



European Securities and
Markets Authority

Annual Report 2014





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Markets Authority

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Steven Maijor

Chair
EUROPEAN SECURITIES AND MARKETS AUTHORITY

Foreword by the Chair

This year's annual report reflects not only the diversity and volume of activities the European Securities and Markets Authority (ESMA) has participated in over 2014, but also that ESMA is maturing as an organisation. ESMA has achieved a lot in its first four years. It has a broad role with the objectives to protect investors and ensure orderly and stable financial markets. These are challenging objectives, resulting in a diversity and volume of activity that touches on nearly every area of EU securities markets.

And we have met those challenges with success and this has been confirmed by positive external evaluations. In particular, the Commission's review of the European System of Financial Supervision (ESFS) noted that ESMA had performed well, delivering against its mandates, building up the organisation needed to carry out its duties, and developing its public profile. It added that these achievements had also contributed to restoring confidence in, and to, the EU's financial sector.

It is only natural that four years into its existence, ESMA should consider how it can best continue to meet its objectives. ESMA has therefore commenced a strategic review, looking at how we prioritise our activities, identifying where ESMA's contribution in the EU will be the most effective and make the biggest difference, and which instruments should be used by ESMA in achieving these objectives. The conclusion of this review will play an important role in determining how ESMA further develops. In addition to the review determining how the organisation develops, the development of a Capital Markets Union will inevitably impact on ESMA and we have already commenced work – in tandem with our strategic review – to identify what this may be and how ESMA can contribute to its success.

We have now reached an important point in addressing the post crisis environment. The bulk of post-crisis regulatory reform processes are nearing completion, and the balance of work is pivoting from policy towards implementation. This year has been a particularly important one in the process of delivering MIFID II and MIFIR. The review of MIFID represents the most far-reaching overhaul of European securities legislation in the past decade and is one of the key responses of the European Union to the financial crisis. ESMA has been tasked with a significant role in further refining the framework as laid down in MIFID II and MIFIR. During 2014, ESMA submitted to the European Commission twenty-four pieces of technical advice covering the breadth of MIFID, including on the use of inducements, product governance, best execution and on a broad range of issues for secondary markets. As for all our policy work, extensive consultations with a broad range of stakeholders were an important building block of this advice.

Derivatives regulation has progressed also, and we are now moving on to operationalising the legislation laid down in EMIR. This year 15 EU central counterparties (CCPs) were authorised under the new EMIR requirements, including 10 CCPs clearing OTC derivatives, triggering the bottom up clearing obligation process which requires ESMA to determine the set of classes of OTC derivatives to be subject to the clearing obligation. ESMA continues to work on consistent application of EMIR and to promote common supervisory approaches and practices using various convergence tools.

And as the overall regulatory framework transitions from policy making to implementation, ESMA will need to reorientate its focus. It is important that the same effort that went into developing policy, goes into ensuring that it is effectively implemented. Effective supervision of financial markets is not an easy task, and consistency between national supervisory practices is difficult to achieve, but the success of the Single Rulebook depends on the adequacy and consistency of the supervision. Hand-in-hand with our work on the Single Rulebook, is our work on supervisory convergence. There is substantial room for convergence, and ESMA will promote the consistent and effective application of the rules and a sufficiently similar approach for similar risks across the EU. ESMA has supported high, consistent standards of supervision throughout the EU, in close cooperation with National Competent Authorities (NCAs), and through its work on targeted peer reviews. The development of a new methodology for ESMA peer reviews has allowed ESMA to be more rigorous in its assessment and provide a better reflection of national supervisory activity. This enables ESMA to be more insightful in identifying the areas which could benefit most from more convergent approaches between NCAs.

As well as promoting supervisory convergence, ESMA has established itself as a direct supervisor in its own right. ESMA is now responsible for the supervision of both credit rating agencies (CRAs) and trade repositories (TRs). We have over the last few years formed an effective supervisory regime to achieve true compliance with the spirit of the regulation. We have also shown our willingness to use our powers when we find that supervised entities are non-compliant, completing our first enforcement action against a CRA.

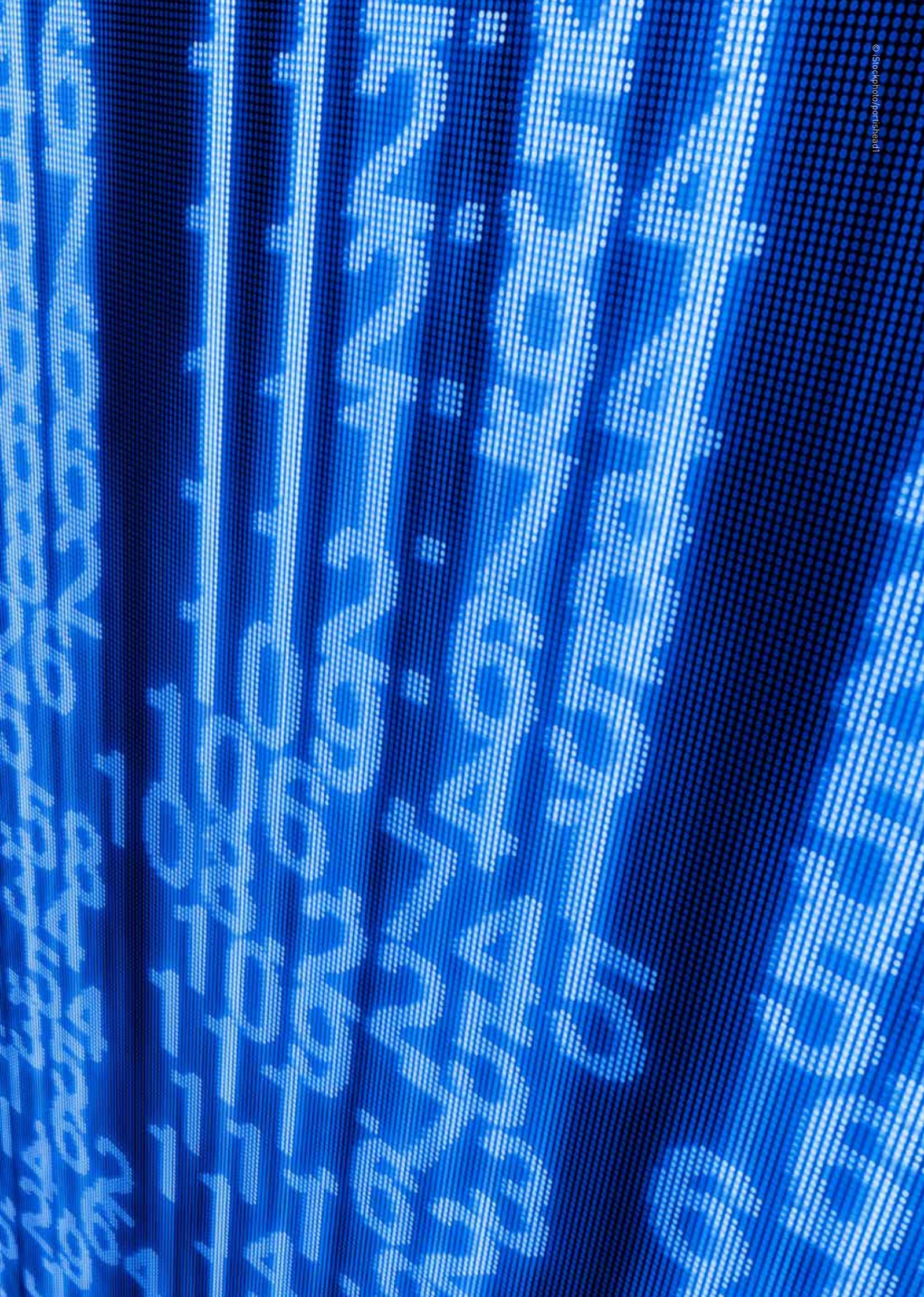
Building on our supervisory experience from CRAs, ESMA supervision of TRs will ensure that they comply on an ongoing basis with all EMIR requirements. Our supervisory focus has naturally started on the readiness of the TRs' operation functions, the transparency of their commercial offerings to market participants, and the on-boarding progress of counterparties. As our supervisory knowledge and experience embeds, our ongoing supervision will focus more on data quality and access.

Our international work this year has included ESMA taking its seat, for the first time, as an observer to the IOSCO Board – it already contributes to its work – as well as participating in the work of the Financial Stability Board and CPMI-IOSCO. ESMA's own international work has seen it focus on equivalence assessments, developing and concluding cooperation agreements, as well as preparing for the extension of the AIFMD passporting regime. This will continue to be a priority for us in 2015.

As ever, I would like to share my thanks with all ESMA staff for their continued hard work and dedication. Their commitment is an important asset, particularly as ESMA moves into the next phase of its development. I would like to thank also my colleagues from the national authorities across the EU, the Board of Supervisors and the Management Board. Through their guidance, challenge and cooperation, they play an invaluable role in ensuring that ESMA continues to meet its objectives. Finally, I would like to acknowledge the continuous contributions made by the European institutions – Commission, Council and Parliament – to our work.

Steven Maijor,
Chair

EUROPEAN SECURITIES AND MARKETS AUTHORITY





Verena Ross

Executive Director
EUROPEAN SECURITIES AND MARKETS AUTHORITY

Foreword by the Executive Director

ESMA has entered the next phase of its development

I am very pleased to report on another successful year for ESMA, where we have been able to deliver against all the objectives and tasks outlined in our work programme. The important activities – building the single rulebook, registration and direct supervision of CRAs and TRs, assessing risks in financial markets and supervisory convergence – have seen significant progress and have had a real impact on the ground in terms of investor protection, orderly markets and financial stability.

2014 has seen the organisation coming closer to its cruising speed in terms of growth, with a budget of 33,3 million euros, compared to 28,2 million euros in 2013, and recruitment at a slower pace compared to previous years. By the end of 2014, 167 staff worked at ESMA, compared to the 139 staff in 2013. During our recruitment process we aim for the best possible gender and geographical balance, and there are now 24 EU and EEA nationalities represented at ESMA, with a ratio of 55% male and 45% female staff members.

Looking ahead, as the first phase of regulatory reform that was driven largely by the financial crisis is gradually coming to an end, our focus will increasingly shift to implementation and supervision. This change in orientation requires ESMA to ensure that its organisational set up is such as to position it well for the future, and 2015 will therefore see changes in the internal organisation to adapt to this new phase.

ESMA's role as a supervisor has increased

ESMA is strengthening its role as a supervisor with the direct supervision of Credit Rating Agencies and, since late 2013, of Trade Repositories, as well as some direct responsibilities in relation to Central Counterparty supervision.

During 2014, both registration and supervision activities intensified with an increasing number of CRAs falling under ESMA's supervision - ESMA is now responsible for overseeing the activities of 27 registered and certified CRAs in the EU. As part of the supervisory work in 2014 we concluded an investigation into structured finance ratings. We also completed the verification of four small and medium-sized CRAs and conducted work regarding sovereign ratings. ESMA has strengthened its risk-based approach to supervision, which drives both its day-to-day supervisory activity and its ad-hoc supervisory investigations and actions. In addition, ESMA issued its first enforcement decision under the CRA Regulation in respect of internal control failings.

Since February 2014, when derivatives reporting started, the six registered TRs received and processed a total of almost 10 billion reports. The number of entities which have direct reporting agreements with TRs is now nearly 5,000. As of early January 2015, around 300 million derivative trade reports are being submitted on a weekly basis. Following some problems at the start of trade reporting, as with any major new reporting system, ESMA's supervisory focus quickly shifted to the quality of the reported data and to ensuring appropriate data access by regulators.

ESMA delivers on key IT-projects

In 2014 we finalised a number of new register databases, which will launch in early 2015. These provide a centralised access to key information on investment firms and mean that market participants can now access this data centrally rather than sourcing 31 national lists. Updates to the TREM (transaction reporting exchange mechanism) system as well as new databases for EMIR intragroup notifications and secure exchange of documents are key in facilitating the work of ESMA and of the NCAs.

To allow for the most efficient implementation of forthcoming regulatory requirements, which all require demanding IT projects, we have initiated the development of centralised IT solutions related to data collection and transparency requirements under MiFIR and the Market Abuse Directive, as well as the creation of a central access point for regulators to data from the EU's six trade repositories. These projects represent a strong EU cooperative solution producing central systems in support of the single market and are expected to produce important harmonisation benefits and real cost savings, compared with building similar systems in each country, which will mean a lower burden for the financial system and EU taxpayers. The Trade Repositories Project is expected to go live in 2016 and the MiFIR related Instrument Reference Data Project in early 2017.

We are preparing for the forthcoming product intervention powers

In 2015, ESMA will continue to strengthen its activities in analysing developments, systemic risks, and structures in the financial markets. As risk indicators are being further refined and key market developments investigated, ESMA continuously enhances its unique risk assessment expertise in the securities markets. In doing so, we strengthen the analytical foundation of important ESMA regulatory and supervisory functions, such as Impact Assessments and Stress Tests, and reinforce our mandatory contribution to financial market risk identification in the EU and international fora. We also continue to strive to further develop the skills and tools to better monitor financial activities and innovation. This is particularly relevant in preparing for the forthcoming MiFID II product intervention powers.

A challenging mandate with a limited budget

ESMA is facing a challenging task, as the organisation's limited growth in 2015, will make it very difficult to keep pace with the increase in responsibilities and activities entrusted to the authority. ESMA's success is built on its people and the retention, development and recruitment of quality staff will remain a priority, along with continuing to shape the organisation to ensure that we are able to deliver a maximum with the available resources. To achieve this, we are reducing significantly the budget for elements such as office supplies, travel, training (for both NCAs and staff) and translations. A number of internal IT projects will also be delayed.

Strong regulation and supervision both at national and European level need adequate resources, and it is important to find appropriate funding solutions. We will continue to contribute to the ongoing debate regarding the funding of ESMA that was launched by the new Commission in 2014.

I would like to thank all ESMA staff and cooperation partners for their valuable work

I want to sincerely thank all ESMA staff for their tireless efforts in 2014. We can be proud of what has been achieved and that is thanks to the personal commitment and dedication of ESMA staff to the objectives of ESMA. I am also very grateful to my colleagues in the Management Board and Board of Supervisors, who have continued to support the authority in 2014. Furthermore my thanks go to all ESMA's stakeholders who provided valuable input and cooperation during the year. We have ambitious objectives for the coming years and I am looking forward to continue our excellent cooperation with fellow supervisors and regulators and our strong engagement with other stakeholders.

Verena Ross

Executive Director

EUROPEAN SECURITIES AND MARKETS AUTHORITY





1 • ESMA's Mission and Objectives

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1. ESMA's Mission and Objectives

The European Securities and Markets Authority (ESMA) is an independent EU Authority, established under Regulation 1095/2010 ⁽¹⁾, charged with enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). As an independent authority, ESMA achieves these aims by building a single rulebook for EU financial markets and ensuring its consistent application across the EU, and contributing to the supervision of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

ESMA forms part of the European System of Financial Supervision. The main objective of the ESFS is to ensure that the rules applicable to the financial sector are adequately implemented to preserve financial stability and to promote confidence in the financial system, as a whole and sufficient protection for the customers of financial services. This system consists of the European Systemic Risk Board (ESRB) and the three European Supervisory Authorities, ESMA based in Paris, the European Banking Authority (EBA) based in London and the European Insurance and Occupational Pensions Authority (EIOPA) based in Frankfurt along with the national competent authorities of the Member States. ESMA, along with the EBA and EIOPA, forms part of the Joint Committee which works to ensure cross-sectoral consistency and joint positions in the area of supervision of financial conglomerates and on other cross-sectoral issues.

It is accountable to the European Parliament and the European Council and works in close liaison with the European Commission.

Review of ESMA's role and performance

In 2014, the International Monetary Fund (IMF), the European Commission and the European Parliament published reports on the functioning of the European System of Financial Supervision (ESFS). The reports acknowledged ESMA's contribution to establishing a single rulebook for EU financial markets and ESMA's role as a credible direct supervisor.

The European Commission report suggested increasing the focus on supervisory convergence, a higher profile for investor protection and a review of the funding model. The report also mentioned potential additional competences. No legislative proposals were made.

⁽¹⁾ ESMA Regulation 1095/2010

Mission and Objectives for 2014

The mandate and tasks of ESMA are summarised in its mission statement, derived from the Founding Regulation and described in a number of documents, most importantly the ESMA annual work programme – to enhance the protection of investors and promote stable and well-functioning markets in the European Union.

Sound and effective regulation of securities markets is key for the growth, integrity and efficiency of the EU's financial markets and economy, and effective regulation and supervision is a vital factor in securing and maintaining confidence amongst market participants. In order to foster these conditions, ESMA works to improve harmonisation in both regulation and supervisory practices.

In order to achieve harmonised rule implementation throughout the EU, ESMA serves as a standard setter in relation to securities legislation and provides technical advice to the European Commission (EC). It also has an important role in directly supervising financial players with a pan-European profile, currently credit rating agencies (CRAs) and trade repositories (TRs). ESMA also participates in the supervision of Central Counterparties (CCPs) through supervisory colleges.

The Annual Report is an important tool in providing accountability regarding ESMA's delivery against its objectives and annual Work Programme. ESMA's role can be better understood through five objectives, namely:

Financial Stability

In order for ESMA to contribute to safeguarding the financial stability of the EU's securities markets, it is crucial that it continuously analyses trends and identifies, at an early stage, potential risks and vulnerabilities at a micro-prudential level. It achieves this, across borders and sectors, by conducting economic analyses of European securities markets and modelling the impact of potential market developments.

ESMA informs the European Institutions, the other European Supervisory Authorities (ESAs) and the European Systemic Risk Board (ESRB) on a regular and ad-hoc basis about its findings. The aggregation of micro-data collected at supervisory level is key to identifying the build-up of potential macro risks to the economy as a whole. Therefore, it is crucial to inform regularly all relevant decision-makers, including, at the EU level, the Financial Services Committee (FSC) and the Financial Stability Table of the Economic and Financial Committee (EFC-FST). Since early 2013, ESMA has published bi-annual reports in order to raise awareness of trends, risks and vulnerabilities in EU securities markets. It also contributes to fostering financial stability by coordinating emergency measures across the EU.

Investor Protection

Ensuring that the interests of investors are properly met is another important task for ESMA. It achieves this through promoting transparency, simplicity and fairness in securities markets for consumers of financial products or services. In order to ensure that investors enjoy the same level of protection regardless of the point of sale or the product being sold, ESMA collects, analyses and reports on consumer trends, while promoting both financial literacy and education initiatives and contributing to the enhancement of common disclosure rules. ESMA's work in this area includes

focusing on ensuring that the financial information provided by market participants to investors is clear, understandable and in compliance with existing rules.

It is important for ESMA to monitor new and existing financial activities as this allows it to assess whether there is a need to adopt guidelines and recommendations that promote safe and sound securities markets, and thus enhance investor protection across the EU.

If ESMA identifies products which may inherently present serious threats to investors, it considers issuing warnings. If current legislative proposals come into force, ESMA will in the future be able, as a last resort, to temporarily ban certain products and activities.

Completing a Single Rulebook for EU Financial Markets

The purpose of completing a single rulebook for EU financial markets is to enhance the Single Market by creating a level playing field for investors and issuers across the EU. ESMA contributes to strengthening the quality of the Single Rulebook for EU financial markets by developing Technical Standards and by providing advice to EU Institutions on legislative projects. This standard setting role was the primary task of ESMA in its development phase.

Convergence

ESMA was established to foster supervisory convergence thereby reducing regulatory arbitrage resulting from different practices across the EU. Different supervisory practices have the potential to undermine not only the integrity, efficiency and orderly functioning of markets, but ultimately financial stability.

In order to foster fair and balanced supervisory practices, ESMA conducts peer reviews of existing EU securities legislation. In addition, it has a number of tools to promote regulatory convergence, including issuing opinions and Q&As, entering into mediation and, as a last resort, a Breach of Union law procedure.

ESMA aims to use its convergence work to support its activities in other areas of its Work Programme, including enhancing the single rulebook, through issuing guidelines and recommendations in areas where differences in application exist, and through providing advice to the EC on areas where revised legislation might be necessary to align supervisory practices.

Supervision

ESMA is the direct supervisor of specific financial entities: Credit Rating Agencies (CRAs) and Trade Repositories (TRs). These entities form essential parts of the EU's market infrastructure. Since 1 July 2011, ESMA is the EU body responsible for the registration and supervision of CRAs, and since early 2013 it has direct supervisory powers regarding TRs.



ESMA Organisation

Governance and Management

Two decision-making bodies govern ESMA: the Board of Supervisors (BoS) and the Management Board. Since 2011, ESMA's full-time Chair is Steven Maijoor and its Executive Director is Verena Ross. Both are based at its premises in Paris and have been appointed for a five-year term which may be extended once.

The Chair is responsible for preparing the work of the BoS and chairs both its meetings and those of the Management Board. He also represents the Authority externally. His alternate is Carlos Tavares, Vice-Chair of ESMA.

The Executive Director is responsible for the day-to-day running of the Authority, including staff matters, developing and implementing the annual Work Programme, developing the draft budget of the Authority and preparing the work of the Management Board.

Board of Supervisors (BoS)

In addition to the ESMA Chair, the BoS is composed of the heads of the 28 national competent authorities (NCAs) responsible for securities regulation and supervision ^[1] with one observer from the EC, a representative each of the EBA and EIOPA and one representative of the ESRB. In addition, Norway, Iceland and Liechtenstein attend as permanent observers. The Executive Director attends the Board.

The Board guides the work of the Authority and has the ultimate decision-making responsibility regarding a broad range of matters including the adoption of ESMA standards, opinions, recommendations, guidelines and the issuance of advice to the EU institutions. The Board is supported by a number of ESMA standing committees and working groups who are dealing with technical issues (see for more detail pp. 110).

The current Members of the Board and summaries of their 2014 meetings can be found on ESMA's website ^[2].

Management Board

In addition to the Chair, the Management Board is composed of six members selected from the BoS by its members. The Executive Director, the Vice-Chair, and a representative from the Commission attend as non-voting participants (except on budget matters where the Commission has a vote).

^[1] Where there is more than one national authority in a Member State those authorities will agree which of their heads will represent them.

^[2] Board of Supervisors

The main role of the Management Board is to ensure that the Authority carries out its mission and performs the tasks assigned to it in accordance with the ESMA Regulation and in particular focuses on the management aspects of the Authority, such as the development and implementation of a multi-annual Work Programme, as well as budget and staff resource matters.

The current Members of the Management Board and summaries of their meetings in 2014 can be found on ESMA's website. ^[1]

ESMA's Securities and Markets Stakeholder Group

The Securities and Markets Stakeholder Group (SMSG) was established under the ESMA Regulation to facilitate consultation with stakeholders in areas relevant to ESMA's tasks. The members represent financial market participants and their employees', consumers and other retail users of financial services, users of financial services and small and medium sized enterprises. ESMA is required to consult the SMSG on its draft technical standards and guidelines.

The SMSG, made up of 30 members, was first appointed in July 2011 for a term of two and a half years which ended in December 2013. A newly composed SMSG was appointed on 1 January 2014 by ESMA for a period of two and a half years following an open call for candidates.

Jesper Lau Hansen, a law professor at the University of Copenhagen, chairs the current SMSG. He is supported by joint Vice-Chairs Peter de Proft and Judith Hardt, both representing financial market participants. The Group had a number of meetings in 2014, two of which were held with the ESMA Board of Supervisors. The Group has issued numerous pieces of advice, opinions and reports on issues concerning ESMA's policy-making activities. Summaries of these meetings can be found on ESMA's website ^[2].

The organisational characteristics of ESMA

ESMA has also defined its six main characteristics. In March 2014, a workshop was organised with the participation of 150 members of staff, with the objective to further embed the following characteristics in the culture of the organisation.

The six characteristics that describe ESMA, and how it achieves its mission and objectives are:

- **European:** When carrying out its tasks, ESMA acts in the interest of the EU. The organisation reflects the diversity of the EU;
- **Independent:** ESMA is independent from the EU institutions, national authorities and financial markets participants;
- **Co-operative:** ESMA forms, together with the national authorities, an EU network of financial markets supervisors. It co-operates with all relevant European bodies, including the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Systemic Risk Board (ESRB), and with regulators outside the EU;

^[1] Management Board

^[2] Securities Markets Stakeholders Group

- **Accountable:** ESMA's decision-making is transparent and it deals with its stakeholders in an open and inclusive manner. The organisation is accountable to the European Parliament, European Council, European Commission and the wider public;
- **Professional:** ESMA strives for professional excellence by employing high-quality staff with strong technical expertise, knowledge and experience of financial markets, and through following sound practices and procedures; and
- **Effective:** ESMA uses its resources efficiently in order to maximise its impact in promoting investor protection and stable and well-functioning markets in the EU.

