



# Survey on collection of evidence on undue short-term pressure from the financial sector on corporations

Fields marked with \* are mandatory.

## Table of contents

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- Introduction
- Structure of the questionnaire
- Instructions on how to respond
- Publication of responses
- Data protection
- Definitions, abbreviations, and legal references

## Introduction

Under Action 10 of the Action Plan ‘Financing Sustainable Growth’ [1], the European Commission has invited [2] the three European Supervisory Authorities (ESAs) to each develop a report presenting evidence and possible advice on potential undue short-termism. Short-termism can be defined 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”[3].

The Commission’s mandate indicates that decisions taken by corporations do not fully reflect long-term aspects that would be required to put the EU economy on a sustainable path and manage the transition towards a low carbon economy. In particular, as a result of short-term market pressures, some companies may under-invest in long-term value drivers such as innovation and human capital and overlook environmental and social objectives that require a long-term orientation. Consequently, sustainability faces obstacles to develop in a context where incentives, market pressures and prevailing company culture prompt market participants to focus on near-term performance at the expense of mid- to long-term objectives.

Following an initial analysis based on desk research and preliminary quantitative evidence, ESMA has identified six areas which it considers relevant to examine in relation to the Commission’s mandate.

These areas are:

- Investment strategy and investment horizon;
- Disclosure of Environmental, Social and Governance (ESG) factors and the contribution of such disclosure to long-term investment strategies;
- The role of fair value in better investment decision-making;
- Institutional investors' engagement;
- Remuneration of fund managers and corporate executives;
- and Use of CDS by investment funds

ESMA is not claiming there is a causal relationship between the abovementioned areas and short-termism; it is rather seeking the views of stakeholders on these areas in order to better understand their interaction with short-termism. As such, responses to this survey will contribute to ESMA's analysis of potential sources of undue short-termism on corporations stemming from the financial sector in the areas of focus. Additionally, responses to the survey will back the identification of any other areas in which short-term behaviour is problematic and where the regulatory rules exasperate (or mitigate) short-term pressures.

Overall, with this survey ESMA is seeking to collect information on market practices and the views of financial market participants. By responding to the questionnaire, market participants will contribute to ESMA's advice to the Commission and as such help shape future policy decisions in relation to short-termism in the financial sector.

[1] European Commission Action Plan Financing Sustainable Growth.

[2] Call for advice to the European Supervisory Authorities to collect evidence of undue short-term pressure from the financial sector on corporations.

[3] Definition of short-termism provided in the second paragraph of section 1 of the Commission's mandate (Mason, 2015).

## Structure of the questionnaire

### Section I: General information about respondent

The first section of the questionnaire contains questions which will help ESMA understand respondents' profile and whether they agree for their response to the questionnaire to be published on ESMA's website.

All respondents are invited to respond to the questions in this section.

### Section II: Investment strategy and investment horizon

In this section of the questionnaire, ESMA invites respondents to provide information on the key features and the focus of their investment strategy as well as on the time horizon(s) they use in their business activities. The questions aim to collect comprehensive information on the strategic approach taken by various market players, depending on their role and objectives, in order to get a broad understanding of how they prioritise short- and long-term values in their investment activities. The responses to the questions in this section are intended to provide evidence on how consistent the long-term value drivers of the investment strategy are with the investment timeframe and the global approach for investment decision-

making, and which specific considerations in investment strategies may induce short-termism.

The section is open to all respondents as it seeks information on the interaction between short-termism and general business activities. The questions relating to portfolio holdings are addressed to asset owners and asset managers.

### Section III: Disclosure on ESG factors and the contribution of such disclosure to long-term investment strategies

The context for the questions in this section is the EU's 2014 adoption of the Non-Financial Reporting Directive (hereafter 'NFRD') in order to enhance the consistency and comparability of non-financial information disclosed throughout the Union. The NFRD requires large EU companies to disclose information on matters relating to the environment, social and employee aspects, respect for human rights, anti-corruption and bribery issues in an annual non-financial statement to be presented either in the management report or in a separate document.<sup>[1]</sup>

The NFRD came into force in 2014 for reporting on the financial year starting on 1 January 2017 or during the calendar year 2017, which means that two waves of mandatory non-financial information have now been published in most jurisdictions. Section III of the questionnaire collects information on the experience of market participants with these first two disclosure waves by asking whether, how and to what extent public disclosure on ESG factors, which complements traditional financial disclosure by listed companies, can enable investors to integrate in their decision-making process considerations on a company's current and future ability to create long-term sustainable value for its shareholders and for the society at large. Furthermore, this section raises the question whether any changes relating to requirements on non-financial information are needed at European level to enable investors to take long-term investment decisions.

The questions in this section are primarily addressed to institutional and retail investors that make use of information in issuers' public reporting in their investment decisions, as well as to issuers that provide such ESG related information to investors.

[1] Additionally, the forthcoming Regulation of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (2018/0179(COD)) will require financial advisers to publish information on their policies on the integration of sustainability risks in their investment advice or insurance advice. However, as this Regulation has not yet entered into force and will not be applicable until 15 months after entry into force, it is not possible at this stage to assess its impact, and it is as such not covered in the questionnaire.

### Section IV: The role of fair value in better investment decision-making

In this section of the questionnaire, ESMA seeks to collect further information related to the following statement from the report <sup>[1]</sup> of the High Level Expert Group (hereafter 'HLEG'): "there is considerable disagreement among interested parties on the appropriate accounting treatment for long-term investments, in particular on whether long-term assets on investors' balance sheets should be valued based on the currently prevailing (daily) market prices – also known as 'mark-to-market' valuation or 'fair value' accounting [...]. The debate is mainly around equity, equity-type and listed credit instruments on the balance sheets of long-term investors, such as non-financial corporations, insurance companies and banks."

The section contains questions on whether and how fair value may impact the capacity of financial reporting to provide relevant and reliable information on equity instruments held for long-term investment purposes. Responses in this area will help ESMA to assess how the measurement and disclosure of fair value may impact the selection of a short- or long-term horizon, as well as to assess whether the transparency benefits arising from the use of fair value for financial instruments, particularly equity instruments, outweigh the intrinsic potential volatility of fair value. Furthermore, whilst Level 1 fair value measurement is based on quoted prices in active markets and, as such, it has a high degree of reliability, ESMA is also interested in exploring the usefulness of Level 2 and Level 3 fair value measurements [2] and the extent to which investors are willing to take these fair value measurements into consideration in their long-term investment decisions.

The European Commission has issued two requests for advice to the European Financial Reporting Advisory Group (EFRAG) to assess the impact of IFRS 9 Financial Instruments on equity investments and to investigate potential alternatives to fair value accounting for equity and equity-type instruments held for the long-term. ESMA closely monitors and contributes to EFRAG's work in this area [3]. In section IV of the questionnaire ESMA investigates more specifically the reasons underlying any connection between fair value accounting and the emergence of short-term pressures in the investment practice of issuers.

