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The role of ESG in building an effective Capital Markets Union

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Ladies and Gentlemen,

Good morning. I am delighted to be here with you today and wish to extend my warm thanks to Vassiliki Lazarakou and the Hellenic Capital Market Commission for their kind invitation.

We stand only a couple of weeks before European citizens choose their representatives as Members of the European Parliament. In a few months, we should also know who the 47th President of the United States of America will be. Given the importance of these elections for democracy, this precious asset passed on to us from past generations, I must say that I feel quite humbled to be here in Athens where, around two and a half millennia ago, it all began.

Obviously, my speech today will not be about the history of Athenian democracy through the ages, but rather focus on the role of ESG in building an effective Capital Markets Union (CMU). Still, it strikes me that Athenians invented and used democracy to create rules for prosperity and survival against a backdrop of heightened geopolitical tensions, and amid growing economic and social challenges.

This, to some degree, echoes the difficulties we are facing today, when the threat of war has become tangible again, and as climate change is progressively degrading the planet we live on. From this angle, the conversation on the interlinkages between ESG and CMU is one that matters beyond the mere implications it has for the financial system.

Increasing trust – greenwashing, funds' names

Let me start by outlining why, in my view, the first role that ESG can play in strengthening the CMU revolves, around trust.

Over the last few years, financial markets have seen investor preferences increasingly moving towards financial instruments that embed ESG factors. In turn, with the soaring demand for sustainable investment products, the risk of greenwashing has become more and more acute.

As many of you in the audience are perfectly aware, financial markets regulators and supervisors have to meet legitimately high expectations from stakeholders to maintain an environment of trust, which is core to well-functioning capital markets as well as to financial stability.

On this front, ESMA will soon publish a Final Report on Greenwashing, which we prepared at the official request of the European Commission. This Report, which you will be able to read in a few days, provides a stocktake of the supervisory response to greenwashing risks and identifies ways to enhance the supervisory response, laying out actions for EU National Competent Authorities, ESMA and the European Commission.

While drafting this Greenwashing Report, we are already taking concrete actions to support disclosures of ESG information to investors. Most recently, we delivered Guidelines on funds' names, an exercise which was, I must admit retrospectively, far from being a walk in the park. Crafted with the conviction that ESG terms in funds' names should be backed by material evidence reflected in the funds' investment objectives and policies, these Guidelines will ensure that investors are protected against exaggerated sustainability claims.

Such initiatives show how ESMA strives to enhance trust in EU financial markets and to make ESG investment safe and attractive. Of course, we look at this from the perspective of retail investor protection, but also from the perspective of building effective capital markets.

Fostering integration – green bonds, CSRD

Why do I believe that ESG can enhance the effectiveness of EU capital markets? To me, sustainable finance can also act as a powerful enabler to foster integration of EU financial markets.

Nowadays, ESG products only account for a small proportion of EU financial markets. However, as I hinted previously, this share is rising, which offers a unique opportunity. Because, ‘green capital markets’ – as some have called them – already demonstrate a higher degree of integration.

The case of green bonds is probably most telling in this regard. Amounting to 40% for the global market last year, the EU has managed to establish itself as the worldwide leader in green bond issuance. This is excellent news for the continent since, compared to other parts of the bond market, the EU green bond market features a lower home bias. EU green bonds are twice as likely as other bonds to be held cross-border – which in other words implies that the EU green bond market is more pan-European. The EU Green Bond Standard Regulation, that will enter into force at the end of this year, will further support this development.

Another meaningful illustration that springs to mind is the EU Corporate Sustainable Reporting Directive (CSRD). Under the CSRD, more than 40,000 EU-based companies, plus several thousands of third country businesses, are required to report on ESG matters, both on how sustainability affects corporate performance and on how business activities impact society and the environment.

I would like in passing to commend and praise the work of regulators around the globe, in particular the ISSB and IOSCO, who’s work will ensure the highest possible degree of interoperability.

