EDITION
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European Securities and Markets Authority

Spotlight on Markets – January & February 2025

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ESMA in January and February

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ESMA conference "Shaping the future of EU capital markets"

The European Securities and Markets Authority (ESMA) welcomed 300 participants in person (and around 3700 more connected online) to its key conference in Paris on 5 February 2025. During a successful day, we heard keynote speeches from Maria Luís Albuquerque, Commissioner for Financial Services and the Savings and Investments Union, Jacques de Larosière, author of the Larosière report, and Verena Ross, Chair of ESMA.

The conference brought together a diverse group of participants, including policymakers, journalists, regulators, and industry professionals, enriching the discussions and contributing to a comprehensive exploration of key topics.

During the event, the three panels and a fireside discussion focused on:

- concrete ideas to make the Savings and Investments Union (SIU) a reality,
- addressing the funding gap, and
- fostering a culture of retail investment.

These discussions aimed to empower EU citizens and companies to invest in the EU capital markets.

The event marks ESMA's commitment to enhancing priority areas over the coming years and generate a collective vision that can help towards the success of the SIU for both EU citizens and businesses.

The keynote speeches and more information about the conference can be found here.

The recording of the conference can be found here.

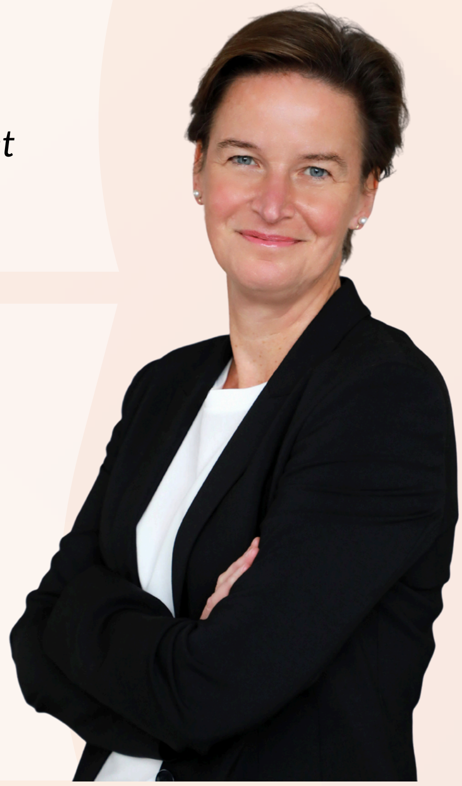

ESMA
Panel III:
Shaping a culture of retail investors
Karel Lannoo
Aleksandra Maczynska
Tanguy van de Werve
Jean-Paul Servais
Moderator: Evert van Walsum
A conversation with:
ADENA FRIEDMAN
Chair and CEO, Nasdaq
NATASHA CAZENAVE
Executive Director, ESMA
Keynote speech
VERENA ROSS
ESMA Chair

Simplification and burden reduction

The European Securities and Markets Authority (ESMA) will be supporting the European Commission's objective to simplify and reduce the reporting burden in the financial sector.

The ESMA Board of Supervisors discussed in December 2024 how to best contribute to efficient simplification and burden reduction actions, while preserving the main objectives of financial stability, orderly markets and investor protection.

"At ESMA we aim to play our part in simplifying the regulatory framework and in reducing unnecessary reporting burdens where feasible. This work should not be about deregulation but about avoiding duplications and streamlining some of the reporting requirements for market participants."



"A concrete example is the proposed change related to data reporting for transparency purposes under the MiFIR regime. The reuse of already reported transaction data allows for the removal of duplicative reporting obligations and related IT-systems that have been used to make these calculations so far."

***Verena Ross**, Chair*

This and other future initiatives will help to reduce cost and complexity for companies, saving time that can be redirected towards other business activities.

ESMA will look across its entire remit, including data, policy and supervision, to identify ways to ensure that the measures applicable to market participants are proportionate.

The first areas on which ESMA has focused are the following:

- **Transparency and volume cap regimes**

ESMA has introduced changes in the transparency framework under the MiFIR Review that will contribute to a significant reduction in the reporting burden for market participants.

Since 2018, the transparency and volume cap regimes have relied on data reported by trading venues to ESMA specifically for these purposes. Going forward, ESMA intends to discontinue these reporting flows and instead perform the calculations relying on the transaction data that is already reported to NCAs and ESMA under Article 26 of MiFIR.

ESMA will publish the calculations based on transaction data following the entry into force of the revised technical standards on equity transparency, expected by the end of 2025. Similar changes will be proposed to the technical standards on volume cap later this year.

ESMA will also discontinue voluntary publication of quarterly SI calculations data from the beginning of 2025 and focus on further streamlining the relevant internal processes.

