



European Securities and
Markets Authority

ESMA Strategic Orientation 2016-2020



Table of Contents

1	Introduction	3
2	Why do we revise our strategic orientation?	3
3	ESMA: the EU's Financial Market Regulator – Mission, objectives and activities.....	6
3.1	ESMA's mission and objectives.....	6
3.2	ESMA's activities.....	7
4	Direction and strategic choices per activity	9
4.1	Assessing risks to investors, markets and financial stability	9
4.2	Completing a single rulebook for EU financial markets.....	11
4.3	Promoting supervisory convergence	12
4.4	Direct supervision of specific financial entities	15
5	Implications	17

1 Introduction

This document outlines the 2016-2020 Strategic Orientation for the European Securities and Markets Authority (ESMA). The Strategic Orientation records and explains the strategic choices we have made and will assist in making future choices and trade-offs, in the context of the current legislative and institutional framework. It describes the context in which ESMA operates, ESMA's mission, objectives and activities, the strategic choices we make and what implications these choices will have.

This Strategic Orientation has been developed between July 2014 and May 2015. Practical implications of these strategic directions have been developed in a separate internal implementation plan.

2 Why do we revise our strategic orientation?

ESMA had a successful start and is encouraged to develop itself further

ESMA was founded in 2011. The focus during the first three years of existence was on getting the organisation of the ground and laying the groundwork for our activities. In this short period of time we have:

- Made a significant contribution to the single rulebook for EU financial markets;
- Progressed on supervisory convergence;
- Established credible direct supervision for credit rating agencies (CRAs) and trade repositories (TRs);
- Built capacities to analyse risks to investors and financial stability;
- Established the organisation and staffed ESMA appropriately, and;
- Positioned ESMA as a fundamental component of the European System of Financial Supervision.

In 2014, the International Monetary Fund (IMF), the European Commission and the European Parliament published reports on the functioning of the European System of Financial Supervision (ESFS). The reports acknowledged ESMA's contribution to establishing a single rulebook for EU financial markets and in positioning the Authority as a credible direct supervisor. ESMA was encouraged to step up its activities in the field of supervisory convergence and investor protection.

Both the European Commission and European Parliament report suggested increasing the focus on supervisory convergence, a higher profile for investor protection and a review of the funding model. The reports also mentioned potential additional competences. No legislative proposals were made.

Financial markets and political environment remain challenging

The severe strain on the European financial markets from the financial and sovereign crisis has subsided. At the same time, EU financial markets and the political environment remain challenging:

- Markets continue to be fragile, critically supported by monetary policy. While these historically exceptional monetary policies greatly impact financial markets, their precise effect in the medium to long term, are unknown;
- Efficient capital allocation is strongly influenced by ultra-low interest rates;
- Post-crisis regulatory reform processes are drawing to a close, but the institutional and systemic impact on market structures and performance of the measures is largely unknown and will only become measurable over the coming years;
- The impact of technology and the potential risks this could introduce to the orderly functioning and stability of financial markets in the 2016 to 2020 period is a large unknown factor. Technology can be expected to fundamentally change the business models for financial market players, including their interaction with clients.

The financial crisis posed serious risks to financial market stability and demonstrated that investors were insufficiently protected. The EU responded with an extensive regulatory agenda, broadly based on the so-called G20 Commitments. We expect the focus within the EU to shift from enhancing market confidence towards economic growth. The European Commission will work towards a Capital Market Union (CMU) to integrate financial markets further to reap greater benefits from the EU Single Market.

ESMA contributes to economic growth by achieving its three objectives and fully supports stimulating alternative financing sources in addition to traditional bank lending. Progress in that direction can be made through diversifying funding sources, increasing efficiency of capital markets, strengthening and harmonising supervision and increasing attractiveness of EU capital markets for both EU and non-EU investors.

The EU financial regulatory network will continue to grow stronger

ESMA operates as part of an evolving EU regulatory network that encompasses the European Supervisory Authorities (ESAs), the European Systemic Risk Board (ESRB) and national competent authorities (NCAs) as part of the ESFS and maintains close cooperation with other supervisory authorities such as the Single Supervisory Mechanism (SSM). Stakeholders provide valuable input to ESMA in particular via in particular the Securities Markets Stakeholder Group (SMSG).