The questions in this section are primarily addressed to institutional and retail investors that make use of information in issuers' financial statements in their investment decisions, as well as to issuers that prepare financial statements.

[1] [https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf)

[2] Inputs to Level 2 fair value measurements are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs to Level 3 fair value measurements are unobservable inputs for the asset or liability.

[3] <http://www.efrag.org/News/Public-183/New-EFRAG-consultation-on-Equity-Instruments--Research-on-Measurement>

## Section V: Institutional investors' engagement

In this section, ESMA invites institutional investors to share their experiences and views on whether and how they monitor the long-term value maximisation of their investee companies by further engaging with them and voicing their potential concerns. The questions of this section indirectly relate to the revised Shareholder Rights Directive that established specific requirements in order to encourage shareholder engagement in EU listed companies. ESMA acknowledges that the Directive has entered into application only recently. In this section ESMA seeks to collect information on how engagement activities are put in place at the time of the publication of the questionnaire based on the current regulatory framework in the relevant Member States.

For the purposes of this questionnaire, engagement is defined as any monitoring and interaction by institutional investors with investee companies, including the exercise of voting rights and other activities to influence the investee company such as activist strategies.

The questions in this section are primarily addressed to institutional investors.

## Section VI: Remuneration of fund managers and corporate executives

In this section, ESMA examines whether remuneration policy and practices of fund managers can be a driver of short-termism. Stakeholder feedback in this regard will provide further evidence in relation to the statements of the HLEG report about the “frequent separation of the behaviour of some financial intermediaries from the preferences of the ultimate beneficiaries” and that “job tenure and financial rewards for analysts, asset/money managers and traders” can be heavily dependent on short-term returns.

The questions in part A of this section are addressed to UCITS management companies, AIFMs, and self-managed UCITS investment companies and AIFs as they relate to how remuneration practices impact investment behaviour of asset managers vis-à-vis the funds they manage and the investors in such funds. The questions are particularly related to the requirements arising from the UCITS Directive [1], AIFMD [2], the Guidelines on sound remuneration practices under the UCITS Directive [3] and the Guidelines on sound remuneration practices under the AIFMD [4].

The questions in part B of this section are primarily addressed to issuers with reference to the remuneration packages assigned to their executives. Evidence on this aspect is expected to provide an indication of how executives’ incentives to pursue long-term vs. short-term performance can be skewed by the way their remuneration package is designed.

In addition, each section invites all stakeholders to comment on the potential contribution to short-termism from remuneration practices for fund managers or corporate executives.

[1] Directive 2009/65/EC

[2] Directive 2011/61/EU

[3] ESMA/2016/575

[4] ESMA/2013/232

## Section VII: Use of CDS by investment funds

Building on the work already conducted by ESMA [1] looking at the prevalence of sell-only or net sell Credit Default Swaps (CDS) positions held by UCITS funds, this section of the questionnaire aims to collect information on the use of CDS by all investment funds. The existing evidence shows some use of sell only or net sell holdings of CDS and ESMA would like to explore this topic further in the context of short-termism. ESMA will use the information it collects from stakeholders to assess whether the use of such instruments could be one of the potential drivers of short-termism.

Sell-only or net sell CDS positions may indicate increased short-term risk taking by funds in order to generate short-term profits, thereby diverting funds from investment in the real economy and indirectly contributing to a short-term profit taking approach. This is why ESMA would like to explore this area by gathering evidence from stakeholders, particularly regarding the reasons for sell only or net sell holdings of CDS positions, and how the tail risk of CDS is managed. ESMA recognises that there may be other categories of derivatives that may also merit attention, so one of the questions allows respondents to comment on other products as well.

The questions in this section of the questionnaire are addressed to UCITS management companies, self-managed UCITS investment companies and AIFMs.

[1] (see “Drivers of CDS usage by EU investment funds” in Trends, Risks and Vulnerabilities Report No.2 from 2018)

## Section VIII: Final

The last section of the questionnaire gives respondents the chance to raise any additional considerations on the topic of undue short-term pressure on corporations from the financial sector which they have not been able to reflect elsewhere in the survey.

All respondents are invited to respond to this part of the questionnaire.

## How to respond

### Deadline

ESMA will consider all responses received by **29 July 2019**

### Technical instructions

The questionnaire is presented in EUSurvey which is the European Commission's online survey making tool.

In order to access the questionnaire, please click on the following link: <https://ec.europa.eu/eusurvey/runner/ESMA-SUS-2019>

When you click on the link, EUSurvey will open in your default browser and you will see the questionnaire. Before starting to fill in the questionnaire, we encourage you to read through all questions.

As you go through the questionnaire and fill in your responses, additional questions will sometimes appear. Such additional questions are based on your response to a previous question and are intended to collect further information about the response you have provided. However, unless specifically mentioned, you are invited to respond to all questions.

The full set of responses is submitted by clicking the "Submit" button at the end of the questionnaire. Upon submission, the system will offer you to print or download your responses for your own reference.

For any questions regarding the questionnaire, please send an email to [short.termism@esma.europa.eu](mailto:short.termism@esma.europa.eu)

### Publication of responses

All contributions received will be published following the close of the survey, unless you request otherwise. Please clearly indicate under question [6] if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

### Data protection

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading 'Data protection'.

## Definitions, abbreviations, and legal references

### *CDS*

Credit Default Swaps

### *Corporate executives*

Top managers, such as the Chair or the CEO, and/or members of the board of directors.

### *Engagement*

For the purpose of this questionnaire, any monitoring and interaction by institutional investors with investee companies, including the exercise of voting rights and other activities to influence the investee company such as activist strategies

### *ESG*

Environmental, Social and Governance

### Fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IFRS 13)

### *HLEG*

High Level Expert Group

### *Holding period*

For the purpose of this questionnaire, 'holding period' is defined as the elapsed time between the initial date of purchase and the date on which the investment is sold or matured if held to maturity.

### *Identified Staff*

Categories of staff, including senior management, risk takers, control functions and any employee receiving total remuneration that falls into the remuneration bracket of senior management and risk takers, whose professional activities have a material impact on the management company's risk profile or the risk profiles of the UCITS that it manages and categories of staff of the entity(ies) to which investment management activities have been delegated by the management company, whose professional activities have a material impact on the risk profiles of the UCITS that the management corporate manages.

### *Institutional investors*

Asset owners or asset managers acting on their behalf

### *Long-term investment / value*

For the purpose of this questionnaire, please consider these expressions in the context set out in the Commission's mandate on undue short-termism and in the European Commission's Action Plan 'Financing Sustainable Growth'.

