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Speech for ESMA Conference 2017 - Paris

Ladies and gentlemen,

It is a pleasure to be here in Paris for the ESMA conference 2017.

For almost 7 years, the European Securities and Markets Authority –or ESMA – has played an essential role in bringing to life the single rulebook for financial services.

As you know, ESMA emerged as a response to the weaknesses in supervision unveiled by the financial crisis. This crisis cost EU taxpayers over €2 trillion, and showed the need for effective EU-wide supervision.

I'm happy to see that today, ESMA with its two sister authorities – the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA)– help to ensure well-regulated and stable financial markets.

Financial markets continuously evolve:

- Cross-border trade in financial services is increasing within the EU.
- New and innovative forms of finance are emerging that spread the benefits of markets wider than previously possible. I'm talking here especially about Fintech and sustainable and green finance.
- And last but not least, we are witnessing the departure of the EU's largest financial centre from the single market.

Our supervisory framework must adapt to these new challenges, and ESMA's role has to evolve in parallel. The single market for capital needs increased supervisory convergence in order to function effectively.

This is why the European Commission presented last month a targeted review of our supervisory system. And in my speech today, I would like to focus on what this review seeks to achieve:

- First, it will give supervisors adequate tools and powers to supervise integrating financial markets and growing cross-border activity.
- Second, it will help them deal with the changing market reality.
- And third, it will help safeguard global financial stability and a level playing field for EU companies.

Let me start with financial integration.

Today, Europe's capital markets are fragmented, and in some cases not very developed. For example, in 2015, the size of stock markets to GDP in Europe was only about 1/3 of that in the US. This illustrates the potential for European companies to make more use of public markets.

The Commission is working at full speed to build a deeper and more integrated market for capital in the EU – the Capital Markets Union.

A single market for capital in the EU would support jobs and growth by increasing the flow of capital to productive investment in our economy. And it would help guard against the effects of financial shocks thanks to increased private risk-sharing. This is essential for a more resilient Economic and Monetary Union.

We have already done a lot to integrate capital markets. For example, we have improved conditions for raising capital on public markets. And we have agreed on a new framework for simple, transparent and standardised securitisation.

Recently, we proposed an EU-label to develop a pan-European market for personal pensions. It should unlock savings currently idling on low-interest rate accounts, and put them to more productive use. This could double the growth of the private pensions market, and create a portable pension product in the EU.

Soon, we will come forward with a proposal to address obstacles to cross-border distribution of funds. This would improve the EU passport and broaden the offer of fund products across the EU.

These are just a few examples of what we are working on. Our goal is to have the CMU building blocks in place by 2019, and I hope to count on your support.

As I mentioned, we recently put forward targeted amendments to our supervisory system.

Our aim is to make sure that supervisory standards and outcomes are the same for all EU companies. We want to guarantee legal certainty and ensure a level playing field. This would especially benefit companies in cross-border business within the EU.

The review seeks to solidify the coordinating role of the European Supervisory Authorities – or ESAs. They would now set EU-wide priorities for supervision and perform rigorous reviews of supervisory authorities across the EU.

They would also get a stronger say in certain areas of strategic importance, such as outsourcing and delegation of activities to third countries. This would help avoid the risk of supervisory arbitrage and forum-shopping.

Today, there is almost no EU-level supervision of capital markets.

Our proposals would expand EU-level supervision in areas where common supervision is more effective, and to the benefit of companies operating cross border.

- This includes the approval of prospectuses, which inform investors about securities offered to the public or admitted to a stock exchange;
- It also includes the authorisation of EU fund labels such as EuVeca, EuSef and ELTIF to help create a genuine single market for these funds;
- It also covers the approval and supervision of critical benchmarks and data reporting services to improve their reliability and data harmonisation.
- Finally, it gives ESMA a greater role in coordinating market abuse investigations, to ensure the stable and orderly functioning of the market.

In addition to expanding the tools and powers of ESMA, the proposal would improve its governance and funding.

It would create a new Executive Board with permanent members, for more effective decision-making and better convergence.

And it would introduce proportional contributions from the financial industry to cover the bulk of its costs, while keeping EU co-financing.

Let me now talk about how we adapted supervision to reflect structural changes in the financial sector. The key for supervisors is to stay attuned to market developments.

