

Spotlight on Markets – April 2024

DORA – Preparing the ESAs and the industry

- Social media sentiment: Influence on EU equity prices
- Crypto assets: Market structures and EU relevance
- Changes to ELTIF Technical Standards
- Global CCP fire drill 2023 - Main outcomes

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Crypto assets: Market structures and EU relevance

Over the last decade, crypto assets have developed into an extensive system and gained considerable attention, especially due to the risks they pose to consumers and financial stability. ESMA monitors these risks and has repeatedly issued warnings to investors.

ESMA has published [an article](#) that aims to improve specifically our understanding of crypto-asset trading and the extent to which it resembles or differs from traditional financial markets. We have also identified current and potential areas of risk, not only to consumers but also to market order and financial stability. Finally, our analysis informs and supports the implementation of the EU Markets in Crypto-Assets (MiCA) regulation.

It shows

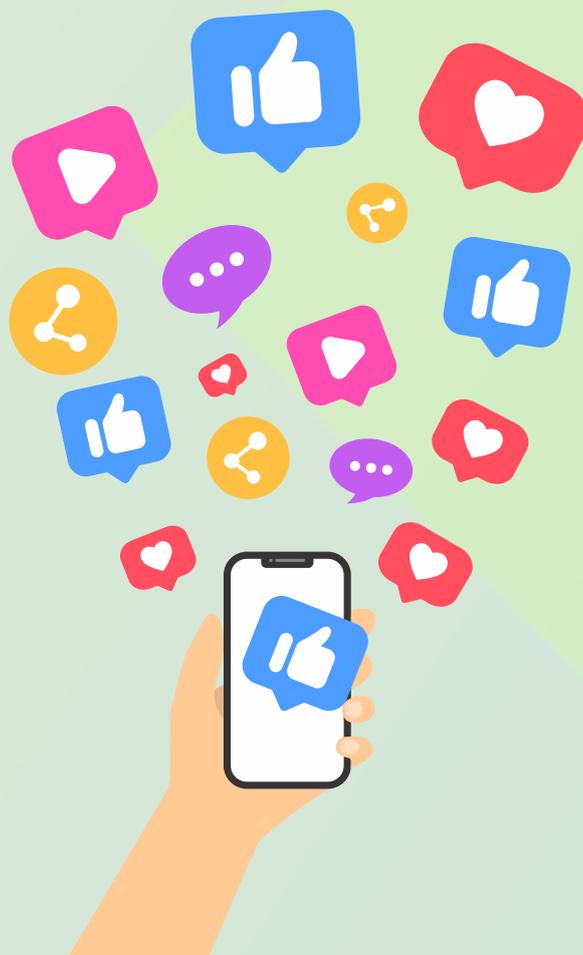
- While many crypto-assets have emerged, market capitalisations and trading volumes remain significantly concentrated in a few assets
- The distribution of involved fiat money reflects a high reliance on the US dollar and the South Korean won as the market's on- and off-ramp
- The euro only plays a minor role and the announcement of the MiCA regulation has not caused an increase in euro transactions so far
- Trading volumes are highly concentrated in a few crypto exchanges: 10 exchanges process about 90% of trades
- Around 55% of trading volume is executed on crypto exchanges that hold an EU license as a virtual asset service provider

[Click here to read the article](#)

Social media sentiment: Influence on EU equity prices

The impact of Social media information in securities markets is a growing market and public policy concern. [This ESMA article](#) shows a correlation between social media interactions and stock excess returns at the very short term, suggesting that information spreading on social media platforms influences investor trading choices and may amplify short-term financial market movements.

On social media platforms, investors are nowadays able to share information, opinions and views at a large scale in real time. The quality and validity of information shared by individuals in that way cannot be taken for granted. In this respect, social media posting differs fundamentally from journalism: specialised financial media are held accountable for the accuracy of the information they report.



This is not necessarily the case for social media. The impact of social-media information in securities markets is, therefore, a growing market and public policy concern. Increasing social media interactions and related sentiment among investors influence the collective investor behaviour with potential effects on financial market dynamics. This comes with notable risks for retail investors raising investor protection concerns. It may also involve wider market movements with systemic implications, increasing financial stability concerns.

