



# SPOTLIGHT ON MARKETS

JULY 2022 N°36

## Young and inexperienced investors? ESMA puts forward Retail Risk Indicators for the EU Single Market

Stress test of Central Counterparties

Peer Reviews on EU CCP Supervision and  
Prospectuses

Ukraine war: Prospectus supervision  
under EU sanctions

ESMA Securities and Markets  
Stakeholder Group: Call for candidates

### ESMA PROPOSES KEY RISK INDICATORS FOR RETAIL INVESTORS

The Trends, Risks and Vulnerabilities Report defines key terms, considers how to measure risks practically and identifies sources of risk to consumers.

### PUBLICATIONS

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In July, ESMA published an [article](#) on the development of key retail risk indicators (RRIs) for the EU single market. The identified RRIs highlight risks around inexperienced investors, use of digital tools by younger investors and spikes in overall trading during periods of market stress.

ESMA has also published the [results of the fourth stress test exercise](#) of Central Counterparties (CCPs). The report includes both EU and Tier 2 Third Country CCPs and covers both credit and concentration risks, with targeted improvements in the methodology compared to the previous exercises. In addition, ESMA released its [annual peer review report](#) on the supervision of EU CCPs by National Competent Authorities.

Concerning prospectuses, we put forward a [Peer Review Report](#) on the scrutiny and approval procedures of prospectuses by competent authorities and a [Public Statement](#) on prospectus supervision in the context of EU sanctions over Russia's invasion of Ukraine.

Last, ESMA opened a [call for candidates](#) for its Securities and Markets Stakeholders Group (SMSG). Applicants representing stakeholders active in the EU are invited to apply by 16 September 2022.

Other key publications in July include the [reappointment](#) of Veerle Colaert as Chair of the SMSG, the launch of the [Call for Evidence](#) on pre-hedging, the publication of the [Guidelines](#) on common procedures and methodologies for the supervisory review and evaluation process for investment firms, the Opinion on the classification of third-country counterparties, and the [ESAs annual report](#) on the extent of voluntary disclosure of principal adverse impact under the Sustainable Finance Disclosure Regulation.

A full overview of all publications can be found in the newsletter, together with information on next month's speaking appearances of ESMA staff and vacancies. For updates, follow us on [Twitter](#) and [LinkedIn](#).

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# KEY RETAIL RISK INDICATORS FOR THE EU SINGLE MARKET

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The European Securities and Markets Authority (ESMA) published an [article](#) on the development of key retail risk indicators (RRIs) for the EU single market. The proposed RRIs highlight risks around:



**Spikes in overall trading during periods of market stress**

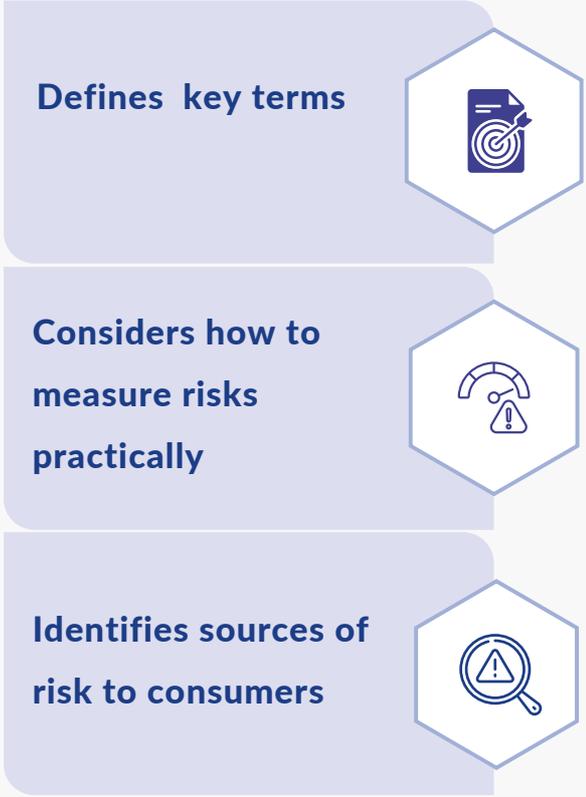


**Inexperienced investors**



**Use of digital tools by younger investors**

This development of RRIs is based on the new mandate ESMA recently received in this regard. ESMA is building on existing consumer analysis and indicators from the Trends, Risks and Vulnerabilities Reports to propose a conceptual framework that:



Within this framework, RRIs should aim to reflect market developments, especially the rise of online- or mobile-based retail trading.

