



SPOTLIGHT ON MARKETS

SEPTEMBER 2022 N°38

ESMA Strategy 2023-2028

Annual Work Programme 2023

Crypto-Assets and their risks

Energy Markets: Our response to recent developments

Disclosures for fossil gas and nuclear energy investments

ESMA STRATEGY 2023-2028

ESMA will focus on strengthening supervision, enhancing the protection of retail investors, fostering effective markets and financial stability, enabling sustainable finance, as well as facilitating technological innovation and effective use of data

PUBLICATIONS

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

THE MONTH AHEAD

The speaking appearances of ESMA staff in October cover topics like Supervisory, Sustainable Finance and Asset Management.

IN THIS ISSUE

ESMA published its [Strategy 2023-2028](#) taking into account the rapidly changing market and geopolitical developments. ESMA details its long-term priorities and how it will use its competences and toolbox to respond to future challenges and developments. We will focus on strengthening supervision, enhancing the protection of retail investors, fostering effective markets and financial stability, enabling sustainable finance, as well as facilitating technological innovation and effective use of data.

As a first deliverable of the Strategy, ESMA put forward its [Annual Work Programme 2023](#) in which it will give a particular interest to sustainability, technological change and protection of retail investors. In addition, the [Central Counterparties Supervisory Committee](#) published its [objectives](#), which will contribute to ESMA's priorities of strengthening supervision and ensuring fair, orderly and effective markets.

Other major publications in September include [Crypto-Assets and their risks for financial stability](#), [Reminder to firms of the impact of inflation in the context of investment services to retail clients](#) and the [Report on the DLT pilot regime](#).

A full overview of all publications can be found in the newsletter, together with information on next month's speaking appearances of ESMA staff, consultations closing in January and vacancies.

For updates, follow us on [Twitter](#) and [LinkedIn](#).

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ESMA STRATEGY 2023-2028

WHAT ARE WE UP TO FOR THE NEXT PERIOD?

The European Securities and Markets Authority (ESMA) has published Strategy for 2023-2028. In the Strategy, ESMA details its long-term priorities and how it will use its competences and toolbox to respond to future challenges and developments. ESMA will focus on strengthening supervision, enhancing the protection of retail investors, fostering effective markets and financial stability, enabling sustainable finance, as well as facilitating technological innovation and effective use of data.

Verena Ross, Chair, said:



“ I am happy to present an ambitious Strategy, which will steer ESMA’s direction for the next five years.

The ESMA Strategy takes into account the rapidly changing market and geopolitical developments. The established strategic goals are important to enable ESMA, the EU’s financial markets regulator and supervisor, to continue to achieve its mission to enhance investor protection, promote orderly and stable financial markets.

The 2023-2028 ESMA Strategy is centered around three priorities and two thematic drivers. Fostering effectiveness and stability of the EU markets and enhancing the protection of retail investors, and doing both through strengthened supervision, are at the core of what ESMA is all about. The key twin drivers of sustainability and technological and data innovation are also now embedded across all areas of the organisation.

Priorities



ESMA actively supports the deepening of European capital markets, ensuring their integrity and making them more effective. To this end, for the next five years, the Authority will focus on: ensuring fair, orderly and effective markets, increased transparency (e.g. through implementing the European Single Access Point) as well as enhancing financial stability. We will continue developing, maintaining and streamlining the Single Rulebook and supporting the common EU's voice in the international regulatory and supervisory discussions.



ESMA's and the national competent authorities' (NCAs) activities are complementary and work to strengthen supervision across the EU single market. In the Strategy, ESMA highlights the ambition to achieve a common EU supervisory culture, risk prioritisation, and the convergence of supervision approaches and outcomes.



ESMA and the NCAs will do all they can to ensure that investors are effectively protected, with a particular focus on retail investors. In addition, in the Strategy, we put forward actions related to investor engagement and effective information and disclosure.

