



# SPOTLIGHT ON MARKETS

JUNE 2022 N°35

**WHAT IS NEW ON THE ESG  
RATINGS FRONT?  
WHERE DOES ESMA STAND?**



**ESMA ANNUAL REPORT 2021 -  
ACHIVEMENTS & MORE**

**RISK ASSESSMENT UPDATE DUE TO  
THE WAR IN UKRAINE**

## **RESULTS OF ESMA'S CALL FOR EVIDENCE ON ESG RATINGS**

The feedback is indicative of an immature but growing market which, following several years of consolidation, has seen the emergence of a small number of large non-EU headquartered providers.

## **PUBLICATIONS**

Your one-stop-shop information source in the world of EU Financial Markets brings together the latest reports, proposals and statements.

## **THE MONTH AHEAD**

The speaking appearances of ESMA staff in July cover topics such as Investor Protection, ESMA Priorities, Financial Innovation as well as Sustainable Finance.

# IN THIS ISSUE

In June, ESMA published its [findings](#) following the Call for Evidence to gather information on the market structure for ESG rating providers in the EU. Moreover, in a new article published in today's newsletter, ESMA has reviewed how five credit rating agencies incorporate ESG factors in their credit rating methodologies. This assessment followed previous work conducted by the Authority on the disclosures of ESG factors in CRAs' press releases (disclosure practices).

In addition, ESMA published its [Annual Report](#) reviewing its achievements in 2021 in fulfilling its mission and focusing on its role in the supervision of EU-wide entities and its contribution on sustainable and digital finance.

Finally, ESMA's [risk assessment](#) was updated to account for the impact on financial markets of Russia's invasion of Ukraine and the deteriorating economic environment.

Other key publications in June include [Updates on applications for Recognition from U.S.- based CCPs](#), [Final Report](#) on the increase of the commodity derivatives EMIR clearing threshold, a [statement](#) providing clarifications on the draft regulatory technical standards (RTS) issued under the Sustainable Finance Disclosure Regulation, as well as a [Joint ESAs Report](#) on the withdrawal of authorisation for serious breaches of rules related to anti-money laundering and countering the financing of terrorism.

A full overview of all publications can be found in the newsletter, together with information on next month's speaking appearances of ESMA staff and vacancies. For updates, follow us on [Twitter](#) and [LinkedIn](#).

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# RESULTS OF ESMA CALL FOR EVIDENCE ON ESG RATINGS ARE OUT

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, published a [letter to the European Commission \(EC\)](#) providing its findings from the [Call for Evidence to gather information on the market structure for ESG rating providers in the European Union \(EU\)](#).

## Key findings

ESMA received a total of 154 responses and found 59 ESG rating providers currently active in the EU. The analysis of the responses further indicated several characteristics and trends as follows:

ESG rating providers – the structure of the market shows that there is a small number of very large non-EU providers, and a large number of significantly smaller EU entities.

ESG rating providers – the structure of the market shows that there is a small number of very large non-EU providers, and a large number of significantly smaller EU entities. While the legal entities of respondents are spread out across almost half of the EU Member States, a large number of these are clustered in a small number of Member States;

Users of ESG ratings are typically contracting for these products on an investor - pays basis from several providers simultaneously. Their reasons for selecting several providers are to increase coverage, either by asset class or geographically, or in order to receive different nature of ESG assessments.



- Entities covered by ESG ratings dedicate at least some level of resourcing to their interactions with ESG rating providers, although the amount largely depends on the size of the rated entity itself. Most respondents highlighted some degree of shortcoming in their interactions with the rating providers, most notably on the level of transparency as to the basis for the rating, the timing of feedback or the correction of errors.
- The feedback received is indicative of an immature but growing market which, following several years of consolidation, has seen the emergence of a small number of large non-EU headquartered providers.

### **Next steps**

ESMA will continue supporting the EC in their assessment of the need for introducing regulatory safeguards for ESG ratings.

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# HOW ARE CRAS INCORPORATING ESG FACTORS IN CREDIT RATING METHODOLOGIES?

## Introduction

In the context of the European Commission's Strategy for Financing the Transition to a Sustainable Economy, ESMA has reviewed how five credit rating agencies incorporate environmental, social and governance (ESG) factors in their credit rating methodologies. This assessment follows previous work conducted by ESMA on the disclosures of ESG factors in CRAs' press releases (disclosure practices).

