Q&A

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ESMA Chair's perspective: opportunities and challenges for strengthening capital markets in the EU

What are the key priorities for ESMA in 2022 and the challenges ahead?

As I get into my first calendar year as Chair of ESMA, I can see both a challenging and exciting time ahead. While the EU economy is now on a path to recovery, uncertainty over the speed and resilience of that recovery persists. On top of this, financial markets are changing rapidly through digitalisation and the need to support the sustainability transition. These developments present big challenges, but also opportunities, not just to the markets themselves but also to the EU securities regulatory and supervisory community.

ESMA has a highly ambitious work programme for 2022. Developing rules for both sustainable and digital finance, and supporting their convergent implementation, remains a key priority. The legislative frameworks and market practices in these areas are evolving fast, so it is important that we are on the front foot. Another ESMA priority is to support the development of effective EU capital markets, for the benefit of companies and investors, and in that context, we have an important role to play on various CMU initiatives and associated reviews of EU legislation. For example, the creation of the European Single Access Point (ESAP) and consolidated tapes for various financial instruments will be essential steps forward to increase transparency in the EU markets.

Finally, ESMA's more established tasks continue. Our supervisory convergence agenda remains as busy as ever, with the aim to ensure a risk-based and outcome-focused, consistent, and coordinated approach to supervision across the whole EU market.

This is all about building a common supervisory and enforcement culture in the EU, protecting investors, and supporting orderly and stable financial markets. And last but by no means least, our direct supervisory responsibilities remain a fundamental priority. There are high expectations on ESMA to directly supervise on a day-to-day basis an increasing range of entities, based on an effective risk-based and data driven supervisory approach.

How is the role of ESMA expected to evolve in the coming years? Are we going towards a stronger operational role for ESMA and an increase of direct supervisory responsibilities?

In an ever-changing world, I believe we can expect that ESMA's role will continue to evolve over time. ESMA was a very different organisation when it was established 11 years ago. With financial markets continuously transforming (e.g., the rapid digitalisation of finance and related innovation in new products), it is vital that the authorities overseeing these markets have the tools to ensure stability, credibility, and investor protection in tandem.

There is no doubt that ESMA's supervisory capacity has grown significantly, based on new mandates in the revisions of ESMA's founding regulation and sectoral legislation. Since January this year, we have assumed supervisory responsibilities for critical benchmarks and data reporting service providers. Before that, securitisation repositories and significant non-EU CCPs came within our supervisory scope.

Of course, these all came on top of our original supervisory responsibilities for CRAs and Trade Repositories. ESMA's reputation as a credible and effective direct supervisor means that we are well placed and prepared for further duties in the future, if and when such direct supervision at EU level is merited.

Outside of supervision, ESMA's roles and powers continue to evolve as the EU pushes forward on key initiatives such as sustainable and digital finance and in developing the CMU. Our proposed roles in relation to the ESAP and the consolidated tapes are just two examples of where ESMA will have substantial responsibility in the delivery of important EU-wide projects that will make a difference to the EU capital markets.

The operational implications of these new duties are challenging, as we must manage the seamless implementation of new tasks with staffing and budgeting constraints. In this context, it is vital that the EU supports new initiatives with appropriate resource allocation so that they can be credibly delivered on. ESMA has built up its skills and experience over the last decade, but at its core remain the national authorities. The effective cooperation with them is of immense value and contributes directly to ESMA's success.

Has significant progress been made in the building of an effective EU capital market since the launch of the CMU initiative? What can be a reasonable ambition for Europe in this regard?

From my perspective, progress has been made, but more needs to be done to increase the role of market-based funding sources, especially considering the urgency to channel private capital flows towards sustainable economic activities. Improving access to a diverse range of funding possibilities for European companies, and improving the overall attractiveness of EU capital markets, continues to be a priority as we seek better ways to finance the recovery and the necessary changes to the EU economy.

Overall, further initiatives are needed to allow financial markets to play a more central role and ensure investors can engage in the capital markets in a well-informed and safe way. Therefore, I welcome the extensive and ambitious package the Commission presented in November 2021.

Looking ahead, building an effective EU capital market requires further work to boost retail participation. The picture of citizens' involvement in capital markets across Europe is now very divergent. As an example, in Greece around 85% of household savings are held in bank deposits with the remainder in financial investments. If we look to countries such as Sweden and the Netherlands, we find almost a mirror image with 81% of savings invested, either directly or indirectly.

The Commission's retail investment strategy, which is due to be presented in the first half of the year, will be an important opportunity to reflect on how to streamline investor protection rules, strengthen the support investors can get, and tackle the benefits and risks stemming from digital innovation.

In addition, a pre-requisite to a strong CMU is a common supervisory approach by national authorities, based on a harmonised set of rules. Achieving convergent supervision will lead to a true level-playing field that will foster aligned outcomes across the EU for both firms and investors.

Will the CMU action plan published in November 2021 and the MiFIR review proposals allow a step change in terms of development and integration of EU capital markets?

The CMU package published by the Commission in November 2021 is in my view an extensive and ambitious set of proposals and a step in the right direction.

MiFID II has not met its objective to deliver a consolidated tape. I therefore find it very encouraging that the Commission is now proposing measures to address this. ESAP will enhance investor protection by improving the accessibility and usability of information, notably for sustainable investing. The proposals regarding funds are important to help promote long-term investments, which are key to the recovery, the sustainable transition and to digital infrastructure.

While these are all important steps to help foster retail participation and ensure an appropriate regulatory environment for businesses, there are broader obstacles to capital market integration that need to be resolved at the same time. For example, different national fiscal and insolvency rules continue to contribute to market fragmentation. Aligned ambitions and coherent reform across the entire EU capital markets ecosystem is a must to achieve a successful CMU.