- **Transaction reporting**

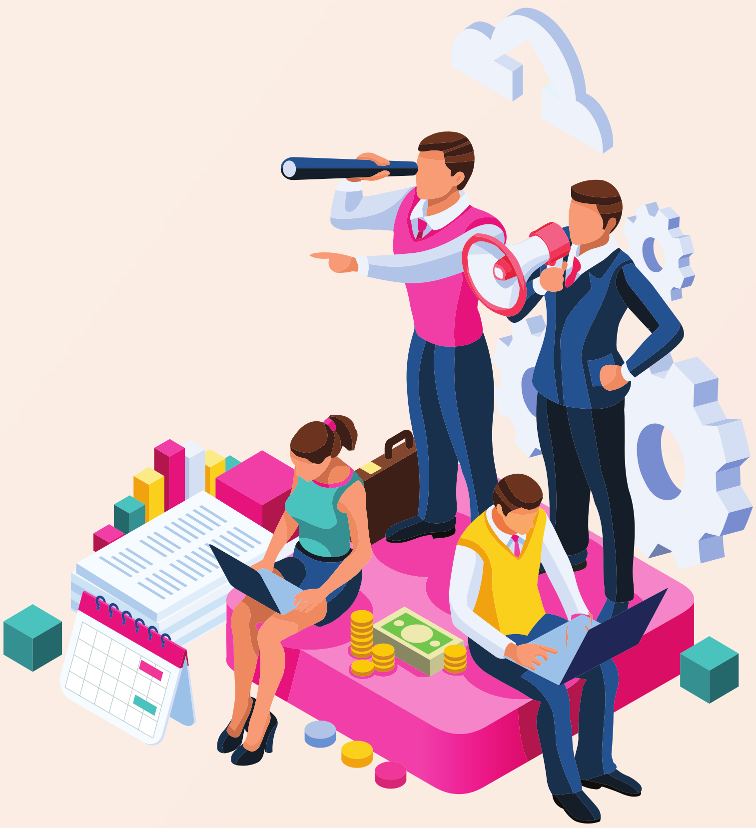
Other initiatives under the MiFIR Review aiming to reduce or ease the reporting burden include the consolidation and alignment of reference data for the purpose of transaction reporting and transparency and the alignment of specific requirements related to transaction data with other reporting regimes, such as EMIR.

- **Digitalising sustainability and financial disclosure**

In the corporate reporting area, ESMA is currently consulting on proposals, in accordance with the European Single Electronic Format (ESEF), to digitalise sustainability disclosures in a phased way to spread the reporting burden over a number of years. The consultation also points at easing the burden associated with electronic disclosures of the notes to the financial statements.

Next steps

ESMA will continue to engage with its wide range of stakeholders to actively identify areas where further simplification and burden reduction could be achieved, in order to contribute to a more effective and attractive EU capital market.



Geopolitical and macroeconomic developments driving market uncertainty

The European Securities and Markets Authority (ESMA) published its first risk monitoring report of 2025, setting out the key risk drivers currently facing EU financial markets. ESMA finds that overall risks in EU securities markets are high, and market participants should be wary of potential market corrections.

"Financial markets remain optimistic, but recent events show that confidence is fragile, including in Europe. The evolution of economic growth, global monetary policy and geopolitics remains uncertain, and this gives rise to key risk drivers.

Market participants need to keep their eyes firmly on growing risks, from possible corrections in surging markets such as cryptos, to the threat of disruption from increasingly sophisticated and frequent cyber-attacks.

The difficult funding environment, particularly for equity financing, in Europe identified in the report also shows just how important it is to strengthen European capital markets."

Verena Ross, ***Chair***

As global financial markets continue to soar, downside risks are mounting. This is especially visible from an EU perspective where economic and political uncertainties are weighing on markets and where market-based corporate financing remains lacklustre.

Contagion risk is also set to worsen given surging asset prices in a context of highly interconnected global markets. Crypto markets have recently hit record highs and continue to illustrate the growing risks from social-media-driven investing for investors with limited knowledge. More positively, credit risk should ease as lower interest rates feed through.

ESMA's report provides an update on structural developments and the status of key sectors of financial markets, during the second half of 2024.

Structural developments

Market-based finance: The financing of European corporates lost momentum in 2024. The market environment remains challenging, and equity issuance stayed weak overall. Corporate bond issuance fell slightly in 2H24 but remained close to historically high levels. Given the upcoming corporate bond maturity wall from 2025 to 2028, with 47% of debt maturing in this period, debt sustainability remains a risk.

Sustainable finance: Uncertainty linked to the direction of global climate policy continued to grow in 2H24. A renewed need to consolidate public finances in advanced economies raised questions on government abilities to finance the transition, while slower ESG investing momentum signalled a drop in appetite for 'green' products. Yet, the strength of the EU green bond market, underpinned by non-financial corporate issuance, suggests a broader greening of the economy continues.

Financial innovation: Crypto-asset prices boomed after the US election, with the new administration's pro-crypto stance fuelling market optimism. Bitcoin rose 30% and meme coins, including the largest, Dogecoin, saw their values surge. Total capitalisation of crypto assets rose to EUR 3.3tn by end-2024, 27% above the historical peak of November 2021. These events prompted ESMA to renew its warning on the highly speculative nature of crypto-assets.