Revised Mission and Objectives

In 2014, after three years in existence, and in light of the review on the functioning of the ESFS, ESMA started preparing its strategic orientation for 2016-2020. As part of this, ESMA refined the description of its three core objectives that will be achieved through four main activities.

The refined objectives are:

- 1) **Investor protection:** to have the needs of financial consumers better served and to reinforce their rights as investors while acknowledging their responsibilities;
- 2) **Orderly markets:** to promote the integrity, transparency, efficiency, and well-functioning of financial markets and robust market infrastructures; and
- 3) **Financial stability:** to strengthen the financial system in order to be capable of withstanding shocks and the unravelling of financial imbalances while fostering economic growth.

The three objectives are inter-linked and contribute to well-founded investor confidence. Investor protection and orderly markets feed into overall market stability. At the same time increased financial stability supports orderly markets and investor protection.

The four activities that help ESMA achieve its mission and objectives are:

- Assessing risks to investors, markets and financial stability
- Completing a single rulebook for EU financial markets
- Promoting supervisory convergence
- Directly supervising specific financial entities

The new strategic orientation will form the basis for all future planning and activities in the period 2016-20.

2 • ESMA's achievements against its 2014 objectives



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2. ESMA's achievements against its 2014 objectives

2.1. Financial Stability

Financial stability is probably best defined as a situation where the financial system at large is running smoothly without any disruptions and where the system – comprising of financial intermediaries, markets and market infrastructures – is capable of absorbing financial and real shocks. Financial stability means that the financial system should be able to efficiently and smoothly transfer resources from savers to investors, and risks should be assessed, managed and priced accurately.

Understood this way, the safeguarding of financial stability requires identifying the main trends, risks and vulnerabilities in the allocation of financial resources from savers to investors and the mispricing or mismanagement of financial risks. This monitoring must be forward looking: inefficiencies in the allocation of capital or shortcomings in the pricing and management of risk can affect financial stability and ultimately economic stability. Monitoring developments at both micro and macro levels is key, which is reflected in the set-up of ESMA, its sister authorities EBA and EIOPA, and ultimately the ESRB where the information comes together at the macro level.

This cooperation is key for stability matters as it is financial intermediaries, such as banks, insurance companies and other institutional investors that route assets from the investor to the borrower, and it is market infrastructures through which money and financial assets flow between buyers and sellers.

Objective	Work Programme Activity	Tasks	Delivery date
Financial Stability	3.1 Financial market surveillance	Financial stability reporting/ surveillance	ongoing

ESMA monitors financial stability

Within its mandate to ensure financial stability, ESMA carries out financial surveillance through its regular reporting activity to identify markets trends and developments and assesses the main risks and vulnerabilities. In 2014, the Authority issued periodic reports on trends as well as risks - the biannual Trends, Risks and Vulnerabilities (TRV) report and the quarterly Risk Dashboard (RD) – and contributed to the work of the ESRB and to risk reports in collaboration with the other ESAs, in particular through the work of the ESA's Joint Committee's Risk Subcommittee.

2014 market conditions reflect rise in risk

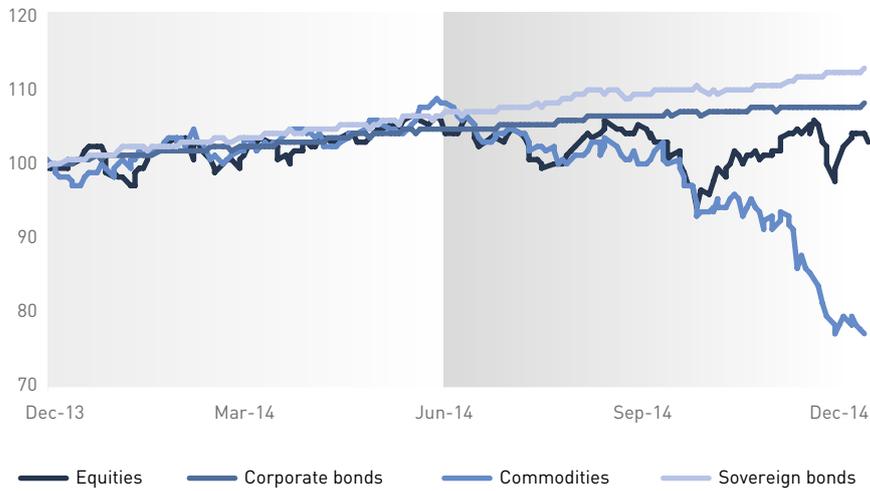
Two different market trends can be identified in the first and second half of 2014. In H1 2014, EU markets reported significant gains amid low volatility, notwithstanding a challenging economic and political environment. Risk appetite remained strong as yields continued to compress and solid high-yield bond issuance was readily absorbed by markets. Against a background of deleveraging, the importance of capital market financing continued to grow, relative to loan-based financing. In H2 2014, performance was lower across asset markets. Intensified uncertainty and lower market confidence was reflected in significant price swings and increased volatility in equity markets, considerably lower valuation in markets for commodities, notably oil, as well as increased volatility in the foreign exchange markets. Similarly, even if yields continued to be at very low levels, as the low interest rates environment persisted in the EU, there were signs that search-for-yield behaviour decelerated, as a revived appetite for safer assets was observed.

In the fund industry, differences, signalling a subdued investor sentiment between the first and second half of 2014, could be observed. In H1 2014, capital inflows, concentrated in bond funds, were observed and the fund industry continued to expand, with assets under management (AuM) growing by 6.7% or € 0.5tn. Investment fund returns, still relatively low, trended upward, with positive valuation effects being an important driver. Overall, the industry exhibited behaviour consistent with the search-for-yield. In contrast, in H2 2014 rates of return were stable or declined for most types of funds and suffered from the reversal in equity and commodity markets. Capital inflows declined, still remaining concentrated in bond and mixed funds, but despite this, the industry continued to expand.

Regarding market infrastructures, EU trading turnover remained at record high levels, above its five-year average. The continuity of financial benchmarks in the EU remained a key concern. Administrators of key interest reference rates have made significant progress in enhancing governance and accountability of their benchmarks, with the aim of restoring confidence in these rates.

Among the identified vulnerabilities, the areas of market infrastructures, securities and investors were covered.

Market performance: Mixed evidence



Note: Indices in EUR on EU equities (Datastream regional index), global commodities (S&P GSCI), EA corporate and sovereign bonds (Iboxx Euro, all maturities). 31/12/2013=100.

Sources: Thomson Reuters Datastream, ESMA.

Equity indices volatility: Strong increase in the last quarter of the year



Note: Implied volatility of options on EURO STOXX 50 and S&P500, %.

Sources: Thomson Reuters Datastream, ESMA.

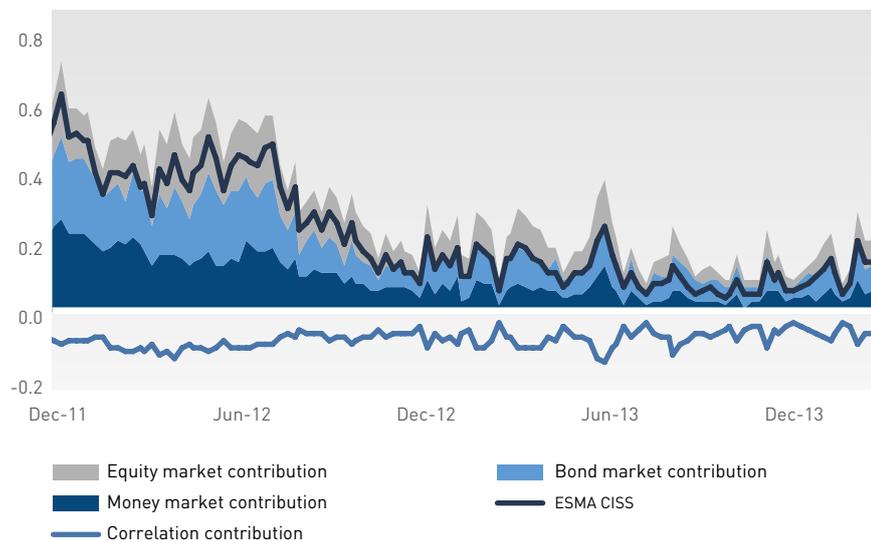
ESMA issues Risk Dashboards

In addition to the TRV report, ESMA published four quarterly Risk Dashboards. The Risk Dashboards identified and assessed the key risks in the financial markets segments under ESMA's remit in 2014.

In the first two quarters of 2014 market stress gradually reverted to relatively low levels. EU capital markets became more resilient as economic prospects broadly improved in the first months of 2014 for several EU countries; sovereign debt market conditions improved and significant regulatory reforms were under way. In Q2 2014, however, market sentiment was at odds with sluggish, although improved, economic fundamentals. Market and liquidity risk augmented and looked set to increase further, while credit risk fell but remained very high. The hunt for yield intensified and, in turn, sustained yield compression across risk classes drove valuation and market risks up. The risk of critical market corrections rose further. The ESMA risk assessment remained stable in Q2 2014 but expected to further deteriorate.

In Q3 2014, EU systemic stress indicators increased. Contagion risk augmented and liquidity and market risk remained at high levels, with potential for further increases ahead. Credit risk receded though remaining at a high level. This increase in market uncertainty intensified in the last quarter of 2014, with increased volatility in systemic stress indicators, mainly driven by subdued equity market performance, signalling the materialisation of valuation concerns. Drivers included weaker than expected economic recovery, local pockets of stress in debt markets, expectations of divergent monetary policies and increasing discovery of vulnerabilities in market functioning.

Systemic stress indicator: low but volatile



Note: ESMA version of the ECB-CISS indicator measuring systemic stress in securities markets. It focuses on three financial market segments: equity, bond and money markets, aggregated through standard portfolio theory. It is based on securities market indicators such as volatilities and risk spreads.

Sources: ECB, ESMA.

ESAs report on cross-sector risk to EU financial markets

In 2014, ESMA contributed to two of the ESAs' Joint Committee reports on risks and vulnerabilities in the EU Financial System, considering all the three sectors overseen by the ESA's. The two 2014 reports, published in April ⁽¹⁾ and September ⁽²⁾, included emerging risks, such as those linked to the conduct of business or to infrastructure functions, and cross-sectorial risks, such as weak economic growth, high levels of private and public debt, and the effects of persistently low interest rates and fragmentation.

ESMA conducts tailored economic research and impact assessments

In order to comply with its mandate to monitor financial markets and identify the development of risks and vulnerabilities for financial stability, as well as assessing the impact of new regulations and policy measures, in 2014 ESMA conducted in-depth research projects, such as:

- High-frequency trading activity in EU equity markets;
- The Systemic Dimension of Hedge Fund Illiquidity and Prime Brokerage; and
- Review of the Implementation of EBA-ESMA Recommendations to Euribor-EBF.

ESMA assesses high-frequency trading activity in EU equity markets

In December 2014, ESMA published an Economic Report ⁽³⁾ on high-frequency trading (HFT) activity in EU equity markets. The objective of the report was to shed further light on the extent of HFT in EU equity markets. The set of data collected by ESMA is unique covering a sample of 100 stocks from nine EU countries for May 2013. This study complements the HFT literature by looking at equity markets across a number of EU countries. Most of the HFT studies published so far focus either on the US or on a single country within Europe.

The report contains the following main findings: HFT activity accounts for 24% to 43% of the value traded in our sample. For the number of trades the corresponding numbers for HFT activity are 30% and 49%, and for the number of orders 58% and 76%. Estimates for HFT activity are based on the primary business of firms (direct approach) and on the lifetime of orders (indirect approach). The results based on the primary business of firms provide a lower limit for HFT activity, as they do not capture HFT activity by investment banks, whereas the results based on the lifetime of orders are likely to be an upper limit for HFT activity. The level of HFT activity varies widely between trading venues. HFT activity is also linked to market capitalisation with HFT activity increasing with the market capitalisation of stocks. None of the available approaches to identify HFT activity is able to exactly capture HFT activities and they lead to widely differing levels of HFT activity. This is a significant challenge for regulators who need to define what constitutes HFT activity.

⁽¹⁾ Report on risks and vulnerabilities in the EU financial system JC/2014/18 – 2 April 2014

⁽²⁾ Joint Committee Report on Risks and Vulnerabilities in the EU Financial System JC/2014/063 – 22 September 2014

⁽³⁾ ESMA's Economic Report No 1, 2014 - High-frequency trading activity in EU equity markets ECO-2014/1 – 17 December 2014

ESMA looks into systemic dimension of hedge fund illiquidity and prime brokerage

The paper ⁽¹⁾ analyses the potentially vulnerable and systemically relevant financial intermediation chain established by hedge funds and prime brokers. The dataset covers the 306 largest global hedge funds and their prime brokers over the period July 2001 to December 2011. The study illustrates that hedge funds and prime brokers act as complementary trading partners in normal times. However, the paper observed that this form of financial intermediation may be severely impaired in times of market distress. This can be explained by the hoarding of liquid securities by prime brokers who are eager to avert runs by their clients.

ESMA reviews implementation of EBA-ESMA recommendations to Euribor-EBF

On 11 January 2013, ESMA and the EBA had published the joint *EBA-ESMA "Report on the administration and management of Euribor"* including a set of Recommendations to Euribor-EBF to address what EBA and ESMA identified as weaknesses in the governance and technical framework of Euribor. In February 2014 ESMA and the EBA issued a follow-up "Review of the Implementation of EBA-ESMA Recommendations to Euribor-EBF" ⁽²⁾ which reviewed the progress made by Euribor-EBF in implementing the above mentioned recommendations in the context of the ongoing Euribor reform.

Euribor-EBF was assessed as having made significant progress between 11 January 2013 and 31 December 2013 in implementing the Recommendations. The work completed by Euribor-EBF and their ongoing reform efforts support increased transparency of the benchmark-setting process, enhance governance of the benchmark, and improve the quality of the resulting index.

ESMA monitors trends in financial markets

In 2014, ESMA made great progress in the monitoring of investor trends and financial innovation. There were major improvements in the methodology for identifying and monitoring financial innovation, noticeable progress on data collection and investor trend reporting, contributions to the policy discussions and market engagement events.

Objective	Work Programme Activity	Tasks	Delivery date
Financial Stability	3.1 Financial market surveillance	ESMA will develop its proprietary market intelligence through continuous evaluation of market trends, and interaction with market participants.	February 2015

ESMA added new criteria beyond investor protection to use in order to score financial innovations to also include the objectives of financial stability and market integrity. Furthermore, ESMA has also started developing a framework to be able to choose the appropriate action in response to the issues identified and prioritised by a scoreboard. The first implementation of the financial innovation scoring has proven to be a most useful mean of identifying and prioritising our work, and a strong complement to the more qualitative assessments we make.

⁽¹⁾ ESMA Working Paper - The systemic dimension of hedge fund illiquidity and prime brokerage, ESMA/WP2, 11 June 2014

⁽²⁾ EBA-ESMA Report on the Administration and Management of Euribor, ESMA/2014/207, 20 February 2014

To identify at an early stage financial innovations, ESMA has established contacts with the major investment banks, asset management firms, rating agencies and consultants. Discussions covered developments in the financial services industry, issuance of new products, new investment techniques, changes in investor interests and opportunities and challenges faced by market participants. Topics of particular interest to ESMA included developments in the securitization market, contingent convertible instruments (CoCos), loan funds, alternative indices, collateral transformation and market liquidity issues.

During the course of 2014 ESMA also doubled the content of material dedicated to retail investor trends within its TRV. The analysis reflects the level and participation rate of European investors across the various capital markets. We now have chronological data showing levels of investor satisfaction with financial products, trust in the market, level of complaints and numeracy.

In the course of 2014, ESMA provided advice to market participants, NCAs and the European Institutions. For instance in March 2014, ESMA issued an Opinion to NCAs on product governance good practices that NCAs should observe in the supervision of manufacturers and distributors of Structured Retail Products. In July 2014, ESMA published a Statement to institutional investors outlining the risks from a newly emerging asset class referred to by most market participants as CoCos. The Statement resulted from analysis that ESMA had undertaken and outlined in a paper that described the origins of the securities, their legal and regulatory bases, supply and demand factors, and the risks associated with investing in the securities. Finally, in December 2014, ESMA published an Opinion to NCAs and Advice to the EU Parliament, Council and Commission on investment-based crowdfunding. The Opinion examines the typical investment-based crowdfunding business models and how they could evolve, risks typically involved for project owners, investors and the platforms themselves and the likely components of an appropriate regulatory regime. The Advice to EU institutions goes further in identifying issues for consideration by policymakers in relation to the regulatory framework for crowdfunding at EU level.

ESMA hosted two events in 2014. In April 2014, it held the first ESMA Financial Innovation Day. The day brought NCAs together with industry experts on a variety of relevant financial topics. In October 2014, financial education experts from Europe and the US gathered to discuss two important topics: what works in financial education and how to measure it.

Next steps

ESMA will continue to provide the NCAs with a forum to discuss the way in which Crowdfunding develops in their respective markets. ESMA will continue to analyse developments in the alternative index industry with an eye to ensuring greater risk disclosure and simulation and methodology transparency, and analyse the investment risks in loan participation funds. ESMA will also continue to improve upon its financial innovation scoring methodology. In view of its forthcoming product intervention powers, ESMA is undertaking work to prepare for the necessary data collection, monitoring and process such intervention needs.

2.2 Financial Consumer Protection

Assessing the risks faced by consumers and investors in financial markets is another important task for ESMA and helps to ensure the protection of consumers. It achieves this through promoting transparency, simplicity and fairness in securities markets for consumers of financial products or services. In order to ensure that investors enjoy the same level of protection regardless of the point of sale or the product being sold and have sufficiently clear information to make suitable investment decisions, ESMA collects, analyses and reports on consumer trends and contributes to the enhancement of common disclosure rules.

Should ESMA identify any product which may present a serious threat to investors, it will consider issuing a public warning. When current legislative proposals come into force ESMA will have the power, as a last resort, to temporarily ban certain products.

Objective	Work Programme Activity	Tasks	Delivery date
Financial Consumer Protection	2.1 Product Intervention	ESMA will continue its preparatory work on the MiFID2/MiFIR Level 2 empowerments, of which product intervention forms a part, with a view to consulting on MiFID2/MiFIR proposals as soon as possible after the legal text is agreed	January 2015
Financial Consumer Protection	2.2 Coordinated regulatory approach	ESMA will continue to make extensive use of the legal instruments available to it as set out in the ESMA Regulation.	January 2016
Financial Consumer Protection	2.1 Product Intervention	Put in place implementation framework for Product Intervention powers	February 2015

ESMA warns financial consumer against potential threats

The marketing and sale of complex products, in particular to retail investors, remains a key concern for ESMA. In 2014 ESMA issued an opinion to remind national supervisors and investment firms about the relevant MiFID provisions governing selling practices and organisational requirements in the context of selling complex products to clients. Alongside this opinion ESMA issued an investor warning to raise investors' awareness of the risks that are associated with investing in complex products. ESMA, EBA and EIOPA adopted, as the Joint Committee, a joint statement to remind firms of their obligations and responsibilities when engaging in self-placement activities.

The financial crisis exposed the negative effects that unevenly applied legislation can have for financial markets, its consumers and the economies at large. Therefore, it was felt necessary to introduce effective instruments to establish more harmonised applications of EU law. In order to foster more coherence in securities legislation and its application, where authorised in this legislation, ESMA can issue regulatory technical standards (RTS) and implementing technical standards (ITS) to ensure a level playing-field and adequate protection of investors, which further detail and clarify the Level 1 EU legislation.

Those TS aim at upgrading the quality and consistency of national supervision, strengthening oversight of cross-border groups and establishing an EU single rulebook applicable to all financial market participants in the internal market. ESMA is responsible for developing technical standards for those legal texts framing the European securities markets (MiFID), their infrastructure (EMIR) and orderly functioning (short-selling, MAD), but also for key financial market participants such as CRAs and investment funds (UCITS, AIFMD).

MiFID II

The review of the Markets in Financial Instruments Directive (MiFID II) represents probably the most far-reaching overhaul of European securities markets legislation in the past decade and is one of the EU's key responses to the financial crisis.

MiFID II/MiFIR introduces changes that will have a large impact on the EU's financial markets, these include transparency requirements for a broader range of asset classes; the obligation to trade derivatives on-exchange; requirements on algorithmic and high-frequency-trading and new supervisory tools for commodity derivatives. It will also strengthen protection for retail investors through limits on the use of commissions; conditions for the provision of independent investment advice; stricter organisational requirements for product design and distribution; product intervention powers; and the disclosure of costs and charges.

The new MiFID II framework intends to make EU markets safer, more transparent and efficient and to level the playing field for market participants across the Union. The co-legislators came to a political agreement in early 2014, the MiFID II package entered into force in July and it will apply from 3 January 2017.

Objective	Work Programme Activity	Tasks	Delivery date
Single Rulebook	4.1 Revision of MiFID	With respect to the financial consumer protection topics.	January 2015 July 2015 December 2015
Single Rulebook	4.1 MiFID – secondary markets	Production of technical advice and a discussion and consultation paper for draft regulatory and implementing technical standards for MiFID II. Production of draft implementing technical standards for the Capital Requirements Regulation.	May and December 2014

MiFID II/MiFIR – Investor Protection

ESMA strengthens financial consumer protection through MiFID II and MiFIR

It is of crucial importance for the protection of investors across the EU that financial firms act in accordance with the best interests of their clients. The review of the Markets in Financial Instruments Directive has led to a new Directive (MiFID II) and Regulation (MiFIR) and has furthered the need of firms to act in the best interest of clients. MiFID II and MiFIR strengthen the already existing financial consumer protection regulations, but also add new regulations to close gaps in the current consumer protection framework. The new legislation will improve governance and organisational requirements for firms, strengthen conduct of business rules regulating client relationships and introduce new powers for supervisors at national and EU level.

In 2014, ESMA had been tasked with a significant role in further refining the framework as laid down in MiFID II and MiFIR. The EC had requested ESMA to provide it with advice on 24 MiFID II and MiFIR topics and the legal texts also mandated ESMA directly to draft technical standards and to issue guidelines on a variety of topics.

ESMA advises Commission on financial consumer protection

In 2014, ESMA provided Technical Advice under MiFID II and MiFIR on the topics of:

- conflicts of interests;
- the compliance function;
- complaints handling;
- product intervention;
- independent advice;
- information about investment advice and financial instruments;
- remuneration;
- client agreement; fair, clear and not misleading information;
- exemption for persons providing investment services in an incidental manner;
- transactions with eligible counterparties;
- investment advice and the use of distribution channels;
- inducements;
- reporting to clients;
- product governance;
- best execution;
- client order handling;
- underwriting and placing;
- telephone recording;
- safeguarding of client assets;
- record-keeping;
- information on costs and charges; and
- suitability and appropriateness.



Some of the topics that are expected to have a high impact on improving financial consumer protection are further explained on below.

As part of the consultation process ESMA reviewed and processed a total of 5000 pages of responses, and explained how these influenced the formulation of the Technical Advice that was provided to the EC in December 2014.

ESMA clarifies use of inducements

MiFID recognises that the receipt of inducements from third parties by investment firms can cause conflicts of interests between the investment firm and its clients. To manage these possible conflicts of interests, MiFID II provides for a general prohibition for investment firms providing portfolio management and investment advice on an independent basis to accept and retain any inducements, other than minor non-monetary benefits that are capable of enhancing the quality of service provided to a client. These minor non-monetary benefits should also be of a scale and nature that prevents them from being judged to impair compliance with the investment firm's duty to act in the best interest of the client. On this basis, ESMA specified in which circumstances research goods and services can still be received



by portfolio managers¹. ESMA has identified, in a detailed way, the conditions under which portfolio managers can receive research from third parties, including the possibility to charge the costs for research to clients in a transparent and accountable way. These conditions aim at limiting conflicts of interests between trading and external research activity; at getting client's agreement in advance on costs for research; requiring firms to budget and monitor these costs and the quality of research received, and making these markets fairer and more efficient, thereby delivering a better result for the end user, such as the beneficiaries of asset or pension funds.

The Technical Advice also clarifies the concept of *quality enhancement*, which is one of the conditions that firms have to fulfil in order to be able to receive payments from third parties in connection with the investment services they provide to their clients. Taking into account the consultation responses, ESMA has identified and proposed to the EC some situations which comply with the quality enhancement criterion. These situations include investors' access to advice based on a wider number of financial instruments or complemented by certain post-sale services.

