

ESG disclosures now a priority for ESMA

The European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, is changing its Union Strategic Supervisory Priorities (USSPs) to include environmental, social and governance (ESG) disclosures alongside market data quality as part of its new 2023-2028 strategy. This reflects the fundamental changes being effected in the financial markets that are being driven by the growing importance of the concept of sustainability and related concerns.

Key Objectives

The key objective is that through the joint efforts of ESMA and the National Competent Authorities (NCAs) ESG considerations will become effectively incorporated into both regulation and supervisory practices. This will enable investors to make informed investment decisions and participate in the climate and broader sustainability transition, with a particular focus on ensuring the integrity of ESG disclosures. This focus on the approach to ESG disclosure is aimed at minimising the occurrence of "greenwashing". ESMA is supporting the ESG transition by taking a holistic view across the value chain of sustainable investments.

Supervisory Practices

ESMA aims to promote an increased scrutiny of ESG disclosures through effective and consistent supervision. It is the aim of ESMA to pursue a digital transformation across its working practices and stimulate the use of data and technology – including for its supervisory activities. ESMA will also keep on streamlining its core administrative processes, including through increased automation and digitalisation. The building of supervisory infrastructure will help imbed sustainable finance into daily supervisory work and supervisory culture.

Data Transparency

The second updated USSP, relates to improving the quality of data transparency reported under Markets in Financial Instruments (MiFIR). ESMA has already developed and applied common methodologies and thematic reviews for this purpose. In this regard, ESMA is currently working with NCAs to best optimise the development of the supervisory role.

The USSPs are an important mechanism in providing a structured and comprehensive response to address the key market risk factors across the EU. NCAs are required to take them into account when drafting new work programmes, so this ensures pan-European application.

The Role of Retail Investors

ESMA has continued to recognise the importance of retail investors in financing the broader sustainability transition. However, it recognises that due to the complex nature of sustainability products, it is required to promote easy-to-read signals and labels, provide high quality investment advice, and allow for easy access to high quality ESG data to facilitate an informed investment choice by retail investors.

Costs

This focus on the requirements pertaining to ESG disclosures replaces costs and expenses for retail investment products in ESMA's list of priorities and reflects the development and increasing importance of sustainable finance more generally.

How Clerkin Lynch Can Help

The asset management team of Clerkin Lynch helps clients ensure compliance with the ESMA recommendations and underlying legislation by working with clients on related disclosures. Our team can assist in updating documentation and with the preparation of relevant underlying policies and procedures. Please contact us for a no-obligation discussion to find out more about our team and services.



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