



European Securities and
Markets Authority

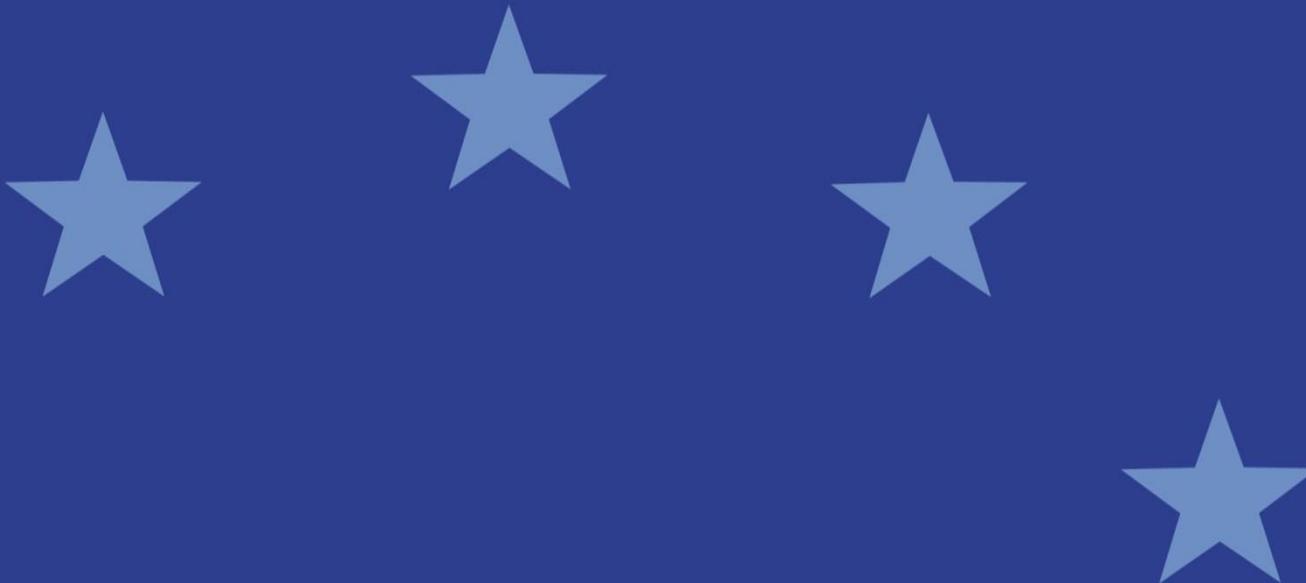
PUBLIC

ESMA32-67-608
Brussels, 7 November 2019

ESMA's work in the area of narrative reporting

**3rd WICI Europe International Policy Conference
"Intangibles: The European State Of The Art"
Brussels**

Alessandro d'Eri



ESMA's Mission

“Enhance investor protection and promote stable and orderly financial markets”

Three key objectives



Four Activities

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

Supervision Convergence on Narrative Reporting

ESMA is committed to promote convergence both in reporting and supervisory practices

Challenges

- High-level requirements
- Differences in national transposition
- Learning curve issue
- Several standards available

Opportunities

- + Paris agreement
- + High-Level Expert Group on sustainable finance
- + EC Action Plan
- + ESAs Advices on Short Termism



Less
coordination



More
coordination



2019 Enforcement Priorities on Narrative Reporting

- **General principles**

- ✓ Materiality
- ✓ Completeness
- ✓ Balance and accessibility of disclosures

- **Specific topics**

- ✓ Environmental matters and climate change
- ✓ Disclosure of relevant Key Performance Indicators (KPIs)
- ✓ Use of disclosure frameworks
- ✓ Supply chains



Advice on Undue Short-termism (1 of 4)

EC Action Plan ‘Financing Sustainable Growth’

- Action 10 invites the three ESAs to each develop a report presenting evidence and possible advice on potential undue short-termism

EC request for advice

- On this basis, ESAs are requested to collect evidence of undue short-term pressure from the financial sector on corporations and advise on any further policy actions

Definition of short-termism

- *‘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’ (Mason 2015)*



Advice on Undue Short-termism (2 of 4)

ESMA's approach to address the EC request

- ESMA has preliminarily identified the following topics to address the request:
 - ✓ Investment strategy and investment horizon
 - ✓ Disclosure of ESG factors and its contribution to long-term investment
 - ✓ The role of fair value in better investment decision-making
 - ✓ Institutional investor engagement
 - ✓ Remuneration of fund managers and corporate executives
 - ✓ Use of CDS by investment funds



Advice on Undue Short-termism (3 of 4)

ESMA's process to address the EC request

- Collection of evidence (March – September 2019)
 - ✓ Literature review in the areas preliminarily selected for the advice
 - ✓ Consultation of SMSG and Consultative Working Groups of relevant Standing Committees
 - ✓ Public survey
 - ✓ Stakeholder workshop
- Analysis and drafting (August – November 2019)
- Delivery to EC (December 2019)



Advice on Undue Short-termism (4 of 4)

▪ **ESG disclosures: feedback from the consultation**

- ✓ 77% and 59% of respondents respectively acknowledged that disclosure on ESG and intangible assets enables investors to take better long-term investment decisions
- ✓ 60% of respondents indicated that further steps in non-financial reporting are needed to enable investors to take long-term investment decisions

▪ **ESMA staff preliminary analysis**

- ✓ A set of principles needed to ensure a minimum level of comparability and reliability
- ✓ Any improvements need to be compatible with the international dimension
- ✓ Effective and consistent implementation of the requirements needs to be improved
- ✓ Assurance and enforceability of requirements need to be improved



Disclaimer

Please note that the content of this presentation is based on current staff considerations and not formally approved by ESMA's Chairman and/or ESMA's Board of Supervisors



European Securities and
Markets Authority

Thank you !

