Contribution ID: 2c1d5749-0f74-442c-a618-c23ffc947ab8
Date: 26/07/2019 19:16:46

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

Fields marked with * are mandatory.

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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.[1]

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 [1] 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

[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

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 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

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

Af2i Association française des Investisseurs Institutionnels

* 2. Type of respondent

Investor association

* 3. Industry

Financials

* 4. Are you representing an association?

- (•) Yes
- ( ) No

* 5. Country

France

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

- [ ] I do not wish my response to be published
- [x] 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

Why? Because there are as many investment stratégies as there are types of long-term investors. Of course LTI suppose a certain duration, but one can imagine investors with diversified investments over varying durations, carried out jointly or separately. Locking LTI for a specific period of time does not really make sense. The most important is the global strategy actually displayed and followed by the concerned entity, wether public or private, the means it implements for it and the objectives it wishes to achieve. It cannot be an obligation of results. In this context, it does not matter whether it is sustainable finance or not. Long Term view is more driven by the duration of liabilities than by the assets alone.

II. Investment strategy and investment horizon

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	( )	( )	( )	( )	(•)	( )
- Business strategy	( )	( )	( )	( )	(•)	( )
- Profitability	( )	(•)	( )	( )	( )	( )
- Funding	( )	(•)	( )	( )	( )	( )
- Investment	( )	( )	(•)	( )	( )	( )
- Trading	(•)	( )	( )	( )	( )	( )
- Other	( )	( )	(•)	( )	( )	( )

* Please mention your other activities and indicate the time horizon you apply to them

1400 character(s) maximum

Institutional investors are not created for the small numbers of years. That's why we have preferred to answer more than 12 years on overall. Inside the other categories, as we will explain it later, on can find

different strategies, ways and means.
Business strategy is a long term thing, but the management will review it several times during this period, which does not mean that the strategy will be changed.
Funding is a permanent subject. Investment can be assumed with short duration papers and very long duration ones.

On this point, all can be said and its opposite.

Some examples :

If an entity manages a portfolio of long-term financial instruments, it will still have the need to continually adjust its portfolio through trading operations: control of the portfolio's financial risks, rebalancing, reinvestment of revenues, dividends, etc.

A retirement institution can live on a PAYG pension system and have long term investments as financial reserves.

Selling strategic participation after years suppose to be accompanied by brokers and to use trading operations.

It should be ridiculous to imagine than profitability should not be already inside the first years of a long term investment planning and business plan.

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					

* Please explain your response

2800 character(s) maximum

Retail investors are often more long term investors than professional investors: the average duration of life insurance contracts in France is more than 10 years. Nevertheless, we know that retail investors are known to buy when the equity market went up and to sell when the market has felt well. Still it is more due to a lack of financial education than a short termist behavior.

Asset owners hold their investments at least 3 to 5 years for a dedicated fund or a mandate, but do not forget they have to adapt their portfolio to economic and financial markets conditions. Who could imagine five years ago that zero yield (or negative yield) papers will persist?

Asset managers do their job in evaluate all times the good & fair level of value of stocks and bonds, with the help of internal or external financial analysts. Among the numerous existing funds in Europe, we should consider ETFs which can as well be very tactical instruments and very long term assets, because passive funds have very low management fees and the reputation to perform better than active managers.

Certain hedge funds amplify short term volatility, like trend following strategies. Also trading and secondary market activities may have the drawback of generating short term spikes. High frequency trading has not proved to damp short term fluctuations and is not providing liquidity in times of stress.

Top management of issuers: They have no power to buying or sell assets, generally in the hands of the CFO, after a Board members decision.They must have a strategic view on their activities, which supposes a medium / long term prospective view.

Sell side analysts are paid to give fair levels for buying or selling equity or bond assets. They are precious advisors for asset owners and asset managers. Of course, they live partly by the volatility they create by the publication of they research and of their buy & sell recommendations.