### *Non-Financial Reporting Directive / NFRD*

Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

*Revised Shareholder Rights Directive*

Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement

*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

## I. General information about respondent

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*Please note that the questionnaire should be read in conjunction with the explanatory note, definitions and instructions. If you have not already read the explanatory note, please do so before you start filling in your responses.*

- \* 1. Name of the company / organisation

*1400 character(s) maximum*

EFAMA

- \* 2. Type of respondent

Investor association

- \* 3. Industry

Financials

- \* 4. Are you representing an association?

- Yes  
 No

- \* 5. Country

Other

- \* Please specify

Europe

- \* 6. Please indicate if wish to have your response published on the ESMA website

- I do not wish my response to be published  
 I wish my response to be published

\* 7. This questionnaire considers long-term investment in the framework of sustainable finance, under the assumption that long-term investment projects should be consistent with the objective of supporting the shift towards a more sustainable financial and economic system. In this context, for the purpose of filling in this questionnaire, what timeframe would you consider when defining long-term investment?

- 3-5 years
- 6-10 years
- 11-30 years
- +30 years
- Other

\* Please explain your response

*1400 character(s) maximum*

There are different sources of capital: public equity, private equity, venture capital, debt, private placements etc. Each type serves a different purpose and has its own specific, recommended holding period. What is long-term also depends on the needs and profile of end-investors. E.g. for a 60 years old person a 10 years' time frame is very long, while it is rather short for a 25 year-old. It also depends whether a person saves for the retirement or for a holiday trip or a property investment. For institutional investors, pursuing buy-and-hold strategies, long-term investment might mean a time-frame of 30-40 years, but this often does not match the investment needs of retail investors, who are the ultimate investment decision-makers. While fiscal and regulatory incentives could help to encourage retail investors' longer-term investment outlook, we strongly caution against imposing any specific definition or time-frame for long-term investment as how long asset managers hold assets is based on investors' profile / needs and type of funds / assets.

## II. Investment strategy and investment horizon

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Click [here](#) for the list of definitions, abbreviations and legal references included in the Explanatory Note

8. Which time horizon do you apply in your general business activities?

Please tick one time horizon per category

	Less than 1 year	1-4 years	5-8 years	9-12 years	More than 12 years	Not applicable
Overall	<input type="radio"/>					
- Business strategy	<input type="radio"/>					
- Profitability	<input type="radio"/>					
- Funding	<input type="radio"/>					
- Investment	<input type="radio"/>					
- Trading	<input type="radio"/>					
- Other	<input type="radio"/>	<input checked="" type="radio"/>				

9. In your experience, to which extent do the following nodes in the investment value chain contribute to the tendency towards short-termism?

	1: Not at all	2: To a small extent	3: To some extent	4: To a large extent	5: To a great extent
Retail investors	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Asset owners (i.e. giving the investment mandate either on their own account or on the account of retail investors)	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Asset managers (i.e. those in charge of fulfilling the mandate of asset owners)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Top management of listed issuers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Sell-side analysts	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

\* Please explain your response

*2800 character(s) maximum*

Asset managers' portfolio turnover reflects: 1) inflows and redemptions from investors (in line with the "agency" nature of the asset management business), and 2) portfolio adjustments due to market conditions, and therefore it is not an appropriate measure of "short-termism". See the Global Investment Performance Standards, mentioning that all returns must be calculated after the deduction of actual transaction expenses incurred during the period (6.A.7.): <https://www.cfainstitute.org/-/media/documents/code/gips/gips-handbook-3rd-edition.ashx>.

Asset managers are not in the business of turning over the portfolio, rather they seek to achieve a return against a desired risk profile for their clients. Meanwhile, transaction costs drive down performance and are therefore not sought after by the asset manager.

Asset managers' have a fiduciary duty to act in the best interest of their clients' by protecting and enhancing their assets in the time-horizon indicated by the client or matching his /her profile. The financial markets are populated by a wide range of investors with hugely-varying considerations underpinning their investment horizons. Many are often balancing long-term financial goals (such as an individual investor saving for retirement) with shorter-term obligations or risks (such as, in the case of the individual investor, unplanned financial events that mean they need the flexibility that a more liquid investment provides). As a result, investors have both short- and long-term investment strategies that exist side-by-side and indeed, complement one another.

To achieve a more long-term approach, retail investors should remain invested. For example, in the UK the length of time that retail investors hold a particular fund has more than halved over the past 20 years from ca eight years in 1997 to three years in 2017 (IA, Asset Management Survey 2017-2018) and it is reasonable to expect a similar trend in other EU countries. Therefore, fiscal and regulatory incentives for investors to remain invested in the long term would be helpful.

Overall, we feel that this survey tends to be too much buy-side oriented, not sufficiently considering the role

played by the sell-side. The business model of the sell-side is mainly based on brokerage fees, which depend on trading activity and therefore on market volatility. Meanwhile, the buy-side, by nature and business model, is more long-term oriented.

However, both buy-and-hold and short-term investment behaviors have their own role to play in financial markets.

- \* Please mention any other nodes of the investment value chain that you believe are affected by the tendency towards short-termism and indicate the extent to which they are affected between 1 (Not at all) and 5 (To a great extent)

*1400 character(s) maximum*

- HFT (3) has been criticized for “creating noise” in the market, potentially making it harder for long-term investors to place the orders. We firmly oppose predatory HFT practices seeking to manipulate the market or disadvantage all end-investors. However, HFT encompasses a wide variety of trading strategies and the predatory practices should be distinguished from those benefiting end-investors, including over the longer term. Hence, regulators should carefully consider how to define HFT, avoiding generalizations from one subset of HFT activities to the wider trend of an increased use of electronic trading in the markets, and the impact that any policy decisions may have. You may find more explanations in an annex.

- Quarterly reporting (4), while meant to enhance transparency and efficiency in the market, may also lead to short-term investment behaviors (excessive corrections following profit warnings).

- Prudential regulation (4) has favored exposure to safer/short-term/liquid assets at the expense of long-term assets.

- Reporting requirements under MiFID II, UCITS and AIFMD (3) are very frequent, varying from monthly and quarterly to annually.

