



Spotlight on Markets – September 2023

ESMA IN 2024: FOCUS ON DIGITAL CHANGE AND THE GREEN TRANSITION

- ESMA Annual Work Programme 2024
- EU securitisation markets
- ESMA sees prevailing market uncertainty as downside risks rise
- Landscape of ICT third-party providers in the EU



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ESMA Work Programme 2024: focus on digital change and the green transition

The European Securities and Markets Authority (ESMA), the EU's financial market regulator and supervisor, published its <u>work programme for 2024</u>.

"The implementation of a number of significant legislative projects will shape ESMA's work and responsibilities in 2024. In particular, the finalisation of the regulatory framework under MiCA and the preparations with national authorities for the new regime will be important to contribute to enhancing investor protection in the crypto market. The authorisation of the first Consolidated Tape Providers will increase transparency and foster a single data source across the EU's financial markets.

2024 will be an important year for the European Union as a whole, with a new Parliament and Commission following the elections next June. ESMA will engage with and support them in determining the priorities for the next legislative period, providing technical advice and input on the different legislative initiatives across our remit."



Verena Ross, ESMA Chair



In an economic context marked by high inflation, heightened geopolitical tensions and rapid technological changes, ESMA will ensure close market and risk monitoring and support the effective implementation of the European regulatory framework related to the digital and sustainability transitions. By fostering effective regulation and supervision of the European capital markets, ESMA contributes to addressing the challenges faced by the EU and its citizens.

Continuing to deliver under ESMA's new strategic orientation



The political, technological and economic developments expected in 2024 present ESMA with wide ranging and demanding new tasks.

ESMA and its staff are committed to delivering across its responsibilities and ensuring the authority remains agile to respond to new developments.

Natasha Cazenave, Executive Director of ESMA





ESMA will work to enhance financial stability and investor protection also through tasks mandated in the asset management area under the recently concluded reviews of the Alternative Investment Fund Managers (AIFMD), Undertakings for Collective Investment in Transferable Securities (UCITS) Directives, and the Central Securities Depositories Regulation (CSDR). The ongoing reviews of the European Market Infrastructure Regulation (EMIR) as well as the new Listing Act may also lead to new mandates for ESMA in 2024.

ESMA will assist in the finalisation (and possibly start of implementation) of the new Retail Investment Strategy, and will also in 2024 assess whether the NCAs have sufficiently improved their supervision of investment firms' cross-border activities. To enhance investor understanding, ESMA will engage with retail investors through coordinated communication with National Competent Authorities (NCAs), complementing and amplifying their actions and messages.

In 2024, ESMA expects to continue to adapt its supervisory efforts to be ready for the entry into application of DORA in 2025, and begin the process of selecting and authorising Consolidated Tape Providers (CTPs) in the EU. ESMA will develop technical standards for the European Single Access Point (ESAP) and continue preparatory work on the necessary IT infrastructure needed to support it.

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Finally, effective use of data and Information and Communication Technologies is a key part of ESMA's strategy for 2023-2028, and ESMA will work on further improving data quality outputs for all supervisory data and enhance the ability to share and analyse this data, in close cooperation with NCAs and other EU authorities.



ESMA provides overview of EU securitisation markets

The European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, published a <u>study</u> setting out the details of the EU securitisation market.

Main findings

Overall, the size of the European securitisation market has decreased significantly since the EUR 2tn it reached at the end of 2010. At end-2022, there were 390 individual securitised products outstanding in the EU as reported to the registered securitisation repositories, amounting to EUR 540bn. 54% of these outstanding amounts were linked to residential mortgages, followed by automobile loans (16%), loans to SMEs (15%) and consumer loans (12%). 86% of the outstanding was originated in the five largest markets, namely FR (25%), DE (21%), IT (17%), ES (13%), and NL (10%).

STS securitisations

This article also presents data from the ESMA register of Simple, Transparent and Standardised securitisation (STS) securitisations. These securitisations fulfil a various set of predetermined requirements to help investors identify high-quality securitisations and thus foster EU securitisation markets. The ESMA STS register contained 586 non-ABCP and ABCP STS notifications in the STS register as of 31 December 2022: 238 public and 348 private. Additionally, there were 54 synthetic STS. Public STS securitisations, amounting to EUR 215bn were primarily issued in NL (22%), followed by FR (20%), IT (18%), LU (15%) and ES (13%), with the remaining EU countries accounting for around 12% combined. Finally, issuance of private STS mostly occurred in three Member States: FR (37%), IE (25%) and LU (16%), with the remaining EU countries amounting to around 22% of the total.



