European Securities and Markets Authority

# Sustainable Finance Roadmap 2022-2024

10 February 2022 | ESMA30-379-1051

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## Abbreviations and acronyms

| | |
|---|---|
| 2021 EC Strategy | Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Strategy for Financing the Transition to a Sustainable Economy, COM(2021) 390 final |
| AIFM | Alternative Investment Fund Manager |
| AIFMD / Alternative Investment Fund Managers Directive | Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 |
| AWP | Annual Work Programme |
| BMR / Benchmarks Regulation | Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 |
| CCPs | Central counterparties |
| CIS | Collective Investment Scheme |
| Climate Benchmarks Regulation | Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks |
| CNS | Coordination Network on Sustainability |
| CSA | Coordinated Supervisory Action |
| CSRD / Corporate Sustainability Reporting Directive | Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting |
| EBA | European Banking Authority |
| EC | European Commission |
| EFIF | European Forum of Innovation Facilitators |
| EIOPA | European Insurance and Occupational Pensions Authority |
| ESA | European Supervisory Authority |
| ESG | Environmental, Social and Governance |

| | |
|---|---|
| ESMA | European Securities and Markets Authority |
| EU | European Union |
| MiFID II / Markets in Financial Instruments Directive II | Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU |
| MiFIR / Markets in Financial Instruments Regulation | Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 |
| NCA | National Competent Authority |
| NFRD / Non-Financial Reporting Directive | Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 |
| NGFS | Network for Greening the Financial System |
| RTS | Regulatory Technical Standard |
| SFDR / Sustainable Finance Disclosure Regulation | Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector |
| UCITS Directive | Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) |

# 1. Introduction

## 1.1 Purpose of the *Sustainable Finance* Roadmap

1. The *Sustainable Finance Roadmap* sets priority areas and related actions for the European Securities and Markets Authority (ESMA) in sustainable finance for the period 2022 – 2024. As further elaborated in Section 2, these priority areas and actions are closely interrelated and constitute a practical tool to ensure the coordinated implementation of ESMA's broad mandate in the sustainable finance area. This Roadmap is intended as a living document that is subject to regular re-assessment by ESMA and National Competent Authorities (NCAs) to ensure its continued relevance.

2. Beyond the activities in the *Sustainable Finance Roadmap*, ESMA will continue to monitor major EU and international developments and contribute as needed to the various initiatives in the sustainable finance area, including in the EU Platform on Sustainable Finance, IOSCO as well as in relevant workstreams within the NGFS. This has the important purpose of ensuring that all of ESMA's sustainable finance work takes into account, and is compatible with, international initiatives.

*The rationale for the Sustainable Finance Roadmap*

3. The intention underlying the development of a *Sustainable Finance Roadmap* is twofold:

   a. Ensuring that ESMA can take timely and coordinated action to fulfil its mandate in a rapidly evolving area on the basis of clear priorities that will direct ESMA's work both at the level of the individual sectors and transversally across the different sectors.

   b. Having a tool that enables the regular stock-taking on ESMA's progress towards fulfilling the identified priorities and, where needed, re-assessing / adjusting the implementation actions envisaged or the priorities themselves, also in the light of developments at European or international level.

*Link with ESMA's Strategy on Sustainable Finance*

4. In February 2020, ESMA established its *Strategy on Sustainable Finance*[1] as a first step to implement ESMA's mandate in this area. This Strategy sets out key objectives which can be summarised as follows:

   a. Integrating sustainability in the development of the single rulebook;

   b. Building common approaches for incorporating Environmental, Social and Governance (ESG) factors in the supervisory practices of NCAs;

   c. Monitoring market developments and identifying risks related to sustainable finance;

[1] ESMA22-105-1052 *Strategy on Sustainable Finance*, 6 February 2020

d. Improving transparency on the role of ESG factors in the credit rating process.

5. The *Sustainable Finance Roadmap* builds on these objectives to set out consequential implementation steps taking into account the developments of the past 18 months. During this period, the European Commission (EC) and the co-legislators further accelerated the development of EU initiatives on sustainable finance, including the development of a broad ranging strategy on sustainable finance by the EC last July[2] (hereafter '2021 EC Strategy'). Furthermore, markets for new sustainable financial products emerged and existing markets continued to grow.

6. The combination of the copious legislative activity in quick succession and the strong investor demand for sustainable products impacting different sectors of ESMA's mandate requires reviewing the different streams of work that are relevant for ESMA and reconnecting them to a clear set of implementation priorities that are consistent with ESMA's strategy. As ESG markets and the regulatory framework are expected to continue evolve in a fast manner, it will be important to keep the *Sustainable Finance Roadmap* and the identified priorities and sectors under review during the implementation period.

*Link with the ESMA 2022 Annual Work Programme*

7. The *Sustainable Finance Roadmap* will help coordinate, prioritise and provide the sequence in which ESMA should respond to the supervisory needs emerging in the sustainable finance area. In doing so, this document will replicate actions that have already been envisaged in ESMA's *2022 Annual Work Programme*[3] for different areas of ESMA's activities. In addition to these, the *Sustainable Finance Roadmap* also indicates any other actions that are expected to be implemented only in 2023 or 2024 or the concrete details linked to them were unveiled only after the finalisation of the *2022 Annual Work Programme* (this is mostly the case with regards to the actions related to the above-mentioned 2021 EC Strategy).

## 1.2 Structure of the *Sustainable Finance Roadmap*

8. The *Sustainable Finance Roadmap* is structured as follows:

a. Chapter 2 explains the two main building blocks of the *Sustainable Finance Roadmap*: the identification of priority areas and the most impacted sectors identified. It then addresses the individual priorities and the reasoning underlying their identification in terms of challenges encountered by NCAs and / or ESMA and the categories of follow-up actions that are envisaged under each priority.

b. The Annex provides a list of actions to be undertaken by ESMA at horizontal and sectoral levels with the indication of the timing for the actions and the specific priority each action refers to.