10. To which extent does each of the following factors result in short-termism by your institution?

	1: Not at all	2: To a small extent	3: To some extent	4: To a large extent	5: To a great extent
Macroeconomic environment	<input type="radio"/>				
Prudential regulation	<input type="radio"/>				
Market pressures	<input type="radio"/>				
Profitability	<input type="radio"/>				
Shareholders' interest	<input type="radio"/>				
Business objectives	<input type="radio"/>				
Competitive pressure	<input type="radio"/>				
Client demand	<input type="radio"/>				
Company reporting requirements	<input type="radio"/>				

Executive remuneration structure	<input type="radio"/>				
Other	<input type="radio"/>				

11. What is the actual holding period prevailing in your investment strategy?

Please respond on a best-effort basis and tick one holding period per category of securities

	Less than 1 year	1-4 years	5-8 years	9-12 years	More than 12 years	Not applicable
Equity	<input type="radio"/>					
Bonds	<input type="radio"/>					
Other	<input type="radio"/>					

12. To which extent does each of the following factors drive the actual holding period prevailing in your investment strategy?

	1: Not at all	2: To a small extent	3: To some extent	4: To a large extent	5: To a great extent
Profitability	<input type="radio"/>				
Shareholders' interest	<input type="radio"/>				
Competitive pressure	<input type="radio"/>				
Client demand	<input type="radio"/>				
Remuneration practices in the financial sector	<input type="radio"/>				
Economic activities	<input type="radio"/>				
ESG	<input type="radio"/>				
Monetary policies / macroeconomic factors	<input type="radio"/>				
Non-prudential regulation (e.g. tax regulation)	<input type="radio"/>				
Prudential regulation	<input type="radio"/>				
Company reporting requirements (any type of disclosure)	<input type="radio"/>				
Other	<input type="radio"/>				

13. On a best-effort basis, in the next 2 years, how do you expect the average holding period of the following portfolios to evolve?

Please tick one holding period per category of assets

	Increasing by less than 6 months	Increasing by 6- 12 months	Increasing by more than 12 months	No (notable) change	Decreasing by less than 6 months	Decreasing by 6-12 months	Decreasing by more than 12 months
Equities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fixed Income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### III. Disclosures on ESG factors and their contribution to long-term investment strategies

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Click [here](#) for the list of definitions, abbreviations and legal references included in the Explanatory Note

15. Based on your experience, please indicate to which extent you agree with the following statement: “Disclosure of ESG information by listed companies enables investors to take long-term investment decisions”.

- 1: Totally disagree
- 2: Mostly disagree
- 3: Partially disagree and partially agree
- 4: Mostly agree
- 5: Totally agree

\* 17. Why does disclosure of ESG information by listed companies enable long-term investment?

Please respond by selecting one or several items from the list below

- ESG disclosure provides insights into a listed company’s long-term risk profile
- ESG disclosure provides insights into a listed company’s future financial performance
- ESG disclosure complements the information provided by listed companies in their financial statements
- Other

\* Please specify

*1400 character(s) maximum*

Meaningful, standardized, comparable, sufficiently granular and quantified ESG information by investee companies can provide investors with insights about the long-term impact of the company not only on financials and the business potential and how it manages the risks, but also on its impact on the climate, environment and the society at large. But as stated by the Alliance for Corporate Transparency project, European companies fail to report meaningful information about their impacts on society and the environment. 2019 TCFD status report concludes that “disclosure of climate-related financial information has increased since 2016, but is still insufficient for investors”. Our members report that the level of disclosures remains low and that information they need like indicators and risk-scenario analyzes is made available only by a few companies. While we welcome recently published EU Guidelines on reporting climate-related information, we fear they will not make a major change as they are voluntary. Therefore, we would welcome a revision of Non-Financial information Directive to further streamline and harmonize data produced by investee companies.

18. Even though you acknowledge that disclosure of ESG information by listed companies could enable long-term investment, you might have observed impediments as to how this link may work in practice. To which extent each of the following factors may discourage investors from using ESG disclosure to apply a long-term investment horizon?

Please respond by selecting one or several items from the list below

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	1: Not at all	2: To a small extent	3: To some extent	4: To a large extent	5: To a great extent
* Lack of sufficient independent assurance on the provided ESG disclosure	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
* Lack of quantitative evidence regarding how the listed company contributes to national or international sustainability targets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
* Lack of consistency between the disclosed ESG policies and evidence of the listed company's actions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
* Lack of sufficiently forward-looking disclosure on ESG risks and opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
* Lack of comparability between different listed companies' disclosure due to the NFRD disclosure requirements not being sufficiently detailed and allowing for the use of various disclosure frameworks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
* Lack of a clear link between ESG matters and the current and future performance of the listed company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
* Lack of an integrated presentation and analysis of financial and non-financial performance	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
* Lack of information on the disclosure framework (s) which listed companies use	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
* Lack of an explicit statement indicating that the listed company's Board of Directors takes responsibility for the relevance, accuracy and completeness of the ESG disclosure provided	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
* Lack of access to / availability of ESG disclosure in data aggregators or other source data providers	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* Lack of sufficient knowledge by investors on how to incorporate ESG disclosure into their decision-making process	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* Other	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

19. In your view, would requiring specific disclosures on intangible assets which are not accounted for in the financial statements enable long-term investment decisions?

- Yes

No

- \* Please explain why and indicate which types of intangible assets should be disclosed and which methods of valuation should be used

*1400 character(s) maximum*

We hear from some of our members that nowadays even up to 85% of the value of listed companies is based on intangible assets.

20. The NFRD gives companies flexibility to disclose non-financial information to the extent necessary for an understanding of the undertaking's development, performance, position and the impact of its activity in relation to non-financial matters. Do you consider that further requirements are needed to increase the level of detail in the disclosure requirements regarding non-financial information?

- Yes
- No

- \* Please indicate which of the following approaches you consider appropriate:

- Detailed disclosure requirements should be set out in an EU regulation (i.e. a piece of legislation which is directly applicable in all EU Member States)
- Detailed disclosure requirements should be included in the NFRD (which is a directive and as such leaves it to Member States to transpose the disclosure requirements into their national law)
- The NFRD should be amended to require use of a specific, binding disclosure framework (e.g. based on the principles included in the European Commission's guidelines on non-financial reporting or other established disclosure frameworks)
- Other

- \* Please explain your response

*1400 character(s) maximum*

Meaningful, standardized, comparable, sufficiently granular and quantified ESG information by investee companies can provide investors with insights about the long-term impact of the company not only on financials and the business potential and how it manages the risks, but also on its impact on the climate, environment and the society at large. But as stated by the Alliance for Corporate Transparency project, European companies fail to report meaningful information about their impacts on society and the environment. 2019 TCFD status report concludes that "disclosure of climate-related financial information has increased since 2016, but is still insufficient for investors". Our members report that the level of disclosures remains low and that information they need like indicators and risk-scenario analyzes is made available only by a few companies. While we welcome recently published EU Guidelines on reporting climate-related information, we fear they will not make a major change as they are voluntary. Therefore, we would welcome a revision of Non-Financial information Directive to further streamline and harmonize data produced by investee companies. We would also very much welcome more consistency regarding ESG data disclosure at international level.

