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

BETTER FINANCE, the European Federation of Investors and Financial Services Users, is the dedicated representative of financial services users at European level. It counts about fifty national and international members and sub-member organizations in turn comprising about 4.5 million individual members. Our organization acts as an independent financial expertise centre to the direct benefit of the European financial services users (shareholders, other investors, savers, pension fund participants, life insurance policy holders, borrowers, etc.) and other stakeholders of the European financial services who are independent from the financial industry. As such its activities are supported by the European Union since 2012.

BETTER FINANCE is the most involved European end user and civil society organisation in the EU Authorities' financial advisory groups, with experts participating in the Securities & Markets, the Banking, the Occupational Pensions and Insurance and Reinsurance Stakeholder Groups of the European Supervisory Authorities; as well as in the European Commission's Financial Services User Group (FSUG), and in the European Financial Reporting advisory Group (EFRAG). Its national members also participate in national financial regulators and supervisors bodies when possible. For further details please see our website: http://betterfinance.eu/

Link to the consultation: https://www.esma.europa.eu/press-news/esma-news/esma-consults-short-termism-in-financial-markets

BETTER FINANCE RESPONSE

I. General information about respondent

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

BETTER FINANCE The European Federation of Investors and Financial Services Users

***2. Type of respondent**

- AIFM
- Exchange or trading system
- Investment analyst

- Investor association
- Issuer
- Issuer association
- Legal and accountancy
- Regulated market
- Self-managed UCITS investment
- Standard setter
- UCITIS management company
- **Other**
  - **European Federation of Investors and Financial Services Users**

***3. Industry**

- Communication
- Consumer
- Energy
- **Financials**
- Health
- Industrial
- Information technology
- Materials
- Other
- Real estate
- Utilities

***4. Are you representing an association?**

- **Yes**
- No

***5. Country**

Belgium

***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

BETTER FINANCE is concerned that ESMA only asks for a time frame to define long-term and would like to underline that not only the duration of a holding is decisive to decide if something is long-term or not. Decisive may also be the overall strategy of the asset manager or other factors. A clear and precise definition of long-term investment and short-termism would be very helpful.

II. Investment strategy and investment horizon

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						
Business strategy						
Profitability						
Funding						
Investment						
Trading						
Other						

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		X			

Asset owners (i.e. giving the investment mandate either on their own account or on the account of retail investors)				X	
Asset managers (i.e. those in charge of fulfilling the mandate of asset owners)				X	
Top management of listed issuers				X	
Sell-side analysts				X	
Other					

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				X especially now	
Prudential regulation			X		
Market pressures				X	
Profitability				X	
Shareholders' interest			X		
Business objectives				X	
Competitive pressure			X		
Client demand				X	
Company reporting requirements			X		
Executive remuneration structure				X	
Other					

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					
Bonds					
Other					

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					
Shareholders' interest					
Competitive pressure					
Client demand					
Remuneration practices in the financial sector					
Economic activities					
ESG					
Monetary policies/ macroeconomic factors					
Non-prudential regulation (e.g. tax regulation)					
Prudential regulation					
Company reporting requirements (any type of disclosure)					
Other					

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							
Fixed Income							
Other							

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

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

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

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

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

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

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

Under the IFRS, fair value accounting has become a major area of controversy particularly for banks that were forced to write down a number of their assets (e.g bonds, in other entities that depend on sub-prime mortgages paying their interests) to the current market value. In the banking crisis it was very difficult to discern the true market value. The problem arises also with the valuation of financial instruments held by non-financial firms. Some are held in the financial balance sheet at their amortised cost, whereas others are revalued at fair value with the change in value going through the balance sheet and the income statement. The rules governing these classifications is complex and open too much interpretation and judgment. Fair value accounting might allow to write "unrealistic fire-sale prices into the balance sheets and profit statement of the company injecting uncertainty into financial reporting.

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

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

Please explain your response, including whether you already apply IFRS 9, and provide evidence where available
1400 character(s) maximum

IFRS 9 that entered into force 1 January 2018 was developed by considering fair value through profit and loss as being the default measurement value. Extending the scope of fair value accounting to all (also new) financial instruments came with a higher volatility of balance sheets and income statements of companies in the scope compared to eg. the historical cost accounting method. For equity instruments, the use of fair value through profit and loss leads to a situation that does not/no longer reflect the real economic value as the assets concerned are not immediately sold. The result is an increased uncertainty regarding valuations and makes it more difficult for supervisors to initiate appropriate regulatory measures to deal with eg. prudential concerns.

