



SPOTLIGHT ON MARKETS

AUGUST 2022 N°37

TRV: How have the Russian war and rising inflation affected the EU financial markets?

Comments on first draft of European sustainability reporting standards

Proposed improvements to the EU regime of third country benchmarks

Update of the European Single Electronic Format reporting manual

RUSSIAN WAR ADDS UNCERTAINTY AND VOLATILITY

In the first half of 2022 financial markets saw faltering recoveries, increasing volatility and likelihood of market corrections. Crypto-markets saw large falls in value and the collapse of an algorithmic stablecoin.

PUBLICATIONS

Your one-stop-shop information source in the world of EU Financial Markets brings together the latest reports, proposals and statements.

VACANCIES

Are you an experienced Personal Assistant? Or are you looking to get first hand experience in an EU institution as a Seconded national Expert? Check out our available positions.

Autumn is just around the corner and we are back at full speed to provide you with updates in the world of financial markets. The [second Trends, Risks and Vulnerabilities \(TRV\) Report of 2022](#) looks at how the Russian war has impacted the risk environment of EU financial markets.

Moreover, ESMA provided comments to the European Financial Reporting Advisory Group (EFRAG) on the first draft of the European Sustainability Reporting Standards (ESRS), highlighting the support for a strong materiality assessment but expressing concern with the suggested 'rebuttable presumption' approach.

Turning to benchmarks, we also published a [response to the European Commission's consultation on the regime applicable to the use of benchmarks administered in a third country](#). Comments relate to the functioning of the current regime and propose improvements to the regulatory and supervisory framework as well as the EU benchmark labels.

Finally, don't overlook the [annual update of the Reporting Manual on the European Single Electronic Format](#). This year's highlight is the new guidance in relation to the ESEF RTS requirement to mark up the notes to the IFRS consolidated financial statement following the "block tagging" approach.

Other publications in August include the [quarterly bond liquidity data and data for the systematic internaliser calculations](#) and an [opinion on accepted market practice by Portuguese CMVM](#).

A full overview of all publications can be found in the newsletter, together with information on next month's speaking appearances of ESMA staff and vacancies. For updates, follow us on [Twitter](#) and [LinkedIn](#).

Watch out for ESMA events in September:

- [8 September](#) | Webinar on ESMA's report on trends, risks and vulnerabilities no.2 2022
- [14 September](#) | Open hearing on consultation on the review of the MiFID II product governance guidelines
- [23 September](#) | Joint ESAs Consumer Protection Day

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RUSSIAN WAR ADDS UNCERTAINTY AND VOLATILITY TO EU FINANCIAL MARKETS

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, published its [second Trends, Risks and Vulnerabilities \(TRV\) Report of 2022](#). The Russian war on Ukraine against a backdrop of already-increasing inflation has profoundly impacted the risk environment of EU financial markets, with overall risks to ESMA's remit remaining at its highest level.

In the first half of 2022 financial markets saw faltering recoveries, increasing volatility and likelihood of market corrections. Separately, crypto-markets saw large falls in value and the collapse of an algorithmic stablecoin, highlighting again the very high-risk nature of the sector.



Verena Ross, Chair, said:

““ *The current high inflation environment is having impacts across the financial markets. Consumers are faced with fast rising cost of living and negative real returns on many of their investments. Consumers also need to watch out as they might be targeted by aggressive marketing promoting high-risk products that may not be suitable for them.*

The Russian invasion of Ukraine continues to significantly affect commodity markets, leading to rapid price increases and elevated volatility. These present liquidity risks for exposed counterparties and show the continued importance of close monitoring to ensure orderly markets, a core objective for ESMA.

””

Risk summary and outlook

The overall risk to ESMA's remit remains at its highest level. Contagion and operational risks are now considered very high, like liquidity and market risks. Credit risk stays high but is expected to rise. Risks remain very high in securities markets and for asset management. Risks to infrastructures and to consumers both remain high, though now with a worsening outlook, while environmental risks remain elevated. Looking ahead, the confluence of risk sources continues to provide a highly fragile market environment, and investors should be prepared for further market corrections.

