



SPOTLIGHT ON MARKETS

MAY 2022 N°34

THE UKRAINE WAR'S IMPACT ON EU FINANCIAL MARKETS

Ex-Post Analysis of Derivatives Risks in Archegos

**CSA Report on Supervision of Costs and Fees
in Investment Funds**

**Guidance for Supervisors on the Integration of
Sustainability Risks and Disclosures
in the Area of Asset Management**

Study looking at reasons for lower costs in ESG funds

**WHAT ARE THE IMPLICATIONS
OF THE UKRAINE WAR ON
FINANCIAL REPORTS AND ON
INVESTMENT FUND
PORTFOLIOS?**

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 June cover topics such as ESMA Regulation, Post-Trading, Financial Innovation as well as Sustainable Finance .

IN THIS ISSUE

In May, ESMA [reminded](#) fund managers of their obligations to investors and the [main IFRS requirements for issuers](#) amid the war in Ukraine. ESMA recognises the human cost of Russia's military aggression against Ukraine, and the significant challenges posed to business activities and effects on the global economic and financial system by the invasion.

Also in May, ESMA published a study showing how regulatory reporting data can be used to identify risks in derivatives markets, such as occurred in the case of Archegos. Data submitted under the European Market Infrastructure Regulation shows the build-up of exposures by Archegos, a US family office whose collapse in March 2021 resulted in losses of more than USD 10 billion.

Furthermore, a [Supervisory Briefing](#) was released to ensure EU-wide convergence in the supervision of investment funds with sustainability features, as well as to prevent greenwashing by investment funds.

ESMA also published a [report](#) on the Common Supervisory Action on costs and fees for investment funds, which was carried out with National Competent Authorities in 2021, highlighting the importance of supervision in ensuring investors are not charged with undue costs. In addition, a study looking at the potential reasons behind the relatively lower costs, better performance, of environmental, social and governance (ESG) funds compared to other funds was published.

Other key publications in May include a [Public Statement](#) on the Transparency on implementation of IFRS 17 Insurance Contracts, [six Final Reports](#) on the central counterparties (CCPs) resolution regime, the [Final Report](#) on the relevance of extending the transitional period set out in Article 48 of the Crowdfunding Regulation and the [technical advice](#) provided by the ESA's to the European Commission on the review of the PRIIPs Regulation.

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](#).

ESMA IN MAY

ESMA REMINDS ISSUERS OF THE MAIN IFRS REQUIREMENTS AMID THE WAR IN UKRAINE	3
ESMA REMINDS FUND MANAGERS OF THEIR OBLIGATIONS TO INVESTORS AMID THE WAR IN UKRAINE	5
ESMA PUBLISHES EX-POST ANALYSIS OF DERIVATIVES RISKS IN ARCHEGOS	6
ESMA REPORTS ON SUPERVISION OF COSTS AND FEES IN INVESTMENT FUNDS	7
ESMA PROVIDES SUPERVISORS WITH GUIDANCE ON THE INTEGRATION OF SUSTAINABILITY RISKS AND DISCLOSURES IN THE AREA OF ASSET MANAGEMENT	9
ESMA STUDY LOOKS AT REASONS FOR LOWER COSTS IN ESG FUNDS	11
PUBLICATIONS	12

THE MONTH AHEAD: JUNE

SPEAKING APPEARANCES	14
OPEN VACANCIES	17
CONTACT INFO	18



MAIN IFRS REQUIREMENTS AMID THE WAR IN UKRAINE

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, released a Public Statement on the implications of Russia's invasion of Ukraine on half-yearly financial reports.

ESMA recognises the human cost of Russia's military aggression against Ukraine, and the significant challenges to business activities and effects on the global economic and financial system posed by the invasion.

The statement, with the aim of promoting investor protection, provides overarching messages to issuers and auditors including:

- A reminder of the main IFRS requirements which may be applicable in the context of Russia's invasion of Ukraine e.g., impairment of non-financial and financial assets, and loss of control;
- ESMA's expectations regarding disclosures in financial statements e.g., judgements made, significant uncertainties, and going concern risks;
- ESMA's expectations regarding disclosures in interim management reports e.g., direct and indirect impact of Russia's invasion of Ukraine and imposed sanctions on issuers' strategic orientation and targets, operations, financial performance, financial position and cash-flows, measures taken to mitigate the impacts, and cybersecurity risks; and
- A reminder of issuers' obligations vis-à-vis the Market Abuse Regulation

Next steps

ESMA expects issuers (in particular their management and supervisory bodies) and their auditors to consider the messages of the statement when preparing and, where applicable, reviewing interim financial reports. ESMA and the European enforcers will focus on ensuring that adequate transparency is provided regarding the impacts and implications of Russia's invasion of Ukraine in financial information published by European issuers.

