

Driving efficiency: unleashing the potential of EU capital markets

FESE Convention 2023: Brussels, 28 June 2022

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Ladies and Gentlemen, Good morning.

I thank the Federation of European Securities Exchanges (FESE) for giving me the opportunity of addressing you today. I am delighted to stand before you as we gather to discuss the future of European capital markets here in Brussels.

Today I will explain why we must enhance the efficiency of the EU capital markets, before providing you with some insights on ESMA's work in relation to transparency. This includes ESMA's views and contributions to key transparency initiatives, which are relevant in the context of secondary markets. Hopefully these points will stimulate the discussion of our panel afterwards.

Let me first start with the context.

Current challenges: the case for developing the effectiveness of our markets

This morning, we heard the European Commission referring to their Capital Markets Union (CMU) initiatives. The CMU project, while not a new endeavour, has witnessed quite some progress since its inception in 2015. However, the landscape has also undergone important transformations since then: the departure of the United Kingdom from the EU; a financial turmoil stemming from the COVID-19 pandemic; and most recently increasing prices and inflation fuelled, amongst others, by supply-side bottlenecks resulting from the Russian invasion of Ukraine.

One might say that these are enough challenges for a decade. Yet, since I spoke at last year's FESE Convention, additional challenges have become reality. For instance, in the EU we have seen developments in the energy derivative markets. Moreover, earlier this year a turmoil in the US banking sector put European banks under scrutiny, resulting in significant volatility in the markets.

Amidst these challenging times, ESMA has been keeping a vigilant eye on the ever-evolving landscape. In our latest risk monitoring publication, we highlighted a very fragile market environment and the potential risk of market corrections. We have also kept the overall risk assessment across our remit at the highest level¹.

It is true that, so far, our markets have proven themselves resilient to the recent shocks. However, we should not take resilience for granted,

¹ ESMA Report on Trends, Risks and Vulnerabilities, No. 1, 2023, 9 February 2023.

knowing that risks, as I mentioned, remain very high. With this in mind, important policy initiatives but also stringent and pro-active supervision are needed to ensure that the EU markets remain resilient.

I strongly believe that we need to further advance work to increase the efficiency of our markets. This is key because when we have a transparent, liquid, and well-functioning environment, market participants are able to assess and price risks, in an accurate and efficient manner. Investors are, then, able to make informed decisions based on reliable information, reducing the likelihood of mispricing or misallocation of capital. Moreover, efficient markets facilitate the diversification of risks and reduce concentration in a particular asset or sector, making the financial system more resilient to shocks and disruptions.

Additionally, the effectiveness of capital markets is equally important in attracting both domestic and foreign investors. This, in turn, leads to increased investment flows, and can help to foster economic growth within the EU. An environment that supports efficient capital allocation and risk diversification will make EU capital markets more attractive to investors and encourage them to participate in a dynamic and thriving financial ecosystem.

Therefore, I do believe we need joint efforts from policymakers and regulatory and supervisory authorities to increase the effectiveness of EU capital markets.

Now, you may be asking yourselves, what is ESMA's contribution to building effective and attractive European capital markets?

ESMA's approach to enhancing efficiency

Let me first start by saying that effective markets and financial stability are top priorities for ESMA, as a laid out in our 2023-2028 Strategy².

We have committed to ensuring fair and orderly market functioning, by setting high standards of conduct and fostering preparedness of EU markets for potential shocks. As part of this commitment, we have consistently advocated for increased transparency to support efficient market functioning and investor confidence.

Our role is to contribute to shaping the EU rulebook by providing technical advice to the European institutions and to ensure its consistent implementation across all Member States.

Two weeks ago, ESMA launched its Data Strategy for the coming five years, which will strengthen its role both as a data and information hub in the EU and as a supervisor.

It is our objective to provide easier access to financial data, through enhanced data sharing with authorities across the EU. Going beyond better sharing between authorities, initiatives such as ESAP will provide access to financial data to the wider market, including retail investors. Today's financial markets are interconnected. We believe that better access to information and data, exploiting technological innovation where we can, will give us as regulators and supervisors the tools to support more efficient markets.

² ESMA Strategy 2023-2028, October 2022.

However, when I say we want to facilitate the use of new data-related technologies then this is only one aspect of what we aim to accomplish between today and 2028. The activities and projects that we aim to deliver will also contribute to reducing reporting compliance costs for you as regulated entities.

Additionally, we have been working on regulation and enhanced supervision of cross-border activities. This is important as financial markets become ever more interconnected, also thanks to digitalisation. The fact that firms can offer their services freely wherever they want in the EU, on the basis of just one authorised entity, means that we need to ensure collectively with the national competent authorities that supervision remains effective. Finding common ways, through risk-based, outcome focused and data-driven supervision, to focus collectively on the areas of greatest risks is needed to create genuinely effective, efficient and attractive EU financial markets.