Against this background, this article investigates the influence specifically of social media activity and sentiment on stock prices. The main findings identify only a transitory effect of social media sentiment on stock excess returns. Positive social media sentiment seems to be correlated with higher returns in the very short-term.

In this sense, information spreading on social media platforms may affect investor trading choices and may amplify daily market movements. However, price overreaction typically does not last more than one day and is only transitory. This points to the risk of investors excessively relying on social media news whose truthfulness and accuracy is difficult to verify.



With this analysis, we cast a first light on the market impact of social-media information in the EU. Other transmission channels and market impacts are likely to exist, and more analytical work and monitoring need to be undertaken to obtain a fuller picture of the risks for individual investors and markets at large.

DORA: ESAs to run voluntary dry run exercise to prepare industry for the next implementation stage

The European Supervisory Authorities (EBA, EIOPA and ESMA – the ESAs) announced that they would launch in May the voluntary exercise for the collection of the registers of information of contractual arrangements on the use of ICT third-party service providers by the financial entities. Under the Digital Operation Resilience Act (DORA) and starting from 2025, financial entities will have to maintain registers of information regarding their use of ICT third-party providers. In this dry run exercise, this information will be collected from financial entities through their competent authorities and will serve as preparation for the implementation and reporting of registers of information under DORA.

The ESAs and the competent authorities are introducing this voluntary exercise to help financial entities prepare for establishing their register of information, gathering the relevant information specified in the [ESAs' final draft Implementing Standards on the registers of information](#) and reporting their registers of information to their respective competent authorities, who will, in turn, provide those to the ESAs.



Financial entities participating in the dry run will receive support from the ESAs to:

- build their register of information in the format as close as possible to the steady-state reporting from 2025
- test the reporting process
- address data quality issues, and
- improve internal processes and quality of their registers of information

As part of the exercise, the ESAs will provide feedback on data quality to financial entities participating, return cleaned files with their register of information, organise workshops and respond to frequently asked questions.

Next steps

The ad-hoc data collection is expected **to be launched in May 2024** with the financial entities expecting to submit their registers of information to the ESAs through their competent authorities between 1 July and 30 August.

DORA: ESAs consult on technical standards for joint examination teams

The European Supervisory Authorities (EBA, EIOPA and ESMA – the ESAs) launched a public consultation on the draft Regulatory Technical Standards (RTS) on the conduct of oversight activities in relation to the joint examination teams under the Digital Operational Resilience Act (DORA).

The primary goal of the draft RTS is to lay out the criteria for determining the composition of the joint examination teams – ensuring a balanced participation of staff members from the ESAs and from the relevant competent authorities – as well as the designation of the members, their tasks, and working arrangements.

These draft RTS aim at ensuring maximum efficiency and effectiveness regarding the functioning of the joint examination teams, given their central role in the daily oversight of critical ICT third-party service providers (CTPPs). The proposed technical standards take into account the high technical complexity of the oversight activities and the scarce availability of the expertise needed to perform them.

Next steps

The ESAs invite stakeholders to submit their comments on the draft RTS by 18 May 2024 using the links available on the [consultation page](#).

All contributions received will be published following the end of the consultation, unless requested otherwise.

The DORA and the related RTS will apply from 17 January 2025.

DORA: The ESAs launch first recruitments to set up joint oversight team

The European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) published three vacancy notices in the context of the Digital Operational Resilience Act (DORA).

This announcement comes as part of the establishment of a fully integrated team within the 3 ESAs (joint oversight team) to carry out the oversight of critical third-party providers (CTPPs) required by DORA. The vacancies published today are for a Director, Legal Experts and ICT Risk Experts.

Recruitment

The joint oversight team will be made up of 30 staff across the ESAs and will be complemented by experts from competent authorities.

Apply by 13 May to the first positions advertised today:

- [Director](#)
- [Legal Expert – Legal and Compliance](#)
- [ICT Risk Expert – ICT audit or supervision/ ICT risk management / Information Security](#)

Process

The DORA framework introduces an oversight framework for critical ICT third party service providers.

In practice, one of the three European Supervisory Authorities will act as a Lead Overseer and will coordinate the oversight work. Its role encompasses requesting information from CTPPs, conducting off-site investigations and onsite inspections, imposing penalties and issuing recommendations.

