










ESMA LAYS OUT ITS SUSTAINABLE FINANCE ROADMAP FOR 2022-2024

The Sustainable Finance Roadmap¹ (the roadmap), which was published on 10 February 2022, sets out priority areas and related actions for the European Securities and Markets Authority (ESMA) in sustainable finance for the period covering 2022-2024.

In addition to the proposals contained within the roadmap, ESMA will also continue to monitor major EU and international developments and contribute as necessary to the various initiatives in the area of sustainable finance, including in the EU Platform on Sustainable Finance, the International Organization of Securities Commissions (IOSCO), as well as in relevant workstreams within the Network for Greening the Financial System (NGFS).

ESMA's priority areas

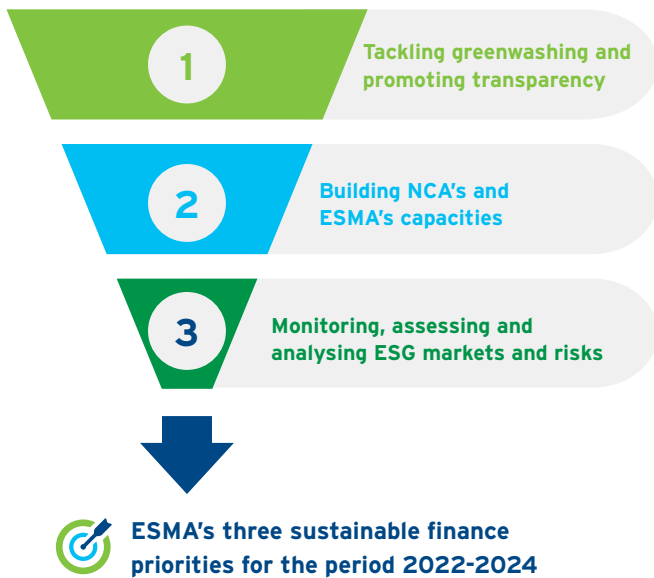
Prior to listing out the key areas of future work for the period of 2022-2024, ESMA discusses the issues or challenges with the current EU sustainable finance investment and regulatory landscape, which can be broadly summarised as follows:

-  A fast-evolving regulatory framework;
-  Diversity in the interpretation and application of sustainable finance legislation e.g., the Sustainable Finance Disclosure Regulation (SFDR);
-  Growing demand for ESG investments which has not been matched by adequate transparency and comparability;
-  That several economic activities will be on a transition path to becoming sustainable within a certain timeframe;
-  A need to further develop ESMA's and National Competent Authorities (NCA's) expertise, experience and resources on sustainable finance and its implications for supervision;
-  An increasing risk of misalignment between investors' ESG preferences and the products being offered to them; and
-  Fast evolving ESG markets requiring regular monitoring in a structured and coordinated way across the EU, necessitating effective and efficient access, consolidation, and usage of structured and unstructured ESG data, as well as the development of methodologies for the assessment of the financial impact of ESG-related risks, i.e., climate risks.



Mitigating actions

The actions that ESMA is looking to instigate in addressing the priority areas can be broken down into three main areas.



An example ESMA uses is where issuers' disclosures misrepresent the real sustainability profile of a listed entity or the poor quality of data available to an EU investment fund on investee companies located within, or outside, the EU.

ESMA feels that key to addressing such concerns and securing investor protection are:

- Investigating the complex issue of greenwashing;
- Defining its fundamental features; and
- Taking coordinated action in multiple sectors – leading to common solutions.

2. Building NCA's and ESMA's capacities

ESMA recognises that sustainable finance, like other developments in financial markets, presents a learning curve. ESMA understands that NCA's should have a good understanding, not only of the relevant legislation, but also a good understanding of the intersection between sustainability matters and finance.