ESMA is accountable to the European Parliament (EP) and the Council of the European Union and remains committed to build strong relations with both Institutions.

Both the ESAs and NCAs will evolve into a model of even closer cooperation to face the challenges of the EU financial markets. Whilst the focus of the EU regulatory network has been on the banking part of financial stability over the last few years, we expect this to shift towards financial and securities markets aspects with the advent of the CMU. In addition, there is an increasing interest in financial stability risks in financial markets. This offers the possibility of an increase in the importance and visibility of ESMA's work with the Joint Committee continuing to play an important role in coordinating the ESAs efforts. The



interactions with non-EU regulators will become more frequent, in particular in dealing with issues around equivalence of regulations and in achieving day-to-day supervisory and regulatory cooperation.

ESMA enters a new phase of development that calls for a revised strategic orientation

ESMA's initial start-up phase is over and it is entering a new phase of development. ESMA has developed a track record and the expectations of external stakeholders such as market participants are likely to rise and change. This new phase is also characterised by a shift of focus within our activities. A significant part of the single rulebook for financial markets has been established. We expect that new regulatory work could follow from initiatives by the new European Commission, in particular in the area of the CMU. However, in general our focus will shift towards implementation and convergence of supervisory practices. Through our work in the first three years ESMA gained experience and better understanding of the strengths and weaknesses of our current legal toolset and discretionary powers. This experience and understanding are building blocks for even greater effectiveness. We expect that resources remain constrained in the coming period. Thus ESMA will need to make tough choices on the prioritisation and allocation of resources to activities.

3 ESMA: the EU's Financial Market Regulator – Mission, objectives and activities

3.1 ESMA's mission and objectives

ESMA's mission is to:

Enhance investor protection and promote stable and orderly financial markets.

This mission is derived from ESMA's founding Regulation¹ and encompasses three objectives:

1. **Investor protection:** to have the needs of financial consumers better served and to reinforce their rights as investors while acknowledging their responsibilities;
2. **Orderly markets:** to promote the integrity, transparency, efficiency, and well-functioning of financial markets and robust market infrastructures; and
3. **Financial stability:** to strengthen the financial system in order to be capable of withstanding shocks and the unravelling of financial imbalances while fostering economic growth.

The three objectives are inter-linked and contribute to well-founded investor confidence. Investor protection and orderly markets feed into overall market stability. At the same time increased financial stability supports orderly markets and investor protection.

ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active co-operation with national competent authorities, and securities market regulators in particular, the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). ESMA has a unique position within the ESFS as it focuses on the securities and financial markets dimension and the overarching European aspects of these objectives.

¹ Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC



3.2 ESMA's activities

ESMA achieves its mission and objectives through four activities:

- Assessing risks to investors, markets and financial stability
- Completing a single rulebook for EU financial markets
- Promoting supervisory convergence
- Directly supervising specific financial entities

The purpose of **assessing risks to investors, markets and financial stability** is to spot emerging trends, risks and vulnerabilities, and where possible opportunities, in a timely fashion so that they can be acted upon. ESMA uses its unique position to identify market developments that threaten financial stability, investor protection or the orderly functioning of financial markets. ESMA's risk assessments build on and complement risk assessments made by other ESAs and NCAs, and contribute to the systemic work undertaken by the ESRB, which increasingly focuses on stability risks in financial markets. Internally, the output of the risk assessment function feeds into ESMA's work on the single rulebook, supervisory convergence and the direct supervision of specific financial entities. Externally, we promote transparency and investor protection by making information available to investors via our public registries and databases and, where needed, by issuing warnings to investors. The risk analysis function closely monitors the benefits and risks of financial innovation in European financial markets.

The purpose of **completing a single rulebook for EU financial markets** is to enhance the EU Single Market by creating a level playing field for investors and issuers across the EU. ESMA contributes to strengthening the quality of the single rulebook for EU financial markets by developing Technical Standards and by providing advice to EU Institutions on legislative projects. This standard setting role was the primary task of ESMA in its development phase.

