8 February 2023
ESMA24-442-152

# Towards resilient and prosperous EU capital markets

## Latvian Capital Market Forum 2023

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**Chair**

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Good morning Ladies and Gentlemen,

I am delighted to join you today for this year's Latvian Capital Market Forum. I would like to thank the Bank of Latvia for the invitation and opportunity to speak today. Let me take the opportunity to acknowledge the recent change in the supervisory structure in your country – with the integration of the Financial and Capital Market Commission (FCMC) into the central bank. I am sure this new structure will not change your strong cooperation with us at the European Securities and Markets Authority (ESMA).

My intervention today will focus on how capital markets may allow us to overcome the current economic and geopolitical challenges, and describe the associated work that ESMA has been conducting in cooperation with the EU national competent authorities (NCAs). Hopefully, my remarks will help spur on some insightful discussions in the different sessions throughout the day.

**Economy and globalisation**

Before I proceed with my remarks, let me start with the wider context.

The environment we are currently living in is one of growing inflationary pressures and soaring prices. Inflation has been on the rise across western countries to levels last seen decades ago, but it has been particularly pronounced in the Baltics, where annual rates rose above 20 per cent last year and have been consistently high[1].

A general trend of higher inflation has been aggravated by supply-side bottlenecks arising from the Russian invasion of Ukraine. The role of both countries in the global commodity market has caused high fluctuations in the prices of energy, metals, and food.

[1] Eurostat, euroindicators, January 2021. Please note that annual inflation in Estonia has decreased to 17.5% in January 2023.

[These events not only had knock-on effects on economies; they have equally shaken long-standing ties in different regions across the globe. Factors such as trade disputes, the COVID-19 pandemic, and technological advancements induced governments to re-evaluate their strategic dependencies. As a result, Western nations have been seeking new partnerships, and business have begun to diversify their supply chains. Russia's war in Ukraine is accelerating this trend further, casting a shadow on globalisation.]

With rising inflation, monetary policy tightening gathered pace globally. Decades of low interest rates are coming to an end. All in all, global growth is poised to slow down to 2.9% this year, compared to 3.4% in 2022, according to recent International Monetary Fund (IMF) projections[2]. A similar trend is also expected this year in the Baltics, although OECD projections show a small rebound in 2024 in all three countries[3].

The question, therefore, is how to ensure growth amid so many challenges?

I strongly believe that the answer lies in the development of EU capital markets. Having strong capital markets can boost resilience to economic shocks and stimulate sound and sustainable growth for the future.

**Advancing the CMU project**

Advancing the development of effective capital markets is key to ensuring a deeper and more resilient financial system and ultimately a stronger economy. Companies need funding to grow and to face twin challenges of sustainability and technology transformation. Citizens need to enhance saving for old-age. Europe's pension systems are facing significant challenges.

Most companies in EU rely today on bank credit. To diversify funding and make new funding sources available, we need to move away from pure bank funding. Furthermore, we should move from debt-to-equity issuance, to counter the current high level of indebtedness of companies, households and governments. Through effective capital markets, we can also enable Europe's citizens to invest their capital, enhance their savings and participate in the growth of companies. This should be a virtuous circle.

On top of that fragmentation of the EU's capital markets makes it more difficult and costly for companies to access capital, and for investors to diversify their portfolios. By creating a single market for capital, the CMU project can help to reduce these costs and increase the flow of capital to where it is needed most.

[2] International Monetary Fund, World Economic Outlook Update, January 2023.
[3] Organisation for Economic Co-operation and Development (OECD), Economic Forecast Summary of Latvia, Estonia and Lithuania, November 2022.

This project can also play a role in addressing the ongoing challenges of climate change and sustainable development. We need to mobilising private capital towards these important, longer-term goals.

Equally relevant in the CMU project is the national expertise. The NCAs play a pivotal role in ensuring the smooth functioning of the EU capital markets by implementing and enforcing EU legislation at the national level. They are responsible for supervising their respective financial markets, ensuring that they operate in a fair and transparent manner, and protecting the interests of investors and consumers (and not just investors and consumers in their own national boundaries, but also those in other EU countries when firms are providing services cross border).

ESMA will continue driving forward in cooperation with NCAs a set of actions that supports the development of effective and stable financial markets. This is one important priority under our recently published strategy for the next five years. I would like to turn to this and other key aspects of the new ESMA strategy now.

**Effective markets and financial stability**

Effective markets and financial stability remain a strategic priority for ESMA. In the current environment, it is more important than ever that the single market is resilient to economic shocks while stimulating sound and sustainable growth for the future. This also means improving access to a diverse range of funding and investment possibilities for companies.