We believe, we can help to enhance transparency further through the implementation of the consolidated tapes. They will address the fragmentation of markets and improve access to key market data, facilitating the raising of capital through financial markets. Another aspect is the need to reduce barriers for cross-border capital raising through the implementation of the proposed listings reforms – just to name a couple of the current ‘hot topics’.

Let me now turn to these in a bit more detail.

MiFIR Review – consolidated tapes and PFOF

In 2021, the European Commission released its highly anticipated proposal for the review of MiFIR. For us at ESMA, however, this is not where the process begins. We have actively contributed to this review for several years, embarking on this journey with the publication of our review report on the cost of market data and the consolidated tape in December 2019³. Moreover, our reports on equity and non-equity transparency also contributed to this review. Throughout this period, we have dedicated our efforts to thoroughly examining and providing insights on various aspects of MiFIR, ensuring that our contributions inform the ongoing review process effectively. We need to wait and see the outcome in the trilogues on what the exact shape of particularly the equity tape will be.

At ESMA we firmly believe in the benefit a unified, real-time consolidated tape for each asset class can bring. It can provide transparency through accurate, comparable information for all categories of investors and reduce asymmetries facing market participants. This will, in turn, facilitate the integration of EU markets. All in all, while being conscious of the challenges, the implementation of a consolidated tape will yield tangible outcomes by consolidating vital information on prices and trading opportunities. As such, I believe, it will improve the functioning of EU capital markets.

We need to wait and see the outcome in the trilogues on what the exact shape of, particularly, the equity tape will be. In any case, we support the

³ ESMA MiFID II/MiFIR Review Report No. 1, 5 December 2019.

notion that all market data contributors/all relevant entities in MiFIR must mandatorily contribute data to the tape.

Once there is agreement, ESMA will be expected to launch the first selection procedure for the bond CTP 9 months after entry into force of the revised MiFIR. The subsequent selection procedures for shares and ETFs, as well as derivatives, would start within 6 months of the launch of the previous selection procedure. Selected applicants would then be expected to apply for authorisation. We will also start working on the various mandates for delivering RTS under the MiFIR review as soon as there is political agreement on the file, to be able to deliver on the very challenging timelines.

Finally, I cannot refer to the review of MiFIR without acknowledging our concerns around the practice known as “PFOF”, short for Payment for Order Flow. Here too you will be aware that ESMA has been supportive of a PFOF ban, like FESE. From our perspective, this practice causes a conflict of interest between the firm and its clients. PFOF incentivises the firm to choose the third party offering the highest payment, rather than the one offering the best possible outcome for its clients, when executing their orders. As such, we have been following and will continue to follow the political negotiations by the co-legislators with interest.

Listings reforms

Now let me turn to a different yet equally important topic: the listings reforms.

I do believe that the regulatory framework we have in the EU is overall strong. Indeed, over the years, ESMA has played a central role in shaping

and refining the relevant rules, as well as working with NCAs on ensuring their consistent application. Nevertheless, the simplification of the listing process proposed by the European Commission is seen as a positive step by ESMA, as it should further enhance the appeal of public capital markets for EU companies that need funding.

A streamlined listing process reduces the burden and complexity faced by companies seeking to go public, thereby encouraging more companies to consider listing.

It is in all our interest to develop a regime that fosters the position of EU markets internally and globally; a regime that increases market liquidity, provides a robust trading environment and facilitates access to capital. This is particularly important as we face a myriad of economic challenges, as well as the need to find ways to finance the dual transition to a sustainable and digital era. In this regard, I should note that in a recent report⁴ covering prospectus activity spanning the last 15 years, we observed that from 2007 to 2021 the number of approved prospectuses within the EEA declined 70%. While not unique to the EU, this declining pattern is likewise evident in the count of IPOs occurring in the EEA in recent years. Simultaneously we have witnessed a surge in the number of companies choosing to delist from public markets.

Against this background, the reform of the listing regime is important to increase the number of companies going public in the EU. There is however one aspect which I would like to highlight today where ESMA is

⁴ ESMA Statistical Report on EU Prospectuses, December 2022.

concerned. It relates to the proposed alterations to the insider list regime in the Markets Abuse Regulation. As expressed by ESMA in a letter to the co-legislators in March this year⁵, the proposed changes have the potential to diminish the responsibility placed on companies to manage access to insider information, which could hinder national supervisors' ability to effectively identify and address instances of market abuse. I am pleased to see the Council has supported ESMA's view on this matter in its recently adopted negotiating mandate (and the draft ECON report seems to be going in the same direction).

Apart from this one point, overall, I believe, the Commission's proposal should result in a more proportionate and cost-efficient regulatory regime for issuers, thereby facilitating their access to EU capital markets.

On a final and more general note, I would like to stress that any changes adopted by the co-legislators should aim to maintain strong investor protection, and strong supervision and enforcement, to ensure effective and orderly EU capital markets that cater to the needs of European companies and investors.