**Next steps**

ESMA will continue to refine and develop RRIs to enhance its risk monitoring in this area. The article sets out several possible extensions to the analysis, including broadening the coverage in terms of the products and markets covered, and enhancing the evidence base on investor characteristics.

# STRESS TEST OF CENTRAL COUNTERPARTIES FINDS CLEARING SYSTEM RESILIENT

The European Securities and Markets Authority (ESMA) published the results of its fourth stress test exercise of Central Counterparties (CCPs). The results confirm the overall resilience of European Union (EU) CCPs, as well as third-country Tier 2 CCPs, to credit, concentration and operational risks under the tested scenarios and implemented framework. However, the stress test also identified areas where some CCPs may need to strengthen their risk management frameworks, or where further supervisory work should be prioritised, including on concentration and operational risks.

## The report's key findings are:

- CCPs have sufficient buffers to withstand adverse market developments in combination with the default of the two clearing members with the largest exposures;
- Gaps are identified between the necessary and available buffers for concentration risks for some CCPs, particularly in commodity derivatives markets;
- CCPs remained overall resilient despite increased market volatility in the wake of Russia's invasion of Ukraine;
- For operational risk, differences in terms of risk sources, exposures and mitigation tools across CCPs are observed and need to be further assessed on an individual basis before issuing potential recommendations; and
- Most of the analysed operational events stem from third-party services, whereas a number of critical third-party service providers have the potential to affect the critical functions of multiple CCPs in a correlated manner.

**Klaus Löber, Chair of the CCP Supervisory Committee, said:**



*ESMA's fourth stress test found that the European clearing market is resilient and capable of withstanding severe stress scenarios, although certain areas need further strengthening. CCPs' resilience was confirmed during the real-life market stress following Russia's invasion of Ukraine.*

*CCPs are of critical importance to the stability of the financial system and the failure of one CCP has the potential to cause serious systemic risk across the EU. Therefore, stress testing CCPs is a key supervisory tool to understand the clearing industry, identify issues relevant for financial stability and eventually mitigate systemic risk, contributing to ESMA's mission.*

### **CCP stress test scenarios and outcomes**



A total of 15 CCPs were covered by the exercise, including two UK CCPs qualifying as Tier 2 CCPs. The exercise assessed credit and concentration risk and included a new operational risk component that aimed to assess the resilience of CCPs to operational events and failures of third-party service providers.

### **Operational risk analysis**

ESMA identified varying degrees of operational reliability for the CCPs included in the exercise and identified specific CCPs where further work should be conducted to understand the drivers of these differences, the root causes of the events, and the remediation actions taken.



ESMA also evaluated the exposure of CCPs to critical third-party service providers and the ability of CCPs to reduce risk through operational risk management tools. Through this process, ESMA identified differences across CCPs in their relative level of third-party risk as well as the critical third-party service providers with the highest systemic importance for the CCP sector. Further work is needed to analyse exposures to third-party service providers both at an individual CCP level, as well as system wide, to further strengthen operational resilience.

## Credit Stress Test

Two default scenarios, combined with the common ESRB market stress scenario, were run on two different reference dates, 19 March (end of day) and 21 April 2021 (intraday snapshot).

For 19 March 2021, the impact due to concentration and specific wrong-way risk stemming from cleared positions was also included in the baseline scenario calculations. The first scenario concerned a Cover-2 default per CCP, where the default of two clearing member groups under common price shocks is assumed separately for each CCP. The second scenario was an All-CCPs Cover-2 default, involving a default of the same two groups for all CCPs in the system, designed to assess the resilience of CCPs collectively to the market stress scenario. ESMA did not detect any major systemic risk concerns under the tested credit scenarios.