Returning to Europe, the CSRD is for sure a groundbreaking piece of legislation and an important part of the EU Green Deal, which aims to make Europe the first climate-neutral continent by 2050.

By putting sustainability reporting on an equal footing with financial reporting, the CSRD also represents a paradigm shift in the corporate landscape. The way I look at it, this shift is not just regulatory. Indeed, it reflects broader societal expectations for companies to be accountable for their environmental and social impacts.

Implementing the CSRD will of course not go without challenges. Collecting sometimes sophisticated data, complying with brand new standards, and incorporating sustainability aspects into their core business decisions will undoubtedly require a lot of effort and commitment from companies, especially at the beginning of this transformative journey.

Nevertheless, the long-term advantages will far outweigh the initial obstacles: by encouraging firms to devise climate strategies compatible with net-zero goals and to manage their related risks, the CSRD is likely to give companies greater credibility, attract responsible investors, and provide them with access to a wider pool of capital.

Reducing fragmentation – ESAP

Since I have just mentioned access to capital, I cannot avoid saying a few words on how the European Single Access Point (ESAP) fits in the overall picture. Today, contrary to other jurisdictions like the US or Canada, the EU is not equipped with a one-stop shop where one can retrieve intelligence on companies and their products. If one wishes to invest, she or he has to go through a lot of complex work or, alternatively, pay someone else to conduct the appropriate searches.

With the ESAP, which is to be developed and operated by ESMA, information currently scattered over the 27 EU Member States and coded in different ways and languages will be centralised and made easily available on a single platform. The ESAP will thus facilitate the consultation and comparison of public data by any investor. Since it has been designed on purpose to cover sustainability data, I look upon the ESAP as a useful tool that will greatly leverage the impact of the CSRD and will bolster the single EU capital market.

To recap, should 'green capital markets' continue deepening, should CSRD become the game changer the legislators expect it to be, and should the ESAP be implemented successfully – a scenario which looks ambitious to me, but not out of reach – ESG could play a role in advancing EU financial integration and progressing towards a genuine Capital Markets Union.

Future of the CMU

Ladies and Gentlemen,

In my speech today I have tried to provide you with a few arguments on why ESG might help in improving the effectiveness and integration of EU capital markets.

However, 10 years after the original announcement of the CMU project, many ask questions about the future of the CMU, and also the ESG agenda in Europe, so please allow me to make two further remarks.

The first one relates to the ‘Zeitgeist’ that we have been observing as the next elections in the EU are nearing.

While discussions around the urgency to build more effective and attractive capital markets in the EU are gaining momentum at the highest political level (and rightly so), support for the EU Green Deal and interest in sustainability topics seem to be fading. This to me appears as slightly paradoxical, as the need to mobilise capital to fast track the transition to a carbon neutral economy has never been so crucial.

I hope that the years to come will prove that ESG and effective capital markets intrinsically go hand in hand, and this is exactly the sense of my second remark. We should perhaps not only ask what ESG can do for EU capital markets, but also what financial markets in Europe can do for sustainable finance.

This give me the opportunity to point to one of the 20 recommendations that ESMA has been putting forward in its recent Position Paper. In the common stance, agreed on by the 27 national securities regulators in the ESMA Board of Supervisors, creating more effective and attractive capital markets will necessitate the promotion of EU capital markets as a hub for green finance. And it will be up to all of us in the EU to ensure that European capital market regulations and incentives align to help allocate public and private capital to support sustainable finance projects and EU decarbonisation objectives.

‘In the end, we will conserve only what we love, we will love only what we understand, and we will understand only what we are taught.’ It is with this statement, that the Senegalese forestry engineer Baba Dioum made in 1968 at a meeting of the International Union for the Conservation of Nature and Natural Resources (IUCN), when he expressed the importance of awareness-raising in preserving the environment.

While I have sympathy for those who might find it difficult to fall in love with financial markets, even if they are dedicated securities regulators, I think that we should not underestimate the impact that effective capital markets, in the EU and beyond, can have in addressing the defining challenges of our time.

Thank you very much for your attention.

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