Thematic drivers



By embedding sustainability in all its activities, ESMA will support the transition to a more sustainable economic and financial system. The priorities from the Sustainable Finance Roadmap go hand in hand with the paths mentioned in the Strategy, namely: effectiveness and integrity of ESG information, an improved ESG regulatory framework and supervision, and a recognition of the role of retail investors in financing the transition to a greener economy.



ESMA will endeavour to ensure that financial regulation does not hinder innovation, while maintaining a level playing field between emerging players and products and more traditional ones. ESMA's focus will be on assessing the impact of technologies used in financial markets on the existing regulatory framework and implementation of the upcoming EU legislation in this space.

ESMA will further strengthen its role as data and information hub in the EU and contribute to extending the effective use of data in financial market supervision.

ESMA WORK PROGRAMME 2023: FOCUS ON SUSTAINABILITY, TECHNOLOGICAL CHANGE AND PROTECTION OF RETAIL INVESTORS

The European Securities and Markets Authority (ESMA) has published its 2023 Annual Work Programme (AWP). It sets out ESMA's priority work areas for the next year to deliver on its mission to enhance investor protection and promote stable and orderly financial markets.

Verena Ross, Chair, said:

The 2023 AWP is the first work programme developed under the ESMA Strategy for 2023-2028 and will see ESMA delivering amongst others on the priorities we set out in our sustainable finance roadmap, adapting to digitalisation in financial markets and enhancing the access to and quality of supervisory data. A core part of our mission is to further improve the protection of retail investors and we will do this by promoting the convergence of supervisory and regulatory practices across the EU. Considering the current challenging market conditions, ESMA will continue close monitoring of financial markets, including CCPs.

In that context, and linked to measures for tackling the current energy crisis, we also expect to conduct work to review and clarify the existing rules for these markets.

In 2023 ESMA will be taking on new responsibilities in regulating the impact of new technology on financial markets via mandates under DORA, MiCA and the DLT regime. ESMA will continue to supervise several key market infrastructures with a view to foster effective markets and financial stability in the EU.

Key deliverables for 2023

Enabling sustainable finance

develop remaining technical standards under the Sustainable Finance Disclosure Regulation (SFDR) and work to better understand and fight against greenwashing.

Facilitating technological innovation and effective use of data

develop technical standards and guidelines in order to help the market prepare for the implementation of key new regulations in the area of digital finance: the Digital Operational Resilience Act (DORA), the Regulation on Markets in Crypto-Assets (MiCA) and the DLT Pilot Regime.

Investors and issuers

continue to report on the impact of costs and charges for retail investors and coordinate new workstreams on mystery shopping. Coordinate a Common Supervisory Action (CSA) in the area of sustainability, covering the risk of greenwashing in the fast-growing area of sustainable investment products. ESMA also expects to be mandated to support the regulatory framework for sustainable finance, under the Corporate Sustainable Reporting Directive, the proposed regulation for EU Green Bonds and the SFDR

Markets and infrastructures

develop technical standards on authorisation and registration of benchmark providers. Deliver the final technical standards and guidelines mandated under the CCP Recovery and Resolution Regulation

Risk assessment

continue to monitor market developments to assess risks, in particular the impact of commodity market developments, financial market impacts of inflation and rising interest rates.

Supervision and convergence

continue risk-based supervision of all EU CRAs, TRs and SRs as well as certain DRSPs, benchmark administrators and third-country CCPs, and work with national authorities to promote supervisory convergence and a common understanding of where major risks lie. Prepare for the supervision of Consolidated Tape Providers (CTPs), subject to ongoing legislative proceedings on MiFIR review and for the oversight of critical ICT third-party providers (CTPPs) with the other ESAs.

CENTRAL COUNTERPARTIES STRATEGIC OBJECTIVES FOR 2023-2025

ESMA's CCP Supervisory Committee (CCP SC) published strategic objectives, in line with ESMA's overall strategy for the period 2023-2028.

