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Keynote speech

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Dobro jutro! (Good morning!)

Good morning, Ladies and Gentlemen,

I would like to thank the organisers of this conference for the invitation to join you today. Particularly, I would like to extend a warm thank you to the President of Hanfa and my fellow board member in ESMA, Mr Ante Žigman.

Last year, the EU and Croatia celebrated two major achievements: the 10^{th} anniversary since Croatia's accession to the European Union and the fact of Croatia becoming the 20^{th} member of the Euro area. When honouring these achievements, Croatia's hard work and unwavering commitment to strengthen its role within the European family were consistently mentioned. The tangible benefits that closer European integration has brought to Croatia, as measured by several economic indicators, were also generally highlighted.

These features – hard work, unwavering commitment and tangible benefits – are paradigmatic of how our Union was built up until today - and how it will need to be further developed in the future. As Robert Schuman indicated in his landmark declaration in 1950: "*Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity*".

It is also striking to see how the words of another pioneer of the EU, Simone Veil, upon her first speech as first female president of the European Parliament, resonate with today's somewhat difficult times: "*Member States are faced with three great challenges: the challenge of peace, the challenge of freedom and the challenge of prosperity, and it seems clear that they can only be met through the European dimension"*.

Applying these words of such famous Europeans to our world of financial services, I believe it is important to say that EU capital markets play a key role in promoting prosperity and resilience of the European financial system and the European economy at large. It is therefore timely to consider – to use Robert Schuman's words – what concrete achievements can help create stronger integration of our capital markets. This strengthening of the EU markets is necessary to channel investments into initiatives that can deliver on the much-needed innovation, growth and sustainability of our economy.

In my remarks today, I will briefly recall some of the main challenges that our capital markets currently face. I will then discuss how a truly European Savings and Investment Union should build on proportionate rules and a more effective supervisory architecture. I will finally touch upon how good corporate governance is key to strengthen our markets.

A resilient capital market not yet operating at its full potential

In the past years, gradual progress has been made to improve the efficiency, scale and resilience of EU capital markets. Key initiatives, decided under the last political cycle, such as the introduction of a European Single Access Point (ESAP) and the establishment of consolidated tape providers, are still to be fully implemented but will make a positive contribution to our capital market.

Nevertheless, EU capital markets have remained underdeveloped when compared to the US markets. For example, the EU27 have seen their share in global equity market capitalisation decrease since 2015. At the end of 2023, in fact, this share stood at 11% compared to 45% in the US while it was respectively 16% and 34% in 2009. Despite the higher number of trading infrastructures, trading activity in the EEA remains lower in comparison to the US, partly due to the higher fragmentation of the EU share trading landscape.

When EU markets lose attractiveness, our listed companies lose ground compared to companies listed in other markets. For example, European stocks accounted for 51% of the total assets of UCITS equity funds in 2015, that portion fell to only 35% in 2022. In parallel, however, the share of US stocks in these funds increased from 27% to 42%. In other words, the status quo risks incentivising EU companies to rather list on third-country trading venues, to become more investable, which is something we have already observed with a few high-profile IPOs in Europe.

What we have also observed is that fragmented markets trigger further fragmentation in the application of the EU rulebook and put pressure on convergent supervision. In fact, if we are able to reduce the fragmentation of our markets and their regulation and supervision, we can also simplify the life of market participants and facilitate their compliance efforts. We should reflect on the reasons underlying such fragmentation and reduce it where we can, as market players and investors would be better served if more cohesiveness and efficiency is achieved in the EU.

Several reasons may explain the challenge we face in the EU to reverse this trend. Amongst those there is, certainly, the fact that the high-level political commitment that triggered the Capital Markets Union initiative in 2014, has not fully translated into meaningful progress. This is also due to the fact that prerogatives of individual jurisdictions quickly re-emerge during technical discussions. This can easily delay or halt progress. In addition, at critical junctures in time, major geopolitical events, such as Brexit, the pandemic and Russia's invasion of Ukraine have also contributed to divert focus away from strengthening our capital markets.

However, this unprecedented sequence of geopolitical developments, the urgency to close the innovation gap vis-à-vis other jurisdictions and the need to fund a sustainable and just transition, have rightly re-ignited the push towards a more united and stronger capital market. We have to learn from what has held us back in the past and we need to look with more confidence and determination towards planning concrete steps that can help create a genuine European Savings and Investment Union.

<u>A more proportionate, well supervised EU capital market</u>

In this spirit, earlier this year, we have outlined ESMA's recommendations to build more effective and attractive capital markets in the EU. We have identified three main axes of action: broadening investment opportunities for EU citizens, boosting the financing for European companies and improving regulatory agility, supervisory consistency and global competitiveness. For each of these axes, we propose specific actions to build a successful Savings and Investment Union with a more effective supervisory architecture that reflects the principle of proportionality.

The EU regulatory and supervisory framework is essential to make sure that the competition in our markets is fair for all market participants. Fair regulation and supervision help prevent fraudulent activities, ensure market integrity and efficiency and are a bedrock to protecting investors. As ESMA, we are ready to further support the EU institutions to make this framework even more agile, consistent and efficient.

