

Regulatory News Alert

Sustainable finance: ESMA sets out its strategy

6 February 2020

Context and objectives

The topic of **sustainable finance has gained significant momentum** in recent years. Regulators and supervisors are increasingly focused on incentivizing and requiring financial firms to consider sustainability factors in their day-to-day operations and in helping the economy transition to a more environmentally-friendly way of functioning.

[As reported in December 2019](#), the European Union (EU) already took several steps to stress the relevance of sustainable finance and anchor the topic in the EU's regulatory framework. Numerous initiatives have been launched to enhance the **consideration of environmental, social, and governance (ESG) factors** in the investment sector. For instance, the European Commission developed an Action Plan on Financing Sustainable Growth, stating that the financial system has a key role to play by **reorienting private capital to more sustainable investments**.

On 6 February 2020, the European Securities and Markets Authority (ESMA) set out its **Strategy on Sustainable Finance**, committing to placing sustainability at the core of its activities and embedding ESG factors in its work.

ESMA's key priorities on sustainable finance

The key priorities for ESMA highlighted in the strategy include:

- Completing the regulatory framework on **transparency obligations** via the Disclosures Regulation
- Reporting on the **trends, risks, and vulnerabilities (TRV)** of sustainable finance
- Analysing **financial risks** from climate change
- Pursuing **convergence of national supervisory practices** on ESG factors
- Participating in the **EU Platform on Sustainable Finance**
- Adherence to ESG guidelines in **direct supervision**.

Next steps

To deliver on these outlined priorities, ESMA envisages taking the following steps:

- **Transparency:** ESMA will work with the EBA and EIOPA to produce joint technical standards supplementing the Disclosures Regulation
- **TRV reporting:** ESMA will include a dedicated chapter in its TRV Report, including indicators related to green bonds, ESG investing, and emission allowance trading
- **Financial risks:** ESMA will use the data at its disposal for analysis purposes and potentially include climate-related stress testing in different market segments
- **Convergence of supervision:** ESMA will specifically focus on mitigating the risk of greenwashing, preventing mis-selling practices, and fostering transparency and reliability in the reporting of non-financial information
- **EU Platform on Sustainable Finance:** ESMA will help develop and maintain the EU taxonomy and monitor capital flows to sustainable finance
- **Direct supervision:** ESMA will monitor whether the ESG guidelines are adhered to in the entities that ESMA supervises directly, and it will be ready to accept any new supervisory mandates related to sustainable finance.

In addition, ESMA set up a Coordination Network on Sustainability (CNS) to help deliver its strategy in 2019. The network is composed of experts from national competent authorities and ESMA staff. In the coming months, a consultative working group of stakeholders will be established to support this.

How can Deloitte help?

Deloitte's advisory specialists and dedicated services will help you design and implement your business strategy in light of the future evolution of the regulatory framework and market trends.

With our Regulatory Watch Kaleidoscope service, Deloitte can also help you stay ahead of the regulatory curve to better manage and plan upcoming regulations.

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