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Striving for Betterment During Uncertain Times: A Vision for the EU Financial Sector of Tomorrow

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We are having our meeting on the day when in Brussels the democratic world leaders meet sending a clear message to Mr Putin that here it is, the western alliance united against his aggression, and sending also a signal to China.

Had we met a month ago we would have had a different perspective for our conversation.

The good news is that this insane war made the democratic world act in a united way.

The European Union demonstrated an unprecedented speed in its action.

And we can see an unprecedented scope and scale of sanctions imposed by the democratic world, also on the financial sector and interests of Russia.

The current geopolitical situation and what lies ahead carry significant uncertainty and downside risks of global dimension.

COVID-19 is not yet entirely gone.

And the WHO says that we relaxed the restrictions too early.

Inflationary pressures stimulated by energy and commodity prices as well as supply chains bottlenecks will not disappear overnight.

The financial sector demonstrates a lot of resilience. But the level of uncertainty is dramatically high.

We are looking at how massive sanctions imposed within the framework of financial sector work and what are the factors behind their efficiency or lack of it.

We could see how an economy with a low debt levels and vast oil and gas exports, considered one of the most creditworthy, saw its reserves becoming overnight useless for both trade and finance.

In the world of finance, we do not know yet what lessons will be drawn regarding exposures, currency reserves and reserve currencies.

We don't know about the regulators approach to liabilities in foreign currencies, and whether some jurisdictions will impose restrictions on market participants regarding excessive foreign currency liabilities.

Russian default means losses for Western banks and funds.

And we don't know how many of Western investors that hold Russian sovereign and corporate bonds have CDS contracts.

We hear from crypto exchanges that you cannot dodge sanctions by converting your wealth into crypto.

What seems rather clear is that the day after the war, the world will not be the same.

The race between democracies and autocratic regimes will continue and it is still to be won.

In the European Union, the European Commission is working on all kind of repercussions of the war and of sanctions, on their consequences and recommendations for European economy.

We believe that resilient infrastructures combined with a solid modus operandi on sanctions will allow the EU to frame its policy stance and enable European companies compete globally.

For a year now, we have been working in a very close partnership across the Atlantic.

In mid-May the second high level meeting of the EU-US Trade and Cooperation Council will take place in France.

The meeting of the Joint EU-US Financial Regulatory Forum, co-chaired by the Treasury and the Commission, that has already proven to be a good setting to discuss policy ideas and find pathways for solving issues in a pragmatic way, has just taken place.

There also seems to be a consensus among democratic allies that we need to redesign our systems so that kleptocracies do not benefit from them.

The short-term focus now is on the implementation of sanctions.

We hear from the Commission that companies are keen to comply.

But we do not know how long the war will last.

In Europe, we know that we must be strong, united and prepared for next tranche of sanctions if needed.

Some of us believe that a deep, future oriented reflection is needed in the context of sanctions, their second order impact, their collateral costs and their impact on current and future regulatory framework.

There is no doubt that we need to move forward advancing on frameworks for and conducive to massive investment that is and will be even more needed.

We need perfectly orchestrated efforts of regulators, supervisors, legislators to further improve European regulatory environment, make it conducive to financing, stability and global competitiveness.

We have to see that new wave of legislation will not lead to mushrooming of red tape.

The opposite is needed.

In Europe, there is also reflection on finding the best approach to progressive phasing out of exceptional public fiscal support.

That puts even more pressure on private investment.

It was good to hear in Versailles and yesterday in the European Parliament a renewed commitment from the European Council to make our economic base robust.

And to hear a strong commitment to the completion of the Banking Union, to deepening of capital markets and ensuring that financial markets operate in a safe, integrated and transparent framework.

We all know that Europe, unlike US and UK, is not a unified jurisdiction for capital market.

The goal is to create a truly European capital market aiming at getting investment and savings flowing across all member states, benefitting citizens, investors and companies, no matter where in the EU they are based.

In the course of this year, a package of measures will be adopted to improve the ability of companies to raise capital across the EU and ensure that Europeans get the best deals for their savings and investments; to ensure that investors have better access to market data; to encourage long term investment; and make it easier and safer for investment funds to be traded cross border.

And to better connect EU companies with investors, improve companies access to funding, raise investment opportunities for retail investors and further integrate capital markets.

We have to build the capital market with a global mindset.

Capital markets are connected globally and Europe should contribute to sound international environment.

But we will be taking a hard look as well at what is going on in other jurisdictions to avoid putting our financial institutions at disadvantage.

We believe that it is critical for all of us across the globe to build international momentum on sustainable finance.

The post war world will require mobilization of global financial markets for energy transition targets. Adopting the EU green bond and sustainability reporting standards, hoping to have taxonomy that would provide longer-term predictability, necessary disclosure rules are some of the tools we need to address the investment gap.

On sustainable finance, we need international standardization preventing fragmented jurisdictional approaches.

Whatever we will be doing in Europe will be based on open, flexible and outward looking approach, avoiding creating any barriers or incompatibility with rules for globally active investors.

We see it legitimate and natural to spare no effort to ensure that European financial power and markets will grow.

And our strategic responsibility path implies openness and choices that would ensure financial stability.

Through robust regulatory frameworks, we can allow market participants to make their own choices but we also have to ensure that our rulebooks that lower barriers to market entry and market structures are fit for times when things do not go well.

This is important now when we do not know what will be the post war reality.

And when the divergence between jurisdictions can take place.

Today, European capital markets remain highly fragmented. Market participants do not face identical rules and do not have equal access to financial instruments and services.

Fragmentation has led to smaller and disconnected liquidity pools with less efficient and more volatile pricing.

So, yes, we need more transparent, less fragmented capital markets in Europe.

We need well-functioning level playing field across Europe, we need global investment flowing into Europe because they will see Europe as attractive and competitive market.

This is our approach to the new Capital Market Union package: establishing a European single access point; revitalizing the current listing regime; aiming at mobilizing long term investment funds; addressing a number of regulatory gaps regarding management of alternative investment funds; removing obstacles to creation of the consolidated tape; cutting red tape for companies raising funds on European public markets; and reducing current IPOs gap between Europe and other jurisdictions.

We will be doing all that while gearing our investment toward sustainability and digital priorities, and caring about better financial literacy.

We know that financial education is not a panacea but it is important.

We need consumers' trust in financial products.

Especially when we expect years to come to contribute visibly to diversified financing.

And we need better tailored safeguards for the retail investor.

We know that our financial sector might not yet be perfect in terms of the regulatory environment, its resilience to risk, its integration.

And I talked a lot about uncertainty regarding future risks.

But I trust that we will succeed with rebalancing of European financial sector toward more equity financing and linking better savings and investment.

Yes, we are modernizing our financial framework.

We are moving through a new round of regulatory activity.

And we trust we will deliver what is needed.