[2] European Commission Strategy for financing the transition to a sustainable economy, 6 July 2021
[3] ESMA20-95-1430 *2022 Annual Work Programme*, 27 September 2021

# 2. ESMA-wide sustainable finance priorities

## 2.1 Selection of priority areas

9. ESMA's work to date has highlighted a number of key challenges of the current sustainable finance context in the EU which can be broadly summarised as follows:

   a. Fast-evolving regulatory framework that is unequally covering the various parts of the sustainable investment value chain which, among others, leads to inconsistencies across regulatory requirements, complexity for investors and ultimately investor protection and greenwashing concerns.

   b. Diversity in the interpretation and application of sustainable finance legislation (e.g., Sustainable Finance Disclosure Regulation (SFDR)) with the risk of inconsistent application across the EU and resulting detrimental consequences for the good functioning of markets, including the risk of regulatory and supervisory arbitrage, and for the protection of investors. The misalignment between the application date of Level 1 requirements and the finalisation of the underlying Level 2 measures further contributes to these issues.

   c. Growing demand for ESG investments not matched by adequate transparency and comparability on the real sustainability impact of the financial products available in the market, on the underlying sustainability profile of issuers and on the methodologies underpinning ESG ratings and data in general. This leads to a risk of misrepresentation and wrongful disclosure and mis-selling of ESG-labelled products[4] to final investors which can create reputational and financial risks for the actors involved and a loss of trust in sustainable finance products which in turn may also trigger financial stability concerns.

   d. The EU climate neutrality targets will imply that several economic activities will be on a transition path to becoming sustainable within a certain timeframe. Transparency on such transition efforts is necessary to support sound decision-making by investors when assessing different opportunities in the sustainable investing space.

   e. Need to further develop ESMA's and NCAs' expertise, experience and resources on sustainable finance and its implications for supervision (e.g., knowledge of sustainability matters and their relationship with finance and responsible investment, experience with / expertise regarding the application of sustainability reporting standards, etc.).

   f. Increasing risk of misalignment between investors' ESG preferences and products being offered to them, partly due to limited financial education on ESG-investing and lack of expertise on ESG matters by actors in the investment value chain, notably financial advisors.

[4] The reference to ESG-labelled products is also intended to capture products such as impact funds and socially responsible investments (SRI).

g. Fast-evolving ESG markets requiring regular monitoring in a structured and coordinated way across the EU which necessitates effective and efficient access, consolidation and usage of structured and unstructured ESG data, as well as the development of methodologies for the assessment of the financial impact of ESG-related risks, for example climate risks.

10. Actions to address these challenges have been grouped into three main areas which constitute the three priorities for ESMA's sustainable finance work in the period 2022-2024:

a. **Tackling greenwashing and promoting transparency**

The term greenwashing may be defined in a number of ways, but it intuitively 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.

As such, greenwashing typically gives rise to potential detriment to investors who wish to allocate resources to sustainable investments. Greenwashing could, therefore, be generally identified as a misrepresentation, mislabelling, mis-selling and / or mis-pricing phenomenon. However, these terms may only represent the ultimate symptoms, since the causes of greenwashing may relate to multiple aspects of the functioning of the investment value chain, sometimes affecting nodes of that chain long before a certain financial product reaches the final investor. This is the case, for example, of issuers' disclosures misrepresenting the real sustainability profile of a listed entity or the poor quality of data available to an EU investment fund on investee companies located within or outside the EU.

Regulatory arbitrage linked to the fast-evolving legislative framework may aggravate greenwashing risks to investors in the EU. This is of particular concern to ESMA from a supervisory convergence perspective.

Investigating the complex issue of greenwashing, getting to defining its fundamental features and taking coordinated action in multiple sectors to find common solutions – both in the supervisory convergence area and in the single rulebook work – is key to deliver on ESMA's and NCAs' mandate to secure investor protection.

b. **Building NCAs' and ESMA's capacities**

Sustainable finance is no different from other evolutions in financial markets or other new fields of financial markets legislation in the sense that it requires going through a 'learning curve' in order to ensure that the supervisory implications of the new legislation as well as the basics of the sustainability transition are well understood and become mainstream in NCAs and ESMA.

Sustainable finance requires NCAs to have a good handle not only of the relevant legislation but also a good understanding of the intersection between sustainability matters and finance. This complex skill set needs to be reinforced across most NCAs. Doing so will require training initiatives at both national and European level as well as sharing supervisory experiences among NCAs.

In addition to building up NCAs' skill sets, sharing supervisory experiences and agreeing on common supervisory standards will contribute to establishing a common supervisory culture in the field of sustainable finance across the EU.

c. **Monitoring, assessing and analysing ESG markets and risks**

It is important that alongside the monitoring and assessment of more traditional market variables and financial products, direct supervision as well as supervisory convergence work can rely on sound and structured evidence on the functioning of ESG-related financial markets in order to identify risks that may negatively impact investors or the stability of financial markets on a timely basis. This work is especially relevant for new fields of financial markets legislation such as sustainable finance. In particular, ESMA will enhance its monitoring of developments in the EU carbon markets.

Leveraging on the data-analytical capabilities that already exist in other areas of capital markets legislation, it will be key to engage in activities such as climate scenario analysis for investment funds, CCP stress testing and establishing common methodologies for climate-related risk analysis with the other European Supervisory Authorities (ESAs) and other EU institutions and bodies such as the ECB and the European Environment Agency and, where relevant, with international standard-setting bodies. In this context, RegTech and SupTech solutions may further facilitate access to consolidation and usage of structured and unstructured ESG data by NCAs and ESMA.

11. These priorities are intertwined with each other in certain respects. For example, the work to address greenwashing needs to be backed by a robust knowledge of sustainable finance-related matters and a sound understanding of ESG markets. As such, ESMA will leverage on its data-analytical capabilities to support its own and NCAs' supervisory work and to promote convergent approaches among NCAs. The monitoring and analysis of ESG markets and risks will feed into the work on greenwashing and will be one of the areas in which ESMA and NCAs need to further build and enhance their capacities. Likewise, increasing expertise at the national level and at ESMA will also create the conditions for improving NCAs' market monitoring and risk assessment abilities. Chapters 2.2, 2.3 and 2.4 provide further explanation by describing the main challenges related to the three priority areas and proposing categories of actions to address those challenges.

12. Within each of the three priorities, ESMA also identified sectors where ESG-related risks and problems are currently perceived as having the highest potential impact on investor protection, orderly markets and financial stability. These are the sectors for which the challenges summarised in paragraph 9 and the three priorities established in paragraph 10 are most impactful and / or those in which key pillars of the EU sustainable finance architecture are established. As such, the *Sustainable Finance Roadmap* primarily concerns the following sectors:

a. Investment management;

b. Investment services;

c. Issuers' disclosure and governance;

d. Benchmarks;

e. Ratings (credit ratings and ESG ratings);

f. Trading and post-trading; and

g. Financial innovation.

13. By framing the sectoral actions in the context of three main horizontal priorities, ESMA will be able to better coordinate the sectoral work to ensure that different pieces of EU sustainable finance legislation within ESMA's remit are built, applied and supervised consistently.

14. The Annex sets out a detailed list of actions and deliverables. Data-related actions, given their cross-cutting relevance, are presented in both the horizontal and sectoral sections. The actions and deliverables are accompanied by an indicative timeline. In determining the sequencing and timing of the different actions, the *Sustainable Finance Roadmap* takes into account that there is a 'learning curve' issue at the level of ESMA, of NCAs and of market participants and that the EU legal framework is at varying levels of maturity in different sectors.

