

Keynote Speech

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Introduction

Good morning, Ladies and Gentlemen, Guten Morgen meine Damen und Herren,

I would like to thank the Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW) for inviting me to speak at this event today that focuses on the challenges and opportunities posed by sustainable finance with respect, in particular, to reporting, governance and strategy.

This happens to be my first public speaking engagement after taking office as Chair of ESMA, and I think it is very fitting that I do this in front of an investor audience. ESMA has the important mandate to promote investor protection, also vis-à-vis the challenges posed by the current transition towards a more sustainable financial system.

In line with the mandate set out in our founding regulation and with our Strategy on Sustainable Finance¹ which we published now almost two years ago; we are incorporating ESG factors across the full range of our activities. ESMA, in particular, 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.

In my remarks today, I would like to address three aspects that, on the one hand, are needed to support effective capital allocation decisions targeted at sustainable investments and, on the other, are needed to counter the risk of greenwashing: firstly, transparent and reliable

¹ ESMA22-105-1052 [Strategy on Sustainable Finance](#), 6 February 2020

disclosures; secondly, a good understanding of the underlying sustainability profile of target investments; and thirdly, sound board accountability and stakeholder involvement on sustainability commitments.

The growing importance of ESG in finance and the risk of greenwashing

As the title of today's event indicates, ESG factors have been growing in importance in financial markets for some time. ESMA's latest market monitoring indicators show that the growth of the sustainable bond market accelerated by 95% between summer 2020 and summer 2021, leading it to a total market value of €888 billion.² At the end of June this year, green corporate bonds as such accounted for 3.5% of total EU corporate bonds outstanding. Turning to funds, the size of the ESG fund market reached €1.5 trillion in June 2021. This was an increase of 46% over the previous 12 months. This brought ESG funds to constitute 18% of the assets under management of EU equity, bond, mixed and money market funds publicly marketed in the EU.

The UN COP26 has just closed and governments around the world have committed significant resources to foster the channelling of private finance towards sustainable investing - which is set to become even more mainstream.

While, especially in the EU, the push for building a more sustainable economy has also relied on public sector initiatives, I think it is safe to say that ultimately much of this change is investor driven. In response to increasing demand for financial instruments and products that incorporate ESG factors, the supply of such instruments and products has also increased.

This is a dynamic that can play an important role in Europe's green transition, but it also raises some key questions. For example: how do we know that each Euro invested in products that claim to be sustainable really translates into a positive impact on the environment or the society at large? Are investors always fully aware of what type of products they are buying when ESG-labelled investments are offered to them? These simple questions show the close link between the credibility of the whole sustainable finance initiative and the need to ensure investor protection in this area.

As ESMA, we observe that the rapidly growing demand for ESG products coupled with a regulatory regime that is still in the making creates a clear risk of distortions and even manipulation in the marketplace. The most common type of distortion is generally referred to

² ESMA50-165-1842 TRV [ESMA Report on Trends, Risks and Vulnerabilities No. 2, 2021](#), 1 September 2021

as "greenwashing" or "ESG-washing". These terms refer to situations in which the disclosed sustainability profile of a company, a financial instrument or a financial product does not properly reflect the underlying sustainability risks and impacts. As such, greenwashing can lead to misrepresentation, misselling and mispricing. It therefore has potentially detrimental effects on investor protection and for the correct functioning of financial markets at large.

ESMA is currently planning its activities for the coming years in relation to ESG and sustainable finance in general. We will have an ambitious and comprehensive programme and the topic of greenwashing will play an important role in these activities. We intend to work closely with national securities regulators to promote a coordinated approach across the EU to tackling this issue.

This takes me to sharing a few reflections on the role that transparent and reliable disclosures play to counter greenwashing and enable sound decision-making by investors in this important sustainability transition.

Transparent and reliable disclosures

For a few years now, large EU companies have been required to provide so-called non-financial information as part of the annual disclosure they publish for investors and other stakeholders. This requirement was introduced with the Non-Financial Reporting Directive and constitutes an important milestone which has set the EU on a path towards company transparency on ESG matters.

