

PRESS RELEASE

ESMA proposes strengthened rules to address undue short-termism in securities markets

The European Securities and Markets Authority (ESMA) has today published its [findings](#) on potential undue short-term pressures in securities markets. The European Commission (EC) had asked the three ESAs (ESMA, EBA and EIOPA) to investigate potential sources of undue short-termism on corporations and provide advice on areas which regulators should address. The three ESA reports are published today.

Recommendations

ESMA, in its Report, makes recommendations to the EC for action in key areas, such as:

1. disclosure of Environmental, Social and Governance (ESG) factors including:
 - amending the Non-Financial Reporting Directive (NFRD);
 - promoting a single set of international ESG disclosure standards;
 - requiring the inclusion of non-financial statements in annual financial reports;
 - and
2. institutional investor engagement including:
 - a review of the *White List* under the Takeover Bids Directive;
 - a potential shareholder vote on the non-financial statement; and
 - monitoring the application of the Shareholder Rights Directive (SRD II).

Steven Maijor, ESMA Chair, said:

“Short-termism in securities markets is often the cause of companies failing to take into account long-term objectives and the sustainability of their strategy and investment decisions.

“The short-term performance pressures on companies can result in an excessive focus on immediate profit extraction hindering them in meeting sustainability goals. We need to ensure that firms move to a long-term approach towards more sustainable finance while factoring in the risk climate change carries.

"We believe that the recommendations contained in today's Report provide the basis for the EC to make progress in addressing the short-termism issue and support the implementation of the Sustainable Finance Action Plan."

Disclosure of ESG factors

ESMA, based on the evidence collected, recommends improvements in issuers' ESG disclosures which should respect a minimum level of comparability, relevance and reliability. ESMA recommends that the EC considers appropriate amendments to the NFRD to establish principles for high quality non-financial information along with a limited set of specific disclosure requirements.

In parallel, ESMA also recommends that the EC assesses the feasibility of achieving international convergence and consolidation of relevant disclosure frameworks with the objective of promoting, in the medium term, the adoption of a single set of international standards for ESG disclosures.

ESMA also proposes including the non-financial statement in issuers' annual financial reports and mandating assurance on its content and consistency with other information in the annual financial report. It also recommends establishing consistency between the NFRD and the Transparency Directive, a key element to improve reliability of ESG disclosures.

Institutional investor engagement

In order to further facilitate engagement taking into account long-term objectives, ESMA recommends that the EC mandates a review of the *White List*, namely ESMA's public statement on shareholder cooperation and acting in concert under the Takeover Bids Directive.

ESMA suggests that the EC considers the effectiveness of a shareholder vote on the non-financial statement to allow investors to express their views on how investee companies address sustainability risks.

In addition, ESMA suggests monitoring the application of the revised SRD II in order to assess whether it effectively encourages long-term engagement.

Next steps



ESMA's report has been sent to the EC which will decide whether to initiate legislative changes to address the Report's recommendations and monitor the effect of certain legislative acts to assess whether there is a need for further action.

Background

ESMA collected evidence in various ways. In addition to a review of relevant financial literature, ESMA conducted a public survey and hosted a stakeholder workshop, while it also sought the input of the Securities and Markets Stakeholder Group (SMSG).

ESMA's work on undue short-term pressures forms part of its work on sustainable finance and relates to the European Commission's Action Plan on 'Financing Sustainable Growth'.



Notes for editors

1. [ESMA's Report on Undue Short-Termism](#)
2. [The EU's Action Plan on 'Financing Sustainable Growth'](#)
3. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.
4. It achieves these objectives through four activities:
 - assessing risks to investors, markets and financial stability;
 - completing a single rulebook for EU financial markets;
 - promoting supervisory convergence; and
 - directly supervising specific financial entities.
5. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

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