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Statement by Petra Hielkema

Chairperson of the Joint Committee of the European Supervisory Authorities (EBA, EIOPA and ESMA)

at the hearing of the European Parliament's ECON Committee in Brussels on 24 October

Honourable Chair, dear Members of the European Parliament,

I thank you for the invitation to the hearing of the ECON Committee today. In my capacity as Chair of the Joint Committee (JC) of the European Supervisory Authorities (ESAs), it is a pleasure for me to present you the work the three ESAs have conducted jointly in the context of the JC over the past twelve months.

Let me emphasise that the relationship between the ESAs and the European Parliament, in particular the ECON Committee, has been fruitful and the ESAs wish to continue this excellent cooperation in the future.

In my remarks, I will briefly introduce the main activities and key achievements of the JC since the last ECON hearing in the areas of risk assessment, sustainable finance, digitalisation and consumer protection. You will find more detailed information on our deliverables in the annex to this speech. I will also briefly touch upon the renewal of the members of the ESAs Board of Appeal. I will conclude with an outlook on the work for the next months.

Cross-sectoral risk assessment: enhanced monitoring in the current international environment

Let's start with risk assessment. A lot has changed since we last met in October 2021. We moved from a situation of recovery after the pandemic to a world in which war reappeared on our continent, with implications for the economy and financial stability.

As part of their mandate, the ESAs monitor vulnerabilities and risks in the European financial sector. When Russia started its war of aggression against Ukraine, we intensified the monitoring and provided market updates on our respective sectors in the ESRB fora and to the Economic and Financial Committee (EFC) and the Financial Stability Table (FST).

Through our 2022 Spring and Autumn Joint Risk Reports, we highlighted the deteriorating economic outlook, with subdued economic growth, high energy prices and pressures in energy markets, rising inflation and interest rates as well as the related monetary policy response by central banks. This heightened vulnerabilities across the financial sector. The war in Ukraine also increased cyber and digitalisation-related risks. Additional challenges included deteriorating asset quality, increase in yields and potential for repricing of risk premia as well as the rise of environmental risks. These risks and vulnerabilities are shaping a new economic environment of increased uncertainty for financial and non-financial corporations.

As members of the European supervisory community, the ESAs continue to monitor the situation, working closely with national competent authorities and the European supervisory community. Our advice to national supervisors, financial institutions and market participants was and still is to remain vigilant and prepare for challenges ahead.

Sustainable finance: let us not forget climate change

But the geopolitical situation and the energy crisis should not make us forget the need to address climate change. We know that climate-related financial disclosure is one of the key factors to facilitate the transition to a more sustainable economy and the allocation of capital to sustainable activities.

As ESAs, we worked extensively (and we will continue to work) on the Sustainable Finance Disclosure Regulation (SFDR). As you know, we had already submitted draft Regulatory Technical Standards (RTS) on the content and the presentation of disclosures under the SFDR to the Commission. When the Taxonomy Regulation amended the SFDR, we developed additional precontractual and periodic product disclosure obligations for products that make sustainable investments contributing to environmental objectives. However, to minimise duplication and avoid complexity we also amended the existing finalised draft RTS.

Besides regulatory work, we have also focused our efforts on supervisory convergence. We have updated our Supervisory Statement on the SFDR, encouraging national competent authorities and market participants to use the interim period running until January 2023 to prepare for the application of the RTS and to implement the relevant measures of the SFDR and the Taxonomy Regulation, notably the alignment with the Taxonomy.

The Commission adopted the Delegated Regulation based on the ESAs RTS but its application date was delayed until January 2023 to allow market participants to adjust to the new rules. To provide more clarity for stakeholders and national competent authorities, we have published clarifications regarding some of the issues around the principal adverse impact (PAI), financial product and Do Not Significant Harm (DNSH) disclosures. We are also continuing to develop Q&As under the SFDR to further convergent application of the SFDR by national competent authorities.

We have also responded to a request by the Commission to amend the SFDR Delegated Regulation related to disclosures in financial products of investments in fossil gas and nuclear energy. You will see that the application date is missing in the draft RTS: due to the urgency of the matter, we have left it up to the Commission to indicate the application date when adopting the RTS. We are now continuing our work in updating the existing Principal Adverse Indicators under Level 2 to include, in particular, more social and governance indicators, as previously requested by the Parliament.

Finally, in summer we issued our first annual report under Article 18 of the SFDR on the extent of voluntary disclosure of principal adverse impacts. We found that the application of Level 1 requirements varied across jurisdictions and we highlighted some best (and also some less good) practices of disclosure.

Digitalisation: increasing cyber resilience and managing risks

But climate change is not the only challenge we face. The war in Ukraine and the current geopolitical situation increased risks related to digitalisation, including cyber risk. This comes at a time when the financial sector is becoming increasingly digitalised as a consequence of own digital transformation strategies (just think about digital business models) but also following changes brought about by the pandemic in work, transport and living arrangements. And we know, technological innovation in finance brings about obvious benefits but also carries some risks, for the financial sector and consumers and retail investors alike.

