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# "Bringing the CMU forward, considering UK's withdrawal, digitalisation and sustainability goals"

**ESMA- Inspiring Confidence in Europe's financial markets**

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***Panel on the future for European capital markets***

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We are here to look into the future of supervision but allow me to start on a slightly nostalgic tone.

I was Member of the European Commission back in autumn 2008 when we established Jacques de Larosierre's group. The group prepared a historical report that surprisingly quickly led to a regulatory and supervisory repair of the European financial system. At that time, it was clear that the Union needs a European, strong and integrated system of regulation and supervision because already then we could see damaging effects of the existing fragmentation. Here we are today, with a decade of hard work on European supervision behind us and seeing that the argument of fragmentation remains still valid. This is a clear evidence that the Union has not reached yet the right balance between the national and the European component of supervision. An evidence that the system has not reached its final destination.

We have built generous rulebooks to prevent developments we do not want to see in the system.

ESMA and its siblings have been contributing to safeguarding stability, reducing fragmentation and enhancing protection of investors, ensuring that market participants comply with existing rules, requirements, guidance and recommendations. ESMA has developed a big toolkit of instruments and actions, from guidance and guidelines, to opinions and consultation papers, public statements reminding firms of existing requirements. The toolkit is not closed and since its entry into force has become more effective. Supervision is a living process.

If you ask me about the future, I believe there is ahead of us the era of supervision. We will need to see in the European supervision a bit of pragmatism, understanding of the importance of fair competition, being vigilant about level playing field, managing risks but also creating space for innovation. I would also say that stability is not only about ensuring compliance with existing rules. This is crucial but not sufficient. Markets will evolve and adapt constantly. Supervision must be capable to identify new threats before they hit. The efficiency of supervision will always depend on a good communication with all stakeholders. The institution must cooperate with policy makers, legislators, regulators and market participants and use forward looking approach. Cooperation with third countries supervision will be more important than ever.

Europe will remain a sui generis jurisdiction, it will continue to face one more hugely important and extraordinary challenge in supervision, the choice between national and European level framework for supervision. This confluence between what should belong to Europe and what could stay at national level is an open issue. Too often, unfortunately, a politicized one. In this context, it is good news to see ESMA's focus is not only on direct supervision but on enhancing convergence, coordinating, launching supervisory actions together with national competent authorities.

Whether there is a need to move toward more centralized supervision is an important question for further reflection, and particularly important in the context of UK withdrawal from EU and the challenge of reducing the unsustainable exposures to the UK CCPs. We all want to see European CCPs growing and expanding, in particular in OTC clearing segment or longer dated swaps. Then, I would say that asking ourselves for how long their supervision should remain a national competence becomes a legitimate question. Times ahead will bring new risks. This will be a challenge for supervision. Its role will be fundamental. The safe way forward will have to be based on trust.

I mentioned the UK withdrawal from EU. The new relation is in the making. As financial sector appears to a very limited extent in the Trade and Cooperation Agreement, except for the right of establishment , some prudential carve outs and mutual recognition of some professional qualifications which matter also for financial sector, the regulatory cooperation on financial services has become the only platform for cooperation in this area. We also know that this voluntary cooperation will have to respect the right to regulate and decision making autonomy of both parties. We also know that UK will diverge and abandon EU rules. Nevertheless, the EU rules will be also evolving.

The European Commission and its counterpart continue working on a joint forum that is seen as a potential enabler of regulatory cooperation, similar to the way we cooperate with the US. In my view, we can still end up with a win-win situation provided the voluntary cooperation can be based on mutual trust. My hope is that both sides will be aiming in the longer term toward a cooperative approach and definitely not toward regulatory arbitrage. The fact of life is that London is not any more a financial center of the EU. On the EU side, financial centers have been emerging in Amsterdam, Paris, Dublin, Frankfurt... However, a big chunk of EU risk is in a third country jurisdiction and these exposures to CCPs in UK are unsustainable.

We see a lot of public consultations with stakeholders in UK on the potential changes to regulation. As rapporteur for EMIR I can only hope that regarding the new British law on recovery and resolution of CCPs will stay close to the outcome of our last year decision.

I also hope that the forum for regulatory dialogue will provide transparency, reduce uncertainty, potentially eliminating regulatory arbitrage, will enable joint approach to international standards. But of course both sides will be free to legislate in a way they consider beneficial from their own interest's point of view. I assume that even if the agreed scope of cooperation could be limited, in such a voluntary process any issue can be put on the table. Stability will matter for both parties.

As we know the first months of the new post Brexit situation have not been smooth, it is not yet clear whether issues that have emerged belong to the teething period or rather signal a very bumpy road for this relation in the future.

For the financial sector, the most important issue is of course the equivalence system, based on a unilateral decision, with the right to withdraw such decision also unilaterally. However, the forum will not be a forum to manage equivalence. I imagine EU will soon start moving on equivalence decisions. We started last year to prepare equivalence decisions. In this process, we collected responses to lengthy questionnaires the Commission sent to the UK partners on a sector-by-sector basis. However, taking equivalence decisions when the partner is a moving target is challenging. Good cooperation based on trust between supervisors will be essential. It should be in both parties' interest to develop a long-term cooperative approach to this relationship. For the Union, it seems necessary to reach consensus and more clarity on what is our long-term plan for financial union.