Three strategic objectives are identified for ESMA in relation to CCPs:

Strengthening EU CCP resilience

**Addressing third-country CCP
cross-border risks**

**Deepening risk- and
data-driven supervision**

The CCP strategic objectives build on ESMA's achievements following the establishment of the CCP SC and outline the most relevant areas of ESMA's work in relation to CCPs for the next three years.

These objectives will contribute to achieving ESMA's strategic priorities of strengthening supervision and ensuring fair, orderly and effective markets, whilst promoting sustainability and technological and data innovation.

CRYPTO-ASSETS AND THEIR RISKS FOR FINANCIAL STABILITY

The European Securities and Markets Authority (ESMA) has published an article that outlines risks in the crypto-asset market and possible transmission channels to the traditional financial system.

- Risks to investor protection are high
- Risks to financial stability are limited today but require continuous monitoring because of growing interlinkages between crypto and core financial markets.

Following exponential growth in 2020 and 2021, crypto-assets collapsed in 2022 due to a deteriorating market environment and several prominent failures in the sector. The sell-off, which wiped out more than EUR 1 tn in capitalisation, did not have material consequences for traditional financial markets. Yet, the growing adoption among retail and institutional investors and recent developments, such as the growth of so-called stablecoins and “Decentralised Finance” (DeFi), have the potential to increase negative spillover effects going forward.

Our article highlights risks in crypto markets, distinguishing between two broad categories, namely risks that may be observed in traditional markets already (such as speculation or leverage) and novel ones that are inherent to product design, technological development, or the complex infrastructures built around crypto-assets. It then investigates possible risk transmission channels between crypto and traditional financial markets, with a particular focus on investor exposures and so-called stablecoins.

In summary, ESMA finds that crypto assets are comparatively small in size and limited in linkages to traditional markets. However, this situation may evolve quickly as market growth can occur suddenly and risk transmission is possible through various channels.

WHAT WAS OUR RESPONSE TO THE RECENT DEVELOPMENTS IN THE ENERGY DERIVATIVES MARKETS?

The European Securities and Markets Authority (ESMA) has submitted its response to the European Commission regarding the current level of margins and of excessive volatility in energy derivatives markets.

In its letter, ESMA sets out its high-level assessment concerning the areas where the Commission requested input:

- Measures to limit excessive volatility (circuit breakers)
- CCP margins and collateral

ESMA also makes a number of further suggestions in the following areas:

- Commodity clearing thresholds
- Improving regulatory reporting on commodity derivatives
- Regulating and supervising commodity traders

ESMA and NCAs have been focusing and strengthening their respective market monitoring and surveillance activities on the energy derivatives markets. Close cooperation will continue to counter possible threats to market integrity and ensure that any potential signal of market manipulation is followed up and investigated.

Next steps

The letter published on 22 September 2022 comes in response to the formal request from the Commission that ESMA received on 13 September 2022. ESMA stands ready to provide further technical input to EU Institutions to help address the current situation.

REMINDER TO FIRMS OF THE IMPACT OF INFLATION IN THE CONTEXT OF INVESTMENT SERVICES TO RETAIL CLIENTS

The European Securities and Markets Authority (ESMA) has published a statement reminding firms to consider inflation and inflation risk when applying relevant MiFID II requirements in the interest of investor protection.

Over the past months inflation rates have risen in the EU, as in the rest of the world, and this growth in inflation has impacted households both in their daily lives and in their investments and investment decisions.

ESMA notes that from an investor protection perspective, this trend poses a risk for retail investors, as some of them will not fully appreciate the link between inflation and financial markets and may not fully understand how considerations on inflation should be factored in when they make saving and investment decisions.

ESMA is therefore issuing this Statement to remind firms of relevant MiFID II requirements as it believes that investment firms may play a role in considering inflation and inflation risk, both when manufacturing and distributing investment products and when providing investment services to retail clients. Investment firms can also help raising clients' awareness of inflation risk.