Supervisory convergence is the consistent implementation and application of the same rules using similar approaches across the 28 Member States. The purpose of **promoting supervisory convergence** is to ensure a level playing field of high quality regulation and supervision without regulatory arbitrage or a race to the bottom between Member States. The consistent implementation and application of rules ensures the safety of the financial system, protects investors and ensures orderly markets. Supervisory convergence implies sharing best practices and realising efficiency gains for both the NCAs and the financial industry. This activity is performed in close cooperation with NCAs. ESMA's position in the ESFS makes it qualified to conduct peer reviews, set up EU data reporting requirements, thematic studies and common work programs, draft opinions, guidelines and Q&As but also build a close network that can share best practices and train supervisors. ESMA's participation in supervisory colleges for Central Counterparties (CCPs) contributes to supervisory convergence for this specific area. ESMA actively supports international supervisory coordination.

ESMA is the **direct supervisor of specific financial entities**: Credit Rating Agencies (CRAs) and Trade Repositories (TRs). These entities form essential parts of the EU's market infrastructure.

ESMA's four activities are closely linked. Insights gained from risk assessment feed into the work on the single rulebook, supervisory convergence and direct supervision, and vice versa. We consider supervisory convergence to be the manifest implementation and application of the single rulebook. The direct supervision of CRA and TRs benefits from and also feeds into our risk assessment and the single rulebook activities.

4 Direction and strategic choices per activity

Our objectives to be achieved by 2020 and strategic choices are grouped around ESMA's four main activities:

- a) Assessing risks to investors, markets and financial stability
- b) Completing a single rulebook for EU financial markets
- c) Promoting supervisory convergence
- d) Directly supervising of specific financial entities

We expect the focus of our activities to shift in the coming years from standard setting in the single rulebook towards a more balanced portfolio of activities that encompasses standard setting, supervisory convergence and direct supervision. Risk assessment will continue to be an important activity that underpins all our work. As a result of this shift we expect an increase in resources dedicated to risk analysis, a substantial decrease for single rulebook, a substantial increase for supervisory convergence and approximately stable resources dedicated to direct supervision.

4.1 Assessing risks to investors, markets and financial stability

ESMA increases resources and strengthens its capabilities to identify and assess risks to investors, related to financial innovation and financial stability in the EU. The risk assessment function provides insight and input to regulatory and supervisory activities, and further develops a distinct EU sectorial perspective.

Strengthen capabilities

Risk assessment is part of the core work of supervisory authorities. ESMA's longer-term success rests upon the timely identification and correct assessment of relevant trends, risks and vulnerabilities.

ESMA strengthens its capabilities to identify and assess risks to investors and financial stability in the EU. The analytical framework and tools require continuous development to match the fast evolution of markets and risks, techniques and data capabilities. The timely detection and assessment of risks requires that ESMA has easy access to accurate and granular data on developments in financial markets. We will increase our interactions with NCAs to get on-going access to data. In some cases NCAs delegate specific data related tasks (registries, databases) to ESMA. ESMA will strengthen its capacity to manage and analyse these increased amounts of data. In addition, ESMA will contribute to the analysis and development of micro- and macro-prudential policy instruments in the non-banking sector.

Increase input in regulatory and supervisory activities

Risk assessment focuses on important market risks that could harm ESMA's objectives of investor protection, orderly markets and financial stability. This entails both the monitoring of known market risks and the identification of new manifestations of risks. This requires not only understanding how various segments of the market operate and develop, but also an appreciation for the effects of regulation and supervisory practices.

Our risk assessments are actionable. This means that risk assessments provide practical insights that feed into other activities such as supervisory convergence and direct supervision. Questions on the research agenda will vary from “What developments or practices may disrupt the operations of CCPs”, and “Which financial innovations need close monitoring?” to “In which areas does supervisory *dis-convergence* harm our objectives most?”. In order to achieve this, ESMA will enhance its impact assessment and stress-testing capacities. Risk assessments also perform an important external function for example by issuing warnings to investors and thereby improving investor protection, and will be important for the new product intervention powers of ESMA and the NCAs starting in 2017.