21. Do you consider that further steps in the area of non-financial reporting are needed at the national or the European level to enable investors to take long-term investment decisions?

- Yes
- No

\* Please indicate which of the following approaches you consider appropriate:

- The NFRD should be amended to require a broader group of companies to disclose ESG information
- The NFRD should be amended to require that ESG disclosure is audited by an external, independent entity
- Enforcement powers on ESG disclosures should be strengthened and made more consistent across the Union
- Other

## IV. The role of fair value in better investment decision-making

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Click [here](#) for the list of definitions, abbreviations and legal references included in the Explanatory Note

22. Based on your experience, please indicate to which extent you agree with the following statement: “For the purpose of undertaking an internal assessment of the performance of long-term investments held in equity instruments, fair value provides a company’s management with relevant information in order to better understand the short-term and the long-term consequences of the investments held”

- 1: Totally disagree
- 2: Mostly disagree
- 3: Partially disagree and partially agree
- 4: Mostly agree
- 5: Totally agree

\* Please explain your response and provide evidence, where available

*1400 character(s) maximum*

It is difficult to find satisfactory alternatives to fair value performance measurement. But other approaches may be equally or more relevant according to the business model of the investment portfolio. For example, if recording values at historical cost would reflect an arbitrary moment in history when the assets were initially recognized and would not be comparable, it might be well suited to long term portfolios where impairment policy may consider only durable and significant decrease in price (so reducing the volatility effect of fair value). Investors want to be able to compare between different entities and on a year on year basis, significant for the business model concerned. We believe that fair value remains the preferred approach for valuing long-term investments in equity instruments considering it is well defined and aligned under both IFRS and US GAAP. The main challenges around use of fair value are specific to the application of the IFRS 9 requirements. Please refer to our response to Q 24.

23. Based on your experience, please indicate to which extent you agree with the following statement: “For the purpose of enabling an external analyst or investor to assess the performance of long-term investments held in equity instruments by a company, fair value provides relevant information in order to better understand the short-term and the long-term consequences of the investments”

- 1: Totally disagree
- 2: Mostly disagree
- 3: Partially disagree and partially agree
- 4: Mostly agree
- 5: Totally agree

\* Please explain your response and provide evidence, where available

1400 character(s) maximum

Refer to Q22. We take the opportunity to comment here on IFRS 9. It is difficult to conclude that the IFRS 9 requirements are a decisive factor in either discouraging new long-term equity investments or triggering divestment of such investments as they were recently implemented and insurance companies have yet to do so. There are two key challenges with IFRS 9 which will disincentive long-term (LT) investments in equities / equity like instruments: - The restriction of an investor's ability to recycle fair value gains into P&L on LT equity investments (other than those held for trading) measured at fair value through OCI. This may lead to a preference in equity investments with stable dividend distributions over LT investment whose purpose is to create value in the LT. - The treatment of holdings in investment funds, which do not meet the definition of equity under IAS 32, as debt instruments measured at fair value through P&L (rather than OCI), irrespective of economic substance and business model. This creates volatility in the holder's P&L due to short-term temporary fair value changes which disincentives investors from seeking diversified LT investment opportunities available only through investment funds and rather incentivise direct investment in equities to benefit from the possibility to elect to present fair value changes through OCI.

24. Is the current accounting treatment for equity instruments under IFRS 9 [1] a decisive factor in discouraging a company from undertaking new long-term investments in equities?

[1] Under IFRS 9 Financial Instruments equity instruments are accounted for at fair value with the possibility to exclude fair value changes from the statement of profit or loss

- Yes  
 No

25. Is the current accounting treatment for equity instruments under IFRS 9 [1] a decisive factor in triggering divestment by a company of existing equity holdings elected for the long-term?

[1] Under IFRS 9 Financial Instruments equity instruments are accounted for at fair value with the possibility to exclude fair value changes from the statement of profit or loss

- Yes  
 No

26. In your view, what are the factors that may impact the relevance to users of financial statements of fair value measurements for long-term investments?

You may choose more than one factor

- Volatility in reported earnings  
 Measurement errors (in Level 2 or 3 Fair Value)  
 Complexity of calculations (in Level 2 or 3 Fair Value)  
 Management's opportunistic behaviour (in Level 2 or 3 Fair Value)  
 Insufficient involvement of independent third-party assessment (in Level 2 or 3 Fair Value)  
 Limited relationship with the expected developments of fair value in the long-term  
 Other

\* Please explain your response and provide evidence, where available

1400 character(s) maximum

Re. volatility in reported earnings, see Q 23, on the challenge of the treatment of holdings in investment funds, which do not meet the definition of equity under IAS 32, as debt instruments measured at fair value through P&L and the resulting volatility in reported earnings.

Re. measurement errors (in Level 2 or 3 Fair Value) and complexity of calculations (in Level 2 or 3 Fair Value): (i) Fair values for Level 2 or 3 assets cannot be determined by using readily observable inputs or measures, such as market prices or models. Instead, they are calculated using estimates or risk-adjusted value ranges, methods open to interpretation; (ii) Level 3 is the least marked to market of the categories, with asset values based on models and unobservable inputs — assumptions from market participants are used when pricing the asset or liability, given there is no readily available market information on them. L. 3 assets are not actively traded, and their values can only be estimated using a combination of complex market prices, mathematical models and subjective assumptions. Ex of L. 3 assets include mortgage-backed securities, private equity shares, complex derivatives, foreign stocks, and distressed debt. The relevance of these L. 3 fair values is thus linked to the quality and detail of IFRS 13 disclosures around fair value techniques and unobservable input incl in financial statements.

## V. Institutional investors' engagement

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Click [here](#) for the list of definitions, abbreviations and legal references included in the Explanatory Note

27. Is your investment strategy predominantly active or passive?

- Active
- Passive

*Please respond to the remainder of this section based on (i) the investment strategy you have indicated under question 27 and (ii) the investment time horizon you have indicated under question 8*

28. Please elaborate on how the actual holding period of your investments (as you have indicated under question 11) matches with your investment mandate

*1400 character(s) maximum*

29. To which extent does your firm integrate long-term value considerations for the purpose of setting its investment strategy (and subsequent portfolio allocation choices)?

- 1: Not at all
- 2: To a small extent
- 3: To some extent
- 4: To a large extent
- 5: To a great extent

30. To which extent does your firm integrate long-term value considerations for the purpose of setting its engagement policy (and subsequent engagement activities)?

- 1: Not at all
- 2: To a small extent
- 3: To some extent
- 4: To a large extent
- 5: To a great extent

31. How does your firm engage with the investee companies in order to mitigate any potential sources of undue short-termism?

