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Opening Statement

Economic and Monetary Affairs Committee – European Parliament

Verena Ross

Chair

Dear Chairwoman,

Dear Members of the Economic and Monetary Affairs Committee,

I am delighted and honoured to be back in front of the ECON Committee today, as part of ESMA's important accountability towards the European Parliament. This annual exchange provides me with the opportunity to report to you on how ESMA has been delivering over the past year on all the tasks and responsibilities entrusted to us.

As of this year ESMA has started implementing a forward-looking five-year strategy, building on its experiences and achievements in the past decade. We have the ambition to embrace upcoming opportunities and tackle future challenges, as we work to achieve our mission.

Fostering effective and stable EU markets, enhancing the protection of retail investors, and strengthening EU supervision across European securities markets are the three priorities at the core of this strategy. Underpinning our efforts in these areas is the overarching ambition to be forward thinking with regards to sustainability and technological challenges - and to drive enhanced use of data and innovation across all of our activities. Today, I would like to frame my update to you in light of our strategic priorities.

Against the backdrop of uncertain economic times and heightened geopolitical tensions, EU financial markets have continued to face major challenges. Tighter monetary and financial conditions, on the back of persistent inflationary pressures, mean that financial market participants need to adapt to this rapidly changing environment. So far, the adjustment process in the EU has been largely smooth and the market infrastructure has held up well during recent crises. There remain however significant vulnerabilities in the system, and therefore we are likely to continue to encounter tests to the resilience of our financial system, such as we have seen with the turmoil in certain parts of the global banking sector earlier this year and the energy crisis last autumn.

At such a time, the vigilance of supervisory authorities is fundamental. I am proud to say that ESMA has remained at the forefront of coordinating the actions and information sharing between national competent authorities in the EU and ensuring common approaches to crises responses wherever possible.

The EU energy derivatives market is a good example of where ESMA has stepped up its risk monitoring efforts and mitigating actions over the last year. Since the onset of the energy crisis, instigated by Russia's war on Ukraine, we have prepared proposals aimed at taming some of the adverse consequences which were causing strains in financial markets. Many of these were adopted by co-legislators and are now in place. In addition, ESMA, alongside the Agency for the Cooperation of Energy Regulators (ACER), has been tasked with assessing the market effects of the new market correction mechanism, and we produced two reports in the first quarter of this year and continue to closely monitor the EU energy derivatives markets.

ESMA's overall risk monitoring and analysis relies on good quality and accessible data. As this continues to improve over time, it allows us to strengthen our analysis of the markets and to better identify the build-up of risks in the European financial system. The effective use of data will be crucial part of ESMA's future. To this end, in June we published a new five-year Data Strategy, setting out our intention to make more use of data-related technologies, reducing compliance costs for firms and improving the information and data available to markets and supervisors.

Our enhanced use of data and risk assessment capabilities also play a key role in supporting our model of risk-based, data driven and outcome focused supervision. This approach to supervising EU financial markets is embraced by both ESMA and NCAs. As part of our shared supervisory responsibilities, we seek to strengthen the EU supervisory culture together.

Within ESMA, we have continued to build on our strong supervisory foundation by integrating the new mandates that have begun in early 2022, notably to oversee data reporting service providers, administrators of EU critical benchmarks and non-EU administrators recognised in the EU.

More broadly, ESMA and NCAs have continued to strengthen supervisory convergence to ensure a consistent understanding and application of the EU rulebook and its effective supervision wherever the firm or the investor are located. Our convergence actions focus on matters of most concern for the supervisory community across the EU, and we aim to select the supervisory convergence tools that are most appropriate for effective remediation.

Through the use of Union Strategic Supervisory Priorities (USSPs), we have for example been working closely with NCAs to improve market data quality through common methodologies and thematic reviews. Secondly, in October 2022, we launched a USSP to promote increased and consistent scrutiny of ESG disclosures.

Recognising the risks stemming from incorrect and misleading disclosures, we started a Common Supervisory Action (CSA) to assess the compliance of asset managers with regards to sustainability-related disclosures and the integration of sustainability risks in their activities.

This new Common Supervisory Action comes after successfully concluding a previous one concerning the supervision of the asset valuation rules under UCITS and AIFMD. In our final report published in May, we identified a number of deficiencies on asset valuation which NCAs have committed to address.

We have also continued to use peer reviews to drive more convergence. In December 2022, we concluded a peer review on NCAs' approaches to firms relocating to the EU in the context of Brexit. Our work on this unique event has allowed us to learn important lessons that can help strengthen and more closely align the authorisation processes amongst national authorities.

As always, the protection of retail investors remains at the very heart of what we do. Through our risk assessment work, we aim to identify risky trends, products or services on which we might need to raise awareness amongst investors. For example, in May we published a statement to warn investors of risks that arise when investment firms offer both regulated and unregulated products and services. Another example was when we issued in September last year a statement reminding firms of the impact of inflation in the context of offering investment services to retail clients.

Our goal is to enable retail investor to benefit from participation in sound capital markets. In particular, we have been continuously working on the costs and performance of retail investment products. Besides our annual reports on this important topic, we have - together with NCAs - undertaken a Common Supervisory Action and mystery shopping exercise on disclosures of costs and charges under MiFID II rules. The results published in July this year revealed certain shortcomings that will now be addressed by NCAs.

ESMA has successfully embedded sustainability and technological innovation across all our priorities. These thematic drivers are rapidly changing the world of finance, and therefore also our world, as regulators and supervisors.

The past year has been very eventful on the sustainability front, as we continue to deliver on the ESMA Sustainable Finance Roadmap. The EU's sustainable finance regulatory framework is beginning to settle into place, and ESMA is playing a key role in its implementation. Over the past year we have undertaken important work to this end, such as issuing an opinion on the first set of draft European Sustainability Reporting Standards, publishing a progress report with EBA and EIOPA putting forward a common understanding of greenwashing and the risks posed by this practice, and looking at how to counter misleading ESG naming conventions in funds.

The challenges and opportunities brought about by technological innovation are well recognised by ESMA and NCAs. As supervisors, it is fundamental to stay abreast of these developments, understand the risks posed, and if necessary, to support the adjustment of rules and supervisory practices. Our regulatory framework needs to remain fit-for-purpose in this changing world.

In recent times, we have been working hard on preparing technical rules under the MiCA framework, publishing our first sets of draft standards for consultation. These standards will help to create a comprehensive and consistent European regime and support the authorisation and supervision efforts of NCAs vis-a-vis crypto-asset service providers. At the same time, it is important to acknowledge the challenges that we face in implementing this regime. Ultimately, despite our endeavours, retail investors will not be afforded the same protections as under other regulatory regimes.

Finally, on a personal note and in view of the upcoming European elections next year, I am conscious that when I return for this annual hearing next year, the composition of this Committee may be somewhat different. I would therefore like to thank all the Members of ECON for their continuous support and constructive dialogue with ESMA over the last years.

At ESMA, we remain committed to playing our part in building stable and effective capital markets for Europe that support growth and benefit retail investors. We will continue to work closely with the European Parliament in this endeavour.

Thank you for your attention and I look forward to answering any questions you may have.