



ESMA STRATEGY

2023

2028





ESMA STRATEGY

2023

2028

**Photo credits:**

Cover © unsplash.com/ Jean-Philippe Delberghe  
Page 6 © GettyImages  
Page 8 © iStockphoto  
Page 10 © iStockphoto  
Page 14 © iStockphoto  
Page 18 © GettyImages  
Page 21 © GettyImages  
Page 25 © unsplash.com/ Absolutvision  
Page 27 © GettyImages  
Page 30 © iStockphoto  
Page 34 © GettyImages

Manuscript completed in September 2022

Neither ESMA nor any person acting on behalf of ESMA is responsible for the use that might be made of the following information.

Luxembourg: Publications Office of the European Union, 2022

Print ISBN 978-92-95202-71-9 doi:10.2856/74077 EK-08-22-328-EN-C  
PDF ISBN 978-92-95202-74-0 doi:10.2856/872086 EK-08-22-328-EN-N

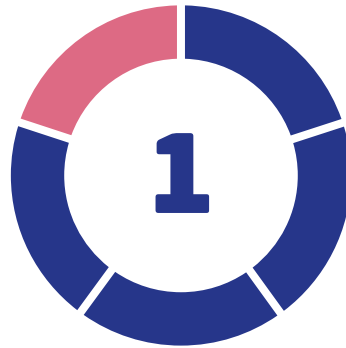
© European Securities and Markets Authority, 2022

Reproduction is authorised provided the source is acknowledged.

For any use or reproduction of photos or other material that is not under the ESMA copyright, permission must be sought directly from the copyright holders.

# Table of contents

<b>1</b>	<b>EXECUTIVE SUMMARY .....</b>	<b>6</b>
<b>2</b>	<b>ESMA THE EU'S FINANCIAL MARKETS REGULATOR AND SUPERVISOR.....</b>	<b>9</b>
2.1	ESMA's mission.....	10
2.2	ESMA as part of the European System of Financial Supervision.....	10
2.3	ESMA as the European centre of expertise on financial markets.....	11
<b>3</b>	<b>CHALLENGING AND RAPIDLY CHANGING ENVIRONMENT.....</b>	<b>12</b>
<b>4</b>	<b>STRATEGIC PRIORITIES .....</b>	<b>15</b>
4.1	Fostering effective markets and financial stability.....	16
4.1.1	Fair, orderly and effective markets.....	16
4.1.2	Contributing to strengthening the stability of the financial system.....	16
4.1.3	Development of the EU single market.....	17
4.1.4	The EU's voice in the global marketplace .....	18
4.2	Strengthening supervision of EU financial markets.....	19
4.2.2	Enhanced risk prioritisation and outcome-based supervision.....	20
4.2.3	ESMA's convergence approach.....	21
4.2.4	ESMA supervision .....	22
4.3	Enhancing protection of retail investors .....	23
4.3.1	Investor protection.....	23
4.3.2	Retail investor engagement.....	23
4.3.3	Information/Disclosure.....	24
4.3.4	Retail participation.....	25
<b>5</b>	<b>THEMATIC DRIVERS .....</b>	<b>26</b>
5.1	Enabling sustainable finance.....	27
5.1.1	Effectiveness and integrity of ESG markets.....	27
5.1.2	A workable regulatory framework .....	27
5.1.3	Effective and consistent supervision .....	28
5.1.4	Role of retail investors.....	28
5.2	Facilitating technological innovation and effective use of data.....	29
5.2.1	Technological innovation .....	29
5.2.2	Stepping up the effective use of data across ESMA's activities.....	30



# Executive summary



The 2023-2028 strategy will guide the European Securities and Markets Authority (ESMA) in its second decade. It builds on the successful development of ESMA since its establishment and reflects the evolving environment in which it operates. ESMA plans to implement this strategy step by step over the next years, focusing on the strategic priorities and thematic drivers, while being mindful of market developments and emerging risks, as well as new legal mandates and available resources both at ESMA and National Competent Authorities (NCAs).

The strategy takes into account the key priorities of the European Union (EU) in the area of financial services and aims to address the most significant risks linked to EU financial markets. It is structured around the following key areas:

- effective financial markets and financial stability;
- supervision and supervisory convergence;
- retail investor protection;
- sustainable finance; and
- technological innovation and increased use of data.

Integrity and trust in financial markets across the EU are pre-requisites for enabling greater market-based financing of the economy, facilitating access to finance for companies, and allowing investors to participate in financial markets safely. In the context of a changing market ecosystem and uncertainty about future economic conditions, maintaining financial stability is of particular importance. Consequently, one of ESMA's strategic priorities consists of fostering effective markets and financial stability – making EU financial markets more efficient and resilient, while respecting the principle of proportionality. This includes further developing, maintaining, and streamlining the single rulebook to reflect new developments, and ensuring its effective and common application, thus both strengthening the single EU market and making it more attractive.