However, it has also been acknowledged that the current rules do not go far enough. Therefore, the European Commission earlier this year launched a legislative proposal for a Corporate Sustainability Reporting Directive (CSRD) which expands the requirement to publish non-financial information – now to be known as sustainability information – to a much larger group of companies, establishes more detailed, mandatory disclosure rules and strengthens the role of auditors to ensure dependable disclosures. ESMA is following this work closely and is contributing to the development of the new mandatory disclosure rules that are being developed by EFRAG. Once the new requirements are in place, ESMA will furthermore work with national securities regulators to ensure they are applied and enforced in a harmonised way.

As this legislative process is ongoing in Europe, similar developments are taking place internationally. Building a globally comparable set of rules that are applicable across the entire sustainable investment value chain is essential to address the global challenges facing

financial markets due to climate change. International cooperation is key to ensuring that consistent measures are taken to protect investors and secure financial stability as the demand and need for sustainability-related financial products increases. In this regard, ESMA supports and participates in the work of IOSCO and its Sustainable Finance Task Force.

One very important development on the international stage came as recently as 3rd November when the IFRS Foundation announced the creation of a new International Sustainability Standards Board, ISSB, to exist in parallel to the International Accounting Standards Board.

The ISSB will establish sustainability-related disclosure standards constituting a comprehensive global baseline which will apply in those jurisdictions that sign up to them. Many companies who operate both within and outside the EU are likely to apply at the same time the ISSB standards and the European reporting standards. It is therefore important to ensure that the European and the global reporting standards are inter-operable, both to ensure helpful disclosure to investors and to limit unnecessary burden to companies. ESMA is actively monitoring the work that is being undertaken to this end.

While these standard-setting developments are ongoing, I am aware that several stakeholders have raised concerns about the fact that full transparency and comparability on the sustainability profile of reporting entities and, in turn, of the financial products that invest in them will take some time to be achieved. They point out that, on the one hand, financial market participants are obliged to report ESG data linked to their business activities and, on the other hand, the investee companies do not necessarily have a legal obligation to gather the needed ESG data.

As with all novel areas of legislation, some practical difficulties may exist. For example, we know there may be challenges with the implementation timelines of key acts such as the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation or with the lack of complete and comparable data sets due to the fact that the corporate disclosure regime is still work in progress.

These are all – somewhat inevitable – consequences of being at the beginning of a transition phase which typically requires a steep learning curve for all parties involved – not only market participants but also regulators and supervisors – before reaching a steady state. But let me be clear: there is no complacency from the part of ESMA or any national regulator who remain vigilant when it comes to misleading communication on sustainable investing or other forms of greenwashing when advising or offering products to investors.

Capacity building in sustainable investing

While the necessary transparency measures are being put in place and are being duly supervised, we also need to acknowledge the importance of fostering financial literacy through financial education initiatives focusing on sustainable investing.

In this respect, I would like to commend the work that DSW and other investor associations undertake in disseminating information and knowledge about the relevant legislative initiatives and developments in the sustainable finance area.

It is important that all parties involved in this sustainability transition undertake efforts to ensure that the end investors have a good understanding of the sustainability features of the assets or products they invest in.

In general terms, as we speak, many European retail investors are still not able to fully assess the risk-return profile of simple financial instruments. The sustainability dimension further complicates that assessment, and it is therefore important that measures are taken in this regard. Due to the important role played by investors in the sustainability transition, ESMA, together with EBA and EIOPA, has established a specific workstream to coordinate and support the initiatives taken to enhance financial literacy at national level, including on sustainable finance.³

Sound board accountability and stakeholder involvement on sustainability issues

Let me now touch briefly upon the third area which – together with transparency and sustainable finance literacy – is needed to ensure that investors can hold investee companies accountable for their sustainability commitments.

