OSSERVATORIO ESG

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Standard setter per l'analisi finanziaria

The European Securities and Markets Authority (ESMA) published its Strategy on Sustainable Finance on 6th February 2020. The strategy sets how ESMA will place sustainability at the core of its activities by embedding Environmental, Social and Governance (ESG) factors and by monitoring related ESG risks considering also stress test scenarios (Risk Assessment activity).

ESMA'S STRATEGY ON SUSTAINABLE FINANCE

ESMA's key highlighted priorities in the strategy include:

1. **Single Rulebook**: The completion of the regulatory framework in relation to transparency obligations on sustainability-related disclosures in the financial services sector (*the Disclosure regulation*) and the definition of joint technical standards in cooperation with the EBA and EIOPA.
   The Commission's "European Green Deal", published in December 2019, emphasises that the private sector will be key to financing the green transition. ESMA is fully prepared to assist the Commission with the fulfilment of the Green Deal and has already begun the analysis of current financial regulation to identify areas where the risk of "greenwashing" might arise.

2. **Supervisory Convergence**: Ensuring the consistent, efficient and effective application of EU legislation and contributing to a common supervisory culture are key tasks for ESMA. To give the pervasiveness of ESG factors across different areas of legislation, to build common approaches for incorporating ESG factors in the supervisory practices of National Competent Authorities (NCAs) will be priorities for ESMA's work in supervisory convergence.
   To develop a mapping of local supervisory practices and requirements relating to ESG factors is another step in order to gain a better understanding of the current treatment of ESG factors and sustainable business under national legislation in the different European Economic Area (EEA) jurisdictions.
   In particular it will be important to have an overview of: (i) the powers and competences of NCAs for the supervision of areas relating to ESG factors; (ii) the level of supervisory experience that NCAs have in dealing with ESG factors; (iii) the existence of any specific local requirements for market participants requiring incorporation of ESG factors in business practices subjected to supervision; and (iv) the level of digitalisation of ESG related areas.

3. **Direct Supervision**: Given the lack of reference the most relevant task in the short term will be the implementation of ESMA's Guidelines on disclosure practices for credit ratings. The Guidelines require greater transparency from credit rating agencies around whether ESG factors as change driver for credit rating.

4. **Risk assessment**: ESMA aims to identify trends and market changes as well as potential risks related to sustainable finance as that of greenwashing. Quantitative and qualitative indicators will be applied to monitor and to assess risks at EU level.
   A dedicated chapter on risk assessment will be published in the next ESMA Report on Trends, Risks and Vulnerabilities (expected publication: 1Q20). This chapter will include indicators related to green bonds, ESG investing (e.g. use of ESG-based indices) and emission allowance trading.
   ESMA will analyze commercial data providers and public datasets, taking into account existing data gaps, limitations, methodological and definition issues. The taxonomy regulation will support an improvement in the quality and consistency of the data.
   The final objective is to develop a comprehensive analytical framework including tools and indicators at EU level to analyse ESG factors as well as both financial risks stemming from climate change and transition costs for different entities within ESMA's

remit. The framework will be broad-based and cover areas such as green bonds, social bonds, emission allowances, ESG ratings of EU investment funds, and climate-risk stress testing, and market efficiency in incentivising participants to support sustainable finance-related targets and goals. Issues that may threaten EU market integrity (e.g. greenwashing risk, illiquid/impaired markets) should be considered too.

5. **Outreach/Communication:** ESMA will have a role in the Sustainable Finance Platform. The Platform will develop, define and maintain the EU taxonomy and will monitor capital flows to sustainable finance. ESMA will endeavor to provide advice aimed at ensuring alignment and consistency with the financial regulation.

Steven Maijoor, Chair of ESMA (European Financial Forum 2020 – Dublin)

"The transition to sustainability requires rapid and concrete action by all actors involved in making the European economy more resilient vis-à-vis the challenges posed by climate change. These challenges have global reach and therefore, while taking a leading role, Europe should promote, as much as possible, the adoption of standards, rules and practices that are internationally recognised and adoptable.
The public sector has a pivotal role to play in this transition. First and foremost, to protect investors at this critical juncture, but also to lend credibility to the efforts being made to facilitate this transition and to take advantage of the opportunities that it creates. In particular, it can do so by ensuring that public authorities are responsible for setting robust standards for rigorous ESG measurement disclosures, and for supervising the relevant actors and products to prevent the risk of greenwashing.
ESMA is committed to contribute to the shift towards a sustainable European financial system by supporting the necessary measures across the whole investment."

Indicative timeline for Sustainable finance actions

Timeline	H1 2019	H2 2019	H1 2020	H2 2020	2021
Single rulebook	Delivery of advice on UCITS, AIFMD & MiFID	Delivery of advice on short-termism	Amendment of ESMA's TS procedures to include ESG factors	Expected delivery of first set of Disclosures RTS	Expected delivery of second set of Disclosures RTS
Supervisory Convergence		Mapping of national supervisory practices	ESG training incorporated in ESMA training programme		ESG factors mainstreamed into ESMA's topical training courses
Direct Supervision		Delivery of advice on ESG factors in CRAs	Supervision of CRA ESG transparency		
Risk Assessment			Dedicated Sustainable Finance TRV chapter	Mapping of national indicators	
Outreach				Establish CWG	