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ESMA Publishes 2021 Annual Work Programme

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ESG Task Force (Global)
Global Advocacy Coordination Advisory Committee
Global Operations Advisory Committee
ICI Global Regulated Funds Committee SUBJECTS: Disclosure
ESG
Financial Stability
International/Global
Investment Advisers
MiFID, EMIR, AIFMD, UCITS V RE: ESMA Publishes 2021 Annual Work Programme

On 2 October 2020, the European Securities and Markets Authority (ESMA) published its 2021 Annual Work Programme.[\[1\]](#) ESMA notes at the outset that this work programme is established against the background of a changing landscape for ESMA, including movement of the regulatory cycle towards supervision and enforcement and a continued need to develop EU capital markets, reinforced by the fact that the largest capital market has left the EU.

For 2021, ESMA sets out its planned activities to respond to the challenges faced by the EU, its citizens, and capital markets, including developing a large retail investor base to support the Capital Markets Union (CMU), promoting sustainable finance and long-term oriented markets, dealing with the opportunities and risks posed by digitalisation, strengthening the EU's role in global capital markets, and ensuring a proportionate approach to regulation.

The below summary focuses on the aspects of ESMA's Work Programme that are most relevant to regulated funds and their managers, specifically in the areas of sustainable finance, supervisory convergence, risk assessment, Single Rulebook, and direct supervision.

Sustainable Finance. ESMA lists sustainable finance as a key priority that spans all of its activities with the following items of particular note:

- **Roadmap for supervisory convergence in sustainable finance.** ESMA plans to produce a roadmap for supervisory convergence in sustainable finance, building on the sustainable finance strategy it published in 2020. The Work Programme specifically mentions ESMA's work to improve convergence under the revised

Shareholder Rights Directive (SRD II), taking ESG-related factors into particular account, as well as convergence on authorization and supervision of ESG funds.

- **Implementation of the Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy Regulation.** This will include support to work for the preparation of the delegated acts and its role in the Platform on Sustainable Finance. ESMA will also assist the Commission with new initiatives resulting from the renewed sustainable finance strategy in the context of the recovery, to be adopted by the Commission by the end of the year.

Supervisory Convergence. ESMA is focused on fostering convergence in fund liquidity risks and liquidity management tools, retail investment products costs and performance, the supervision of ESG reporting and data usage, and the consistent implementation and application of European Market Infrastructure Regulation (EMIR).

ESMA also plans to focus on the following items:

- **Common supervisory actions (CSAs) on liquidity management and costs and fees.** ESMA's planned 2020 work on UCITS liquidity management will continue in 2021, and ESMA intends to launch a CSA on the topic of costs and fees (including securities lending fees and costs) in 2021.
- **Costs and performance of retail investment products.** In addition to the CSA, ESMA will continue work on National Competent Authorities' (NCAs) supervision and enforcement around cost and performance of retail investment products, including implementation of its 2020 guidance on performance fees and supervisory briefing on the supervision of costs and possibly continuing coordination of NCAs' work in the area of closet indexing.
- **Update of guidelines on MMF stress testing.** ESMA will update its guidelines on MMF stress testing taking and continue to use its fund stress simulation framework to assess the resilience of the EU fund industry and identify potential vulnerabilities in funds.
- **Guidelines on UCITS marketing communications.** ESMA will issue guidelines on the application of the requirements for marketing communications and prepare its first report on marketing requirements and marketing communications.

Risk Assessment. ESMA is particularly focused on financial innovation and ESG developments, such as ongoing development of ESG indicators and product-related retail risk indicators, and continued risk monitoring to support of ESMA's new supervisory mandates. ESMA is contributing to Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) workstreams on financial innovation, retail investors, and ESG, and also is monitoring market impacts related to COVID-19 and Brexit.

Single Rulebook. ESMA will contribute to the Markets in Financial Instruments Directive (MiFID) and Alternative Investment Fund Managers Directive (AIFMD) legislative reviews and assess whether rulebook changes are needed to support the Capital Markets Union (CMU), to enhance the attractiveness of EU capital markets, or to promote sustainable finance or proportionality. ESMA will also review technical standards where necessary following its review of EMIR and the changes introduced under EMIR Refit.

Direct Supervision. ESMA will focus on third country central counterparty supervision as critical financial market infrastructures under EMIR 2.2. ESMA will also prepare for new supervisory mandates regarding benchmarks and data service providers and continue direct supervision of credit rating agencies, trade repositories, and securitisation

repositories.

Linda M. French
Assistant Chief Counsel, ICI Global

endnotes

[1] ESMA's 2021 Annual Work Programme is *available at* https://www.esma.europa.eu/sites/default/files/library/esma20-95-1273_2021_annual_work_programme.pdf

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