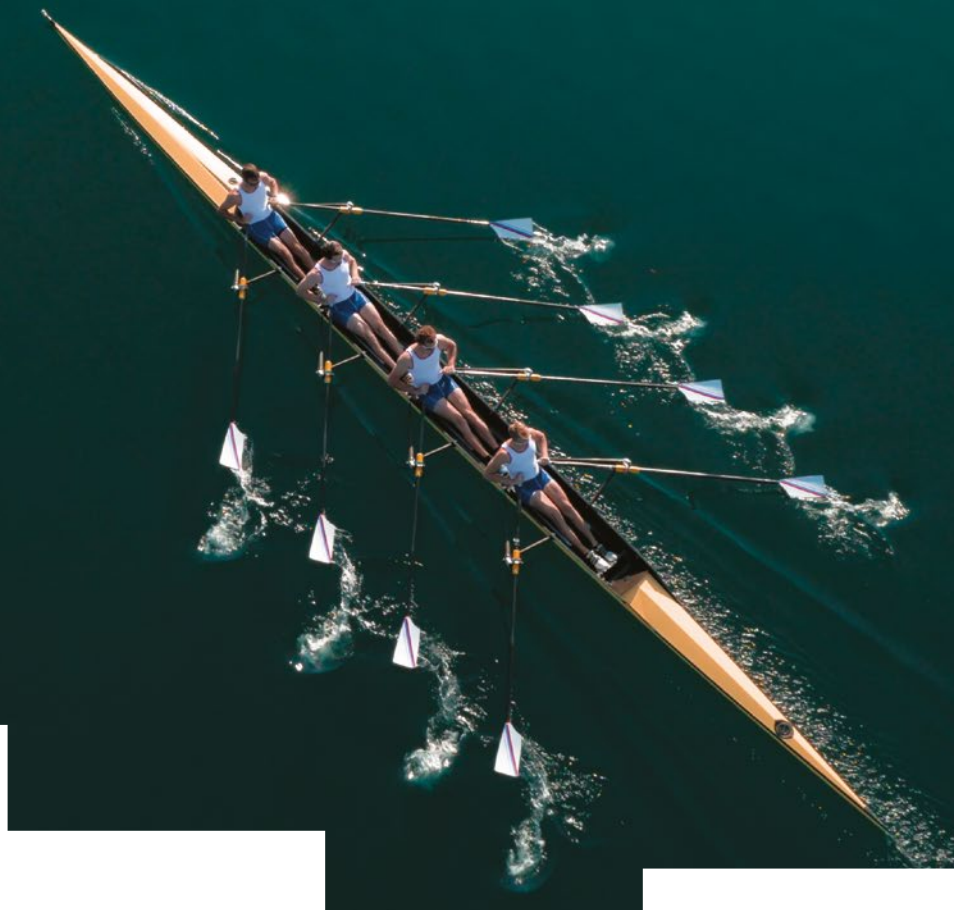
The increased significance of cross-border activities and the further development of the single EU capital market necessitate strong and efficient supervision across national borders and throughout the supply chain, irrespective of whether the supervision is primarily at the national or European level. Increased interdependence of various financial market participants means that a more holistic approach to supervision is needed. Consequently, ESMA – together with the NCAs – will focus on bringing together supervisory capabilities and approaches to ensure effective and efficient supervision. ESMA will further enhance its role as direct supervisor as well as focus on effective coordinated supervision across the EU financial markets.

The need for long-term financial planning coupled with financial and technological innovation create new needs and ways for retail investors to participate in financial markets. However, these trends also create new risks to these investors, which financial supervisors have an important role in mitigating. New products and distribution channels pose different types of challenges for investors. Therefore, enhancing the protection of investors, especially retail investors, is a key strategic priority for ESMA. Importantly, this includes providing retail investors with clear, reliable and understandable information and ensuring availability of unbiased investment advice. At the same time, ESMA will contribute to improving engagement with retail investors and thus enhancing financial literacy.

Finally, ESMA takes into consideration the fundamental changes in the financial markets that are driven by the growing importance of sustainability and by accelerating technological innovation. These developments will underpin ESMA's work across its activities over the next years. Through the incorporation of environmental, social and governance (ESG) considerations in regulation and in supervisory practices, ESMA enables investors to make informed investment decisions and participate in the climate and broader sustainability transition, with a particular focus on ensuring integrity of ESG disclosure

and preventing greenwashing. Technology and data serve as enablers to achieve ESMA's mission across its strategic priorities. Technological innovation can bring new opportunities to the markets, to investors as well as to the supervisory community. At the same time, ESMA recognises the need for vigilance to identify and mitigate potential risks associated with these technological

developments. ESMA also has the ambition of taking a further step in the area of data to enhance the use of the datasets available, to take a more systematic data-driven approach to regulation and supervision, and to develop further as a pan-European data hub serving the needs of all stakeholders (market participants, investors, academics, and supervisors at national and European level).







# ESMA

the EU's financial markets  
regulator and supervisor



## 2.1 ESMA's mission

ESMA is the EU's financial markets regulator and supervisor.

ESMA's mission is to enhance investor protection, promote orderly financial markets and safeguard financial stability.

- Investor protection. To better serve financial consumers' needs and to reinforce their ability to make informed choices.
- Orderly markets. To foster the integrity, transparency, efficiency, and functioning of financial markets and market infrastructures.
- Financial stability. To strengthen the financial system to be capable of withstanding shocks and the unravelling of financial imbalances.

## 2.2 ESMA as part of the European System of Financial Supervision

ESMA achieves its mission in the European System of Financial Supervision (ESFS) through active co-operation with national and other EU authorities. While ESMA has a unique position within the ESFS – focusing on regulating and supervising securities and financial markets at the EU level – it works closely together with NCAs to ensure the most effective regulation and supervision of EU financial markets as a whole. Considering the increasing integration between different financial sectors, ESMA will enhance its work with other EU authorities and institutions, in

particular regarding the insurance and banking sectors, with the European Banking Authority (EBA) and European Insurance and Occupational Pensions Authority (EIOPA), including through the Joint Committee of the ESAs.

ESMA also acts as the voice of the European financial markets' supervisory community through its active participation in various international fora, which include the International Organization for Securities Commissions (IOSCO) and the Financial Stability Board (FSB).

## 2.3 ESMA as the European centre of expertise on financial markets

ESMA aims to be a strong, effective, open and transparent European financial markets regulator and supervisor. It is accountable to the European Institutions, and reports regularly to the European Parliament and the Council. ESMA and the NCAs contribute to the development of an efficient EU single market by reaching common interpretation of EU rules and fostering common supervisory approaches. ESMA will continue to develop as a regulatory and supervisory authority, capable of responding to future challenges and developments. It welcomes engagement with stakeholders and aims to deepen its dialogue with them all: policy makers, investors, market participants and the academic community.

In the future, ESMA will continue to develop its standing as a valuable source of technical knowledge on financial markets regulation. Building on its extensive financial market expertise, ESMA will conduct evidence-based, transparent, and proportionate regulatory and supervisory work. It will actively contribute to further strengthening the European financial market regulatory framework and will provide advice and high-quality technical input to the co-legislators and the European Commission in the EU legislative process. Moreover, ESMA will promote

the coherent implementation of regulations through its convergence activities.

As an organisation with more than 300 committed and talented expert staff, ESMA has the ambition to enhance its human resources strategy to continue to retain and attract qualified people through ongoing learning and career development. ESMA will also strive to boost cooperation with the NCAs as regards human resources and attract experts from the NCAs through secondments. ESMA wishes to promote inclusiveness and diversity and foster an open-minded organisational culture. It will increase its organisational flexibility through an increased use of cross-functional teams to fulfil its key priorities.

