



Verena Ross

Executive Director, European Securities and Markets Authority (ESMA)

Enhancing sustainable finance through better disclosures

Sustainable finance remains a strong priority for ESMA as also highlighted in our recent Strategy on Sustainable Finance¹. Under the political direction of travel set by the co-legislators, ESMA and national securities regulators look at this important issue with their mandates to prevent threats to financial stability and ensure investor protection in mind. This mandate is very relevant for the adjustment of financial markets to the risks arising from climate change and the associated transition to a more sustainable financial system.

In parallel, financial markets are at a point of change, as investor preferences shift towards financial products that incorporate Environmental, Social and Governance (ESG) factors. This trend has become clear in European equity and bond markets. Since the beginning of 2019, ESG equity funds domiciled in the EU attracted net inflows of €54 billion, compared to outflows of €128 billion for other equity funds.² The growth of the European private-sector green bond market also far outpaced that of the broader corporate bond market, but the supply of such bonds still falls short of current investor demand.

At this critical juncture, transparency is key. The EU Disclosure Regulation sets out relevant requirements for a broad range of financial market participants, financial advisers and financial products, often supplementing existing sectoral rules for these actors and products. The aim of this regulation is to strengthen protection for end-investors and improve disclosures to them.

ESMA is working with EBA and EIOPA to create Technical Standards under this Regulation on which it has recently launched a public consultation that closed on 1st September. In the Consultation Paper³, the proposed requirements can be broadly divided into two themes:

- Principal adverse impact reporting at entity level: these are disclosures of principal adverse impacts of investment decisions on sustainability factors – including detailed indicators for environmental and social impacts; and
- Pre-contractual, website and periodic product disclosure: applicable to products with either environmental or social characteristics (“light green”) or with sustainable investment objectives (“dark green”).

In addition, the recently published EU Taxonomy Regulation has added many new empowerments in the Disclosure Regulation, including on the “do not significantly harm” principle and on product-related taxonomy disclosures.

However, investment firms are only a part of the ESG disclosure spectrum. As ESG investing becomes more popular, we need to ensure that market participants are provided with relevant and reliable disclosure also by non-financial companies, to enable comparisons across different companies and sectors. It is also important to ensure that disclosure requirements are consistent across the whole investment chain, covering both investment firms and the companies they invest in.

ESMA has consistently called for better corporate ESG disclosures, most recently in our response⁴ to the European Commission’s consultation on reviewing the Non-Financial Reporting Directive (NFRD). There are currently multiple disclosure frameworks, and ESMA considers that a consolidation is required, which should also take full account of the need for connectivity between non-financial and financial reporting. The medium-term goal should be a single set of international standards, as this will be most helpful for companies as well as investors given the global nature of both financial markets and sustainability challenges. In the short term, ESMA acknowledges that standardisation is needed at European level to meet the immediate investor demand for more useful company disclosures. ESMA therefore welcomes the European Commission’s initiative to start looking at European standards for company disclosure and encourages the Commission, in parallel, to continue pursuing the international track to pave the way for one global disclosure standard for companies. ESMA stands ready to assist these European efforts by undertaking any standard-setting work in this important field. ●