## Russia's invasion of Ukraine

During the time of finalisation of the exercise, Russia's invasion of Ukraine led to extreme market movements for instruments across the commodities and energy markets. ESMA concludes that the ESRB scenario is overall of greater or comparable severity for most asset classes, but of a lesser severity for some products, especially for power and gas derivatives. ESMA, in coordination with national competent authorities, also closely monitored the financial impacts that the invasion has had on CCPs. Overall, ESMA notes that CCPs remained resilient during the crisis, despite the extreme prices and increased market volatility.

## Concentration Stress Test

The European-wide concentration analysis performed on 19 March 2021 shows that concentrated positions represent a significant risk for CCPs. For most asset classes, concentrated position risk is clustered in one or two CCPs. The analysis found that concentration risk is factored in explicitly in a majority of CCPs, through dedicated margin add-ons.

Concentration modelled for commodity derivatives and the equity segment (securities and derivatives) is significant, with around 7bn EUR of concentration risk calculated for each asset class. There is a large coverage gap between the system-wide estimated market impact and margin add-ons for commodity derivatives and to a lesser extent for equity products. The concentration risk for emission allowances stands at 2.5bn EUR and is not adequately covered per the ESMA methodology.



# ANNUAL PEER REVIEW OF EU CCP SUPERVISION

The European Securities and Markets Authority (ESMA) has published its annual peer review report on the supervision of EU Central Counterparties (CCPs) by National Competent Authorities (NCAs). The Peer Review measured the effectiveness of NCA supervisory practices in assessing CCP compliance with EMIR's requirements on business continuity, in particular in remote access mode.

The overall outcome of the peer review is that the NCAs participating in the current peer review have broadly met the supervisory expectations. The peer review showed that some aspects of business continuity in remote access mode were not always specifically assessed.

In most cases, this is explained by the fact that at many CCPs remote working was already common practice or part of existing business continuity arrangements. In this context, remote working did not introduce any new major risks to be re-assessed.

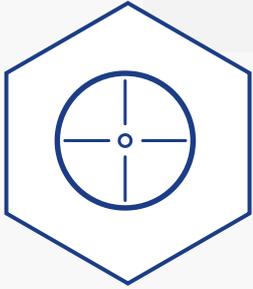
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## The report notes three observations:



NCAs could better clarify, when defining their risk-based approach, how operational risks related to remote access are addressed.



From a supervisory perspective, CCPs could better clarify the risk-based scope of penetration testing and how risks related to remote access are addressed as part of this.



Business Continuity Management (BCM) plans could in this context be improved by taking into account other extreme scenarios, where remote working arrangements could serve to ensure business continuity.

Moreover, the report also identifies ten best practices from NCAs' supervisory activities and approaches with respect to business continuity in remote access mode. Implementing these best practices would also address the three observations mentioned above.

On the functioning of CCP colleges, the review of colleges' activities during the reporting period remains overall positive.

### Next steps

ESMA will follow up on the report's findings to identify, where relevant, the most appropriate tools to further enhance supervisory convergence.



# ESMA FINDS NCAS' SCRUTINY AND APPROVAL OF PROSPECTUSES SATISFACTORY

The European Securities and Markets Authority (ESMA) published its [Peer Review Report](#) on the scrutiny and approval procedures of prospectuses by competent authorities. This peer review also assessed the impact of different approaches regarding scrutiny and approval by competent authorities on issuers' ability to raise capital in the European Union.

## KEY FINDINGS

NCAs generally scrutinise prospectuses in a satisfactory manner, albeit in various ways, with scrutiny often reinforced for heightened risk prospectuses

ESMA Guidelines on risk factors are applied satisfactorily, however there is room for future supervisory convergence work in relation to their enforcement

The notion of additional criteria that NCAs may apply during the scrutiny process lacks clarity, a point which the European Commission is invited to address with ESMA's technical assistance as needed

Overall NCAs have sufficient and proportionate resources to scrutinise prospectuses

There is scope for efficiency improvements in respect of some NCAs' approval processes

The liability regime in Italy has a strong impact on how Consob scrutinises and approves prospectuses