ESMA details necessary product governance

ESMA regards the addition of product governance regulations as an important step in broadening the regulatory area to include, from the financial consumer protection perspective, the moment at which products are assessed. This result is delivered by attaching specific obligations to the product manufacturing and distribution cycle. ESMA is of the opinion that this life cycle approach to the regulation of financial products is crucial for financial consumer protection purposes. Investment firms involved in the manufacture and/or the distribution of financial instruments and structured deposits will be obliged to have product governance arrangements in place in order to assess the robustness of the manufacture and/or distribution of financial instruments and structured deposits and the investment services they provide.

ESMA lays down requirements for costs and charges

ESMA's Technical Advice on *Information on costs and charges* builds on disclosure requirements for costs and charges that are partially already in place under MiFID I and that are strengthened under MiFID II. ESMA has advised the EC to provide for more specific rules on what needs to be disclosed to the client at what point in time. MiFID II states clearly that "the financial crisis has shown limits in the ability of non-retail clients to appreciate the risk of their investments". In line with this, ESMA has proposed that the disclosure requirements on costs and charges will in many cases be extended to professional clients and eligible counterparties.

[¹] ESMA clarified how the receipt of third party research by portfolio managers and independent investment advisors interacts with the prohibition to accept and retain inducements.

Possibility for product intervention

MiFID II has given ESMA the power to temporarily prohibit or restrict the sale or marketing of certain financial instruments, or certain activities or practices. MiFIR gives similar powers to the NCAs. This is an important reinforcement of ESMA's and NCAs toolkit since many innovations in finance tend to emerge as a result of financial institutions trying to arbitrage existing regulation. A mandate to monitor innovation and take action is crucial to be able to limit regulatory arbitrage; to prevent or reduce consumer detriment as well as other harmful effects on the financial system; and to ensure that market participants have confidence in financial innovations. After extensive public consultation, and in close cooperation with EBA – which has been given similar powers in MiFIR with respect to structured deposits – over the course of 2014, ESMA delivered Technical Advice to the EC in December 2014 on one of the legal conditions to be fulfilled to exercise product intervention powers. In particular, in its Technical Advice ESMA has identified some factors and criteria which are relevant when assessing whether it is justified for ESMA or an NCA to exercise its product intervention power.

Next steps

The EC is currently assessing ESMA's Technical Advice in order to adopt delegated acts required under MiFID II and MiFIR.

ESMA delivers standards on financial consumer protection topics

MiFID II has mandated ESMA to adopt Technical Standards on the topics of authorisation of investment firms, establishment of a branch, third-country firms, sanctions and best execution. In 2014 ESMA has issued both a discussion and a consultation paper on these topics. The topics of authorisation, establishment of a branch and third-country firms are important to create convergence among member states and to make sure that the same level of scrutiny is applied when investment firms enter the market regardless of where in the European Union they enter the market.

The Technical Standards being developed for best execution will set out the details of what is to be published by investment firms and execution venues in respect of execution quality. Investment firms will also be required to publish information on the order flow of client orders. This will lead to increased visibility of execution quality being achieved by investment firms and aims to improve execution outcomes for investors.

ESMA has also been mandated to provide Technical Standards on the cooperation between NCA. Preparation for this work has also started in 2014.

Next steps

ESMA will conclude the public consultation on the Technical Standards and finalise and submit them to the EC in 2015.

ESMA prepares guidelines on financial consumer protection

MiFID II has mandated ESMA to issue guidelines on four distinct topics:

- cross-selling;
- assessment of complex investment products;
- knowledge and competence of staff of investment firms; and
- jointly with EBA, the governance of management bodies of investment firms.

The guidelines on cross-selling are drafted jointly with EBA and EIOPA in the Joint Committee and a consultation paper has been issued at the end of 2014. Work on the guidelines for the assessment of complex investment products and knowledge and competence has started in 2014 and will be presented for consultation in the course of 2015. Joint work with EBA will start in 2015 concerning the guidelines on the governance of management bodies of investment firms.

ESMA also worked together with the EBA and EIOPA on complaints handling and published guidelines to ensure a consistent approach to complaints handling across the European Union.

Next steps

ESMA expects to finalise the guidelines in 2015/16.

ESAs organise Joint Consumer Protection Day

On 4 June 2014 the ESAs organised the second ESAs Joint Consumer Protection Day in London. The event brought together a variety of thought leaders to discuss topics and share ideas around consumer protection in financial services. The Joint Consumer Protection Day gathered 300 participants, consisting of consumer representatives, academics, legal and financial consultants, national supervisors, experts from EU and national institutions, and financial services industry representatives to discuss and exchange views on:

- i) product oversight and governance;
- ii) behavioural economics/finance;
- iii) cross-selling and
- iv) financial innovation.

ESMA clarifies its product intervention powers

Under MiFIR, ESMA and NCAs will have powers to temporarily restrict products and activities when a number of conditions and criteria are met. ESMA is also required to co-ordinate the use of the powers by NCAs. The powers apply from 3 January 2017.

ESMA has started the preparatory work for the effective implementation of these powers with input from all interested standing committees. The workplan envisages a first phase in 2015 of scoping the data, analysis and processes that would be required to give effect to the powers and a second phase of delivering the required preparation in 2016. Gathering and analysing the data needed to identify potential cases where the power might need to be used, and then to assess whether its use is justified, is an important part of the process.

These powers will be new for most NCAs as well as for ESMA. Because they are contained in a Regulation, NCAs will have a responsibility to be ready to implement them in appropriate cases regardless of whether any changes are made to their responsibilities and powers under national law. The conditions that need to be met before using the powers are demanding and there are a range of issues to be determined in relation to the scope of activities/practices to which the powers apply, the mechanism for identifying issues for which use of the power should be considered, and the analytical framework for making an assessment as to whether the conditions are met. Interactions with other EU legislation, in particular UCITS and the Market Abuse Regulation will need to be carefully considered.

Next steps

The next steps will be to establish what challenges NCAs are facing in their own preparations for implementation of the new powers and identify measures ESMA could take to help and to ensure consistency. ESMA will also carry out work to determine how it would make an assessment of whether the use of the powers is justified. It will investigate where data could be obtained to inform this assessment and also ensure that the necessary internal processes are in place to carry out such assessments, and that there is appropriate co-ordination of NCAs' use of the powers.

2.3 Supervision

ESMA is the sole supervisor for CRAs in the EU. The same approach was chosen for trade repositories – those data warehouses that collect, save and make available data on clearing and settlement – for which ESMA took on supervisory responsibility in 2013. By supervising pan-EU financial market participants, who may have an impact on the integrity of the EU's markets, ESMA contributes to safe and sound financial markets, which in turn supports investor protection.

Credit Rating Agencies

ESMA as direct supervisor of credit rating agencies

In 2014, ESMA completed its third year as the regulator responsible for registration, certification and supervision of CRAs in the EU. During 2014, both registration and supervision activities intensified with an increasing number of CRAs falling under ESMA's direct supervision. In addition ESMA also strengthened its risk-based approach to supervision, which drives both its day-to-day supervisory activity and its ad-hoc supervisory investigations and actions.

Objective	Work Programme Activity	Tasks	Delivery date
Supervision	5.1 CRAs	7 Registrations and 2 certifications	Continuous
Supervision	5.1 CRAs	Day-to-day supervision , also including follow-up on remedial action plans of completed investigations; implementation of new CRA3 regulatory requirements; assessment of CRAs' changes to initial conditions for registration; assessment of periodic information submitted by CRAs; enforcement.	Continuous
Supervision	5.1 CRAs	Thematic investigation on four CRAs' structured finance monitoring practices and processes	December 2014
Supervision	5.1 CRAs	Completion of thematic investigation into the corporate governance and internal review function of smaller and medium-sized CRAs	August 2014
Supervision	5.1 CRAs	Cooperation with competent authority and third countries, including colleges of supervisors	Continuous
Supervision	5.1 CRAs	Enforcement: publication of a public notice	June 2014

Number of EU credit rating agencies increased in 2014

Compared to 2013, when ESMA received five applications (resulting in three registrations), in 2014, ESMA received seven applications for registration. By the year's end, three of these were still being considered by ESMA, two had been successfully completed and two were rejected. The two successful applicants, EuroRating Sp. z.o.o., based in Poland, and Moody's Investors Service EMEA Limited, based in the UK, were registered as CRAs on 7 May 2014 and 24 November 2014, respectively.

In 2014, ESMA also examined and approved two applications for certification: CRA HR Ratings de México S.A. de C.V. based in Mexico, and Egan-Jones Ratings Co., based in the USA, certified on 7 November 2014 and 12 December 2014, respectively.

Considering the continuous interest received from new potential applicants, ESMA expects that there will be no reduction in ESMA's registration activity in the near future.

At the end of 2014, there were 23 registered CRAs on a group basis and four certified CRAs.

ESMA applies risk-based approach to CRA supervision

ESMA's supervisory approach is a combination of day-to-day supervision and ad-hoc, targeted, supervisory investigations and actions on either individual or multiple CRAs. ESMA's supervisory framework follows a risk-based approach, which means it conducts analysis to identify the major risks (based on the risk profile and the systematic importance of the supervised entities) in the CRA industry overall and at individual firm level in order to determine the focus of its supervisory efforts.



During 2014, as part of its day-to-day supervision ESMA:

- analysed the periodic reports and ad-hoc notifications it received from supervised entities;
- ensured the effective implementation of the remedial actions required of CRAs following the investigations completed in previous years e.g. bank rating methodologies; sovereign ratings; and corporate governance and internal review functions of 14 small and medium-sized CRAs;
- continued its assessment of CRAs' compliance with the new regulatory requirements introduced in 2013 by the CRA3 Regulation;
- assessed CRAs' changes to initial conditions for registration, including changes to the shareholders composition, the organisational structure, governance, and key senior management appointments; and
- addressed queries and complaints it received from market participants and external stakeholders.

In the course of 2014, ESMA completed a thematic investigation into the surveillance of structured finance credit ratings, focusing on Residential Mortgage Backed Securities (RMBS) instruments. The investigation targeted the four largest CRAs operating in that segment within the EU market. In December 2014 ESMA published a report on the findings of its investigation. ⁽¹⁾

ESMA also conducted the verification of four small and medium-sized CRAs which were not included in the investigation performed in 2013 because they were registered either at the end of 2012 or during 2013.

Throughout the year, cooperation with third-country authorities has been strengthened, with increased frequency of exchange of information both bilaterally and through supervisory colleges, including a meeting held in December 2014 at ESMA in Paris.

Next steps

During 2015, ESMA will finalise its ongoing thematic investigations into the review and validation of ratings methodology, IT internal controls and security and the individual investigation into the ratings process, focusing on elements which could have a significant impact on the quality of ratings.

Supervisory work will continue on monitoring the CRAs' implementation of the individual actions plans following the completed investigations and the referral of potential cases to the IIO.

⁽¹⁾ ESMA/2014/1524 (16 December 2014) – ESMA's investigation into structured finance ratings

Trade Repositories and Central Counterparties

ESMA begins trade repository supervision

ESMA has direct responsibilities under the European Markets Infrastructure Regulation (EMIR) regarding the registration, supervision and recognition of TRs. These entities centrally collect and maintain the records of derivative trades and play a central role in enhancing the transparency of derivative markets and reducing risks to financial stability. Therefore, supervision of TRs is crucial to ensuring that they comply, on an ongoing basis, with all EMIR requirements, so enabling regulators to access data and details of derivative contracts to assist with their respective mandates.

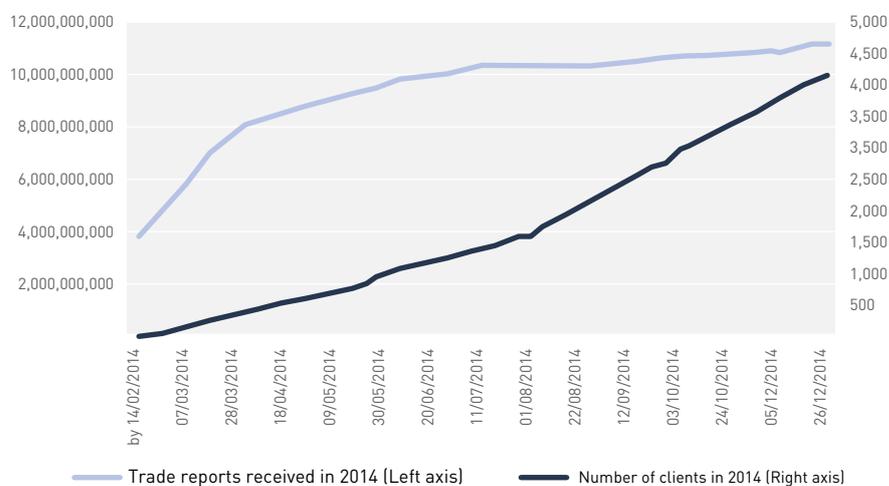
Objective	Work Programme Activity	Tasks	Delivery date
Supervision	5.2 Trade repositories	Authorisation and supervision of TRs	Continuous

ESMA supervises six registered TRs and, for that purpose, has the right to require information, to conduct general investigations and on-site inspections, and if needed, to take enforcement measures. In order to efficiently use its resources, ESMA conducts its supervisory activities using a risk-based approach adapted to the structure of the TR industry and calibrates its supervisory effort accordingly.

Focus on data quality and risk-based supervision

In November 2013, ESMA registered six trade repositories, which triggered the trade reporting obligation of counterparties to TRs as prescribed in EMIR, with the reporting of derivatives trade information beginning in February 2014. Since the reporting start date, a total of almost 10 billion reports have been received and processed by the EU TRs while the number of entities which have direct reporting agreements with TRs is nearly 5,000. By the end of 2014, around 300 million trade reports were being submitted weekly by the counterparties subject to the reporting obligation.

Evolution of trade reporting in 2014



ESMA's supervision of TRs during the first part of 2014 was focused on achieving a smooth start for the new reporting regime. As a result, its supervisory activities were directed towards ensuring the readiness of the TRs operational functions e.g. IT systems deployment, reconciliation of data among TRs, the transparency of their commercial offerings to market participants, and the on-boarding progress of counterparties as well as regulatory authorities.

Upon the successful start of the derivative contracts reporting to the TRs, ESMA's focus shifted to ongoing supervision, data quality and targeted supervisory activities. As part of the ongoing supervisory activities, ESMA continuously monitored TR operations by collecting and analysing information about their activities, operational incidents, complaints by market participants or regulators, material changes, key risk indicators and periodically reported information. Any issues identified were followed up either with further and deeper reviews and investigations or the implementation of specific remedial measures.

ESMA's internal analysis and the feedback by NCAs showed that there was a need to improve the quality of TR data. ESMA is putting a considerable effort on the overall improvement of the data quality at the TRs and is cooperating closely with the NCAs. To this end a data quality improvement action plan was put in place which included:

- 1) measures to be implemented by the TRs; and
- 2) measures to be implemented by the reporting entities.

The first measure has been adopted and monitored by ESMA, while the second one has been monitored by NCAs.

During 2014, ESMA had identified a number of risks and issues in TRs regarding data quality; on-boarding and access to data by authorities; systems operations and performance; and confidentiality of data. A number of desk-based reviews, individual investigations and on-site inspections were performed to collect and analyse relevant information. Furthermore, specific measures and action plans were developed and applied in order to mitigate those risks and improve the overall TR landscape.

Next steps

ESMA will continue to exercise its direct supervisory ⁽¹⁾ powers in 2015 through ongoing supervision, individual and thematic reviews and investigations.

⁽¹⁾ 2015/280 ESMA supervision of Credit Rating Agencies and Trade Repositories: Annual report 2014 and work plan, 16 February 2015

ESMA assesses recognition applications from third-country CCPs

As of 25 June 2014, ESMA had received 40 applications from third-country CCPs (TC-CCPs) in accordance with Article 25 of EMIR. The applicant TC-CCPs have applied for one or both of the two following reasons:

- Under EMIR: a TC-CCP may provide clearing services to clearing members or trading venues established in the EU only where that TC-CCP is recognised by ESMA (or, as a transitional provision, when that TC-CCP has applied for recognition to ESMA); and
- Under CRR: a credit institution or investment firm established in the EU (including at a consolidated level in respect of the third country subsidiaries of credit institutions and investment firms that are established in the EU) may only benefit from advantageous capital treatment for its trade exposures and default fund contributions to a TC-CCP, with respect to derivatives transactions, when that TC-CCP is recognised by ESMA by June 2015.

Following ESMA's delivery of all of the technical advice requested by the EC in respect of Australia, Hong-Kong, Japan, India, Singapore, South Korea, Switzerland and the U.S, the first equivalence decisions in respect of CCPs have been taken by the EC for Japan, Singapore, Hong-Kong and Australia on 30 October 2014.

In parallel the recognition process is ongoing within ESMA.

Next steps

In 2015, ESMA will carry on processing the TC-CCP files to recognise the relevant TC-CCPs meeting the criteria established in EMIR.

Enforcement Issues

ESMA's supervisory actions may result in the appointment of an Independent Investigating Officer (IIO) to investigate matters where ESMA finds serious indications of potential breaches of the Regulation. In the course of 2014, an IIO was appointed to investigate one case bringing the total number of IIO appointments since 2011 to four.

On 3 June 2014, as a follow-up to specific investigation, ESMA published its first public notice against a credit rating agency for breaching the requirements of the CRA Regulation. ⁽¹⁾

⁽¹⁾ 2014/544 Decision to adopt a supervisory measure, 3 June 2014.

2.4. Single Rulebook

The financial crisis exposed the negative effects that unevenly applied legislation can have for financial markets, its consumers and the economies at large. Therefore, it was felt necessary to introduce effective instruments to establish more harmonised applications of EU law. In order to foster more coherence in securities legislation and its application, ESMA can issue regulatory technical standards (RTS) and implementing technical standards (ITS) to ensure a level playing-field and adequate protection of investors, which further detail and clarify the Level 1 EU legislation.

Those TS aim at upgrading the quality and consistency of national supervision, strengthening oversight of cross-border groups and establishing an EU single rulebook applicable to all financial market participants in the internal market. ESMA is responsible for developing technical standards for those legal texts framing the European securities markets (MiFID), their infrastructure (EMIR) and orderly functioning (short-selling, MAD), but also for key financial market participants such as CRAs and investment funds (UCITS, AIFMD).

MiFID II

The review of the Markets in Financial Instruments Directive (MiFID II) represents probably the most far-reaching overhaul of European securities markets legislation in the past decade and is one of the EU's key responses to the financial crisis.

MiFID II/MiFIR introduces changes that will have a large impact on the EU's financial markets, these include transparency requirements for a broader range of asset classes; the obligation to trade derivatives on-exchange; requirements on algorithmic and high-frequency-trading and new supervisory tools for commodity derivatives. It will also strengthen protection for retail investors through limits on the use of commissions; conditions for the provision of independent investment advice; stricter organisational requirements for product design and distribution; product intervention powers; and the disclosure of costs and charges.

The new MiFID II framework intends to make EU markets safer, more transparent and efficient and to level the playing field for market participants across the Union. The co-legislators came to a political agreement in early 2014, the MiFID II package entered into force in July and it will apply from January 2017.

Objective	Work Programme Activity	Tasks	Delivery date
Single Rulebook	4.1 Revision of MiFID	With respect to the financial consumer protection topics.	January 2015 July 2015 December 2015
Single Rulebook	4.1 MiFID – secondary markets	Production of technical advice and a discussion and consultation paper for draft regulatory and implementing technical standards for MiFID II. Production of draft implementing technical standards for the Capital Requirements Regulation.	May and December 2014

MiFID II/MiFIR - Markets

ESMA provides MiFID II implementing measures

The secondary markets-related provisions in MiFID II require ESMA to deal with a large number of empowerments for implementing measures where it has to either draft technical standards with deadlines for delivery of July 2015 and January 2016 or had to deliver technical advice to the EC by January 2015.

First proposals were published by ESMA in May 2014 and published for consultation over the summer, resulting in around 10,000 pages of responses for the secondary markets area alone. Following the analysis of those responses, ESMA published its final advice to the EC and a large set of proposals for technical standards in December 2014. Alongside these proposals ESMA also published a comprehensive high level cost-benefit analysis of the proposed technical standards under MiFID II. The content of the advice and the standards are presented in more detail below.

ESMA designs new MiFID II transparency framework

In December 2014, ESMA submitted to the EC eight pieces of technical advice with respect to transparency issues, advising in particular on the thresholds to be used for the definition of systematic internalisers as well as on quantitative parameters for the determination of liquidity for shares, depositary receipts, certificates and Exchange Traded Funds (ETFs). This final technical advice took into account the responses received to the consultation paper published in May 2014.

With respect to the transparency-related technical standards, ESMA delivered draft proposals which update the existing MiFID 1 pre-trade and post-trade transparency regime for shares as well as developing new transparency obligations for instrument classes similar to shares and a multitude of other non-equity instruments. ESMA has been working intensively over the past year on the calibration of this new transparency regime, building on the responses received to the May 2014 discussion paper and carrying out a comprehensive data analysis to ensure that transparency improves without damaging the functioning of the financial markets.

This has meant setting thresholds for all non-equity financial instruments captured by MiFID II as well as calibrating the different waivers for pre-trade transparency and deferrals to post-trade transparency which are of particular relevance to protect large size transactions in liquid instruments from predatory trading and, hence, avoid unintended consequences of the new transparency regime on liquidity. ESMA has decided to assess liquidity on the basis of classes rather than individual financial instruments and, to this end, has broken down non-equity financial instruments into more than 2000 sub-classes, determining for each of them specific thresholds.

The draft technical standards published by ESMA form the basis for the new trading obligation for derivative instruments which will require OTC derivatives deemed appropriate to be traded on a MiFID venue.

Next steps

After having sent its advice regarding transparency issues to the EC, ESMA will now concentrate its efforts on finalising the draft technical standards to be delivered by 3 July 2015. ESMA will also publish a separate consultation paper early 2015 for asset classes which were not included in the consultation paper published in December 2014 (e.g. foreign exchange derivatives, credit derivatives, etc.).

ESMA provides organisational requirements for trading venues

ESMA has delivered its advice on how to further specify the rules applying to SME Growth Markets, a specific type of trading venue created in MiFID II with the intention to help increase the liquidity of SME stocks and debt instruments, promoting the visibility of SMEs across Europe and facilitating the access of SMEs to capital markets. ESMA's advice proposes a pragmatic set of rules which should allow SME markets to flourish under the SME Growth Markets brand while maintaining a high-level of investor protection. In the consultation it found the support of venues, investment firms, SME issuers and regulators. ESMA also deals with a variety of other topics via technical standards affecting trading venues' organisational requirements, such as the admission of financial instruments to trading or the suspension of instruments from trading all of which are crucial for the orderly functioning of EU financial markets.

Next steps

ESMA intends to deliver the necessary technical standards within the planned deadlines and will then focus on the implementation of the rules.

ESMA clarifies future provisions on data publication and open access

The requirements in MiFID II on data publication aim to ensure that trading venues provide market data on a reasonable commercial basis and in a disaggregated form with the goal of reducing the price of market data in the EU and ensuring that market data disclosed to the public or reported to supervisors is of high quality. MiFID II aims to achieve this by introducing a new regulatory framework for data reporting services providers. In December 2014 ESMA delivered its technical advice to the EC on what constitutes a "reasonable commercial basis", recommending as a first step increased transparency on prices and the content of market data, as well as on costs for producing data and on revenues. At the same time ESMA launched a consultation on a set of draft technical standards on the remaining data publication issues.

The provisions on opening access to CCPs, trading venues and benchmarks aim at removing barriers to market entry and contributing to efficient and safe EU market infrastructures. In 2014 ESMA has defined the circumstances under which access to a trading venue by a CCP or by a trading venue to a CCP could be denied and the conditions that should be respected when granting access. Furthermore, ESMA has defined the conditions for permitting access to benchmarks by CCPs and trading venues. These draft measures were published for consultation in December 2014.

Next steps

ESMA intends to deliver the draft RTS, taking into account feedback received from the public consultation, by the required deadlines in 2015. In the 2nd half of 2015 work will focus on developing draft ITS and on the implementation of the revised framework.

ESMA advises on MiFID's micro-structural issues

With respect to microstructural issues, ESMA delivered its technical advice to the EC on the definition of high frequency trading (HFT) and direct electronic access. In light of the responses received to the May 2014 discussion paper, ESMA also produced draft standards which include in particular proposals regarding:

- a new harmonised regulation of tick sizes based on an assessment of the foreseeable changes in the applicable tick and the expected evolution of the spread-to-tick ratio;
- a new set of obligations for investment firms pursuing so-called *market making strategies* and the trading venues where those strategies take place;
- a proposal with respect to trading venues having fair and non-discriminatory co-location services and fee structures and to also ensure that the latter do not create incentives for disorderly trading conditions or market abuse; and
- organisational requirements for investment firms engaged in algorithmic trading and trading venues with a trading system compatible with algorithmic trading.

