

**MEMO# 31834**

July 3, 2019

## **ESMA Survey on "Short-Termism" and Sustainable Finance**

[31834]

July 3, 2019 TO: ICI Global Members

Global ESG Task Force

ICI Global Regulated Funds Committee SUBJECTS: Compliance

Disclosure

International/Global

Investment Advisers

MiFID, EMIR, AIFMD, UCITS V RE: ESMA Survey on "Short-Termism" and Sustainable Finance

The European Securities and Markets Authority (ESMA) recently released the attached survey on "undue short-term pressure on corporations from the financial sector," with responses due by **29 July 2019**.<sup>[1]</sup> ESMA defines "short-termism" as "the focus on short time horizons by both corporate managers and financial markets, prioritising near-term shareholder interests over long-term growth of the firm."

ESMA will use this survey in developing a report to the European Commission on potential sources of undue short-termism on corporations stemming from the financial sector. The report will aim to identify areas in which existing rules may contribute to mitigating undue short-termism and areas where the rules may exacerbate short-term pressures.

As background, this survey stems from the European Commission's Sustainable Finance Action Plan.<sup>[2]</sup> The Commission sent a request for advice to ESMA and the other European Supervisory Authorities (ESAs) for this analysis to implement one of the Plan's action items on addressing undue short-termism.<sup>[3]</sup> The Commission has asked the ESAs to assess the extent to which short-termism is present and can be considered problematic. If the ESAs find significant issues, the Commission asks that they provide advice on areas that they believe regulators should address.

ESMA is particularly looking at the interaction of the following areas with short-termism:

- **Investment strategy and investment horizon** – asking respondents about their investment strategies and the time horizons of their business activities.
- **Disclosure of ESG factors and its contribution to long-term investment strategies** – addressed to institutional and retail investors and issuers, focusing on whether the existing non-financial reporting requirements under the Non-Financial Reporting Directive (NFRD) should be amended.

- **The role of fair value in improved investment decision-making** – addressed to institutional and retail investors and issuers, focusing on the appropriate accounting treatment for long-term investments (fair value vs. mark-to-market).
- **Institutional investors’ engagement** – addressed to institutional investors, focusing on how institutional investors engage with portfolio companies on long-term value considerations and to mitigate undue short-termism.
- **Remuneration of fund managers** – addressed to UCITS management companies, AIFMs, and self-managed UCITS investment companies and AIFs, focusing on whether remuneration policy and practices of fund managers can be a driver of short-termism.
- **Remuneration of executives** – addressed to issuers, focusing on executives’ incentives to pursue long-term vs. short-term performance.
- **Investment funds’ use of Credit Default Swaps (CDS)** – addressed to UCITS management companies, AIFMs, and self-managed UCITS investment companies and AIFs, focusing on whether funds’ use of CDS could be a driver of short-termism in capital markets, looking particularly at sell-only or net sell CDS positions.

ESMA is expected to publish a preliminary report in September, with a final report in December.

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## [Attachment](#)

### **endnotes**

[1] Press release is *available at* <https://www.esma.europa.eu/press-news/esma-news/esma-consults-short-termism-in-financial-markets>.

[2] The Sustainable Finance Action Plan is *available at* <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN>. Action 10 focuses on “fostering sustainable corporate governance and attenuating short-termism in capital markets.” Specifically, “[t]he Commission invites the ESAs to collect evidence of undue short-term pressure from capital markets on corporations and consider, if necessary, further steps based on such evidence by Q1 2019. More specifically, the Commission invites ESMA to collect information on undue short-termism in capital markets, including: (i) portfolio turnover and equity holding periods by asset managers; (ii) whether there are any practices in capital markets that generate undue short-term pressure in the real economy.”

[3] The Commission’s call for advice is *available at* [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190201-call-for-advice-to-esas-short-term-pressure\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190201-call-for-advice-to-esas-short-term-pressure_en.pdf).

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