Further develop distinct risk perspective

ESMA focuses on the functioning of EU securities and financial markets. It is this broad European perspective that we develop further. ESMA’s information position differs from that of other authorities in that we have a distinct EU and sectorial perspective aimed at investor protection, orderly markets and financial stability. This perspective is critically needed to inform the regulatory, supervisory and macro-prudential policies in the EU. We will also use this perspective to keep a close eye on the benefits and risks of financial innovation in European financial markets. The challenge for all authorities is to complement and build upon each other’s risk assessments.

Further developing our distinct risk perspective and strengthening our risk assessment capabilities is an on-going progress. We will achieve this through the following actions:

- Contribute to the analysis and development of micro- and macro-prudential policy instruments in the non-banking sector;
- Enhance the availability of information at EU level for investors, market participants and regulators via an up to date IT and data strategy (better datasets, -warehouse and -exchange);
- Develop innovative and practical analytical tools (e.g. risk indicators, stress testing);
- Improve insight in and oversight of financial innovation; and
- Further intensify cooperation with similar functions at NCAs and other relevant international and EU authorities.

4.2 Completing a single rulebook for EU financial markets

ESMA will substantially decrease its resources committed to completing the single rulebook. ESMA becomes an increasingly important source of expertise and strategic direction at EU level for securities markets. We do this by cooperating closely with NCAs and building our expertise and reputation.

Continue efforts to complete a single rulebook

ESMA's single rulebook work aims to enhance the EU Single Market by strengthening regulation and creating a level playing field across the EU. This work requires balancing the objectives of economic growth, stable financial markets and investor protection. After a period where financial stability was paramount, we are now entering a period where facilitating economic growth is an equal concern.

The regulatory agenda for the 2011-2014 period was comprehensive. Major regulatory changes were initiated mainly as a response to the financial crisis. These initiatives lead to substantial work on developing the single rulebook further. For ESMA this involved delivering technical advice on legislation to the European Commission, drafting regulatory technical standards and issuing advice and guidelines on the application of Union law. Although the exact direction and intensity of the regulatory agenda for the 2016-2020 time frame is uncertain, we expect this to remain an important but slightly reduced activity for ESMA. In this period we will participate actively in the evaluation of the impact of the regulatory reform that was implemented since the crisis. As the regulatory reform in response to the financial crisis nears its completion we expect the level of resources dedicated to completing the single rulebook to decrease substantially in the coming years.

Become source of expertise and strategic direction

ESMA will develop itself further as a source of expertise and strategic direction on financial market regulation recognised by its stakeholders – the EU institutions, the market and citizens. As part of this development we will become more proactive in the regulatory value chain and offer advice on the strategic direction of the regulatory agenda. This includes identifying potential shortcomings in regulation and providing proactive advice in the development of Level 1 initiatives. The exact nature of our involvement depends on the manner in which the regulatory agenda will develop, but will likely focus on the development of the CMU and strengthening investor protection. ESMA further improves the legal high-quality of its regulatory processes and the transparency when developing them. We will improve structures for drafting of and consulting on Technical Standards to support this development.

Build expertise and reputation; cooperate more closely with NCAs

ESMA will prepare a number of initiatives to achieve its ambition of becoming an increasingly important source of expertise and strategic direction. Examples of initiatives are:

- Identify potential shortcomings in regulation and inform EU Institutions
- Provide expertise for all issues related to securities markets when developing legal initiatives
- Develop Technical Standards on all key elements of EU securities regulation
- Implement pro-active periodic review of policy instruments developed by ESMA
- Cooperate closely with NCAs and build on their experience and expertise

4.3 Promoting supervisory convergence

ESMA commits more resources to promote supervisory convergence, clarifies aims and targets a number of specific areas where convergence is to be promoted, and takes a pragmatic approach to achieving convergence.

Commit more resources to supervisory convergence

The establishment of a single rulebook is a necessary but in itself not sufficient activity to work towards our objectives. Supervision and hence supervisory convergence is an important complementing activity, as it ensures that investor protection, orderly markets and financial stability are achieved in practice. Supervisory convergence contributes to ensuring that the EU Internal Market works effectively, by creating a level playing field and preventing regulatory arbitrage or a race to the bottom.

