

Steven Maijoor on the State of European Financial Markets

He focused on three key issues in his speech:

1. To build a Capital Markets Union, especially by protecting retail investors;
2. A strong convergent European supervisory culture including Brexit; and
3. Improving our understanding of trends, risks and vulnerabilities in financial markets.

On Capital Markets Union

“Economic growth needs the willingness to take risks. Not the type of risks associated with exotic financial instruments, but the kind of risks that allow companies and entrepreneurs to conduct their business and to innovate, start new projects, and generate new revenues and jobs. The real economy needs capital through channels other than the traditional banking one and it should be more often equity rather than debt.”

“When we facilitate better access to capital markets for retail investors, we must acknowledge that a high level of investor protection is essential for a successful CMU. Only when investors feel sufficiently protected will they be willing to enter and participate in the financial markets.”

“Many retail investors still do not have sufficient trust in financial markets. There may be various reasons for that but one of them is surely that they have too often experienced poor service performance resulting from a lack of transparency, promises of unrealistic expected returns and unexpected hidden costs.”

“MiFID II will bring a range of measures that will help protect investors further. These include better transparency and granularity on costs and charges, product governance rules to ensure that the investors’ best interests are paramount, and powers for ESMA and national authorities to prohibit or restrict products in certain circumstances.”

“The Key Information Document (KID), like MIFID II, introduced as part of the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs) will help to protect investors. It is probably one of the most tangible joint deliverables of the European Supervisory Authorities, for millions of users across the continent. Again, all regulators involved, at national and EU level, need to ensure that it does what it aims to deliver and that it enables consumers to compare different offerings based on a maximum three-

page document drafted in plain language.”

“Based on a mandate of the European Commission, together with EBA and EIOPA, we are embarking on a large-scale study assessing the reporting of costs and past performance of retail investment products, in order to increase investors’ awareness of the net return of these products, and the impact of fees and charges. The implementation of MIFID II and PRIIPS, which will both increase the transparency on costs and charges, provide the right framework for such a study. For securities markets we will initially focus on the costs and performance of UCITS funds. In that context, we will also look into the differences between active and passive investing, and the impact on costs and charges, and long-term return.”

On Supervisory Convergence

“supervisory convergence is not just about ensuring consistent supervisory approaches and outcomes. It also aims at making it easier and smoother for market participants to do business in the EU. Supervisory convergence means consistency across countries – and achieving this means that remaining barriers to cross-border business can be removed, and a truly integrated EU financial market can be created.”

Brexit

“Our work on supervisory convergence has become even more important in the context of the UK’s withdrawal from the EU. The ESMA Board agreed that we could not allow competition on regulatory and supervisory standards to attract UK entities relocating to the EU27. We have re-emphasised, and published, important general and sectoral principles on fostering consistency in authorisation, supervision and enforcement related to relocation. I would like to use the opportunity to express my gratitude for the good co-operation we have with, and between, NCAs as part of our Supervisory Coordination Network where we discuss important relocation decisions before they are taken at national level.”

“However, Brexit could also impact the stability and functioning of EU financial markets as the divorce proceedings continue. We have been, and will continue to, monitor closely the risks associated with a withdrawal without appropriate arrangements and, if needed, identify possible mitigating actions. In addition, as the supervisor of Credit Ratings Agencies and Trade Repositories, we have maintained an ongoing dialogue with them and requested their contingency plans to ensure that their post-Brexit set up complies with the relevant legislation.”

“Having said that, Brexit certainly does not mean that the EU should turn its back on the UK and the rest of the globe. Our pasts are fundamentally interwoven and built upon cooperation, trust and commonality, and our futures should be too – albeit naturally under different circumstances. The UK will not become your average third country. It is worth remembering that today the UK makes up about two thirds of EU equity trading, while representing around a tenth of the EU’s population. This will not change in the near future, and business ties with London and the rest of the world will remain. We should

not lose sight of that and not let our discussions with the UK affect our global attractiveness.”

“Therefore, I warmly welcome the European Commission’s proposals for EMIR 2.2 and the ESMA Regulation in relation to the centralisation of third country supervision. I believe that this could bring benefits for the Union as a whole and for third countries. Indeed, ESMA can play a strong, central role in the future, as a single access point for third country entities and ensure consistent supervision of those entities across the EU.”

On Financial Stability

“Finally, let me touch upon the need for even further strengthening our understanding of developments in financial markets. First of all we should acknowledge that we have made significant progress in this area since the Financial Crisis, resulting in an improved ability to understand and analyse risks in the financial system. The time that we, as securities regulators, rely upon private sector reports for our risk assessments has passed. Today, ESMA produces its semi-annual Trends, Risks and Vulnerabilities Report, which provides granular information on EU financial markets across various dimensions, upon which we base our policy considerations.”

“Like other legislation implemented in response to the Financial Crisis, MiFID II/MiFIR will contribute to this over the years to come. The introduction of new data collection infrastructures like the Financial Instruments Reference Data System and the Access to Trade Repositories Project, luckily more easily referred to as FIRDS and TRACE, will allow even more harmonised and efficient data collection. The delegation of these projects by National Authorities to ESMA also illustrates the desire for a more centralised EU approach and makes ESMA a key part of the global financial markets infrastructure.”

“I believe that ESMA should further increase its central role in developing EU-wide databases. Such a concept would allow for mutual access by EU and National Authorities, and the public as necessary, which would in turn reduce duplication of data collection and processing by multiple authorities. The recent Commission proposals on the ESMA Regulation build on this concept by providing a role for ESMA in relation to the the collection and dissemination of transaction data directly from market participants to better identify and coordinate market abuses with significant cross-border effects.”