The scope of the study published today is limited to public securitisation deals issued after 1 January 2019 and does not cover earlier issuances. The overall market including pre-2019 securitisations is significantly larger, as suggested by industry reports such as AFME's estimate of EUR 700bn of EU ABS. The market coverage of the ESMA reporting will increase as we approach the maturity of the pre-2019 deals, although private securitisation will remain out of scope.

This article is based on the data ESMA receives under Regulation (EU) 2017/2402 (Securitisation Regulation, or SECR), and on data from the ESMA register of Simple, Transparent and Standardised securitisation (STS) securitisations. The SECR requires the reporting of public securitisation data, including on underlying exposures and investor reports, through registered securitisation repositories from 30 June 2021.





ESMA sees prevailing market uncertainty as downside risks rise

The European Securities and Markets Authority (ESMA), published the second <u>Trends, Risks and Vulnerabilities (TRV) Report</u> of 2023.

ESMA sees that financial markets are adapting to the new economic environment of durably higher inflation and interest rates, however risks remain high in ESMA's remit. Markets are set to remain very sensitive to potential deteriorations in economic fundamentals or risks in the financial sector.

Main findings

Securities markets: Equity markets rose in 1H23, even though the market stress related to US banks led to increased volatility and bidask spreads in March and April. Credit risk indicators showed mixed signals, with early signs of deterioration such as increasing corporate high-yield defaults and sovereign downgrades but limited movements on sovereign credit spreads.

Asset management: The EU fund sector partly recovered after the historical decline experienced in 2022, primarily due to valuation effects. Bond funds received inflows, which contrasts with the outflows in 2022. Fixed income funds which reduced their maturity and interest rate sensitivity during the monetary tightening are now positioned to benefit from higher yields. Fund risks remain high due to prevailing credit, valuation, liquidity and interest rate risks, especially for funds combining several vulnerabilities, such as in the real estate fund sector.

Consumers: Investor sentiment remained negative amid lingering uncertainty and weak expectations on long-term developments. Performance of retail investments remained subdued, reflecting sustained price pressures in the underlying asset markets.





Infrastructures and services: The first half of 2023 saw renewed growth in equity trading volumes. Infrastructures under ESMA's remit proved stable and well-functioning faced with high volatility linked to the banking sector. After the peak in 2H22, CCP margins relating to commodity products decreased in 1H23, in line with the drop in energy derivative prices.

Market-based finance: The ability of non-financial corporations to raise funds through capital markets slightly picked up in 1H23 from the lows observed in 2022. Corporate bond issuance peaked, with concentration in shorter term maturities given monetary policy expectations.

Sustainable finance: The EU market for ESG products and sustainable investments has continued to grow at a robust pace. The demand for funds with a sustainable investment objective remained strong.

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Crypto-assets and financial innovation: Crypto-asset valuations rebounded in early 1H23 but remained far below their historical peak. Persistently elevated cyber risks remain an important source of concern for the EU financial sector. Financial markets have started exploring potential implications of Artificial Intelligence after the launches of various Generative AI tools in 1H23.



ESAs analyse the extent of voluntary disclosure of principal adverse impacts under the SFDR

The Joint Committee of the three European Supervisory Authorities (EBA, EIOPA and ESMA – the ESAs) published their <u>second annual Report</u> on the extent of voluntary disclosure of principal adverse impacts under the Article 18 of the Sustainable Finance Disclosure Regulation (SFDR).

Similar to the approach adopted for 2022 Report, the ESAs launched a survey of National Competent Authorities to assess the current state of entity-level and product-level voluntary principal adverse impact (PAI) disclosures under the SFDR, and have developed a preliminary, indicative and non-exhaustive overview of good practices and areas that need improvement.

Highlights

- The results show an overall improvement compared to the previous year, although there is still significant variation in the extent of compliance with the requirements and in the quality of the disclosures both across financial market participants and jurisdictions.
 - Disclosures appear easier to find on websites compared to the previous year.
 - When financial market participants do not consider principal adverse impacts, they should better explain the reasons for not doing so.

Even though they are encouraged to do so under the SFDR, financial market participants are generally not disclosing to what extent their investments align with the Paris Agreement.



Voluntary disclosures of PAI consideration by financial products will be further analysed in future reports.