In particular, it is necessary to continue building more proportionality into EU policies and rules that apply to market participants that are small or in their growth phase. ESMA's mandate reserves particular attention to the issue of proportionality. When proposing new or amended rules, we give due consideration to the scale, complexity and risks of the market participants which will ultimately be affected by these requirements. At the same time, we need to continuously balance these considerations with ensuring that limiting regulatory requirements for certain players should not negatively affect investor protection and financial stability.

Our recently launched consultation on the technical advice on the Prospectus Regulation is an example of our attempts to strike the right balance, in line with the ambition of the EU Listing Act.

Building more proportionality into our framework, however, should not mean dismantling EU rules from one day to another. It rather means taking, particularly for new rules, a measured approach to their implementation. For example, we know that the sustainability reporting regime is very challenging for some companies to implement. We are also convinced, though, that having a common EU regime is necessary to enable channelling investments towards assets and companies that can effectively support the sustainability transition. We should let market practice develop upon the first application of these new requirements. Of course, we will still closely monitor the information published to prevent any major infringements – as you would expect from us as supervisors. However, the experience from the implementation and our monitoring activities should also serve as a basis to assess whether any of these new requirements can be further fine-tuned or target changes need to be made. We know that there has been and is likely to continue to be demand for further guidance and support, which we and the NCAs stand ready to provide where we can.

Setting proportionate rules, thereby promoting the competitiveness of our markets, also means that our rules remain as aligned as possible with internationally applicable requirements, while not compromising on the EU-specific policy objectives. For example, in the past years, the EU has taken a leading role in discussing and aligning sustainability requirements at an international level. It is time now to focus on the implementation of these rules, while continuing to monitor international developments.

Let me now move to how we can build a more effective supervisory architecture, leveraging on the experience and knowledge of local markets and authorities.

In the recent Draghi and Letta reports, as well as in ESMA's recommendations, there is a clear message to carefully consider how the EU supervisory architecture can become more efficient and effective. Here I believe that the principle of subsidiarity should guide our considerations on how to improve the status quo. We should also consider that EU-level supervision cannot by itself build the Savings and Investment Union.

Over the years, ESMA has built experience and expertise as a capital markets supervisor and, in parallel, our mandates have expanded from credit rating agencies to, for instance, certain benchmarks and non-EU CCPs. Extending the population of ESMA's supervised entities should be carefully considered, assessing whether such an extension would bring efficiency gains, reduce regulatory arbitrage and facilitate the creation of a pan-European market. With this in mind, in our view any consideration of EU-level supervision would be more suited to significant market entities that operate across EU member states. Pan-European market infrastructures such as CCPs and CSDs, due to their EU-wide reach and significance, may be a typical example of operators that could benefit from EU-level supervision that ensures also fair and open access from anywhere to this essential market infrastructure.

Close scrutiny and supervision at national level will remain the foundation of the EU's supervisory framework. The European System of Financial Supervision's foundation is the strength of national supervisors – and that will remain to be the case. National supervision is best placed when it comes to players that operate locally. Due to their proximity to local markets, they can best support smaller companies' aiming at growing through access to the EU capital market and engage in initiatives for the benefit of local retail investors. I strongly believe that we are most effective and efficient in supervising the European market when national supervisors cooperate closely with each other. ESMA will continue to play its role in driving supervisory convergence, identifying cross EU risks and encouraging active exchange of information and learning from each other.

In thinking about a more effective supervisory architecture, we should not fall into the trap that we have been confronted with in the past. There is often the misperception of an inherent conflict between building a more integrated EU capital market and the role of local financial markets.

Firstly, building pan-European markets is especially beneficial for smaller jurisdictions that aim to support the growth of local companies. Building deeper and more integrated capital markets at EU level will broaden the funding and growth opportunities for these companies. As the Draghi report highlighted, European companies often fail to successfully pass the growth stage with many European start-ups relocating to other jurisdictions, mostly to the US, rather than benefitting from European capital markets that allow them to scale and grow.

Secondly, in a pan-European market, local infrastructures and market institutions will function as essential gateways to the single market. Local infrastructures will be, in fact, key for comprehensive and efficient access to the single market for all market players. Existing regulatory and supervisory mechanisms enabling this combination of local and EU-wide markets are only partially effective today. For example, the passporting regime for EU issuers has functioned well so far, but its use is still limited. In 2022, only around a third of the prospectuses approved in one Member State were passported to another Member State. Furthermore, our analyses show that regulated markets still remain typically domestic, while it is more the multilateral trading facilities that have a stronger cross-border vocation. We therefore need to look at how we can promote more interoperability and collaboration between national markets in a way to cultivate the collective power of these markets operating in a more unified and seamless manner.

Thirdly, the scale of change that will be needed to gradually improve the competitiveness and attractiveness of our capital markets require strong cooperation between ESMA and all national authorities. This is why the core role of ESMA, to work collectively with national supervisors, is and will remain essential.

