Carmine Di Noia - Opening Speech

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Upholding Sustainable & Accessible Capital Markets for European Investors

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Grüß Gott everyone,

Let me stress the importance of today's conference's theme: The need to uphold sustainable and accessible capital markets for European Investors. I would like to add that we should also aim for a strong and sustainable growth in European capital markets.

Capital markets growth

The case for larger and more developed capital markets is clear – the EU needs greater private capital mobilisation to enable the transition to a sustainable economy. Financialisation is not an end in itself. Rather, capital markets are important because they are well-suited to financing long-term, uncertain ventures – and mobilising funds like that is more important than ever. The EU's ambition of less resource-intensive and more sustainable growth necessarily requires enormous investments in nascent technologies. The European Commission's own estimate is that annual investment needs to increase by 645 billion Euros annually over the next decade compared to the previous one, in order to realise the green and digital transitions. That, for reference, is an annual increase roughly one and a half times larger than the total Austrian GDP. Another project which will require massive investment is the reconstruction of Ukraine.

Clearly, amounts of this magnitude necessitate the mobilisation of private capital, which is most effectively done through capital markets. We know this from previous large-scale transitions, like the expansion of railway and telecommunication networks. EU capital markets are not currently offering this mobilisation to the extent that the transition, and the size of its economy, demand.

This is visible in a range of capital market indicators: for initial public offerings, secondary public offerings, stock market capitalisation and corporate bond issuance, the EU's share in the global total is smaller than its GDP share.

Policymakers should proceed with this in mind, and should focus on policies that can encourage households to invest in European markets.

Today, I will provide you with an overview on some strategies to attain this goal, through policies to educate, protect and encourage individual investors.

Stronger Individual Investors

Now, what kind of policies do our investors need?

I believe that sound policies in three core areas are essential, which we can say accompany the investor "from the cradle to the grave": Financial Consumer Protection and Education, Corporate Governance, and Funded Pension Systems.

Let me give you a brief overview on why these areas matter and what kind of work we do on these at the OECD, considering the importance of aligned international standards, based on common principles and shared values.

High-Level Principles on Financial Consumer Protection

Firstly, let us start with the "new-born" (individual) investor, who is in need of financial consumer protection and financial education.

Financial consumer protection and financial literacy are key for fairer, more sustainable and inclusive growth and financial stability. They are designed to protect investors from undue risks while benefiting from the opportunities afforded by participating in the capital markets.

In particular, sound policies in these areas allow individuals to:

- be included in the financial system and have access to quality financial products and services,
- have control of their finances and make informed financial decisions, and
- benefit from appropriate protections as they participate in the market, for instance transparent and accurate information about financial products, fair and equitable treatment by providers and access to redress mechanisms when harms occur.

At the OECD, we updated the G20/OECD High-Level Principles on Financial Consumer Protection in 2022, with a view to supporting more sustainable and accessible capital markets. The Principles are the international standard for effective and comprehensive financial consumer protection frameworks. They are specifically designed and intended to be applicable to any jurisdiction and are cross-sectoral in nature.

We strongly encourage all countries to adopt the Principles in establishing or enhancing their frameworks; many have done so, including all OECD, G20 and FSB jurisdictions.

The updated Principles reflect global best practices and are forward-looking. We introduced three new cross-cutting themes, namely "Digitalisation", "Financial Well-being" and "Sustainable Finance". These themes reflect key trends impacting individual investors and are relevant to the consideration and implementation of each and all of the Principles.

One of the Principles is “Financial Literacy & Awareness”. As new individual investors enter the market, financial literacy is a crucial factor to support them in making sound financial decisions. The challenges brought by the current macro-economic environment and financial landscape developments make financial literacy even more relevant. However, evidence shows that adults in most countries have difficulties understanding basic financial concepts, planning ahead, or avoiding debt trap cycles. We will release in November new data on levels of financial literacy in over 35 countries around the world.

To address challenges brought about by limited financial literacy, the OECD is assisting authorities in building broad-based partnerships to design and implement national financial literacy strategies.

The OECD also supports regional and global initiatives in favour of financial literacy, including for example those of the EU or the G20. Only last week, the OECD launched a joint financial competence framework for children and young people with the EU, which was preceded a year ago by a framework for adults.

Corporate Governance Principles

Secondly, for the grown-ups: We need sound corporate governance, to protect investors and to build market confidence through more transparency and by ensuring that companies “play by the rules”. This ultimately helps to make capital markets more attractive for both companies and investors, providing cheaper access to finance, which in turn supports innovation and fosters economic dynamism.