Market monitoring

Securities markets: European equity valuations declined in 4Q24, extending the divergence between EU and US equities. In the EU, considerable disparities in sectoral and country performance persisted. In fixed income markets, corporate bond spreads reached historical lows, especially in the high-yield segment. Search-for-yield behaviour and excessive risk-taking by end investors could lead to pricing misalignments and to abrupt repricing when economic conditions change.

Asset management: In 2H24, EU fund asset growth was due to valuation effects, with most categories performing positively amid muted flows. Overall EU equity fund performance outperformed EU indices reflecting a growing exposure to the US. This could expose these funds to higher market risks given signs of overvaluation in US equities. Leverage remains high for hedge funds and commercial real estate fund valuation has not adjusted substantially to underlying prices.

Consumers: Confidence in future market conditions was weak and sentiment in current market conditions reached a two-year low, despite improvements in the aggregate financial position of households. Consumers continued to increase their direct and indirect exposures to bonds amid higher interest rates. Average performance of retail investments also improved in 2024, with positive performance in equity, bond, alternative and mixed funds.

Infrastructures and services: Cyber risks continue to grow amid geopolitical tensions. In 2H24, equity-trading volumes remained high (+23% year-on-year). Settlement failure rates decreased, continuing a positive trend observed since the implementation of CSDR in 2022. There was a small decrease in the number of outstanding credit ratings, associated with a decline in financial and particularly covered bond ratings.

New governance structure for transition to T+1 settlement cycle kicks off

The European Securities and Markets Authority (ESMA), the European Commission (EC) and the European Central bank (ECB) launched a new governance structure to support the transition to the T+1 settlement cycle in the European Union.

Following ESMA's report with recommendations on the shortening of the settlement cycle, the new governance structure has been designed to oversee and manage the operational, regulatory and technological aspects of this transition. Given the high level of interconnectedness within the EU capital market, a coordinated approach across the EU, involving authorities, market participants, financial market infrastructures and investors, is desirable. The key elements of the new governance model include:

- An **Industry Committee**, composed of senior leaders and representatives from market players. The Committee will be chaired by Giovanni Sabatini. Giovanni has a long-standing experience working in securities markets both in the private and public sector. He has served as a member of the European Economic and Social Committee and held roles within IOSCO, EBF and ECSDA.
- Several **technical workstreams**, operating under the Industry Committee, focusing on the technological operational adaptations needed in the areas concerned by the transition to T+1 (i.e. trading, matching, clearing, settlement, securities financing, funding and FX, asset management, corporate events, settlement efficiency). In addition, two more general workstreams will review the scope and the legal and regulatory aspects of these adaptations.
- A **Coordination Committee**, chaired by ESMA and with representation from the EC, the ECB, ESMA and the chair of the Industry Committee. This committee will ensure coordination between the authorities and the industry, advising on challenges that may arise during the transition.

Shortening the trade settlement cycle from the current T+2 framework to one business day should enable faster execution, clearing, and settlement of securities transactions, as well as international alignment, benefiting the entire EU financial ecosystem.

The Commission is currently considering the merits of a legislative change mandating a potential transition to a shorter settlement cycle.

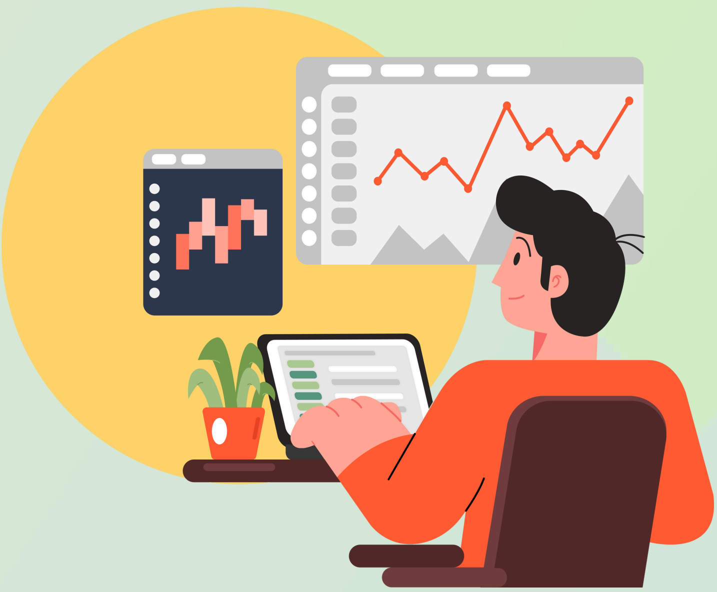
Next steps

ESMA has recommended 11 October of 2027 as the optimal date for the transition to T+1 in the EU. In its Report ESMA concluded that the transition to T+1 should be implemented in phases, with key milestones including technology upgrades, stakeholder engagement and regulatory alignment.