ESMA plans to contribute to the sustainable transformation by further incorporating ESG factors into its own activities. It has applied for the Eco-Management and Audit Scheme certification and plans to continue to further reduce its environmental footprint. ESMA will also pursue a digital transformation across its working practices and stimulate the use of data and technology – including in its supervisory activities. ESMA will also keep on streamlining its core administrative processes, including through increased automation and digitalisation.



# Challenging and rapidly changing environment



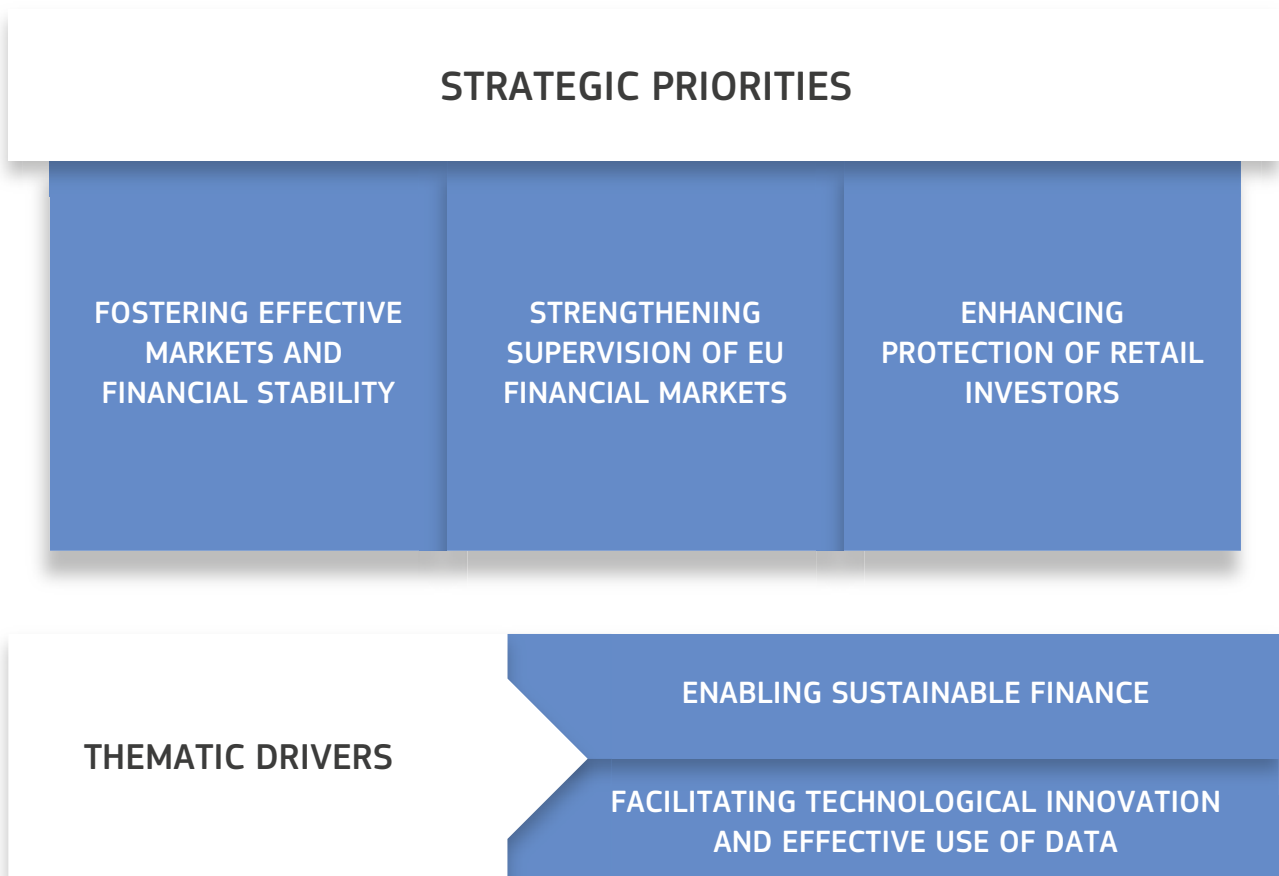
The 2023-2028 strategy builds on the successful development of ESMA over its first decade. It also takes into account the implementation of significant legislative changes, material progress in supervisory convergence and the uptake of new supervisory mandates. This strategy will be accompanied by a corporate rebranding, modernising ESMA's visual identity in early 2023.

The strategy sets out ESMA's longer-term focus and objectives. It is being developed against the backdrop of a challenging economic and political situation.

- The current environment, marked by an uncertain economic outlook and significant geopolitical developments, creates a risk of market fragmentation at international level. European unity and common approaches are essential in addressing the associated challenges in financial markets and contributing to the building of the strategic autonomy of the European economy and financial sector. The global nature of these challenges also underlines the importance of sound supervisory and regulatory cooperation between ESMA and its international counterparts and requires ESMA to react in a timely and agile manner.
- The developments in the financial markets have underlined the importance of financial stability in securities markets, such as for central counterparties (CCPs) and the asset management sector. While changes in EU legislation might be needed to continue to strengthen the financial sector's resilience, the EFSF also needs to enhance its coordination when it comes to supervision, in order to ensure effective crisis management preparation.
- The need for changing energy sources puts emphasis on the interdependence of the global commodity and financial markets. This interacts with the ongoing transformation in Europe towards a low-carbon economy, which might result in significant changes in the European economy and financial markets.
- The reappearance of higher inflation following a long period of low inflation highlights the importance of long-term financial planning and effective protection of investors. It also accentuates the need to enhance financial literacy of retail investors, allowing them to engage in financial markets and understand relevant risks, for example new types of complex products and distribution channels, as well as aggressive marketing.
- Building more efficient, robust and resilient financial markets, capable of providing sufficient private funding, will be important to support the sustainable development of the EU economy. Considering the relatively high levels of public and private indebtedness and the change of monetary policy, a mobilisation of market-based equity financing is essential to support economic growth, while mitigating associated risks notably for retail investors.
- Meeting the United Nation's sustainable development goals by 2030 will be an important milestone for the EU in combating climate change. The growing importance of sustainability results in a growing supply of, and demand for, sustainable investment products. This has also led to greater scrutiny and retail interest in the ESG characteristics of companies and investment products that requires supervisory action to address the risk of greenwashing.
- In parallel, technological innovation is changing the way financial products are being designed, distributed and consumed, facilitating retail participation in financial markets. Combined with the increased role played by data, this creates new challenges and opportunities for financial regulators and supervisors to ensure that the regulation remains fit for purpose, covering both new and traditional players. Financial and technological innovation, including the development of crypto assets, decentralised finance and open finance provide new opportunities for both firms and investors but simultaneously create new risks and threats for orderly markets and investor protection. At the same time, high-quality and machine-readable data enables supervisors to effectively monitor market developments, and new technologies can open new opportunities for supervision.

