

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

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).

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'.