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EU ESG: ESMA Sustainable Finance Roadmap for 2022-2024

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TO: ICI Members

ICI Global Members

ESG Task Force

EU ESG Disclosure Regulation Working Group SUBJECTS: ESG

International/Global RE: EU ESG: ESMA Sustainable Finance Roadmap for 2022-2024

On 11 February 2022, the European Securities and Markets Authority (ESMA) published its Sustainable Finance Roadmap for 2022-2024 (Roadmap),[\[1\]](#) setting out ESMA's deliverables on sustainable finance and how they will be implemented during the period 2022-2024.

ESMA has already embarked on the first Roadmap activities. It will soon launch a call for stakeholder candidates to join a new Consultative Working Group supporting ESMA's Coordination Network on Sustainability. Beyond the activities in the Roadmap, ESMA highlights that it will continue to monitor major EU and international developments and contribute as needed to the various initiatives in the sustainable finance area, in order to ensure that all of ESMA's sustainable finance work takes into account, and is compatible with, international initiatives.

This memorandum summarizes ESMA's priorities and key actions laid out in the Roadmap.

1. Overview of the Roadmap

Building on ESMA's 2020 Strategy for Sustainable Finance,[\[2\]](#) the Roadmap is a tool to ensure the coordinated implementation of ESMA's sustainable finance mandate over the next three years. It is described as a living document, subject to regular reassessment by ESMA and EU National Competent Authorities (NCAs) to ensure its continued relevance. The Roadmap highlights three priorities:

- tackling greenwashing and promoting transparency;
- building both NCAs' and ESMA's capacities in the sustainable finance field; and
- monitoring, assessing and analyzing ESG markets and risks.

ESMA's Roadmap focuses on seven sectors where ESG-related risks are currently perceived as having the highest potential impact on investor protection, orderly markets and financial

stability ("most impacted sectors"). These are: investment management, investment services, issuers' disclosure and governance, benchmarks, credit ratings and ESG ratings, trading and post-trading, and financial innovation.

2. Tackling greenwashing and promoting transparency

ESMA notes that the combination of growing investor demand for ESG investments and fast-evolving market and regulatory developments creates the potential for greenwashing[3] and poses risks to investors. The priority in this area is to investigate the nature and causes of greenwashing, define its fundamental features, and ultimately, address it with coordinated actions. ESMA intends to take a broad approach to understand both direct (e.g., misrepresentation or wrongful disclosure or the lack of clear ESG product labeling) and indirect (e.g., availability and quality of data) causes of greenwashing.

ESMA will organize case discussions focused on greenwashing issues among NCAs to establish a shared understanding of key concepts. This will include identifying the key features of greenwashing practices, getting to a comprehensive definition of greenwashing and identifying related examples. Further, ESMA will provide guidance to the market and NCAs on how to apply various rules in the sustainable finance single rulebook to ensure consistent and effective application. It will develop guidance on the Delegated Act under Article 8 of the Taxonomy Regulation[4] to ensure robust disclosures on companies' environmental performance and their transition plans. ESMA will also promote consistency with international initiatives, including the International Sustainability Standards Board (ISSB), to ensure the EU reporting regime for issuers is adequate to meet the information needs of investors that operate at the global level.

3. Building NCAs' and ESMA's capacities

The growing importance of sustainable finance requires NCAs and ESMA to further develop skills beyond their traditional areas of focus to understand and address the supervisory implications of new regulations in this area. ESMA will help build its own, and the NCAs', capacity on sustainable finance through a multi-year training program and facilitating the active sharing of supervisory experiences among NCAs.