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	○	●	○	○	○
Prudential regulation	○	○	○	○	●
Market pressures	○	●	○	○	○
Profitability	○	○	●	○	○
Shareholders’ interest	○	●	○	○	○
Business objectives	●	○	○	○	○
Competitive pressure	●	○	○	○	○
Client demand	○	●	○	○	○
Company reporting requirements	●	○	○	○	○

Executive remuneration structure	◉	○	○	○	○
Other	◉	○	○	○	○

* Please explain your response

2800 character(s) maximum

We are a professional association and not an individual institutional investor. To answer to your questions, we can say that can be factors of short termism :
- A pessimistic macro-economic environnement with a high probability of recession or even crisis perception (examples in 2001-2003, 2007-2008, 2011);
- A monetary policy, illegible, unstable or too reactive to mixed macro indicators;
- Prudential regulation which see systemic risks everywhere, prefer reducing risks before seeing opportunities and, at last which reduce the capabilites of financial institutions to invest in long term assets, considering them as the more risky and more subject to capital requirements;
- Accounting rules specifically on equities may create an incentive to avoid reported losses and sell, rather than hold ;
- Market pressures when corporate profitability become not as strong as the previous quarters;
- State or corporate debt when it becomes too heavy and create default risks;
- ESG criteria when the requirements are too high and irrealistic.

* Please mention the other factor(s) that may result in short-termism by your institution and indicate their relevance between 1 (Not at all) and 5 (To a great extent)

1400 character(s) maximum

For a great extent (5)

Accouting standards (IFRS 9 and the future IFRS 17)
Monetary policy of BCE and of Federal Reserve
the level of yield and the yield curve in Euro Zone and in the world
the level of inflation

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	○	○	○	◉	○	○

* Please mention the other categories of securities which you invest in and indicate the holding period you generally apply

1400 character(s) maximum

We are a professional association and not an individual institutional investor. To answer to your questions, we can say that French institutional investors do not have holding period objectives.

Our last annual survey confirm, for instance, some differences in terms of average bond maturity between institutional families: for instance, life insurance companies have a average bond maturity lower than the non-life insurance companies, but all have a diversified bond portfolio invested in all maturity group (from 1/3 years to 15 years +). It does not mean that some companies have not inside their assets, specific portfolios with different types of assets to match particular kind of liabilities.

Equities portfolio are quite different too, with some rare investors having not any equity portfolio and at the extreme other side, a few ones have around 50% (even plus) of their assets invested in equity and alternative assets. But LTI can be summarized to equities.

When talking about alternative assets, the holding period can be much or more than 8 years (private equity, infrastructures, residential real estate) or less (Private debt). There is no target date or period. Some bonds or commercial papers are issued for 50 years !!!!

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	○	○	○	○	○

* Please explain your response

2800 character(s) maximum

We are a professional association and not an individual institutional investor.

To answer to your questions, we can say that French institutional investors do not have rigid holding period objectives, but have diversified portfolios, with bonds, stocks, cash, real estate, private debt and some private equity funds. They use to revise their market exposition when the financial & economic conditions change dramatically. Of course, they are also forward looking and are conscious of the economic & industrial activities evolution. For instance, low yield and negative yield bonds have changed their view on these markets.

Generally speaking, the strategic asset allocation of the French institutional investors are revised mostly each year, lessly every two or three years. The review time tends to shorten in the recent years. But globally, we do not see major changes in allocations. The strategic allocation do not move that much, mostly by little steps, except when we are in crisis situation (1987, 1990, 1994, 2000-2003, 2007-2008, 2011). 2018 seem to have been an exception with some reduction of market risks due to recession anticipation.

We can say also that our last survey give, for instance, some differences in terms of average bond maturity between institutional families: for instance life insurance companies have a average bond maturity lower than the non-life insurance companies, but all have a diversified portfolio invested in all maturity group (from 1/3 years to 15 years +). That do not mean that some companies have not inside portfolios with different types of assets to match their liabilities.