### Verena Ross, Chair, said:



“ “ *The publication of this peer review is a significant step to understanding how prospectus review processes impact on issuers' ability to raise capital in the European Union. The report sets out important recommendations for NCAs, and for supervisory convergence initiatives directed to both ESMA and the European Commission, that aim at reinforcing and enhancing the scrutiny and approval of prospectuses. Acting on these recommendations will lead to better outcomes for both issuers and investors in the EU.*

*The peer review assessed all NCAs in respect of how they scrutinise and approve prospectuses. The exercise also involved onsite visits to the AMF (France), BaFin (Germany), CBI (Iceland), CONSOB (Italy), CSSF (Luxembourg), SFS (Sweden) to gain a deeper understanding of how these NCAs scrutinise and approve prospectuses.*



### Next steps

ESMA expects to carry out a follow-up assessment in two years to review the level of improvements achieved based on the findings and recommendations of this peer review report.

# UKRAINE WAR: PROSPECTUS SUPERVISION UNDER EU SANCTIONS

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The European Securities and Markets Authority (ESMA) released a [Public Statement](#) on prospectus supervision in the context of EU sanctions over Russia's invasion of Ukraine.



The purpose of this Public Statement is to alert stakeholders to the European Commission's [FAQs](#), which outline the legal basis for a national competent authority (NCA) refusing to approve a prospectus. It also aims to raise awareness of the fact that NCAs may ascertain issuers' compliance with EU sanctions legislation when submitting prospectuses. ESMA recognises the human cost of Russia's military aggression against Ukraine, and the significant challenges to business activities and effects on the global economic and financial system posed by the invasion.

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# SECURITIES AND MARKETS STAKEHOLDER GROUP: CALL FOR CANDIDATES OPEN

The European Securities and Markets Authority (ESMA) launched a call for expression of interest to create a reserve list of candidates who can be appointed to the current Securities and Markets Stakeholder Group (SMSG) when a vacancy arises.

The call for expression of interest is open to applicants representing stakeholders active in the European Union. The reserve list created will be valid for the remainder of the current term of the SMSG, until 30 June 2024.

The relevant documents for the application can be found here:

- [Call for expression of interest](#)
- [Application form](#)

The application should be accompanied by a CV, in [Europass](#) format, together with a letter of motivation clearly stating the reasons for the application as well as main expectations as to the candidate's

future contribution to the work of the SMSG.

The SMSG is consulted on actions concerning regulatory technical standards and implementing technical standards and, guidelines and recommendations, to the extent that these do not concern individual financial market participants. More [here](#).

## Next steps

**Interested parties are invited to apply by 16 September 2022**, no later than 23.59 CEST. The reserve list is expected to be established in Q4 2022.

# PUBLICATIONS



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ESMA LAUNCHES A CALL FOR CANDIDATES TO ESTABLISH A RESERVE LIST FOR THE SECURITIES AND MARKETS STAKEHOLDER GROUP

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NEW Q&AS AVAILABLE

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ESAS' BOARD OF APPEAL DISMISSES CASE AGAINST EBA ON ALLEGED NON-APPLICATION OF UNION LAW REGARDING PAYMENT SERVICES

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ESMA CORRECTS DOUBLE VOLUME CAP RESULTS

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ESMA FINDS NCAS' SCRUTINY AND APPROVAL OF PROSPECTUSES SATISFACTORY

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ESMA ISSUES A THIRD STATEMENT ON THE IMPLEMENTATION OF LEI REQUIREMENTS FOR THIRD-COUNTRY ISSUERS

**21**  
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ESMA AND EBA PUBLISH GUIDELINES TO HARMONISE THE SUPERVISORY REVIEW AND EVALUATION PROCESS OF INVESTMENT FIRMS

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ESMA STRESS TEST OF CENTRAL  
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# OPEN VACANCIES

## POSITION

Traineeship notice -  
Legal profile (F/M)

Traineeship notice -  
Transversal profile (F/M)

Traineeship notice -  
Financial Markets Profile  
(F/M)

## DEADLINE

Open call  
(without a specific deadline)

Open call  
(without a specific deadline)

Open call  
(without a specific deadline)

All open vacancies can be found on [ESMA's recruitment portal](#)



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