Further details regarding the governance set-up and participating organisations will be published in the coming days.

Industry representatives interested in contributing to the upcoming work are advised to contact the T+1 Industry Secretariat here.

The first meeting of the Coordination Committee took place on 6 February.



EU funds continue to reduce costs – at low and varying pace

The European Securities and Markets Authority (ESMA) published its seventh market report on the costs and performance of EU retail investment products, showing a decline in the costs of investing in key financial products.

Despite this decline the cost levels of funds in the EU remain high by international standards. With more than 50,000 funds and an average fund size almost 10 times smaller than that of for example US mutual funds, EU funds do not exhaust the economies of scale commensurate with the EU's single market. The market inefficiencies revealed by this higher cost level shows the need to focus on the competitiveness of EU markets, within a future Savings and Investments Union.

The key findings in the report are:

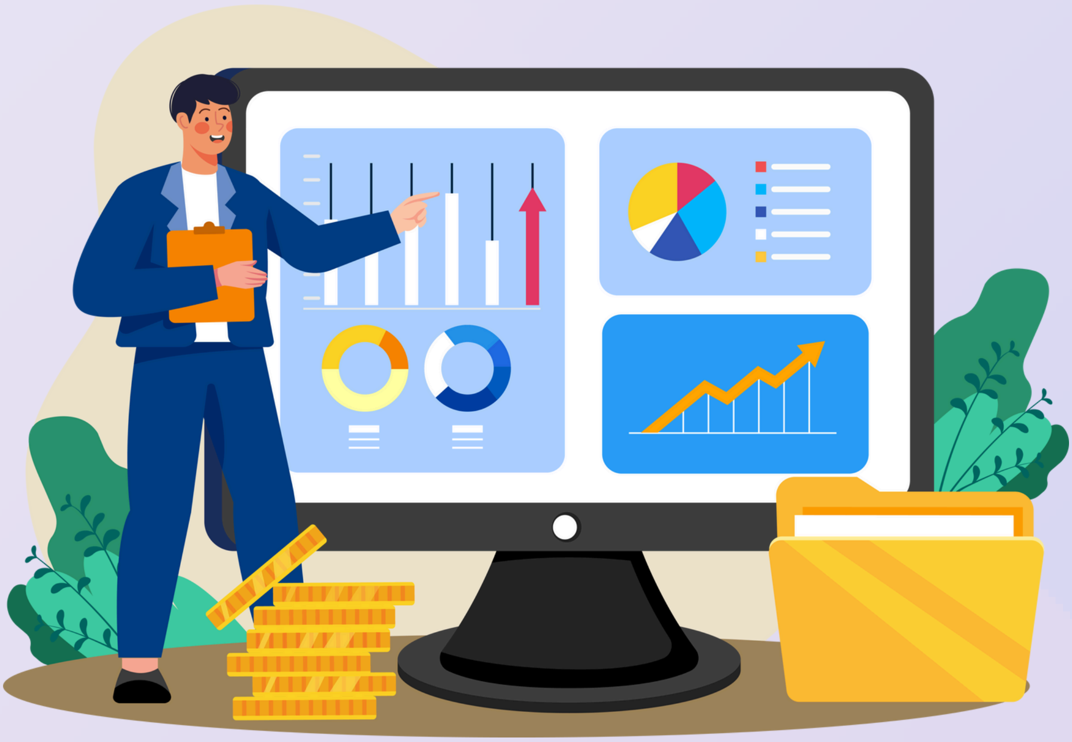
- **UCITS costs decline gradually, from high levels**: Costs have declined, but investors should continue to consider fund fees carefully in their investment decisions – especially since costs have not dropped for all categories of funds: ongoing costs of mixed funds and equity passive funds have been relatively stable over time.

- **UCITS performance slightly improved:** Returns progressed in 2023 but remained far from their 2021 levels. The annual net performance of bond and mixed funds improved between 2022 and 2023 but remained in negative territories.

- **ESG UCITS with lower costs and higher performance that non-ESG:** Ongoing costs of retail ESG funds remain lower or similar to the ongoing costs of non-ESG equivalents. Overall, ESG funds outperformed their non-ESG equivalents in 2023. This hides some disparities across asset classes: non-ETF equity ESG funds outperformed, while equity ETF, fixed income and mixed ESG funds underperformed.

- **Alternative Investment Funds less demanded by retail investors:** The market for Alternative Investment Funds remained dominated by professional investors and is less invested by retail investors compared with the UCITS market. The share of retail investors decreased between 2022 and 2023: from 14% to 11%. In 2023, annualised gross and net performance improved significantly compared with 2022, with all fund strategies having positive returns.

- **Structured Retail Product costs improve but remain difficult to assess for clients:** In 2023, the share of products referencing interest rates and inflation rose to around one fifth of sales volumes, a sharp increase from 2022. This trend followed higher interest rates and inflation. Costs – largely charged in the form of subscription fees – fell in 2023 for some common product types, although they vary substantially by payoff type and country. Structured Retail Products that matured in 2023 consistently delivered positive returns in gross terms, but these figures do not consider the incidence of costs paid by investors.



