

Opening Statement

Economic and Monetary Affairs Committee – European Parliament

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Dear Chairwoman,

Dear Members of the Economic and Monetary Affairs Committee,

Thank you for the invitation to ESMA to address you this afternoon regarding the EU Listing Act and whether the EU listing regime is fit for purpose.

Since 2015, clear and purposeful progress has been made on many initiatives supporting the Capital Markets Union Plan. While these successes have benefitted businesses and investors, it is fair to say that they have not unlocked the true potential of our public capital markets.

As it stands today, EU capital markets remain underdeveloped in size and insufficiently integrated. Over the past two decades, growth in EU equity markets has been overshadowed by other jurisdictions like the US and some Asian markets. This resulted in a market capitalisation of EU listed shares in 2022 of just 10% of the global total - a drop from 18% in 2000¹. The departure of the UK from the EU has exacerbated this trend further.

Based on ESMA's monitoring of prospectus activity over the past 15 years, we have also seen a consistent and significant decline in the number of prospectuses approved in the EEA. In 2007, just before the global financial crisis, 8,875 prospectuses were approved, while in 2021, that number was 2,666². This downward trend is also reflected in the number of Initial Public Offerings in the EEA over recent years, while the number of companies delisting from public markets increases.

The regulatory framework underpinning the listing process has been in place for some time and, in ESMA's view, is broadly fit for purpose. Over the years, ESMA has been centrally involved in shaping and reshaping the relevant rules and supporting the consistent application of those rules by market participants. We also play a key role in setting convergent supervisory approaches by national competent authorities. For example, in 2022 ESMA conducted a peer review regarding the scrutiny and approval procedures applied by competent authorities for

¹ AFME Capital Markets Union: Key Performance Indicators, November 2022

² ESMA Statistical Report on EU Prospectuses, December 2022

prospectuses and looked at the impact of these supervisory approaches on issuers' ability to raise capital. This report highlighted ways to reinforce and improve the efficiency of scrutinising and approving prospectuses that could lead to better outcomes for both issuers and investors.

Nonetheless, while the regulatory regime is strong and effective overall, through actions like peer reviews ESMA can help to identify ways to ensure it remains proportionate and balanced. As indicated in our response to the Listing Act consultation in 2022, there is scope to streamline certain rules and find ways to carefully alleviate certain burdens for issuers, which may in turn reduce costs and enhance incentives for listing. At the same time, such alleviations should not come at the detriment to strong investor protection and proper supervisory oversight.

In this context, we welcome the European Commission's proposals to simplify some listing requirements for SMEs, and also for larger and already listed companies. In many cases, these changes reflect the technical input provided by ESMA to the Commission, as well as the findings of our recent peer review. Likewise, changes to the Market Abuse Regulation, MiFID and MiFIR (as well as the repeal of the Listing Directive itself) take account of ESMA advice.

All in all, we feel that these changes can produce clear benefits for issuers, alleviating a number of procedural requirements thus reducing initial and ongoing costs for listing. Nevertheless, there are some parts of the proposal with which ESMA does not agree and we would question the perceived benefits of these.

Firstly, please let me recall that in March 2023, ESMA wrote to co-legislators raising concerns with proposed changes to the insider list regime in the Markets Abuse Regulation. The changes would reduce the onus on companies to manage access to insider information, and as a result, inhibit the ability of national supervisors to detect and enforce against market abuse. We asked that this detrimental consequence be taken into account during legislative discussions, in the interest of maintaining fair and orderly European markets.

Secondly, ESMA has also been supportive of the existing unbundling rules that were introduced by MiFID II. While we fully share the concerns relating to the availability and quality of SME investment research in the EU, we are worried that the proposal to significantly narrow the scope of application of the unbundling rules may not improve this situation, while it could worsen investor protection. In our view, the unbundling rules have addressed a problem of conflict of interest and transparency of the cost of research and execution. Moreover, several studies, including our own, did not find evidence of a negative impact of the unbundling rules on the EU research market. The downward trend in research coverage predates MiFID II, and MiFID II appears to have impacted the coverage of larger companies, for which a risk of overproduction of research existed, which was not the case for SMEs. In general, the quality of investment research even appears to have been improved following MiFID II. The proposed new threshold, below which the rules would not apply, would weaken this regime as only a small portion of listed companies will remain in scope.

We should also be clear that the reasons why the EU's public capital markets remain underdeveloped in comparison to some peers are manifold, and the regulations and costs associated with the listing process are just one part of that. To truly understand the full picture, we believe that there is a need for broader discussion on all of the relevant factors, ranging from propensity for bank financing over market-based financing, in particular in the past low interest rate environment, fragmentation along national borders, taxation issues, and the impact of underdeveloped pension systems to investor culture.

However, we believe that it is still important to proceed swiftly with the European Commission's Listing Act proposals. These changes will generally result in a more proportionate and cost-efficient regulatory regime for issuers, thereby facilitating their access to EU capital markets. Still, it is also key to maintain strong investor protection, supervision and enforcement at the heart of the Listing Regime, to ensure effective and orderly EU capital markets that serve European companies and investors.

Thank you for your attention and I look forward to answering any questions you may have.