Please select one or several options from the below list

- Voting at the Annual General Meeting (AGM)
- Private engagement (bilateral meetings, conference calls, etc.)
- Collective engagement initiatives (coalitions, engagement platforms, etc.)
- Litigation (or a threat to use litigation as a negotiating tool)
- Other

*In case you selected **more than one option** in Question 31, please explain how you select different tools used for engagement*

*2800 character(s) maximum*

\* 32. What are the main topics your firm engages on in order to mitigate any potential sources of undue short-termism?

You may choose more than one factor

- Remuneration of directors
- Board appointments (including board diversity, independence, tenure)
- Related party transactions
- Pay-out policy (dividends, share buybacks, etc.)
- ESG / sustainability-related
- Other

\* Please specify

*1400 character(s) maximum*

not applicable

34. Please indicate your agreement with the following statement: "Proxy advisors take into consideration long-term value when they provide voting advice"

- 1: Totally disagree
- 2: Mostly disagree
- 3: Partially disagree and partially agree
- 4: Mostly agree
- 5: Totally agree

\* Please provide quantitative or anecdotal evidence to corroborate your response

*1400 character(s) maximum*

Proxy advisors provide various services including corporate governance and other company related analysis. This helps asset managers to engage with companies and exercise the rights on behalf of their clients (end-investors). Voting advice for asset managers is based upon voting guidelines provided by the

asset manager either individually or on the basis of an industry standard. Since asset managers are long-term investors, their voting guidelines clearly aim at long-term value enhancement of investee companies. While proxy advisors provide voting advice, the ultimate voting decision and responsibility remains with the investor.

35. Please indicate your agreement with the following statement: “Engagement activities can be an efficient way of mitigating any potential sources of undue short-termism”

- 1: Totally disagree
- 2: Mostly disagree
- 3: Partially disagree and partially agree
- 4: Mostly agree
- 5: Totally agree

\* Please provide quantitative or anecdotal evidence to corroborate your answer

*1400 character(s) maximum*

Engagement is a very efficient way of mitigating any potential sources of undue short-termism. Sébastien Pouget, Toulouse School of Economics, Chaire FDIR, conducted an in-depth analysis of available research and studies. Based on his research, (<https://www.tse-fr.eu/publications/washing-machine-investment-strategies-and-corporate-behavior-socially-responsible-investors>) he concluded that 1) engagement of companies towards better ESG performance can lead to superior investment performance, and 2) that engagement is also a way to directly affect societal impact of firms by improving corporate social responsibility.

In its stewardship code, adhered to by an increasing number of corporate members and referenced by an increasing number of national associations, EFAMA promotes engagement of asset managers with the companies in which they invest in to maintain and enhance long-term value, as a means to preserving or adding value to the clients' assets. [https://www.efama.org/Publications/Public/Corporate\\_Governance/EFAMA%20Stewardship%20Code.pdf](https://www.efama.org/Publications/Public/Corporate_Governance/EFAMA%20Stewardship%20Code.pdf)

36. To which extent do you consider your engagement activities successful in mitigating any potential sources of undue short-termism?

- 1: Not at all
- 2: To a small extent
- 3: To some extent
- 4: To a large extent
- 5: To a great extent

\* Please provide quantitative or anecdotal evidence to corroborate your answer.

*1400 character(s) maximum*

See our response to Q 35.

37. Which are the main obstacles that institutional investors face when engaging with investee companies, and how could they be addressed in your view?

*2800 character(s) maximum*

The following obstacles are perceived as hindering effective engagement by institutional investors:

- lack of a common understanding of "acting in concert": The provisions under the EU Takeover Bid Directive relating to "acting in concert" have been implemented and interpreted differently across the EU. For instance, we hear that in Germany it encompasses not only shareholder cooperation on matters related to the execution of voting rights, but any kind of interaction with a view to influencing the business direction of the investee company. The clarification of the concept of "acting in concert" in the "White List" published by ESMA (ESMA 31-65-682) is helpful but was not sufficient as the implementing national law takes prevalence both in supervisory practice and before the courts. Given that incorrect notifications of significant voting rights (based on an erroneous understanding of "acting in concert") can lead to the loss of not only voting rights, but also entitlements to dividends and subscriptions, investors need to be very careful when coordinating on matters concerning portfolio companies. We understand that to a certain degree, similar uncertainties, also exist in other Member States.

- In some European countries there are still obstacles to voting like a requirement to provide for a notarial certification of the shareholder status, sometimes including a certified translation. Other require a certified power of attorney for the exercise of voting rights. Examples include Poland, Hungary, Latvia, Estonia and Lithuania. Other examples include an obligation to be physically present at the AG (a good shareholder democracy should allow systematically a vote by mail at general meetings of listed companies), sub-custodians requiring additional time limits to vote, lack of technical infrastructure for an electronic confirmation of voting results. Such barriers in many cases seriously hamper or render engagement impossible and therefore should be removed.

- insufficient minority shareholder protection.

38. Please indicate your agreement with the following statement: "The recent entry into application of the revised Shareholder Rights Directive is going to increase the extent to which your firm takes into account long-term value considerations for the purpose of setting your investment strategy and engagement policy"

- 1: Totally disagree  
 2: Mostly disagree  
 3: Partially disagree and partially agree  
 4: Mostly agree  
 5: Totally agree

\* Please elaborate and explain which regulatory improvements could be considered, if any

*2800 character(s) maximum*

We believe that the revised Shareholder Rights Directive will positively contribute to long-term value considerations and long-term shareholder engagement, especially in case of active investors. It is worth noting that index portfolio managers (passive investors), do not have discretion to add securities outside of those in the benchmark index nor remove securities that continue to be held in the relevant index. Thus, direct engagement with companies, including proxy voting, is – and was prior to the implementation of SRD II – the mechanism passive funds use to integrate and advance material sustainability insights to enhance long term risk adjusted return

We would like to point out that while SRD II is effective as of 10 June this year, to our understanding, to date only 5 to 6 Member States have transposed it. Therefore, we are calling upon the Member States and the European Commission to ensure a swift transposition of the Directive in all Member States.

## VI. Remuneration of fund managers

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Click [here](#) for the list of definitions, abbreviations and legal references included in the Explanatory Note

## Part A: Remuneration of identified staff in funds

39. What is the average investment horizon of the funds managed by your firm?

Please select one investment horizon per category of fund

	Less than 1 year	1-3 years	3-5 years	5-10 years	Over 10 years	Not applicable
Hedge funds	<input type="radio"/>					
Private equity	<input type="radio"/>					
Equity	<input type="radio"/>					
Fixed income	<input type="radio"/>					
Real estate	<input type="radio"/>					
Alternative	<input type="radio"/>					
Other	<input type="radio"/>					

40. In the salaries of identified staff [1] of your firm's funds, what is the average share of the variable component compared to the fixed component?