15. ESMA intends to keep the *Sustainable Finance Roadmap* and the identified priorities and sectors under review during the implementation period. This is made necessary by the fast-evolving nature of ESG markets and of the EU regulatory framework, including the uncertainty surrounding some of the regulatory regimes that are relevant for the different actions and deliverables, by the wide variety of ESG matters, ranging from environmental and social to governance-related topics, many of which involve numerous financial actors and markets and by the limited resources at NCA and ESMA level.

16. This review may lead to changes in the sequencing or timing of the actions and deliverables. As such, the timeline in the Annex is indicative and subject to change.

## 2.2 Tackling greenwashing and promoting transparency

### 2.2.1 Main challenges

17. As ESG investing continues to take hold, a wide array of new products is becoming available in the market.[5] This trend is expected to make an important contribution to Europe's transition to a low carbon economy under the European Green Deal. However, the combination of growing investor demand, a fast-evolving market and legislative / regulatory measures which can only apply with a certain time lag creates room for misalignment between demands for investments that can make a sustainability impact and the available investing opportunities marketed as sustainable. There are multiple consequences of this misalignment which can ultimately be reconnected to the risk of mis-selling. However, greenwashing does not necessarily originate only at the moment a product is offered to the final investors. In fact, different steps of the investment chain may well contribute to the ultimate misrepresentation of the real sustainability profile of a certain investment to the end investors.

18. We can group these issues within what is generally referred to as 'greenwashing'. Intuitively, the term greenwashing refers to market practices whereby the publicly disclosed sustainability profile of an issuer and the characteristics and / or objectives of a financial instrument or a financial product and the related processes do not properly reflect the underlying sustainability risks and impacts. These market practices can be both intentional and unintentional and occur either by action or omission. As such, greenwashing typically gives rise to potential detriment to investors who are looking to allocate resources to sustainable investments.

19. There can be multiple forms of greenwashing and equating it to misrepresentation, mislabelling, mis-selling and / or mis-pricing phenomena may be too limited given that these aspects may only represent its symptoms. The causes of greenwashing may have deeper roots and relate, for example, to poor issuer disclosures misrepresenting the real sustainability profile of a listed entity or to the poor quality of data available to an EU investment fund on investee companies located within or outside the EU.

20. Regulatory arbitrage can also be one phenomenon that leads to greenwashing. Notably, there are diverging applications of the rules on what constitutes a 'green' financial product across the Union. This could lead to investor protection challenges such as lack of comparability, transparency and even mis-selling, for instance when products with a similar or even the same naming convention do not share the same underlying characteristics. In some cases, it could also mean that investors in different jurisdictions are not offered the same opportunities. As observed in the 2021 EC Strategy, NCAs have a key role in monitoring compliance with sustainable finance regulation and making full use of their legal mandates and powers to ensure that investors and consumers are protected against unsubstantiated sustainability claims.[6] A convergent understanding and application of legislative requirements is therefore crucial to ensure that the EU's sustainable finance framework has a real and profound impact.

[5] ESMA50-165-1842, TRV *ESMA Report on Trends, Risks and Vulnerabilities* No 2, 2021, 1 September 2021
[6] European Commission, Renewed Sustainable Finance Strategy, p. 17

21. Taking a broad approach in investigating greenwashing is therefore essential to address its potentially detrimental effects on investor protection[7]. Such an approach entails tackling both aspects that can more directly give rise to greenwashing as well as other aspects that may be more indirectly linked to greenwashing phenomena affecting the final investors. The first category entails most notably misrepresentation or wrongful disclosure, mis-selling or the lack of clear and common labels for ESG investment products or incorrect information about the alignment with the EU taxonomy. The latter includes, among other things, the availability and quality of data as well as ensuring that issuers provide a fair and comparable reflection of their sustainability profile in their corporate disclosures.

22. NCAs confirm the relevance of greenwashing by pointing to this topic as a main supervisory risk to which a coordinated response at EU level is necessary. In addition, NCAs note that there is no common understanding of what greenwashing is. Looking more closely at NCAs' preliminary observations and perception of greenwashing risk shows that:

    a. In *asset management*, the unequal understanding of the type of products which are subject to Articles 8 and 9 of the SFDR may lead fund managers to disclose inconsistently under these articles and effectively cause greenwashing in some cases. In addition, the lack of information on limitations related to methodology or data used in ESG disclosures may contribute to the heightened risk of greenwashing, although once the website disclosures of the ESAs' SFDR Regulatory Technical Standard are applicable, this may be alleviated. There is also an observed mismatch between the emphasis placed on ESG characteristics in the presentation of an investment product and the strategy that is actually implemented. For instance, the marketing documentation focuses on exclusion policies which do not *per se* result in selecting a fully sustainable eligible investment universe, or an ESG integration strategy is presented but no commitment is made to use ESG considerations in the investment decision-making. This is a problem affecting both institutional investors and retail investors. The latter increases the risk of misinformation, mis-pricing and mis-selling as retail investors have fewer resources to see beyond the way products are presented to them.

    b. In *investment services*, risks arise with regard to how conduct of business rules such as suitability / product governance and information requirements should be applied when selling ESG products. Investor education also plays a role in making sure that product offerings related to ESG investing can be properly understood, for example in relation to the sustainability impact of different investment strategies put in place to integrate ESG factors. It is worth noting that investor education is important also beyond investment services, for example in the area of asset management too.

    c. In *corporate disclosure*, greenwashing risk stems from incorrect or omitted information in non-financial statements and prospectuses as well as from a lack of

[7] ESMA notes that greenwashing focuses on the environmental aspect (E) in the ESG concept. When also the social and governance aspects (S and G) are added, this is referred to as ESG-washing. The *Sustainable Finance Roadmap* uses the term 'greenwashing' since this is the term employed in the 2021 EC Strategy, however, in due course issues related to social- and governance-washing could also be addressed under this heading.

transparency on the limitations of the methodologies and data used to prepare disclosures. At present, the shortcomings arising from the limited harmonisation in sustainability reporting practices by the Non-Financial Reporting Directive (NFRD) trigger issues across the entire investment chain in terms of poor comparability and relevance of the data stemming from issuers' disclosures. The scope of issuers covered by the NFRD and its different national transpositions is not sufficient to ensure that investors in both listed and non-listed entities can rely on adequate information to support rational decision-making. Due to the lack of a sound corporate disclosure basis, benchmark administrators have to rely largely on ESG ratings and data providers to determine the sustainability profile of issuers. This triggers a further lack of comparability in the way such assessments are performed which in turn results in additional risks to investor protection. The legislative proposal for a Corporate Sustainability Reporting Directive (CSRD) aims to address these issues, but the new requirements – if and when finalised – will kick in for the 2024 reporting season at the earliest. Investors and supervisors in the EU therefore have to cope with the current sub-optimal status of sustainability reporting still for some years.

d. In *benchmarks*, greenwashing risk relates to disclosures made by benchmark administrators about the impact of their ESG indices, when these are either just applying exclusions or constructed using ESG ratings (this is the same problem as in portfolio construction in the asset management sector, as highlighted above). Another example is the creation of benchmarks which are very close to those envisaged by legislation, such as the Paris-aligned benchmarks, but with small tweaks that make them fall outside these legally recognised categories while still giving the impression of a strong ESG profile. It should also be acknowledged that, while the disclosure requirements for ESG benchmarks might reduce the risk, greenwashing would anyway arise from the lack of methodology requirements that would enable benchmark users to compare different benchmarks claiming to have a strong ESG profile.