ESAs specify criticality criteria and oversight fees for critical ICT third-party providers under DORA

The European Supervisory Authorities (EBA, EIOPA and ESMA – the ESAs) published their joint response to the European Commission's Call for Advice on two EC delegated acts under the Digital Operational Resilience Act (DORA) specifying further criteria for critical ICT third-party service providers (CTPPs) and determining oversight fees levied on such providers.

In relation to the criticality criteria, the ESAs propose 11 quantitative and qualitative indicators along with the necessary information to build up and interpret such indicators following a two-step approach. The ESAs also put forward minimum relevance thresholds for quantitative indicators, where possible and applicable, to be used as starting points in the assessment process to designate critical third-party providers. This joint response does not include any details of the designation procedure nor of the related methodology as these are out of the scope of this Call for Advice. However, the ESAs plan to define these details no later than six months after the adoption of the delegated act by the Commission.





Regarding the oversight fees, the ESAs make proposals for determining the amount of the fees to be levied on CTPPs and the way in which they are to be paid. The ESAs' proposals cover the types of estimated expenditures (for both the ESAs and the competent authorities) that shall be covered by oversight fees as well as the basis for the expenditures' calculation and the available information for determining the applicable turnover of the CTPPs (the basis of fee calculation) and the method of fee calculation together with other practical issues regarding the collection of fees. In addition, the advice proposes a financial contribution for voluntary opt-in requests. The ESAs will specify other practical aspects on the estimation of oversight expenditures and operational aspects in the context of the implementation of the oversight framework.

Background

In December 2022, the Commission issued to the ESAs a Call for Advice (CfA) in relation to two delegated acts under DORA to 1) specify further criteria for critical ICT third-party service providers and 2) determine the fees levied on such providers.

To inform the responses, the ESAs held a <u>public consultation</u> (May-June 2023). In light of the 41 responses received from various stakeholders, the ESAs have amended the draft advice on the criticality criteria to increase the role of critical or important functions in the assessment and further streamlined the proposed set of indicators. Regarding the oversight fees, the ESAs have, among others, adapted their advice by proposing to define the scope of the applicable turnover on a narrower basis. Overall, market participants expressed support to the proposals related to the other aspects of the advice, while requesting clarifications on some other points.



ESAs publish Report on the landscape of ICT third-party providers in the EU

The three European Supervisory Authorities (EBA, EIOPA and ESMA – the ESAs) <u>published an indicative overview</u> of information and communication technology (ICT) third-party providers (TTP) as part of their preparations for the Digital Operational Resilience Act (DORA). The analysis aims to map the provision of ICT services by TPPs to financial entities in the European Union and to support the ESAs' policy making process in light of the European Commission's call for advice to further specify the criteria for critical ICT TPPs and to determine oversight fees.

The data collection exercise on which the Report is based was the first of its kind, covering ICT-related contractual arrangements for entities across the financial sector. Overall, the exercise has identified around 15,000 ICT TPPs directly serving financial sector entities across the EU. It has found that the most frequently used ICT TPPs support critical or important functions for their clients in a wide range of services. In addition, most critical services were classified as non-substitutable by financial institutions.

The data collection exercise has also revealed some valuable lessons for the implementation of DORA. For instance, it has underlined the importance of ensuring that financial entities provide unique identifiers in the data submitted and the need to develop an appropriate ICT services taxonomy.

Legal basis and background

The ESAs, with the support of their respective competent authorities, agreed to carry out a data collection exercise on a sample of financial entities as part of their preparations for DORA. The results of the analysis are based on information provided on a best-effort basis by a broad sample of financial entities across the EU financial sector.



ESMA updates the European Single Electronic Format Reporting Manual

The European Securities and Markets Authority (ESMA), published the annual update of its <u>Reporting Manual on the European Single Electronic</u> <u>Format (ESEF)</u>.

ESMA updated the ESEF Reporting Manual to provide technical improvements, such as:

clarifying the formats of images embedded in the xHTML document;



updating Data Type Registry references;

clarifying ESMA's position on the application of Calculations 1.1 specification in the context of ESEF; and



fixing previously identified errors.

ESMA provides additional clarifications on how the elements included in the 2023 IFRS Taxonomy update can be used on a voluntary basis by using the extension mechanism. This follows the <u>decision</u> to postpone to 2024 the amendment of the ESEF Regulatory Technical Standard (RTS) in order to formally incorporate the 2023 IFRS Taxonomy update.

In addition, following the first year of implementation of the block-tagging requirements, the Reporting Manual also provides further guidance on ESMA's expectation on the implementation of the block-tagging requirements and on the expected level of readability of the information extracted from a block tag.