Background

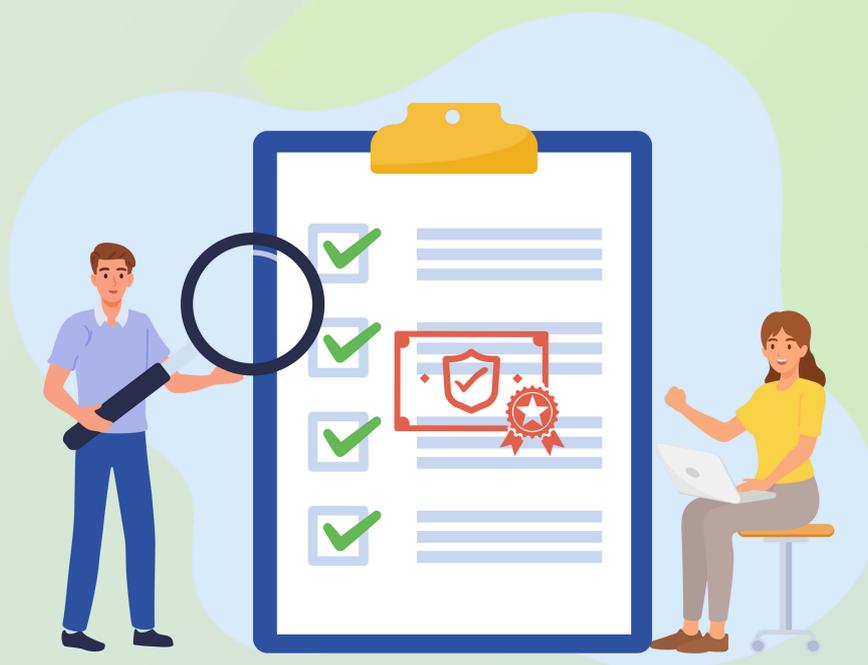
The Digital Operational Resilience Act (Regulation 2023/2554, or “DORA”) applicable from January 2025 establishes a comprehensive framework for fostering the digital operational resilience of all EU financial entities. It foresees that ICT third-party service providers who provide ICT services to financial entities and are identified as critical (critical third-party providers – CTPPs) will be subject to an oversight at the EU level.



ESMA proposes changes to ELTIF Technical Standards

The European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, responded to the European Commission request on amendments to the European long-term investment fund (ELTIF) Technical Standards (RTS). In the letter ESMA suggests that there should be a limited number of changes to find the right balance between protecting retail investors and contributing to the capital market union objectives.

On the RTS on redemption policy, and specifically on the calibration of the requirements relating to redemptions and liquidity management tools, ESMA acknowledges that there should be an appropriate balance between protection of retail investors and financial stability related objectives and the fact that ELTIFs should make an important contribution to the capital market union objectives. However, in view of the Commission's comments, ESMA proposes striking that balance slightly differently from the European Commission.



Background

On December 2023, ESMA published its final report on the draft technical standards under the revised ELTIF Regulation and submitted it to the European Commission for adoption. In March 2024, the Commission informed ESMA that it intends to adopt the proposed RTS with amendments, and invited ESMA to submit new draft RTS reflecting the amendments provided. The Commission encouraged ESMA to consider the individual characteristics of different ELTIFs to build a more proportionate approach about the calibration of the requirements relating to redemptions and liquidity management tools.

The revised ELTIF Regulation states that ESMA shall develop draft regulatory technical standards (RTS) to determine the following:

- the circumstances in which the life of a European long-term investment fund ("ELTIF") is considered compatible with the life-cycles of each of the individual assets, as well as different features of the redemption policy of the ELTIF;
- the costs disclosure.

Next steps

Following the letter received on 8 March 2024, this opinion has been communicated by ESMA to the European Commission, with copies to the European Parliament and the Council. The EC may adopt the RTS with the amendments it considers relevant or reject it. The European Parliament and the Council may object to an RTS adopted by the EC within a period of three months.

Global CCP fire drill 2023 - Main outcomes

The European Securities and Markets Authority (ESMA) published a follow-up report to share the main outcomes of the global CCP fire drill that took place during the week starting 13 November 2023. The exercise involved over 30 global central counterparties (CCPs) simultaneously running a simulation of their default management processes, including the majority of EU CCPs. It was jointly coordinated by ESMA, EU and non-EU authorities, and the CCP industry association.