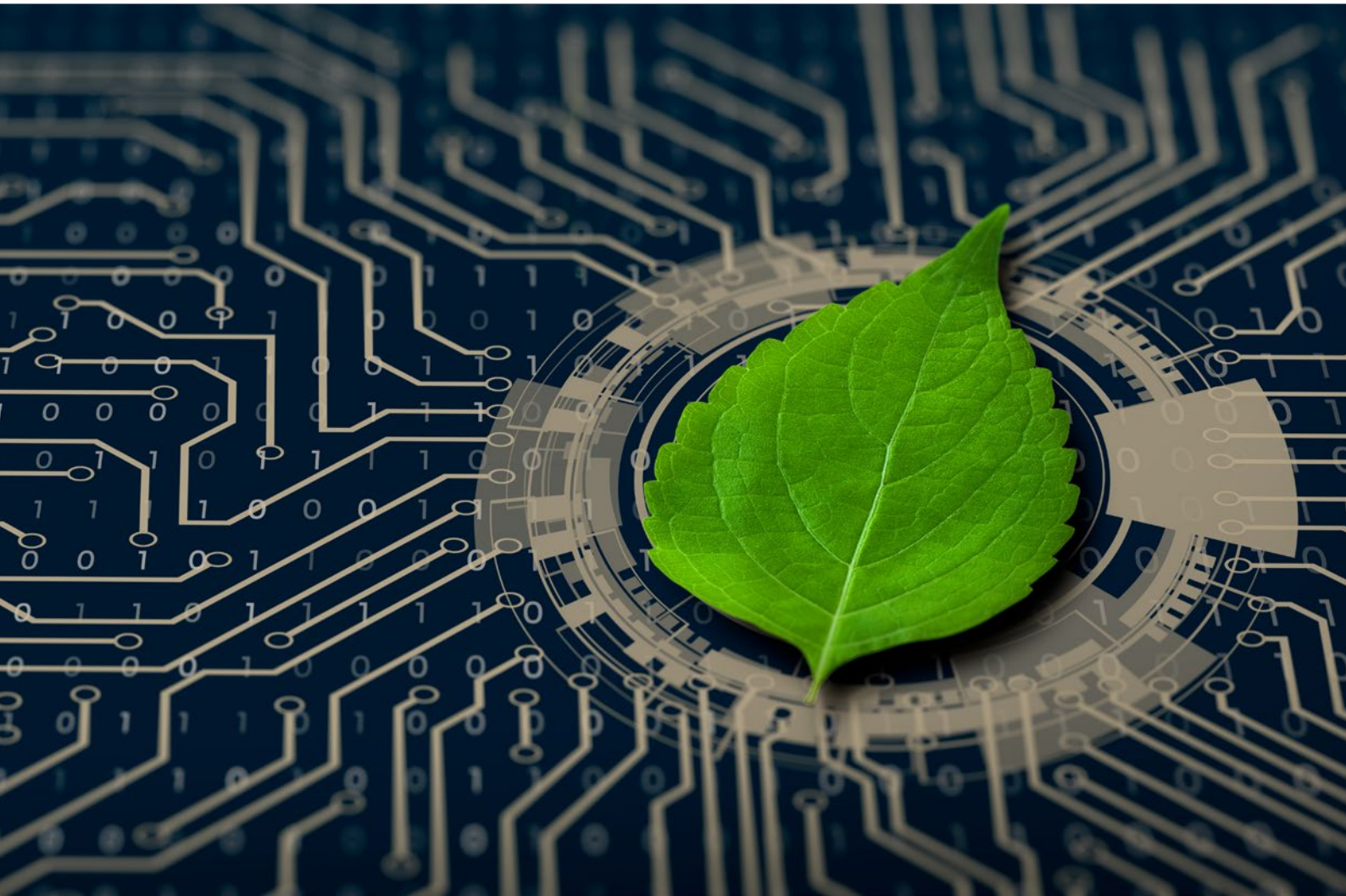
ESMA's view is that delivering on this outcome for NCAs will require training initiatives at both national and European levels, as well as sharing supervisory experience among NCAs.

3. Monitoring, assessing, and analysing ESG markets and risks

Alongside monitoring and assessment of the more traditional market variables and financial products, ESMA suggests that direct supervision and convergence work should be reliant upon sound and structured evidence on the functioning of ESG-related financial markets to be able to identify risks that may negatively impact investors or the stability of financial markets in a timely manner.

1. Tackling greenwashing and promoting transparency

ESMA acknowledges that there are varying definitions of what greenwashing is. In the roadmap, ESMA describes greenwashing as being generally identified as misrepresentation, mislabeling, mis-selling and/or mis-pricing phenomenon. ESMA also states that these terms may only represent the ultimate symptoms, as the causes of greenwashing may stem from different parts of the investment value chain.



ESMA says it wants to enhance its monitoring of developments in the EU carbon markets. Key to this will be leveraging data-analytical capabilities that already exist in other areas of capital markets legislation.

For example, climate scenario analysis for investment funds, Central Counterparties (CCP) stress testing and the establishment of common methodologies for climate-risk analysis with the other European Supervisory Authorities (the European Banking Authority (EBA) and European Insurance and Occupational Pensions Authority (EIOPA)).

RegTech and SupTech

RegTech and SupTech solutions may further facilitate access to consolidation and use of structured and unstructured ESG data by NCAs and ESMA.

There is growing interest from financial institutions in the use of technology to satisfy regulatory and compliance requirements more effectively and efficiently (referred to as RegTech) and from the official sector in the use of technology for regulatory, supervisory and oversight purposes (referred to as SupTech).