Next steps

ESMA and the national competent authorities will continue to monitor closely financial markets and their participants in the interest safeguarding the stability of the EU's financial system by enhancing the protection of investors and promoting stable and orderly financial markets.

REPORT ON THE DLT PILOT REGIME

The European Securities and Markets Authority (ESMA) has published its Report on the distributed ledger technology pilot regime (DLT Pilot). In the report, ESMA provides guidance on certain technical elements and makes recommendations on compensatory measures on supervisory data to ensure a consistent application by DLT market infrastructures from the start of the regime.

The report published presents ESMA's proposed way forward and includes the feedback received following the Call for Evidence launched in January and a workshop organised in March 2022. ESMA concludes that there is no need to amend the RTS on transparency and data reporting requirements before the DLT Pilot starts applying in March 2023.

The DLT Pilot Regime is part of the Digital Finance Package introduced by the European Commission in 2020 to further enable and support the potential of digital finance while mitigating associated potential risks.

The Regulation on a pilot regime for market infrastructures based on the DLT Pilot aims at developing the trading and settlement for DLT financial instruments. The DLT Pilot requires ESMA to assess whether the RTS developed under MiFIR relative to certain pre- and post-trade transparency and data reporting requirements need to be amended to be effectively applied also to securities issued, traded, and recorded on DLT.

Next steps

ESMA will work on supervisory guidance clarifying the application of certain elements of the RTS on transparency and data reporting requirements. ESMA also intends to issue guidance on questions received by various stakeholders on the DLT Pilot to contribute to its convergent application.

ESAs PROPOSE DISCLOSURES FOR FOSSIL GAS AND NUCLEAR ENERGY INVESTMENTS

The three European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) have delivered to the European Commission (EC) their Final Report with draft Regulatory Technical Standards (RTS) regarding the disclosure of financial products' exposure to investments in fossil gas and nuclear energy activities under the Sustainable Finance Disclosure Regulation (SFDR).

Specifically, the disclosures:

add a yes/no question in the financial product templates of the SFDR Delegated Regulation to identify whether the financial product intends to invest in such activities; if the answer was yes, a graphical representation of the proportion of investments in such activities would be required

implement minor technical revisions to the Delegated Regulation to correct inconsistencies observed after its publication.

The ESAs consider the existing disclosures in the SFDR Delegated Regulation sufficient for fossil gas or nuclear energy investments by financial products that are not covered by the EU Taxonomy.

Background

The EC mandate to the ESAs requested the delivery of the amending draft RTS in exceptionally urgent circumstances by 30 September. Due to the urgency of the matter, the ESAs could not conduct a public consultation on the proposals. Nevertheless, the ESAs' stakeholder groups were asked for feedback and a workshop was held with consumer representative associations.

Next steps

The EC will scrutinise the draft RTS and endorse them within three months of their publication. Due to the urgency of the matter and the challenging application timeline of the Complementary Climate Delegated Act, the ESAs have left it to the EC to include an expected application date when they endorse the draft RTS.

ESAs WARN OF RISING RISKS AMID A DETERIORATING ECONOMIC OUTLOOK

The three European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) issued their Autumn 2022 joint risk report. The report highlights that the deteriorating economic outlook, high inflation and rising energy prices have increased vulnerabilities across the financial sectors. The ESAs advise national supervisors, financial institutions and market participants to prepare for challenges ahead.

The post-pandemic economic recovery in Europe has dwindled as a result of the Russian invasion of Ukraine. Russia's war on Ukraine and the disruptions in trade caused a rapid deterioration of the economic outlook. It adds to pre-existing inflationary pressures by strongly raising energy- and commodity prices, exacerbates imbalances in supply and demand, and weakens the purchasing power of households. The risk of persistent inflation and stagflation has risen.

These factors, coupled with the deteriorated economic outlook, have significantly impacted the risk environment of the financial sector. Financial market volatility has increased across the board given high uncertainties. After a long period of low interest rates, central banks are tightening monetary policy.

