling private investment into the transition to a low-carbon and fair economy is the main objective of sustainable finance. We fully support the Commission's renewed strategy and believe that the EU should continue to take the global lead to achieve international convergence. ESMA therefore actively contributes to and work with international partners such as IOSCO, Financial Stability Board and the Network for Greening the Financial System (NGFS).

The Environment, Social and Governance (ESG) market is developing at a fast pace. ESMA reinforced its market monitoring activities and is calling for quality and reliability of ESG data. In its sustainable finance work ESMA mainly focuses on disclosures and the taxonomy.

We all know that a growing number of citizens and investors are eager to contribute to sustainability. As the markets adjust to this rapid change, there is a material risk of gap between the investor's expectation and the actual investment strategy of products that are presented as sustainable. ESMA has prioritised work to be conducted with NCAs against the risk of greenwashing and to promote consistent and high-quality disclosures.

While the demand for ESG ratings and other assessment tools is growing rapidly, the market for them is currently unregulated. Consequently, we put forward proposals to set-up an appropriate oversight framework for ESG data providers.

Third challenge, **capital markets union**. It has been said several times that to finance our economy, and to create economic growth and jobs, we need open and competitive markets able to attract global and European business and investors.

Many parts of the EU's financial services legislation are currently open for review whilst markets are going through a significant transformation as I described earlier. ESMA contributes to the review of different pieces of legislation notably in relation to the Capital Markets Union (CMU) or as part of the lessons learned following the COVID19 related financial crisis.

In that respect, the EU should consider how such changes will impact our markets and how to ensure they are fit for the future by building further on the strengths of the multiple European financial centres.



Being mindful of the global competitive landscape is even more important since the UK's withdrawal. The UK will undoubtedly continue to develop itself as global financial centre. Whilst the UK is now out of the Union ESMA will continue its constructive dialogue with both the FCA and the Bank of England given the interconnectedness of global markets. International co-operation is essential to find the right balance between ensuring the EU's global competitiveness without starting a regulatory race to the bottom.

Finally let me share one concern on the functioning of the organisation, that is ESMA's funding structure. I would really encourage you consider what could be done to address the complexity and rigidity of ESMA's current budget structure.

Honourable Members of the European Parliament, let me conclude by thanking you for your continued support and by reasserting that ESMA is eager to work with you towards well-functioning financial markets.

Thank you for your attention.