Next steps

In light of the responses to the December 2014 consultation, ESMA will work on finalising the draft RTS to be delivered to the EC by the required deadlines in 2015. ESMA will also, by 3 January 2016, develop guidelines on the appropriate calibration of trading halts as required under Article 48(13) of MiFID II.

ESMA looks into commodity derivatives

ESMA has delivered to the EC its technical advice on how to further specify certain aspects relating to the definition of commodity derivatives, setting up position reporting thresholds and ESMA's position management powers.

ESMA has consulted on draft technical standards in relation to the definition of ancillary activity and to the new position limits regime, i.e. on the specification of a number of the elements which are necessary for applying the position limits regime and on the definition of the methodology for calculating the limits themselves.

Next steps

ESMA intends to deliver the draft RTS, taking into account feedback received from the public consultation, by the required deadline in 2015. In the second half of the year work ESMA will focus on the implementation of the revised framework.

Markets – Post Trading

ESMA's provides CRR implementing details

ESMA has delivered to the EC its ITS on main indices and recognised exchanges. Under the Capital Requirements Regulation (CRR) the eligibility as collateral of equities and convertible bonds depends on their being constituents of a *main index* and of debt securities being listed on a *recognised exchange*. ESMA set out criteria for specifying main indices for equities and listed the indices meeting those criteria in an Annex to the draft ITS. It also compiled lists of recognised exchanges consisting of regulated markets for cash instruments and derivatives markets which in the view of the competent authorities provide for adequate margining requirements.

Next steps

ESMA intends to revisit the lists in order to keep them up-to-date.

ESMA fosters implementation of EMIR

In 2014, ESMA has prepared for the determination of the OTC derivatives contracts that will be subject to the clearing obligation. With the overarching objective of reducing systemic risk, EMIR establishes the obligation to clear certain OTC derivative contracts with CCPs (the clearing obligation). ESMA's mandate in this context is to determine which classes of OTC derivative contracts are appropriate for mandatory central clearing, based on a number of criteria defined in the regulation, such as liquidity and standardisation.

Objective	Work Programme Activity	Tasks	Delivery date
Single rulebook	5.2	Post-Trading	Permanent

The clearing obligation procedure begins when a CCP is authorised under EMIR, or when ESMA has accomplished a procedure for recognition of a third-country CCP. Out of the 20 European CCPs that have applied for authorisation under EMIR, 11 are clearing OTC derivatives.

In 2014, 15 CCPs were authorised, including 10 CCPs clearing OTC derivatives, hence triggering the *bottom-up* clearing obligation process, which requires ESMA to analyse and determine the set of classes of OTC derivatives to be subject to the clearing obligation amongst all the classes covered by the CCP authorisations.

For that purpose, ESMA issued three consultation papers containing draft technical standards using feedback from the July 2013 discussion paper:

- on 11 July 2014, a consultation paper (n°1) resulting from the analysis of the OTC interest rate (IRS) derivative classes with ESMA proposing subjecting some of those classes to the clearing obligation; and from the analysis of the equity and interest rate futures and options classes authorised to clear, for which ESMA has determined that a clearing obligation is not necessary at this stage;

- on 11 July 2014, a consultation paper (n°2) resulting from the analysis of the OTC credit derivative classes (CDS) for which ESMA proposed subjecting some of those classes to the clearing obligation; and
- on 1 October 2014, a consultation paper (n°3) based on the analysis of a class of OTC foreign-exchange non-deliverable forwards (NDF) for which ESMA proposed a clearing obligation.

For IRS, ESMA finalised its analysis using the 51 responses to the consultation paper n°1 and published on 1 October 2014 a final report on the clearing obligation on IRS submitting draft RTS to the EC for endorsement. Following this submission, the EC notified ESMA on 18 December 2014 of its intention to endorse the related RTS with modifications.

For credit default swaps (CDS), ESMA wrote a letter to the EC on 20 November 2014 stating that it would hold the delivery of the draft RTS on the clearing obligation until the EC had finalised its assessment process on the IRS RTS since it could affect similar content in the subsequent RTS.

Next steps

For non-deliverable forwards (NDF), ESMA published a feedback statement in early 2015 with a summary of the responses and the main concerns raised during the consultation. ESMA will reconsider the clearing obligation for NDF at a later stage depending on how the market develops to address those concerns. In 2015, the process for the finalisation of the RTS on interest rate swaps and its targeted adoption will also continue. ESMA will also continue the clearing obligation process for other classes of OTC derivatives, including its work on the CDS and NDF classes as appropriate. Consequently, as foreseen in EMIR, to ensure that stakeholders are adequately informed, ESMA will continue to publish and maintain all information related to the clearing obligation in the Public Register available on ESMA's website.

ESMA clarifies arrangements for pension schemes

Pension scheme arrangements benefit from a temporary exemption from the clearing obligation for the OTC derivative contracts that reduce investment risks. For some of them, ESMA is required to provide an opinion to the competent authority responsible for the exemption approval, assessing the compliance of the type of entities or type of arrangements with some requirements set in EMIR as well as the reasons why an exemption is justified. Pending endorsement of its draft RTS related to the determination of the classes of derivatives to be subject to the clearing obligation, in 2014 ESMA fine-tuned its approach and analysis in cooperation with EIOPA.

Next steps

ESMA will finalise the process for adopting opinions on the exemption of types of pension schemes from the clearing obligation. The first requests for ESMA opinions are expected to be received shortly after the entry into force of the relevant RTS on the determination of the classes of derivatives subject to the clearing obligation.

ESMA further details intra-group transactions

EMIR foresees that under certain conditions, intragroup transactions (IGT) may be exempted from the clearing obligation (EMIR Article 4) and from the exchange of collateral (EMIR Article 11(3)). There are several processes by which those exemptions can be granted, depending on the type of counterparties involved in the IGT: financial counterparty (FC), non-financial counterparty (NFC) or third-country entity.

During the process of granting exemptions from the clearing obligation and from the exchange of collateral, NCAs need to share information with ESMA in various ways. The content and process of the exchange of information between NCAs and ESMA is specified in an RTS only in the case of exemptions from exchange of collateral.

In view of the significant number of notifications expected to be received by NCAs and ESMA, and the complexity of the information, in 2013 ESMA set up an IT project to build a tool which will handle the exchange of information between NCAs and ESMA. This IT tool has been developed throughout 2014.

Next steps

ESMA will release the relevant IT tool to process the notifications on IGT.

EMIR provisions for non-financial counterparties

In 2014, ESMA has continued to raise the awareness of non-financial counterparties (NFC) on their EMIR obligations, through its participation in seminars and conferences.

ESMA also continued to receive notifications from NFC above the clearing threshold and it is monitoring these applications to ensure a consistent approach among NCAs on NFCs and a consistent calculation of the threshold by NFCs. ESMA has published a Q&A in order to clarify and support a consistent calculation and application of the clearing thresholds.

Next steps

ESMA will continue to monitor the activity of NFC to ensure a consistent application of EMIR across the EU.

ESMA provides standards for non-EU derivatives

On 13 February 2014, the Commission has adopted the ESMA draft technical standards related to the OTC derivative contracts that are considered to have a direct, substantial and foreseeable effect within the Union and the cases where it is necessary or appropriate to prevent the evasion of any provision of EMIR.

The standards include, in the scope of EMIR, OTC derivative contracts between non-EU counterparties when the resulting exposure of a counterparty is guaranteed by an EU financial for an amount above a set threshold, as well as derivative contracts between EU branches of non EU counterparties. The standards also set a criteria based approach in order to determine cases of evasion.

ESMA standards on bilateral margining

In September 2013 the BCBS-IOSCO Working Group on Margin Requirements (WGMR) finalised its report on margin requirements. During 2013/2014 ESMA, together with EBA and EIOPA has continued its preparatory work for the development of draft regulatory technical standards on bilateral margins. This work will follow closely the agreed international technical standards.

The ESAs published a Consultation Paper on draft RTS on 14 April 2014. The consultation ended in July 2014.

Next steps

In 2015 the ESAs may launch a second consultation paper on the draft RTS and will submit their final draft RTS to the EC for endorsement.

ESMA proposes to amend TR reporting standards

Based on the intelligence gathered in the first months of reporting and in order to provide the competent authorities and the public with data that captures better the nature of derivatives trading, ESMA has proposed slight amendments to the technical standards on reporting to TRs. The amendments contain purely technical aspects aimed at improving the overall quality of the data and to increase its usefulness. The proposal is open for public consultation until mid-February 2015.

ESMA drafts implementing measures for CSD Regulation

On 28 August 2014 Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (CSD Regulation, CSDR) was published in the Official Journal and entered into force on 17 September 2014.

Objective	Work Programme Activity	Tasks	Delivery date
Single rulebook	4.5.	CSD Regulation	June 2015

The aim of CSDR is to harmonise certain aspects of the settlement cycle and settlement discipline and to provide a set of common requirements for central securities depositories (CSDs) operating securities settlement systems across the EU. CSDR plays a pivotal role in the EU's post-trade harmonisation efforts, as it will enhance the legal and operational conditions for cross-border settlement.

CSDR requires ESMA, in cooperation with the members of the European System of Central Banks (ESCB), to develop around 30 technical standards, covering settlement discipline measures, the authorisation, recognition, supervision of CSDs, organisational and prudential requirements for CSDs, access requirements, as well as internalised settlement reporting (covering securities transactions settled outside a securities settlement system). ESMA has also received a mandate from the EC to provide technical advice under CSDR on the level of penalties for settlement fails, and on the importance of a CSD for the functioning of the securities markets and the protection of investors in a host Member State. This mandate was confirmed by a second letter in October 2014. The deadline for ESMA to deliver these standards and advice is June 2015.

On 20 March 2014, ESMA published a Discussion Paper on the first proposals for draft RTS and held a Public Hearing on 14 April 2014 in Paris.

On 18 December 2014, ESMA published three Consultation Papers (CP) on:

- draft technical standards on settlement discipline, CSD requirements, and internalised settlement;
- draft technical advice on the level of cash penalties for settlement fails and on the substantial importance of a CSD; and
- draft guidelines on the access to CCPs or trading venues by CSDs.

Next steps

ESMA will organise a Public Hearing on the Consultation Papers at ESMA in January 2015. Also in 2015 ESMA will finalise the draft technical standards, technical advice and guidelines.

ESMA starts working on CSDR implementation

ESMA has started preparing for the implementation of CSDR, by developing templates for the various notifications that ESMA will receive from the Member States. These include the list of competent authorities designated under CSDR, and the list of key relevant provisions of Member States' laws governing securities.

Next steps

ESMA will publish and keep updated the list of competent authorities designated under CSDR, and the list of key relevant provisions of Member States law governing securities.

Investment Management – Fund regulations

After a period of intense legislative and policy activity in previous years, the main focus for ESMA in the fund management sphere in 2014 centred on the implementation of the AIFMD as well as issues around social entrepreneurship and venture capital funds.

Objective	Work Programme Activity	Tasks	Delivery date
Single Rulebook	4.2 European Investment Fund Legislation	AIFMD – report on switching-on of passport for non-EU AIFMs	Q4 2014
Single Rulebook	4.2 European Investment Fund Legislation	AIFMD – monitoring and analysis of data reported by AIFMs via NCAs under Articles 24 & 25	Permanent
Single Rulebook	4.2 European Investment Fund Legislation	UCITS V – advice, technical standards and guidelines	Q4 2014
Single Rulebook	4.2 European Investment Fund Legislation	European Social Entrepreneurship Funds Regulation	Q4 2014
Single Rulebook	4.2 European Investment Fund Legislation	European Venture Capital Funds Regulation	Q4 2014

ESMA clarifies framework for exchange-traded funds

In December 2012 ESMA issued guidelines on Exchange-Traded Funds (ETFs) and other UCITS issues (ESMA/2012/832). These guidelines apply to national securities markets regulators and UCITS management companies. UCITS are authorised funds which can be sold to retail investors across the European Union.

Clarification of collateral diversification rules

Following the entry into force of the guidelines on 18 February 2013, ESMA received numerous requests from stakeholders to reconsider its position on the requirements on collateral diversification (paragraph 43(e) of the guidelines) on the basis that they had a significant adverse impact on UCITS' collateral management policies. Stakeholders drew particular attention to the consequences for money market funds that place cash into reverse repurchase agreements.

Following a public consultation launched at the end of 2013 (ESMA/2013/1974), ESMA published revised guidelines in March 2014 (ESMA/2014/294). The guidelines were modified in such a way that all UCITS may be fully collateralised in securities issued by a Member State. In order to mitigate any concerns arising from the extension of this flexibility to all UCITS, the requirements on disclosure in the prospectus and the annual report were strengthened. The rules on the diversification of the collateral across six different issues, with a cap of 30% of the net asset value, were retained.

Next steps

ESMA will continue to monitor the application of the guidelines and will update its dedicated Q&A if further clarification is needed on specific points.

ESMA contributes to depositary framework under UCITS V

Political agreement was reached on the UCITS V Directive (2014/91/EU) in April 2014. The changes introduced by the legislation relate to depositary issues, remuneration and sanctions. Member States must transpose the Directive by 18 March 2016. On 3 July 2014 ESMA received a provisional request from the EC for technical advice on certain of the delegated acts required by the Directive. The EC asked ESMA to deliver its advice by 15 October 2014.

Input on depositary rules

The EC confined its request for advice to two aspects of the Directive: the insolvency protection of UCITS assets when the depositary delegates safekeeping duties to a third party and the requirement for the management company and depositary to act independently. ESMA published a consultation paper in September (ESMA/2014/1183) and final advice in November (ESMA/2014/1417).

On the first element of the EC's request, the advice seeks to ensure that in the event of the insolvency (or failure) of a third party, the UCITS assets which are held with it (under a delegation arrangement) do not form part of its creditor estate and will be promptly available for return to the depositary. The advice on the second element, meanwhile, introduces safeguards with respect to the common management/supervision of the management company/depositary and to address situations where there are cross-shareholdings between the management company and the depositary.



ESMA delivered the advice to the EC on 28 November 2014. This was slightly later than the deadline set in the EC's original request in order to allow a public consultation to be carried out on the draft advice.

Next steps

ESMA will cooperate with the EC in view of the transformation of the technical advice into formal delegated acts, which is expected to take place well in advance of the transposition deadline of March 2016.

ESMA assesses impact of EMIR on UCITS

EMIR introduces mandatory clearing obligations for certain types of OTC derivative transaction. The UCITS Directive, meanwhile, imposes specific counterparty limits on such transactions. ESMA has been working to analyse the precise impact of EMIR on the UCITS Directive and, in particular, on how UCITS should calculate their counterparty risk for OTC transactions that will become subject to clearing obligations. This has resulted in a set of Q&As published in December 2013 of a revised version of the Q&A on *Risk Measurement and Calculation of Global Exposure and Counterparty Risk for UCITS* [1].

Stakeholders' views sought on differentiation between clearing arrangements

A workshop with industry representatives held in December 2013 helped ESMA to identify the key issues in this context, which include the treatment of exchange-traded derivatives (ETDs) versus OTC derivatives that are centrally cleared and the impact on UCITS of the different clearing mechanisms in the case of default of a clearing member. In order to seek input from a broader range of stakeholders, ESMA decided to publish a discussion paper (ESMA/2014/876) in July. The DP drew a distinction between different clearing arrangements. For each of those clearing arrangements, the paper analysed the impact of a default of the clearing member and the client for the calculation of the counterparty risk by UCITS. It was made clear that the approaches and considerations set out were only relevant in the context of possible future revisions of the UCITS framework. Most of the responses that ESMA received by the 22 October deadline were supportive of the proposals.

Next steps

ESMA will use the feedback received from the public consultation to determine its final views on the appropriate way forward, including a possible recommendation to the EC, Council and Parliament on a modification of the UCITS Directive.

[1] 2013/1950 Risk Measurement and Calculation of Global Exposure and Counterparty Risk for UCITS 19 December 2013.

ESMA gathers data in view of possible extension of AIFMD passport to third country entities

The Alternative Investment Fund Managers Directive (AIFMD), which has been in place since July 2013, introduced a passport for EU alternative investment funds (AIFs) and their managers (AIFMs). Non-EU AIFMs and non-EU AIFs managed by EU AIFMs are, meanwhile, subject to the national private placement regime of each of the Member States where the AIFs are marketed or managed. By July 2015 ESMA must submit to the EC, the European Council and the European Parliament:

- an opinion on the functioning of the passport for EU AIFMs pursuant to Articles 32 and 33 of the AIFMD and on the functioning of the national private placement regimes set out in Articles 36 and 42 of the AIFMD; and
- advice on the application of the passport to non-EU AIFMs and AIFs in accordance with the rules set out in Article 35 and Articles 37 to 41 of the AIFMD.

ESMA carried out two important pieces of preparatory work in this area in 2014.

Quarterly reporting by national regulators to ESMA

On 27 March 2014 ESMA submitted to the EC advice on the content of the Level 2 measures that, in accordance with Article 67(5) of the AIFMD, the EC should adopt in order to specify the content of the information that NCAs should provide to ESMA quarterly. NCAs started submitting this information to ESMA in May and will continue to do so until the submission of the aforementioned opinion and advice.

Input gathered from market participants

In order to complement the extensive set of information that ESMA will receive from national regulators on the activities of AIFMs in their jurisdiction, ESMA decided to launch a call for evidence addressed to all external stakeholders. The call for evidence (ESMA/2014/1340), which was published in November, sought input from EU and non-EU market participants on the different elements that ESMA should take into account for the opinion and advice to the institutions.

Next steps

ESMA will assess the broad set of feedback it receives – covering both the quarterly reporting by national regulators and the responses to the call for evidence – in developing the opinion and the advice to the Commission, which must be submitted by 22 July 2015.

ESMA clarifies framework for venture capital and social entrepreneurship funds

The Regulations on European Venture Capital Funds (EuVECA) and European Social Entrepreneurship Funds (EuSEF) started to apply in July 2013. In May 2014 the EC requested technical advice from ESMA on the content of the delegated acts foreseen by the two Regulations.

Views of market participants sought

The consultation on the draft advice published in September (ESMA/2014/1182) reflected the structure of the Commission's request and covered the following areas:

- the types of goods and services, methods of production for goods and services and financial support embodying a social objective;
- conflicts of interest of EuSEF and EuVECA managers, respectively;
- the methods for the measurement of the social impact; and
- the information that EuSEF managers should provide to investors.

Throughout the advice, the underlying intention was to design a framework which facilitates the take-up of these products by the industry while ensuring there are tailored and proportionate requirements in place. ESMA received generally positive feedback on its proposals.

Next steps

ESMA will finalise the technical advice in light of the responses to the consultation and submit it to the EC in February 2015.

Credit Rating Agencies

ESMA further develops the single rulebook for CRAs

During the course of 2014, ESMA produced draft RTS, issued guidelines, Q&As and Technical Advice and published a resource report relating to CRAs. It has also promoted the development of a single rule book for financial supervision within the EU through its work with the ESAs Joint Committee.

Objective	Work Programme Activity	Tasks	Delivery date
Single Rulebook	4.4 CRAs	Development and adoption of three draft regulatory technical standards on structured finance instruments, fees charged by CRAs to their clients and on the European Ratings Platform.	June 2014
Single Rulebook	4.4 CRAs	Publication of the set of Q&As concerning the obligation to publish ratings on the dates announced in the sovereign calendar, announcing deviations from the sovereign calendar and on the status of collective portfolio managers in relation to Article 6a of the CRA Regulation.	June 2014
Single Rulebook	4.4 CRAs	Organisation of roundtable with industry stakeholders.	October 2014
Single Rulebook	4.4 CRAs	Publication of Technical Advice to the Commission on the appropriateness of the development of a European creditworthiness assessment for sovereign debt as required by Article 39b(2) of the CRA Regulation.	July 2014
Single Rulebook	4.4 CRAs	Publication of a report to the European Parliament, the Council and the Commission on ESMA staffing and resources requirements in view of ESMA's responsibilities under the CRA Regulation.	August 2014
Single Rulebook	4.4 CRAs	Various activities within the framework of the Joint Committee including the following: <ul style="list-style-type: none"> • the publication of a discussion paper on the use of credit ratings by financial intermediaries as a contribution to the development of guidelines on reducing contractual reliance on ratings; • the publication of a Consultation Paper on mapping of the credit ratings of External Credit Assessment Institutions (ECAIs); and • contribution to Task Force assessing the EU regulators framework on transparency for structured finance products. 	Ongoing
Single Rulebook	4.4 CRAs	Revision of the Code of Conduct for CRAs within the IOSCO	Ongoing

ESMA issues standards on CRA regulation

In 2014, ESMA has prepared draft RTS on three topics relating to CRAs: structured finance instruments, fees charged by CRAs to their clients and the European Ratings Platform.

ESMA published a consultation on the nature and content of the RTS on 11 February 2014. It also held a Public Hearing on 14 March 2014 to discuss the proposed draft RTS. This input was used to produce the final draft RTS which were sent to the Commission on 20 June 2014. ⁽¹⁾

The RTS were adopted by the EC as Delegated Regulations on 30 September 2014 and published in the Official Journal on 6 January 2015.

Guidelines on the periodic information to be submitted to ESMA by CRAs

On 16 July 2014, ESMA issued a Consultation Paper on the periodic information to be submitted to ESMA by CRAs in order to develop new supervisory Guidelines which would help ESMA ensure that it obtains the high quality, relevant and timely data it needs in order to ensure the efficient and effective supervision of the CRA sector.

The draft Guidelines aim to clarify the reporting to ESMA of material changes to the initial conditions for registration, and the information that ESMA expects to receive from CRAs in order to accurately calculate supervisory fees and CRAs' market shares.

The draft Guidelines were discussed during a public hearing at ESMA on 15 October 2014. During the hearing, participants discussed a number of proposed changes to the information to be provided by CRAs on an annual, semi-annual and quarterly basis including material changes to the initial conditions of CRAs' registration and CRAs' market share calculations for the purposes of Article 8d of the CRA Regulation. Responses from market participants were analysed after the consultation closed on 31 October 2014 and are being used to finalise the new Guidelines. The new Guidelines are due to be published during 2015.

Objective	Work Programme Activity	Tasks	Delivery date
Convergence	4.4 CRAs	Publication of Guidelines on the periodic information to be submitted to ESMA by CRAs	end 2014

⁽¹⁾ The RTS were published in Official Journal (OJ) on 6 January 2015 and entered into force on 26 January 2015: OJ L 2/57 of 6.1.2015: RTS on disclosure requirements for structured finance Instruments; OJ L 2/1 of 6.1.2015: RTS for the periodic reporting on fees charged by CRAs to their clients; OJ L 2/24 of 6.1.2015: RTS for the presentation of the information that CRAs make available to ESMA

ESMA issues Q&As on the CRA Regulation

The first set of Q&As regarding the CRA Regulation were issued by ESMA on 17 December 2013, followed by a second set on 2 June 2014 ^[1]. In these Q&As, ESMA clarified its interpretation of some of the new requirements introduced by the 2013 amendments to the CRA Regulation.

The Q&A covered issues including the publication of sovereign ratings on Fridays, the obligation to publish ratings on the dates announced in the sovereign calendar, announcing deviations from the sovereign calendar and whether collective portfolio managers should be considered as shareholders for the purpose of Article 6a of the CRA Regulation.

ESMA holds CRA Roundtable

ESMA held a roundtable meeting for CRAs on 15 October 2014. The round table setting provided ESMA with an opportunity to update CRAs on its recent work and future priorities. It also allowed ESMA to ask CRAs whether there were other areas on which future guidance would assist in the implementation of the CRA Regulation.

ESMA advises Commission on European creditworthiness assessment

On 17 July 2014, ESMA published its Technical Advice to the EC on the appropriateness of the development of a European creditworthiness assessment for sovereign debt as required by Article 39b(2) of the CRA Regulation ^[2]. The Technical Advice will serve as input into an EC report on the issue.

Report on staffing issues

On 5 August 2014, ESMA submitted a report to the EC, Parliament and Council on ESMA's staffing and resources needs arising from the assumption of the powers and duties under the CRA Regulation. ^[3]

Joint Committee of the ESAs

ESMA is also involved in various projects run by the Joint Committee of the European Supervisory Authorities (EBA, EIOPA and ESMA) and which may impact the CRA industry and supervision in the future. During the course of 2014, ESMA contributed to the preparation of guidelines on reducing contractual reliance on ratings by publishing a Discussion Paper on the use of credit ratings by financial intermediaries in the EU. A Consultation Paper on mapping of the credit ratings of External Credit Assessment Institutions (ECAIs) was published in November 2014. Currently, ESMA is participating in a Joint Committee Task Force to map the relevant EU legislative requirements regarding disclosure of structured finance instruments.

