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"Challenges and opportunities for EU capital market: legislative files, international cooperation and competition"

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Thank you very much for inviting me, it is a pleasure to be back. I regret that I cannot spend the day in London.

In my speech last year, I talked about the impact of the Russian aggression, its consequences for the democratic world and its impact on the EU economy.

And I outlined the priorities for the EU financial markets.

Now 2022 is behind us - and I imagine that many of us are happy about it being gone.

It was a year of unpredicted inflation, falling real incomes, rising interest rates, weaker euro, skyrocketing debts, falling asset prices, markets volatility, worries that Europe might get lost between uncoupling US and China, the persistence of the pandemic, and that's probably not a full list.

A lot of uncertainty remains ahead, and the geopolitical situation continues to carry significant downside risks of global scale.

And what awaits to be done, will not be a walk in the park.

We are still sailing in turbulent waters.

Inflationary pressures are common across all major economies.

While globally we may face the same challenges as other major jurisdictions, Europe is going through a unique situation, as the continent has to grapple with rising energy prices and an increase in living costs and cope with geographical proximity of the war.

There will be long-term effects of the sanctions imposed on Russia, with some economies more vulnerable, some big jurisdictions not applying sanctions and close cooperation between like minded democracies.

We do not know yet the consequences of the war for international monetary system and what Russian default will eventually mean for the financial sector, Western banks, funds and investors that hold Russian sovereign and corporate bonds.

But there are also reasons to be positive.

Since the beginning of the year, the returns on European equity markets have been in the double-digits, outpacing the trends we have seen in other developed markets.

Economic data have also exceeded the expectations, as economies are performing better than anticipated a few months ago.

Yet, it is justified to remain cautious, and not run into the risk of assuming that positive trends will continue.

European policymakers are busy focusing on measures that will strengthen the economy.

The US is rolling out an unprecedented public intervention programme, the Inflation Reduction Act.

What the Biden administration has put forward is an ambitious act to prevent an unmanageable levels of global climate change.

It aims to revitalize the American economy, make the reindustrialization feasible and in doing so position the economy to prevail in the geo-economic and technological global race.

The IRA is many things, but it is mostly about the US domestic strategy for the technological race against China.

For the European Union, the main issue is whether we are ready to share the American global design, linking economy, well-being and sustainability with the security in the emerging geopolitical reality.

The “Green Deal Industrial Plan” recently proposed by the European Commission is about expanding the EU industrial policy to improve competitiveness of the European economy, based on green investment.

While the US is financing the IRA with tax credits and promoting the “Buy American” philosophy, the EU Plan is about choosing between a temporary state aid framework and new funding instruments.

In both jurisdictions the green transition requires massive public and private investment across many sectors of the economy.

Efficient capital markets will be key in channelling private capital where it is most needed.

This growth agenda requires financial services to form its vanguard with the ambition to set standards for the new wave of innovation in finance.

The transatlantic way of coping with the global challenges posed by China seems to rely on a business model taking investment decision away from cost and efficiency toward security and resilience.

For financial markets a public expenditure driven strategic investment model is a challenging territory.

In this context, we need to provide the transatlantic business community with credible and usable tools and regulatory frameworks.

It would be useful to ensure global interoperability in this area.

Some say that the health of the transatlantic relationship will hinge on the EU’s willingness to work with the US to confront China’s geo-economic challenge, but it is also legitimate to ask whether US policy on China will yield the desired outcomes without a close alignment with Europe.

Equally important is to see that Xi Jinping has announced one of the biggest reforms of the supervision of the Chinese financial system in years, including the establishment of a new financial regulatory commission, covering all segments of financial services.

My guess is that China is moving towards a stronger presence in the world of global financial services.

The EU is currently working on a reform of its fiscal rules and aiming to make 2023 the year of capital markets.

The ambition is important because CMU has always been a long term project and today we see that it remains an unfinished business which increases costs and hinders access to liquidity.

Also in the US, the changes proposed by the SEC recently represent the biggest overhaul of the rules in capital markets in decades.

We will need to see how many of those proposed changes will become effective, as there is now some pushback from the industry as well as some policymakers.

In the UK, the Edinburgh reforms package represents the most significant and extensive package of regulatory change since the UK left the EU or, as some say, in more than two decades.

I understand that this does not yet amount to a full blueprint for the future of financial services regulation.

Nevertheless, the aim is clear - to redraw the regulatory regime for most of the asset classes to make it fit for purpose for the years to come.

It is probably too early to tell what the results of this process will be, but a greater emphasis on the philosophy of risk and competitiveness is there.

Also, from our perspective the approach to legislation seems to be more in line with the common law approach which might mean that over time the UK will move toward a regulatory and supervisory structures different than those of the EU.

As the EU regulatory framework is also evolving, we need to continue looking at the UK as much as they do.

The jury is still out regarding potential de-alignment, though.

But our sitting together in the global standard setting bodies suggests that in key areas we may stay similar.

For the time being on both sides the language is the one of reforms rather than of divergence.