Equities portfolio are quite different too, with some rare investors having not any equity portfolio and at the other extreme side, a few ones having around 50% (even plus) of their assets invested in equities and alternative assets.

When it comes to asset management, revision of mandate based on too short term performance or solely on past performances may be detrimental. Similarly asset manager bonuses paid on short term performance may have a negative effect.

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	○	○	●	○	○	○	○

* Please provide any relevant information supporting your expectations

1400 character(s) maximum

> We are a professional association and not an individual institutional investor.
>
> To answer to your questions, our 2019 survey give us some information. Globally, institutional portfolios are very stable for the equity and bond portfolio, with a little decrease in cash. The assets classes which increase regularly since the recent years are real estate and private debt. Private equity and infrastructure assets are quite stable. The prospect for new investments in 2019 are completely in line with what is described above.

* Please mention the other categories of assets which you invest in

1400 character(s) maximum

> Just a few words to say
>
> 1) that inside « Real Estate » assets, we see again a bit more investments in residential real estate and in logistic assets (Amazon effect), which mean that our institutional investors are forward looking towards an evolution of economic activities. Real Estate is the asset class which grow slowly but surely years after years.
>
> 2) we have seen with the decline of yield spreads a reduction in private debt investments and profit taking in the most risky bonds assets. Clearly the yield level do not offer sufficient opportunities compared to the default risk of these papers.

14. To which extent will the expected evolution in the average holding period, indicated under question 13, be driven by each of the following factors?

14.a Equities

	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	●	○	○	○	○

14.b Fixed Income

	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	●	○	○	○	○

* Please explain your response and, if necessary, indicate any other types of securities you hold and the factors which drive your holding period for those securities

2800 character(s) maximum

No specific comment
The facors are quite common for equities and fixed income. The main differences are the role of profitability for equities and the rôle of monetary policies for fixde income.

* Please mention any other factors which you believe will imply a change in the average holding period for your equity and / or bonds and indicate their relevance between 1 (Not at all) and 5 (To a great extent)

1400 character(s) maximum

Most of institutional investors have a buy and hold strategy for bonds (sometimes also called buy and maintain).Except for stragegic participations, equities strategies are more oriented to geographical and industrial bets,

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

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
- [x] ESG disclosure complements the information provided by listed companies in their financial statements
- [ ] Other

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

	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	○	○	○	◉	○
* Lack of quantitative evidence regarding how the listed company contributes to national or international sustainability targets	○	○	◉	○	○
* Lack of consistency between the disclosed ESG policies and evidence of the listed company's actions	○	◉	○	○	○
* Lack of sufficiently forward-looking disclosure on ESG risks and opportunities	○	◉	○	○	○
* 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	○	◉	○	○	○
* Lack of a clear link between ESG matters and the current and future performance of the listed company	○	◉	○	○	○
* Lack of an integrated presentation and analysis of financial and non-financial performance	◉	○	○	○	○
* Lack of information on the disclosure framework (s) which listed companies use	◉	○	○	○	○
* 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	◉	○	○	○	○
* Lack of access to / availability of ESG disclosure in data aggregators or other source data providers	◉	○	○	○	○
* Lack of sufficient knowledge by investors on how to incorporate ESG disclosure into their decision-making process	◉	○	○	○	○
* 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

* Please explain your response

1400 character(s) maximum

We ara not in favour to mix financial statement and non financial information.

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 explain your response

1400 character(s) maximum

Please let asset managers & owners choose what they prefer and avoid to create new costs.

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 explain your response

1400 character(s) maximum

We do not think it is useful to create new constraints and new charges for companies and for investors

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

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

For having introduced fair value (market value) measurement in 1988 in diversified portfolios (with a result based an a financial performance), fair value (or market value) has two exclusive advantages, permitting:
1°) to follow the performance of the assets day by day, weeks after weeks, years after years, and to compare them with different market indicators ;

2°) to calculate & assess permanently the divergence of the portfolio's performance and its risks, compared to different markets risks and performances.
These indicators help to observe the behavior of the portfolio and give some good warning signals.