FUND MANAGERS' OBLIGATIONS TO INVESTORS AMID THE WAR IN UKRAINE

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has released a Public Statement on the implications of Russia's invasion of Ukraine on investment fund portfolios.

ESMA recognises the human cost of Russia's military aggression against Ukraine, and the significant challenges to business activities and effects on the global economic and financial system posed by the invasion. The statement, with the aim of promoting investor protection and convergence, provides overarching messages to fund managers including high level guidance on:



The appropriate action in case of exposures to Russian, Belarusian and Ukrainian assets, given valuation and liquidity uncertainties;



The process fund managers should follow when evaluating these assets; and



Whether it may be considered to use side pockets or similar arrangements to segregate these assets.

Next steps

ESMA expects fund managers of investment funds with exposures to assets facing liquidity issues to assess whether a fair value of these assets can still be determined and adapt the valuation without undue delay.

ESMA will continue to closely monitor the situation and take or recommend any measures necessary to mitigate the impact of the Russian invasion of Ukraine on investment funds. ESMA will, where necessary, reassess any potential need to supplement the guidance provided in this Public Statement or provide additional guidance on other issues arising from this crisis.



EX-POST ANALYSIS OF DERIVATIVES RISKS IN ARCHEGOS

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, published a study showing how regulatory reporting data can be used to identify risks in derivatives markets, such as occurred in the case of Archegos.

In the study, ESMA finds that the build-up of exposures by Archegos, a US family office whose collapse in March 2021 resulted in more than USD 10bn in losses, can be seen in data reported under the European Market Infrastructure Regulation (EMIR). The high level of concentration and the associated risks posed by the firm are also visible.

These findings show how regulatory data collected under EMIR can be used to monitor leverage and concentration risk arising in derivatives markets, and could foster the development of early warning indicators by supervisory authorities to track different types of risk.

Next steps

This article is an ex-post analysis of a relevant financial market event and aims to foster further financial stability analysis, as well as to feed into ongoing work on using EMIR, and other regulatory datasets, to identify and monitor risks, including at the international level by the European Systemic Risk Board and Financial Stability Board.

Background

In March 2021, the default of Archegos, a US family office, led to large losses for some global banks. Archegos was able to accumulate large leveraged exposures on equities by entering into derivatives transactions with banks. When the price of the underlying stocks started to decline, the firm was unable to meet variation margins, resulting in the liquidation of the stocks by the banks.

CSA REPORT ON SUPERVISION OF COSTS AND FEES IN INVESTMENT FUNDS



The European Securities and Markets Authority (ESMA), the EU securities markets regulator, published a [report on the Common Supervisory Action \(CSA\)](#) on costs and fees for investment funds, that was carried out with National Competent Authorities (NCAs) during 2021. ESMA highlights, in the Report, the importance of supervision in ensuring investors are not charged with undue costs, considering its high impact on investors' returns.

Verena Ross, Chair, said:



“ ESMA, through this CSA, has worked with the NCAs to assess, foster and enforce supervised entities' compliance with key cost-related provisions in the UCITS framework, in particular the obligation of not charging investors with undue costs. Costs remains a critical component when evaluating the ultimate benefits of an investment and, as ESMA has shown in its recent statistical reports, they remain higher for retail investors than for institutional investors.

In order to promote retail participation in the fund market, continued supervisory attention is needed on the topic of costs and fees in investment funds.

”

The CSA Report presents the main results of this exercise, namely:

- There is room for improvement on the application of the ESMA supervisory briefing on the supervision of costs in UCITS and AIFs, particularly for smaller management companies;
- Some questions arise concerning compliance with delegation rules where portfolio managers i.e. delegates, exercise significant influence or even decide the level of costs;
- Divergent market practices exist as to what industry reported as “due” or “undue” costs;
- Some NCAs discovered conflicts of interest at UCITS managers, in particular in case of related-party transactions;
- In some instances there is a lack of policies and procedures on efficient portfolio management (EPMs) and lack of clear disclosures as required under the ESMA Guidelines on ETFs and other UCITS issues; and
- Widespread use of fixed fee splits arrangements for securities lending continues, with unfavourable results for retail investors.