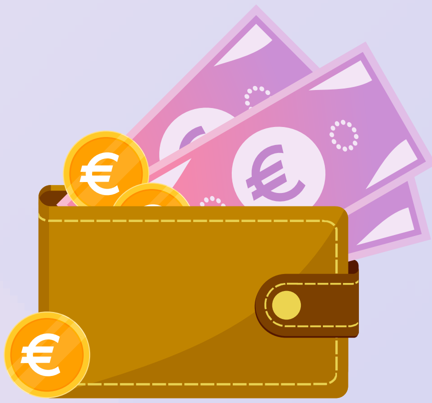
Next steps

This report aims at facilitating increased participation of retail investors in capital markets by providing consistent EU-wide information on cost and performance of retail investment products. Improvements in data availability continue, but significant data issues persist.

Following the review of the AIF managers directive and the UCITS directive, ESMA has been mandated to produce a report on costs linked to investment in UCITS and AIFs. For the purpose of this report, ESMA launched a data collection exercise together with the national competent authorities. This analysis will be part of an enhanced 2025 ESMA market report on costs and performance of EU retail investment products that is expected to bring new insights and more granular information on fund costs.

Background

Cost and performance of retail investment products are key determinants of the investments' benefits for retail investors in the EU. Clear and comprehensive information on retail investment products can help investors assess the past performance and costs of products offered across the EU and foster retail investor participation in capital markets.



ESMA's report also demonstrates the relevance of disclosure of costs to investors, as required by the MiFID II, UCITS and PRIIPs rules and the need for asset managers and investment firms to act in the best interest of investors, as laid down in MiFID II, and the UCITS and AIFM Directives.

ESMA launches a Common Supervisory Action with NCAs on Compliance and Internal Audit Functions

The European Securities and Markets Authority (ESMA) launched a Common Supervisory Action (CSA) with National Competent Authorities (NCAs) on compliance and internal audit functions of UCITS management companies and Alternative Investment Fund Managers (AIFMs) across the EU.

The CSA will be conducted throughout 2025 and aims to assess to what extent UCITS management companies and AIFMs have established effective compliance and internal audit functions with the adequate staffing, authority, knowledge, and expertise to perform their duties under the AIFM and UCITS Directives.

Compliance and internal audit functions are designed to ensure that the internal control mechanisms to monitor, identify, measure, and mitigate any possible risks of non-compliance with the applicable rules are in place. Therefore, ensuring that the entities have robust internal controls is crucial to avoid investor detriment and preserve financial stability.

The work will be done using a common assessment framework developed by ESMA, which sets out the scope, methodology, supervisory expectations, and timeline on how to carry out a comprehensive supervisory action in a convergent manner.

During the year, NCAs will share knowledge and experiences through ESMA to foster convergence in how they supervise the compliance of UCITS management companies and AIFMs with the relevant rules in the area.

Next steps

ESMA will publish a final report with the results of the exercise in 2026.

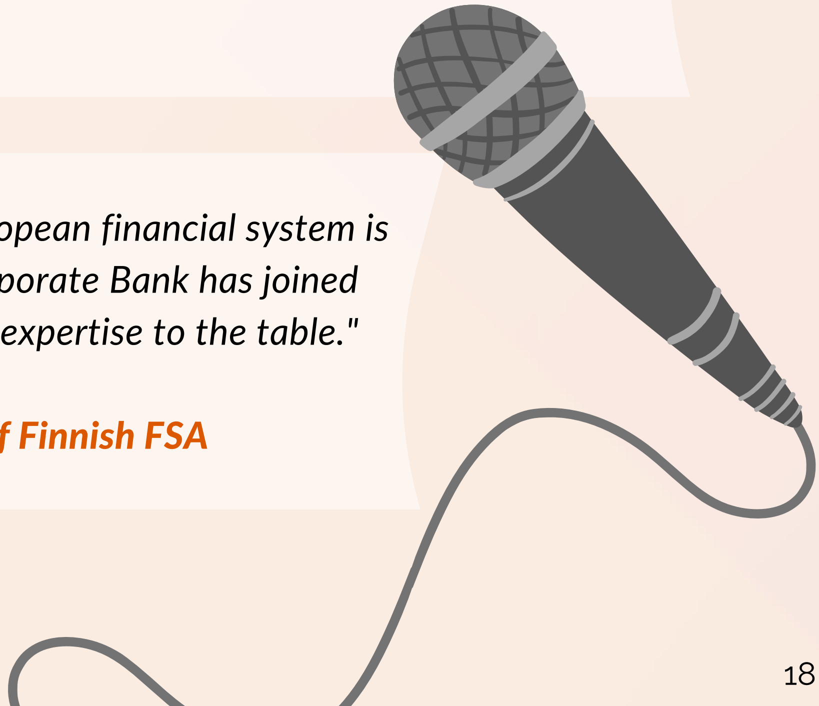
Euribor Panel to include Finland's OP Corporate Bank and the National Bank of Greece

The European Securities and Markets Authority (ESMA), the Finnish Financial Supervisory Authority (FSA) and the Hellenic Capital Market Commission (HCMC) welcome the recent inclusion in the Euribor panel of OP Corporate Bank and National Bank of Greece.