To be complete, this calculation has to be made at least every week.

But the response is clearly different when you have a liability-driven portfolio, such as life-insurance. The "benchmark" is a yield you must serve to your clients, and the floor of your performance is the miimum yield you have to serve.

So fair value gives you an immediate financial performance, when an efficient management involves contrarian positions: buy when markets are low, sell when assets are expensive. An insurer may be able to amortize financial crises: a purchase cost approach allow to smooth down losses on several years et favor long-term investments. We are waiting for IFRS 17 in 2021.

Pension funds are not subject fo IFRS Standards

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

There is no other method to really calculate a portfolio performance and to.observe its behavior compared to the different markets in which it is invested

But the capability to smooth down real losses helps to have a long-term management of assets.

As an example, equities has fallen 40% in 2008. For French insurers, the mechanism of purchase costs and of certains provisions allowed them to write a 5% loss in 2008 (and 5% during the next following 7 years). Thus, they could profit of a "comme-back to better fortune" on financial markets in the following years.

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

- (x) Yes
- ( ) No

* Please explain your response, including whether you already apply IFRS 9, and provide evidence where available

1400 character(s) maximum

Contrary to IAS39, IFRS 9 give only to companies the choice to classify equity instruments or at FVPL or at FVOCI but, in this last choice, realized profits or losses will never be recycled in the P&L.

Second trouble, IFRS 9 do not permit a similar treatment for equity and equity like (listed equities funds, private equity funds).

Third trouble: when the entity manages a global diversified portfolio, the different instruments will not have the same accounting treatment while they are all owned and managed for the same objective and constraints, with a same global benchmark.

One cannot say that IFRS 9 discourages a company to invest in equities, but it is clear that IFRS 9 doesn’t encourage to have equity and equity like assets. It creates unnecessary volatility on reported earnings. It doesn’t help (or make more difficult) to match financial charges in P&L or liabilities with gains coming from a equity portfolio, except if they are classified as FVPL. IAS 39 gave a much better treatment, even if the weight of losses on balance-sheet could be a real problem to read the reality of accounting on several exercices.

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

- (x) Yes
- ( ) No

* Please explain your response, including whether you already apply IFRS 9, and provide evidence where available

1400 character(s) maximum

To complete the former answer, IFRS 9 is globally a break to invest in volatile assets, such as equities, which are classified in “Available for Trading”, and measured in Fair Value in P&L.
So the risk of further losses may convince asset owners to disinvest from equities.
The problem is particulary strong for insurance companies: Solvency II is also a repulsive to invest in one-year volatile assets. We are waiting to see if IFRS 17 will satisfy insurers.

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

- [x] Volatility in reported earnings
- [x] Measurement errors (in Level 2 or 3 Fair Value)

- [x] Complexity of calculations (in Level 2 or 3 Fair Value)
- [x] 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
- [x] Other

* Please explain your response and provide evidence, where available

1400 character(s) maximum

the fair value of bonds portfolios can be hard to appreciate, when there are a big number of corporate bonds and private debts. The Expect Credit Loss (ECL) introduced by IFRS 9 bring more complexity as well.

V. Institutional investors' engagement

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

* Predominantly long-term or short-term?

- ( ) Short-Term
- (•) Long-Term

* Please explain your response also in connection with the investment time horizon you have indicated under question 8

2800 character(s) maximum

Our last annual survey says that only 12% of the equity portfolios of our members are managed by a passive way (ETF or index funds). Only 1% of the bond portfolios are managed with passive management instrurments.

Some studies highlight that passive asset managers give regularly a better performance than active managers with lower fees. Some other studies say that is a general view, but many active asset managers succeed on a 3/5 years basis.