**ESMA has drawn three main findings from this new review.**

### 1. Rigorousness of methodologies

Driven by increasing investor demand and a regulatory push to foster disclosure on the relevance of ESG factors to investment decisions,

CRAs have introduced either new ESG-specific credit rating methodologies or ESG-specific research (cf. Figure 1), with no material impact on credit rating levels.

The identification and definition of ESG factors diverge across credit rating methodologies or ESG-specific research papers. Still, the nature of ESG factors is mostly qualitative. By way of example, only one CRA in the sample has introduced specific quantitative measures.

From a rigorousness perspective, ESMA found that mainly, the ESG-specific documentation only loosely establishes how ESG factors are to be assessed.

This poses a challenge for users of credit ratings to understand and compare CRAs' methodological approaches. It also gives CRAs significant leeway to use analytical expert judgement in assessing ESG factors.

*Figure 1: Different approaches*

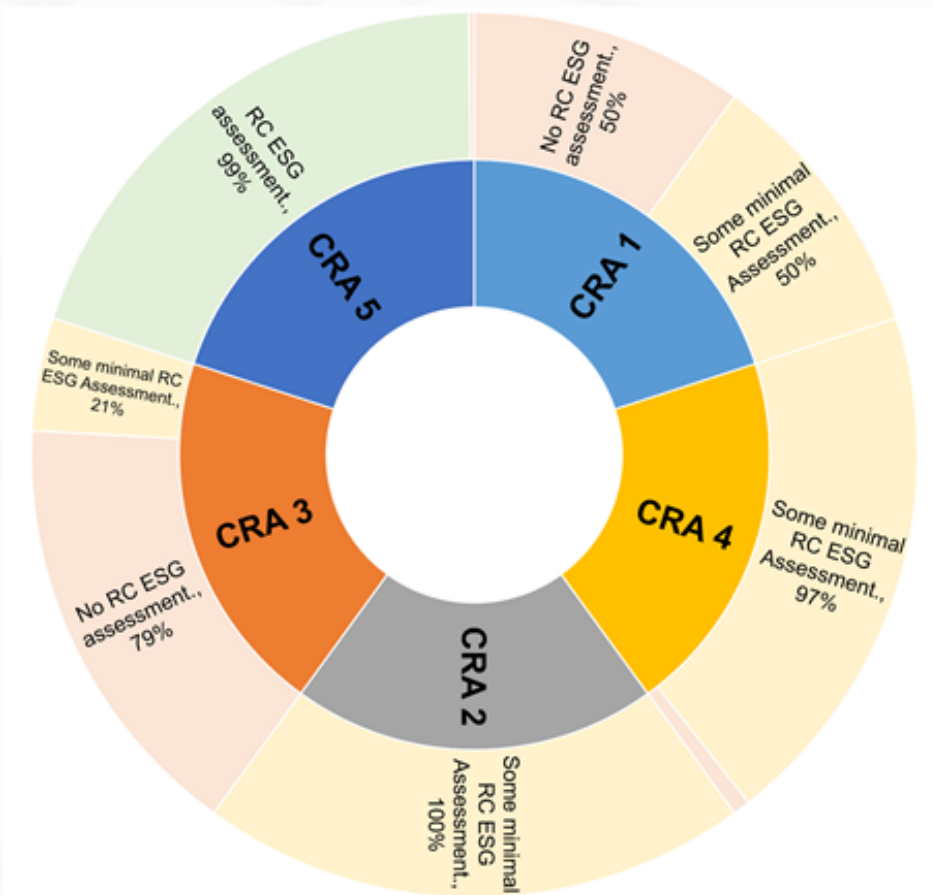


## 2. Application of methodologies

ESMA's review of 625 rating committee memoranda and materials showed that the assessment of ESG factors overly relied on analytical expert judgement which was not always linked to methodologies.

ESMA also observed that CRAs consider, assess, and document their analysis of ESG factors with different degrees of detail (cf. Figure 2). Finally, ESMA found that CRAs have mainly turned to issuers as a source of data in light of the absence of public standardised ESG data.