As I said, handling equivalence with a partner whose mission is to diverge is not going to be easy.
The British open choice between alignment and divergence will be a challenge for us. Today it is not at all clear whether we will see much LPF arbitrage and divergence. There is certainly space for talking and some adjustments. Cooperation between supervisors will be fundamental. In particular regarding market infrastructures. It is also legitimate to say that if the level of exposure to UK CCPs is not sustainable, then we have to identify mechanisms that would reduce those exposures. This implies a need to have a dialogue with CCPs, clients and members and all other stakeholders to understand the mechanism behind decisions on clearing and existing obstacles or incentives needed.

It is actually hardly possible to say something about CMU that would not have been already said but in the context of what I have just said about UK withdrawal I would like to leave with you the first of the four messages on CMU.

UK withdrawal from the EU has undermined our access to deep capital market. However, there should be no trade-off between our efforts to keep close links with the UK capital markets and continuing our long-standing initiative of building our own CMU. We can benefit from both.

Secondly, while having in the EU more diversified financial system gives us a chance to be less vulnerable to shocks, unfortunately European capital markets remain strongly fragmented along national lines which works against this chance. We have to do both, continue developing those markets and work on removing border barriers toward creation of a single capital market.
When markets are fragmented, rules differ and access to services is unequal. The fact that markets are fragmented has negative impact on costs, liquidity and competitiveness. We cannot afford it.

Thirdly, there are 16 actions in the second CMU action plan proposed by the European Commission.
Many I would say. However, very few touch upon truly controversial issues. It is, therefore, hard to find a reason to drag our feet in building the CMU. Of those big issues that require solutions, I would see as particularly important the issue of euro area safe asset that would work toward the integration of capital markets. There is also the urgent need of channelling the savings of European households into long-term assets. For this, we simply have to do whatever it takes.

Fourthly, the supervision. ESMA has been growing gradually and persistently, as supervisor. We have seen ESMA perform well in its supervisory tasks for the last ten years, including its capacity to coordinate national actions and build convergence. There is no reason not to expand its role in the future. I would even say that envisaging its stronger role in capital markets union supervision would strengthen the case for CMU.

Let me also mention two points related to the digital transformation in finance. First, I could not agree more with those who say that we are living now the most transformational period in finance. This is, to a large extent, related to digital transition, as the crisis has accelerated digitalization of finance. Digital operational resilience must be built. Of course, digital finance is still finance and brings risks. There are new assets largely unregulated. There is the unprecedentedly growing need of consumer protection. These issues must be addressed.

My second point is about digital euro. This ECB's initiative on the creation of a digital euro deserves strong support. Still it seems justified to raise in this context some issues that should deserve a special attention. Indeed, ECB is working on a digital euro, and the main message is that it is to complement cash and payment solutions offered by private sector, not replace them. Therefore, there is, in principle, no additional risk to banks. However, one can easily imagine a situation of turmoil which could lead to withdrawal of cash from bank accounts and putting it into the solid, fully protected central bank accounts. This risk must be addressed.

There is yet another challenge in this context related to the existence of vulnerable groups who could encounter problems in the use of digital currency. It should go without saying that digital currency should not discriminate.

Moreover, it seems to me that growing importance of digital currency might have impact on the powers of central banks and monetary policy. This link requires more information and better understanding.

We should enhance the reflection on long-term consequences of digital euro. At an early stage, its pilot usage could be a way and opportunity to check if the technology would work and to what extent citizens would be prepared to use it.

Finally yet importantly, we must not close our eyes on the progress of other jurisdictions in this field. In particular, the advancement of China in introducing the digital renminbi is worth consideration. It seems to have an important geopolitical dimension. The observers point to the fact that for the Chinese central bank it would, in theory, be easier to act in three areas: to lower interest rates below zero, to issue cash directly to those most in need and to monitor flows of money and how it is spent. Some experts put emphasis on specific motivation to start issuing the digital renminbi notably reducing the power of the big tech platforms with digital renminbi offering an alternative. Others would see the political benefit in giving the Chinese the power to moving money across its borders without having to rely on Swift. China seems to be the most advanced jurisdiction with pilot projects allowing them to check whether the technology behind the digital renminbi works and whether people actually want to use it.

Let me finish with a few words on sustainable finance whose role in the capital markets will increase in the years to come. There seems to be a consensus with regard to directing finance toward sustainability. Green transformation is seen as vital for recovery and there will be significant investment involved, both public and private. There is a need for swift completion and implementation of the taxonomy of sustainable economic activities. It can facilitate the transition to sustainability, which goes across the entire economy.

If the new powers to temporarily issue recovery debt, including green and social bonds, make the EU the world's biggest issuer of such bonds, this will require adequate implementation and enforcement capacities. Investors must be provided, through strong standards of transparency and traceability of proceeds from green bond issuance, with a strong degree of legal certainty that their investment will remain green, that it will be used for its stated purpose. If we do it right, the EU could become the world leader in setting standards for green bond issuance.

Last but not least. We need to look at sustainable investment from the long-term perspective. We need to avoid any short-termism in our approach. We should base our decisions on science and availability of data. We should not have a variety of definitions of green energy. Criteria require clarity. On sustainable finance, we are at the beginning of a long journey and reaching consensus on principles is important. In this context, a big elephant in the room is the financing of transition to the final destination by pulling away from fossil fuels.

I believe through sustainable finance we can make Europe an attractive and investible part of the world. Nevertheless, it also goes without saying that, such a big shift toward investment sustainability cannot happen without well-informed and effective supervision.