Having a global standard on corporate governance to support this objective is important because capital flows of today are global in nature. The recently updated G20/OECD Principles of Corporate Governance help policy makers evaluate and improve the legal, regulatory and institutional frameworks for corporate governance. The recent review – culminating in G20 Leaders' endorsement of the Principles last month - has ensured that they remain the global standard for corporate governance.

The Principles have three strategic objectives:

(i) To promote access to finance from capital markets;

(ii) To provide a framework to protect investors, which include households with invested savings; and

(iii) To support corporate sector sustainability and resilience.

The recent revision of the Principles reflects a strong desire from OECD and G20 member countries to offer guidance in support of companies' sustainability and resilience which, in turn, will contribute to the sustainability and resilience of the broader economy.

The new recommendations on sustainability focus on:

- Promoting disclosure of sustainability-related information;
- Clarifying the responsibilities of boards on sustainability matters; and

- Recommending dialogue between companies and their shareholders and stakeholders on sustainability matters.

Pension system design

Thirdly, and last in our "lifecycle of the healthy investor", let's talk about pension systems. Sound asset backed pension systems play a pivotal role in supporting both households and capital markets. For households, these systems provide a secure and reliable avenue to save for retirement, offering peace of mind and financial stability in their later years.

Additionally, well-structured pension systems channel substantial funds into capital markets, thereby boosting liquidity and facilitating economic growth. These investments serve as a stable source of capital, promoting innovation and job creation. In essence, sound pension systems are the linchpin that connects the financial well-being of individuals with the vitality of capital markets, creating a symbiotic relationship that benefits both parties and contributes to overall economic prosperity.

At the OECD, we do a lot of relevant work on pension systems and their role in supporting financial well-being of households and capital market development. This includes our Pensions Outlook, which is released every two years and focuses on asset-backed pension arrangements. Another important publication, "Pensions at a Glance", is also published every other year, and focuses mainly on public pay-as-you-go pensions.

The main international standard is the OECD Core Principles of Private Pension Regulation. The Core Principles provide a solid framework for pension funds and other pension providers, such as insurance companies, to guide them in managing assets earmarked for retirement in the best interest of members. They also highlight the importance of the long-term perspective to promote innovation, growth and achieve better retirement incomes.

The OECD also provides key standardised pension data at the country level, including assets earmarked to retirement, portfolio composition, real returns net of fees, as well as cross country information on the investment regulatory framework for pension providers.

Sustainability and resilience

So, by now you will have noticed the red line, you could say the artery, that flows in support of the lifecycle of investors: The sustainability dimension of all mechanisms and policy standards is of utmost importance. I look forward to today's discussions on how to uphold, strengthen and promote sustainable capital markets.

At the OECD, we always take into account the sustainability-perspective. When it comes to my Directorate for Financial and Enterprise Affairs, we focus on how capital markets can support sustainability in the corporate sector and in the broader economy, while protecting investors.

Apart from the Corporate Governance Principles, the recently updated OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (the MNE Guidelines) are a key instrument to ensure efforts to promote an inclusive, sustainable and resilient global economy. The MNE Guidelines are recommendations by governments to businesses on responsible business conduct (RBC). They are the only OECD instrument that makes recommendations directly to businesses, with the aim of helping them align their operations, products and services with the needs of people, planet and society.

Among the key changes in the 2023 revision, the MNE Guidelines' chapter on Disclosure was updated to reflect the growing demand for sustainability reporting, while maintaining close alignment with the revised Principles.

From the perspective of a sustainability reporting architecture, the OECD is moreover focusing on the following areas:

- Interoperability, including identifying relevant metrics and methodologies to support the alignment of financial with sustainability and climate goals.
- Implementation, including analysing regulatory frameworks and market practices. For example, the 2023 edition of the OECD Corporate Governance Factbook – which provides trends on the institutional, legal and regulatory frameworks for corporate governance across 49 jurisdictions – includes a section on sustainability.
- Learning from data. We are developing a new report on corporate sustainability globally, with information on market trends relevant for policymakers, including regarding the use of different accounting standards and assurance.
- Developing hands-on guidance for businesses, including a new tool on climate-risk due diligence for investors. This was launched at the OECD Forum on Green Finance and Investment last week in Paris.

I'm looking forward to today's discussions evolving around capital market development, looking at recent developments on sustainability reporting and its impact, and how it can feed into growing EU markets by empowering investors. So I will stop here for the first panel discussion.

Let me finish by saying that I'm optimistic when it comes to Europe's capital market development, seeing the efforts being made especially when it comes to market growth that is sustainable, and not least thanks to the accumulation of brainpower and exchanges of ideas at events such as today's. At the OECD, we are happy to contribute to this development.

With those words, thank you very much for your attention. I wish you all a productive conference.