In 2016, 75 million online cross-border purchases were made within the EU 27. But millions of EU consumers are charged expensive fees to make cross-border payments or transactions. As part of our Consumer Finance Action Plan, we are working on a proposal to reduce these charges.

Consumers would also benefit from the reform of supervision. ESAs would get better oversight over how consumer protection rules are enforced. In particular, ESMA would now get powers to protect consumers from the miss-selling of funds.

In a few months, MiFID II will finally start to apply. The new rules will make European equities, bonds and derivatives markets much more transparent. They will also increase investor protection and introduce better safeguards against mis-selling of financial products.

MiFID II required a lot of preparation, including from supervisors and market participants. And I know that ESMA has been very busy putting the last touches on the data reporting system that will connect the central hub with over 200 trading venues across the EU.

In our review, we made ESAs active participants in the fight against climate change. There is a clear and urgent need to mobilise billions of euros of private investment towards green and sustainable goals. The proposal would require ESAs to integrate Environmental, Social and Governance considerations in their tasks.

We also want supervision to keep up with the quick evolution of Fintech. Just in the last two years, the number of crowd-funding platforms in the EU has increased by 115 percent. Europe has what it takes to develop a globally competitive Fintech sector. But Fintechs need coherent regulation to scale up and take full advantage of the single market. In our review, we give the ESAs a strong coordinating role for national Fintech initiatives, such as innovation hubs and regulatory sandboxes.

Finally, there is Brexit. The fact that the largest financial centre is leaving the union is a serious concern for many businesses. Pending the outcome of negotiations, it creates legal uncertainty and requires businesses to reassess their strategies. My main priority during the process will be to reduce this uncertainty as much as possible, and preserve the stability and resilience of our financial markets.

We understand the need of industry to have as much clarity as possible. But as you know, we have not yet reached substantial progress on the first set of issues – citizens' rights, financial settlement and the Northern Ireland border - that would allow us to move to the next stages of negotiation. The Commission is reporting this week to the EU Heads of State and government, which will discuss further steps.

Supervisory authorities should also be well prepared, and facilitate industry adaptation where possible. I would like to thank ESMA for their excellent work in mitigating arbitrage risks and forum shopping.

Finally, let me move to the international dimension. Despite the crisis, financial markets remain inherently international. Last year, over 25 percent of global equities and 31 percent of global bonds were owned by foreign investors.

That is why the European Union remains committed to a global rules-based system on common standards. I have just returned from a visit to the US, where this was high on the agenda. To put it simply, international markets need international rules.

Equivalence is one of the tools we have to avoid duplicative regulatory burden on companies. It could be used when we have determined that the rules of a third country lead to a comparable regulatory outcome, while applying a proportionate and risk-based approach.

The Commission has just adopted an equivalence decision on margins for bilateral trades in over-the-counter derivatives for the US. Together with a similar decision by the US Commodity Futures Trading Commission (CFTC) for the EU framework, this would avoid a double regulatory burden for these transactions both in the EU and in the US.

In addition, the European Commission agreed with the US CFTC on a common approach regarding derivatives trading venues. Under this approach, companies will be able to trade derivatives on both EU and US venues, while fully complying with their trading obligations.

These are both practical examples of regulatory deference in action.

As part of last month's proposals, we are proposing an increased role for the European Supervisory Authorities – and ESMA in particular – regarding equivalence. This would help ensure that equivalence decisions are properly monitored and enforced by third country authorities.

ESMA would also be in charge of approving all non-EU prospectuses drawn up under EU rules. This would streamline procedures for companies to tap into EU capital markets and attract investment from across the EU.

Finally, ESMA would endorse non-EU benchmarks for use in the EU, which would significantly reduce the risk of supervisory arbitrage.

Ladies and gentlemen,

The proposals we put forward last month aim to promote stable and resilient markets, reduce costs for companies, and help us respond to new challenges.

And they would mark an important step towards completing the Capital Markets Union and strengthening our single currency.

We are now ready to engage with the European Parliament and Member States towards the adoption of these proposals.

And we look forward to working together with ESMA and other relevant authorities to ensure supervision that is effective and fit for purpose.

Thank you very much.