Global fire drills in which multiple CCPs simultaneously test their default management processes are a crucial element to ensure the readiness of CCPs, clearing members, clients, and other stakeholders, including regulators, for the default of a material clearing member. The fact that CCPs executed this test at the same time supported the identification of potential operational bottlenecks in their procedures, such as the fact that non-defaulting clearing members of multiple CCPs may be solicited at the same time.

This report outlines the history and background of global CCP fire drills, the main outcomes of the fire-drill, and possible next steps. One of the main findings is that no major operational bottlenecks were identified. Nevertheless, further dialogue between CCPs, clearing members and their clients is encouraged to streamline CCP processes where possible.

Next steps

ESMA will work with fellow regulators, CCPs and their stakeholders to ensure the key takeaways from the 2023 fire-drill will be taken into account for the continuous improvement of CCP default management practices in the future.

New report sheds light on quality and use of regulatory data across EU

The European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, published the fourth edition of its Report on the Quality and Use of Data aiming to provide transparency on how the data collected under different regulations is used systematically by authorities in the EU, and clarifying the actions taken to ensure data quality.

ESMA is bringing new developments in this edition such as connecting the dots with the overall ESMA Data strategy and technological evolution, including a greater coverage of datasets and sharing highly demanded information on data quality indicators.

The report provides details on how National Competent Authorities (NCA's), the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and ESMA use the data that is collected through the year from different legislation requirements, including datasets from European Market Infrastructure Regulation (EMIR), Securities Financing Transactions Regulation (SFTR), Markets in Financial Instruments Directive (MIFIR), Securitisation Regulation, Alternative Investment Fund Managers Directive (AIFMD) and Money Market Funds Regulation (MMFR).

To understand better how the information was used, ESMA collected detailed input from NCAs, ECB and ESRB regarding their use of data in the day-to-day operations, covering a range of use cases from market monitoring to supervision, enforcement and policy making.

The report presents the results of the data quality actions undertaken in 2023 across various datasets, compiling specific examples where the implementation of engagement frameworks leads to measurable improvements of data quality, while stressing that, in specific areas, data quality issues tend to persist over time.

Finally, to increase transparency with external users and to support them in their efforts to enhance the quality of the data reported, the document also brings a new annex presenting the methodology to calculate the data quality indicators on four datasets; as well as a code to perform web-scraping from the websites of APAs to collect transparency data.



More information

A webinar to present the report in more details took place on 26 April from 11:00 -12:00 CET. To watch the recording, [click here](#).

ESMA publishes first overview of EU securities financing transactions markets

The ESMA market report on EU securities financing transactions (SFT) markets provides first comprehensive market-level overview of the EU repo market, based on information reported by market participants. It contributes to ESMA's financial stability objective, by monitoring repo market developments and providing key risk metrics for its monitoring framework on securities financing transactions.

The main findings of the report are:

-  **SFT markets overview:** The total outstanding exposure of SFTs was EUR9.8tn in September 2023. Repos accounted for EUR6.7tn or 68% of the total, securities lending for EUR2.3tn (23%), buy-sell back for EUR743bn (8%), and margin lending for EUR124bn (1%).
-  **Repo market participants:** Banks are the major participants in repo markets with 52% of repo amounts, and are predominantly concentrated in a few EEA jurisdictions, with France as the primary domicile holding 55% of EEA repo borrowing and 53% of EEA repo lending in September 2023. Other main countries include Germany (17% borrowing / 19% lending), Italy (7% borrowing / 5% lending) and Ireland (5% borrowing / 6% lending).
-  **Cross-border linkages:** 41% of the repo amounts observed are between EEA counterparties. Links with the UK are strong, with EEA repo borrowing from the UK amounting to 12% of repo amounts, and EEA lending to the UK to 9%.

- **Clearing & settlement:** 61% of repo transactions are uncleared, with 55% processed bilaterally and 6% managed with a third-party.
- **Repo collateral use:** Government bonds are the main collateral employed. The cleared segment predominantly makes use of EEA sovereign bonds (88% of collateral), while the non-cleared segment features slightly more collateral heterogeneity (79% of sovereign bonds as collateral).
- **Repo haircuts:** Since CCPs collect margin at the portfolio level using proprietary risk models, cleared repos often report zero haircuts at the transaction level. This contrasts with higher haircuts in non-cleared transactions, especially when involving a more diverse pool of asset classes. Non-cleared repos backed by government bonds often display no haircut.