Effective supervision of financial markets is not an easy task. What is sound practice in a specific circumstance is not necessarily evident, but requires professional judgment. Even within NCAs it can be a challenge to ensure that different supervisors treat similar cases in a similar way. Consistency between NCAs is much more difficult. Sound supervisory practice therefore requires individual craftsmanship and collective learning.

Currently there is substantial room for increased convergence of supervisory practices and approaches amongst NCAs. The reasons for the current lack of convergence are many. The economies, market structures and business culture may differ leading to different supervisory practices. The resources NCAs have at their disposal, also in relation to market size, differ quite substantially. Regulatory and supervisory philosophies, objectives and techniques differ between countries. Supervisory convergence does not mean that we will aim to converge to a one-size fit all approach. It does mean that we promote the consistent and effective implementation and application of the same rules and using sufficiently similar approaches for similar risks. The overall goal is to strive for comparable regulatory outcomes.

Supervisory practices do not automatically converge between NCAs. ESMA will therefore commit, in close cooperation with NCAs, more resources to tackle the important issue of supervisory convergence. ESMA's current efforts have been somewhat dispersed across the organisation. We will apply more focus and closer coordination to become more effective in this activity and will look to deploy a wider range of tools to carry out the work. Supervisory convergence work to date has mainly focussed on assessing NCAs supervisory capability. In future, there will still be a role for such assessments, but it will be part of a wider range of activities.

The colleges on CCPs play an essential role in fostering convergence in this regulatory area. ESMA aims to strengthen its role in the colleges over time. To ensure convergence, colleges are expected to become involved in key on-going supervisory issues.

Clarify aims and target specific areas for increased supervisory convergence

Our overall aim is to achieve high, consistent standards of supervision throughout the EU, in close cooperation with NCAs. However, it would not be realistic to aim for full convergence in the period 2016-2020 and full convergence may not be needed in all areas to achieve our objectives. NCAs and ESMA have limited resources and need to make risk-based choices where to concentrate their efforts.

We will develop a concise annual work plan supported by improved internal governance procedures that will span all convergence activities, selected target areas and tools that will be deployed. We envisage this work programme to contribute towards several aims such as the effective implementation of rules, facilitating the exchange of experience between NCAs, the coordination of supervisory activity, the development of effective supervisory approaches, the assessment of NCA's supervision through peer reviews and the identification of barriers to convergent supervision.

ESMA proposes to identify, in close cooperation with the NCA's, a limited number of high priority areas on which the greatest resource and the higher intensity tools will be focused. Alongside this, smaller initiatives will be undertaken, subject to availability of resources, with priority given to areas where we have a particular opportunity to make an impact (for example, a new market practice NCAs are grappling with or new rules for which NCAs need to develop new supervisory tools). ESMA proposes to use the following criteria to identify areas of focus:

- *Impact* of supervisory effectiveness on objectives of NCAs and ESMA: scale of the problem and impact on those affected if results are not achieved
- *Value-added* of co-ordinated approach: extent of passporting and cross-border activity, potential for arbitrage or other reasons why issue not contained to one Member State or why action at EU level is more effective
- Potential to increase *efficiency*: we can get the same result for the EU at less cost than where NCAs act separately
- *Opportunity for change*: Where new economic circumstances, businesses, services, products or regulation imply that NCAs do not yet have a tried and tested solution
- *Relevance to NCAs*: strengthening the network by focussing on areas relevant to the NCAs and their markets and
- *Feasibility*, taking into account the stage of evolution of co-operation with NCAs and stage of development of ESMA expertise, as well as availability of ESMA and NCA resource.

We will perform an analysis of the supervisory landscape with these criteria. We will consult with relevant stakeholders to strengthen this analysis.

Take a pragmatic approach to achieving convergence

ESMA is convinced that adequate levels of convergence can only be reached in close cooperation with NCAs. This requires that ESMA gains a better understanding of national markets and of the NCAs' practices, priorities and challenges. ESMA will also need to take this knowledge into account when scoping and planning supervisory convergence work. This might mean tailoring certain activities to certain groups of NCAs with similar needs that may not be relevant for all.