[1] 2014/578 Questions and Answers - Implementation of the Regulation (EU) No 462/2013 on Credit Rating Agencies, 2 June 2014.

[2] 2014/850 rev Updates Technical Advice regarding the appropriateness of the development of a European creditworthiness assessment for sovereign debt, 17 September 2014.

[3] 2014/939 Report on ESMA's staffing and resources needs arising from the assumption of its powers and duties under the Regulation (EU) No 462/2013 amending Regulation (EC) No 1060/2009 on credit rating agencies, 5 August 2014

Next steps

During 2015, ESMA will continue to work on the implementation of the three new RTS. Furthermore, ESMA intends to provide Technical Advice to the EC where required by the CRA Regulation in the following areas:

- i) reducing reliance on credit ratings;*
- ii) conflicts of interest;*
- iii) competition in the CRA market; and*
- iv) provisions relating to structured finance instruments.*

In 2015, ESMA will continue its convergence work within the framework of the Joint Committee, in particular with regards to the mapping of the credit ratings of External Credit Assessment Institutions (ECAIs), high-quality securitisation and the reduction of contractual reliance on credit ratings.

Corporate Finance

In this area of ESMA's responsibilities, several years of work on the single rulebook clarifying elements of the level 1 directives is reaching its conclusion and the focus in future will increasingly be on supervisory convergence and the actual application of the rules in the financial markets.

Objective	Work Programme Activity	Tasks	Delivery date
Single Rulebook	4.3 Corporate Finance	Developing draft RTS	October 2014 and July 2015

ESMA prepares second set of standards under Prospectus Directive

ESMA continues to develop draft RTS in accordance with mandates in the Omnibus II Directive¹ which was published in April 2014. The aim is to increase co-ordination of the application of the Prospectus Directive by specifying the procedures for the approval of prospectuses, provisions on the information to be incorporated by reference, dissemination of advertisements announcing the intention to offer securities to the public or the admission to trading on a regulated market and provisions relating to the publication of the prospectus. A consultation paper was published in September 2014 with a three month consultation period.

Next steps

ESMA will publish a feedback statement following the consultation including final draft RTS for submission to the EC by the deadline of 1 July 2015.

⁽¹⁾ Directive 2014/51/EU

ESMA delivers standards under Transparency Directive

ESMA finalised and delivered draft RTS in accordance with the amended transparency directive ⁽¹⁾ on 2 October 2014. This included specifying methods for the calculation of different thresholds including that of the trading book and determining delta as well as clarifying that the trading book exemption also covers client serving transactions.

ESMA established in October 2014 two fora with the aim of increasing the exchange of experiences and practices between the regulators in the transparency area as well as seeking more harmonised approaches and understanding of concepts in the transparency directive and where possible potentially influence the transposition of the amended Transparency Directive. The transposition deadline is 12 November 2015.

Next steps

In order to achieve further harmonised interpretations and application of the transparency directive rules it is important that all regulators are aware of each other's practices. The work is of an ongoing nature and the revision of the Questions and Answers in this area is a first priority to be finalised by the summer of 2015.

ESMA monitors proposed rules on shareholder rights

Besides monitoring activity in the corporate governance area related to listed companies ESMA is following developments of the EC's proposal for a revision of the Shareholder Rights Directive ⁽²⁾ released on 9 April 2014. ESMA initiated two work streams in October affected by this proposal which are

- 1) a review of the Best Practice Principles for Voting Research & Analysis ⁽³⁾ (BPP); and
- 2) a mapping of current rules and practices concerning the disclosure of directors' remuneration in listed companies.

Next steps

ESMA will continue monitoring initiatives in this area and assess whether action is required. The work on the review is expected to be finalised by the end of 2015 and will include contact with the signatories to the BPP. The work on remuneration is expected to continue throughout 2015 with finalisation by the first quarter of 2016.

⁽¹⁾ Directive 2013/50/EU

⁽²⁾ COM(2014) 213 final

⁽³⁾ Published by the self-established Industry Committee on 5 March 2014

Corporate Reporting

ESMA contributes to information access under the Transparency Directive

The amended Transparency Directive gives ESMA responsibility to develop and submit to the EC RTS in two areas. Firstly, in 2014, ESMA published the Consultation Paper on the draft RTS on the European Electronic Access Point (EEAP) which include the RTS on the operation of the EEAP, search criteria and infrastructure to be used by the Officially Appointed Mechanisms established at national level. On the basis of this consultation process and in light of the mandate received in the directive, ESMA expects to submit the RTS on the EEAP to the EC in late 2015. Secondly, ESMA pursued its work on the development of the draft RTS specifying the European single electronic reporting format (ESEF) for the preparation of annual financial reports in a single electronic reporting format with effect from 1 January 2020.

ESMA also started work to ensure clarification and proper implementation of the amendments to the Transparency Directive. That work will be finalised with updated TD Questions & Answers in late 2015.

Next steps

In 2015, ESMA will progress the work on the RTS on the EEAP and will publish the consultation paper on the draft RTS for the ESEF as well as the final guidelines on the APMs.

ESMA monitors developments in proposed Regulation on audit

In May 2014, the amended Directive on statutory audits of annual accounts and consolidated accounts (2014/56/EU) and the new Regulation on specific requirements regarding statutory audit of public-interest entities (Regulation (EU) No. 537/2014) were published. This legislation brought significant changes to the statutory audit directive and introduced a regulation giving ESMA responsibilities related to the technical assessment of public oversight systems of third countries and to the international cooperation between the EU audit oversight authorities and third countries. ESMA will be a member, without voting rights, in the new Committee of the European Audit Oversight Bodies (CEAOB) and will Chair the sub-group on the technical assessment of public oversight systems of third countries and international cooperation between Member States and third countries in this area.

Next steps

In 2015, ESMA will also start preparatory work on implementation of the audit-related legislation that will be applicable in 2016.

Market Integrity

ESMA consults on implementing measures of the Market Abuse Regulation (MAR)

Further to the Trilogue agreement reached in June 2014, the MAR was published in the Official Journal of the European Union on 12 June 2014, together with the Market Abuse Directive on criminal sanctions (No 2017/57/EU).

Objective	Work Programme Activity	Tasks	Delivery date
Single Rulebook	4.1 Revision of MiFID & MAD	MAR - development of delegated acts and technical standards (e.g. list of instruments, indicators of market manipulation, STRs, managers dealings, technical specifications for order book data etc.)	January 2015

The new Market Abuse regime was introduced, inter alia, in order to keep pace with new trading platforms and technologies in financial markets, which, besides offering new opportunities, may also result in new possibilities for abusive behaviour. Such abusive behaviours can result in losses for consumers and investors or distortion of the real economy if investors trade on insider information or manipulate markets by spreading false or misleading information.

In order to prevent market manipulation and increase the level of investor protection, ESMA has to develop seven RTS and eight ITS for the implementation of the new MAR framework which will become applicable in July 2016 as well as to issue three sets of Guidelines. Besides, ESMA is requested to provide technical advice on possible delegated acts in five areas under the two formal mandates received from the EC on 21 October 2013 and 2 June 2014. These technical standards and technical advice should specify the application of MAR to new products, venues and trading techniques and address transparency and governance issues.

ESMA consults on policy options

On 27 January 2014, ESMA closed the ten-week public consultation on the Discussion Paper on ESMA policy orientations on possible level 2 measures on MAR ⁽¹⁾ initiated in November 2013. The Discussion Paper presented positions and regulatory options on ten main sections of MAR where ESMA has to develop MAR implementing measures (RTS, ITS, advice on Delegated Acts and Guidelines). The input received from the more than 60 respondents to the consultation has been used in preparing the second phase of the implementing measures concerning MAR, namely the Consultation Papers on draft technical standards and on draft technical advice to the EC.

⁽¹⁾ 2013/1649 Discussion Paper on Market Abuse Regulation 14 November 2013

ESMA consults on the details of MAR implementing measures

On 15 July 2014, ESMA issued two separate Consultation Papers presenting detailed proposals of draft technical advice and of draft technical standards respectively.

In the Consultation Paper on draft technical advice, ESMA developed a draft advice to the EC in relation to indicators of market manipulation, the characteristics of a manager's transaction which trigger the notification duty, the circumstances under which trading during a closed period may be permitted by the issuer and the procedures to enable reporting of actual or potential infringements of MAR to the competent authorities. Furthermore, the draft technical advice also included how to determine the competent authority for the notification with respect to the public disclosure of inside information, and proposed a level of minimum thresholds of carbon dioxide equivalent and of rated thermal input for the purposes of exemption with respect to the public disclosure of inside information.

The second Consultation Paper presented draft technical standards relating to:

- prevention and detection of market abuse, including suspicious transactions and order reporting;
- accepted market practices;
- market soundings;
- conditions for and disclosure of buy-back programmes and stabilisation;
- disclosure of managers' transactions;
- provisions for insider lists;
- disclosure of inside information, including possible exemptions and delays; and
- investment recommendations or other information recommending or suggesting an investment strategy by staff, including the avoidance of conflicts of interests.

ESMA prepares technical standards on cooperation

During the consultation period, ESMA has started work on MAR implementing and regulatory technical standards relating to the procedures and arrangements for cooperation under MAR.

Next steps

ESMA will use the answers received to the consultation papers to finalise its final technical standards and technical advice. Whereas the technical advice should be provided to the EC by early March 2015 at the latest, ESMA has to deliver the technical standards on MAR to the EC for endorsement by early July 2015. ESMA will then focus on drafting a Consultation Paper on the Guidelines to be issued under MAR.

2.5. Supervisory Convergence

ESMA was, with other institutions, set up to foster supervisory convergence by reducing regulatory arbitrage resulting from different supervisory practices across the EU. The reason was that such different practices may have the potential to undermine not only the integrity, efficiency and orderly functioning of markets but ultimately also financial stability and investor protection.

ESMA aims to use its convergence work to drive its activities in other areas of the Work Programme, including enhancing the single rulebook, through issuing guidelines and recommendations in areas where difference of application exist, and through providing Q&A to accompany the implementation.

Investment Management

Objective	Work Programme Activity	Tasks	Delivery date
Single rulebook/ Convergence	4.2 European Investment Fund Legislation	AIFMD – monitoring and analysis of data reported by AIFMs via NCAs under Articles 24 & 25	Permanent
Single rulebook/ Convergence	4.2 European Investment Fund Legislation	UCITS V – advice, technical standards and guidelines	Q4 2014

EMIR's impact on UCITS - initial clarification provided via Q&A

The first output of this work was the publication in December 2013 of a revised version of the Q&A on Risk Measurement and Calculation of Global Exposure and Counterparty Risk for UCITS (ESMA/2013/950). The Q&A clarified the main elements that UCITS management companies should take into account when they calculate their counterparty risk for OTC transactions subject to clearing obligations, without being prescriptive on how counterparty risk should be calculated. The Q&A also indicated that further work would take place with a view to providing more detailed guidance.

ESMA clarifies asset segregation rules

The AIFMD introduced rules on how depositaries of alternative investment funds must segregate the assets they hold in custody. Questions have been raised on the correct interpretation of those requirements.

First steps towards development of guidelines

In order to ensure a common approach to these requirements across the Member States, ESMA saw merit in developing guidelines on this issue under Article 16 of the ESMA Regulation. A consultation on draft guidelines was published on 23 December 2014 (ESMA/2014/1577). The consultation exercise was also aimed at gathering input on the impact that different approaches might have on current market practice.

Next steps

ESMA will consider the responses received to the consultation with a view to issuing guidelines by the end of Q2 2015.

ESMA prepares for reporting on alternative investment funds

The AIFMD requires AIFMs to report an extensive set of information to their home regulators on a periodic basis. National authorities are required to share that data with ESMA. During 2014 ESMA continued its preparations for the receipt of the data, while also providing clarification to managers on what should be reported.

Regular updates of AIFMD Q&A

The first version of the Q&A on the application of the AIFMD was published in February (ESMA/2014/163). During the year it was updated on four occasions in order to address new issues raised by stakeholders, including on remuneration, depositary requirements and leverage. The section of the Q&A dedicated to the reporting requirements of the AIFMD quickly became the most extensive and, by the end of the year, contained 49 questions and answers.

Next steps

ESMA will finalise the creation of the necessary IT infrastructure with a view to receiving the first AIFMD reports from national regulators in Q2 2015. More broadly, ESMA will update the AIFMD Q&A on an ongoing basis to address new issues.

Markets – Post Trading

ESMA promotes consistent implementation of EMIR

Following the adoption of ESMA's draft RTS and ITS by the EC (December 2012 and February 2013), it started developing Questions and Answers (Q&As) to ensure the consistent application of EMIR by promoting common supervisory approaches and practices. The Q&A document provides responses to questions posed by stakeholders and competent authorities as well as clarifies the implementation of EMIR requirements.

The first version of the Q&A document was published on 20 March 2013, a few days after the entry into force of the RTS, ESMA has issued its 11th release on 24 October 2014. This document will continue to be regularly updated with new questions and answers if needed.

Next steps

In 2015, ESMA will continue using the Q&A document as a practical convergence tool and update it, as appropriate, based on NCA' and the industry's requests for clarification.

ESMA issues Q&As on trade reporting under EMIR

In the first year of the EMIR reporting regime, there have been a number of issues that required guidance from ESMA. The majority of these resulted in a set of Q&As on reporting to TRs which has been continuously updated to cover new areas and to give response to new or existing questions in the market.

Position calculation guidance

ESMA is also working on the development of proposed guidelines for the calculation of positions by TRs. The proposal will define the common conventions, rules, and methodologies for the determination and calculation of the different data sets relevant for the accurate calculation of position, as well as the frequency of such calculations.

Opinion on voting procedures for CCP colleges under EMIR

In 2013 and 2014, CCP colleges have been formed and all colleges adopted the standard written agreement included in ESMA's Guidelines and Recommendations to establish college working arrangements. In 2014 various meetings of colleges were held in respect of a number of CCPs' applications for authorisation under EMIR and some reached the process of adopting an opinion pursuant to Article 19 of EMIR. Although the main aspects of their functioning are laid down in Article 18 of EMIR and further specified in RTS (RTS on CCP Colleges) and in the written agreement, the practical experience has shown that some elements of the voting procedure for the adoption of college opinions needed to be clarified. Especially since EMIR does not expressly address certain aspects of the voting procedure, including how to count non-voting members of a CCP College or whether abstentions are possible.

In light of the importance of the adoption of an opinion by a CCP college, and in order to ensure the efficient, effective and consistent functioning of the CCP colleges through uniform procedures and consistent approaches, ESMA has adopted an opinion on voting procedure for CCP colleges under EMIR on 28 May 2014.

Next steps

ESMA will monitor the application of this opinion in CCP colleges when a vote under Article 19 is required.

ESMA issues CCP guidance on CPSS-IOSCO Principles for Financial Market Infrastructures

In 2014, CPSS-IOSCO undertook the assessment of the EU implementation of the Principles for Financial Market Infrastructure (PFMIs) following their adoption in 2012. While EMIR and the RTS establish requirements which consistently implement the PFMI, the regulatory framework under EMIR does not always employ the same operative language as used in the PFMI. ESMA was concerned that the differences might prevent the EU from being graded as having consistently implemented the PFMI in respect of CCPs.

While the legislator and ESMA both intended for the EU regulatory framework for CCPs to consistently implement the PFMI, and competent authorities have already been applying the PFMI in their supervision of CCPs, as described in Recital 90 of EMIR, this was not currently articulated in a manner that can be referenced by CPSS-IOSCO as part of their assessment of the EU's implementation of the PFMI in respect of CCPs. Thus ESMA adopted Guidelines and Recommendations under Article 16 of the ESMA Regulation to do so.

Next steps

ESMA will monitor the consistent implementation of the Guidelines and therefore of the PFMI through its participation in CCP colleges. ESMA will also continue to be involved in CPMI-IOSCO assessments of PFMI and related responsibilities.

Corporate Finance

Objective	Work Programme Activity	Tasks	Delivery date
Convergence	4.3 Corporate Finance	Strengthen exchange of experiences and application of particularly the prospectus and transparency directive, including peer reviews and thematic studies	Ongoing, prospectus peer review by Q3 2015

Focusing on consistent application of the prospectus regime

Work to improve the consistent application of the prospectus directive rules is an ongoing focus for ESMA where it makes use of thematic studies, Questions and Answers, opinions, etc. Several groups have been dedicated to exchanging experiences and developing common approaches in the prospectus area including initiating a thematic study of the scrutiny of financial information in prospectuses.

Next steps

ESMA will continue its work to facilitate and coordinate consistent application of the prospectus regime. The thematic study is expected to be finalised by March 2015 and the results will be taken into account in the ongoing work. ESMA also expects to respond to the anticipated EC consultation paper concerning a review of the prospectus regime which is expected to be published by the end 1st quarter 2015.

ESMA facilitates regulatory dialogue on Transparency Directive implementation

ESMA established in October 2014 two fora with the aim of increasing the exchange of experiences and practices between the regulators in the transparency area as well as seeking more harmonised approaches and understanding of concepts in the transparency directive and where possible potentially influence the transposition of the amended transparency directive. The transposition deadline is 12 November 2015.

Next steps

In order to achieve further harmonised interpretations and application of the transparency directive rules it is important that all regulators are aware of each other's practices. The work is of an ongoing nature and the revision of the Questions and Answers in this area is a first priority to be finalised by the summer of 2015.

Corporate Reporting

ESMA works on issues related to financial reporting, audit, period reporting and storage of regulated information. In particular, it contributes towards the consistent application of International Financial Reporting Standards (IFRS) and building of a common supervisory culture among accounting standards enforcers throughout Europe.

Objective	Work Programme Activity	Tasks	Delivery date
Convergence	1.1 Corporate Reporting		Ongoing

ESMA inputs into the enforcement of financial reporting

In the report on the activities of the IFRS enforcers in 2014, ESMA provides an overview of all accounting-related activities of enforcers in greater detail.

Convergence of IFRS enforcement activities

In 2014, ESMA published the final Guidelines on enforcement of financial information, which entered into force on 29 December 2014 and applies to all NCAs as well as any other bodies in the EU undertaking enforcement responsibilities under the Transparency Directive.

ESMA's Guidelines constitute a key step in strengthening supervisory convergence across Europe, by reinforcing a common approach to the enforcement of financial information and coordination among European enforcers. They define objectives of the enforcement, the characteristics of the enforcers and set out the principles to be followed throughout the enforcement process, such as the selection methods, examination procedures and enforcement actions. Furthermore, the guidelines also strengthen the convergence of enforcement activities at European level by *institutionalising* European common enforcement priorities and introducing the requirement to coordinate views on accounting matters prior to taking enforcement decisions at national level. These activities take place through the European Enforcers Coordination Sessions (EECS), the forum in which European enforcers

exchange views and discuss experiences and decisions relating to the enforcement of financial reporting standards and IFRS in particular.

As in previous years, in order to promote consistent application of IFRS, ESMA, together with the NCAs, identified and published in November 2014 common financial reporting topics which they believed were particularly significant for European IFRS listed companies on the basis of the economic and market situation. Those priorities for the 2014 annual financial statements focus on:

- i) the preparation and presentation of consolidated financial statements and related disclosures;
- ii) the financial reporting by entities which have entered into joint arrangements; and
- iii) the recognition and measurement of deferred tax assets.

Next steps

Supervisory convergence work will be intensified in 2015 with the objective of strengthening it through the monitoring of the application of the guidelines on enforcement of financial information. That will be supported by continuing regular EECS meetings (8 meetings planned), publication of regular extracts, and where necessary statements and/or opinions.

In 2015, ESMA, together with EU NCAs, will continue to monitor the level of transparency of issues identified and communicated in 2014 in the common enforcement priorities or in other reviews. It will also continue to actively contribute to the development of IFRS.

ESMA plans to further reinforce its cooperation with the ECB Single Supervisory Mechanism. This will consist primarily in following up relevant issues related to the IFRS financial reporting of European banks.

ESMA reviews IFRS accounting for business combinations

In 2014, ESMA performed and published a Report evaluating the consistency of application of key requirements of IFRS 3 – *Business Combinations* and how compliant and entity-specific disclosures were in the 2012 IFRS annual financial statements of a sample of 56 issuers in the EU. Considering the significant impact that business combinations usually have on financial statements, this limited review was done in anticipation of the upturn in merger and acquisitions in 2014.

Overall, the results of the review showed that some good business combination disclosures were provided. However, ESMA identified certain areas where improvements are necessary such as descriptions of factors making up goodwill, level of aggregation of certain items of different nature, and elements related to key assumptions and measurement techniques in the valuation of certain intangible assets. In addition, ESMA has included elements for further consideration by the International Accounting Standards Board (IASB) as part of its post implementation review where additional clarification or guidance would be helpful in achieving the objectives of the standard. ESMA expects issuers and their auditors to consider the findings of this review when preparing and auditing the IFRS financial statements. ESMA contribution to the development of the IFRS

ESMA intensified its monitoring and contributions to IFRS developments. In July 2014, ESMA and the IFRS Foundation signed a Joint Statement of Protocols to serve as the basis for future co-operation in areas of mutual interest. They reaffirmed the existing high levels of cooperation between the two organisations, and described additional areas of co-operation, including electronic reporting, implementation of new standards and other emerging financial reporting issues. In 2014 ESMA sent 7 comment letters on exposure drafts issued by the IASB and 14 comments letters to the IFRS Interpretation Committee and had three bilateral meetings in which issues of IFRS application were discussed. ESMA also participates as an observer at the IFRS Advisory Council, the formal advisory body to the IASB and the Trustees of the IFRS Foundation which meets regularly to give its opinion on the technical agenda and project priorities.

As a result of the 2013 publication of the Maystadt Report – *Should IFRS standards be more European?*, mandated by the EC, the European endorsement process has undergone some changes, mainly reflected in the composition, organisation and governance of the European Financial Reporting Advisory Group (EFRAG), which provides endorsement advice on IFRS to the EC. ESMA (along with the EBA and the EIOPA) refrained from accepting membership in the EFRAG Supervisory Board. Instead, ESMA intensified its involvement in EFRAG by actively participating as an official observer in the newly established EFRAG Board as well as EFRAG Technical Expert Group (EFRAG TEG) and other related working groups where it presented its views on the enforceability of standards and shared the experiences of national



enforcers on application of IFRS in Europe. ESMA continued to actively contribute to the European endorsement process by participating as an official observer in the Accounting Regulatory Committee (ARC).

On the basis that European enforcers found strong diversity in the use of Alternative Performance Measures (APMs) in the regulated information published by issuers across Europe, ESMA decided to review the 2005 CESR Recommendation and developed draft guidelines on APMs which have been published for consultation in February 2014.

Peer Reviews

Following the implementation of a revised peer review methodology in autumn 2013, 18 onsite visits were performed in 16 different member states to support three separate reviews including two looking at separate elements of MiFID and a third on automated trading, the latter due to be concluded in 2015.

Objective	Work Programme Activity	Tasks	Delivery date
Convergence	1.2 Peer reviews	Finalisation MiFID conduct of business report	September 2014
Convergence	1.2 Peer reviews	Finalisation MiFID best execution report	December 2014

Peer reviews compliance with MiFID conduct of business rules

ESMA conducted a peer review of how NCAs supervise MiFID conduct of business rules on providing fair, clear and not misleading information to clients.

The peer review focused on NCAs' organisation, supervisory approaches, monitoring and complaints handling in relation to information and marketing communications under MiFID. It provides a thorough analysis of national supervisory practices, facilitated by ESMA's first on-site visits. The Report found that overall there was a high degree of compliance amongst NCAs with the good practices identified in many key areas. However, a variety of approaches were observed, leading to different intensity of supervision. A number of areas for improvement were identified, including:

- enhanced use of on-site inspections and thematic reviews;
- a specific focus on conduct of business issues in firms' risk assessments; and
- greater efforts to detect failings by firms in a timely manner.

The review was conducted on the basis of information provided by all NCAs, except Iceland, in a self-assessment questionnaire and complemented by on-site visits to the NCAs of Cyprus, the Czech Republic, Germany, Italy, Portugal and the United Kingdom.

The review's key findings covered the following areas:

- Ex-ante and ex-post supervision – supervisory systems are divided between ex-ante and ex-post reviews of marketing material. Within the ex-post approach there is also divergence in terms of the timeliness within which NCAs review the material following its dissemination and consider complaints made by clients of firms;
- Direct and indirect supervision – while some NCAs directly supervise firms' compliance with their obligations relating to the provision of information and marketing material to clients, others rely on annual checks performed by external auditors. The latter approach may make it difficult to detect failings by firms in a timely manner due to the successive sampling process employed by auditors and then the NCAs concerned;
- Complaints and Sanctions – a low level of complaints and equally low level of sanctions are reported by NCAs in the area of information and marketing to clients; and
- Definition of information and marketing communication – There is no precise definition of the term marketing communication in EU law: this would need to be further defined in order to build effective convergence of supervisory practices.