The two banks join the group of credit institutions that contribute to Euribor under its revised methodology, which is a substitute for the panel banks' expert judgement. The methodology was adopted in a phased approach by all members across the Euribor panel between May and October 2024.

"We welcome the growth of the number of panel banks that contribute to Euribor under its new methodology. This development, together with the evolution to a fully transaction-based methodology, will reinforce the soundness of the Euribor benchmark, as benchmarks rooted in real market activity drive trust and transparency across the financial ecosystem."

Verena Ross, *Chair*



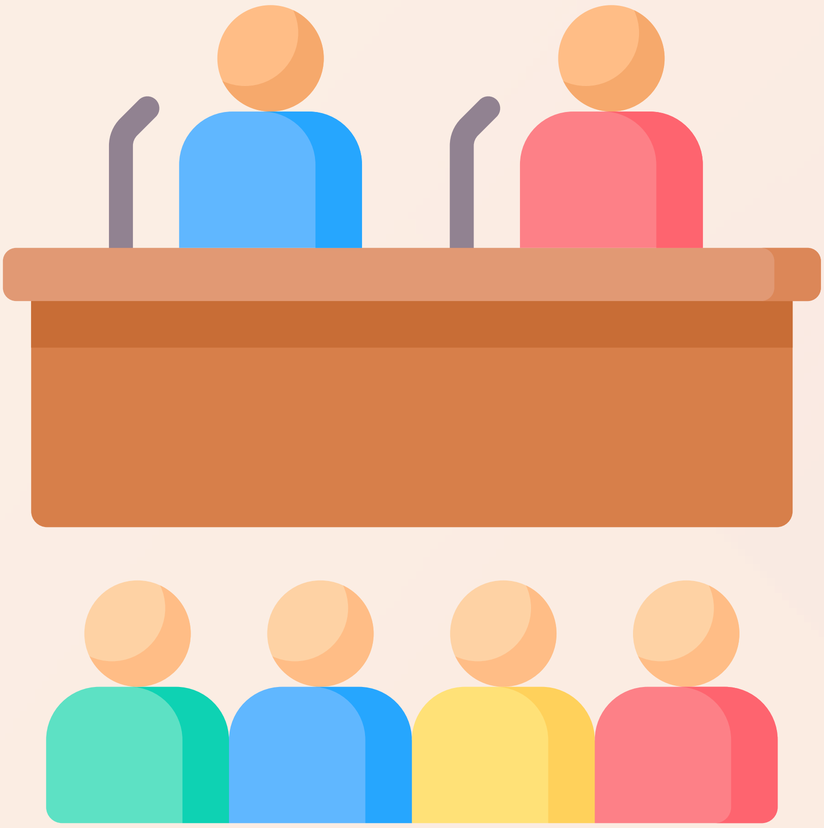
"For Finland, the stability of the European financial system is a priority. We welcome that OP Corporate Bank has joined the Euribor panel, bringing valuable expertise to the table."

Tero Kurenmaa, *Director General of Finnish FSA*

“We welcome NBG’s participation in the Euribor panel of banks, which will contribute to the robustness and the representativeness of Euribor and the enhancement of the collaboration between the participating banks”.

Vassiliki Lazarakou, HCMC Chair

The announcement of the inclusion of the two banks was made by the European Money Markets Institute (EMMI) on 14 June 2024. ESMA continues to encourage credit institutions active in the unsecured euro money market to consider becoming members of the Euribor panel.



Guidance on MiCA best practices

The European Securities and Markets Authority (ESMA) published a new supervisory briefing aiming to align practices across the EU member states.

The briefing, developed in close cooperation with National Competent Authorities (NCAs), promotes convergence and prevents regulatory arbitrage, providing concrete guidance about the expectations on applicant Crypto Asset Service Providers (CASPs), and on NCAs when they are processing the authorisation requests.

For example, the briefing contains clear guidance on:

- **Substance and governance** and the ability of CASPs offering their service in the EU to operate autonomously and with sufficient in-country personnel.
- **Outsourcing** and the effective limits to set regarding the externalisation of functions and services.
- **Suitability of personnel** and the importance for CASPs, and particularly its executive management, to demonstrate effective technical knowledge of the crypto ecosystem.

The guidance in the briefing helps NCAs, applicants and the general public to operationalise MiCA and RTS obligations into concrete controls and checks. Consequently, it serves to maintain a strong regulatory framework characterised by a consistent, effective, and forceful supervision.