At the end of 2020, the Commission proposed a Sustainable Corporate Governance Initiative that would complement the provisions of the CSRD by introducing duties to act, rather than only to report. A legislative proposal from the Commission is expected by the end of this year.

While the CSRD might introduce a requirement to report on due diligence processes, such a requirement is not associated with a corporate obligation to carry out due diligence. In this context, the Sustainable Corporate Governance Initiative aims at bringing consistency in the way companies address corporate governance issues in practice and hold them fully accountable for how they mitigate their adverse environmental and social impacts.

³ https://www.esma.europa.eu/sites/default/files/library/jc_2021_34_-_jc_work_programme_2022.pdf

The relevant Commission consultation – that closed in February – inquired about stakeholders’ views on the need for an EU intervention on sustainable corporate governance and on the scope and structure of any such intervention. The consultation also sought views on other ways – in addition to due diligence requirements – of integrating sustainability into corporate strategy by, for example, introducing new directors’ duties, seeking to improve sustainability expertise on boards, better designing the remuneration of directors and strengthening the engagement of stakeholders.

ESMA and national securities regulators cooperated with the Commission to enrich this discussion and bring to the table the securities regulators’ perspective together with some practical proposals, most of which were already articulated publicly by ESMA on previous occasions (i.e., both in the ESMA response to the Renewed Sustainable Finance consultation⁴ and in the ESMA Advice on Short-Termism⁵).

One key development that I think will be important in this area of governance is to find the appropriate mechanisms to make sure that issuers and their directors take into account a broader set of stakeholder interests in their corporate decisions compared to what is currently the case. Such an approach would furthermore contribute to a more robust identification of potential sustainability risks which issuers may be subject to at present, or in the future, and it would generally facilitate issuers in taking more long-term oriented decisions.

Another important aspect where improvements are needed is the scope of due diligence requirements on supply chains. While it is key to reinforce the role of due diligence standards, as also highlighted in a 2021 EP resolution,⁶ it would be important to clarify in detail which specific sectors qualify as ‘most risky’ and take a proportionate approach to any requirements imposed on SMEs to avoid subjecting them to any unnecessary administrative burden.

Overall, ESMA supports the rationale behind the Sustainable Corporate Governance Initiative and in particular its aim to curb greenwashing and enhance the reliability of the ESG information that is disclosed to the market by ensuring that reporting obligations are paired with adequate corporate and director duties.

⁴ <https://www.esma.europa.eu/press-news/esma-news/esma-responds-european-commission-consultation-renewed-sustainable-finance>

⁵ https://www.esma.europa.eu/sites/default/files/library/esma30-22-762_report_on_undue_short-term_pressure_on_corporations_from_the_financial_sector.pdf

⁶ [Texts adopted - Corporate due diligence and corporate accountability - Wednesday, 10 March 2021 \(europa.eu\)](#)

Conclusions

Ladies and Gentlemen, let me conclude.

The sustainability transition requires a collective effort of several parties. Investors have a significant role to play in allocating capital to projects and entities that have the right sustainability credentials to support this transition. Our role as regulators and supervisors is to make sure that there is a sound regulatory regime, and that timely action is taken when there is a threat to investor protection or the overall stability of the financial system.

I believe I have explained that countering greenwashing is central to this objective and to securing the overall credibility of a more sustainable financial system. As ESMA, together with national supervisors, we will commit to doing everything in our powers to tackle greenwashing.

To this end, we need to ensure that transparent and reliable disclosures are in place, that investors are sufficiently educated on the fundamentals of sustainable investing and that governance mechanisms are in place to ensure the appropriate level of stewardship on the decisions that companies take with regards to sustainability.

I am confident that the regulatory measures already underway in the EU to address these issues are proportionate to the challenges that are ahead of us and that, as ESMA, we can further contribute to all investors having the right information to invest sustainably.

Let me end here and thank you once again for the opportunity to speak here today. I wish you a very successful and interesting conference, where you will no doubt get into many of the topics I touched on this morning in more detail.

I am now happy to respond to any questions you may have. Thank you.