The report identifies a number of areas for future work by NCAs and ESMA which would promote a more coherent cross-EU application of the requirements. These include:

- establishing more robust structures and efficient coordination and cooperation arrangements between different supervisory units within NCAs;
- defining a clear set of information and marketing material to be supervised;
- assessing the frequency of NCAs' monitoring of investor information and marketing;
- assessing the adequacy of monitoring the distribution channels used by firms including in the cross border provision of services;
- requiring investment firms to submit to their NCAs details of all information and marketing material to be provided including material used for cross-border business;
- considering the use of integrated databases to assist in supervision of information and marketing to clients;
- assessing the frequency and consistency of the use of sanctions by NCAs; and
- assessing the implementation and effectiveness of the guidelines for complaints-handling for the securities (ESMA) and banking (EBA) sectors.

The report includes a number of recommendations which national regulators should consider when reviewing their practices in this area. In addition, ESMA should continue its efforts, including the use of Opinions, in promoting the development of a level-playing field regarding the provision of information in an understandable format to clients and the quality of service to clients.

In order to address this situation a number of areas for improvement were identified, including:

- prioritisation of best execution as a key conduct of business supervisory issue;
- the allocation of sufficient resources to best execution supervision; and
- a more proactive supervisory approach to monitoring compliance with best execution requirements through both desk-based and onsite inspections.

The review was conducted on the basis of information provided by NCAs in a self-assessment questionnaire and complemented by on-site visits to the NCAs of France, Liechtenstein, Luxembourg, Malta, Poland and Spain.

The key findings of the review are that:

- supervision is often limited to verifying whether an execution policy exists rather than interrogating the arrangements and methods by which firms evaluate the quality of orders executed;
- best execution is often viewed in terms of best price alone, and not with regard to the analysis of other execution factors such as cost, speed, likelihood of execution and settlement, order size etc.;
- execution venues included in firm policies tend to be highly concentrated in the main domestic market;
- oversight of best execution is usually just a component of the supervision of general conduct of business issues; and
- monitoring of best execution of non-equity and less liquid markets is (largely) absent.

The report identifies a number of areas for future work by NCAs and ESMA which could promote a more coherent cross-EU implementation, supervision and enforcement of the rules on best execution. These include:

- Providing guidance for the national implementation of MiFID rules concerning best execution, in order to ensure a common understanding on the scope of the obligations under the rules;
- Assessing the adequacy of internal resources devoted by NCAs to the supervision of best execution;
- Assessing the frequency and intensity of NCAs' active monitoring in the area of best execution, including a combination of desk-based and onsite reviews, using a variety of information sources and encompassing all aspects of best execution;
- Providing guidance to ensure NCAs develop clear internal processes or practices identifying the assessment criteria to be used when a firm has only one execution venue listed in its execution policy for a particular type of financial instrument;
- Assessing whether specific obstacles exist to the development of alternative execution venues; and
- Assessing the use of sanctions to ensure a credible deterrent effect against future breaches.

ESMA reviews compliance with Short-Selling Regulation, MiFID suitability requirements and the approval process of prospectuses

In autumn 2014, ESMA started a targeted peer review to assess the effectiveness of supervisory practices put in place in order to comply with the provisions of Article 17 of the Short Selling Regulation (SSR), in the light of section VIII (General principles and qualifying criteria of eligibility for the exemption), and section IX (Exemption process ⁽¹⁾) and X (Transitory measures) of the Guidelines. The review will focus on markets with the highest number of Market Makers benefitting from the exemption and markets in which Market Makers have notified the highest number of instruments.

The Peer Review will assess whether the handling of notifications is being done in a consistent manner and identify possible cases of non-compliance with the Guidelines provisions in the scope of this review and/or underlying provisions of the SSR Regulation.

A peer review on the compliance with MiFID as regards suitability requirements was launched shortly before the end of the year. It will consider how the EEA NCAs undertake their tasks with regard to the supervision and enforcement of the MiFID suitability requirements when investment advice is provided to retail clients. The assessment will focus on NCAs monitoring of firms' approaches to identifying situations where investment advice is being provided and an NCA's approaches to the oversight of firms' consistent application of the relevant suitability provisions, including ESMA suitability guidelines.

Last, in December 2014, the Board of Supervisors approved a mandate for conducting a targeted peer review to assess the efficiency of the prospectus approval process.

ESMA provides guidelines and recommendations to NCAs and financial market participants

In 2014, ESMA issued seven sets of guidelines and recommendations addressed to NCAs and financial market participants. This brought the total number of guidelines and recommendations issued by ESMA to 22.

Throughout the course of the year, these guidelines and recommendations increased consistent, efficient and effective supervisory practices within the ESFS, as well as the common, uniform and consistent application of EU law. They targeted areas where ESMA identified priorities for reducing divergent application amongst the different competent authorities. Amongst other convergence effects, they increased transparency of the practices of competent authorities and market participants.

NCAs to whom guidelines and recommendations apply must inform ESMA whether they comply or intend to comply with them, with ESMA publishing compliance tables listing the NCAs compliance positions for each guidelines and recommendation issued.

⁽¹⁾ The paragraphs in section IX related to Specific situation of emergency measures and to Cooperation between competent authorities will be omitted as they do not relate specifically to the application of the principles of section VIII.

The Board of Supervisors decides, on the issuance of guidelines and recommendations by ESMA, enabling common positions to be taken by NCAs to the application of Union law. Nonetheless, with 28 Member States and sometimes multiple competent authorities in each Member State, in a small minority of cases, not all competent authorities were in compliance with ESMA's guidelines and recommendations.

ESMA intends to continue its convergence work to ensure that any non-compliant authorities comply in the future with the guidelines and recommendations that it has issued. It will achieve this through a combination of activities, including conducting and publishing the results of peer reviews in selected subject matters as well as by continuing its assessments of whether any non-compliance merits an investigation by ESMA into a potential breach of Union law or the initiation of infringement proceedings by the EC. During the course of 2014 ESMA issued Guidelines and Recommendations (already reported earlier on in this section) on the following issues:

- Cooperation and information exchange between NCAs and between NCAs and ESMA;
- ETFs and UCITS issues;
- AIFMD Reporting Obligations;
- Complaints handling for securities and banking sectors (Joint Committee);
- Implementation of CPSS-IOSCO Principles for FMI's;
- Guidelines on enforcement of financial information;
- Supervisory arrangements for financial conglomerates (Joint Committee);

Joint Committee of the ESAs

In 2014 the Joint Committee continued its work as a forum for cross-sector coordination and exchange of information between the ESAs. Under the chairmanship of EBA, the Joint Committee focused in particular on the subjects of cross-sector risks, including conduct of business risk, and on consumer protection.

ESAs analyse cross-sector risks

In the context of its work on cross-sector risks, the Joint Committee produced two joint reports focused on identification of key cross-sector risks and vulnerabilities in the EU financial system, which were submitted to the March and September meetings of the Economic and Financial Committee of the Council (EFC-FST) and the ESRB, as well as subsequently published on the ESAs' websites. The key risks identified included prolonged weak economic growth in an environment characterised by high indebtedness, intensified search for yield in a protracted low interest rate environment, and uncertainties in emerging market economies - all reflected in the methodologies applied in the 2014 stress test exercises for banks and insurance companies. In addition, the Joint Committee started to work on the topic of conduct of business risk and IT/cyber risks which have become ever more prominent in 2014.

The Joint Committee's Risk Sub Committee started analysing conduct of business risk, including operational and governance issues, identifying possible common EU policy responses and level playing field issues, including on sanctioning and enforcement as well as other applicable supervisory actions.

ESAs promote consumer protection

In the area of consumer protection, the work conducted has focused around the major regulatory mandate on Packaged Retail Investment and Insurance-based products (PRIIPs), for which the main deliverables are expected to be finalised in 2015 and 2016. As a first major step in their work, the Joint Committee published in November 2014 a Discussion Paper on Key Information Documents (KIDs) designed to help retail investors in the EU better understand and compare PRIIPs across the EU. In addition, three other major products were finalised:

- i) the common Guidelines on complaints handling, enabling EU consumers to refer to a single set of complaints handling arrangements, irrespective of the type of product or service or the geographical location of the firm in question;
- ii) a reminder to financial institutions regarding placements of own instruments with retail customers, reminding financial institutions across the EU about their responsibility to comply with rules governing conflicts of interest, remuneration, provision of advice and suitability and appropriateness of products; and
- iii) common principles on product oversight and governance.

In addition, a Consultation Paper on draft Guidelines on Cross-Selling practices was published on 22 December 2014, work that is to be continued in 2015. These guidelines propose a coherent and effective approach to supervising firms that offer cross-selling options, in order to enhance the protection of EU consumers.

ESAs work on supervision of financial conglomerates

With regard to financial conglomerates, the Joint Committee published on 22 December 2014 the Joint Guidelines on the consistency of supervisory practices for financial conglomerates, developed in accordance with Article 11(1) of the Financial Conglomerates Directive (Directive 2002/87/EC). These first Guidelines developed jointly by the ESAs aim at clarifying and enhancing the cooperation between NCAs in order to achieve a supplementary level of supervision of financial conglomerates. The areas covered by these Joint Guidelines include in particular the mapping of the financial conglomerate structure and written agreements; the coordination of information exchange, supervisory planning and coordination of supervisory activities in going concern and emergency situations; the supervisory assessment of financial conglomerates; and other decision-making processes among the competent authorities.

Moreover, the Joint Committee submitted to the EC on 18 December 2014 a joint draft RTS on risk concentration and intra-group transactions, in accordance with the Joint Committee's mandate under Article 21a (1a) of the Financial Conglomerates Directive. The draft RTS aim at clarifying which risk concentration and intra-group transactions shall be considered as significant. They provide clarification on what coordinators and other relevant competent authorities shall take into account when defining thresholds, periods for reporting and monitoring significant risk concentration and intra-group transactions, and provide a list of supervisory measures to be taken into account.

In addition, the Joint Committee published its updated 2014 list of identified Financial Conglomerates in October 2014. The list shows 71 financial conglomerates with the head of group in an EU/EEA country, one with the head of group in Australia, two with the head of the group in Switzerland, and two with the head of group in the United States.

ESAs survey on anti-money laundering

With regard to anti-money laundering and the financing of terrorism, the Joint Committee submitted a Report on Reasonable grounds to the EC in April 2014, containing a micro-survey on Member States' supervisory practices regarding agents of payment institutions authorised in other Member States. The report investigates the circumstances that could be regarded as *reasonable grounds* for host supervisory authorities to reject the registration of an agent or the establishment of a branch and what practical constraints Member States have experienced in that respect. Moreover, the Joint Committee continued to work on the preparation of the regulatory mandates required by the envisaged revision to the Anti-Money Laundering Directive (4AMLD).

ESAs create securitisation task force

On the topic of securitisation, the Joint Committee, through the established Task Force on securitisation, started work to identify any inconsistencies of the existing Level 1 and Level 2 due diligence, disclosure and reporting requirements concerning structured finance instruments. The Joint Committee Task Force is expected to develop a report on the inconsistencies found and possible solutions addressing such inconsistencies in the first half of 2015.

ESAs map ECAIs' credit assessments

The ESAs have also continued to work on developing the ESAs' joint draft Implementing Technical Standards (ITS) on the mapping of External Credit Assessment Institutions (ECAIs)' credit assessments (under Article 136(1) and (3) of CRR Regulation). The draft ITS aim to specify for all ECAIs the correspondence (mapping) between risk weights and credit assessments (via credit quality steps) as well as the factors and benchmarks. A Consultation Paper on the draft ITS was published in February 2014 and was followed by an addendum including a number of mapping reports published in October 2014. The draft ITS are planned to be submitted to the EC by mid-2015.

ESAs work on reducing over-reliance on credit ratings

In accordance with the Credit Rating Agencies Regulation (CRA 3), the ESAs, through their Joint Task Force, have reviewed all their existing guidelines and recommendations in order to identify, and where appropriate remove, references to external credit ratings that could trigger sole or mechanistic reliance on such ratings. Of the three ESAs, only ESMA identified a Guideline, on Money Market Funds, that should be subject to changes. The final report of the Task Force, published in February 2014, contains a definition aimed at harmonising the different interpretations of *sole and mechanistic reliance* in the ESAs regulations and guidelines, and includes the amendments to ESMA's Guidelines on Money Market Funds according to the definition provided.

From February 2014, the Task Force has worked on the finalisation of so-called *Jumbo* Guidelines which aim to identify general principles on contractual reliance on ratings by financial intermediaries. In this context, a Discussion Paper was published in December 2014, focusing on the degree of contractual reliance on credit ratings by competent authorities and on their recourse to alternative means of creditworthiness assessments.

ESAs look into benchmark setting

Regarding benchmark setting, the ESAs continued to monitor the implementation of the EBA-ESMA recommendations addressed to Euribor-EBF in January 2013 and published a report on the review of the implementation of these recommendations in February 2014. The FSB's Official Sector Steering Group (OSSG) finalised its report¹ on recommendations for the reform of major interest rate benchmarks, including Euribor, their further anchoring in transactions and the identification of alternative benchmarks and transitions, based on the analysis of the Market Participant Group. The EBA and ESMA participated in this work, as well as an IOSCO review of EURIBOR, LIBOR and TIBOR against the IOSCO Principles for Financial Benchmarks, which was published together with the FSB report.

ESAs work on acquisitions and increases of holdings in the financial sector

The EC issued, in February 2013, its report on the Directive on acquisitions and increase of holdings in the financial sector (2007/44/EC) which has identified some shortcomings in the application of the Directive and requested the ESAs to review their 2008 Guidelines so as to ensure a common, uniform and consistent application of the Directive. As a follow up to the Commission's request, the Joint Committee established a Task Force to review and update the 2008 Guidelines. The Joint Committee plans to consult on the revised Guidelines in spring 2015.

Authorities follow up the review of the European System of Financial Supervision

The Joint Committee published a revised version of its Rules of Procedure in December 2014, following the publication of the EC's report on the review of the European System of Financial Supervision (ESFS) in August 2014, taking into account the recommendations made in the ESFS report.

Board of Appeal of the ESAs

The ESAs continued to provide operational and secretarial support to the Board of Appeal. The Board of Appeal worked and decided on two appeal cases in 2014 and finalised one appeal case lodged in 2013.

¹ http://www.financialstabilityboard.org/wp-content/uploads/r_140722.pdf?page_moved=1

The ESA Training Programme 2014

In 2014, with the objective of further developing a common supervisory culture, the ESAs offered in total five cross-sectoral trainings in Paris, Vilnius, Malta and Berlin. In consultation with NCAs, the ESAs identified priority topics on which a training programme for 2014 was based.

Objective	Work Programme Activity	Tasks	Delivery date
Convergence	1.3 Training	Regulatory and supervisory training (including E-learning) and staff exchange fostering convergence	permanent

The cross-sectoral training programme delivered in 2014 included the following training activities:

TECHNICAL TRAINING						
No.	Name of training activity	Date	Location	Leading ESA	Host	Number of participants
1	Rating lifecycle and Reduction of reliance on ratings	20 - 21 March 2014	Paris	ESMA	ESMA	38
2	Joint Committee seminar on Corporate Governance	1 April 2014	Paris	ESMA	ESMA	57
3	Crisis Prevention, Management and Resolution	15 - 16 May 2014	Vilnius	EIOPA	BoL	50
4	Regulatory Impact Assessment	6 - 7 October 2014	Malta	EIOPA	MFSA	37
5	Colleges of Supervisors - an introduction	27-28 November 2014	Berlin	EIOPA	Bafin/ESE	49
Total						231

As in 2013, in 2014, given budgetary constraints of Member States, financial support was provided to NCAs which might otherwise not have been able to attend trainings. This ensured a more equal representation at joint ESA and sectoral trainings.

Establishing the ESA Training Programme 2015

The ESA sectoral and cross-sectoral Training Programme 2015 has been devised based on suggestions for training proposals from NCA responses to the Training Need Assessment Questionnaire 2014, following the circulation of an online survey to all NCAs in July 2014.

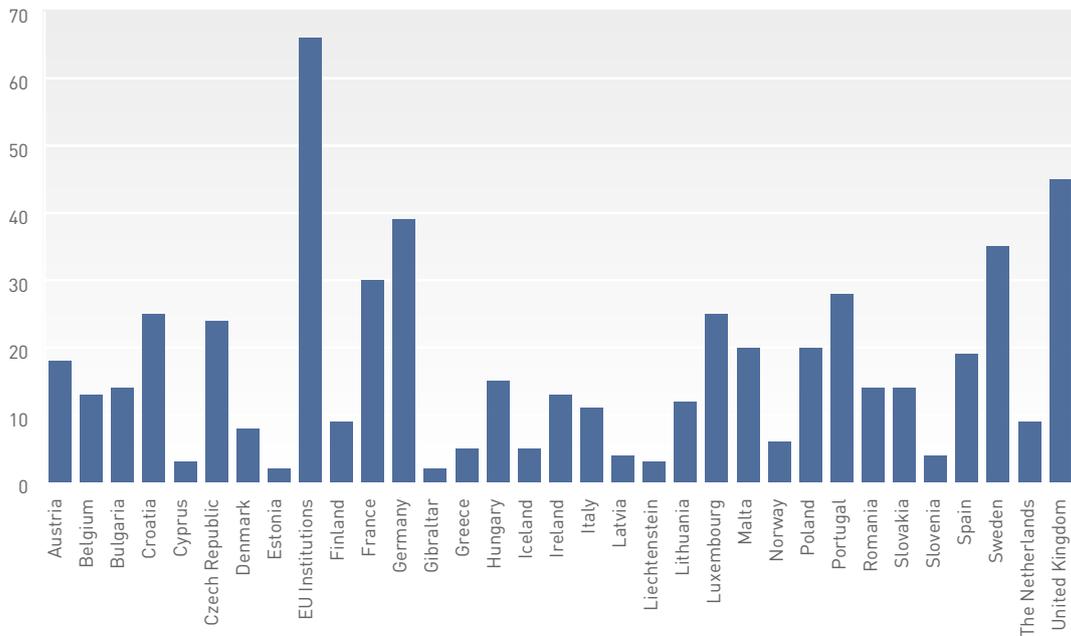
The ESMA Sectoral Training Programme 2014

ESMA planned 22 sectoral seminars for 2014 and with the co-operation of the NCAs managed to organise 21 courses (one course was cancelled due to low interest).

	Title	Date	Location	Number of participants
SECTORAL SEMINARS				
1	EMIR reporting	23 June	ESMA, Paris	30
2	AIFMD register	24 June	ESMA, Paris	32
3	Seminar on Short selling	25 June	CMVM, Lisbon	32
4	Prospectus review process	17 September	Finansinspektionen Stockholm	38
5	UCITS	23 September	ATVP, Ljubljana	30
6	ERA CRA Conference	23-24 October	ESMA, Paris	45
7	Working with ESMA	28 October	FCA, London	38
8	IAMAN/SECEX	4 November	ESMA, Paris	21
9	EMIR	28 November	ESMA, Paris	89
10	AIFMD	9 December	CSSF, Luxembourg	31
11	MiFID	11-12 December	ESMA, Paris	45
TECHNICAL-SKILL COURSES				
12	On-site supervision	22-23 January	HANFA, Zagreb	20
13	English of the European Law	10 March	NBS, Bratislava	12
14	Advanced on-site supervision	28-29 April	MFSA, Malta	12
15	Introduction to EU Law and Overview of the Financial Markets Regulation and Supervision	15-16 May	FMA, Vienna	38
16	Train the trainers - occasional trainers	12-13 May	ESMA, Paris	7
17	Advanced on-site supervision	17-18 September	Bank of Lithuania, Vilnius	11
18	English of the European Law	2 October	ESMA, Paris	12
18	Train the trainers - training organisers 1	28 October	ESMA, Paris	4
20	Train the trainers - training organisers 2	29 October	ESMA, Paris	4
21	English of the European Law	28 October	ESMA, Paris	12
Total				563

The average number of participants per seminar increased from 24 (2013) to 28 (2014) and they came from all member states of the European Economic Area.

Number of participants per country



The ESMA E-learning catalogue

Beside the classroom training events, ESMA continued to offer e-learning to the National Competent Authorities. The e-learning catalogue covers about 60 courses with almost 500 tutorials. Of the 400 users, 240 used the e-learning catalogue in 2014, together spending almost 1,500 hours and finishing 709 tutorials.

Next steps

In 2015 ESMA will continue to offer an e-learning catalogue to National Competent Authorities, although budget constraints mean that it will no longer be able to offer seminars in 2015.

International Activities

As an organisation responsible for the development of regulations affecting the EU's financial markets and for the supervision of key market participants, ESMA is closely involved in cooperating with its regulatory counterparts in third country jurisdictions and in international organisations such as IOSCO.

Objective	Work Programme Activity	Tasks	Delivery date
Convergence	1.5 International Cooperation	External relations and cooperation with 3rd country regulators and international organisations	Ongoing



Markets – Post Trading

ESMA maintains an active dialogue with third-country authorities responsible for regulating post-trading market infrastructures and derivatives markets.

In 2014, ESMA, together with the EC, has worked within the OTC Derivatives Regulators Group (ODRG). The main focus has been to identify gaps and inconsistencies on the rules implementing the G20 commitments and ways to address them.

Following ESMA's initiative, in 2014 the mandate of the OTC Derivatives Regulators Forum (ODRF) was amended to focus on efficient and effective communication, continued cooperation and multilateral engagement in helping each authority make efficient use of and improve its access procedures to data held in Trade Repositories.

ESMA has also actively contributed to the work of the following international fora, including:

- CPMI-IOSCO, contributed to the report on recovery of financial markets infrastructures and on the assessment of the PFMI in different jurisdictions;
- IOSCO fora dealing with the preparation of Risk Mitigation Standards for Non-centrally Cleared OTC Derivatives;
- LEI Regulatory Oversight Committee and Executive Committee, where ESMA contributed to the establishment and increased use of an interim system for the issuance and use of LEI and to its gradual transition to the Global LEI System; and
- FSB Peer Review on OTC Derivatives Trade Reporting which is expected to deliver its findings in 2015.

Trade Repository cooperation

Under EMIR, ESMA may establish international cooperation arrangements for access to data held in TRs. EMIR distinguishes between two types of international cooperation arrangements for access to data. First, Article 76 of EMIR provides that relevant authorities of third countries that do not have any TR established in their jurisdiction may establish cooperation arrangements with ESMA with a view to accessing information on derivatives contracts held in EU TRs. Second, under Article 75 of EMIR, an international agreement regarding mutual access to TR data can be entered into, under certain specific conditions (including a declaration of equivalence by the EC), between the EU and the relevant third countries where a TR is established. Following the signature of such an international agreement, cooperation arrangements between ESMA and the relevant third countries authorities can be established in order to specify the mechanisms for the exchange of information about TR data.

In this respect under the first provision above, available under Article 76, ESMA and the Australian Securities and Investments Commission (ASIC) concluded a Memorandum of Understanding in November 2014 allowing ASIC access to data on derivatives contracts held in European TRs which is relevant for its supervisory tasks.

A number of similar MoUs are under discussion with third country authorities and some should be finalised soon.

Credit Rating Agencies

ESMA continues to contribute to the increased harmonisation of the supervision of CRAs at international level through its work with IOSCO. During 2014, CRA focused efforts have mainly related to the revision of the Code of Conduct for CRAs (the IOSCO Code) and developing and maintaining a dialogue with third country supervisory authorities through IOSCO's Committee 6.

Next steps

ESMA will continue to cooperate at international level regarding the revision of the Code of Conduct for CRAs (the IOSCO Code). Additional work will be conducted on ancillary services/non-rating products provided by CRAs



3 • ESMA organisation

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3. ESMA organisation

Day-to-day Management

The Executive Director and the Heads of Unit/Division are responsible for ESMA's day-to-day management. ESMA has six Units/Divisions. The Heads are responsible for the activities in their respective business areas. ESMA has introduced team leader positions in a number of areas to assist the Heads and coordinate work within the Units/Divisions. ESMA's decision taking bodies, the Management and the Board of Supervisors, are further detailed on pp. x, chapter 1.

ESMA's management meets on a weekly basis. They discuss ESMA's activities and follow up and agree cross-ESMA issues and solutions. Planning activities are a crucial part of the management and internal control system of ESMA. An Annual Work Programme is adopted every year in September for the following year by the Board of Supervisors. A multi-annual staff policy plan is also in place. The Work Programme is monitored internally throughout the course of the year, with progress on its implementation being reported to the Management Board on a quarterly basis.