23. The EC also focused on the topic of greenwashing in the 2021 EC Strategy on sustainable finance, and in October 2021 ESMA was informed by the EC that a specific mandate to fulfil the Strategy's action relating to greenwashing will be addressed to each of the ESAs (the EBA, EIOPA and ESMA). This mandate will request the ESAs to each work on the following main areas:

a. Definition of role of NCAs

b. Identification of greenwashing practices in the market

c. Effectiveness of EU supervision in addressing greenwashing

### 2.2.2 Proposed follow-up categories of actions to address those challenges

24. In light of this broad set of potential issues related to greenwashing, it is important for ESMA and NCAs to find common solutions along the following lines:

    a. Arriving at a definition of the greenwashing phenomenon that can help drive the supervisory work in a coordinated and efficient manner across sectors and across the EU based on clear rules in a completed rulebook.

    b. As a steppingstone to developing such a definition, it will be necessary to build on discussions on supervisory cases of market practices to gain a shared understanding of what in NCAs' perception can be regarded as greenwashing.

    c. Ensuring consistent application of the EU rulebook through convergence tools such as Q&As and Guidelines.

    d. Better understanding NCAs' role vis-à-vis greenwashing and determining whether and how the mandate of NCAs may differ across the Union in this regard, thus requiring additional convergence work by ESMA or even flagging key areas of inconsistency or potential gaps in legislation to the EC to consider taking regulatory action.

25. ESMA observes that, in an ideal scenario, NCAs and ESMA would tackle greenwashing based on a complete and fully applicable legislative regime setting the boundaries of the type of market behaviour and practices that are and are not permissible. However, there is now a real need to address greenwashing without delay, even if all the legislative steppingstones are not fully in place yet.

26. More specifically, the proposed follow-up categories of actions to address this priority are as follows:

    a. **Organising 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 the phenomenon and identifying related examples, also relying on existing literature (e.g., IOSCO Consultation Report on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management).

       The discussions should aim to determine how greenwashing differs from other types of mis-selling, what are the channels which may facilitate spreading of greenwashing across the investment value chain and what measures can be taken to promote transparency, what type of marketing communication can be regarded as faithful with respect to the sustainability nature of certain financial products and what are the different types of sustainable products. For example, NCAs will continue to engage in ongoing discussions of supervisory cases related to the SFDR to come to a shared understanding of the new rules in this area and in particular of how to identify and address greenwashing under this regime. Such a shared understanding is an essential starting point for more advanced supervisory convergence work related to greenwashing.

Discussions with ESMA's SMSG and its other Consultative Working Groups (including the future Consultative Working Group of the Coordination Network on Sustainability) and other stakeholders will also help gather further insights on greenwashing.

b. **Providing guidance to the market and NCAs on how to apply various rules in the sustainable finance single rulebook.**

Ensuring the consistent and effective application of the EU sustainable finance rulebook is key to preventing greenwashing. To that end, it is important that market participants have clarity around the legal requirements that apply to them and that NCAs have a shared understanding of how they should supervise and enforce those requirements. For example, ESMA will develop guidance on the Level 2 measures under Article 8 of the Taxonomy Regulation to ensure robust disclosures on companies' current environmental performance as well as their transition plans to increase the Taxonomy-alignment of their business activities.

c. **Developing a common understanding of NCAs' supervisory role in the area of sustainable finance and specifically on greenwashing.**

It is important to establish a common understanding amongst NCAs of what supervision of sustainable finance requirements entails. In particular, it would be key to understand the extent to which NCAs should assess the degree of greenness of financial products and issuers' practices and how they may succeed in carrying out such assessments, taking into account their current supervisory toolkits (for example, how can NCAs use their current resources and powers to exercise a form of professional scepticism to second-guess the sustainability *reality* that stands behind the information publicly disclosed and subject to their supervision). Please see section 2.3. for further details regarding building the right skillset at NCAs.

There is furthermore a need for a common understanding of which data flows and tools are necessary, and which of those are available, for NCAs to effectively meet their supervisory obligations. In particular, a "gap analysis" – i.e., the assessment of the data the NCAs need and the data they actually have or can be expected to obtain in the future based on upcoming legislative requirements – as well as how to make the best use of that data will provide a pathway to bringing clarity and addressing certain challenges ESMA and NCAs currently face.

d. **Contributing to further completing the EU single rulebook on sustainable finance while promoting its consistency with international initiatives.**

This category of actions includes continuing to develop comprehensive disclosures under SFDR and TR (Level 2 requirements), clarifying definitions and disclosure obligations for sustainability products, providing input, as needed, on the disclosure prospectuses should contain in relation to green, social and other types of sustainable securities and actively contributing to the development of high-quality standards for corporate sustainability reporting under the CSRD. In relation to the latter, it will be important to ensure that the reporting standards developed in the EU are conducive to investor protection and financial stability and that they do not unnecessarily depart from global sustainability reporting standards, as investors operating in the EU should be able to reconcile, at least to some extent, the sustainability disclosures of investee entities placed outside the EU. In this regard, international cooperation within IOSCO and with the International Sustainability Standards Board will be essential to ensure that the EU reporting regime is adequate to meet the information needs of investors that operate at global level.

In general, a complete, clear and consistent set of rules and supervisory and enforcement powers is a precondition for effective supervision and enforcement at national level and for supervisory convergence at EU level, both important building blocks in preventing greenwashing. Given its role in coordinating the enforcement of the financial reporting regime across the EU, ESMA will also contribute to the EC's assessment of the extent to which International Financial Reporting Standards enable an adequate reflection of climate risks in financial statements.

Finally, ESMA will contribute to planned assessment work by the EC to consider possible regulation and supervision of ESG rating providers which play a key role to ensure the good functioning of relevant and comparable ESG-related information to support investment decision-making.

e. **Collecting and studying empirical evidence regarding the functioning of ESG markets and ESG products as well as cases of greenwashing to better understand current and developing market practices.**

A clear understanding of current and developing market practices will help NCAs and ESMA in assessing greenwashing risks. In this respect, the actions envisaged under the priority "Monitoring, assessing and analysing ESG-related markets and risks" will further support the work on greenwashing.