ESMA will take on different roles in promoting supervisory convergence. Depending on the context and in close co-operation with NCAs, ESMA will perform the role of:

- Facilitator: ESMA has a privileged overview of common challenges and can help create opportunities for NCAs to address them by working together.
- Co-ordinator: ESMA identifies common priorities and areas where common action can bring benefits and, where appropriate, manage the delivery of the work.
- Coach: not all NCAs will require this, but some will appreciate extra support in dealing with specific issues. To be effective we will need to earn credibility with NCAs that we have the supervisory expertise to assist – or to know where to get it.
- Policeman: ESMA performs this role in specific cases of high importance where non-convergence is harmful to market participants or other Member States.

ESMA will develop a more extensive set of convergence tools and better understanding of what tools are best applied to specific situations. This will ensure that the choice of tools is appropriate to the different 'roles' above and to the full range of objectives. It will also provide a more robust and pragmatic methodology resulting in a better co-ordinated and planned delivery. By way of example, tools may range from experience-sharing workshops on a common supervisory challenge, through supervisory 'toolkits' for use by NCAs on new issues (prepared in collaboration with NCAs) to advice to EU Institutions on how to improve the enforceability of the underlying standards. We will enhance our current tools such as Q&As, Opinions and Breach of Union Law procedures. Peer reviews will continue to be an important tool that will be applied where effective. Peer reviews are best suited to situations where an assessment of quality of implementation or existing supervisory practices is needed. In situations where an open debate is needed, where quick action is required, or where NCAs are approaching supervisory issues for the first time other tools might be more effective.

4.4 Direct supervision of specific financial entities

ESMA maintains its current capacity, continues to strengthen its role as a direct supervisor, and intensifies the risk-based approach with focus on lasting impact. The enforcement process becomes more effective and efficient. ESMA stands ready to accept new supervisory mandates, if requested.

Maintain capacity at approximately current level

ESMA has only recently taken on the responsibility for the direct supervision of CRAs and TRs. We are still in the early development stage. We expect to maintain or slightly increase the current level of resources aimed at direct supervision. The resources for enforcement activities will be increased. Based on the relative risks there may be a shift between capacity for CRA and TR supervision.

Continue to strengthen role as a direct supervisor

It takes time to build a position as credible regulator. We have taken significant first steps as was acknowledged by the external reviews. We have the ambition to strengthen our reputation by building our expertise. We will play an active role in the policy and market debate on the future of CRAs and TRs. We will improve enforcement processes and increase resources to ensure timely and appropriate response in case of infringements.

More specifically on Credit Rating Agencies

A consistent high quality of ratings is essential for the proper functioning of financial markets. All market participants rely on ratings for an adequate assessment of risk and in some cases the reliance on ratings is required by rules and regulations. The importance of ratings is expected to continue in the coming years.

We expect the number of new applications for registration to remain stable in the next years. More competition is encouraged amongst CRAs and the effects that competition has on the quality of ratings will be closely monitored by ESMA. The CRA Regulation and ESMA require that CRAs apply high quality standards in their rating process with a focus on independence, transparency, up-to-date methodologies, internal controls, sufficient expert staffing and robust IT systems. Even more importantly, ESMA expects CRAs to establish a culture of true compliance with the spirit of the regulation. If CRAs do not meet this standard, appropriate enforcement sanctions will follow. ESMA will intensify its supervisory efforts to be more intrusive where necessary, including where necessary the deployment of enforcement resources. We will carefully calibrate resources allocated to thematic reviews and firm-specific investigations.

More specifically on Trade Repositories

ESMA expects the number of registered TRs to grow in the short term and then, possibly, to consolidate in the medium term. The regulatory trend to use TRs for other reporting purposes than EMIR such as in the context of energy wholesale markets (REMIT), the Market Infrastructure Regulation (MIFIR) and the reporting of structured financing transactions will require adapting the supervisory approach in the next five years.

We will increase our scrutiny of data quality, relying more on direct observation of data samples. Our key regulatory objectives will remain: stability of systems, data quality, confidentiality and regulatory access. International projects on data aggregation may change the landscape of TR cooperation and interconnection. ESMA will have to adapt its supervisory and regulatory approach accordingly.

Carry on risk-based approach with focus on lasting impact

ESMA applies a risk-based approach to the supervision of activities of supervised entities. We run a thorough registration process for new entities. Following registration ESMA conducts targeted investigations after a clear identification and prioritisation of risks. This risk-based approach requires collective analysis and intense interaction by the relevant risk, policy and supervisory teams within ESMA. We expect to expand our on-site presence in the coming years.