Next steps

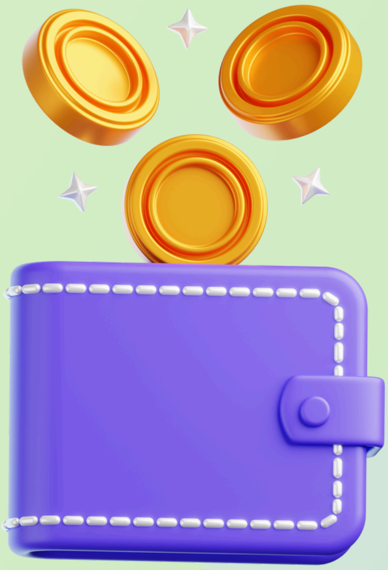
NCAs are expected to apply the principles in the supervisory briefing during authorisation procedures, as well as ensure continued adherence for CASPs once they have been authorised.

Guidance on non-MiCA compliant ARTs and EMTs (stablecoins)

The European Securities and Markets Authority (ESMA) published a statement reinforcing the position related to the offer of ARTs and EMTs (also known as stablecoins) in the EU under Market in Crypto Assets regulation (MiCA).

The statement provides guidance on how and under which timeline CASPs are expected to comply with the requirements of Titles III and IV of MiCA, as clarified in the European Commission Q&A. In particular, National Competent Authorities (NCAs) are expected to ensure compliance by CASPs regarding non-compliant ARTs or EMTs as soon as possible, and no later than the end of Q1 2025. With the statement ESMA aims to facilitate coordinated actions at the national level and avoid potential disruptions.

The European Commission have also delivered a Q&A, providing guidance on the obligations contained in titles III and IV of MiCA and how these obligations should apply to crypto assets service providers (CASPs).



The Q&A clarifies that certain crypto-asset services may constitute an offer to the public or an admission to trading in the EU and should therefore comply with titles III and IV of MiCA.

The EBA and ESMA analyse recent developments in crypto-assets

The European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) published a Joint Report on recent developments in crypto-assets, analysing decentralised finance (DeFi) and crypto lending, borrowing and staking. This publication is the EBA and ESMA's contribution to the European Commission's report to the European Parliament and Council under Article 142 of the Markets in Crypto-Assets Regulation (MiCAR).

EBA and ESMA find that DeFi remains a niche phenomenon, with value locked in DeFi protocols representing 4% of all crypto-asset market value at the global level. The report also sets out that EU adoption of DeFi, while above the global average, is lower than other developed economies (e.g. the US, South Korea).

The EBA and ESMA observe that the number of DeFi hacks and the value of stolen crypto-assets has generally evolved in correlation with the DeFi market size. Since flows on decentralised exchanges represent 10% of spot crypto trading volumes globally, DeFi protocols present significant risks of money laundering and terrorist financing (ML/TF).

The EBA and ESMA find the implications of maximal extractable value (MEV) on DeFi markets are widespread in DeFi and negative externalities of MEV would require technical solutions.

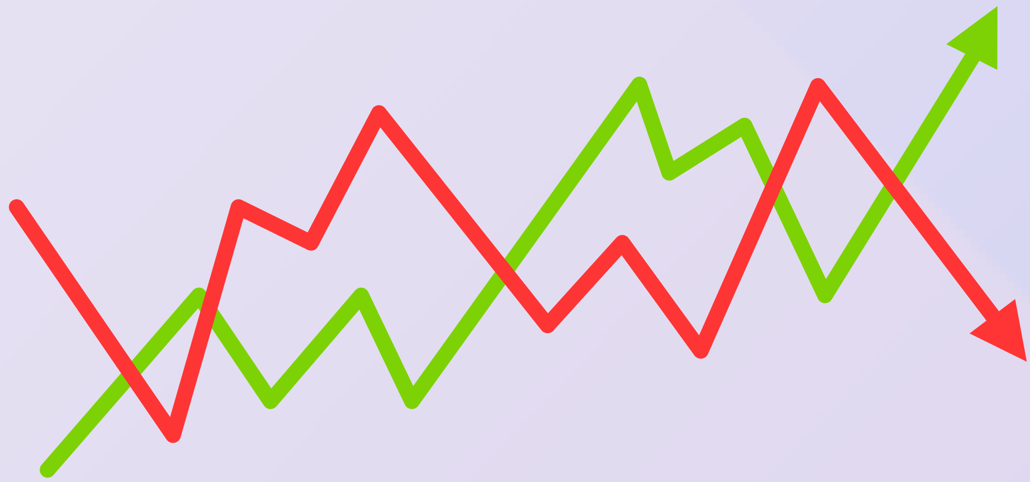
On the lending, borrowing and staking of crypto-assets, the report contains an analysis of the main types and typical features of the business models observed in the market, in both centralised and decentralised forms. These services are offered by a number of crypto-asset service providers (CASPs) in EU jurisdictions which in some cases also offer regulated crypto-asset services.

