European Commission - Press release

Creating a stronger and more integrated European financial supervision for the Capital Markets Union

Brussels, 20 September 2017

European consumers, investors and businesses will benefit from stronger and more integrated financial markets, thanks to plans by the Commission to reform the EU's supervisory architecture.

The European Commission is today proposing reforms to pave the way for further financial integration and a full Capital Markets Union, to promote jobs, growth and investments in Europe and to strengthen the Economic and Monetary Union. President **Juncker** underlined the importance of the Capital Markets Union, one of the Commission's flagship projects, in his State of the Union Address. The proposals also include steps to foster the development of financial technologies (FinTech) and to make sure that sustainability considerations are systematically taken into account in supervisory practices at the European level.

When the EU overhauled its financial system in the wake of the financial crisis, it introduced a Single Rulebook for financial regulation in Europe and created the European Supervisory Authorities (ESAs) and the European Systemic Risk Board (ESRB). These bodies are pivotal in ensuring that financial markets across the EU are well regulated, strong and stable. However, more needs to be done to enhance regulatory and supervisory convergence within the Single Market to help our financial markets work more effectively and to address new challenges.

Valdis **Dombrovskis**, Vice-President for Financial Stability, Financial Services and Capital Markets Union said: *"Financial markets are changing fast. We are seeing renewed cross-border integration, new opportunities in FinTech and a boom in sustainable and green finance. The EU needs to act as one player so that we can stay ahead of the curve. More integrated financial supervision will make the Economic and Monetary Union more resilient. These pragmatic proposals will also make it easier for our companies to operate cross-border and build consumer trust."*

Jyrki **Katainen**, Vice-President for Jobs, Growth, Investment and Competitiveness said: *"As we announced in our review of the Capital Markets Union plan, we are now taking decisive steps to strengthen the European system of financial supervision. This will ensure that the financial system helps deliver investment, jobs and growth, to the benefit of European individuals and businesses."*

Once adopted, the proposals will improve the mandates, governance and funding of the ESAs for banking (European Banking Authority, EBA), for securities and financial markets (European Securities and Markets Authority, ESMA), and for insurance and pensions (European Insurance and Occupational Pensions Authority, EIOPA). To ensure a uniform application of EU rules and promote a true Capital Markets Union, the proposals also entrust ESMA with direct supervisory power in specific financial sectors. In addition, the Commission is proposing targeted changes to the composition and organisation of the ESRB, which monitors stability risks for the financial system as a whole.

The reforms will promote further capital market integration following the UK's departure from the EU. They will also introduce changes to the supervisory relations with non-EU countries so as to ensure proper management of all financial-sector risks.

Key features of the proposal

Stronger coordination of supervision across the EU

The ESAs willset EU-wide supervisory priorities, check the consistency of the work programmes of individual supervisory authorities with EU priorities and review their implementation. They will monitor authorities' practices in allowing market players - such as banks, fund managers and investment firms - to delegate and outsource business functions to non-EU countries, to ensure that risks are properly managed and to prevent circumventions of the rules. In addition, EIOPA will have a stronger role in promoting convergence in the validation of the internal models that some large insurance companies use to calculate requirements on solvency capital. This will help overcome fragmentation and ensure better supervision of the large cross-border insurance groups. Finally, the functioning of the ESRB will be made more efficient in order to strengthen its oversight of risks for the financial system as a whole.

Extended direct capital markets supervision by ESMA

The Commission is today proposing to make ESMA the direct supervisor over certain sectors of capital markets across the EU:

- **Capital market data:** ESMA will authorise and supervise the EU's critical benchmarks and endorse non-EU benchmarks for use in the EU. This will improve the reliability and harmonisation of supervision of benchmarks, which are the indices or indicators used to price financial instruments and financial contracts or to measure the performance of an investment fund.
- **Capital market entry:** In a bid to streamline procedures for companies to tap into EU capital markets and attract investment from across the EU, ESMA will now be in charge of approving certain EU prospectuses and all non-EU prospectuses drawn up under EU rules. Prospectuses are documents that contain the information an investor needs before making a decision whether to invest in a company.
- **Capital market actors:** ESMA will authorise and supervise certain investment funds with an EU label with the aim of creating a genuine single market for these funds (European Venture Capital Funds, European Social Entrepreneurship Funds and European Long-Term Investment Funds).
- **Market abuse cases**: ESMA will have a greater role in coordinating market abuse investigations. It will have the right to act where certain orders, transactions or behaviours give rise to well-founded suspicion and have cross-border implications or effects for the integrity of financial markets or financial stability in the EU.

Improved governance and funding of the ESAs

The ESAs will take decisions more independently from national interests. Under the new governance system, newly-created Executive Boards with permanent members will lead to quicker, more streamlined and EU-oriented decisions. Moreover, interested parties will be able to ask the Commission to intervene if the majority consider that the ESAs have exceeded their competences when issuing guidelines or recommendations. The reform will also make the funding of the ESAs independent from national supervisors. This will guarantee that the ESAs have improved autonomy and independence. While the EU budget will continue to contribute a share of the ESAs' funding, the rest will be funded by contributions from the financial sector.

Promoting sustainable finance and FinTech

As the EU steps up efforts to complete the Capital Markets Union, supervision has to keep pace with new market developments, notably:

- The ESAs will promote **sustainable finance**, while ensuring financial stability. They will take account of environmental, social and governance-related factors and risks in all the tasks they perform.
- The ESAs will prioritise **FinTech** and will coordinate national initiatives to promote innovation and strengthen cybersecurity. They will take account of technological innovation in all the tasks they perform.

Background

The European System of Financial Supervisions consists of:

- The three European Supervisory Authorities (ESAs) which supervise and provide regulatory guidance for individual sectors and institutions;
- The European Systemic Risk Board (ESRB), which oversees the financial system as a whole and coordinates EU policies for financial stability.

The ESAs contribute to developing a unified set of rules for EU financial markets (the 'Single Rulebook'). They also help to foster supervisory convergence among supervisory authorities, and to enhance consumer and investor protection.

Strengthening the powers of the ESAs is the first priority measure set out in the June 2017 Mid-term review of the Capital Markets Union Action Plan. As the EU intends to accelerate the completion of the Capital Markets Union, it needs to ensure that supervision keeps pace with further integration. In that perspective, the Five Presidents' Report on Completing Europe's Economic and Monetary Union of June 2015 already highlighted that a single European capital markets supervisor would ultimately be necessary. This was also emphasised in the Commission's Reflection Paper on the Deepening of Economic and Monetary Union, presented in May 2017. This proposal is a first concrete step towards the establishment of a single capital markets supervisor and towards completing the Financial Union (comprising the Banking Union and the Capital Markets Union) by 2019 to guarantee the integrity of the euro.

The proposals build on contributions to the Commission's public consultations in autumn 2016 (ESRB) and in spring 2017 (ESAs). They also take into account the March 2014 recommendations of the

European Parliament and the review report prepared by the Commission in August 2014.

The proposals – the main Regulation and the subsequent changes to a number of sectorial Directives – will now be discussed by the European Parliament and the Council.

For More Information:

Q&A (MEMO/17/3322)

Factsheet

DG FISMA website on the European system of financial supervision

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