On the topic of investor compensation, ESMA stresses the importance of ensuring that investors are adequately compensated in all cases where they were charged with undue costs or fees, and also in cases where there were calculation errors that resulted in a financial detriment for investors.

Next steps

ESMA invites NCAs to use this opportunity to also consider enforcement actions in the cases where a significant regulatory breach was identified, particularly bearing in mind that the area of costs and fees is a priority due to the high relevance for investor protection.

ESMA and the NCAs will continue working on the topic.



GUIDANCE ON THE INTEGRATION OF SUSTAINABILITY RISKS AND DISCLOSURES IN THE AREA OF ASSET MANAGEMENT

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, published a [Supervisory Briefing](#) to ensure convergence across the European Union (EU) in the supervision of investment funds with sustainability features, and in combating greenwashing by investment funds.



This work will help combat greenwashing by establishing common supervisory criteria for National Competent Authorities (NCAs), to effectively supervise investment funds with sustainability features.

This briefing covers the following areas:

- Guidance for the supervision of fund documentation and marketing material, as well as guiding principles on the use of sustainability-related terms in funds' names; and
- Guidance for convergent supervision of the integration of sustainability risks by AIFMs and UCITS managers

The publication is part of the actions to implement ESMA's Sustainable Finance Roadmap, namely the consistent implementation of new requirements applicable to asset managers by developing new supervisory briefing(s).

Next steps

ESMA will work closely with NCAs to combat greenwashing, by promoting further supervisory convergence in supervising investment funds with sustainability features. This may include updating the supervisory briefing if needed considering experiences after the SFDR RTS starts applying on 1 January 2023.



ESMA STUDY

LOWER COSTS IN ESG FUNDS COMPARED TO OTHER FUNDS

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has published a study looking at the potential reasons behind the relatively lower ongoing costs, and better performance, of environmental, social and governance (ESG) funds compared to other funds, between April 2019 and September 2021.

ESMA recently determined that ESG equity undertakings for collective investment in transferable securities (UCITS), excluding exchange-traded funds, were cheaper and better performers in 2019 and 2020 compared to non-ESG peers.

Understanding the cost and performance dynamics of ESG funds is of particular interest as it may bring insights for the overall fund industry on how to make funds more affordable and profitable for retail investors.

ESMA, in today's article, is looking at some of the potential drivers behind this relative cheapness, and outperformance, of ESG funds, and finds several differences between the two categories of funds:

- ESG funds are more oriented towards large cap stocks;
- ESG funds are more oriented towards developed economies; and
- The sectoral exposures also differ between ESG and non-ESG funds.

Even after controlling for these differences, ESG funds remain statistically cheaper and better performing than non-ESG peers. Further research is thus needed to identify the other factors driving these cost and performance differences.

PUBLICATIONS



Click to read the news items

31
May
ESMA REPORTS ON
SUPERVISION OF COSTS AND
FEES IN INVESTMENT FUNDS

19
May
ESMA PUBLISHES REPORT ON
HIGHLY LIQUID
INSTRUMENTS

31
May
ESMA PROVIDES SUPERVISORS
WITH GUIDANCE ON THE
INTEGRATION OF
SUSTAINABILITY RISKS AND
DISCLOSURES IN THE AREA OF
ASSET MANAGEMENT

