Preliminary report on the EU carbon market

PRELIMINARY REPORT ON EU CARBON MARKET

The Report provides an analysis of price evolution and volatility in European emission allowances and derivatives on European emission allowances.

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

On 1 November we were happy to welcome Verena Ross on her first day as the new Chair of ESMA. It has been a busy first month for her, with a number of Board meetings and bilateral engagement with many Board members, a first meeting with the Securities Markets Stakeholder Group, and exchanges of views with EU Commissioner Mairead McGuinness and ECB President Christine Lagarde. Ms Ross also met her counterparts from the European Supervisory Authorities and attended meetings of the Financial Stability Board and IOSCO.

November was also busy in terms of publications, and we highlight in this issue ESMA’s preliminary report on the EU carbon market. The Report provides an analysis of price evolution and volatility in European emission allowances and in derivatives on European emission allowances. In this issue you can also read about ESMA’s contribution to a more sustainable financial system.

Other key publications in November include the Technical Standards on crowdfunding, Draft commodity derivative Technical Standards under MiFID II recovery package, Launch of public consultations on CCP resolution regime, the second Risk Dashboard for 2021, and the 2020 Annual Report on the EU Market Abuse Sanctions.

A full overview of all publications can be found in the newsletter, together with information on next month’s speaking appearances of ESMA staff, consultations closing in December, and vacancies. For updates, follow us on Twitter and LinkedIn.
On 18 November, ESMA published its Preliminary Report on the EU carbon market. The report responds to the request made by the European Commission (EC) to ESMA in its Communication on energy prices for a preliminary analysis of European emission allowances (EUAs) and derivatives on EUAs.

The Report presents an overview of the financial regulatory environment for the carbon market under MAR, MiFID II and EMIR and the tools available to securities supervisors to fulfil their responsibilities. The Report, based on commercial data, also provides an analysis of price evolution and volatility in EUAs and derivatives on EUAs. Weekly position reports in respect of derivatives on EUAs were used for the initial assessment of active counterparties.

ESMA, in its preliminary analysis, has identified the following:

**OPEN POSITION HOLDERS**

Open positions are to a large extent, and almost evenly, held by investment firms and credit institutions on the one hand and by non-financial counterparties on the other hand, while the remaining percentage of open positions, held by investment funds and other financial counterparties, remains relatively low.

**CATEGORIES OF POSITION HOLDERS**

The breakdown of open positions between the various categories of counterparties does not appear to have significantly changed since 2018 and is broadly in line with the expected functioning of the market, where non-financial entities buy EUA futures to hedge their carbon price exposure, while financial counterparties act as intermediaries to facilitate trading and provide liquidity to the market.

**Next steps**

ESMA will conduct an in-depth analysis of the EU carbon market based on data sources available to securities regulators under European legislation. ESMA will deliver its final report to the EC in early 2022. The EC, taking into account ESMA’s Final Report, will assess whether there is a need for targeted actions in the EU carbon market.
ESMA's contribution to a more sustainable financial system

As part of the European Green Deal and global efforts to deliver on the United Nations’ COP26 objectives on combatting climate change, ESMA is committed to contributing to a more sustainable financial system.

European financial markets are at a point of change: investor preferences are shifting towards financial products that incorporate environmental factors. Moreover, environmental factors are increasingly affecting the risks, returns and value of investments. Considering these challenges, ESMA has a key role in helping investors better understand the impact of environmental, social and governance (ESG) factors on their investments and how an investment contributes to a sustainable future. To support this work, ESMA published its Strategy on Sustainable Finance, in February 2020, setting out concrete steps to integrate ESG factors across all areas of its activity.

ESMA actively contributes to the development of the sustainable finance rulebook and to its consistent application and supervision taking the necessary measures to promote investor protection across the EU. ESMA also engages in risk assessment and market monitoring activities focusing on potential financial stability risks stemming from ESG factors.

ESMA’s support for international cooperation

ESMA believes that international cooperation is key to ensuring that consistent measures are taken to protect investors and secure financial stability as the demand for sustainability-related financial products increases. In this regard, ESMA supports, and participates in the work of IOSCO and its Sustainable Finance Task Force, as well as the relevant activities of the Network for Greening the Financial System and the Financial Stability Board.

Building an internationally comparable set of rules and principles that are applicable across the entire sustainable investment value chain is essential to address the global challenges facing financial markets due to climate change.
INVESTMENT FIRMS AND ASSET MANAGERS

April 2019
ESMA’s technical advice on integrating sustainability risks and factors in MiFID II and in UCITS and AIFMD

February 2021
Joint Committee’s draft regulatory technical standards on the content, methodologies and presentation of disclosures under the EU Regulation on sustainability-related disclosures in the financial services sector (SFDR)

What’s next?
- review the suitability and product governance guidelines to incorporate sustainability factors
- assist National Competent Authorities (NCAs) in being effective and consistent in their supervision of investment managers issuing products with sustainability characteristics and objectives

ISSUERS

June 2020
ESMA’s response to the European Commission’s consultation on a revision of the Non-Financial Reporting Directive (NFRD)

March 2021
ESMA’s advice under Article 8 of the Taxonomy Regulation on the content and methodology for the sustainability indicators

