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Building the EU Capital Markets Union while fostering global financial markets

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Good afternoon Ladies and Gentlemen,

I am very pleased to have the opportunity to give the first of three key-note speeches this afternoon, and I would like to thank both ASIFMA and Afore Consulting for inviting me again to the annual EU-Asia Financial Services Dialogue hosted this year in the beautiful city of Tokyo.

Today I would like to speak about two important objectives: The building of the EU Capital Markets Union and the fostering of global financial markets. The two issues are quite interlinked – if not dependent on each other – and both are at the centre of ESMA's activities.

The EU Capital Markets Union project is celebrating its fifth anniversary this month. This is a good opportunity to take stock of the CMU initiative. Firstly, I should probably clarify upfront that this milestone does not mean that the single capital market in Europe has such a short history. The Members of the European Union already started working on harmonising their legal and regulatory frameworks with the objective of supporting cross-border service provision in financial markets a few decades ago. However, it was European Commission President Jean-Claude Juncker who made the Capital Markets Union a priority in the economic agenda of the now outgoing European Commission, alongside the Banking Union.

To this end, a number of initiatives have been launched since 2014, and ESMA plays an important role in the implementation of these initiatives. We have either already proposed implementing measures or are in the process of defining and finalising them. I would like to discuss today a few key areas of regulatory action, as I believe they are relevant not only in a European context, but also in a global context. These are sustainable finance, technology in financial markets, and effective supervision. Interestingly, these topics also match the main themes of the panel discussions to follow this afternoon, so I will be pleased to offer you an introduction to today's discussions from an ESMA perspective.

Let me first talk about sustainable finance, which is one of the main building blocks of the Capital Markets Union project, and also an excellent example of how well-developed financial markets can help to achieve fundamental shifts to the benefit of everyone's life. I do not need to convince you that the negative impact of climate change is real, and that capital markets can play a key role to address this negative impact.

While we, regulators with a mandate regarding financial markets, are not able to address the main drivers of climate change directly, we do need to ensure that all risks of assets are taken into account and that financial markets respond to the (changing) preferences of investors. Hence, it is not our task to prescribe certain behaviours or to give directions to the market. Instead, also in the area of sustainability, securities regulators acting in line with their mandate, need to ensure that the disclosure, transparency, conduct and governance frameworks consider the sustainability risks of assets and that an increasing number of investors assess the sustainability impact of assets when making an investment decision.

Against this background, the EU Institutions agreed in the first months of this year on legislation that will require financial market participants to make mandatory disclosures in relation to so called ESG – Environmental, Social and Governance – aspects. ESMA will, in the coming months, consult on draft implementing measures under this new law, which are being developed jointly with our colleagues from the banking and insurance sectors in order to achieve similar requirements and a level playing field across the three sectors. Legislation regarding financial benchmarks referencing assets that meet certain sustainability targets, was also politically agreed and will be implemented shortly.

Finally, the EU regulation on taxonomy, which aims to underpin the two just mentioned pieces of legislation, is still under political negotiation, with an expectation that it will be agreed by early 2020. To complement the regulatory picture regarding sustainability, I should also mention that earlier this year we provided advice to the Commission on how environmental and climate change factors should be taken into account by investment firms and asset managers and integrated into their systems and controls.

The client demand for sustainable investment opportunities, both on the institutional and retail side, is a global phenomenon. Therefore, I believe that we need to do our utmost to align as much as possible our developing regulatory frameworks regarding sustainability. If we do not achieve a coordinated approach, we risk that internationally active market players, including the biggest asset managers, insurance undertakings and pension funds, will face competing obligations and methodologies.

Being in Tokyo today, I want to underline that a number of fellow Asian regulators have already undertaken excellent work in this area and support relevant multilateral working groups, including through IOSCO. During my last visit to Asia in May this year, I was pleased to join a roundtable hosted by Ashley Alder of the Hong Kong SFC, with counterparts from China and the EU, for an in-depth conversation on sustainability. Having said that, I believe a broader engagement will be needed and I very much hope that all key jurisdictions get on board to jointly work on ensuring that capital markets take sustainability risks and investor preferences fully into account.

The second area of the Capital Markets Union I want to talk about is the development of new technologies in the financial sector, and the importance of ensuring that the benefits of their use are adequately complemented with regulatory and supervisory measures in order to avoid any unnecessary risk or consumer detriment.