In 2022, EU domestic market capitalisation of listed shares accounted for 10% of the world's total, a decline from 18% in 2000.

In 2021, EU market capitalisation reached 74% of EU GDP, against 194% for the US in the same period.

International comparisons are useful, but in reality we need strong, attractive capital markets not to compete with other jurisdictions but to serve the needs of the European economy, ensuring that capital is available and allocated efficiently.

The emerging regulatory framework for European capital market aims at strengthening it through reducing fragmentations; ensuring level playing field between market participants and making EU market as a whole more competitive and more attractive for local and international investors.

These three objectives also underpin the ongoing MIFIR review.

Last week the ECON Committee voted, with an overwhelming majority, in favour of the Parliament's negotiating mandate for the trilogues on this file.

The final text sets forth an ambitious plan for the introduction of a single Consolidated Tape in all asset classes.

In particular, it requires the tape for shares and ETFs to show real-time pre- and post-trade data.

It also subjects market data to reasonable commercial basis rule.

This should contribute to reduce fragmentation and lower the barriers to entry represented by the high market data costs of today.

A well-functioning Consolidated Tape will make it easier for European and international investors to have access to timely trading information, and be able to easily compare prices of securities across Europe, making the European markets - which today are very complex and costly to navigate - much more user friendly.

The amended regulation simplifies and harmonises the transparency rules for market participants.

In non equity markets, the harmonisation of deferrals, will reduce the fragmentation.

We propose changes to the rules around 'dark trading' with the objective to strengthen the price formation process in Europe, and we have introduced greater flexibility, by mandating ESMA to identify the appropriate thresholds and limits to dark trading and empowering it to intervene when necessary.

This approach can strengthen evidence-based supervision and intervention in the markets, and introduce greater flexibility in the system.

My hope is to see a possible agreement on the file before the summer.

I have also began the work on the EMIR review, a key piece of legislation that aims to increase the attractiveness of the EU CCPs and build up the EU clearing capacity.

We are aware that changes to the markets will take some time.

The Commission proposed several measures that will bring benefits to EU CCPs, reducing the regulatory burden for supervisory approval. Bigger market infrastructure with an efficient and harmonised supervisory framework would increase the incentives to clear in Europe.

Over the last few years, through the work that was done on the previous review of EMIR, ESMA took a much bigger role in coordinating the work of NCAs in the clearing space, bringing more convergence to national solutions and as a supervisory body with direct powers gradually and persistently growing and gaining international respect.

I see it justified to farther consolidate its powers.

Risks do not stop at the EU internal borders , there is therefore a strong case for implementing the EU wide supervision.

The fragmentation of supervision has hidden costs, giving way to regulatory competition, reducing investor protection and ultimately increasing the cost of capital.

I have been a longstanding advocate for ESMA to become the single supervisor of EU CCPs, and I hope that with this review we will be able to take meaningful steps forward on this.

Supervision can be supportive and conducive to the CMU.

Twenty seven entry points create the risk of regulatory arbitrage.

European legislators should work to provide Europe with a regulatory environment fostering the capacity to compete globally and influence global standards.

For this to happen we need to see more and more cooperation between policymakers, supervisors and all stakeholders.

The examples of the good work of international standard setting bodies, the Basel Committee, the FSB, or industry-driven initiatives such as the FIX Trading Community have shown the validity of agreeing on regulatory approaches and sharing best-practices across major jurisdictions.

When you look at the Commission legislative programme for 2023, there is more to come.

On financial markets in particular, there will be the proposals on the new Open Finance Framework and of the new Retail Investment Strategy, with its strong focus on investor protection and financial literacy.

There is a strong need of educating European savers with a view to boost retail investment.

The Swedish and the Spanish presidencies of the Council will have a lot on their plates.

There will be trilogues on key files such as the reviews on CSDR, MIFIR, EMIR, and on the Listing Act.

I trust we will continue building European capital market with a global mind-set, and openness at the centre of it.

The global nature of capital markets requires taking a hard look at what is going on in other jurisdictions to avoid putting our financial institutions at disadvantage.

And this year we may finally see the relationship between the EU and the UK on the path towards normalization.

And it matters as changes to the financial services sector take place on both sides of the channel, as well as in the US. And I already mentioned the new plans of China.

Most of you as market players have a strong presence in these markets.

Naturally, the bond across the Channel is today more obviously on our mind.

The recent agreement on the Windsor framework has provided a glimmer of hope that our future relationship can be built based on mutual interests, trust, and respect.

And it is my hope that the Memorandum of Understanding on financial services can be put back on the table, and that a regulatory dialogue between the EU and the UK can be established and the regulators will communicate on a regular basis and that we will focus on the future.

We cannot unpick the connectedness of both financial markets.

To conclude, this year we must seize the opportunities that we have - whether that is about concluding the legislative work on EU files important for the development of our capital market, about continuing on a path of normalisation in our relationships with the UK or working together across the Atlantic. Many thanks.