[1] Defined in the Guidelines on sound remuneration policies under the UCITS Directive (ESMA/2016/575) and Guidelines on sound remuneration policies under the AIFMD (ESMA/2013/232)

	0-20%	20-30%	30-40%	40-50%	Over 50%	Not applicable
Hedge funds	<input type="radio"/>					
Private equity	<input type="radio"/>					
Equity	<input type="radio"/>					
Fixed income	<input type="radio"/>					
Real estate	<input type="radio"/>					
Alternative	<input type="radio"/>					
Other	<input type="radio"/>					

41. Over what average time is the reference period for variable remuneration calculated for the identified staff of your firm's funds?

	Less than 1 year	1-4 years	5-8 years	9-12 years	More than 12 years	Not applicable
Hedge funds	<input type="radio"/>					

Private equity	<input type="radio"/>					
Equity	<input type="radio"/>					
Fixed income	<input type="radio"/>					
Real estate	<input type="radio"/>					
Alternative	<input type="radio"/>					
Other	<input type="radio"/>					

42. What average percentage of variable remuneration do you defer for identified staff of your firm's funds?

	40-50%	50-60%	60-70%	70-80%	Over 80%	Not Applicable
Hedge funds	<input type="radio"/>					
Private equity	<input type="radio"/>					
Equity	<input type="radio"/>					
Fixed income	<input type="radio"/>					
Real estate	<input type="radio"/>					
Alternative	<input type="radio"/>					
Other	<input type="radio"/>					

43. On average, over what period do you defer the payment of the variable remuneration for identified staff of your firm's funds?

	3-4 years	5-6 years	7-8 years	9-10 years	More than 10 years	Not applicable
Hedge funds	<input type="radio"/>					
Private equity	<input type="radio"/>					
Equity	<input type="radio"/>					
Fixed income	<input type="radio"/>					
Real estate	<input type="radio"/>					
Alternative	<input type="radio"/>					
Other	<input type="radio"/>					

44. Do you believe there are common practices in the remuneration of fund managers that contribute to short-termism?

- Yes
- No

## Part B: Remuneration of corporate executives

45. In your firm, what is the average share of the variable component of executive remuneration compared to the fixed component?

- 0-20%
- 21-30%
- 31-40%
- 41-50%
- Over 50%

46. Over what average time is the reference period calculated for variable remuneration of your firm's executives?

- Less than 1 year
- 1-4 years
- 5-8 years
- 8-12 years
- Over 12 years

47. Over what average period is the payment of the variable remuneration of your firm's executives deferred?

- less than 3 years
- 3-5 years
- 6-7 years
- 8-9 years
- 10 years or more

48. Is the awarding of variable remuneration to your firm's executives linked to any ESG-related objectives?

- Yes
- No

49. Do you believe there are common practices in the remuneration of corporate executives that contribute to short-termism?

- Yes
- No

\* Please explain your response and indicate which common practices of corporate executive remuneration contributes to short-termism

*2800 character(s) maximum*

It is important to draw a clear distinction between parts A and B of section V. Unlike remuneration for asset managers, directors' remuneration of investee companies remains much less regulated. Having said that, we

hope that listed companies directors' remuneration practices will improve with the implementation of SRD II which is effective as of 10 June 2019.

Depending on how it is structured, remuneration of directors (both executive and non-executive) of investee companies can be used as an effective mechanism to ensure that incentives are aligned with the time horizons of investment beneficiaries or lead to managements' focus on the company's stock price evolutions over the short-term.

Practices in the remuneration of directors differ from one country to another and also vary between listed companies themselves. There are positive examples of corporates who (try to) align remuneration of directors with the long-term interest of shareholders and the company. However, there also examples of companies whose directors' remuneration policies may lead to a short-term (financial) focus. Such practices may include:

- linking variable remuneration to short-term value of the company's share price
- linking variable remuneration to a relative total shareholder return based on an inappropriate peer group
- absence of malus or claw-back clauses
- too short or no retention / deferral periods for employee stocks
- no share participation schemes for employees
- linking share participation schemes to earnings per share (EPS) thresholds that need to be achieved during a financial year of the issuer.

Nevertheless, poor executive pay practices like those listed above are symptoms of wider governance issues at a company, and engagement can be helpful in addressing them.

## VII. Use of CDS by investment funds

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Click [here](#) for the list of definitions, abbreviations and legal references included in the Explanatory Note

50. What percentage of your funds are exposed to CDS?

Please indicate the closest applicable percentage and use 0 to indicate 'not applicable'

	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
All funds	<input type="radio"/>										
UCITS funds	<input type="radio"/>										
AIFs	<input type="radio"/>										

51. If your funds are exposed to CDS, what are they primarily exposed to?

Please fill in the table with the applicable percentages and use 0 to indicate 'not applicable'

	Single name CDS	Index CDS	Basket CDS	Other
All funds				
UCITS funds				
AIFs				

*In case you reported a non-zero percentage to **Other** in question 51, please specify which kind of CDS you are referring to*

*1400 character(s) maximum*

52. What kinds of CDS exposures do your funds hold?

Please fill in the table with the applicable percentages and use 0 to indicate 'not applicable'

	Sell only	Net sell	Net buy	Buy only
All funds				
UCITS funds				
AIFs				

53. If any of your funds hold sell only or net sell CDS positions, what is their primary investment strategy?

	Equity	Fixed income	Alternative	Other
All funds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
UCITS funds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
AIFs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

54. What is the average size of your fund's holding of sell only or net sell CDS exposures, expressed in assets under management (AUM)?

Please select the relevant range for each category

	Below €1 million	€1 million ≤X< €10 million	€10 million <X< €100 million	€100 million <X< €1 billion	Over €1 billion
All funds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
UCITS funds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
AIFs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

55. If you hold sell only or net sell CDS positions in any of your funds, please select in the list below one or several reasons for holding sell only or net sell CDS positions

- To gain credit exposure to underlying credit name / index / basket
- To improve returns in fund through collecting CDS premia
- Other

56. If you hold sell only or net sell CDS positions in any of your funds, do you:

- Monitor underlying default risk of the CDS reference instrument / index / basket?
- Believe your positions accentuate tail risk exposure in the funds holding them?
- Monitor potential tail risk exposure in your funds with sell only or net sell CDS positions?
- Take into account the leverage in the exposed fund?
- Other

57. Are there other classes of derivatives used by investment funds that could increase short-termism in the economy?

*2800 character(s) maximum*

We would like to use this space to provide general comments on this section, as earlier questions do not provide such an opportunity.

Determined by the prospectus of the fund and when consistent with their investment objectives, funds may buy or sell options or futures on a security or an index of securities, or enter into swaps, including total return swaps, credit default swaps and credit default swap index products, and foreign currency transactions (collectively, commonly known as derivatives).

