European Securities and Markets Authority

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Public hearing on the review of the EU macro-prudential framework

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Introduction

Ladies and Gentlemen,

Let me thank Vice President Dombrovskis and the Commission for the opportunity to speak today at this hearing on what I believe is a very important topic for the EU, the ESRB and also for ESMA.

The topic is important because we believe that in the coming years the macro-prudential framework in the EU will, indeed, need to be further extended beyond banking. While, at this stage, banking remains the core concern when it comes to financial stability, we well-know that the non-banking sector can impact the stability of the financial system.

ESMA provided an extensive response to the Commission's consultation, so let me focus my remarks today on three topics which I believe are of particular relevance going forward. First, the importance of extending the framework especially in light of the EU's Capital Markets Union project. Second, the existing foundations on which we can base that extension. And finally, a few remarks on institutional design and cooperation.

Extending the macro-prudential framework

ESMA whole-heartedly supports the Commission's Capital Markets Union agenda. The growth potential and need for capital markets in the EU is strong, and well-documented. I have no doubts that implementing the Commission's Action Plan has real potential to unleash additional growth in the EU's capital markets.

This growth will imply even greater involvement of non-bank participants and larger and more interconnected EU capital markets. Ensuring their financial stability, therefore, must be a key element of making EU capital markets stronger.

ESMA plays a central role in this. Already today, it is entrusted with financial-stability responsibilities for all segments under its remit, including the securities markets and investment funds, as well as financial market infrastructures and credit rating agencies.

Building on the existing tools and expertise

Most importantly, an extension of the macro-prudential framework to non-banking will not need to be built from scratch. There are some existing foundations: in fact, important conceptual work is already progressing. At the global level, the FSB and IOSCO are providing financial-stability recommendations relevant to the non-banking sector, including market infrastructures, asset management and Securities Financing Transactions. At the EU level, the work of ESMA and the ESRB support that evolution. These activities can serve as a basis for further work, and help ensure international consistency and effectiveness.

Making the best use of existing competencies should be an important pillar of developing non-bank macro-prudential policies. This is all the more important considering that – compared for example to banking – non-bank activities are highly heterogeneous, and non-bank entities, such as investment funds, Special Purpose Vehicles, and Central Counter Parties (CCPs) present very different risk profiles.

This has two implications: First, securities market regulators' expertise will be crucial. We should ensure that they are sufficiently involved in various phases of the decision making process at the ESRB. Second, macro-prudential tools designed for non-banks need to be fit for purpose and not a mechanistic transposition of macro-prudential tools used in the banking space.

As a next step, the suitability of existing micro tools and available data should be assessed in a macro-prudential context. Making existing micro tools available for also addressing macro-prudential risks will be – I believe – a key precondition for an effective non-bank macro-prudential system.

The reasons for doing so are clear: In asset management, AIFMD already provides a comprehensive framework for the supervision and prudential oversight of alternative funds and private equity in the EU, including leverage limits, as a policy tool that ESMA and the NCAs can use to address excessive exposures. AIFMD also sets a framework for the collection of extensive data from funds for the first time. For CCPs, ESMA's technical standards on margins include provisions to limit pro-cyclicality, and our first EU-wide Stress Test in 2016 provided an important insight into the resilience of CCPs. More generally, ESMA is working on further developing EU-wide stress testing as a tool to assess, in cooperation with the ESRB, the resilience of financial market participants, for example investment funds, to adverse market developments. Finally, the financial crisis demonstrated the need for regulators to be able to monitor the evolution of Securities Financing Transactions markets, the availability of collateral, and innovations such as new forms of collateral, and new types of trades. SFTR establishes a very robust framework on reporting, data collection and data management, which ESMA oversees.

These are examples of powers already at ESMA's disposal, and which could be used to meet macro-prudential objectives. Going forward, the types of powers and instruments which will need to be made available for other segments of the non-banking sector, to contribute to a consistent EU macro-prudential framework, must be assessed.

Defining EU cooperation mechanisms

ESMA is committed to supporting this evolution, and dedicating resources to the development and implementation of the EU macro-prudential framework. AIFMD and MiFIR give concrete examples of the role ESMA could play. Under AIFMD, ESMA performs a coordination role and will ensure that a consistent approach is taken when an NCA decides to impose limits on a fund manager's use of leverage. Moreover, ESMA can issue advice to an NCA setting leverage limits on a comply-or-explain basis. Under MiFIR, ESMA will coordinate the use of MiFIR product intervention powers, or employs its own powers to address a threat to financial stability.

Let me – Ladies and Gentlemen – close my introductory remarks by pointing out the importance of adequately resourcing the authorities involved. The central concern in this context is the availability of market data and our capacities to analyse them adequately. Market data significantly improve our ability to understand the risks to financial stability, and important progress has been made in the EU since the crisis, including EMIR, AIFMD, MiFID and SFTR data sources. However, we should not be complacent as efforts are still needed to further improve data quality and to fill critical data gaps in the investment fund industry, especially for UCITS funds. Adequate resourcing to enable these data collections and analyses is critical, and increasing the current resources, throughout the ESFS including at national level, should be an important priority going forward.

I am very much looking forward to our discussion, and thank you for your attention.