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Verena Ross
Executive Director
European Securities and Markets Authority (ESMA)
CS 60747
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Dear Ms. Ross,

The role of the European Securities and Markets Authority in sustainable finance

We are writing to you regarding the European Securities and Markets Authority's (ESMA) role in ensuring the stability of the European financial system. We believe that to ensure the effective functioning of the financial system and to prevent widespread financial instability, ESMA should take steps to integrate climate and wider sustainability risks into its supervision responsibilities.

The risks posed by climate and wider sustainability issues to financial markets are large and systemic, as described by the Bank of England's Prudential Regulation Authority and the European Systemic Risk Board (ERSB). We argue that ESMA has a responsibility and duty to take account of these risks under its current mandate. We have outlined six initial actions that ESMA should undertake in the accompanying briefing.

ESMA has a responsibility and duty to take action for the following reasons:

- **To fulfil its mandate, as set out in the Founding Regulation (EU/1095/2010).** ESMA's objective is "to protect the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system, for the EU economy, its citizens and businesses". Climate and wider sustainability risks pose threats to financial stability and effective functioning of financial markets and therefore ESMA has a duty to address these risks. The risks are most clearly known for climate change, as shown by the work of the Bank of England's Prudential Regulation Authority and the ESRB. However, the European Commission High Level Expert Group on sustainable finance is looking at broader sustainability risks from other environmental and social factors.
- **To meet existing obligations set out in the EU legal framework.** ESMA is responsible for contributing to the consistent application of legally binding Union acts, including the Transparency Directive (2004/109/EC). ESMA should encourage the integration of climate and wider sustainability information in this role to ensure a level playing field for investors and issuers across the EU and strengthen the quality of the single rulebook for EU financial markets.

- **To ensure that best practice is shared across the EU in the transition to a sustainable, low-carbon economy and prevent regulatory fragmentation.** During the transition a shared regulatory approach by national competent authorities will be fundamental. ESMA is responsible for overseeing national supervisory authorities so has a duty to ensure the establishment of high-quality common regulatory and supervisory standards and practices. ESMA must prevent a race to the bottom between Member States on climate and wider sustainability legislation.
- **To align with the work of the Task Force on Climate-related Financial Disclosures.** The Task Force has brought the case forward for better-quality disclosure in financial markets around the risks from climate change. Incorporating this information in financial reporting enables investors to make informed investment decisions regarding their exposure to climate-related risks. ESMA is well placed to promote better understanding of these risks in its activities related to corporate disclosure.
- **To fulfil its position as part of the European supervisory framework.** ESMA is responsible for overseeing national supervisory authorities and contributing to the work of the ESRB, which provides macro-prudential oversight across the EU. ESMA is also directly responsible for supervising Credit Rating Agencies. Through this role, it should ensure awareness of long-term sustainability risks in EU securities markets and in the procedures of Credit Rating Agencies. ESMA should also follow the concerns raised by the ESRB raised in February 2016 of the potential implication of climate change as a systemic risk in the financial system.

There will be a further opportunity to explicitly include the management of climate and wider sustainability risks within the mandates of all the European Supervisory Authorities in the upcoming review of the European Supervisory Authorities, occurring later this year as mandated by their founding Regulations.

We would welcome the opportunity to meet with you and discuss these topics in further detail. Thank you very much for your consideration.

Yours sincerely,

Ingrid Holmes, Director, E3G

Steven Tebbe, Managing Director, CDP Europe

Alice Garton, Company & Financial Project Leader, ClientEarth

Mardi McBrien, Managing Director, Climate Disclosure Standards Board

Benoît Lallemand, Secretary General, Finance Watch

Catherine Howarth, Chief Executive, ShareAction

Geneviève Pons-Deladrière, Director, WWF European Policy Office.