Corporate governance

Before I conclude, let me spend a few words on the very important subject of today's conference: corporate governance.

Making capital markets stronger and more united also means building a culture of confidence in those markets. This is why the ongoing work that ESMA and national authorities, like Hanfa, do to promote sound corporate governance in listed companies is key to strengthen our markets.

Good corporate governance not only enables sound-decision making within companies, but it also promotes external accountability towards investors and other stakeholders.

Topics such as the independence of supervisory board members and audit committee members, dealing with the emergence of conflicts of interest and the protection of whistleblowers are basic safeguards of good governance which should be regularly assessed at national level. The oversight of the board of directors on matters relating to sustainability, diversity, equity and inclusion are also critical aspects to consider.

The annual monitoring work that Hanfa undertakes on the corporate governance practices of listed companies in Croatia is therefore pivotal to help those practices evolve. In particular, I would like to commend my Hanfa colleagues for producing their 2023 Annual Corporate Governance Report which they will shortly present.

From ESMA's perspective, we undertake work in the corporate governance space on different fronts. Let me briefly recap on some of those areas. We have recently undertaken an assessment of the implementation of the Revised Shareholder Rights Directive (the so-called SRD2). ESMA's assessment report was delivered to the European Commission in July of 2023, together with the European Banking Authority. This report deals with certain provisions in the SRD in considerable detail and contains thirty-three recommendations to the European Commission, such as working on a common definition of the terms "shareholder" and "proxy advisor", on the disclosure of the types of revenue generated by proxy advisors and many other topics. The EC is currently assessing our recommendations and undertaking additional research work on this matter and will decide how to take this work forward.

Another area which has featured prominently on peoples' minds in the Corporate Governance world and whose development we have also closely followed, is the Corporate Sustainability Due Diligence Directive (the famous CSDDD). After changes made during the negotiations of this legal act earlier this year, this Directive no longer features quite as prominently in the Corporate Governance-arena. There are still certain items in the CSDDD that are related to good corporate governance. For example companies' obligations to engage meaningfully with stakeholders or their obligation to prepare a transition plan for climate change mitigation, with a description of the roles of administrative, management and supervisory bodies within the corporation on this matter. While the implementation of the CSDDD will depend on its national transposition and on the appointment of national supervisors, ESMA will clearly be interested in its consistent application and its interrelation with the existing transparency obligations of listed companies.

A third area is the Directive on Multiple Vote Share Structures, which is part of the Listing Act and is coming into force soon. It is about the introduction of multiple vote share structures in companies seeking admission to trading on a multilateral trading facility. Some Member States have had multiple vote share structures in place for some time, but for others this is new. Particularly, the Directive will affect the role that shareholders can play based on the varying degrees of voting power depending on the kinds of shares they hold. This will facilitate the listing of SMEs by addressing the frequent concern that, by going public, the entrepreneurs behind those companies may lose control over them.

The CSDDD and the Directive on Multiple Vote Share Structures are two areas where we could see that the initial high ambition set out in the respective legislative proposals was somewhat moderated in the subsequent negotiations. While the changes that have been introduced are entirely legitimate, it reminds us that in developing new or amending capital markets legislation a fair balance needs to be struck between taking due account of national specificities and prerogatives and promoting the necessary convergence across the EU-market at large.

I also would like to briefly mention one further new EU wide initiative. The Directive on improving gender balance (the so-called Women on Boards Directive), which Member States have until 28 December of this year to transpose into national law. It provides that Member States shall ensure that either 40% of listed companies' non-executive directors come from the underrepresented sex or members of the underrepresented sex hold at least 33% of all director positions in listed companies. These goals are to be reached by the end of June 2026, and we will see Member States' transposition laws early next year.

Finally, I understand that awards will later on be given to listed companies based on their commitment to and fulfilment of high standards in corporate governance. These companies are leading the way to hold up confidence in our capital markets and build the trust that investors need to invest their hard-earned savings into publicly listed companies. I would like to take this opportunity to extend my congratulations to the winners in advance.

Conclusion

Ladies and Gentlemen, let me conclude.

As the history of our Union shows, it is through concrete achievements that, step-by-step, we have built our common institutions and created a safe space for European citizens and businesses to flourish.

Recent geopolitical developments, the increasing dependency of our society on data and innovations, alongside the challenges posed by the sustainability transition, are changing the way in which our economic and financial system works.

Our capital markets need to keep pace with these developments. Over the years, we have lost competitiveness vis-à-vis other international financial hubs. It is time to take our commitment for creating a strong, effective and attractive EU capital market to the next level.

As ESMA, we are ready to contribute to this undertaking in close cooperation with all European securities regulators. To succeed, we will need to proceed with more determination, pragmatism and cohesion, and we need to do so urgently.

Inspired by the type of unwavering commitment and hard work that made Croatia an integral part of the EU family, I am confident that we can learn from you – and together develop our European capital markets to form a successful Savings and Investment Union.

Thank you.