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

V. Institutional investors' engagement

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

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

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

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

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

There are several studies arguing that institutional investors do not sufficiently engage with investee companies, preferring to respond to a poor performance by just selling their shares due to costly and time-consuming monitoring. The short-termism perspective sees institutional investors as transient intermediaries, who have high turnover portfolios, are focused on short-term performance, and fail

to act as responsible stewards of the corporation. Indeed, an important pre-requisite is to define what is an "institutional investor". It is what Pr. John Kay (and long time before him one of the SEC founders Louis Brandies) defines as "*other people's money*". Institutional investors are in the majority of cases better called investment managers, as they typically manage someone else's money, the end-investor, the beneficial owner. That is the case of investment funds, of pension funds and of a large part of the insurers' assets as well. In most cases if not all, the economic interests of investment managers have a much shorter time horizon than that of the investments they manage.
On the other hand, all studies confirm that individual investors have on average a long-term horizon as their most important savings needs are long term: pension, housing, children education, wealth transmission.

Misalignment of interests: Several studies show that the decline of individual shareholdings has resulted in asset managers becoming the dominant players in the investment chain, and therefore holding the voting rights, i.e. the power to be active shareholders with remuneration mostly based on short-term performance despite UCITS V and AIFMD requirements to the detriment of long-term value creation. For example, UCITS V fails to link remuneration rules to the performance fee mechanisms of the funds themselves which remain ultra-short term when they exist. When they do not, the economic incentive is based on assets under management, not on performance, and not -a fortiori–on long term performance. This situation creates a misalignment of interests between economic shareowners (the beneficiaries) who are mostly long-term driven and the actions of fund managers.
Moreover, the recent transition to intermediated holdings may lead to short-termism as there the end-investor is no longer the owner.

The absence of an EU definition of "shareholder" in EU rules is extremely damaging to long term shareholder engagement
SRD II failed again to adopt an EU definition of "shareholder", allowing still a lot of "agency owners" (nominee accounts in the UK in particular, global custodians for equity held outside of the investee companies' domiciles) to hold and exercise the voting rights instead of the real shareholders. For example, in France, most foreign held shares in the French blue-chip companies are voted at AGMs by global custodians who never disclose who are the shareholders they are voting for, and claiming they have a general proxy agreement from those. We requested to see these agreements and could never see any. These agency owners have totally misaligned interests from the shareholders and are often those who are most active in the securities lending markets.

Quarterly company reporting may be seen as placing focus on the financial performance of the company's share price in the immediate future and hence another factor which only serves to exacerbate the problem. However, quarterly reporting is a helpful tool to enable investors to stay informed about the development of the company. Without that, especially private investors are left "in the dark" about the company development between annual and half-year reporting. The trend to educate investors to long-termism should not be reached by deterring especially individual investors from important sources of information. Quarterly reporting should not be much less detailed than annual reporting, especially for listed SMEs.

Company transparency: Another important issue is the lack of sufficient information on companies' governance social and environmental activities. The main challenge stems from quantifying the

financial impact that ESG factors are having on a portfolio due to lack of common criteria to asses ESG factors.
Another issue is the number of investee companies. A large portfolio makes it for institutional investors almost impossible to engage with all of them responsibly or even to vote at all of the companies' general meetings responsible. For example, an institutional investor like Blackrock that has 36 people in their investment stewardship team that have to vote at more than 17,000 general meetings in over 90 countries. That can only be done by relying on proxy advisors/outsourcing. Even if those apply the institutional investor's voting policy it is doubtful that the institutional investor is able to check if all votes have been voted in line with the policy.

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

SRD II has not yet been implemented so its effect remains to be seen. However, the obligations on investment firms in SRD II are not far reaching enough to change their investment behaviour. SRD II requires Member States to ensure that institutional investors disclose how their investment strategy is aligned with the profile, the duration of their liabilities, and how it contributes to the medium to long-term performance of their assets. This means that all is centred on transparency and disclosure. This is an important first step, but other important aspects are missing as the requirement to link (like for company executives) the asset manager's compensation to the long-term strategy. Also, it does not hinder asset managers to pass on their voting rights to proxy advisors or not to vote at all at general meetings of companies they invest in.
The same is true for proxy advisors. Here, likewise SRD II is not far reaching enough as it does not put an end to potential conflicts of interest of proxy advisors. Furthermore, ESMA enabled proxy advisors to develop their own code of conduct. This has put rather soft best practice rules on proxy advisors which avoided up to now any stricter regulation.