RegTech and SupTech solutions are emerging for a wide range of regulatory focus areas, including regulatory change tracking, fraud detection, know-your-customer

(KYC), countering the financing of terrorism (CFT), conduct and prudential risk management, systematised regulatory reporting and associated auditable record-keeping.

Sector impacts

The sectors perceived by ESMA as having the highest potential impact are the following:

- Investment management;
- Investment services;
- Issuers' disclosure and governance;
- Benchmarks;
- Ratings²;
- Trading and post-trading; and
- Financial innovation.

By framing the sectoral actions against the three sustainable finance priorities, ESMA believes it will be able to better coordinate the sectoral work to ensure that different pieces of EU sustainable finance legislation within its remit are built, applied, and supervised consistently.

Proposed timeline and actions for investment management

The roadmap provides an Annex which details timings and actions for each of the impacted sectors. We look at the investment management sector specifically below.

Action/deliverable	Indicative timeline	Priority
SINGLE RULEBOOK		
Contribute to the European Commission's (EC) planned work on minimum sustainability criteria, or a combination of criteria for financial products that disclose under Article 8 of the SFDR.	2022	• Greenwashing
Review the RTS under SFDR to clarify: <ul style="list-style-type: none"> Indicators for climate and environment related Principal Adverse Impacts (PAIs). PAI on social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters. 	2022	• Greenwashing
Contribute to the EC's work on possible further changes to the UCITS Directive and AIFMD to enable financial market participants to systematically consider positive and negative sustainability impacts of their investment decisions.	2024	• Greenwashing
Flag to the EC any need to amend/clarify/interpret Level 1 and Level 2 such as the SFDR, Taxonomy Regulation, UCITS Directive and AIFMD.	2022-2024	
SUPERVISORY CONVERGENCE		
Map NCAs supervisory role, particularly on greenwashing, considering Sustainable Finance requirements applicable to asset managers (SFDR, Taxonomy Regulation, AIFMD, UCITS Directive).	2022-2023	• Greenwashing • Building Capacities
Contribute to the horizontal mapping of data needs/usages for supervisory purposes.	2023	• Greenwashing • Building Capacities
Deliver training on SFDR (Articles 3, 5, 6 and 8-11), Taxonomy Regulation (Articles 5-6 and 8).	2022-2024	• Building Capacities
Organise supervisory case discussions among NCAs on how to identify and effectively address greenwashing.	2022-2023	• Greenwashing • Building Capacities
Contribute to consistent implementation of new requirements applicable to asset managers (mainly SFDR and related provisions from Taxonomy Regulation, plus AIFMD and UCITS Directive): <ul style="list-style-type: none"> NCAs to share supervisory cases to promote effective and consistent supervision. Develop ESMA guidance to NCAs and/or to the market to ensure effective and consistent application of rules as needed. Maintain up to date/develop new supervisory briefing(s) as required. 	2022-2024	• Greenwashing • Building Capacities
Survey landscape of EU/national ecolabels.	2022-2024	• Greenwashing • Monitoring ESG Markets
Undertake a Coordinated Supervisory Action (CSA) on sustainability disclosures.	2023-2024	• Greenwashing • Building Capacities
RISK ASSESSMENT		
Analyse disclosures under SFDR Article 8 & 9 in the investment management sector to support supervisory convergence efforts and the identification of greenwashing cases.	2022-2024	• Greenwashing • Monitoring ESG Markets
Undertake work on climate change scenario analysis: <ul style="list-style-type: none"> Develop methods, parameters, and scenarios for bottom-up climate change stress testing to be used by supervisors and supervised entities (in coordination with EBA and EIOPA). As a one-off exercise, conduct climate change stress test to assess the resilience of investment funds in line with the Fit for 55 Package (in coordination with the EBA and EIOPA). Perform regular climate change stress tests or scenario analyses of entities within ESMA's remit. 	2022-2024	• Monitoring ESG Markets
Assess data availability and quality for asset managers.	2022-2024	• Building Capacities • Monitoring ESG Markets

Further timetables are also provided within the roadmap for: Investment services, issuers' disclosure and governance, benchmarks, and ratings.

Full details can be found on pages 27-34 of the roadmap.

Follow up work

ESMA has already embarked on the first Roadmap activities to ensure it can deliver on its ambitious plans. Additionally, it will shortly launch a call for stakeholder candidates to join a new Consultative Working Group supporting ESMA's Coordination Network on Sustainability.

ESMA intends to keep the roadmap and the identified priorities and sectors under review during the implementation period.

This ongoing review may lead to changes in the sequencing or timing of the actions and deliverables and will ensure that ESMA continues to address the most significant challenges related to its sustainable finance mandate, as this important field continues to evolve.

¹ https://www.esma.europa.eu/sites/default/files/library/esma30-379-1051_sustainable_finance_roadmap.pdf.

² Credit ratings and ESG ratings.

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