Based on the existing (limited) evidence, there appears to be limited engagement of EU consumers and financial institutions with crypto lending, borrowing and staking services. The report sets out and assesses the specific risks associated with each of them, such as excessive leverage, information asymmetries, exposure to ML/TF risks, and systemic risks arising from re-hypothecation and collateral chains, procyclicality and interconnectedness. In particular, some users may receive insufficient information on the terms and conditions of these services in areas such as fees, interest rates paid or yields, changes to collateral requirements, among other relevant disclosures. However, the EBA and ESMA have not identified current risks from a financial stability perspective.

Background and next steps

Article 142 of MiCAR mandates the European Commission (EC) to submit, after consulting the EBA and ESMA, a report to the European Parliament and Council on recent developments in crypto-assets. On the basis of that provision, the EC is mandated to assess, among others, a) the development of DeFi in crypto-asset markets and the appropriate regulatory treatment of decentralised crypto-asset systems without an issuer or CASPs, including an assessment of the need for and feasibility of regulating DeFi; and b) the feasibility and necessity of regulating the lending and borrowing of crypto-assets. In a letter dated 9 February 2024, the EC requested that EBA and ESMA provide a contribution focusing on certain elements related to DeFi and the lending and borrowing of crypto-assets, including staking.

The EBA and ESMA will continue to assess market developments as part of their ongoing mandate to monitor innovative activities in the EU banking, payments and securities sectors.



Start of DPE regime on 3 February and end of publication of Systematic Internalisers data

The European Securities and Markets Authority (ESMA) reminds market participants that the new regime for the reporting of Over the Counter (OTC) transactions for post-trade transparency purposes became fully operational on 3 February 2025. ESMA also informed stakeholders that the quarterly publication of systematic internalisers (SI) data will be discontinued with immediate effect.

Following the MiFIR review, the responsibility for reporting OTC-transactions will shift from SIs to the new Designated Publishing Entities (DPEs). The old approach has led many investment firms to opt in to the status of SI to be able to report the trades for their clients. When these firms were not dealing on own account on a systematic basis this added disproportionate requirements to them.

The DPE regime (see ESMA's Public Statement) allows National Competent Authorities (NCAs) to grant the status of DPE to investment firms. DPEs, when they are party to a transaction, will need to make these transaction public through an approved publication arrangement (APA).

ESMA maintains a public register of DPEs by class of financial instruments, to help market participants to identify those entities.

Discontinuation of the SI quarterly calculations

Following the application of the MiFID II amendments, it will no longer be necessary for ESMA to perform SI calculations from September 2025. In view of the resources needed to perform the calculations and the fact that the regime will end shortly, ESMA has decided to discontinue the voluntary publication of quarterly SI calculations data already now. This action will also reduce the administrative burden for investment firms.

Consequently, the mandatory SI regime will no longer apply from 1 February 2025, and investment firms will not need to perform the SI-test. However, investment firms can continue to opt into the SI-regime.

ESAs study on feasibility of further centralisation of major ICT-related incident reporting by financial entities

The three European Supervisory Authorities (EBA, EIOPA and ESMA – the ESAs) published a report on the feasibility of further centralisation in the reporting of major ICT-related incidents by financial entities according to Article 21 of the Digital Operational Resilience Act (DORA).

In line with the DORA mandate, the ESAs' joint report explores the potential for further centralisation regarding financial entities' reporting of major ICT-related incidents to competent authorities.

The report assesses the feasibility of three different models: the baseline model, a model with enhanced data sharing arrangements and a fully centralised model. It considers the potential burden and cost reductions, as well as the efficiency and effectiveness gains that each model would bring for cross-sector supervisory practices.

Next steps

The joint report has been submitted to the European Parliament, the European Council and the European Commission, which will consider its findings for potential future developments in relation to the further centralisation of major ICT-related incident reporting in the financial sector.

Background

The report, prepared jointly by the ESAs in accordance to Article 21 of DORA, is based on input received from Competent Authorities and the ESAs' Stakeholders Groups. The ESAs also drew on the expertise of a renowned IT strategy firm and consulted the ECB and ENISA while drafting the report.

Consultations

Click on the consultation

Closing date

12 Mar	Consultation on the draft regulatory technical standards on open-ended loan-originating AIFs under the AIFMD
18 Mar	Consultation on the draft RTS for the establishment of an EU code of conduct for issuer-sponsored research
18 Mar	Consultation on the Guidelines on Internal Controls for Benchmark Administrators, Credit Rating Agencies and Market Transparency Infrastructures
31 Mar	Consultation on the ESEF RTS for sustainability reporting and on the amendments to the EEAP RTS
31 Mar	Consultation on the revision of the disclosure framework for private securitisation

Events

Click on the event

Date

20 Jan	Open hearing on the Consultation on the Active Account Requirement under EMIR 3 ▸ Presentation and recording available
5 Feb	ESMA's Conference: Shaping the future of EU capital markets ▸ Keynote speeches and recording available
13 Feb	Webinar on the 2024 Market Report on Crowdfunding in the EU

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