A comprehensive set of reports on key administrative activities such as recruitment and budget execution is provided monthly to the Executive Director and quarterly to the Management Board.

Management and internal control systems

Internal control standards

On 5 November 2012, ESMA's Management Board adopted the Authority's Internal Control Framework. The Framework covers 16 Internal Control Standards which are essential in defining the internal control framework, foster clear management accountability and ensure oversight of the internal control system by the Management Board.

The Internal Control Standards specify the necessary expectations and requirements needed to build an effective system of internal control that could provide reasonable assurance about the achievement of the ESMA objectives. These control standards were developed along the lines of the EC's Internal Control Standards, which are based on the international COSO standards.

The standards cover the areas of mission and values, human resources, planning and risk management processes, operations and control activities, information and financial reporting, and evaluation and audit. Each Internal Control Standard is made up of a number of requirements to be met.

Ethics and conflicts of interests

A Code of good administrative behaviour with general rules when dealing with the public and a Decision on professional secrecy were adopted in 2011 and staff are expected to act in accordance with these. Together with the Staff Regulations, they provide a practical guide on ethical conduct and reporting of irregularities.

In order to promote and strengthen the principles and practice of ethics and organisational values among its staff, ESMA has designated two staff members as Ethics Officer and Deputy Ethics Officer. This allows for the development of strong in-house expertise and prompt response and reaction to ethics issues. This process has been recognised as a best practice/strength by the Internal Audit Service of the Commission.

An Intranet page on Ethics and Integrity is in place since 2013 to give staff members a clear indication of what to do, or whom to ask when confronted with potential conflicts of interest.

At the practical level, the ESMA Ethics Guide, adopted in 2012, serves as a rulebook for all staff within the Authority. It provides clear guidance on conflicts of interest and contact with stakeholders among others. All staff members are required to fill an annual declaration regarding potential conflicts of interest and are bound to request clearance for dealing in financial instruments. Specific measures for avoiding conflicts of interest are taken during recruitment procedures and procurement selection panels.

In 2014, ESMA developed, jointly with EBA and EIOPA, a policy on conflicts of interest for non-staff, including the members of the Board of Supervisors, Management Board and Board of Appeal. The policy was developed using the recommendations from the European Court of Auditors Report 15/2012, the conclusions of the workshop on *Better avoidance of conflict of interest* organised by the European Parliament in February 2013, as well as the draft guidelines for Common Approach on decentralised EU agencies received via the Inter Agency Legal Network. In light of the non-staff conflict of interest policy, ESMA has also started to turn the Ethics Guide into a conflict of interest policy for staff.

Concerning the collaboration with the European Antifraud Office (OLAF), and according to Article 22 of the Council Regulation establishing ESMA, the Management Board approved in January 2011 a decision concerning the terms and conditions for internal investigations in relation to the prevention of fraud, corruption and any illegal activity detrimental to the Union's interest. ESMA is also part of the Inter-institutional Agreement of 25 May 1999 concerning internal investigations by OLAF.

In 2014, ESMA developed, in close cooperation with EBA and EIOPA, the ESMA Anti-Fraud Strategy 2015-2017, whose implementation will enhance ESMA's capabilities in preventing, detecting, investigating and sanctioning potential fraud cases.

Next steps

ESMA will implement the policy on conflicts of interest for non-staff in Q1 2015, and will adopt the new conflict of interest policy for staff (based on the existing Ethics Guide).

ESMA will start the implementation of the Anti-Fraud strategy in 2015.

Staff allocation and development

The allocation and recruitment of staff is based on the Authority's Establishment Plan and Multi-annual Staff Policy Plan.

ESMA has started to adopt the reviewed Implementing Rules under the new Staff Regulations. The Authority reviewed in 2014 the recruitment policy and recruitment guidelines outlining the various steps in the recruitment process and introducing some recommendations from audit reviews. There is also a comprehensive policy for the induction of newcomers, consisting of basic training and welcome packs. Moreover, ESMA has rules on internal mobility and performs an yearly analysis on its staff turnover.

In 2014, the Authority carried out its annual appraisals of staff in line with its Performance Appraisal Policy and performed the second reclassification of staff, including the establishment of a Joint Reclassification Committee. Mandatory training to all staff with management responsibilities was setup.

Staff development is important to ESMA, and a comprehensive set of policies, including a Training and Development Policy, a Mentoring Scheme and a Policy on Third Language support this aim.

Planning

ESMA continued developing the Multi-Annual Work Programme covering the period 2013-2015, which details the main activities and priorities and the corresponding deliverables.

The ESMA Annual Work Programme outlines the key activities of the Authority as they are planned to take place during the year, including, where necessary, new fields of activities where capacity building continues. The Annual Work Programme provides a breakdown of the overall activities into individual tasks. In addition to the Annual Work Programme, ESMA also publishes annually a Regulatory Work Programme that outlines the regulatory and policy deliverables and a Supervisory Work Programme..

The Work Programme also includes estimation of human (full time equivalents) and financial (budgetary expenditure) resources per area of activity as well as key performance indicators.

In 2014, ESMA introduced elements of Activity Based Planning and Budgeting to support the annual planning process.

Next steps

ESMA will further develop SMART ⁽¹⁾ objectives and RACER indicators to support annual planning as well as monitoring and follow-up of plan implementation.

Risk management

In order to ensure identification and assessment of potential risks in the annual planning phase that could negatively influence the achievement of ESMA's objectives and effective execution of activities, in 2013 ESMA adopted Risk Management Guidelines, aiming at giving guidance on how to analyse and evaluate risks, decide upon and implement further actions and controls to terminate or mitigate the risks. In addition, risk management training was organised in 2013 for ESMA's management.

ESMA conducted its 2014 corporate risk assessment exercise, including both a bottom up and a top down exercise, with senior and middle management. The result was a risk register and an action plan with assigned responsibilities and set deadlines, which was embedded in the Annual Work Programme. Risks were categorised according to their significance and actions are taken to reduce them to an acceptable risk level for ESMA.

Information Technology

Objective	Work Programme Activity	Tasks	Delivery date
Operational set-up	6.4 EU IT Projects	IT architecture and infrastructure management	permanent
		Management of IT projects	permanent

ESMA has robust Information Technology governance in place. The IT projects that are carried out together with the national authorities are overseen by a Standing Committee and/or by the ITMG, which report to the Board of Supervisors.

The provision of pan-EU IT systems is a key activity of ESMA and that is reflected in its budget. In 2014, approximately €5.6m (or 17% of ESMA's budget) was allocated to IT projects, of which €2m maintained existing systems and €3.6m was spent on developing systems.

⁽¹⁾ Specific, Measurable, Attainable, Relevant, and Time based.

2 Relevant, discussed and Accepted, Credible, Easy and Robust against manipulation

At the end of 2014 there were 10 applications under development:

Project Code	Brief service description
CRA3T	Central Repository for Credit Rating Agencies Transparency 3. This application supports ESMA's capability of making the performance of CRA's transparent according to the EU Regulation CRA3.
SECEX	Secure Exchange of Documents. A highly secure document vault for exchanging sensitive documents between ESMA and its stakeholders
DIFEA	Data Integration and Analytics provides a central access point for commercial and regulatory data sources, and data analytics and reporting tools.
AIFMD	Database on Alternative Investment Fund Managers for use by competent authorities.
SEFVC	Social Entrepreneurship Funds Managers & Venture Capital Fund Managers databases.
MIFES	ESMA Registers system supports ESMA's capability to enforce transparency of market data as collected by local regulators by publishing it on a web portal. This project is about the publication of 5 new data sets: Shares, Regulated Markets, Multilateral Trading Facilities, Central Counterparties and Systematic Internalisers.
SSEXS	Short Selling Register of Exempted Shares. This application supports ESMA's capability to guide and verify National Regulators' compliance with regulation.
IAMAN	Identity and Access Management. A system to integrate the identity and access management of all ESMA systems.
DOCUM	Document Management System. A system to allow ESMA to improve its document management capability.
EMIRN	Intragroup transaction exemptions from the clearing obligation and exchange of collateral under EMIR regulation.



In addition to these projects ESMA has already developed and maintains the following systems:

Name of service	Brief service description
Intranet	ESMA's intranet, supporting the publishing of information to ESMA staff.
ESMA's website (WEBST)	ESMA's website supporting the publication of information to the public.
CEREP	Central Repository for Credit Rating Agencies Transparency. This application supports ESMA in making the performance of CRAs transparent.
SOCRA	A business intelligence application that supports ESMA to supervise the reporting of CRAs.
FDMSF	Financial Data Management Soft Finance client / server application.
HFTRA	The High Frequency Trading database enables research by ESMA staff on financial stability and internal reporting.
EECSO	Database on decisions taken by European Enforcers Co-ordination Sessions.
REGST	The Registers platform supports ESMA to enforce transparency of market data as collected by local regulators by publishing it on a web portal.
ESMAP	Market Abuse Centralised Database supports ESMA to exchange information between National Regulators regarding enforcement of compliance with regulation.
MIFDA	Markets in Financial Instruments Directive Database
RDSYS	Golden source of ESMA reference data including financial instruments admitted to trading on EU regulated markets and ISO codes.
SARIS	Suspension and Removal Information System. Notification of suspension and removal of financial instruments from trading among NCAs.
SSREP	Short Selling Reporting: quarterly reporting of aggregated net short positions from NCAs to ESMA.
TREMM	Transaction Reporting Exchange Mechanism.

As ESMA's IT systems grew it has become important to develop an IT strategy which, along with a new programme management approach to multi-annual IT planning and the adoption of PM2 project methodology has given added structure to how ESMA prioritises and manages the systems it is required to develop. This was complemented on the technical side by signing a new contract for the hosting of our data centres. All ESMA's systems were successfully moved to the new data centre in the summer of 2014.

Next steps

In 2015 ESMA will work on projects across three IT programmes: projects related to CRA supervision, projects related to MiFIR, and projects related to improving ESMA's corporate capacity and security. In addition, some National Competent Authorities have delegated two IT projects to ESMA: MiFIR instruments reference data and a logical portal for Trade Repositories. These projects are funded separately from the main part of ESMA's budget by the concerned NCAs.

Organisational Support

Objective	Work Programme Activity	Tasks	Delivery date
Operational set-up	6.4 Organisational support	Finance and Procurement support	permanent
		HR support	permanent
		ICT support	permanent
		Logistical support	permanent
		Work programme coordination	permanent
		ABB/planning/zero-based budget	Q4 2014
		Project on security	Q3 2014

Securing our data and premises

From 1 October 2014 ESMA put the focus on security, adopting a group of security policies that address the following core principles:

- security of information,
- asset management,
- human resources security,
- physical and environmental security,
- communications and operations management,
- access control,
- information systems acquisition, development and maintenance,
- information security incident management,
- business continuity management, and
- compliance.

The requirements of the security policies will be incorporated into ESMA's operating procedures and contractual agreements and a security governance structure has been created focussed on an internal Security Committee.

In line with the security policies ESMA developed a procedure on the handling of classified documents which is a first step in building a secure organisation. Classifying data is the process of categorising data assets based on nominal values according to its confidentiality (e.g. impact of applicable laws and regulations). In this process, data and information assets are classified according to the risk of unauthorised disclosure (e.g. lost or stolen). Data classification allows security resources to be allocated in a more efficient way by prioritising the protection of documents with higher classification levels.

The security of ESMA's premises and staff was also improved with the instigation of a health and safety campaign, improved fire evacuation plan and first aid training.

Next steps

ESMA will continue to work on security both in its premises and on its IT systems, ensuring compliance with security rules. This project is planned to continue into 2015 with further improvements to security policies and the implementation of a corporate Document Management System for some workflows.

ESMA's internal processes improved

2014 was a year of perfecting our processes following a fast set-up period between 2011 and 2013. Both the Financial Regulation of the European Union and the EU Staff Regulations changed, impacting upon ESMA's processes and necessitating the adopting of new implementing rules, policies and procedures. The change was also used as an opportunity to gain efficiency in processes, such as improvements to the way ESMA procures its contracts that led to 100% fulfilment of our procurement plan, or improvements to our recruitment processes and further developments on our HR system.

This emphasis on process made itself felt in other areas of ESMA's support functions. The project to define an activity based costing model was begun in 2014 and will continue into 2015; this is important to provide transparency about how much our different activities cost. ESMA also outsourced some Facility Management services, such as building management, catering, staff travel and postal services with the aim of ensuring expertise and continuity of service, while ensuring budgetary efficiencies.

On 15 October ESMA began a new secure recycling contract to ensure that it disposes of its waste sustainably. Recycling of paper, cans and plastic bottles is now possible in this first wave of recycling and was accompanied by an information campaign aimed at ESMA staff to increase awareness of "thinking green". In addition to allowing ESMA to reduce its carbon footprint, the paper waste collectors are secured and all ESMA's paper files can now be disposed of in a secure manner.

Finally ESMA took part, along with 22 other EU agencies, in a staff engagement survey that will now be completed at regular intervals and should allow for monitoring the internal trend as well as some benchmarking across agencies.

Next steps

Now that processes are mature, 2015 will be a time to concentrate on automatisisation. Deploying e-workflows for certain processes will improve efficiency, security and, by using less paper, save on physical storage space. Recycling will also be extended to cover old and obsolete IT equipment and furniture.

Operations and control activities

The current organisation of ESMA aims at optimising the way the Authority can deliver on the tasks delegated to it through the Founding Regulation.

In 2014 the delegation structure was reviewed and additional delegations were introduced. The Executive Director, as the Authorising Officer (AO), delegated financial responsibility to Heads of Units/Divisions and Team Leaders up to limited amounts for the budget lines for which they are responsible. In order to enhance the planning and follow up operational owners were established for each budget line and regular budget reviews took place in 2014

For the 2014 expenditure, the AODs signed a Declaration of Assurance to the AO, similar to the one signed by the AO herself, for the area for which they have been delegated responsibility.

For coordination and decision-making, the senior and middle management of the Authority meets weekly in a policy and strategy meeting that focuses on operational tasks. A management meeting to discuss administrative issues and ensures consistency across internal functions is also organised on a bi-weekly basis. In addition, a monthly administration meeting is organised where a comprehensive set of reports on key activities such as recruitment and budget execution is provided to the Executive Director.

The reporting on the implementation of the ESMA Work Programme, notably the progress of the different tasks with expected products and timelines, achievements and risks, is organised on a quarterly basis to prepare the reporting to the Management Board.

The resulting Management Board Activity Report serves as one of the most important tools for regular management reporting. The report covers key areas such as progress against the Annual Work Programme per area, budget implementation, and HR. In addition, the reporting package is supported by supplementary reports when needed e.g. staff turnover, budget transfers, procurement planning update, external communication etc.

ESMA has created and documented the bulk of the processes, procedures and workflows that constitute the core administrative framework in an EU body. This includes key items such as the financial circuits, recruitment procedures, reporting on exceptions, and ethics guidelines. An important set of new policies and procedures was adopted in 2014, including security policies and new implementing rules.

ESMA started developing its business continuity framework in 2012. The business impact assessment was reviewed during 2013 and a business continuity plan was drafted in 2014. There is an IT disaster and recovery plan in place. In 2014, ESMA performed a security audit and recruited an IT Security Officer. A stand-by office service was created for emergencies.

In 2014, ESMA started to work on an automated document management system.

Next steps

ESMA will continue the setup of the document management system in 2015 and start implementing the business continuity plan in 2016.

Information and financial reporting

The main channels of communication are the internal and external websites; the Intranet was launched in the beginning of 2013. ESMA has an external website since 2011.

ESMA has an External Communication Strategy and an internal Crisis Management plan, which amongst others deals with communication issues.

There is a procedure for launching public consultations and a decision regulating access to documents.

ESMA has implemented certain controls to ensure that accounting data and related information are accurate, complete and timely. These include controls ensuring the independence of the Accounting Officer and a process of financial reporting. The Accounting Officer is appointed in his/her function by the Management Board.

A follow-up review of the validation of the accounting and underlying financial systems of ESMA was performed by the Accounting Officer in 2014

Evaluation and audit

For reporting on the developments and progress against audit recommendations, the quarterly Activity Report to the Management Board has a dedicated section on audit follow up.

ESMA has not established an Internal Audit Capability. A new charter with the IAS according to the new Financial Regulation has been signed and serves as the framework and terms of reference for the internal audit services provided to ESMA by the IAS.

In addition, ESMA annually performs finance ex-post controls, a risk assessment of the sensitive functions, a review of the ABAC access rights, an analysis of exceptions and an annual assessment of the implementation of the internal control standards.

Building blocks of assurance

Follow up of audits and evaluations

European Court of Auditors

Financial audit

ESMA is audited every year by the European Court of Auditors (ECA). The audit provides a Statement of Assurance as to the reliability of the accounts of the Agency and the legality and regularity of the transactions underlying them.

In ECA's Statement of Assurance of 2013, it was indicated that ESMA accounts are reliable and the transactions underlying the accounts are legal and regular.

The ECA audit of the 2014 annual accounts is ongoing. The draft report will be available by mid-2015. The first audit mission was performed in December 2014 and the second audit mission in January 2015. In addition, the audit of the accounts 2014 is performed by a private audit firm for the first time and it is still ongoing at time of writing.

The recommendations raised by ECA regarding the 2013 annual accounts are being addressed by ESMA.

Among others:

- Implemented quarterly VAT recovery;
- Held bi-annual budget reviews; and
- Implemented training on financial management and periodic meetings between finance and project managers.

Performance audit on supervision

ECA also started a performance audit on ESMA's supervision activities which started in June 2014. On 25 November, the Chamber approved the Audit Planning Memorandum (APM) including the final scope of the supervision audit which will include mainly CRAs supervision. The audit is on-going and will continue during 2015.

Internal audit service

ESMA is also audited by its internal auditor, the Internal Audit Service of the EC (IAS).

IAS performed an audit on IT Governance and Project Management and started an audit on Stakeholder Management and External Communication.

IAS also performed a follow up visit in June 2014 on the limited review on implementation of ICS. Globally, IAS considered that 7 out of 14 recommendations made in IAS' review had been already implemented. Some of the pending recommendations have been sent for closure to IAS and are pending a new review.

Performance audit on IT Governance and Project Management

IAS performed the audit in June 2014. Overall, the IAS considered that ESMA had made a considerable step towards establishing an adequate Project Management and related IT Governance processes control system. Since 2011 ESMA has been gradually implementing project management controls and is now further increasing its maturity level by introducing a formal Project Management methodology (PM²). Also, ESMA has setup an effective IT Governance structure supporting IT project management related decision-making.

The final IAS report contained five recommendations, one of them *very important* and four *important*. There was no critical recommendation.

All observations and recommendations were accepted and appropriate action plans were developed by ESMA. The audit plan and the implementation of the action plans were presented to the Management Board. 2 actions, including the *very important* were implemented already in 2014 and are waiting for IAS review. The implementation of the remaining actions is being followed up regularly.

Performance audit on Stakeholder Management and External Communication

IAS started a performance audit on Stakeholder Management and External Communication in December 2014. The audit is ongoing and fieldwork will be performed in January 2015.

Follow up of reservations from previous years

No reservations have been made in the previous annual reports.

Conclusions

The main building blocks of the Executive Director's Declaration of Assurance are:

- the Executive Director's own knowledge of the management and control system in place;
- the observations of the Court of Auditors known at the time of the declaration;
- the observations of the Internal Audit Service known at the time of the declaration;
- the declarations of assurance made by the authorising officer by delegation to the Executive Director;
- the result of the assessment of the internal control standards;
- the ex-ante and ex-post controls;
- the validation of the accounting systems; and
- the analysis of the list of recorded exceptions.

Given the control system in place, the information attained from the building blocks above and the lack of critical findings from ECA and the IAS at the time of the declaration, there is no reason to question the efficiency and effectiveness of the control system in place.

2014 Declaration of Assurance by the Executive Director of ESMA

I, the undersigned, Verena Ross, Executive Director of the European Securities and Markets Authority, in my capacity as authorising officer:

Declare that the information contained in this Annual Activity Report gives a true and fair view¹;

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principle of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions. This reasonable assurance is based on my own judgement and on the information at my disposal such as the results of ex- ante and ex-post control verifications performed during the year;

Confirm that I am not aware of anything not reported which could harm the interests of the European Securities and Markets Authority.

Paris, 12 June 2015

(signed)

Verena Ross
Executive Director
European Securities and Markets Authority

¹ Fair view in this context means a reliable, complete and correct view on the state of affairs in the service

ESMA operations, budget and structure

ESMA's 2014 budget

In 2014, ESMA's budget increased by €5.1m compared to the previous year, from €28.2m in 2013 to €33.3m in 2014. That represents an increase of 18% in the total resource level, which allowed ESMA to deliver against its objectives and significant growing activities.

ESMA is financed by four separate streams of income:

- i) the NCAs of the Members States – €15.6m in 2014, representing 47% of the total revenues;
- ii) a balancing subsidy of the European Union – €11.1m, representing 33%;
- iii) fees charged to Credit Rating Agencies – €5.6m, representing 17%; and
- iv) fees charged to Trade Repositories – €1m, representing 3%.

Annual accounts

The annual accounts of ESMA have been established in accordance with the Financial Regulation of ESMA. A new Financial Regulation was adopted by the Management Board on 19 June 2014 in line with the new Framework Financial Regulation ⁽¹⁾ of the European Parliament and Council.

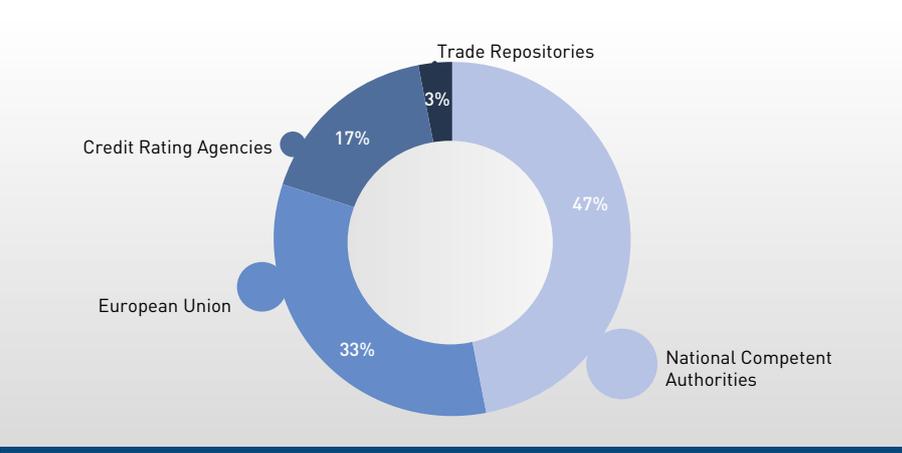
The accounting rules, methods and guidelines are those as adopted and provided by the Accountant of the EC.

2014 – overall budget

- €33.3m – overall budget for 2014 (C1 credits)
- €32.9m or 99% of the budget was committed
- €27m or 81% of the budget had been spent to end December 2014
- The remaining €5.9m will be paid in 2015

⁽¹⁾ Commission Delegated Regulation (EU) No 1271/2013 on the framework financial regulation for the bodies referred to in Article 208 of Regulation (EU, Euratom) No 966/2012.

2014 revenues



ESMA Staff Summary 2014

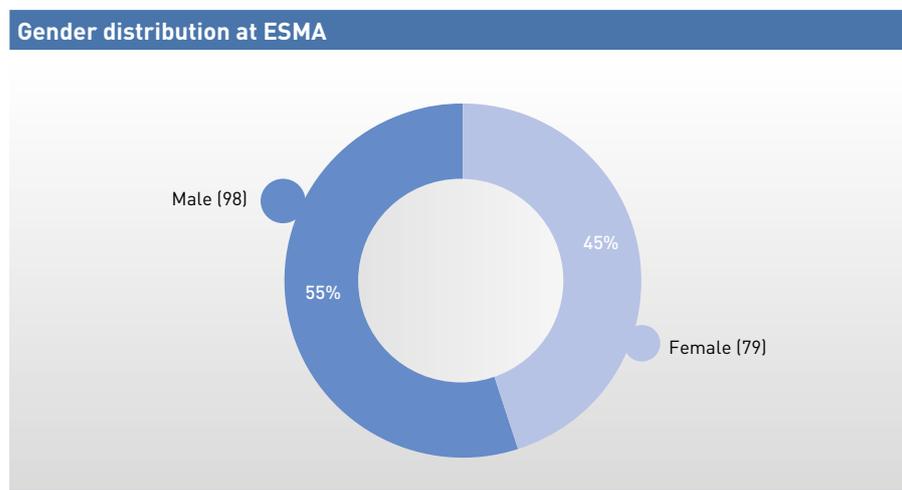
ESMA employs different categories of staff: Temporary Agents (TA) ⁽¹⁾, Contract Agents (CA) and Seconded National Experts (SNEs). Starting from 150 staff members at the end of 2013, ESMA's recruitment plan for 2014 contained new positions to be filled with the objective to reach a total of 185 staff by the end of 2014, which divides into:

- 133 Temporary Agents;
- 31 Contract Agents; and
- 21 Seconded National Experts.