Taking into account the changing environment and above-mentioned future challenges, ESMA will deliver its mission during the 2023-2028 period by focusing on three

strategic priorities (See section 4 ‘Strategic priorities’) and by being driven by two key themes (See section 5 ‘Thematic Drivers’), as shown below.





# Strategic priorities



## 4.1 Fostering effective markets and financial stability

ESMA actively supports the deepening of an integrated European Capital Markets Union (CMU). To this end, the European Commission's CMU Action Plan marks one of the key pillars this strategic priority builds upon.

### 4.1.1 FAIR, ORDERLY AND EFFECTIVE MARKETS

ESMA promotes the fair and orderly functioning of financial markets and safeguards the integrity of the EU single market. ESMA will further focus on addressing market conduct risk by setting high standards of conduct and ensuring transparency to support efficient market functioning and investor confidence.

ESMA will help enhance transparency further through its role in the development and operation of the upcoming European single access point (ESAP), which will provide unique central access to all necessary regulatory information to facilitate investment in the EU, and through the implementation of the consolidated tapes, that will support more efficient allocation of capital and more efficient price formation.

To facilitate the raising of capital through financial markets, ESMA will focus on the reduction of barriers for cross-border transactions, including through the implementation of the upcoming EU Listing legislation. A large part of ESMA's contribution to fair and effective markets consists of ensuring consistent application and effective supervision of the single rulebook (see also section 4.2 'Strengthening supervision of EU financial markets'). In support of orderly markets the focus will notably be on enhanced supervision and cooperation regarding market abuse.

### 4.1.2 CONTRIBUTING TO STRENGTHENING THE STABILITY OF THE FINANCIAL SYSTEM

The recent market turmoil and changes in ESMA's supervisory remit, especially with regards to CCPs, highlight the importance of ESMA's financial stability mandate. Therefore, ESMA will strengthen further its risk assessment of securities markets, contribute to the reviews aimed at strengthening stability related regulatory and supervisory tools and increase its focus on crisis management preparation and planning.

*ESMA fosters fair, efficient and orderly markets and contributes to safeguarding financial stability.*

ESMA will identify and assess market developments that pose threats to the stability of the EU financial markets. Together with the other ESAs' and NCAs' risk assessments, we will contribute to the systemic risk work at European and international level. Such activity is increasingly focused on financial stability risks (including the possible use of macro-prudential tools) in the securities markets. ESMA will also consider the impact of decentralised finance and crypto-assets, notably related to trading and settlement, on financial stability.



In practice, this will include :

- strengthen the resilience of financial markets infrastructure and addressing interdependencies across market participants, including through effective implementation of the CCP recovery and resolution regime;
- contribute to enhancing financial stability by strengthening the framework applicable to non-bank financial intermediation (possibly through implementation of changes in the money market funds' (MMFs) regulatory framework, should those be proposed by the European Commission;
- refine the monitoring and analysis of current and emerging stability risks in ESMA's remit;
- work, together with the NCAs, on closer crisis management cooperation, enhancing the level of preparedness to deal with potential external shocks to financial markets in the future.

### 4.1.3

#### DEVELOPMENT OF THE EU SINGLE MARKET

To contribute to the development of a deep, efficient, liquid and accessible EU single market in financial services and its enhanced attractiveness, ESMA will:

- complete, maintain and streamline the single rulebook;
- ensure consistent application and effective supervision of the single rulebook;
- enable cross-border activities by creating a level playing field for market participants across the EU.

To support the single market, ESMA will focus particularly on the regulation and enhanced supervision of cross-border activities, with a view to improve consumer choice, cost efficiency, competitiveness and transparency across EU financial markets.

ESMA contributes to completion of the single rulebook by providing advice and technical expertise to the co-legislators and by developing more detailed regulatory provisions where required and appropriate.

*By supporting further integration of the EU single market, ESMA contributes to its international attractiveness.*

Following the implementation of proposals from the CMU action plan as well as the sustainable finance and digital finance strategies, ESMA will work on developing technical standards and guidelines as mandated by the legislation. Moreover, ESMA will enhance the single rulebook through regular post-implementation reviews of its technical standards and guidelines, by assessing their effectiveness and evaluating whether further changes are needed, using available data whenever possible. ESMA aims to streamline and simplify its regulatory products and make them proportionate to the nature, scale and complexity of the regulated entities or to the nature and type of the investment products.

ESMA is a pragmatic regulator and aims to address emerging regulatory issues in an agile, timely and practical way. While market regulation is complex, ESMA contributes to making it more accessible and understandable. An up to date and proportionate regulatory framework, helps to create the conditions for the development of an efficient single EU capital market that is attractive for investors across the globe and can be accessed by companies, and in particular small and medium-sized enterprises, to raise capital.

#### 4.1.4

##### THE EU'S VOICE IN THE GLOBAL MARKETPLACE

ESMA will continue to promote global standards and enhance cooperation and dialogue with international regulatory counterparts in order to address global risks. ESMA supports the closer integration of international markets and the continued openness of the EU single market. Through its position within IOSCO, the FSB and other international regulatory bodies, and in close co-operation with the NCAs and other ESAs, ESMA aims to influence the international debate and support global standard setting with its expertise and its specific EU securities regulators' perspective, with particular focus on addressing regulatory gaps and tackling market fragmentation.