Figure 2: ESG Assessments in sample of  
rating committee materials



### 3. Disclosures to the public

The review of rating documentation also showed that CRA disclosures generally suggest a more thorough presentation of ESG factors in the rating process than observed in rating committee materials.

Finally, ESMA found that the larger CRAs in the sample have recently taken action to provide investors with more information on the credit impact of ESG factors. In some cases, this has resulted in publishing ESG credit materiality scores, whose computation, however, is not always clearly described.

## Conclusion

ESMA's previous assessment on disclosure practices indicated that the overall level of CRAs disclosures on the relevance of ESG factors to their credit ratings has increased since the introduction of ESMA's Disclosure Guidelines in July 2019. The high level of divergence across CRAs means there is still room for further improvement. The extent of ESG disclosures differs significantly across both

CRAs and ESG factors, especially on environmental topics. ESMA observed divergences in CRAs' disclosures even for rated entities that are highly exposed to ESG factors, relative to their sector peers.

ESMA's most recent work on the incorporation of ESG factors in methodologies also points at divergences across CRAs; this time regarding the degree of rigorousness in which ESG factors have been incorporated in credit rating methodologies and their systematic consideration in the rating process.

Finally, ESMA has also found that CRAs have progressed at a slower pace to incorporate and systematically apply ESG factors in the rating process, than the disclosure of the relevance of ESG factors suggests.

ESMA notes that initiatives such as the introduction of a framework to facilitate sustainable investments (EU Taxonomy), the work initiated by the European Financial Reporting Advisory Group and the International Sustainability Standards Board may address some of the challenges that CRAs currently face, including the quality and availability of ESG data.

ESMA will engage with key stakeholders and use its supervisory tools to address any deficiencies it has observed in CRAs practices, to the extent this is possible under the regulatory framework.

Finally, ESMA will continue to implement its Sustainable Finance Roadmap as Sustainable Finance remains one of its priorities.



# ESMA REVIEWS ITS 2021 CONTRIBUTION TO THE EU'S GREEN AND DIGITAL CAPITAL MARKETS

**The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, published its Annual Report reviewing its achievements in 2021 in fulfilling its mission of enhancing investor protection and promoting stable and orderly financial markets in the European Union (EU), and focusing on its role in the supervision of EU-wide entities and its contribution on sustainable and digital finance.**

ESMA's key achievements in 2021 included the recognition and tiering of third-country central counterparties (CCPs), the coordination of supervisory activity across the EU through its Union strategic supervisory priorities, and the preparation for the supervision of data reporting service providers (DRSPs), critical benchmarks and securitisation repositories.

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**Verena Ross, Chair, said:**



“ Last year was a transitional one for ESMA, marking not only its 10th anniversary and the beginning of its second decade as the EU's securities markets regulator, but also a renewal of the organisation with a new senior management team. I take this opportunity to thank both Steven Maijoor for his work as ESMA's first Chair and Anneli Tuominen, who acted as Interim Chair.

Our major areas of focus in 2021 included protecting investors where their growing engagement in sustainable and digital finance risks them being subject to greenwashing and scams, ensuring effective and converged EU supervision, and to supporting the renewed focus on developing a true capital markets union.

I would like to thank all our stakeholders for their continued support and collaboration in helping ESMA achieve its objectives.

”