The combination of higher financing costs and lower economic output may put pressure on government, corporate and household debt refinancing while also negatively impacting the credit quality of financial institutions' loan portfolios. The reduction of real returns through higher inflation could lead investors to higher risk-taking at a time when rate rises are setting in motion a far-reaching rebalancing of portfolios. Financial institutions also face increased operational challenges associated with heightened cyber risks and the implementation of sanctions against Russia. The financial system has to date been resilient despite the increasing political and economic uncertainty.

In light of the above risks and vulnerabilities, the Joint Committee of the ESAs advises national competent authorities, financial institutions and market participants to take the following policy actions:

Financial institutions and supervisors should continue to be prepared for a deterioration in asset quality in the financial sector and monitor developments including in assets that benefitted from temporary measures related to the pandemic and those that are particularly vulnerable to a deteriorating economic environment, to inflation as well as to high energy and commodity prices.

The impact of further increases in policy rates and of potential sudden increases in risk premia on financial institutions and market participants at large should be closely monitored.

Financial institutions and supervisors should closely monitor the impact of inflation risks.

Supervisors should continue to monitor risks to retail investors, in particular with regard to products where consumers may not fully realise the extent of the risks involved, such as crypto-assets.

Financial institutions and supervisors should continue to carefully manage environmental risks and cyber risks to address threats to information security and business continuity.

PUBLICATIONS



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SPEAKING APPEARANCES

by ESMA staff in October

	EVENT	ORGANISER	SPEAKER
4 Oct	FMA Supervisory Conference 2022	FMA Austria	Verena Ross, Chair
5 Oct	European Finance Forum 2022 Paris by L'AGEFI	L'AGEFI	Evert van Walsum
5 Oct	Luxembourg Sustainable Finance Forum 2022	Luxembourg for Finance	Verena Ross, Chair
11 Oct	ICMA Regulatory Policy Committee meeting	ICMA	Jakub Michalik
12 Oct	2022 IIF Annual Membership Meeting	IIF	Verena Ross, Chair

by ESMA staff in October

	EVENT	ORGANISER	SPEAKER
12 Oct	Asset Management Distribution Roundtable	Kreab	Natasha Cazenave
13 Oct	AFME's 6th Annual European Compliance and Legal Conference	AFME	Natasha Cazenave
13 Oct	12th Annual bwf and ICMA Capital Markets Conference	ICMA	Nicoletta Giusto Patrik Karlsson
20 Oct	AMMC conference / IOSCO meeting	AMMC	Verena Ross, Chair
24 Oct	EC-ESAs-EUI - Supervisory Digital Finance Academy	EC-ESAs-EUI	Natasha Cazenave
25 Oct	ECON-FEMM event on Women in Finance and Economic	ECON-FEMM	Verena Ross, Chair
25 Oct	My World, My Knowledge, My Future: A female approach to financial education	European Savings and Retail Banking Group	Verena Ross, Chair

CONSULTATIONS

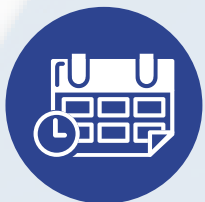


Closing



28/11/22

Call for Evidence on the implementation of the Shareholders Rights Directive 2



01/12/22

Consultation Paper on Draft RTS on Business Reorganisation Plans (Articles 37(4) and 38(4) of CCPRRR)

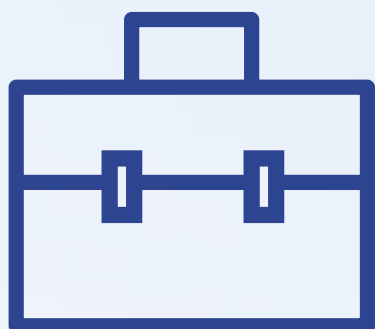


16/12/22

Consultation Paper on Market Outages

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





OPEN VACANCIES

POSITION

DEADLINE

Seconded National Experts (multiple profiles)

31/12/23

Accounting Assistant

27/10/22

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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