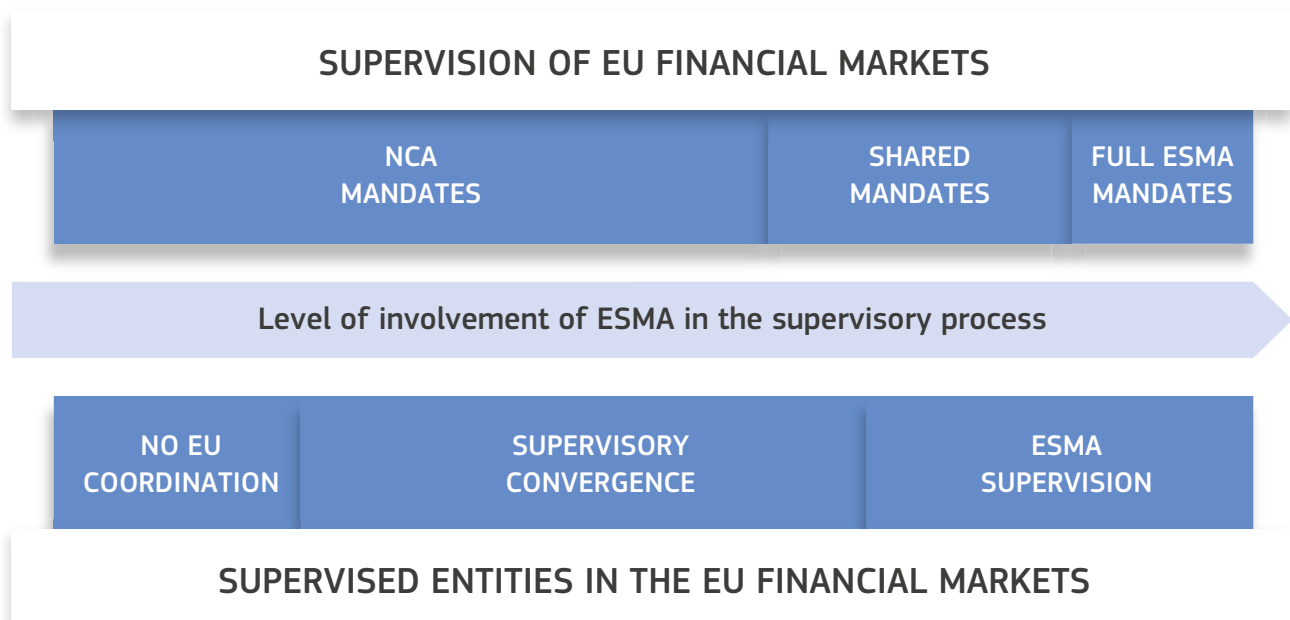
Considering the growing digitalisation of financial services, the fact that they are increasingly provided across borders and the current lack of a common global regulatory approach, regulators and supervisors need to work even harder to ensure effective supervision of cross-border firms at the international level. Enhanced cooperation is also needed to mitigate risks and contain crises that can spread rapidly across the global markets. ESMA will continue developing and deepening supervisory co-operation with supervisors outside of the EU. Where ESMA has a specific role with regards to third-country firms, increased attention will be paid to information exchange and cooperation on supervisory practices.



## 4.2 Strengthening supervision of EU financial markets

ESMA and the NCAs have shared supervisory responsibilities across the investment chain. EU financial markets are primarily supervised at the national level, while ESMA supervises a limited number of selected financial market entities with EU-wide activities and importance. ESMA is also responsible for ensuring a coherent approach to supervision across the EU.

ESMA's mandate and role differs, depending on the supervisory set-up and the risk assessment. The ESMA and NCAs activities are complementary to each other, and we are committed to make the most of the synergies of this system. ESMA and NCAs will work to strengthen supervision across the EU single market in a proportionate and cost-efficient manner.



### 4.2.1 STRONGER COMMON EU SUPERVISORY CULTURE

*ESMA and NCAs ensure effective supervision of EU financial markets through commonly shared principles of risk-based, data driven and outcome-focused supervision.*

The European supervisory architecture is underpinned by shared principles of supervision between ESMA and the NCAs through the entire supervision cycle. ESMA will continue to contribute to effective prioritisation based on enhanced risk identification and risk assessment, selection of the appropriate tools for supervisory action, and intensification of cooperation between NCAs, and between ESMA and NCAs. Creation of a common supervisory culture does not mean full harmonisation of all supervisory activities, but rather using an approach best suited to achieving the common supervisory objective.

A common EU supervisory culture is even more relevant for mandates where supervisory responsibility is shared between ESMA and NCAs across the same type of entities. Examples include third-countries mandates, supervision of data reporting service providers (DRSPs), or where the responsibilities of ESMA and NCAs are complementary (e.g. reporting entities and trade repositories).

To strengthen common risk assessment and supervision approaches, ESMA will deepen cooperation on data collection and data sharing among the NCAs and ESMA, facilitate information sharing at the EU level and develop common analytics. ESMA will develop common supervisory priorities and contribute to building a common, effective supervisory culture, including through the use of common supervisory actions (CSAs) and facilitating the creation of joint supervisory teams across the NCAs.

The interconnectedness between financial market sectors and emergence of new financial markets actors requires closer cooperation across public authorities, including with prudential supervisors and central banks.

### 4.2.2 ENHANCED RISK PRIORITISATION AND OUTCOME-BASED SUPERVISION

Risk-based prioritisation is the cornerstone of the EU supervisory approach. ESMA and the NCAs share a common understanding of the key risks posed to EU financial markets, through the use of an EU-wide risk heatmap, stress-testing, and stakeholder outreach. As a result, the union strategic supervisory priorities (USSPs) will identify a limited number of high priority areas where more EU supervisory resources will be focused, or higher intensity supervisory tools will need to be used to achieve effective supervision. Within USSPs, ESMA will focus on supervisory issues with EU-wide impact as well as issues identified in a smaller set of Member States that might be systemic for the EU single market.

ESMA will facilitate holistic supervisory assessments and measures across sectoral legislation in its remit e.g. interaction between market abuse and issuer's corporate disclosure. To address the risk of regulatory and supervisory arbitrage, ESMA will focus its efforts on achieving consistent supervisory outcomes. ESMA will focus on developing tools for facilitating cross-border supervision, including enhancing cooperation and exchange of information between home and host countries and where relevant developing new tools facilitating joint supervision actions.

As part of the risk-based supervisory approach, ESMA focuses on areas where there is real added value in a coordinated EU supervisory approach. ESMA will choose the appropriate convergence methods and tools on a case-by-case basis, using those best suited to address the risk identified, the characteristics of different markets and those best able to achieve a proportionate common supervisory outcome. ESMA will aim to develop bespoke tools, to best fit the situation and address the need to foster intensified supervisory cooperation, as has been the case for voluntary supervisory colleges.