Market environment

The Russian aggression drove a commodities-supply shock which added to pre-existing pandemic-related inflation pressures. Monetary policy tightening also gathered pace globally, with markets adjusting to the end of the low interest rates period.

Securities markets

Market volatility, bond yields and spreads jumped as inflation drove expectations of higher rates, equity price falls halted the recovery that had started in 2020, and invasion-sensitive commodity values surged, particularly energy, impacting natural gas derivatives and highlighting liquidity risks for exposed counterparties.

Asset management

Direct impacts of the invasion were limited but the deteriorating macroeconomic conditions amplified vulnerabilities and interest rate risk has grown with expectations of higher inflation. Exiting the low-rate environment presents a medium-term challenge for the sector.

Consumers

Sentiment worsened in response to growing uncertainty and geopolitical risks. The growing volatility and inflation could negatively impact many consumers, with effects potentially exacerbated by behavioural biases. Household savings fell from the record highs of the pandemic lockdowns.



 **Sustainable finance**

The invasion presented a new major challenge to EU climate objectives as several member states turned to coal to compensate for lower Russian fossil fuel imports. Although EU ESG bond issuance fell and EU ESG equity funds experiencing net outflows for the first time in two years, funds with an ESG impact objective were largely spared and the pricing of long-term green bonds proved resilient.

 **Financial innovation**

Crypto-asset markets fell over 60% in value in 1H22 from an all-time-high, amid rising inflation and a deteriorating outlook. The sharp sell-off, the Terra stablecoin collapse in May, and the pause in consumer withdrawals by crypto lender Celsius, added to investor mistrust and confirmed the speculative nature of many business models in this sector.



Check out the key highlights in this [video](#).



COMMENTS ON FIRST DRAFT OF EUROPEAN SUSTAINABILITY REPORTING STANDARDS

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has responded to the European Financial Reporting Advisory Group's (EFRAG) public consultation on the first set of draft European Sustainability Reporting Standards (ESRS).

ESMA highlights its support for a strong materiality assessment but expresses its concern with the suggested 'rebuttable presumption' approach. ESMA also encourages EFRAG to keep engaging with the International Sustainability Standards Board to ensure further alignment of the ESRS and the IFRS Sustainability Standards to benefit both users of sustainability reporting and the companies that prepare the reporting.

In addition to the key points in its response to EFRAG, ESMA delivers a number of more technical remarks on the details of the draft standards.

The draft ESRS are a key element to achieve the Corporate Sustainability Reporting Directive's (CSRD) ambition of ensuring sustainability reporting which is relevant, reliable, comparable and understandable.

Next steps

EFRAG is expected to deliver its final draft ESRS to the European Commission in November 2022. In accordance with the CSRD, ESMA will deliver an opinion to the European Commission on this version of the ESRS. The two other European Supervisory Authorities, EBA and EIOPA, are also mandated to deliver opinions.

PROPOSED IMPROVEMENTS TO THE EU REGIME OF THIRD COUNTRY BENCHMARKS

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has published its response to the European Commission's (Commission) consultation on the regime applicable to the use of benchmarks administered in a third country (TC). In its response, ESMA comments on the functioning of the current regime and proposes improvements to the regulatory and supervisory framework as well as the European Union (EU) benchmark labels.

The key highlights are:

- The restrictions on the use of TC benchmarks should be removed following a risk-based approach while ensuring a level playing field between EU and TC administrators;
- The proposal to create a new category of 'strategic' benchmarks is supported by ESMA; this category would be the only category of benchmarks subject to mandatory restrictions of use, similar to the current rules; and
- The introduction of an EU ESG benchmark label would be an extra supporting tool against greenwashing.

ESMA emphasises that while the Benchmarks Regulation (BMR) covers a wide range of benchmarks used in the EU, so far very few jurisdictions have followed a similar regulatory approach regarding the provision and use of benchmarks. Therefore, the wide scope of the BMR would lead to the undesirable outcome of limited availability of TC benchmarks to EU investors as opposed to their non-EU peers.

Next steps

The response has been submitted to the Commission. The Commission will prepare a report with recommendations on the effectiveness of the BMR to the European Parliament and Council.