With war raging in Ukraine and cyber disruption becoming part of warfare, the provisional agreement on the Digital Operational Resilience Act (DORA) was a timely development. As ESAs, we have established a JC Sub-Committee to assist us with the work foreseen by the DORA policy mandates and we are now busy preparing for implementation.

While working on the cyber resilience of the financial sector, we have not forgotten consumer and retail investors. Our report on digital finance, prepared in response to the Commission's Call for Advice, considered some of the risks posed by digitalisation and issued recommendations. I would like to recall a few of them. We need to develop a holistic approach to the regulation and supervision of the financial services value chain, including mixed-activity groups and cooperation between financial and other relevant authorities. We should also ensure adequate consumer protection, address issues raised by digital platforms and promote convergence in the classification of cross-border services.

As we speak about convergence, the ESAs, through the European Forum of Innovation Facilitation (EFIF), have worked on facilitating the testing of innovation products in national regulatory sandboxes and hubs across the EU and established a procedural framework for cross-border border testing.

Finally, on cryptos let me highlight that the agreement on the Markets in Crypto-assets (MiCA) Regulation is a step in the right direction, which will improve the regulation and supervision of cryptos: the ESAs involved in MiCA work are already preparing for its smooth implementation.

Against the background of increased consumer interest in crypto-assets and aggressive marketing notably through social media, we also issued a Warning drawing attention to the risky and highly speculative nature of these products. As cyber scams and fraud are increasingly common in crypto and other areas, we published on our websites a repository of national financial education initiatives, which consumers can access in their language.

Keep up effort to safeguard consumer protection

Last but not least, we have continued our work to protect consumer and retail investors in the Internal Market. The Commission is expected to publish its retail investment strategy soon and issued a Call for Advice (CfA) on the review of the Packaged Retail Insurance-Based Investment Products (PRIIPs) Regulation to the ESAs. In response to the CfA, we delivered our advice.

The ESAs would see it helpful to launch a broad revision of the PRIIPs Regulation. I will recall a few changes we suggest to make to the Key Information Document (KID), which accompanies PRIIPs sold to consumers. In our view, the Regulation should allow for improvements to how the information can be presented, such as using a layered format. The KID should include a more prominent section on any sustainable objectives or characteristics and should allow for different approaches for different types of products if needed. We believe improvements can be made regarding comparability between different investments in multi-option insurance products.

We have also made some wording suggestions to the text on performance to allow for more flexibility by removing the reference to “scenarios”. For some products, including investment funds, forward-looking performance scenarios based on modelling is not appropriate. We also believe that past performance should be included in the KID for relevant PRIIPs, such as investment funds.

The “What is this product” section of the KID is particularly important to help consumers understand what they are purchasing. The ESAs issued a Supervisory Statement providing guidance on what is expected to be included in this section. In line with one of our core tasks, our aim here is to ensure consistent and effective supervision throughout the EU.

More generally, as ESAs we aim to protect and educate consumers, who are particularly vulnerable in the current macroeconomic environment of higher inflation, rising energy prices and increasing interest rates. Businesses must account for these factors when pricing their products and part of the burden will be borne by consumers.

Finally, I would like to mention that we have organised a successful Joint ESAs Consumer Protection Day as a hybrid event in Frankfurt. It was nice to meet and exchange views with stakeholders in person after the long months of the pandemic. Discussions, focusing on sustainable finance, open finance and financial inclusion, were vibrant and full of food for thought.

Renewing the members of the Board of Appeal

A final word on the Board Appeal (BoA), the independent body foreseen by the ESAs founding Regulations to protect the rights of parties affected by our decisions. As you might remember, ten new Members and Alternates were appointed to the BoA in December. This follows the excellent contribution of the outgoing BoA Members and Alternates over the previous ten years. The ESAs appoint the BoA members based on a short list established by the Commission and following a thorough selection. In 2022, the BoA received one appeal, which was rejected. We published the final decision in summer.

Looking ahead

Let me conclude my intervention with a forward-looking perspective on some of the upcoming ESAs' activities. You have seen our 2023 work programme, which was shared with the EU Institutions at the end of September. Besides our regular work, in 2023 we will be busy with the DORA & MiCA policy mandates. We will work on the ESRB Recommendation on the EU systemic cyber incident coordination framework and we will also be contributing to the EU Supervisory Digital Finance Academy by providing training to supervisors. On sustainable finance, we will continue our work on the SFDR and conduct, together with the European Central Bank (ECB), the one-off system wide climate risk stress test foreseen by the Commission's renewed sustainable finance strategy. Finally, on consumer protection, we will follow up to the CfA on the PRIIPs Regulation review and consider the impact of inflation and interest rates on consumers, a particularly hot topic under the current circumstances.

This brings my remarks to an end. I would like to thank you for your attention.