Further areas for consideration

We should also acknowledge that, however important the MiFIR review and the listings reforms may be, these are just parts of a wider picture. To fully achieve the dual objective of market effectiveness and attractiveness,

⁵ ESMA letter to the European Parliament and Council, 10 March 2023.

EU policymakers will want to consider holistically all the factors that inform the decisions of issuers and investors.

Indeed, there are number of elements, arising from different policy choices, which directly affect the effectiveness of capital markets. These include issues around taxation, such as the preferential tax treatment given to debt, and the complexity of withholding tax procedures in relation to certain forms of capital gains. Moreover, state pension systems investing in financial instruments may be a powerful tool to channel liquidity into domestic capital markets and better connect retail investors with financial markets.

These are a few examples of aspects which may play an important role in influencing the future of EU capital markets.

Investor culture could also be an important driver and I see a strong connection with financial literacy – or the lack thereof. Here I would like to note that ESMA has been gearing up its work on literacy in cooperation with the other European Supervisory Authorities (ESAs). This includes a joint ESAs thematic repository of national financial education initiatives on digitalisation, as well as a high-level conference on financial education, both delivered last year. ESMA has also issued warnings to retail investors, such on the risks posed by crypto assets. We have also published accessible and easy to understand information on the impact of inflation on real returns. We will continue these efforts jointly with national authorities and across-sectors with the other ESAs.

My aim this morning is not to list all important elements that a well-functioning, effective, efficient, safe and attractive EU capital market

requires (actually, many of these, fall outside ESMA's remit); instead my key message is that we should use this opportunity to reflect on the issue from all angles, going beyond the traditional capital markets perspective. By delving into these multifaceted aspects, we can achieve a comprehensive understanding of the complex dynamics at play to create a successful financial ecosystem.

Convergence

I have so far mentioned certain existing and potential measures that could strengthen the functioning of the EU capital markets. Now, I would like to turn to a final topic – the importance of ensuring the convergence of rules and supervisory practices within the EU. And before we delve into this topic, we must first acknowledge the state of play of the EU capital markets.

As I mentioned earlier, we have seen in the previous years a reduction in the number of prospectus and IPO activities within the EEA, particularly in comparison with for example the US.

I believe that the legislative proposals I referred to before have the potential to enhance the effectiveness and, therefore, the attractiveness of our markets. However, we must be realistic: most jurisdictions are comprised of a single country, whereas we are 27. And the markets in these EU jurisdictions face different realities too. Naturally, this entails additional complexities. Not only in finding common political ambitions to agree upon new laws that can make our markets function better; but also in ensuring proportionality and at the same time uniformly implementing and applying EU laws and having aligned supervisory practices across the

jurisdictions. This is why ESMA's role in ensuring supervisory convergence within the EU is so important.

We play an active role in promoting a common supervisory culture among national authorities, driving towards sound, effective, and consistent supervision on the ground. We are ready to seize the opportunities offered by innovative technologies to strengthen a data-driven supervisory approach across the EU. Joining all our efforts across the EU, in building a common supervisory culture, will help reduce fragmentation for market participants.

ESMA has a diversified toolkit for convergence which allows taking different roles depending on the specific situations. We can act as facilitator to promote expertise sharing, as coordinator to organise concerted supervisory activities across NCAs, or have an intrusive role by assessing the NCA's supervisory practices through peer reviews.

Let me provide you with a few examples of our peer review activity. To begin, last year ESMA examined the national approaches to authorising relocating firms in the context of Brexit. As part of this exercise, the authorisation processes that NCAs applied to (amongst others) trading venues seeking to relocate was considered. And, within this spectrum, particular attention was given to whether NCAs ensured that the choice of their member state for the relocation was driven by objective factors. At the end of the exercise, ESMA made a few recommendations to the NCAs. These recommendations should ensure greater convergence on how NCAs apply the risk-based approach, the proportionality principle and how they judge outsourcing/delegation arrangements.

Additional important pieces of work include a peer review on the supervision of cross-border activities of investment firms to promote stronger supervision of entities acting across the EU. Another peer review which examined the approval procedures of prospectuses by NCAs.

All things considered, I strongly believe that convergence within the EU is a key ingredient to achieve the efficiency of the EU capital markets and we will spare no efforts in this area. Under the ESMA strategy we reconfirmed our ambition in moving towards further strengthening a common supervisory culture and undertaking common coordinated supervisory work, jointly across all the NCAs of the 27 Member States.

Conclusion

Ladies and Gentlemen, our task ahead is not a simple one, but it is one that may result in immense benefits for the EU, its companies and its citizens – if we get it right. I firmly believe that by removing barriers, aligning and simplifying regulations and fostering cross-border cooperation, we will empower businesses and investors to access the capital they need to thrive and expand. This will equally result in risk-sharing, diversification, and resilience, bolstering the overall stability of our financial system, which is so much needed to withstand any headwinds that may be yet to come.

With this, I thank you for your attention and I look forward to further discussing these points in connection with the next panel, on the state of play of European capital markets.

Thank you very much indeed.