27. A detailed articulation of the above-mentioned categories of actions is presented in the Annex.

## 2.3 Building NCAs’ and ESMA’s SF capacities

### 2.3.1 Main challenges

28. Similar to other new trends in financial markets and new fields of financial markets legislation, sustainable finance requires going through a ‘learning curve’ in order to ensure that the supervisory implications of the new sustainable finance legislation as well as the basics of the sustainability transition are well understood and become mainstream in NCAs and ESMA.

29. However, sustainable finance has a peculiar feature in that it generally requires NCAs to have not only a good handling of the relevant cross-cutting legislation but also a good understanding of the intersection between sustainability matters and finance. In this regard, ESMA should facilitate capacity building across NCAs and provide a platform for sharing and as such reinforcing the existing expertise in the recognition that capacity building will require a common effort.

30. The capacity building will have a crucial derivative effect which is to establish a common supervisory culture in this nascent area. In addition, the novelty of dealing with sustainable finance also creates the opportunity to develop common supervisory standards from the early stages and put in place effective and consistent supervisory practices.

### 2.3.2 Proposed follow-up categories of actions to address those challenges

31. The follow-up categories of actions to address this priority are presented below:

    a. **Facilitating the exchange of knowledge and information on ESG-related initiatives between NCAs through the development and implementation of a Sustainable Finance Training Plan for NCAs and ESMA staff.**

    The goal is to establish a plan for a concrete collaboration between NCAs and ESMA staff to deliver training initiatives in the area of sustainable finance and meet the ‘learning curve’ to ensure that the supervisory implications of the new sustainable finance legislation as well as the basics of the sustainability transition are well understood and become mainstream in NCAs and ESMA.

    The Sustainable Finance Training Plan should be built on a collective ESMA-NCA effort and provide a sequenced approach to developing, offering, and facilitating training activities. The intent is to leverage on existing materials developed by ESMA and NCAs but, as far as possible, also build on expertise of external organisations. The detailed needs of NCAs and ESMA staff, which will likely arise when specific legislative milestones are reached, should be further identified as part of the process for elaborating the detailed training programme and updated overtime.

b. **Organising regular supervisory and enforcement case discussions in relevant ESMA standing committees and networks, as well as discussions with Consultative Working Groups on sustainable finance-related topics.**

Ensuring that NCAs can exchange experiences on real-life supervisory and enforcement cases, on the challenges they face and on solutions or initiatives adopted to address them will be a useful tool to build capabilities and a shared culture on these emerging topics.

c. **Develop common supervisory standards on key ESG-related matters, for example through the Common Supervisory Handbook.**

32. A detailed articulation of these categories of actions is presented in the Annex.

## 2.4 Monitoring, assessing and analysing ESG-related markets and risks

### 2.4.1 Main challenges

33. ESG markets evolve at a rapid pace, creating new investment opportunities but potentially also new risks to investor protection, orderly markets and financial stability. ESG markets and products, including in particular sustainable investment vehicles and debt instruments such as ESG funds and green bonds, hence need to be subject to close monitoring. This, in turn, will support ESMA in its single rulebook, direct supervision and supervisory convergence work.

34. In addition, over the next years, climate change is expected to have a growing impact on global financial markets. As also recognised at international level, tools such as stress testing and scenario analysis are needed to enable the assessment of climate transition and physical risks. Given the central role that carbon prices are expected to play in the transition to a low-carbon economy, ESMA will also closely monitor potential risks in EU carbon markets.

35. Risk monitoring and assessment is, however, hampered by severe issues with both data availability and data quality. Data *availability* issues stem from data gathering restrictions and difficulties, the currently limited number of companies disclosing ESG-related information, as well as the insufficient granularity of the disclosures. While this is an issue across sectors, the situation is particularly challenging for entities facing disclosure requirements in the short to medium term, such as asset managers. Data *quality* issues, in turn, reflect the existence of multiple reporting standards and lack of comparability as well as lack of transparency as regards existing limitations and underlying assumptions or methodologies underpinning ESG ratings and data. The need to consolidate multiple sources of data, including unstructured data, creates additional challenges for NCAs and for ESMA.

36. Taking a closer look at issues with data availability and quality that have arisen across these sectors:

    a. *Asset managers and other investors* need reliable and comparable ESG data to comply with regulatory requirements, support their sustainable investments and enable the shift towards investing in greener economies. Due to the sequencing of the ESG disclosure requirements applicable across the sustainable investment value chain, these data needs are currently not fulfilled by the data disclosed by companies. The data gaps can neither be fully bridged by third-party ESG data or by rating providers whose methodologies, limitations and assumptions need to become more transparent. Overall, data gaps, low quality and a lack of transparency may lead to misrepresentation and to a misallocation / mispricing of investments. However, the exact nature and scope of challenges with data availability and quality will become clearer when the implementation of the new disclosure requirements (e.g., SFDR in conjunction with the Taxonomy Regulation) begins.

b. In the case of *corporate disclosures*, data issues relate, amongst others, to the lack of standardisation and their poor reliability as companies tend to report selectively against different frameworks ("cherry-picking") and to use different approaches and proxies with limited transparency on the methodologies and the data sources. Moreover, non-financial statements are currently not systematically subject to third-party assurance. These issues with data standardisation and reliability are expected to be addressed through the CSRD and standard-setting initiatives in Europe (European Financial Reporting Advisory Group) and worldwide (International Sustainability Standards Board).

c. For *benchmarks*, data issues are primarily associated with the lack of data availability, which impairs disclosures made by benchmark administrators. Linked to that, the scarcity of publicly disclosed information combined with significant market concentration regarding ESG rating and data providers translate into high data costs. In addition, a lack of a unique identifier and a centralised register for climate benchmarks makes it difficult to monitor market developments in this area.

d. Furthermore, many NCAs have limited knowledge of and experience with *innovation and green FinTech*. There is no convergence around the definition and scope of green FinTech and why it should be differentiated from other types of financial innovation.

e. Similarly, a degree of specific work is needed to adapt the concepts and the approaches to climate risk assessments for areas such as *CCPs*.

### 2.4.2 Proposed follow-up categories of actions to address those challenges

37. The proposed follow-up categories of actions to address this priority are as follows:

a. **Supporting single rulebook and convergence initiatives to contribute to a complete and clear set of rules and powers.**

ESMA's policy work relies on collecting and studying empirical evidence grounded in analytical work that monitors ESG markets, ESG products as well as cases of greenwashing.