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						
Private equity						
Equity						
Fixed income						
Real estate						
Alternative						
Other						

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						
Private equity						
Equity						
Fixed income						
Real estate						
Alternative						
Other						

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						
Private equity						
Equity						
Fixed income						
Real estate						
Alternative						
Other						

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						
Private equity						
Equity						
Fixed income						
Real estate						
Alternative						
Other						

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						
Private equity						
Equity						
Fixed income						
Real estate						
Alternative						
Other						

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?

- <u>**Yes**</u>
- No

VII. Use of CDS by investment funds

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											
UCITS funds											

AIFs											

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				
UCITS funds				
AIFs				

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					
UCITS funds					
AIFs					

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

Any classes of derivatives are mostly short-term by nature, used to hedge a position, to increase leverage or to speculate on a short-term asset's movement. Typically, the issuers of these derivatives will try to hedge their positions with collateral and or securities lending for the same (short) time horizon, propagating short-term transactions through the whole financial system. These complex instruments have enabled institutional investors to influence corporate decision making without being subject to duties to disclose the existence or nature of their position or of their plans. This lack of transparency undermines the efficiency of the disclosure regimes and creates opportunities for institutional investors to use to achieve short-term gains at the expense of long-term value creation.

VIII. Final

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

Retail investment products

BETTER FINANCE would like to draw particular attention to necessary changes in the legislative framework that might help avoid short-termism and drive retail investors' long-term investing:

Reintroducing and standardising across investment products presentation of actual past performance of the product and of its benchmark for 10 years minimum or since the product inception (if the product is younger) – please see the current inconsistency between UCITS IV (past performances for the last 10 years) and PRIIPs (no information on past performance, but "future performance" based on last 5 year past performance only, not capturing more than one capital market cycle at best) . For very long-term products like PEPP, PPPs and IORPs, the time horizon of disclosure should be even longer.

Taking into account the time horizon in the regulatory investment risk measures. The current very short-termism rules on investment risk are very damaging for the economy and for the end-investors. For example, a money market fund is indeed low risk in a very short-term product, but it is very high risk one for a pension product (very high probability of losing more than 50% of your investment). Whereas a diversified portfolio of listed equity is indeed high risk in the short-term but is much less risky than a money market fund over the long and very long term. To date, regulators have largely failed to introduce the time horizon dimension in their approach to investment risk. The key reason may be that their time horizon as supervisors, regulators and policy makers is also short term.

Financial risk (risk of a loss in *real* terms): Time horizon counts and the probability of the risk is as important as its magnitude

		Holding period		
Asset class / product	**Risk**	**1y**	**5y**	**20y +**
MMF	MAG	Low	Medium	High
Money market fund	PROB	Very high	Very high	High
Large* equity	MAG	High	High	High
Index fund	PROB	High	High	Low to medi

MAG= **Magnitude** of the risk (Low: <10% ; < Medium <50% ; High >50%)

PROB= **Probability** of the risk happening (Low: <10% probability ; < Medium <50% ; High >50% ; Very high = 100%)

**large index: hundreds or thousands of index components (as opposed to "narrow" indices such as Stoxx 50 or DAX 30 which are not representing the equity markets, and are not diversified into mid and small caps).*

PRIIPs - Imposing obligation on the manufacturers to align the recommended holding period (RHP) with the nature of the product.as nowadays there are on the market KIDs e.g. for unit-linked insurance contracts (with life insurance by essence being a long term savings product) with RHP of one year only, and life cycle funds targeting retirement in 2040 … and disclosing a six year RHP !

PEPP alternative investment options must allow direct investments into capital markets products such as low cost index ETFS, listed equities and bonds for those who want to do it.

Exercise of voting rights rules: See above (37) the main weakness of the SRD II

The CMU initiative must eventually succeed in one of its main advocated goals: to develop retail investments into capital markets. Direct investment in stocks has dramatically gone down over the last five decades (EU households owned directly close to 40% of EU listed equities in 1969, about 13% five decades later.