While this area of the Capital Markets Union, seen from a regulatory perspective, has not advanced as fast as that relating to sustainability, there are a number of similarities between the two areas: i) the learning curve for regulators is steep; ii) new market developments disrupt – or have the potential to disrupt – current funding flows of the economy; and iii) a global perspective is needed for an effective regulatory and supervisory response. For example, in the area of virtual currencies and Initial Coin Offerings (ICOs), we have made great efforts to exchange views and align our thinking on how to regulate them across the EU and globally. The core element of our approach to a crypto-asset is simple: when it has the characteristics of a financial instrument, it should be regulated and supervised like a financial instrument. More detail on the implications of this approach can be found in our advice to the European Commission earlier this year.

Finally, on the topic of technology, while you will understand that as a regulator I focus on risks, I would like to underline that technological developments can offer simpler, faster, better and more efficient solutions, which then can result in benefits to end-clients. We have all experienced how, especially in recent years, in many parts of our lives technology has improved services. Similar technological improvements in financial services can be an important contribution to the objectives of the Capital Markets Union.

Let me now turn to the third important aspect of the Capital Markets Union initiative, namely effective supervision of EU financial markets. Over the past two years the EU Institutions have strengthened the supervisory system of financial markets, with gradual steps towards stronger powers for ESMA to ensure consistent supervision across the EU's national supervisors and establishing some direct supervision at EU level. As a result, in the near future, more supervised entities will fall under the remit of ESMA, and this concerns both EU market participants as well as third country market participants active in the European market through equivalence and recognition. Indeed, there are several reasons for also bringing a few, but important third country entities under our supervision, which I believe are worthy noting.

Firstly, and most importantly, the EU financial markets are and will continue to be very open for business coming from outside the EU. With over 120 equivalence decisions in the area of securities markets across various legal frameworks and jurisdictions, the EU has been the world leader in applying the deference principle. A large number of third country market participants, like trading venues, CCPs, and CRAs, can do business in the EU while the EU relies on their home country regulation and supervision.

With the UK leaving the EU soon, the use of the EU equivalence model is expected to grow once an orderly exit is agreed, not only in terms of additional equivalence decisions but also through the proportion of non-EU market participants active in the EU Single Market. From this perspective it is important that the EU creates certain supervisory mechanisms concerning the most significantly important market infrastructures – like CCPs – in order to be able to ensure financial stability, orderly markets and consumer protection within the EU. Based on the new regulation agreed by the EU co-legislators, ESMA is expected to start this role regarding certain third country CCPs already next year.

Secondly, and also as of next year, ESMA will receive additional resources to monitor on an ongoing basis relevant regulatory and supervisory developments in jurisdictions which have received an equivalent status. We aim to approach this new task through enhanced cooperation and more frequent exchanges with fellow securities regulators, including through meetings such as today's EU-Asia Pacific Forum.

Finally, in 2022, ESMA will take over additional direct supervisory mandates over EU entities, and the mandate regarding the recognition of third-country benchmarks. I am convinced that this change and the creation of a centralised function in this regard will offer more clarity regarding the relevant EU processes, as there have reportedly been certain difficulties in the determination of the “EU Member State of reference”, in particular in the Brexit context.

These are indeed a few significant adjustments to the current EU equivalence framework and related practices; however, I wish to underline that the underlying objective of an extensive use of deference by the EU has not changed. Indeed, a deep and vibrant financial market in Europe can be built only with an active and direct participation of players from around the globe.

This point brings me to some forward-looking considerations on the future of the Capital Markets Union. With the new composition of the European Parliament for the years 2019-2024 and with the new European Commission expected to be confirmed in the upcoming weeks, it is time to argue strongly for the continuity of this important initiative. EU financial markets need additional initiatives to get where we want them to be. To me, this specifically means the creation of a stronger equity culture both among EU households and European companies, in particular those in the Small and Medium-sized sector. I strongly believe that the EU financial market needs a broader retail investors’ participation in the years to come, who in that way can benefit, at least in the long run, from higher returns as compared to their current bank deposit savings. A higher level of equity is also beneficial for funding innovative activities and lowering the indebtedness of the private sector.

In addition, I am convinced that further harmonisation of supervisory practices across the EU and – where appropriate and possible – globally, will help create more efficient, less fragmented markets. To this end, ESMA has significantly increased its supervisory convergence activities in recent years, and currently plans to expand that even further in the future.

In conclusion, I would like to reinforce message for today: Building a Capital Markets Union in the EU goes hand in hand with supporting global financial markets. This is equally true for each and every element of the Capital Markets Union: sustainability, financial innovation and strengthened supervision and international cooperation based on a proportionate and effective use of deference among regulators. I expect that the contributions later this afternoon will support this correlation.

Thank you.