4. Monitoring, assessing and analyzing ESG markets and risks

While sustainable finance creates new investment opportunities, ESMA believes it also brings new risks to investor protection, orderly markets, and financial stability. In particular, the Roadmap cites that ESG markets and products (e.g., ESG funds and green bonds) and EU carbon markets require close supervision. ESMA will engage in activities such as climate change scenario analysis for investment funds, central counterparties (CCPs) stress testing, and the establishment of common methodologies for climate-related risk analysis together with other public bodies. ESMA has separately published a Call for Evidence on climate risk stress testing for CCPs, which seeks input on a proposed classification of climate risks relevant to CCPs, as well as the potential methodology to model these risks.[5]

Insufficient and poor-quality ESG data are seen as impediments to proper risk monitoring and assessment. According to the Roadmap, ESMA will assess issues with data availability and quality affecting market participants' reporting obligations as well as the users of this data. As part of this work, on 3 February 2022, ESMA published a Call for Evidence on Market Characteristics for ESG Rating Providers.[6] The Roadmap also identifies the need for further work in relation to green FinTech and climate risk assessment.

5. Planned Actions and Deliverables

The Roadmap sets out a comprehensive list of actions^[7] in the seven most impacted sectors, together with the indicative timelines for each action. Below is a summary of the main actions in relation to investment management, investment services, issuers' disclosure and governance, credit ratings and ESG ratings, as well as cross-sectoral actions.

Cross-sectoral:

- Assess greenwashing market practices
- Conduct supervisory case discussions on greenwashing among NCAs
- Map NCAs' supervisory role, especially on greenwashing
- Contribute to consistency of sustainable finance legislation
- Contribute to the European Commission's efforts to develop EU-wide labels for sustainable finance products
- Establish Consultative Working Group for Coordination Network on Sustainability

Investment management:

- Contribute to the Commission's work on minimum sustainability criteria for Article 8 products under the Sustainable Finance Disclosure Regulation (SFDR)
- Review SFDR regulatory technical standards to clarify indicators for climate- and environmental-related Principal Adverse Impacts (PAI)
- Contribute to consistent implementation of new requirements through supervisory convergence actions
- Undertake work on climate change scenario analysis

Investment services

- Contribute to consistent implementation of new/existing requirements related to manufacturing and design of ESG products, information provided on ESG products as well as their marketing and distribution
- Collect data on distribution of ESG products

Issuers' disclosure and governance

- Contribute to EU and international sustainability reporting standards
- Contribute to prospectus requirements for green, social and sustainable securities
- Contribute to legislative process on Sustainable Corporate Governance and Shareholder Rights Directive II
- Contribute to guidance on stewardship not to impede collaborative engagement by investors on sustainability goals
- Provide guidance on the Delegated Act under Article 8 of Taxonomy Regulation

Credit ratings and ESG ratings

- Support the Commission in improving reliability and comparability of ESG ratings
- Assess how credit rating agencies incorporate ESG factors in their methodologies

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endnotes

[1] Sustainable Finance Roadmap 2022-2024, 10 February 2022, available at https://www.esma.europa.eu/sites/default/files/library/esma30-379-1051_sustainable_finance_roadmap.pdf.

[2] Strategy on Sustainable Finance, 6 February 2020, available at https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052_sustainable_finance_strategy.pdf.

[3] ESMA notes that "intuitively" greenwashing refers to market practices, both intentional and unintentional, whereby the publicly disclosed sustainability profile of an issuer and the characteristics and/or objectives of a financial instrument or a financial product either by action or omission do not properly reflect the underlying sustainability risks and impacts associated to that issuer, financial instrument or financial product.

[4] COMMISSION DELEGATED REGULATION (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation, available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2021.443.01.0009.01.ENG&toc=OJ:L:2021:443:TOC. See also ICI Memorandum [33939], dated 6 December 2021, available at <https://www.ici.org/memo33939>.

[5] The deadline for responses is 21 April 2022. See <https://www.esma.europa.eu/press-news/esma-news/esma-launches-call-evidence-climate-risk-stress-testing-ccps>

[6] The deadline for responses is 11 March 2022. See file:///C:/Users/elizabethlance/Downloads/esma80-416-250_call_for_evidence_on_market_characteristics_for_esg_rating_providers_in_the_eu.pdf. See also ICI Memorandum [34029], dated 8 February 2022, available at <https://www.ici.org/memo34029>.

[7] See Roadmap, *supra* note 1, at Annex.