Remuneration policy

BETTER FINANCE believes that since individual investors/ shareholders are by nature mostly long-term driven and their main saving goals are long-term they should have *have an effective say on remuneration policy (in line with* the Shareholders Rights Directive II *"they should be granted the right to hold a binding or advisory vote on the remuneration policy, on the basis of a clear, understandable and comprehensive overview of the company's remuneration policy").* Ideally, as a consequence executive remuneration should fairly reward good corporate performance with a remuneration package that is geared to the achievement of stretching targets but that does not encourage imprudent risk-taking, excessive conservatism or continuation of strategies that are no longer appropriate or drive short-termism. The remuneration structure should be a balance between the director's interest and the company development (pay for performance). A well-performing director should be well paid.

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

A couple of comments on issues raised in the previous questions:

Question 15 disclosure of ESG information

On the one hand, ESG disclosure is needed by investors to take long-term decisions but that on the other hand today it is not advanced enough to really enable investors to reliably base their long-term investment decision only on this disclosure.

Question 35 Engagement activities

Engagement activities we see in Germany from so-called "Activist investors" for example at OHB SE (investor: guy wiser Pratte), Strada Arneimittel AG (Investor: Active ownership Capital AOC) and Uniper SE (investor: Fortum) were also focused on short-term targets. Engaging with a company does not mean per se following a long-term aim. It can be any aim to investor is targeting at – short or long term.

Objective benchmarks are good for end-investors

BETTER FINANCE believes that assessing products performance in comparison to benchmarks is crucial in providing individual investors with important information in the disclosure documents on the products' relative past performance. 3absoltue" performance in isolation of any real economy (including inflation) or capital markets benchmark is meaningless and misleading.

However, the current use of benchmarks may be a driver of short-termism in the market since the portfolio managers' performance is assessed against a benchmark on an overly frequent basis and they can be punished for deviations if these lead to lower short-term relative returns or a higher risk.

But the benchmark is not short term or long term: it is the way it is used by investment managers that is. This is another reason why BETTER FINANCE advocates to come back to the wise long term performance disclosure requirement in _UCITS IV and in the UCITS KIID, which adds the long term performance of the benchmark alongside.

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

Securities lending

Securities lending, if done in a controlled way, is an opportunity to add value for fund investors and compatible with long-term investment strategies. Securities lending on the other hand can support the exercise of undue short-term pressure on companies, for example in cases where long-term oriented investors lend securities to short sellers that make use of the securities lent for short or very short-term purposes. A strengthening of the disclosure/governance rules for asset managers towards their end investors regarding lending practices would therefore be warranted. This would enable end investors to understand securities lending practices (i.e. to whom, when and in which amount their assets are being lent as well as about any decision that may potentially undermine the long-term investor's investment strategy) and to decide whether they want to invest in a fund that pursues lending practices that may potentially go against their own (long-term) investment strategy.

Another untapped and potentially huge issue with securities lending is that BETTER FINANCE suspects that stocks and bonds belonging to non-financial investors are being used by custodians another intermediaries for short term securities lending. Indeed, since 2012 an ESMA rule requires UCITS fund managers to disclose any securities lending and to attribute the net profit from these transactions to the funds. But BETTER FINANCE never got any answer why there is not the same rule for stock and bond investors who invest directly, not via UCITS funds.

Long-term sustainable finance products

One means to avoid short-termism would be to provide EU citizens with "sustainable finance" products ensuring that sustainability preferences of **long-term** and pension savers are taken into account in the suitability assessment. EU citizens as savers are by nature mostly long-term driven, evidenced by the fact that 67% of their total financial assets are deployed in long-term investments (versus only 37% for pension funds - despite their purely long-term horizon - and 10% or less for insurers), and their main saving goals are long-term (retirement, housing, children's studies, transmission of wealth, etc.). The financial sector must finally ensure "long-term and sustainable value creation" and pension adequacy, i.e. with the highest probability of providing decent real returns to EU citizens as savers and current or future pensioners over the long-term (returns that at the very least do not destroy the value of their lifetime's savings: i.e. net real returns that are positive over the long-term, and sufficiently high to allow EU citizens to get an adequate pension replacement income; BETTER FINANCE's research demonstrates that long term real net pension returns have too often been negative).