To contribute to the creation of a deep, efficient, liquid, and accessible EU single market in financial services, ESMA will continue to refine and simplify the Single Rulebook while ensuring its consistent application and effective supervision across the EU, in cooperation with the NCAs.

What will be the concrete steps? Let me give you a few examples of projects ahead:

First of all, developing the European Single Access Point (ESAP). The ESAP will be a public one-stop-shop for financial and sustainability-related information on companies and investment products. The European Commission has proposed that ESMA takes a central role in the creation and maintenance of the ESAP, which will give investors the information they need to make informed investment decisions and provide companies with better visibility.

Secondly, ESMA will help to build consolidated tapes. These tapes will provide centralised information on transactions taking place on trading platforms across the EU. While some details still need to be ironed out, ESMA looks forward to delivering this important project.

Both these new responsibilities will be challenging, but are important parts of developing an effective European capital market. We welcome the central role that has been envisaged for

ESMA to build and operate the ESAP and select, authorise and supervise the consolidated tape providers.

Equally important to gear up EU capital markets is the streamlining of certain rules and finding ways to carefully alleviate some burdens for companies that want or need to raise financing in Europe. This may in turn reduce costs and enhance incentives for such companies to list on public markets. In this sense, we welcome the Listings Package proposal, which was recently unveiled by the European Commission, and its ambition to improve the ability for SMEs and other companies to access public markets.

Finally, but by no means least, let me briefly touch on the importance of not only having effective, but also stable, European financial markets. The recent developments I referred to in the beginning of my remarks have underlined the significance of ESMA's mandate regarding financial stability. Despite high market volatility and large trading volumes, European markets and their key market infrastructures have shown remarkable resilience. In this environment of elevated risk, we will continue to closely observe markets and aim to detect developing threats to financial stability. We need to continue to be vigilant. ESMA with its responsibilities in relation to central counterparty clearing houses (CCPs) under EMIR, and NCAs within their supervisory responsibilities, We need to collaborate actively with NCAs and other EU and global counterparts, to ensure we maintain stability.

**Supervision and convergence**

This leads me to ESMA's second strategic priority which is about strengthening supervision of EU financial markets.

The Single Rulebook has grown significantly in recent years and continues to expand. At ESMA, we have gone from supervising credit rating agencies, to now also directly overseeing trade and securitisation repositories, data reporting service providers, Tier 2 CCPs, and critical benchmark administrators. Logically, having these entities supervised directly by ESMA at EU level has created a unified culture and approach to such market players across the EU.

It is vital that we ensure consistent interpretation and supervision of the Single Rulebook across the entire EU market, both to the benefit of corporates and of retail investors, wherever they are based in the European Union. Where the supervisory responsibilities are at national level, as is the case for the vast majority of supervised entities, ESMA is committed to building a common EU supervisory culture based on shared principles of being risk-based, data-driven, and outcome-focused.

We play an active role in promoting a shared supervisory culture among national authorities, driving towards sound, efficient, and consistent supervision. To accomplish this, we have access to a range of powers and tools, such as the issuance of guidance, common assessments of concrete supervisory cases and the use of common supervisory actions

(CSAs). These tools were strengthened in 2019 as the ESMA agenda advanced and CMU initiatives were further intensified.

One addition to our supervisory convergence toolkit that has been added at that time is the determination of Union Strategic Supervisory Priorities (USSPs). USSPs are a crucial tool that enables ESMA to coordinate supervisory actions with NCAs on relevant topics. The goal is to provide a systematic and comprehensive approach to address key market risks throughout the EU. In October last year, we updated our USSPs to account for important developments: we chose as a new Union wide strategic supervisory priority the increased scrutiny on ESG disclosures to counter greenwashing risks. We also kept the existing USSP on improving market data quality through effective and consistent supervision.

This year, we will also continue developing trusted networks of supervisors to enable the exchange of information across NCAs including through the Voluntary Supervisory Colleges framework. Contrary to the banking regulatory framework for example, in most of ESMA's remit the supervisory cooperation and exchange is not formally supported by a college framework. Through the introduction of voluntary supervisory colleges in a few specific circumstances, we aim to ensure consistent supervision of important groups of financial market participants operating in multiple member states.

