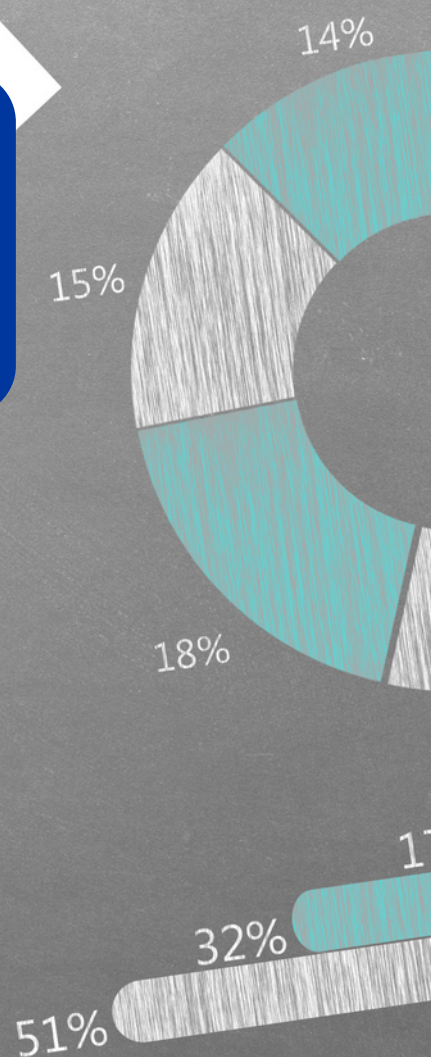


Spotlight on Markets – April 2023

DATA QUALITY IMPROVES UNDER NEW MONITORING APPROACH

- Consultation: ESAs propose amendments to extend and simplify sustainability disclosures
- Over 140,000 EEA issuers and instruments rated by Credit Rating Agencies
- ESAs report on risks and vulnerabilities in the EU financial system - call for vigilance in the face of mounting risks



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Data quality improves under new monitoring approach

The European Securities and Markets Authority (ESMA) published the third edition of its Data Quality Report under the European Markets Infrastructure Regulation (EMIR) and the Securitised Financing Transactions Regulation (SFTR) reporting regimes.



The report highlights the increased use of transaction data by EU financial regulatory authorities in their day-to-day supervision and identifies significant quality improvements following a new approach to data monitoring. In addition, it sets out how ESMA, together with the National Competent Authorities (NCAs), the European Central Bank (ECB) and the European Systemic Risk Board (ESRB), has incorporated key insights from its data monitoring in several internal workstreams.

The new framework, adopted in 2022, takes a more data-driven and outcome-focused approach to data monitoring and to collaborating with the NCAs on data quality issues under EMIR and SFTR.

Specifically, it consists of two new elements:

- a centralised data quality dashboard with EU-wide indicators covering the most fundamental data quality aspects under EMIR
- a data sharing framework that enables relevant authorities to follow up with counterparties when potentially significant data quality issues are detected

New this year is the analysis of MiFiR transaction data from Authorized Reporting Mechanisms (ARMs) and Approved Publication Arrangements (APAs), following on from ESMA's new supervisory powers over Data Reporting Services Providers (DRSPs).

The methodology underlying the new approach is based on ESMA's long-standing experience as supervisor of Trade Repositories (TRs) under EMIR and SFTR.

Next steps

ESMA and the NCAs will continue to work on extending the new monitoring framework beyond EMIR and SFTR in 2023.


Continued collaboration with NCAs and stakeholders such as Repositories, DRSPs and reporting entities is crucial to achieving further improvements to data quality under the relevant reporting regimes.


Consultation: ESAs propose amendments to extend and simplify sustainability disclosures


The three European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) published a Consultation Paper with amendments to the Delegated Regulation of the Sustainable Finance Disclosure Regulation (SFDR).



The ESAs are proposing changes to the disclosure framework to address issues that have emerged since the introduction of SFDR. The authorities seek feedback on the amendments that envisage:




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extending the list of universal social indicators for the disclosure of the principal adverse impacts of investment decisions on the environment and society, such as earnings from non-cooperative tax jurisdictions or interference in the formation of trade unions
- 

refining the content of other indicators for adverse impacts and their respective definitions, applicable methodologies, formulae for calculation as well as the presentation of the share of information derived directly from investee companies, sovereigns, supnationals or real estate assets; and
- 

adding product disclosures regarding decarbonisation targets, including intermediate targets, the level of ambition and how the target will be achieved.

Moreover, the ESAs propose further technical revisions to the SFDR Delegated Regulation by:

- 
 improving the disclosures on how sustainable investments “do not significantly harm” the environment and society;
- 
 simplifying pre-contractual and periodic disclosure templates for financial products; and
- 
 making other technical adjustments concerning, among others, the treatment of derivatives, the definition of equivalent information, and provisions for financial products with underlying investment options.