ESMA UPDATES THE EUROPEAN SINGLE ELECTRONIC FORMAT REPORTING MANUAL

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, published the [annual update of its Reporting Manual on the European Single Electronic Format \(ESEF\)](#). This year's highlight is the new guidance in relation to the ESEF regulatory technical standards (RTS) requirement to mark up the notes to the IFRS consolidated financial statement following the "block tagging" approach.

As the ESEF RTS requirement is applicable to 2022 financial year for the first time, the manual contains a new section providing guidance to market participants on ESMA's expectations on how to perform such block-tagging – for example, what elements from the taxonomy are to be used, what level of granularity on tagging the information is expected etc.

Other novelties:

- new section on ESMA's expectations when issuers publish annual financial reports in other formats than the ESEF and further guidance when publishing annual financial reports in several languages; and
- new technical guidance such as the construction of a block tag or ESMA's expectation to also tag dashes or empty fields in figures even if they are not considered numbers.

Next steps

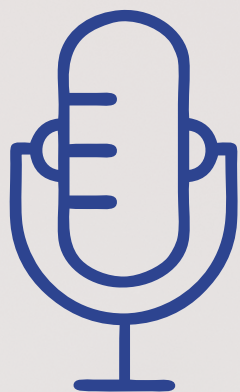
Issuers are expected to follow the guidance provided in the ESEF reporting manual when preparing their 2022 annual financial reports and software firms when developing software used for the preparation of annual financial reports in Inline XBRL.

PUBLICATIONS



Click to read the news items

- 24**
August ESMA updates the European Single Electronic Format reporting manual
- 19**
August ESMA proposes improvements to the EU regime of third country benchmarks
- 10**
August ESMA issues opinion on Accepted Market Practice by Portuguese CMVM
- 08**
August ESMA provides comments on first draft of European Sustainability Reporting Standards
- 03**
August ESMA publishes latest edition of its Newsletter
- 01**
August ESMA makes new bond liquidity data available and publishes data for the systematic internaliser calculations



SPEAKING APPEARANCES

by ESMA staff in September

	EVENT	ORGANISER	SPEAKER
1 Sept	47th meeting of the Advisory Technical Committee	European Central Bank	Froukelien Wendt
7-9 Sept	Eurofi	The European think-tank dedicated to financial services	Verena Ross, Natasha Cazenave, Klaus Löber
15 Sept	CIRSF Annual International Conference 2022	CIRSF – Research Center on Regulation and Supervision of the Financial Sector	Verena Ross
15 Sept	International TraderForum	TraderForum	Carsten Ostermann
22 Sept	FIA Forum: Paris 2022	FIA	Fabrizio Planta
23 Sept	Joint ESAs Consumer Protection Day	European Supervisory Authorities (ESAs)	Verena Ross, Natasha Cazenave
28 Sept	WFE's Annual Meeting	World Federation of Exchanges	Nicoletta Giusto
29 Sept	EBF European Banking Summit	European Banking Federation	Verena Ross, Klaus Löber

CONSULTATIONS



Closing



09/09/22

Consultation on notifications for cross-border marketing and management of AIFs and UCITS



09/09/22

Consultation on Review of the RTS on the form and content of an application for recognition under the Benchmarks Regulation



09/09/22

Consultation on Guidelines on standard forms, formats and templates to apply for permission to operate a DLT market infrastructure



09/09/22

Consultation Paper - Amendment of Article 19 of CSDR RTS on Settlement Discipline



30/09/22

Consultation Paper on the clearing and derivative trading obligations in view of the 2022 status of the benchmark transition



30/09/22

Call for Evidence on pre-hedging

The full list of consultations and reply forms can be found on the [ESMA consultations page](#)





OPEN VACANCIES

POSITION	DEADLINE
Personal Assistant in the Central Counterparties (CCP) Directorate	26 September 2022
Seconded National Experts (multiple profiles)	Open call (without a specific deadline)
Traineeship notice - Legal profile (F/M)	Open call (without a specific deadline)
Traineeship notice - Transversal profile (F/M)	Open call (without a specific deadline)
Traineeship notice - Financial Markets Profile (F/M)	Open call (without a specific deadline)

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



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