### **4.2.3 ESMA'S CONVERGENCE APPROACH**

Strengthening supervisory convergence across the EU single market is a key ESMA objective. Supervisory convergence activity includes both consistent understanding and application of the rulebook and its effective supervision across the EU. While ESMA is increasingly shifting the focus of convergence activities towards effective coordinated supervision, it will continue its efforts to ensure a consistent understanding and application of the rulebook. ESMA's convergence work will shift from technical aspects to effective supervision on the ground. This work will empower supervisors to challenge supervised entities on key aspects of their activities such as business models or effective governance arrangements.

ESMA's convergence role depends on the specific situations as well as the nature and maturity of the NCAs' supervisory mandates. In some cases, ESMA is a facilitator by acting as a hub for expertise sharing, and by supporting common planning and prioritisation of the supervisory work. In other cases, ESMA acts as a coordinator, helping to organise coordinated or consistent supervisory activities. If necessary, ESMA is able to use more intrusive tools in specific cases where the coordination role did not lead to sufficient outcomes, such as a NCA-specific peer review or a Breach of the Union Law.

ESMA will continue developing practical guidance for effective supervision across the EU building on the experience being gathered through for example real supervisory case discussions. ESMA will gradually develop principles-based supervisory guidance (including the Union supervisory handbook) by prioritising those areas that require co-ordination, in order to facilitate a common and effective EU-wide supervisory approach.

Strong supervision requires full use of enforcement powers, where necessary, to achieve its supervisory objectives. ESMA will be a driving force in enhancing a common EU enforcement culture for securities markets. This will mean encouraging better cooperation and coordination of NCAs in this last step in the supervisory life cycle and potentially encouraging NCAs to take enforcement action where needed to achieve efficient risk mitigation. Moreover, ESMA will make appropriate use of enforcement-like tools, such as its product intervention measures.

ESMA will regularly review progress in achieving supervisory convergence, including through peer reviews, where relevant. ESMA will work on overcoming the intrinsic difficulties to measure supervisory outcomes and will seek to measure the effectiveness of convergence activities, by monitoring the effect of ESMA activities on actual convergence (e.g. by identifying supervisory inconsistencies).



#### 4.2.4 ESMA SUPERVISION

ESMA has direct supervisory responsibilities with regards to specific market players such as non-EU CCPs, credit rating agencies, EU critical benchmarks and their administrators, DRSPs, trade repositories and securitisation repositories. The heterogeneity of ESMA's supervisory mandates and their different levels of maturity justify a different level of intensity and supervisory strategy per mandate. ESMA's supervisory efforts will be proportionate to the risk and size of the supervised entities. As its basis, ESMA will ensure a strong common supervisory culture, approach and methodology

across its mandates. While keeping focus on executing its existing supervisory responsibilities to the best of its ability, ESMA will remain prepared for any future mandates.

The supervisory strategy for the next years will therefore start with the consolidation of the established mandates. The aim is to be a cutting-edge supervisor, and to enhance our supervisory approach as well as build capacity for those mandates where ESMA assumed its responsibilities relatively recently. ESMA will also prepare in terms of market assessment and expertise building for areas where ESMA is ready for possible future mandates.

ESMA's supervisory culture and processes will leverage on experience acquired so far and expertise across mandates. ESMA will make further use of data in its supervision, notably to support prioritisation and focus on key risks and drive its outcome-focused approach. Moreover, ESMA will foster thematic supervision across supervised entities, for example when it comes to the risk assessment framework, onsite visits methodology, information technology and cyber security supervision.

Ultimately, ESMA's supervisory activities target a positive supervisory outcome, aiming for high compliance standards and appropriate changes to the behaviour of the supervised entities where warranted. ESMA aspires to show thought leadership in the areas where it has supervisory mandates and continuously improve, benefitting from the experience of others and being part of the convergence effort e.g., being subject to a peer review as a competent authority.

ESMA will enhance the use of its own supervisory enforcement powers, where the use of enforcement tools is needed and proportionate to achieve efficient supervisory outcomes. ESMA's focus will be on enhancing the efficiency and effectiveness of enforcement, and on its consistency across supervisory mandates. ESMA will improve enforcement processes and ensure a timely and appropriate response to infringements.

## 4.3 Enhancing protection of retail investors

### 4.3.1 INVESTOR PROTECTION

ESMA and the NCAs will ensure that investors are effectively protected, with a particular focus on the protection of retail investors. ESMA will further develop retail investor trend monitoring and analysis. It will concentrate its efforts on risks posed among others by new and innovative products or services (e.g. crypto-assets or non-fungible tokens) and products with strong retail investor demand (e.g. ESG). ESMA will also assess risks to retail investors that may stem from distribution of complex products, alternative marketing and distribution channels, such as e.g. social media advertising.

*ESMA, together with NCAs, safeguard effective protection of retail investors.*

ESMA will reinforce its convergence work, particularly with regards to the supervision of cross-border activities, aiming to prevent significant consumer detriment by fostering a common supervisory culture and consistent supervisory outcomes for investors. ESMA will fully use

its convergence toolkit in this area, including product intervention, where appropriate. New initiatives on ensuring effective supervision of cross border services will aim to facilitate:

- effective information exchange between the home and host authorities;
- joint supervisory measures to support effective supervision and enforcement such as joint supervisory work, supervisory colleges or the use of delegation.

ESMA will also enhance supervision and convergence through common supervisory exercises for example CSAs and mystery shopping, to be performed by all or a significant number of NCAs (see also sections 4.2.2 'Enhanced risk prioritisation and outcome-based supervision' and 4.2.3 'ESMA's convergence approach').

### 4.3.2 RETAIL INVESTOR ENGAGEMENT

ESMA will engage with retail investors, through coordinated communication together with NCAs, complementing and amplifying the NCAs' measures and messages. Practically, ESMA will enhance its approach by reinforcing coordination activities and using new communication tools and platforms, for example by making ESMA warnings and statements available for NCAs' customisation and by joint publications by ESMA and NCAs.



ESMA aims to make its retail related activities more visible, for example through the ‘Retail investor corner’ on ESMA’s website. It will provide information in a user-friendly format, using existing databases and registers, making predefined information easily accessible and consolidating information at the EU level based on close cooperation with NCAs. An example might be an EU list of products targeted by intervention (e.g. banned products) and warnings.

### 4.3.3 INFORMATION/DISCLOSURE

ESMA’s aim is that retail investors are provided with clear, reliable and understandable product information.