In a way, the financial markets here in Latvia and in the Baltics more generally, are a fantastic example of how close supervisory cooperation cross border can work in practice. The Central Bank of Latvia and the Central Bank of Lithuania, as well as the Estonian Financial Supervision and Resolution Authority are actively contributing to the construction of a common supervisory approach in the EU, vis-à-vis the three Nasdaq Baltic stock exchanges and the CSD under one 'Baltic roof'.

**Investor protection**

I would now like to shift my focus and delve into the topic of investor protection, which remains at the heart of our strategic priorities.

Overall, our goal is to enable retail investors to safely participate in financial markets and rely on high quality regulatory information.

The COVID-19 pandemic has accelerated the digitalisation of financial services, making investing more accessible and resulting in increased participation of retail investors in capital markets. This trend of investors diversifying their savings beyond bank deposits and exploring other investment options to meet their long-term financial goals is clearly positive. As regulators and supervisors, we should however not disregard important risks that these investors may be facing.

We have seen investors being targeted by aggressive marketing or by social media influencers promoting high-risk, unsuitable investment options. To combat this, it is crucial that we take joint measures to protect investors and restore trust in the efficiency and integrity of Europe's capital markets.

Against this backdrop, ESMA, together with the other European Supervisory Authorities and the NCAs launched already quite some time ago an EU-wide campaign to sensitise consumers that many crypto-assets are highly risky and speculative. The three Baltic NCAs were fundamental in disseminating this message to their local consumers via website and social media publications.

Our joint actions are key to rebuilding and ensuring consumers' trust in markets. The recent market instability and various scandals have greatly affected this trust and investor sentiment in general. According to our Trends, Risk, and Vulnerabilities Report released in September 2022, retail investor confidence has significantly decreased, even reaching negative levels last year.

While ongoing supervisory attention is essential for investor protection, the forthcoming Retail Investment Strategy by the European Commission will be also crucial to achieving better outcomes for investors and rebuilding trust. In our April 2022 recommendations to the European Commission, we have suggested various measures, including reducing the overwhelming amount of information investors face and utilising effective online engagement while countering misleading marketing campaigns on social media. I very much hope that the upcoming proposal will contain bold measures that, ultimately, make it easier for investors to get the key information and unbiased advice they need to take well-informed investment decisions, whilst also protecting them from aggressive marketing techniques and detrimental practices.

**Sustainable finance and technological innovation**

Alongside our three core priorities – effective and stable markets, strong supervision, and enhanced investor protection - our work will continue to be influenced by two major factors that are fundamentally changing the financial markets: the shift towards a sustainable economy and the growth of data and technological advancements.

Sustainability considerations are deeply integrated in all our initiatives. We are fully committed to playing our part in the sustainable finance transformation and have already released a comprehensive roadmap. Through increasing transparency, addressing the threat of greenwashing, enhancing our regulatory capacity, and closely monitoring risks, we will continue to assist in the transition towards a more sustainable financial and economic system.

Along with the other NCAs, the Central Bank of Latvia and the other Baltic authorities will be instrumental in this process. ESMA will help build its, and NCAs', capacity on sustainable finance through a multi-year training programme. We will also be facilitating the active sharing of supervisory experiences among NCAs in relation to sustainability considerations along the whole investment value chain. Establishing and embedding the regulatory framework in this area is a real challenge for firms, the market and supervisors alike.

Technology is also transforming the operations of financial market participants, bringing new challenges and opportunities for ESMA in both supervision and regulation. Utilising the power of new technologies and data will be crucial for ESMA and NCAs to fulfil their mandates. ESMA aims to reinforce its role as a data centre that contributes to the wider use of data in financial market supervision and to more transparency in the EU financial markets.

The NCAs will be instrumental in the endeavour to utilise the power of new technologies. We need to build on the experience of local markets. The Baltic states are a very good example of regulatory knowledge acquired in the context of financial hubs and regulatory sandboxes. In the last couple of years, you have implemented regulatory frameworks for FinTechs, which has attracted relevant market players. We need to benefit from your knowledge and experience, to build safe environments in which data and technology innovations can thrive.

**Conclusion**

I began my remarks today outlining some of the significant challenges we are currently facing. The days of cheap money and low inflation are no longer with us, and globalisation – as we have known it – can no longer be taken for granted.

A thriving and efficient capital market system should play a crucial role in addressing these challenges and fulfilling long-term societal needs. The joint role of the Baltic authorities and the other NCAs, working with us in ESMA, in driving forward the regulatory and supervisory conditions for effective and stable European capital markets that serve the retail investor cannot be overstated. You will be able to provide the local expertise, knowledge, and support necessary to ensure that we are successful.

Thank you very much indeed.