**Natasha Cazenave, Executive Director, said:**



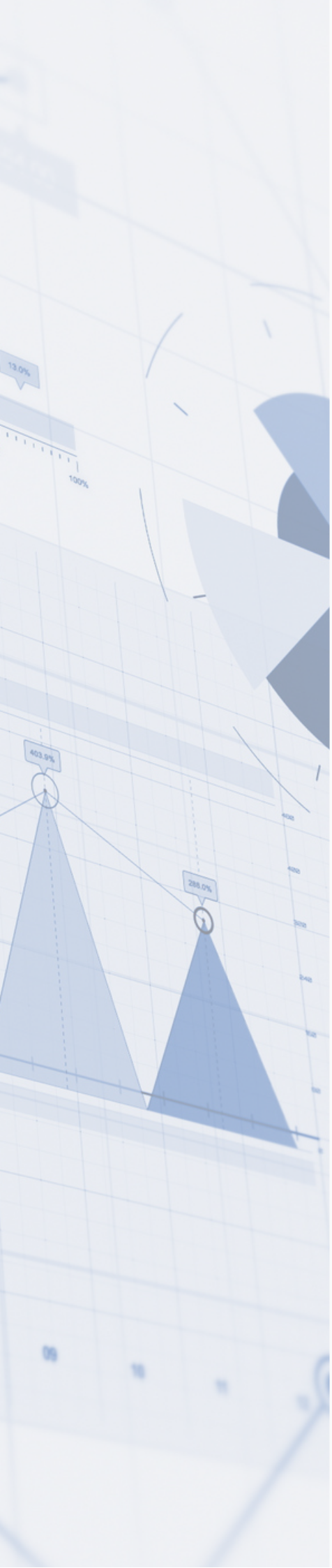
“ Last year marked ESMA's first decade as a European Authority, providing an opportunity to reflect on the progress made since 2011 and lay the groundwork for the next decade. “ESMA, in 2021, implemented new mandates for the supervision of securitisation repositories, critical benchmark

administrators and data reporting service providers, while maintaining a strong focus on existing mandates for CRAs, trade repositories and CCPs.

It also contributed to CMU initiatives and began work on key projects including, amongst others, the European Single Access Point and the consolidated tape.

“I want to thank our staff for their remarkable dedication and high-quality work and without whom none of these achievements would be possible.

”



**The organisation's key achievements in 2021 related to its work on its cross-sectoral priorities:**

### **Supporting the development of sound EU capital markets**

- New supervisory responsibilities for securitisation repositories, data reporting service providers and critical benchmark administrators;
- Advisory reports on the MiFID/MiFIR, ELTIF, Short-Selling Regulation and Money Market Funds Regulation Reviews;
- Peer Reviews on CCP liquidity stress testing and NCAs supervision of cross-border activities of investment firms;
- Enforcement action against CRAs and Trade Repositories with fines of €4.3 million;
- Comprehensive assessment of Tier 2 CCPs and recognition and monitoring of Tier 1 third-country CCPs;
- Public statements on social media investment recommendations aimed at safeguarding retail investors;

### **Sustainable finance**

- ESMA's Sustainable Finance Roadmap 2022-24;
- Taxonomy regulation and European Union Platform on Sustainable Finance; and
- Preliminary report on the European Union carbon market;

### **Innovation and digitalisation**

- Technical advice on the digital finance package; and
- Preparation for the distributed ledger technology pilot regime.

# RISK ASSESSMENT UPDATE: MARKET ENVIRONMENT DETERIORATES FURTHER

The European Securities and Markets Authority (ESMA), the EU securities markets regulator, updated its risk assessment to account for the impacts on financial markets of Russia's invasion of Ukraine and the deteriorating economic environment.

The risk to ESMA's overall remit remains at the highest level, with political event risk, surging inflation and jumps in market volatility negatively impacting the outlook.

## Overall ESMA remit

Risk categories			Risk drivers	
	Level	Outlook		Outlook
Overall ESMA remit	○	→	– Geopolitical risks, esp. from Ukraine conflict	↗
Liquidity risks	○	→	– Macroeconomic environment	↗
Market risks	○	→	– Inflation and Interest rate environment	↗
Credit risks	○	↗	– Sovereign and private debt markets	↗
Contagion risks	○	→	– Infrastructure disruptions	↗
Operational risks	○	→	– Other political and event risks	→
Environmental risks	○	↗		

Following the invasion and the resulting sanctions, funds and investors with exposures to Russian assets have faced substantial valuation issues. There has been significant asset repricing, with riskier assets falling in value (particularly equities, corporate bonds and emerging market debt).