To name a few initiatives, with respect to rating agency press releases, ESMA plans to publish a study on the extent to which its Guidelines on disclosures of ESG factors have been incorporated. In the corporate disclosure sector, ESMA intends to conduct a study on how financial reporting standards can capture relevant sustainability risks. ESMA also supports efforts to develop EU-wide labels, including the EU Green Bond Standard, and in the future ESG labels for financial instruments (e.g., sustainability-linked bonds) and investment products. In the asset management sector, ESMA has commenced a study on disclosure requirements under SFDR Articles 8 and 9, while in the investment services area, it would be important to collect data on the distribution of ESG products. As regards the benchmarks sector, research on the use of existing climate indices and benchmarks will help obtain a clear picture of the current offer and demand.

b. **Continuing the work on climate change scenario analysis and further structuring the dialogue in this area with the other ESAs, the ECB and the European Environment Agency, including on EU-wide stress testing of the financial system.**

This exercise entails providing guidance for bottom-up climate change stress tests to be used by supervisors and supervised entities, conducting EU-wide climate stress tests to assess the resilience of the financial sector in line with the Fit-for-55 package and performing regular climate stress tests or scenario analyses of entities within ESMA's remit. This work is foreseen in the 2021 EC Strategy and will be done in collaboration with the EBA and EIOPA.

c. **Assessing issues with data availability and quality affecting market participants' reporting obligations as well as the users of this data.**

These issues will be considered when amending existing reporting obligations or proposing new ones to reflect the specificities of ESG data. In this context, EU initiatives such as the European Single Access Point (ESAP) and the inclusion of the sustainability-related information therein, as well as the Open Finance Framework are also relevant.

d. **Better understanding the interaction between digital innovation and sustainability.**

This will be done by exploring use cases of innovative technologies that help channel investments into sustainable objectives and assist transition to a greener economy through the European Forum of Innovation Facilitators (EFIF) and organising workshops and trainings. RegTech and SupTech solutions may further facilitate effective access to, and consolidation and usage of, ESG data by NCAs and ESMA.

e. **Engaging with the relevant international fora to benefit from synergies and promote globally consistent approaches.**

ESMA's participation to IOSCO, FSB and NGFS workstreams working on sustainability-related issues facilitates the establishment of a dialogue between the EU and other jurisdictions on issues of direct relevance to EU securities markets. This is beneficial for ESMA as it is able to draw from the advanced expertise and models already available elsewhere (e.g., in the context of climate scenario analysis), while promoting the EU's rulemaking approach in areas where the EU has taken the lead (e.g., disclosure rules under the EU Taxonomy or SFDR), with a view to reducing the risk of global fragmentation.

38. A detailed articulation of these categories of actions is presented in the Annex.

# Annex: List of planned activities and deliverables

This Annex provides a comprehensive list of planned actions and deliverables in the area of sustainable finance.

The Annex is divided into eight areas which cover horizontal activities and activities in the most impacted sectors (i.e., the sectors identified in Chapter 2.1; investment management, investment services, issuers' disclosure and governance, benchmarks, ratings, trading and post-trading, and financial innovation). Data-related actions, given their cross-cutting relevance, are spread across the horizontal and sectoral sections.

Each area is split into subsections corresponding to ESMA's four activities, namely single rulebook, supervisory convergence, risk assessment and direct supervision. Where no actions are proposed in relation to one activity, that activity is left out.

The Annex also lists which priorities the different actions and deliverables contribute to, even though in several cases the envisaged actions may address also other purposes and have a broader reach. For instance, even if most actions can be directly or indirectly linked to greenwashing, they may also have a broader relevance.

The Annex presents indicative timelines for each action. Some actions will be ongoing throughout the period covered by the *Sustainable Finance Roadmap*; such actions are labelled '2022-2024'. The indicative timelines may be subject to changes due to evolving priorities, resource constraints, further discussions at sectoral level and uncertainty surrounding some of the regulatory regimes that are relevant for the different deliverables.

## Horizontal

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 1 | Assess / contribute to consistency of Sustainable Finance legislation across sectors (CSRD, Benchmarks Regulation, SFDR, Taxonomy Regulation (TR), etc.) and convergence in their application / supervision | 2022-23 | Greenwashing Monitoring ESG markets |
| 2 | Assess greenwashing practices observed, including key features of this phenomenon | 2022-23 | Greenwashing |
| 3 | Map and develop a common understanding of NCAs' supervisory role across sectors, notably on greenwashing, and identify legal impediments, if any | 2022-23 | Greenwashing |
| 4 | Establish the CNS - CWG | 2022 | Building capacities<br>Monitoring ESG markets |
| 5 | Undertake horizontal mapping of ESG data needs / usages for supervisory purposes | 2023 | Greenwashing<br>Building capacities |
| 6 | Implement the Sustainable Finance Training Plan | 2022-24 | Building capacities |
| 7 | Contribute, as needed, to EC's efforts to develop EU-wide labels, including the EU Green Bond Standard, and in the future ESG labels for instruments (e.g. sustainability-linked bonds) and investment products. | 2022-24 | Greenwashing |
| 8 | Monitor the progress on the fulfilment of the ESMA priorities for sustainable finance as identified in the *Sustainable Finance Roadmap* | 2022-24 | Greenwashing Building capacities Monitoring ESG markets |

## Investment management

### A. SINGLE RULEBOOK[8]

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 1 | Contribute to EC's planned work on minimum sustainability criteria, or a combination of criteria for financial products that disclose under Article 8 of the SFDR | 2022 | Greenwashing |
| 2 | Review the regulatory technical standards under SFDR to clarify:<br>• Indicators for climate- and environment-related Principal Adverse Impacts (PAI)<br>• PAI on social and employee matters, respect for human rights, anti-corruption and anti-bribery matters | 2022 | Greenwashing |
| 3 | Contribute to the EC's work on possible further changes to UCITS Directive and AIFMD to enable financial market participants to systematically consider positive and negative sustainability impacts of their investment decisions | 2024 | Greenwashing |
| 4 | Flag to the EC any need to amend / clarify / interpret Level 1 and Level 2 such as for SFDR, TR, UCITS Directive or AIFMD | 2022-24 | - |

### B. SUPERVISORY CONVERGENCE

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 5 | Map NCAs' supervisory role, notably on greenwashing, taking into account SF requirements applicable to asset managers (SFDR, TR, AIFMD, UCITS Directive) | 2022-23 | Greenwashing<br>Building capacities |
| 6 | Contribute to the horizontal mapping of data needs / usages for supervisory purposes | 2023 | Greenwashing<br>Building capacities |
| 7 | Deliver training on SFDR (Articles 3, 5, 6 and 8-11), TR (Articles 5-6 and 8) | 2022-24 | Building capacities |
| 8 | Organise supervisory case discussions among NCAs on how to identify and effectively address greenwashing | 2022-23 | Greenwashing<br>Building capacities |

[8] While ESMA's SFDR work is presented under investment management, it is also relevant for investment services, for individual portfolio management.