While ESMA recognises that disclosure has its limits, by providing easy access to high-quality information, ESMA will empower retail investors to make well-informed investment decisions. It will enable access to reliable and comparable information across products by using

available regulated information and tools to compare products, their costs, risks and performance. ESMA will work to implement ESAP providing an effective one-stop shop for regulated information that can be accessed and used easily. It will also work to facilitate comparison across products and sectors (e.g. enabling development of comparison tools for investment funds).

Within the limits of its mandate, ESMA will further facilitate understanding of the products being offered, by contributing to creating conditions that enable:

- reducing the size and complexity of information for investors; and
- simplifying product disclosures and stimulating use of clear language, both in disclosure requirements and in practice.

In this context ESMA will further explore how enabling disclosure of information by layers can contribute to these objectives.



#### 4.3.4

##### RETAIL PARTICIPATION

ESMA aims to ensure a safe environment for those wishing to invest in capital markets – thus creating conditions to allow retail investors to benefit from participation in the markets. At the same time, it is important that investors can take responsibility for their investment decisions. ESMA measures will contribute to the development of a framework for retail investors to meet their long-term financial needs and to promote costs-efficient, safe and easy access to financial markets and products.

ESMA aims to bolster direct and indirect retail participation by carrying out actions such as:

- monitor and analyse market developments to evaluate the risk level of new types of products (including those not yet regulated);
- ensure that the regulatory framework remains fit for purpose while streamlining it, balancing the need for an up-to-date regime with the need for regulatory stability;
- contribute to creating a regulatory and supervisory environment that facilitates product simplification and clarity, including by exploring initiatives for labelling certain product types;
- increase the use of retail consumer testing in policy development;
- focus on cost and quality of investment advice, including emphasis on ensuring adequate qualification and competence of the investment advisors to provide unbiased advice that is free from conflicts of interest (i.e. not influenced by inducements) and comes at an appropriate cost to retail investors.

*ESMA focuses on enabling retail investor participation in the capital markets in a sound environment, aligning how investment opportunities can be accessed across the EU.*

ESMA will strengthen the coordination of relevant financial education activities, taking into different national structures and NCAs' competences. This includes enhancing and facilitating NCAs' cooperation, stimulating national initiatives for all NCAs to learn from each other and leveraging on each other's work, for example through thematic investor days or podcasts.

ESMA will also focus on specific aspects of financial education activities, such as cross border business, freedom to provide services, impact of inflation on real returns, innovative products and sustainable finance. Progress in the long term will require enhanced cooperation with, and leveraging on, the work of national and international organisations that have broader financial education mandates e.g. Organisation for European Co-operation and Development, IOSCO, and working together with the other ESAs in the cross-sectoral work through the Joint Committee of the ESAs.



# Thematic drivers



## 5.1 Enabling sustainable finance

### 5.1.1 EFFECTIVENESS AND INTEGRITY OF ESG MARKETS

*By embedding sustainability in its activities, ESMA will support the transition to a more sustainable economic and financial system.*

ESMA will support the ESG transition by taking a holistic view across the sustainable investment value chain. When taking regulatory or supervisory actions in this area, ESMA will contribute to the improvement of the complex framework. We will act to maintain investors' confidence in ESG investments by promoting high quality sustainability disclosures and hence reduce the risk of greenwashing.

In light of the high and increasing demand for and supply of ESG products, ESMA will further enhance its assessments of ESG-related trends, risks and vulnerabilities that can have a high impact on financial markets, starting with greenwashing and transition risks.

While the integration of ESG factors has focused initially on environmental and climate aspects, ESMA will progressively put more attention to the integration of social and governance factors in its activities, whether through the development of the single rulebook or coordinating effective supervision.

Finally, ESMA will promote international cooperation to make sure that a coherent set of rules is applicable

to financial market participants, e.g., through ensuring interoperability of European and global reporting standards and facilitating supervision of cross-border activities.

### 5.1.2 A WORKABLE REGULATORY FRAMEWORK

In order to increase the quality of sustainability disclosures and address greenwashing concerns, ESMA will contribute to improving the regulatory framework and reducing its complexity, increasing data availability, and improving consistency across requirements. With our activities, we want to support financial markets in financing the transition to a sustainable economy.

The EU regulatory framework in place has evolved rapidly. Building on the building blocks already in place, ESMA and NCAs will work, within the boundaries of their respective mandates, towards its continuous improvement so that the sustainable finance rulebook becomes more workable. Particular focus will be on enhancing clarity, comprehensiveness, and consistency. Given the steep learning curve that the application of the rules implies, ESMA will assess the practical challenges encountered by financial market participants and by investors. Consequently, single rulebook activities will continue to be high on ESMA's agenda for an extended period, as the regulatory framework is progressively completed for different types of activities and products. ESMA will also ensure continuous engagement and thought leadership to affect developments in this fields in its interaction with the EU institutions, IOSCO, the International Sustainability Standards Board and the European Financial Reporting Advisory Group.

### **5.1.3 EFFECTIVE AND CONSISTENT SUPERVISION**

Implementation and supervision of the complex rulebook poses challenges not only to financial market participants, but also to the regulatory community. Therefore, effective and consistent supervision starts by building capacities at ESMA and NCAs on sustainability matters. While continuing to work on the completion of the regulatory framework, ESMA will therefore pay particular attention to its consistent implementation and supervision.

Sustainable finance still being a nascent area, there is a real opportunity for ESMA to introduce effective and common supervisory standards. Common solutions built by the EU supervisory community are critical to deal with the sustainability challenge. ESMA will leverage on its data-analysis capabilities to support its own and NCAs' supervisory work and to promote a convergent approach among NCAs in this area. As part of this, ESMA will focus on setting up credible supervisory approaches, notably on sustainability disclosures. In this area ESMA and NCAs will increase the level of intrusiveness related to the supervision of the new requirements, to ensure their proper application.

Tackling greenwashing is particularly important, as it gives rise to potential detriment to investors who wish to allocate resources to sustainable investments. Greenwashing is the area where concepts, definitions and

practices need to be aligned across the EU, through the provision of implementation guidance for various market segments and by setting clear supervisory expectations.