Next steps

The ESAs welcome **comments** to the Consultation Paper **until 4 July 2023** via the response form.

The ESAs will organise a joint public hearing and targeted consumer testing during the consultation period. After considering the comments received, the ESAs will prepare a Final Report and submit it to the European Commission.

Over 140,000 EEA issuers and instruments rated by CRAs

The European Securities and Markets Authority (ESMA) published its report on the European Union (EU) Credit Ratings market, providing for the first time a cross-market view of credit ratings reported to the EU.

ESMA finds that there were 823,400 credit ratings at the end of 2022. These ratings were mostly for US-issued debt or issuers (69%), with 17% (141,600 credit ratings) on EEA30 instruments and issuers.

“Credit ratings play a key role in EU financial markets by adding transparency on credit quality and facilitating risk management. This report – the first on credit ratings – presents a comprehensive overview of the market using the global credit ratings data reported to ESMA as the EU’s CRA supervisor.”

Verena Ross, ESMA Chair



The main findings included in today's report are:

- Size:** Of the 141,600 credit ratings for EEA30 instruments and issuers at the end of 2022, most were corporate ratings (79%), followed by sovereigns (12%) and structured finance ratings (9%).
- Composition:** Over 90% of ratings for EEA debt and issuers had long-term horizons (a year or more), most are ratings of instruments (70%) rather than of issuers, and most were solicited by the debt issuer (73%). The largest three CRAs had issued most outstanding ratings (69%), including almost all of the ratings solicited by a debt issuer (92%).
- Credit risk trends:** The COVID-19 pandemic was the most visible driver of events over the reporting period. Early in 2020 there was a marked increase in rating downgrades across asset classes, particularly for non-financial corporates and commercial mortgage-backed securities. These reflected the pressures faced in certain business sectors from the lockdowns and the associated economic uncertainties. In contrast, in late 2020 and in 2021 there was an improvement in credit risk indicators across asset classes, as government business support measures were introduced and took effect. In 2022, there were also the negative effects on credit quality of the Russian invasion of Ukraine and tightening monetary policy, though impacts here were much less pronounced and widespread than those of the pandemic.

The EU credit rating market report is based on data collected under Credit Rating Agency Regulation and provides an overview of credit rating markets in the EU, as well as risk indicators and metrics for ongoing risk monitoring related to credit ratings. Importantly, the analysis presented in the report is separate from the supervisory work ESMA conducts on CRAs and does not present indicators at an individual CRA level.

ESAs report on risks and vulnerabilities in the EU financial system - call for vigilance in the face of mounting risks

The three European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) issued their Spring 2023 Joint Committee Report on risks and vulnerabilities in the EU financial system. While noting that EU financial markets remained broadly stable despite the challenging macro environment and recent market pressure in the banking sector, the three Authorities are calling on national supervisors, financial institutions and market participants to remain vigilant in the face of mounting risks.



The second half of 2022 witnessed a worsening of the macro environment due to high inflation and tighter financial conditions, and the economic outlook remains uncertain. Although recent growth forecasts no longer point to a deep recession and inflation is showing signs of moderation, price growth may remain elevated for longer than previously expected. Recent market pressure on banks following the collapse of a few midsize banks in the United States and the emergency merger of the distressed Credit Suisse with the Union Bank of Switzerland (UBS) highlighted continued high market uncertainty, the sensitivity of the European financial system to exogenous shocks and potential risks related to the end of over a decade of very low interest rates.

Asset prices were highly volatile over the past months with market liquidity fragile. Sharp movements in prices triggered sizeable margin calls and put some market participants under liquidity strains, notably non-financial corporations and non-bank financial institutions. High levels of uncertainty and imbalances in the supply and demand of liquidity are a drag on the financial system's resilience against further external shocks.

In addition to these risks, geopolitical tensions, environmental threats and an increase in the frequency and sophistication of cyberattacks further complicate the risk landscape.



ESAs Joint Committee advises national supervisors, financial institutions and market participants to take the following policy actions:

- financial institutions and supervisors should remain prepared for a deterioration in asset quality and supervisors should keep a close eye on loan loss provisioning;

- the broader impact of policy rate increases and sudden rises in risk premia on financial institutions and market participants should be considered and accounted for in (liquidity) risk management;

- liquidity risks arising from investments in leveraged funds and the use of interest rate derivatives should be monitored closely;

financial institutions and supervisors should closely monitor the impacts of inflation risk. Inflation can have an impact on asset valuation and asset quality as borrower debt servicing is affected. Inflationary trends should be taken into account in product testing, product monitoring and product review phases and investors should be made aware of the effects of inflation on real returns;

banks should pursue prudent capital distribution policies to ensure their long-term financial resilience given the uncertain medium-term outlook for profitability;



the strong regulatory frameworks that underpin the resilience of the financial sector are to be maintained, including by faithfully implementing the finalization of Basel III in the EU without delay and with as little deviation as possible, and by avoiding further deviations from EIOPA's advice on the Solvency II review;

risk management capabilities and disclosures for environmental, social and governance (ESG) risks should be enhanced as these risks are increasingly becoming a source of financial risk; and

financial institutions should allocate adequate resources and skills to ensure the security of their information and communication technology (ICT) infrastructures and adequate ICT risk management.