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

N/A

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

* Please explain why long-term value considerations do not play a major role.

1400 character(s) maximum

Our members are all concerned by long term value considerations, but they have also different goals or considerations. Institutional investors are private or public entities with a specific regulated social object and activity, generally marked by specific liabilities and "ad hoc" financial and real/alternative assets.

Besides this main activity, our investors can have various activities; but most of the time marked by a social objective (social welfare, social fund, etc…)

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

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

* Please specify

1400 character(s) maximum

We are a professional association and not an individual investor.
Our members may have several ways of engagement :
- Voting at annual general meeting when they hold direcly equity stocks.
- Give mandate to a proxy advisor.
- Leave their asset managers to assume the voting policy and rights, for the UCITS & AIF managed for the institutional investors

Clearly, private engagement, through bilateral meetings, seems to be the most widespread practice.
Litigation is a quite new subject for the French investors.

*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

Engagement policy is a way to be involved in the future of companies on which you invest.

It's more and more part of the global ESG policy.

The limit is that, when the asset management is delegated, the asset owners has to follow the voting choices of the asset manager, except in the case of mandates.

* 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

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

* Please specify

1400 character(s) maximum

We are a professional association and not an individual investor.

Our members may have several ways of engagement :
- Voting at annual general meeting when they hold direcly equity stocks.
- Give mandate to a proxy advisor.
- Leave their asset managers to assume the voting policy and rights, for the UCITS & AIF managed for the institutional investors

Clearly, private engagement, through bilateral meetings, seems to be the most widespread practice.
Litigation is a quite new subject for the French investors.

* 33. To which extent does your firm rely on proxy advisors for the purpose of deciding how to vote in order to mitigate any potential sources of undue short-termism?

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

* Please indicate from how many proxy advisors you obtain advice and indicate whether you have your own engagement team and, if you do, its size

1400 character(s) maximum

We are a professional association and not an individual investor.
France has some proxy advisors. We have no quantitative indication about the global use of proxies by institutional investors.

It seems that the rely on proxy advisor is more and more current for asset owners and asset managers over 100 billions euros.
Probably due to the level of costs of the advisory, it's clearly less the case for smaller investors.

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
- (selected) 5: Totally agree

* Please provide quantitative or anecdotal evidence to corroborate your response

1400 character(s) maximum

Our association promote a specialized fund, co-invested by French institutional investors, which aim to be an engagement vehicle to participate in CAC 40 companies general annual meetings.

We hope it may help companies to take into account investors long-term views, and to have a better communication on the perspectives of their activities.

This fund is helped by a well known proxy advisor.

We want to prevent proxy advisors from being bought by non European private companies or agencies and thus lose their independence of mind and the European approach developed so far. As well for the continental law.of societys.

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
- (selected) 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

Some topics, such as remuneration of board, are more short-term view.
But companies know that there is a growing engagement activity. So they are more precise in their communication, and more vigilant on ethical questions.
Unfortunately, these activities are often carried out by activist funds that are not always motivated by long-term objectives but are often marked by short-term or even very short-term valuation expectations.

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
- (selected) 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

Actions from one investor are clearly less efficient than pressures from a national or international collective of investors.

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

Concert action and its legal consequences

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
- (selected) 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 are a professional association and not an individual investor.

Our annual surveys show that French institutional investors delegate more and more their investments to asset managers, especially for equities.

The main consequence is that the shareholder rights European Directive will not change anything, because voting rights and practices will be more and more used by their asset managers or foreign proxy advisors.

That doesn’t mean that institutional investors are not concerned by engagement and long term values considerations.Some of them want to be involved in the voting process of their asset manager (mainly when there is a mandate).

VI. Remuneration of fund managers

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	●	○	○	○	○	○
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	●	○	○	○	○	○

* Please specify

1400 character(s) maximum

N/A we are a professional association and not an individual investor or asset manager. We have not any statistics on this subject.