Based on members' feedback, it is our understanding that few fund managers trade in CDS and those who

do (mainly those active in bond markets), do it essentially for efficient portfolio management purposes.

More specifically, fund managers mainly use CDS for the following reasons:

- to manage risks: CDS and other derivatives instruments play an instrumental role in enabling investors to protect against short term risks allowing them to hold long term positions including in circumstances where they might otherwise have to disinvest.
- To keep liquidity available in the balance sheet and gain exposure in line with the investment strategy of the fund.
- To benefit from the diversification that an index provides.
- To take a position on a more liquid instrument in case of scarcity or mispricing in the bond market.

From a risk perspective, the use of credit default swap contracts is restricted to the extent that the benefits to the funds mirror that which could be obtained by direct investment in the underlying instruments and that the swaps do not expose the funds to risks which they would not otherwise assume (other than the exposure to the credit default swap counterparty).

Academic research has shown that derivative based hedging strategies increase firm value, improve risk allocation, and make markets more efficient. Derivatives instruments allow mutual funds to implement risk management activities efficiently and with relatively low transaction costs. They also allow asset managers to take specific views on specific markets or asset classes, often for diversification purposes.

To sum up, use of CDS by asset managers is limited and is considered part of usual risks management. It also limits the use of the respective cash instruments. Therefore, it prevents the markets to be too short-term oriented. We would therefore question the suggested link between undue short-termism and CDS positions (especially sell-only or net sell), as well as the focus on the use of CDS by investment funds in particular. Any actions against CDS and other derivative instruments could actually have a negative impact on efforts to combat undue short-termism.

## VIII. Final

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Click [here](#) for the list of definitions, abbreviations and legal references included in the Explanatory Note

58. Do you have any additional input you wish to provide in relation to the topics covered in this survey?  
Please provide links to any relevant material / publications.

*2800 character(s) maximum*

EFAMA appreciates the opportunity to provide feedback to this survey. Nevertheless, we have several comments both of the approach taken, key aspects looked at, the process and the format of the questionnaire.

Regarding the process, we would like to point out that both we and our members found the deadline of one month during the holiday period very difficult to comply with. This is likely to significantly reduce the number of industry responses.

Moreover, we find that the format of the questionnaire does not allow to properly express our views (in many cases comment boxes are available only in case of certain options selected). Some questions do not allow to provide the accurate data.

E.g. Q50 asks to provide closest applicable % offering e.g. 0 or 10. But in case a company has data that

they use between 0 and 10% of CDS, choosing neither 0 nor 10 is really appropriate. Given the importance of this topic, we would have hoped for a more open dialogue and possibility to express our views, especially on some sensitive political and complex topics like remuneration of asset manager on which survey sections did not offer any opportunity to comment for associations.

Another examples includes questions like II.8 and II.11, where it all varies and we question whether providing an aggregate figure is useful. Meanwhile, in case of many questions, e.g. QII.13 the answer is “it depends” but the questionnaire does not really provide such an option or possibility to explain.

We also have a number of comments related to the substance and the approach taken but due to severe space restrictions, we provide those comments in an annex sent by e-mail.

59. Do you consider that any topics beyond those covered in the survey should be addressed in ESMA’s advice to the European Commission on potential undue short-term pressures exercised by the financial sector on companies? Please provide links to any relevant material / publications.

*2800 character(s) maximum*

We are puzzled that more attention was not dedicated to the role of end-investors and their investment horizons and investment patterns. How long asset managers hold any asset is a function of how long clients stay with a product. According to an article by Li Jin, Harvard Business School, “How Does Investor Short-termism Affect Mutual Fund Manager Short-termism”, 12 Jan. 2005 “[...] short investment horizons of fund managers (which we term output short-termism) are positively related to their investors’ short investment horizons (which we term input short-termism). [...] fund manager investment short-termism is caused by investor short horizon, but not the other way round.” In the retail fund market, the length of time that retail investors hold a particular fund has more than halved over the past 20 years from around eight years in 1997 to three years in 2017 (IA, Asset Management Survey 2017-2018).

However, short-term investors are an essential part of financial markets. The potential benefits of long-term investing do not affect the importance of short-term investors for the effective functioning of financial markets. They fulfil an essential role in providing market liquidity and they also contribute to price formation by immediately feeding the constant flow of information into asset prices. Nevertheless, given the horizon of their investment positions, short-term investors will naturally give more weight to information referring to short-term rather than long-term performance. In fact, it is even possible to say that short-term and long-term investors need each other.

In any case, retail investor education is key to fight undue short-termism in capital markets. Regulatory and fiscal incentives would be helpful to ensure that investors stay focused and invested.

60. Do you have any other comments or thoughts on the issue of short-termism? Please provide links to any relevant material / publications.

*2800 character(s) maximum*

As we did not have an opportunity to express our views properly on remuneration of asset managers Qs 39-49 due to the format of the questionnaire, we would like to share them here.

Thanks to the existing provisions under the UCITS Directive and AIFMD, which strictly regulate asset manager’s remuneration, we do not see potential for any short-term behaviors. This applies irrespective of whether the average share of the variable component compared to the fixed component is high or low.

ESMA’s final report on Guidelines on sound remuneration policies under the UCITS Directive and AIFMD, foresees a set of detailed and specific rules concerning the application of the remuneration principles set out

under Article 14b of the UCITS Directive (“UCITS Remuneration Guidelines”), as well as a revision of the Guidelines on sound remuneration policies under the AIFMD (ESMA/2013/232) (“AIFMD Remuneration Guidelines”). Both ESMA Guidelines apply as from 1 January 2017 in relation to the remuneration policies and practices for management companies and their identified staff.

More specifically, the remuneration policies should be consistent with the risk profiles, rules or instruments of incorporation of the UCITS and the AIF the management company manages and with the objectives set out in the strategies of the management company. This includes a balance of variable to fixed remuneration, the measurement of performance as well as the structure and, where appropriate, the risk-adjustment of the variable remuneration.

Even a smaller or less sophisticated management company should ensure it makes the best possible attempt to align its remuneration policy with its interests and the interests of the UCITS or AIF it manages and their investors. The right to receive variable remuneration is awarded at the end or during the accrual period, which should be at least one year. But this can happen more often. The award process includes both a short-term and a long-term component, the latter rewarding staff for the sustainability of the performance in the long term. Overall, there is a clear requirement for the management company to assess the performance of staff in a multi-year framework that results into the accrual period and the payout period for short-term and long-term remuneration, covering a suitable period in total, as appropriate to the holding period recommended to the investors.

## Contact

[short.termism@esma.europa.eu](mailto:short.termism@esma.europa.eu)