October 2021
ESMA’s annual Public Statement on European Common Enforcement Priorities covers the impact of COVID-19 and climate-related matters

What’s next?
- actively contribute to the development of sustainability reporting standards and foster common supervisory approaches in this area
CREDIT RATING AGENCIES

July 2019
ESMA’s technical advice on sustainability considerations in the credit rating market

July 2019
ESMA’s guidelines on disclosure requirements applicable to credit ratings including requirements to foster transparency around whether ESG factors were a key driver of the credit rating action

What’s next?
- assess the way CRAs incorporate ESG factors in their methodologies for credit ratings and outlooks and how CRAs ensure the robustness of their methodologies

ESG RATINGS

January 2021
ESMA’s letter to the European Commission sharing its views on the main challenges in the area of ESG ratings and assessment tools

What’s next?
- contribute to the European Commission’s planned work to improve the reliability, comparability and transparency of ESG ratings
ESG MARKET MONITORING AND RISK ASSESSMENT

September 2021
ESMA’s bi-annual report on Trends, Risks and Vulnerabilities with standing section on Sustainable Finance and related articles

What’s next?
- continue monitoring and assessing ESG-related market developments and risks and work on further integrating climate risks, for example in its stress testing framework

GREEN BOND STANDARD

October 2020
ESMA’s response to the European Commission’s targeted consultation on the establishment of the EU green bond standard (GBS)

What’s next?
- prepare for possible supervisory responsibilities arising from the EU GBS legislative proposal
CROSS-CUTTING

December 2019
ESMA’s report to the European Commission on findings on potential undue short-term pressures in securities markets and recommendations to address them

July 2020
ESMA’s response to the European Commission’s consultation on the renewed strategy on sustainable finance
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<thead>
<tr>
<th>Date</th>
<th>News Item</th>
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<tr>
<td>26 Nov</td>
<td>ESMA continues to see risk of market corrections amid elevated valuations</td>
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<tr>
<td>23 Nov</td>
<td>2020 Annual Report on the EU Market Abuse Sanctions</td>
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<tr>
<td>22 Nov</td>
<td>ESMA seeks input on EMIR clearing threshold framework</td>
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<td>22 Nov</td>
<td>Draft commodity derivative Technical Standards under MiFID II recovery package</td>
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<td>19 Nov</td>
<td>New Q&amp;As available</td>
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<td>19 Nov</td>
<td>Verena Ross delivers keynote speech at the DSW ESG Conference 2021</td>
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<td>18 Nov</td>
<td>ESMA consults on CCP investment practices for highly liquid financial instruments</td>
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<td>18 Nov</td>
<td>Preliminary report on the EU carbon market</td>
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<td>18 Nov</td>
<td>ESMA seeks investor protection and intermediaries experts for stakeholder panel</td>
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<tr>
<td>18 Nov</td>
<td>ESMA proposes changes to the scope of the clearing and derivative trading obligations for the benchmark transition</td>
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<td>18 Nov</td>
<td>Launch of public consultations on CCP resolution regime</td>
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<tr>
<td>18 Nov</td>
<td>ESMA and EBA consult on framework for the supervisory review and evaluation process of investment firms</td>
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10 Nov Technical Standards on crowdfunding

4 Nov ESMA highlights its contribution to a more sustainable financial system

3 Nov Verena Ross takes up her duties as Chair of ESMA
# SPEAKING APPEARANCES

by ESMA staff in December

<table>
<thead>
<tr>
<th>EVENT</th>
<th>ORGANISER</th>
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<tr>
<td>6 Dec &quot;Are Europe's Capital Markets ready for the Future? Europe's Green &amp; Digital Transition a Year After the CMU&quot;</td>
<td>European Banking Federation</td>
<td>Claudia Guagliano</td>
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<td>8 Dec Algorithmic Trading Governance &amp; Controls</td>
<td>Infoline / Informa</td>
<td>Benjamin Burlat</td>
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<td>8 Dec 5th Annual Conference of the European Systemic Risk Board</td>
<td>European Systemic Risk Board</td>
<td>Natasha Cazenave, Executive Director</td>
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<tr>
<td>10 Dec &quot;Pilot MiFID: experimenting on market infrastructures&quot;</td>
<td>CONSOB / Politecnio di Milano</td>
<td>Fabrizio Planta</td>
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CONSULTATIONS

Closing

16/12/21
Joint call for evidence on the European Commission mandate regarding the PRIIPs Regulation

23/12/21
Consultation on Review of the MiFID II framework on best execution reports

The full list of consultations and reply forms can be found on the ESMA consultations page
OPEN VACANCIES

<table>
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<th>POSITION</th>
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<tr>
<td>Senior Policy Officer (Investor Protection and intermediaries profile)</td>
<td>13/12/21</td>
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<tr>
<td>Senior Policy Officer (Sustainable Reporting profile)</td>
<td>17/12/21</td>
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<tr>
<td>Traineeship notice – Legal profile (F/M)</td>
<td>Open call (without a specific deadline)</td>
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<tr>
<td>Traineeship notice – Transversal profile (F/M)</td>
<td>Open call (without a specific deadline)</td>
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<tr>
<td>Traineeship notice - Financial Markets Profile (F/M)</td>
<td>Open call (without a specific deadline)</td>
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All open vacancies can be found on ESMA’s recruitment portal.