With regards to the implementation of the recruitment plan for 2014, at the end of 2014 ESMA had a headcount of 167 staff, compared to the 185 initially planned. An additional 10 job offers were made and accepted by candidates by the end of 2014, amounting to a total headcount of 177 staff. The 2014 establishment plan ⁽²⁾ was at 98% of its planned target (130/133).

ESMA has also taken care to reach the best possible gender and geographical balance during its recruitment process. 23 EU and EEA ⁽³⁾ nationalities are currently represented at ESMA, with a ratio of 55% male - 45% female. The proportion of female staff at ESMA has increased during the last few years: female staff in 2012 - 37%, in 2013 - 42%, and in 2014 - 45%.

ESMA gender balance 2014



⁽¹⁾ Listed in the establishment plan of the EU budget.

⁽²⁾ Temporary agents only.

⁽³⁾ European Economic Area (Norway, Liechtenstein and Iceland).

ESMA's staff population 2014 (all categories of staff)

Staff population		Staff population actually filled at 31.12.2013 ⁽¹⁾	Staff population in EU Budget 2014 ⁽²⁾	Staff population actually filled at 31.12.2014 ⁽³⁾
Officials	AD	n/a	n/a	n/a
	AST	n/a	n/a	n/a
	AST/SC	n/a	n/a	n/a
TA	AD	102	118	117
	AST	14	15	13
	AST/SC			
Total ⁽⁴⁾		116	133	130
CA GF IV		7	15	13
CA GF III		2	4	13
CA GF II		10	12	5
CA GF I				
Total CA ⁽⁵⁾		19	31	31
SNE ⁽⁶⁾		15	21	16
TOTAL		150	185	177

⁽¹⁾ This number includes 11 offer letters sent, counted as posts filled (8 TAs posts, 1 CA position, 2 SNEs positions).

⁽²⁾ As authorised for officials and temporary agents (TAs) and as estimated for contract agents (CAs) and seconded national experts (SNEs).

⁽³⁾ This number represents headcounts on 31.12.2014. This number includes 10 offer letters sent, counted as posts filled (5 TA post, 5 CAs positions). Vacant: 3 TAs posts, 5 SNEs positions.

⁽⁴⁾ Headcounts.

⁽⁵⁾ Full Time Equivalent (FTE).

⁽⁶⁾ FTE.

ESMA's establishment plan 2014 (Temporary Agents)

Category and grade	Establishment plan in EU Budget 2014		Establishment plan in voted EU Budget 2015		Establishment plan in Draft EU Budget 2016 ⁽¹⁾		Establishment plan 2017 ⁽²⁾		Establishment plan 2018 ⁽³⁾	
	officials	TA	officials	TA	officials	TA	officials	TA	officials	TA
AD 16						1		1		1
AD 15		1		1		1		1		1
AD 14		1		1						1
AD 13						2		3		3
AD 12		3		3		4		5		6
AD 11		5		5		7		8		10
AD 10		6		6		10		13		16
AD 9		14		14		22		26		30
AD 8		27		27		30		31		30
AD 7		27		27		24		27		26
AD 6		20		22		17		16		15
AD 5		14		16		11		13		11
Total AD		118		122		129		144		150
AST 11										
AST 10										
AST 9		1		1						
AST 8								1		1
AST 7						2		2		2
AST 6		1		1		2		3		3
AST 5		2		2		4		4		4
AST 4		6		6		4		3		3
AST 3		2		2		1				
AST 2		3		3						
AST 1										
Total AST		15		15		13		13		13
AST/SC6										
AST/SC5										
AST/SC4										
AST/SC3										
AST/SC2										
AST/SC1										
Total AST/SC		0		0		0		0		0
Total		133		137		142		157		163

⁽¹⁾ Additional 5 posts requested in the year 2016 (3x AD7, 4 x AD5, minus 2 AST posts).⁽²⁾ Additional 15 posts requested in the year 2017 (7 x AD7, 8 x AD5).⁽³⁾ Additional 6 posts requested in the year 2018 (3 x AD5, 3 x AD7) in line with MFF 2014-2020.

ESMA staff per Division/Unit (as of 31 December 2014)

	CRAs	Economic Research & Financial Stability	Investment & Reporting	Legal, cooperation & convergence	Markets	Operations	Senior Management	Total
CA	6	5	2	3	5	10		31
SNE	2	1	5	4	3	1		16
TA	23	9	22	11	27	28	10	130
Total	31	15	29	18	35	39	10	177

ESMA geographical balance

Nationality	Number of staff	%
Belgium	5	3%
Bulgaria	3	2%
Czech Republic	2	1%
Denmark	3	2%
Estonia	1	1%
Germany	18	10%
Finland	1	1%
France	39	22%
Greece	9	5%
Hungary	3	2%
Ireland	6	3%
Italy	28	16%
Latvia	2	1%
Lithuania	2	1%
Netherlands	5	3%
Norway	1	1%
Poland	5	3%
Portugal	8	5%
Romania	6	3%
Slovakia	2	1%
Spain	10	6%
Sweden	1	1%
United Kingdom	17	10%
Total	177	100%

Benchmarking against previous year results ⁽¹⁾

The table below outlines the results of the first Job screening exercise conducted in ESMA and in all EU regulatory agencies. The exercise is based on Articles 29(3) and 38(1) of the Framework Financial Regulation.

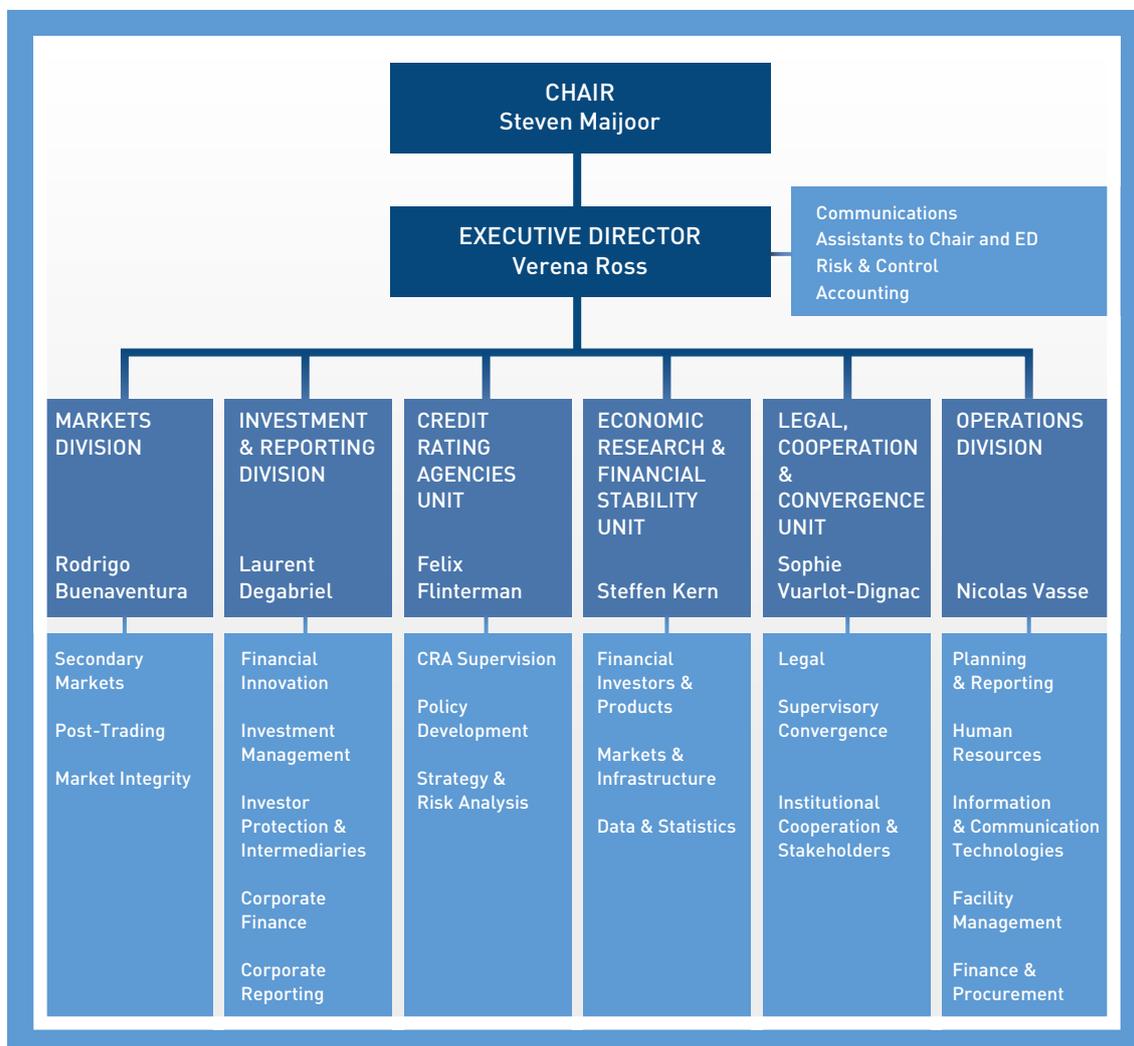
The methodology has been designed by a working group including representatives from different EU agencies (including ESMA) and of the EC (DGs Budg, HR, SG). It has been generated as an adaptation, refinement and clarification of the Commission Screening methodology, which the Commission has implemented for several years. It has been approved by the network of Heads of EU Agencies at the meeting held in Vienna on 16-17 October 2014.

Job Type (sub) category	Year 2013 (%)	Year 2014 ⁽²⁾ (%)
Administrative support and Coordination	n.a.	16.6%
Administrative Support	-	12.1%
Coordination	-	4.5%
Operational	n.a.	76.7%
General operational activities	-	9.4%
Programme management and implementation	-	56.1%
Top operational coordination	-	2.7%
Evaluation & Impact assessment	-	8.5%
Neutral	n.a.	6.7%
Accounting, finance, non-operational procurement, contract management and quality management, internal audit and control	-	6.7%
Linguistic activities	-	0%

⁽¹⁾ 2014 is the first year of the job screening/benchmarking exercise for EU Agencies. Therefore, for this year, only one column is filled in.

⁽²⁾ Reference date: 12 December 2014.

ESMA organisational chart, 31.12.2014



ESMA's Standing Committees and Working Groups

As well as being comprised of Divisions and Units, much of the Authority's work is supported by standing committees (SC), working groups and task forces, panels and networks, which draw together senior experts from NCAs. The different ESMA groups are established either on a permanent basis or limited in time, depending on the issues handled and the mandate given. The groups are normally chaired by senior representatives of NCAs and supported by ESMA staff who act as rapporteurs.

More details can be found on www.esma.europa.eu

There are a number of other groups, networks and task forces falling outside the permanent structures of ESMA which are undertaking work to respond to special mandates.

The ultimate decision-taking body of ESMA is the Board of Supervisors, whereas the Management Board deals with the management of the Authority.

ESMA's Boards and their composition

Members of the Management Board

Member	Authority	Country
Steven Maijor	ESMA	
Carlos Tavares	ESMA (Vice-Chair)	Observer
Jonathan Faull	European Commission	Observer
Cyril Roux	Central Bank of Ireland	Ireland
Konstantinos Botopoulos	CMC	Greece
G�rard Rameix	AMF	France
Marek Szuszkiewicz	KNF	Poland
Klaus Kumpfm�ller	FMA	Austria
Martin Wheatley	FCA	United Kingdom

Members of the Board of Supervisors

Member	Authority	Country
Steven Maijor	ESMA	
Jean Paul Servais	FSMA	Belgium
Stoyan Mavrodiev	FSC	Bulgaria
Pavel Hollmann	CNB	Czech Republic
Birgitte S�gaard Holm	Finanstilsynet	Denmark
Karl-Burkhard Caspari	BaFin	Germany
Andre N�mm	FSA	Estonia
Cyril Roux	Central Bank of Ireland	Ireland
Konstantinos Botopoulos	HCMC	Greece
Lourdes Centeno	CNMV	Spain
Gerard Rameix	AMF	France
Petar-Pierre Matek	HANFA	Croatia
Guiseppe Vegas	Consob	Italy
Demetra Kalogerou	SEC	Cyprus
Kristaps Zakulis	FCCM	Latvia
Vytautas Valvonas	Bank of Lithuania	Lithuania
Jean Guill	CSSF	Luxembourg
L�szl� Windisch	PSZAF	Hungary

>>>

Member	Authority	Country
Marianne Scicluna	FSA	Malta
Merel Van Vroonhoven	AFM	Netherlands
Klaus Kumpfmüller	FMA	Austria
Marek Szuszkiewicz	KNF	Poland
Carlos Tavares	CMVM	Portugal
Mișu Negrițoiu	ASF	Romania
Damjan Žugelj	SMA	Slovenia
Ivan Barri	NBS	Slovak Republic
Anneli Tuominen	FIN-FSA	Finland
Martin Noréus	Finansinspektionen	Sweden
Martin Wheatley	FCA	United Kingdom

Observers to the Board

Name	Authority	Country
Unnur Gunnarsdóttir	FI	Iceland
Marcel Löttscher	FMA	Liechtenstein
Anne Merethe Bellamy	Finanstilsynet	Norway
Adam Farkas	European Banking Authority	
Carlos Montalvo	European Insurance and Occupational Pensions Authority	
Francesco Mazzaferro	European Systemic Risk Board	
Jonathan Faull	European Commission	

ESMA's Standing Committees and Working Groups

A table of ESMA's Standing Committees and their tasks are set out below:

Name of Standing Committee	Mandate	Chair
Secondary Markets Standing Committee	<ul style="list-style-type: none"> work on structure, transparency and efficiency of secondary markets for financial instruments, incl. trading platforms OTC markets (such as regulated markets, MTFs, systematic internalisers or other platforms). develop technical standards and guidelines, preparing advice to the EC relating to the MiFID. 	Martin Wheatley, FCA, UK
Investment Management Standing Committee	<ul style="list-style-type: none"> work on issues relating to collective investment management, covering both harmonised and non-harmonised investment funds. develop technical standards, preparing advice to the EC, or developing guidelines and recommendations relating to UCITS and AIFMD. 	Gareth Murphy, Central Bank of Ireland
Post-Trading Standing Committee	<ul style="list-style-type: none"> work relating to clearing and settlement of transactions in financial instruments. develop technical standards, preparing advice to the EC or developing guidelines and recommendations relating to EMIR. 	Guiseppa Vegas, CONSOB, Italy
Credit Rating Agencies Technical Committee	<ul style="list-style-type: none"> prepare technical standards and common guidelines on CRA Regulation. co-ordinate with other international organisations and third-country regulators that are performing activities in relation to CRAs. 	Verena Ross, ESMA
Corporate Finance Standing Committee	<ul style="list-style-type: none"> work relating to the Prospectus Directive, corporate governance, and major shareholding disclosures under the Transparency Directive. develop technical advice and guidance, standards on the provisions of the above Directives. in the area of corporate governance, respond to areas which relate to securities laws in the EU. 	G�rard Rameix, AMF, France
Corporate Reporting Standing Committee	<ul style="list-style-type: none"> work on issues related to accounting, audit, periodic reporting and storage of regulated information. co-ordinate the activities of national enforcers from the European Economic Area (EEA) relating to the enforcement of compliance with IFRS. foster operational co-operation between EU and non-EU regulators. 	Hannelore Lausch, BaFin, Germany
Market Integrity Standing Committee	<ul style="list-style-type: none"> work on issues relating to market surveillance, enforcement of securities laws, facilitation of co-operation of national authorities and exchange of information in market abuse investigations. develop technical standards, preparing advice to the EC or developing guidelines and recommendations on issues relating to the integrity of markets on issues such as market abuse or short-selling. 	Konstantinos Botopoulos, CMC, Greece
Investor Protection and Intermediaries Standing Committee	<ul style="list-style-type: none"> deal with regulatory issues related to the provision of investment services and activities by investment firms and credit institutions. Particular regard is made to investor protection, including the conduct of business rules, distribution of investment products, investment advice and suitability. develop and provide technical advice to the EC, and for preparing technical standards, guidelines and recommendations relating to the provisions of MiFID applicable to investment services and activities. 	Jean-Paul Servais, FMSA, Belgium

Name of Standing Committee	Mandate	Chair
Financial Innovation Standing Committee	<ul style="list-style-type: none"> • achieve a coordinated approach to the regulatory and supervisory treatment of new or innovative financial activities. • identify risks to investor protection, and to financial stability, in the financial innovation area; and then to produce a risk mitigation strategy. 	Anneli Tuominen FIN-FSA, Finland
Review Panel	<ul style="list-style-type: none"> • contribute to supervisory convergence through supporting the consistent and timely implementation of Community legislation in the EU. • conduct peer reviews and mapping exercises. • review the implementation of EU legislation and ESMA standards and guidelines. 	Jean Guill, CSSF, Luxembourg
Committee of Economic and Markets' Analysis	<ul style="list-style-type: none"> • financial markets monitoring and analysis. • identification, monitoring, and assessment of trends, potential risks and vulnerabilities in financial markets across borders and sectors, including a thorough focus on financial innovations and incentives related to market practices both at the wholesale and retail level. 	Carlos Alves, CMVM, Portugal
IT Governance and Management Group	<ul style="list-style-type: none"> • work on IT governance, exchange of data & information between NCAs and ESMA 	Nicolas Vasse, ESMA



Other disclosures

ESMA handles access to documents requests

Pursuant to Article 17(1) of Regulation (EC) No 1049/2001 (Access to Documents Regulation), a report has to be annexed to ESMA's annual report including (a) the number of access cases in which ESMA refused to grant access to documents; (b) the reasons for such refusals; and (c) the number of sensitive documents recorded in the register.

In 2014, ESMA received eight requests for access to documents pursuant to Regulation (EC) 1049/2001. In six cases ESMA granted full access to the requested documents. In one case ESMA did not give access to the documents as they contained opinions for internal use as part of deliberations and preliminary consultations whose public disclosure would have undermined the decision-making process of ESMA.

On another occasion ESMA decided not to grant access to the document requested as the disclosure of such a document would have undermined the protection of the privacy and integrity of the individual, in particular in accordance with Community legislation regarding the protection of personal data.

ESMA develops multilateral cooperation framework for 31 authorities on cross-border cooperation

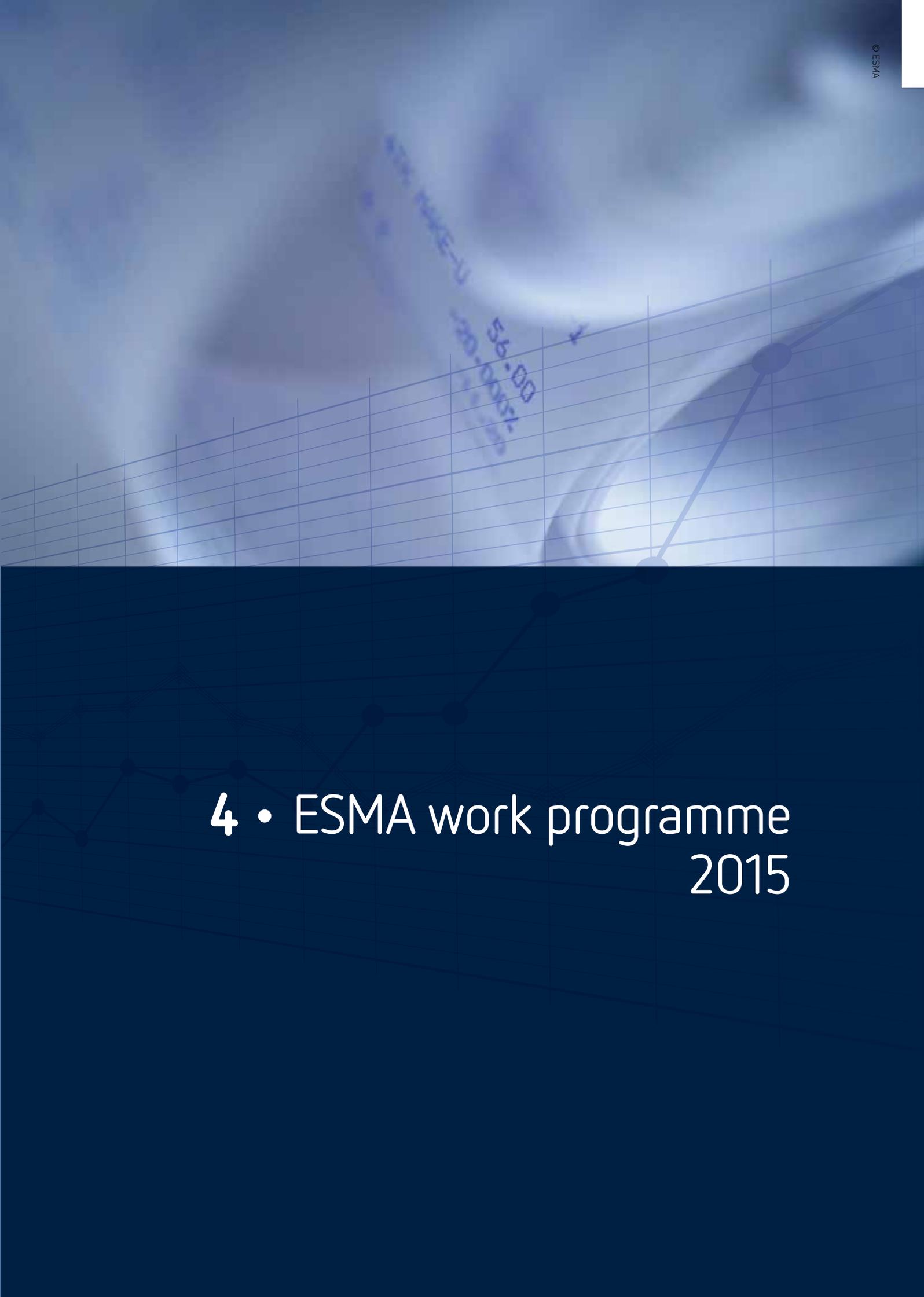
In the first half of 2014, ESMA developed a new multilateral memorandum of understanding (MMoU) between EEA NCAs, and between NCAs and ESMA, which entered into force on 29 May 2014. It has been signed by 31 authorities in the securities and markets area.

The new MMoU was agreed in view of the increasing internationalisation, harmonisation and interdependence of financial services and markets in the European Union. It is designed to facilitate cooperation arrangements and the exchange of information between NCAs, and between NCAs and ESMA, in the application of their responsibilities under Union law relating to the securities and markets area.

It also updates and replaces a previous agreement on the Exchange of Information and Surveillance of Securities Activities agreed by the members of the Committee of European Securities Regulators (formerly the Forum of European Securities Commissions) entered into by those members on 26 January 1999.

Prior to the signing of the MMoU, ESMA also developed guidelines on cooperation arrangements and information exchange [ESMA/2014/298] which incorporated the improved cooperation procedures within the new MMoU. These guidelines were issued on 27 March 2014.

Since the application date of the guidelines and the entry into force of the MMoU, the authorities have had an updated and improved basis for cooperation and the exchange of information within the EEA States in the securities and markets area.



4 • ESMA work programme 2015

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ESMA 2015 Regulatory Work Programme

ESMA's work in general follows both annual and multi-annual work programmes, the delivery on which is reported on in ESMA's annual report. For 2015, ESMA published its high-level work programme on 1 October 2014. The Work Programme accompanies ESMA's annual budget request. The work programme for 2015 is in line with ESMA's 2013-2015 Multi-Annual Work Programme. In the overall ESMA work programme the legislative tasks related to ESMA's convergence and single rulebook objectives are not addressed in great detail. A more detailed regulatory work programme is adopted by the Board of Supervisors in the first quarter of the year concerned.

The Work Programme presents explanations around ESMA's main planned activities for 2015, as well as the budget and staff required to fulfil the tasks.

ESMA's 2015 Work Programme is available on its website under:

http://www.esma.europa.eu/system/files/2014-1200rev_-_2015_esma_work_programme.pdf

ESMA's 2015 Regulatory Work Programme is available on its website under:

http://www.esma.europa.eu/system/files/2015-277_rev1_-_esma_2015_regulatory_work_programme.pdf