- 
- Prices of commodities and related derivatives have jumped sharply and are adding to pre-existing inflation pressures. This has led to increasing market expectations of higher interest rates and growing likelihood of far-reaching rebalancing of portfolios as investors adjust to the new environment. Finally, cyber risk is very high currently and remains a key concern for financial markets, as attacks targeting infrastructures and firms could be very disruptive.
  - ESMA also observes that crypto assets have experienced sharp falls in value, showing the importance of the recently published ESAs joint warning on crypto assets reminding consumers of the highly volatile and speculative nature of many crypto markets. The collapse of Terra illustrates the acuteness of confidence effects in crypto-asset markets and the risks attached to so-called stablecoins in the absence of a sufficiently robust business models and financial engineering.
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# PUBLICATIONS



Click to read the news items

28

June

ESMA UPDATES ON APPLICATIONS FOR RECOGNITION FROM U.S.-BASED CCPs

09

June

ESMA RISK ASSESSMENT UPDATE: MARKET ENVIRONMENT DETERIORATES FURTHER

28

June

ESMA WILL NOT PUBLISH AUGUST SYSTEMATIC INTERNALISER REGIME DATA FOR NON-EQUITY INSTRUMENTS OTHER THAN BONDS AND CTP DATA

07

June

ESMA PUBLISHES LATEST EDITION OF ITS NEWSLETTER

27

June

ESMA PUBLISHES RESULTS OF ITS CALL FOR EVIDENCE ON ESG RATINGS

03

June

ESMA PROPOSES EUR 1 BILLION INCREASE OF THE COMMODITY DERIVATIVES EMIR CLEARING THRESHOLD

24

June

ESAS REFER STAKEHOLDERS TO COMMISSION STATEMENT ON THE APPLICATION DATE OF NEW PRIIPS RULES

02

June

ESMA PUBLISHES TECHNICAL STANDARDS TO SUSPEND THE CSDR BUY-IN REGIME

15

June

ESMA REVIEWS ITS 2021 CONTRIBUTION TO THE EU'S GREEN AND DIGITAL CAPITAL MARKETS

02

June

ESAS PROVIDE CLARIFICATIONS ON KEY AREAS OF THE RTS UNDER SFDR

13

June

ESAS PROPOSE EXTENDING TEMPORARY EXEMPTIONS REGIME FOR INTRAGROUP CONTRACTS DURING EMIR REVIEW

01

June

THE ESAS PUBLISH THE JOINT REPORT ON THE WITHDRAWAL OF AUTHORISATION FOR SERIOUS BREACHES OF AML/CFT RULES



# SPEAKING APPEARANCES

by ESMA staff in July

	EVENT	ORGANISER	SPEAKER
5 July	EACB Meeting of the Financial Markets Working Group	European Association of Co-operative Banks	Matteo Rava
8 July	FPC Conference on Financial Markets Infrastructures	Bank of England	Froukelien Wendt
12 July	Fireside Interview w. Robert Ophele	Paris Europlace	Verena Ross
12 July	FIA's 2022 Frankfurt Forum 'Key Trends in Cleared Derivatives'	FIA	Klaus Loeber
13 July	FCA Innovation Open Day	FCA	Claudia Guagliano



# OPEN VACANCIES

## POSITION

## DEADLINE

**Traineeship notice -  
Legal profile (F/M)**

**Open call**  
(without a specific deadline)

**Traineeship notice -  
Transversal profile (F/M)**

**Open call**  
(without a specific deadline)

**Traineeship notice -  
Financial Markets Profile  
(F/M)**

**Open call**  
(without a specific deadline)

**Team Leader  
(Communications)**

**07/07/2022**

**Policy Officer  
(Digital Finance Profile)**

**28/07/2022**

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



# CONSULTATIONS



Closing



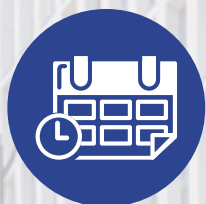
01/08/2022

CONSULTATION ON GUIDELINES  
TEMPLATE SUMMARY  
RESOLUTION PLANS ARTICLE 12(7)  
(A)



01/08/2022

CONSULTATION ON ART 79  
CCPRRR COOPERATION  
ARRANGEMENTS



01/08/2022

CONSULTATION ON GUIDELINES  
RESOLVABILITY -ANNEX SECTION  
C ARTICLE 15(5) CCPRRR



01/08/2022

CONSULTATION ON GUIDELINES  
ON TEMPLATE WRITTEN  
AGREEMENT FOR RESOLUTION  
COLLEGES

The full list of consultations and reply forms  
can be found on the [ESMA consultations page](#)



# CONTACT INFO



ESMA

201-203 Rue de Bercy  
75012 Paris



[info@esma.europa.eu](mailto:info@esma.europa.eu)



Press office