The purpose of the ESEF Reporting Manual is to promote a harmonised and consistent approach for the preparation of annual financial reports in the format specified in the RTS on ESEF. It provides guidance on common issues that may be encountered when creating ESEF documents and explains how to address/resolve them.



Publications

Click to read the news items

Date

31 Aug	<u>ESMA sees prevailing market uncertainty as downside</u> <u>risks rise</u>
1 Sep	ESMA seeks experts for new Consultative Working Groups under its Risk Committee
6 Sep	ESMA updates the European Single Electronic Format Reporting Manual
18 Sep	<u>ESAs warn of risks resulting from a fragile economic</u> <u>outlook</u>
21 Sep	ESMA provides overview of EU securitisation markets
27 Sep	ESAs publish Report on the landscape of ICT third- party providers in the EU
28 Sep	ESAs analyse the extent of voluntary disclosure of principal adverse impacts under the SFDR
28 Sep	ESMA Work Programme 2024: focus on digital change and the green transition
29 Sep	ESAs specify criticality criteria and oversight fees for critical ICT third-party providers under DORA



Speaking appearances

by ESMA Staff in October

Date	, ,
3 Oct	Conférence sur le marché carbone - Guilain Cals
5 Oct	<u>AGEFI European Finance Forum</u> <u>- Dora Blanchet</u>
5 Oct	<u>RegTech Summit</u> <u>- Nikolay Arnaudov</u>
9 Oct	<u>JC Consumer Protection Day</u> <u>- Verena Ross, ESMA Chair</u>
9 Oct	Evento Formativo in Consob su MAR - Stefano Sirtori
10 Oct	Workshop on SFDR - Joanna Lednicka
10 Oct	18th IOSCO-FSI Conference on Securities Trading Issues and Market Infrastructure - Klaus Löber
11 Oct	AFM Capital Markets Day - Stefano Sirtori
12 Oct	Shaping a future-proof corporate ecosystem - Isabelle Grauer-Gaynor



Speaking appearances

by ESMA Staff in October

Date	
13 Oct	<u>International Investors' Conference</u> <u>- Salvatore Gnoni</u>
16 Oct	<u>Future of ESG Data EMEA 2023</u> <u>- Anna Sciortino</u>
16 Oct	<u>Data Amplified 2023</u> <u>- Fabrizio Planta</u>
16 Oct	Forum FinTech - Natasha Cazenave, ESMA Executive Director
17 Oct	<u>AFME OPTIC Conference</u> <u>- Verena Ross, ESMA Chair</u>
17 Oct	Impatto Targato ESG - Anna Sciortino
18 Oct	BPP OC annual forum 2023 - Valerio Novembre
19 Oct	4th EACH CCP Risk Management Summit - Froukelien Wendt
19 Oct	DACOM EU - Benjamin Burlat



Speaking appearances

by ESMA Staff in October

Date	
24 Oct	Joint ECON-FEMM event on Women in Finance and Economics - Verena Ross, ESMA Chair
24 Oct	36th IIFA Annual Conference - Verena Ross, ESMA Chair
24 Oct	Annual hearing at the ECON Committee of the European Parliament - Verena Ross, ESMA Chair
31 Oct	Bloomberg's Global Regulatory Forum - Jakub Michalik
31 Oct	IBA Annual Conference - Anna Sciortino



Consultations

Click on the consultation

Closing date

- 14 Dec
 Second Consultation on the Technical Standards

 specifying certain requirements of Markets in Crypto

 Assets Regulation (MiCA)
- **15 Dec** Call for evidence on the shortening of the settlement cycle



Hearings and Webinars

Click on the open hearings or webinars

18 Oct Webinar on ESG names and claims in the EU fund industry, and ESG pricing effect

Did you miss our latest hearings and webinars?

13 Jul Public hearing related to the first batch of policy products under the DORA in presentation
 7 Sep Webinar on ESMA's report on trends, risks and vulnerabilities no. 2, 2023
 i presentation



Open vacancies

All open vacancies can be found on ESMA's recruitment portal

Deadline

26 Oct	Policy/ Convergence Officer - Contract Agents (CA)
31 Dec	Seconded National Experts (multiple profiles)
31 Dec	Traineeship Notice - Support functions profile
31 Dec	Traineeship Notice - Economics, Data and IT profile
31 Dec	<u>Traineeship Notice - Regulation, Supervision</u> <u>and Policy profile</u>



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