| | | | |
|---|---|---|---|
| 9 | Contribute to consistent implementation of new requirements applicable to asset managers (mainly SFDR[9] and related provisions from TR, but also AIFMD and UCITS Directive):<br>• NCAs to share supervisory cases to promote effective and consistent supervision<br>• Develop ESMA guidance to NCAs and / or to the market to ensure effective and consistent application of rules as needed<br>• Maintain up to date / develop new supervisory briefing(s) as needed | 2022-24 | Greenwashing<br>Building capacities |
| 10 | Survey landscape of EU / national ecolabels | 2022-24 | Greenwashing<br>Monitoring ESG markets |
| 11 | Undertake a Coordinated Supervisory Action (CSA) on sustainability disclosures | 2023-24 | Greenwashing<br>Building capacities |

**C. RISK ASSESSMENT**

| ***No.*** | ***Actions / deliverables*** | ***Indicative timeline*** | ***Priority*** |
|---|---|---|---|
| 12 | Analyse disclosures under SFDR Article 8 and 9 in the investment management sector to support supervisory convergence efforts and the identification of greenwashing cases | 2022-24 | Greenwashing<br>Monitoring ESG markets |
| 13 | Undertake work on climate change scenario analysis:<br>• Develop methods, parameters and scenarios for bottom-up climate change stress testing to be used by supervisors and supervised entities (in coordination with the EBA and EIOPA)<br>• As a one-off exercise, conduct climate change stress test to assess the resilience of investment funds in line with the Fit-for-55 package (in coordination with the EBA and EIOPA)<br>• Perform regular climate change stress tests or scenario analyses of entities within ESMA's remit. | 2022-24 | Monitoring ESG markets |

[9] SFDR related work is primarily conducted by the Joint Committee.

| | | | |
|---|---|---|---|
| 14 | Assess data availability and quality for asset managers | 2022-24 | Building capacities<br>Monitoring ESG markets |

## Investment services

### A. SINGLE RULEBOOK[10]

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 1 | Contribute to the EC's work on the Markets in Financial Instruments Directive II (MiFID II) changes to enable financial market participants and advisers to systematically consider positive and negative sustainability impacts of the products they advise on and of their investment decisions | 2024 | - |
| 2 | Flag to the EC any need to amend / clarify / interpret Level 1 and Level 2 | 2022-24 | - |

### B. SUPERVISORY CONVERGENCE

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 3 | Map NCAs' supervisory role, notably on greenwashing, taking into account SF requirements related to investment services | 2022-23 | Greenwashing<br>Building capacities |
| 4 | Contribute to the horizontal mapping of data needs / usages for supervisory purposes | 2023 | Building capacities |
| 5 | Organise supervisory case discussion among NCAs on how to identify and effectively address greenwashing | 2022 | Greenwashing<br>Building capacities |
| 6 | Deliver advanced MiFID II training with focus on ESG matters | 2022-24 | Building capacities |
| 7 | Assess added value / conduct a Coordinated Supervisory Action (CSA) on ESG factors in suitability assessments | 2023 or 2024 | Greenwashing<br>Building capacities |
| 8 | Contribute to consistent implementation of new requirements:<br>• Discuss and agree on how the new / existing ESG related rules (i.e., those related to manufacturing and design of ESG products, information provided on ESG products as well as their marketing and distribution) should be effectively and consistently applied and supervised notably updating the Guidelines on | 2022-24 | Greenwashing<br>Building capacities |

[10] While relevant also for investment firms, for individual portfolio management, ESMA's work in relation to SFDR is presented under investment management.

| | | | |
|---|---|---|---|
| | product governance and suitability assessments<br>• Develop further ESMA guidance to NCAs and / or to the market (such as Q&As), as needed<br>• NCAs to share supervisory cases to promote effective and consistent supervision | | |
| 9 | Explore actions in relation to promoting financial education, incl. through JC work undertaken on financial education | 2022-23 | Greenwashing<br>Building capacities |

**C. RISK ASSESSMENT**

| *No.* | *Actions / deliverables* | *Indicative timeline* | *Priority* |
|---|---|---|---|
| 10 | Discuss and consider implications for ESMA of the EC's plans to integrate sustainable finance data under the European Data Strategy and reflect, together with the Digital Finance Platform, on possible further actions to enable and encourage innovative solutions using digital technologies to support SMEs and retail investors | 2022-24 | Monitoring ESG markets |
| 11 | Collect data on the distribution of ESG products | 2022-24 | Monitoring ESG markets |

## Issuers' disclosure and governance

***A. SINGLE RULEBOOK***

| ***No.*** | ***Actions / deliverables*** | ***Indicative timeline*** | ***Priority*** |
|---|---|---|---|
| 1 | Contribute to the development of EU sustainability reporting standards (including adjustments for SMEs) and to the IOSCO work relating to international sustainability reporting standards | 2022 | Greenwashing |
| 2 | Contribute to the development of the framework for European Green Bonds in light of the EC's proposal for a Regulation (develop draft technical standards) | 2023-24 | Greenwashing |
| 3 | Provide input to the EC, as needed, on adjustments to the Prospectus Regulation to create minimum requirements for the comparability, transparency and harmonisation of information available for green, social and sustainable securities | 2022-23 | Greenwashing |
| 4 | Contribute as needed to the legislative process on Sustainable Corporate Governance | 2022-23 | - |
| 5 | Contribute to developing further guidance in the area of stewardship and engagement to ensure acting in concert does not impede collaborative engagement by investors around common sustainability goals | 2022-23 | Greenwashing |
| 6 | Contribute to the review of the Shareholder Rights Directive II | 2022-23 | - |
| 7 | Cooperate with EC, EFRAG and IASB on delivering an assessment of whether international financial reporting standards (IFRS) appropriately integrate sustainability risks | 2022 | Greenwashing |
| 8 | Contribute, as needed, to EC work on a label for sustainability-linked bonds | 2022-24 | Greenwashing |
| 9 | Flag to the EC any need to amend / clarify / interpret Level 1 and Level 2 including possible need to amend future reporting standards to fulfil needs from other sectors (e.g., asset management, benchmarks, etc.) | 2022-24 | - |