ESMA works on the basis of realistic and measurable supervisory targets and evaluates continuously its supervisory activities to further improve the effectiveness of its supervisory operations. ESMA applies enforcement in a proportionate and effective way. We convey clear and honest supervisory messages and opinions. ESMA has professional internal supervisory processes and ensures effective cooperation between supervisory and legal departments within ESMA. ESMA fully cooperates with relevant (non-)EU competent authorities. Supervised entities and other stakeholders regard us as the main authority and opinion leader concerning i) the main risks in the relevant industry, ii) compliance matters and iii) the legal framework.

Preparedness to accept other direct supervision mandates

ESMA is uniquely positioned to develop a European approach that could have strong benefits for the supervision of pan-European actors. While clearly not asking for new areas of direct supervision, ESMA stands ready to assume such new tasks should they be assigned to ESMA with the appropriate resources.

5 Implications

Over the next years we further develop ESMA into a professional regulatory authority respecting the challenges and uncertainties that lie ahead. ESMA will strengthen regulatory cooperation at the EU and international level. Within our own organisation we will improve flexibility and strengthen our core administrative processes.

Challenges and uncertainties require careful and flexible planning

The first three years of our existence we focused on getting the organisation of the ground and laying the groundwork for our core activities. We enter a new phase of development with new challenges. Some of these challenges concern giving our objective of investor protection a higher, more visible profile and making full use of available powers. Other challenges concern the four main activities of ESMA, such as further strengthening the risk assessment function or promoting supervisory convergence. Other challenges centre on the conditions in which ESMA operates, such as our governance structure that make swift enforcement actions difficult.

The key uncertainties we face have to do with the environment in which we operate, such as the development of risks in the financial markets, the still unknown impact of recent legislative measures on the functioning of markets, and the development of the legislative agenda in the years to come. Other developments that may directly impact ESMA include uncertainties around our budget. The President of the European Commission asked the European Commissioner for Financial Stability, Financial Services and Capital Markets Union to focus on *finding a way to eliminate EU and national budgetary contributions to the ESAs that should be wholly financed by the sectors they supervise.*

The nature of the challenges and uncertainty requires us to plan ahead carefully but not set our plans in stone. Given the challenges and uncertainties, we need to be *vigilant* and to monitor developments carefully. We need to be *flexible* as an organisation and adapt to changing circumstances. And we need to be *skillful* in order to remain effective in fulfilling our objectives and activities.

Increased focus on regulatory cooperation at the EU and international level

To reach its objectives ESMA will increase the focus on regulatory cooperation at the EU and international level. We will intensify our relationship with the ECB and the SSM on supervisory convergence issues where banking and securities markets are closely linked. This will include the direct supervision of CRAs and TRs. We will continue to support international supervisory convergence and strengthen ESMA's contribution in international regulatory entities such as the International Organization of Securities Commissions (IOSCO) and the International Financial Reporting Standards Foundation (IFRSF) in liaison with NCAs. We strive to become a leading voice in international debates in areas such as OTC derivatives, International Financial Reporting Standards (IFRS), CRAs and TRs. To further our aims on regulatory cooperation across sectors we will build on our strong relationships with the other ESAs and the Joint Committee.

ESMA continues to build a professional supervisory authority

Over the next years we have the ambition to improve our own organisation in the following ways:

- *Increase organisational flexibility.* We believe that ESMA's challenges and uncertainties are best addressed organisationally in a more integrated and cross-functional manner. Organisational flexibility is built upon shared values, common priorities and cooperation. We will make a small number of changes to our organisational structure to facilitate the execution of our strategy. ESMA will also increase the use of cross-functional project teams and intra-Authority mobility. When recruiting new staff we will ensure that they have the right mix of skills and competencies to function in a more flexible organisation.
- *Strengthen core administrative processes:* we will further increase the quality of ESMA's core administrative processes. This includes our IT support systems, internal and external registries and databases, filing systems, general management systems. We ensure that this increased professionalism will not lead to increased bureaucratisation.