The Securities Financing Transactions Regulation (SFTR) created a Union-wide framework under which details of SFTs can be efficiently reported, responding to the need to enhance the transparency of securities financing markets. ESMA will continue to monitor and analyse risks in SFT markets.



ESMA Chair's visit to the US

In April, ESMA Chair, **Verena Ross** was in Washington, USA, for the **International Monetary Fund Spring Meetings** and **Financial Stability Board (FSB)/International Organization of Securities Commissions (IOSCO)** events. She had several bilateral engagements, including with the **U.S. Securities and Exchange Commission, U.S. Commodity Futures Trading Commission, U.S. Department of the Treasury, Nasdaq** and FINRA.

Our Chair was also in New York for bilateral meetings and events such as the **Bloomberg** and the **Investment Company Institute** Roundtables with one thing on common: sustainability.



Speaking appearances

by ESMA Staff in May

Date

- | | |
|---------------|---|
| 16 May | <u>Future Evolution of Securitisation</u>
- Thierry Sessin-Caracci |
| 16 May | <u>Cross-Border Distribution Conference 2024</u>
- Emmanuel Doumas |
| 20 May | <u>Central Bank of Ireland Conference on Macroprudential Policy for Investment Funds</u>
- Verena Ross |
| 21 May | <u>ICSA 37th Annual General Meeting & Conference</u>
- Natasha Cazenave |
| 22 May | <u>ETF Ecosystem Unwrapped 2024</u>
- Antonio Ocana Alvarez |
| 22 May | <u>Technical workshop on macroprudential policies for non-bank financial intermediation</u>
- Steffen Kern |
| 23 May | <u>Conference on T+1 of France Post Marché</u>
- Alberto Garcia |
| 23 May | <u>32nd XBRL Europe days in Malta</u>
- Anna Sciortino & Dona Dunea |
| 23 May | <u>Irish Funds Annual Conference</u>
- Antonio Barattelli |

Speaking appearances

by ESMA Staff in April

Date

- | | |
|---------------|--|
| 23 May | <u>ICMA Annual General Meeting and Conference</u>
- Verena Ross |
| 23 May | <u>European Sustainable Finance Conference</u>
- Evert Van Walsum |
| 28 May | <u>6th SupTech and use of Data Seminar</u>
- Luigi Borrelli |
| 29 May | <u>IOSCO/HCMC conference</u>
- Verena Ross |
| 30 May | Navigating SFDR: Regulatory Perspectives and Practical Insights
- Patrik Kalsson |
| 30 May | CCP Global Annual General Meeting
- Klaus Loeber |
| 30 May | AMF First Conference: come with me!
- Verena Ross |
| 30 May | <u>International Investors' Conference ("Shaping the Future of Finance" conference)</u>
- Claudia Guagliano |

Consultations

Click on the consultation

Closing date

- 18 May** [ESAs consultation on RTS on joint examination teams under DORA](#)
- 14 Jun** [Consultation on European Green Bond Regulation](#)
- 21 Jun** [Consultation on possible amendments to the Credit Rating Agencies Regulatory Framework](#)
- 25 Jun** [Consultation on the Technical Standards specifying certain requirements of MiCA \(3rd package\)](#)

Webinars

Click on the webinar

Date

- 25 April** [Webinar on social media influence on financial markets and crypto-assets trading](#)
 [presentation](#) |  [recording](#)
- 26 April** [Webinar on the 2023 Report on quality and use of data](#)
 [presentation](#) |  [recording](#)

Open vacancies

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

Deadline

- 13 May** [ICT Risk Expert \(ICT audit or supervision / ICT risk management / Information Security\)](#)
- 31 Dec** [Seconded National Experts \(multiple profiles\)](#)
- 31 Dec** [Traineeship Notice - Support functions profile](#)
- 31 Dec** [Traineeship Notice - Data, Economics and IT profile](#)
- 31 Dec** [Traineeship Notice - Legal, Supervision and Policy](#)

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Social Media



ESMAComms



European Securities and Markets Authority (ESMA)