## B. SUPERVISORY CONVERGENCE

| ***No.*** | ***Actions / deliverables*** | ***Indicative timeline*** | ***Priority*** |
|---|---|---|---|
| 10 | Map NCAs' supervisory role, notably on greenwashing, taking into account NFRD and CSRD and prospectus requirements on listed issuers | 2022-23 | Greenwashing<br>Building capacities |
| 11 | Contribute to the horizontal mapping of ESG data needs / usages for supervisory purposes | 2023 | Greenwashing<br>Building capacities |
| 12 | Develop guidance to NCAs / market participants on Taxonomy Regulation Article 8 and on the related Level 2 provisions in view of effective and consistent application and supervision of the rules | 2022 | Greenwashing |
| 13 | Deliver training on Taxonomy Regulation (Article 8), green bond prospectuses and supervisory briefing on how to tackle the enforcement process relating to non-financial statements | 2022-24 | Building capacities |
| 14 | Organise supervisory case discussion among NCAs on how to identify and effectively address greenwashing issues in relation to disclosure of non-financial reporting (including possible reflections in the annual ESMA statement on the European Common Enforcement Priorities) and disclosure in prospectuses | 2022-24 | Greenwashing<br>Building capacities |
| 15 | Organise discussion among NCAs on how to examine listed issuers' disclosure of non-financial information and disclosure of sustainability information in prospectuses:<br>• Discuss and agree on how requirements should be applied by issuers and other entities supervised by NCAs<br>• Develop supervisory briefing | 2022-24 | Building capacities |
| 16 | Update the takeover bids White List | Tbd | |

**C. RISK ASSESSMENT**

| ***No.*** | ***Actions / deliverables*** | ***Indicative timeline*** | ***Priority*** |
|---|---|---|---|
| 17 | Contribute to the assessment of how financial reporting standards reflect relevant sustainability risks | 2022 | Greenwashing |
| 18 | Contribute, as needed, to EC's efforts to develop EU-wide labels, including the EU Green Bond Standard, and in the future as requested ESG labels for instruments (e.g., sustainability-linked bonds) and investment products. | 2022-24 | Greenwashing |

**D. DIRECT SUPERVISION**

| ***No.*** | ***Actions / deliverables*** | ***Indicative timeline*** | ***Priority*** |
|---|---|---|---|
| 19 | Prepare for new supervisory powers over external reviewers providing services to issuers of European green bonds. According to the EC's legislative proposal for an EU GBS, the external reviewers will need to be registered with and supervised by ESMA | 2022-23 | Greenwashing |

## Benchmarks

**A. SINGLE RULEBOOK**

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 1 | Contribute, as needed, to EC's planned work to review the minimum standards for both Climate Transition Benchmarks and Paris-Aligned Benchmarks to ensure that the selection of underlying assets is coherent with the EU Taxonomy | 2022 | Greenwashing |
| 2 | Contribute, as requested, to planned EC assessment of the possibility to create an ESG Benchmark label | 2022 | Greenwashing |
| 3 | Flag to the EC any need to amend / clarify / interpret Level 1 and Level 2 (e.g., development of ESMA register for climate benchmarks) | 2022-24 | - |

**B. SUPERVISORY CONVERGENCE**

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 4 | Map NCAs' supervisory role, notably on greenwashing, taking into account SF requirements in the BMR | 2022-23 | Greenwashing<br>Building capacities |
| 5 | Contribute to the horizontal mapping of ESG data needs / usages for supervisory purposes | 2023 | Greenwashing<br>Building capacities |
| 6 | Deliver training on sustainability-linked requirements in the EU BMR | 2022-24 | Building capacities |
| 7 | Organise supervisory case discussion among NCAs on how to identify and effectively address greenwashing | 2022 | Greenwashing<br>Building capacities |
| 8 | Organise discussion among NCAs of new climate benchmarks and how to effectively supervise them:<br>• Discuss challenges with supervision of climate benchmarks<br>• NCAs to share supervisory cases to promote effective and consistent supervision<br>• Discuss the need for ESMA guidance to NCAs and / or to the market<br>• Discuss the possibility for NCAs to inform the Benchmarks Network / ESMA when they become aware that new climate | 2022 | Building capacities |

| | | | |
|---|---|---|---|
| | benchmarks are launched in their Member State | | |
| 9 | Organise discussion among NCAs on availability and quality of data needed by benchmark administrators to fulfil their regulatory obligations:<br>• Discuss challenges with availability and quality of data<br>• Discuss the need for ESMA's action on how benchmark administrators can address these challenges | 2022-24 | Monitoring ESG markets |

**C. RISK ASSESSMENT**

| ***No.*** | ***Actions / deliverables*** | ***Indicative timeline*** | ***Priority*** |
|---|---|---|---|
| 10 | Monitor trends in the use of existing EU climate benchmarks to obtain a picture of current offer and demand | 2022-24 | Monitoring ESG markets |

**D. DIRECT SUPERVISION**

| ***No.*** | ***Actions / deliverables*** | ***Indicative timeline*** | ***Priority*** |
|---|---|---|---|
| 11 | Build direct supervisory capacities over administrators of critical and third country recognised benchmarks for compliance with relevant ESG rules[11] | 2022-24 | - |

[11] Starting from January 2022, ESMA is expected to ensure that the minimum standards of the methodology of climate benchmarks provided by administrators under its supervision and the ESG disclosure requirements for all benchmarks are compliant with the Level 1 and Level 2 texts.

## Ratings

**A. SINGLE RULEBOOK**

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 1 | Support the EC's in improving the reliability and comparability of ESG ratings, notably through contributing to evidence gathering | 2022 | Greenwashing |

**B. RISK ASSESSMENT**

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 2 | Assess ESG disclosures in credit rating agency press releases | 2022 | - |

**C. DIRECT SUPERVISION**

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 3 | Conduct assessment of how ESG factors are incorporated by CRAs in their methodologies | 2022 | - |

## Trading and post-trading

**C. RISK ASSESSMENT**

| *No.* | *Actions / deliverables* | *Indicative timeline* | *Priority* |
|---|---|---|---|
| 1 | Undertake work to consider impact of climate change into stress testing for CCPs | 2022-24 | Monitoring ESG markets |
| 2 | Build analytical tools for monitoring developments in EU carbon markets | 2022-24 | Monitoring ESG markets |

## Financial innovation

### A. SINGLE RULEBOOK

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 1 | Take into account ESG-related data reporting needs when amending or proposing reporting requirements | 2022-24 | Building capacities<br>Monitoring ESG markets |

### B. SUPERVISORY CONVERGENCE

| No. | Actions / deliverables | Indicative timeline | Priority |
|---|---|---|---|
| 2 | Promote effective and consistent supervision around sustainability related innovation through relevant ESMA groups and through the EFIF - the EU forum for hubs and sandboxes in Europe[12]:<br>• Identify use cases of innovative technologies that help channel investments into sustainable objectives and assist transition to a greener economy ('green FinTech') and invite firms to present case studies at EFIF meetings.<br>• Include sessions on green FinTech and sandboxes in EFIF meeting to collect evidence on their interactions and recent trends. | 2022 | Building capacities<br>Monitoring ESG markets |
| 3 | Conduct workshops and training on sustainability-related innovation and green FinTech (including relevant RegTech and SupTech solutions) | 2022-24 | Building capacities<br>Monitoring ESG markets |

[12] ESMA is the Chair of the EFIF from September 2021 for a one-year period.