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

* Please explain your response and indicate which features of fund manager remuneration contributes to short-termism

2800 character(s) maximum

Our annual survey show that our institutional investors :
- Accept a performance sharing when it is an active management : 38% accept only a fixed fund management and 53% a mix between fix and variable remuneration
- 79% accept for benchmarked funds a fix remuneration and 21% a mixed remuneration
- 94% accept for indexed funds fixed management fees 6% only a mix between fix and variable fees.

In certain instances, nevertheless bonuses paid in relation to short term performance may create wrong incentives and favor short termism.
There is for some years a huge pressure on management fees, that are lower and lower, with, at the same time, a stronger demand of services, mainly in reporting (transparisation of portfolios, Solvency II data, carbon mark calculation, etc.). So, it reduces the capability for asset managers to produce a constant high-level of management year after year.

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

VII. Use of CDS by investment funds

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	○	○	○	○	○	○	○	○	○	○	○
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

We have not statistics about this question

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
- [x] Other

* Please specify

1400 character(s) maximum

improve global liquidity of a fund

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 have no statistics on these subjects.
Insurance companies are very reluctant to use CDS, due to accounting rules, and to the SCR cost under Solvency II.

VIII. Final

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

We feel that a great deal of the improvements could come from behaviors, deterring short termism and encouraging long term approaches of all market participants are thus critical.

Public pressure and collective attention would help to progress towards better knowledge and practices.

Af2i is ready to contribute to these goals.

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

EC has been since already convinced that IFRS 9 was not offering an adequate measurement for equities et has asked EFRAG to write some proposals.

Sustainability goals have a great deal in common with long-term investments and therefore a proper management of ESG risks is well aligned with long -term investor goals. Nevertheless, a too strict or too naive approach of these matters, still not well known, could backfire and just ticking the boxes on the short term would not necessarily help to progress on longer horizons. Dialog with other stakeholders and cooperation on these matters are necessary.

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

We have not been convinced by this questionnaire. As a professional association, we think that LTI is important to finance specific LT assets, but it is mostly important to remember that investors are diversified in terms of regulation, social object, financial targets and financial or real assets. A specific status is not necessary.
That mean that willing development of LTI can be a wrong objective, because these entities are already pursuing partly this goal, but also because they have also other goals to achieve or pursue (liabilities for instance).
We just ask to renew IFRS 9 which is a (the) topical counter-example of what LT investors need.
A loosening up of the standard formula of Solvency II on market risk would be a good way to facilitate LTIs

for insurance companies. After the decisions on non-quoted assets I 2019, new efforts must ne done on listed equities (even if belong less than 5 years) and on real estate (where the basis of calculation is a British serial, and where residential and offices must be separated).
As a professional association we have put the defense of LTI as our top priority, and development of responsible investments as our next second priority. We feel one proper defense of institutional investors interests is indeed to fight the dangers of short termism and to promote a balanced approach of the needs of all investors. Unfortunately, regulations and certain accounting standards prove to be somewhat biased towards short termism and are thus detrimental to our members. Reassessment of the goals and specificities of regulations, at least Solvency regulations, and some accounting rules make a lot of sense. Af2i contributed to the La Martiniere Report “Try the long term” which made a number of proposals along these lines.
Nevertheless, we are not convinced by the usefulness of a specific long-term investor status, mainly if its accounting is only full fair value. In our membership, some entities have a long-term goal but do not necessarily long-term holdings. As explained in our answers, many situations are not black or white. Adding unduly restrictions on what a long-term investor can or cannot do may have undesirable consequences. Too many rules apply already to the investment activities and their effectiveness should be checked.
The focus on risk, which became major after the financial crisis of 2008, creates a collective fear and a systematic aversion against risky assets. But this fear confuses risk and volatility. Volatility is a short-term indicator of risk. Risk may be seen on a long-term view, and, if well analysed, prompts long-term investors to be contrariant in their purchases.

Contact

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