19
May
ESMA ENCOURAGES
CROWDFUNDING SERVICE
PROVIDERS TO ACCELERATE
THEIR TRANSITION TO THE NEW
REGIME

23
May
ESMA STUDY LOOKS AT
REASONS FOR LOWER COSTS
IN ESG FUNDS

18
May
ESMA PUBLISHES EX-POST
ANALYSIS OF DERIVATIVES
RISKS IN ARCHEGOS

20
May
NEW Q&AS AVAILABLE

17
May
ESMA CONSULTS ON
NOTIFICATIONS FOR CROSS-
BORDER MARKETING AND
MANAGEMENT OF FUNDS

19
May
ESMA LAUNCHES FOUR
CONSULTATIONS ON CCP
RESOLUTION REGIME

16
May
ESMA PUBLISHES FINAL
REPORTS ON CCP
RESOLUTION REGIME

16
May
ESMA REMINDS FUND MANAGERS OF THEIR OBLIGATIONS TO INVESTORS AMID THE WAR IN UKRAINE

03
May
ESMA PUBLISHES THE ANNUAL LIS AND SSTI CALCULATIONS FOR BONDS AND THE QUARTERLY BOND LIQUIDITY ASSESSMENT

13
May
ESMA MAKES RECOMMENDATIONS FOR DISCLOSURES OF EXPECTED IMPACTS OF IFRS 17 APPLICATION

02
May
ESAS CONSULT ON SUSTAINABILITY DISCLOSURES FOR SIMPLE, TRANSPARENT AND STANDARDISED SECURITISATIONS

13
May
ESMA REMINDS ISSUERS OF THE MAIN IFRS REQUIREMENTS AMID THE WAR IN UKRAINE

02
May
ESAS RECOMMEND CHANGES TO MAKE THE PRIIPS KEY INFORMATION DOCUMENT MORE CONSUMER-FRIENDLY

12
May
ESMA APPOINTS NEW MEMBER TO ITS MANAGEMENT BOARD

02
May
ESMA OBJECTS TO EUROPEAN COMMISSION'S PROPOSED AMENDMENTS ON ITS DRAFT ITS ON INSIDER LISTS

10
May
ESAS CALL FOR IMPROVEMENTS IN PRODUCT DESCRIPTIONS INTENDED FOR RETAIL INVESTORS

05
May
ESMA PUBLISHES LATEST EDITION OF ITS NEWSLETTER



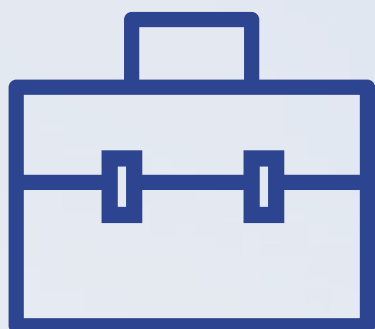
SPEAKING APPEARANCES

by ESMA staff in June

	EVENT	ORGANISER	SPEAKER
1 June	FESE Convention 2022	Federation of European Securities Exchanges (FESE)	Verena Ross
1 June	High level conference on CMU	European Commission	Verena Ross
1 June	LPFMI Conference	LPFMI	Froukelien Wendt
7 June	Euronext annual conference	Euronext	Natasha Cazenave
8 June	ICMA/ERCC Conference	ICMA	Klaus Loeber
8 June	FIA IDX 2022	Futures Industry Association (FIA)	Nicoletta Giusto
9 June	ICMA 2022 AGM & Conference	ICMA	Verena Ross
14 June	IMN event	Information Management Network (Euromoney IMN) / AFME	Thierry Sessin-Caracci

	EVENT	ORGANISER	SPEAKER
15 June	Eurosif podcast	Eurosif	Natasha Cazenave
15 June	Speak to Masters in Finance Students	London Business School 'Global Immersion Elective'	Roxana De Carvalho
16 June	AFM 20th Anniversary Seminar	AFM	Verena Ross
16 June	ALFI European Risk Management Conference 2022	ALFI	Kian Navid
16 June	International Conference on "A New Era of Investor Protection, Sustainability & Pension Reform"	BETTER FINANCE / Helinas International	Natasha Cazenave
17 June	7th CrowdCamp	Euro Crowd	Laurent Tristan
20 June	Course on Cyber Risks & Resilience	EUI	Klaus Loeber
21 June	IIF Talking Policy Webinar Series	IIF	Natasha Cazenave
21 June	Conference on CCP recovery and resolution	CNMV	Nicoletta Giusto

	EVENT	ORGANISER	SPEAKER
21 June	MFSA Event on Corporate Governance	MFSA	Valerio Novembre
22 June	DLT Conference	Sapienza Universita	Claudia Guagliano
23 June	CCP12 Annual General Meetings 2022	CCP12	Klaus Loeber
24 June	AFME/OMFIF 2nd Annual European Financial Integration Conference	AFME/OMFIF	Fabrizio Planta
29 June	HCMC Conference on ESG	HCMC	Verena Ross
29 June	HCMC Conference on ESG	HCMC	Verena Ross / Patrik Karlsson
30 June	Argus Carbon Markets and Regulation Conference 2022	Argus Media	Chloe Picandet
30 June	KREAB / Spanish Stock Exchange (BME) event	Kreab / Bolsas y Mercados Españoles (BME)	Verena Ross



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)

Policy Officer (Financial
Reporting Profile)

20/06/2022

Head of Department
(Resources)

04/07/2022

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



CONTACT INFO



ESMA

201-203 Rue de Bercy
75012 Paris



info@esma.europa.eu



Press office