Sustainable finance is also an area where ESMA is ready to assume possible new supervisory mandates, should the co-legislators decide to grant them to ESMA (e.g. EU Green Bonds reviewers, ESG ratings providers). ESMA will be able to build on its experience as supervisor of CRAs and administrators of critical benchmarks, mandates for which the integration of ESG factors is already an integral part of the supervision.

### **5.1.4 ROLE OF RETAIL INVESTORS**

ESMA recognises that retail investors play an important role in financing the transition. However, disclosures on sustainability characteristics of products are complex. ESMA will contribute to enhancing retail investor participation, by promoting the development of easy-to-read signals and labels, high-quality investment advice and easy access to high quality ESG data to facilitate informed investment choices. At the same time, it needs to be recognised that retail investors will continue to be vulnerable to greenwashing. ESMA will hence develop a deeper understanding of the greenwashing phenomenon and then define relevant common supervisory responses.

## 5.2 Facilitating technological innovation and effective use of data

### 5.2.1 TECHNOLOGICAL INNOVATION

ESMA and NCAs work to ensure that technological innovation that could affect financial markets are adequately covered by robust EU rules. The focus is to assess the impact of technological innovation (including automation, decentralisation, digitalisation and platformisation) on the financial markets, supporting opportunities for market developments where appropriate while mitigating possible risks.

*Technological innovation and effective use of data serve as enablers to achieve ESMA's mission across its priorities.*

Leveraging on its risk assessment capabilities, ESMA will continue to identify emerging trends, risks and vulnerabilities that can have a high impact on investor protection and/or financial stability. As technological innovation challenges existing market practices and has the potential to disrupt market structures, it may contribute to new risks or threats to ESMA's objectives that would need to be mitigated by effective regulation and supervision.

#### 5.2.1.1 ESMA regulatory role

ESMA identifies the ever-greater need for agility and adaptability of the regulatory framework, considering the accelerating changes in the financial market driven by technological innovation. ESMA will endeavour to ensure that regulation does not hinder innovation, while maintaining a level playing field between new players and products and more traditional ones. ESMA's focus will mainly be on assessing the impact of technologies used in financial markets on the regulatory framework, such as the use of algorithms, artificial intelligence, machine learning, and distributed ledger technology, with a view to ensure the framework remains fit for purpose. ESMA will also focus on developing detailed regulatory standards, in particular on operational resilience together with the other ESAs in the context of the implementation of the Digital Operational Resilience Act. Under the relevant legislation, ESMA will also contribute to the development of specific regulatory requirements for crypto-assets service providers including from a retail investor perspective.

As technological innovation can facilitate retail participation and ensure cost-efficiency (see also Section 4.3 'Enhancing protection of retail investors'), ESMA will continue to make sure that EU investor protection and retail products distribution rules take into account these technological developments and remain relevant in the increasingly digital environment. On the other hand, ESMA will monitor and consider specific risks to retail investors stemming from technological innovation such as the risk of financial exclusion and risk of data abuse. ESMA will also aim at ensuring investors' access to information and leveraging on technology to facilitate consumption of such information.



### 5.2.1.2

#### ESMA supervisory and facilitation role

ESMA will aim to ensure the proper understanding, identification and mitigation of risks stemming from technological innovation to markets and their integrity. As a supervisor, ESMA will assess the specific impact of new technologies on its different mandates. ESMA will pay particular attention to operational resilience and cyber-risk threats in its supervision of market participants. The focus will be on implementation of the joint ESAs third-party service providers' oversight mandate, effective application of operational resilience requirements in existing ESMA supervisory mandates and stepping-up convergence activities for market participants supervised at the national level.

In addition to assessing whether technological innovation can have an impact on the operations and way of functioning of existing supervised entities, attention will be paid to the supervision of new types of entities or new business models within the scope of ESMA and/or NCAs. This includes monitoring, analysis and review of activities at the boundaries of the regulatory and supervisory perimeter. Furthermore, considering the increased cross-border activity resulting from digitalisation, ESMA will reinforce its focus on supporting the convergence of supervisory practices and fostering cross-border supervisory collaboration.

ESMA will continue to facilitate NCAs' supervision – strengthening convergence on use of the digital technologies and the use of SupTech tools, including

sharing best practices and undertaking joint projects. In close cooperation with NCAs and other EU authorities, ESMA will explore the centralisation of some supervisory technologies, in order to pool resources and achieve efficiencies. The objective will be to share expertise and benefit from available opportunities, and where possible making tools available to NCAs.

Furthermore, ESMA will facilitate innovation with regards to regulation, authorisation and supervision of new financial services providers. In particular and together with other ESAs, ESMA will continue to contribute to the European Forum of Innovation Facilitators, which provides a platform for supervisors to meet regularly and share experiences from their engagements with firms through national innovation facilitators or sandboxes.

### 5.2.2

#### STEPPING UP THE EFFECTIVE USE OF DATA ACROSS ESMA'S ACTIVITIES

Data is key to understanding the markets, their features and risks. Data is also critical to effective supervision both at the national and European level. ESMA data activities and expertise encompass the entire data lifecycle, including data governance, regulation, standardisation, data quality and analysis, sharing and publishing both granular and aggregated statistical data as well as supervision of reporting entities. ESMA will further strengthen its role as data and information hub in the EU and contribute to extending the effective use of data in financial market supervision.

ESMA has identified the following key objectives to bring its Data Strategy to a new level:

- enhance ESMA's role as a data hub, focusing on improved data, information accessibility, interoperability and usability, along with data harmonisation and standardisation;
- enable cutting-edge, smart, and effective data-driven supervision;
- pursue thought leadership on data standards, technologies, and reporting innovations;
- promote efficiency, transparency and cooperation in data policy, and reduce reporting burdens;
- systematically use data for evidence-based policy development, supervision and risk assessment;
- contribute to providing relevant, useful and understandable information to the market in machine-readable form, and facilitate its use, including by retail investors (see also section 4.3 'Enhancing protection of retail investors').

ESMA will continue to leverage on its central role when it comes to data in the EU financial markets. We will use the opportunities inherent to the nature of data as a public good, its network externalities and the economies of scale for its management and use.

Together with the NCAs, ESMA will continue developing common data projects, contribute to the Commission's strategy on supervisory data in EU financial services and pursue further measures to reduce compliance costs. The aim is to offer enhanced information to supervisors, regulators, retail investors and all other stakeholders, allowing them to make evidence-based decisions and act in full knowledge of the information available in the market.