Publications

Click to read the news items

Date

- 12 Apr** ESAs propose amendments to extend and simplify sustainability disclosures
- 19 Apr** ESMA finds data quality significantly improves under new monitoring approach
- 25 Apr** Over 140,000 EEA issuers and instruments rated by CRAs
- 25 Apr** ESAs call for vigilance in the face of mounting financial risks
- 28 Apr** ESMA publishes the annual transparency calculations for non-equity instruments, bond liquidity data and quarterly SI calculations
- 2 May** ESMA recognises four new Third Country CCPs
- 10 May** ESMA postpones to 2024 the annual IFRS amendment of the ESEF

Speaking appearances

by ESMA Staff in May

Date

- | | |
|--------------|---|
| 2 May | Annual Meeting of the Danish Investment Association
- Verena Ross, ESMA Chair |
| 3 May | Bloomberg Women in Finance Initiative
- Natasha Cazenave, ESMA Executive Director |
| 4 May | AFME European Sustainable Finance Conference
- Natasha Cazenave, ESMA Executive Director |
| 4 May | IACPM's Virtual Spring Conference
- Thierry Sessin |
| 8 May | 5th Annual Fujitsu XBRL Workshop
- Eduardo-Javier Moral Prieto |
| 8 May | Birkbeck, Workshop on accountability
- Jakub Michalik, Acting Head of Governance & External Affairs Department |
| 9 May | ItaSIF, Sustainable finance at a turning point
- Ana Ghita |
| 9 May | Bloomberg, Future of Finance - Paris Forum
- Natasha Cazenave, ESMA Executive Director |

- 10 May** ISDA Annual General Meeting
- Klaus Löber, ESMA CCP Chair
- 10 May** BIS High-level meeting for Europe
- Verena Ross ESMA Chair
- 11 May** PIFS/HLS Harvard Law School Symposium on Building the Financial System of the 21st Century
- Verena Ross, ESMA Chair
- 15 May** ISFC, CEE Sustainable Finance Summit 2023
- Julien Mazzacurati
- 16 May** Towards digital corporate reporting with CSRD
- Eduardo-Javier Moral Prieto
- 16 May** Irish Funds Annual Conference
- Antonio Barattelli
- 17 May** EACH EMIR 3 - Exchange of views with CCPs
- Nicoletta Giusto, CCP Independent Member
- 18 May** Irish Funds Annual Conference
- Antonio Barattelli
- 22 May** 31st XBRL Europe conference
- Eduardo-Javier Moral Prieto

23 May 2023 IIF European Summit
- Steffen Kern, Head of Economics, Financial Stability and Risk Department

24 May World Forum of Central Securities Depositories
- Julien Mazzacurati

24 May IOSCO/PIFS-Harvard Law School Global Certificate Program for Regulators of Securities Markets
- Jakub Michalik, Acting Head of Governance & External Affairs Department

25 May Deloitte, Elvinger Hoss and Financial Times, Cross Border Distribution Conference
- Natasha Cazenave, ESMA executive Director

25 May World Forum of Central Securities Depositories
- Alina Dragomir

25 May ICMA Conference
- Verena Ross, ESMA Chair

30 May European Parliament EU Listing Act
- Jakub Michalik, Acting Head of Governance & External Affairs Department

31 May Paris Fintech Forum - Leaders Summit
- Verena Ross, ESMA Chair

Consultations

Click on the consultation

Closing date

- 9 May** Consultation on the amendments to Guidelines on position calculation under EMIR
- 4 Jul** Joint consultation on the review of SFDR Delegated Regulation

Hearings

Have you missed the latest hearings?

- 23 Jan** Open hearing on the consultation on ESG terms in funds' names
 -  recording
 -  presentation
- 6 Feb** Joint ESAs public event on DORA – Technical discussion
 -  presentations: ESAs | European Commission
- 16 Feb** Webinar on TRV report no.1 2023
 -  presentation
- 26 Apr** Webinar on the 2022 ESMA Data Quality Report
 -  presentation

Open vacancies

All open vacancies can be found on [ESMA's recruitment portal](#)

Deadline

31 Dec Seconded National Experts (multiple profiles)

31 Dec Traineeship Notice - Support functions profile

Contact info

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Press contact information

Social Media



ESMAComms



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