

## Response to the European Commission consultation on the establishment of a European single access point (ESAP) for financial and non-financial information publicly disclosed by companies

11 March 2021

### SUMMARY OF KEY PROPOSALS

- **Purpose & users:** Finance Watch supports the creation of a European single access point (ESAP) to strengthen the European Capital Market Union and promote investments in the European Union, especially investments in sustainable projects and economic activities which are needed to meet the EU climate-neutrality goals. We would like to stress that retail investors, academia and civil society should be considered as users of ESAP on an equal footing with institutional investors, asset managers, other finance providers such as banks as well as data, rating and research providers.
- **Scope:** The ESAP project should prioritise inclusion of EU company financial, sustainability and company law disclosures, as well as product-related disclosures relevant for retail investors. We suggest to allow voluntary disclosures by companies outside the scope of the EU disclosure requirements. Those companies could disclose on a voluntary basis as long as clear indication is given to the source, rules and/or standards followed to prepare the information and level of verification.
- **Governance and funding:** ESAP should be organised as a public-private partnership, operated by all three European Supervisory Authorities with a leading role played by the European Securities and Markets Authority (ESMA). All relevant stakeholders should be involved in the governance as the ESAP members. Stakeholders should include: reporting companies, institutional and retail investors, asset managers, other finance providers like banks and data, rating and research providers, academia and civil society. This would mean that the bulk of ESAP funding would come from financial industry participants who will be the biggest economic beneficiaries of ESAP.
- **Usability & format:** ESAP should enable data usage without any specialised software, such as usage via browser, be user-friendly and information disclosed should be in a structured and machine-readable format.

Finance Watch strongly supports the establishment of a European single access point (ESAP) to facilitate access to comparable, qualitative and reliable financial and sustainability information for investors, other financial market participants, regulators, academia and civil society. If well designed and implemented, ESAP holds the potential for improved access to corporate and product disclosures and, by this, would encourage investment in the European Union. This would help overcome barriers of fragmented national capital markets, thus deepening the European Capital Market Union. This hinges on inclusion of sustainability disclosures within ESAP from day one to facilitate a proper application of EU sustainable finance rules<sup>1</sup> and encourage investments in sustainable projects needed to meet EU climate goals.

The following considerations are essential for the effective implementation and functioning of ESAP:

### Scope

**Information/ content:** The scope of ESAP needs to be determined based on the needs of its users, which should include: **investors**, both institutional and retail; **other providers of finance**, including banks; as well as **regulators, academia and civil society**.

In particular, we consider vital: i) the role of both **entity- and product-level sustainability disclosures** to support integration of sustainability into financing decisions and mitigate the risk of greenwashing; ii) **interests of retail investors**, among others in light of the upcoming EU Retail Investment Strategy; iii) **needs of academia and civil society**, who require access to information for their research – in particular, sustainability-related research is essential to facilitate the transition to a climate-neutral economy.

We strongly support a clear prioritisation during ESAP implementation to ensure feasibility and timely go-live of the project. Doing so achieves project objectives given the rapid changes made to disclosure rules, most notably around sustainable finance.

We recommend the inclusion of the following disclosures as a matter of priority in the ESAP project:

- Financial information in accordance with the **Transparency and Accounting Directives**.
- Entity and product-level sustainability disclosures in accordance with the **Non-Financial Reporting Directive (NFRD)**, **EU Taxonomy Regulation** and **Regulation on sustainability-related disclosure in the financial services sector (SFDR)**.

Specific company (entity)-level sustainability disclosures are of major importance: 1) non-financial disclosures in line with NFRD, 2) Article 8 EU Taxonomy-related disclosures applying to companies in the scope of NFRD, 3) entity-level disclosures by financial market participants in line with SFDR. Both entity and product-level disclosures should be included to facilitate sustainable finance, as retail investors need product disclosures to make informed investment decisions.

- **EU Climate Benchmarks disclosures** in line with the Regulation as regards EU climate transition Benchmarks, EU Paris-aligned benchmarks and sustainability-related disclosures for benchmarks.
- **Key information documents** for packaged retail and insurance-based investment products (PRIIPs), retail investments funds (UCITS) and pan-European personal pensions (PEPP) products.
- Company law disclosures in accordance with the **Market Abuse Directive and Regulation (MAD/MAR)** and **Shareholder Rights Directive (SRD II)** are also relevant from the investor perspective. Market abuse disclosures are already included in the national Officially Appointed Mechanisms (OAM), which the Commission intends to leverage on when creating ESAP.

At a later stage of ESAP implementation, we **support inclusion of additional disclosures**, which prove relevant from supervisory and financial stability perspectives, such as prudential information in accordance with the Capital Requirements Directive and Regulation (CRD/CRR), Resolution and Recovery of Credit institutions and Investment Firms Directive (BRRD), Directive and Regulation of Prudential Supervision of

---

<sup>1</sup> For example, EU Taxonomy Regulation, EU Sustainable Finance Disclosures Regulation (SFDR), EU Climate Transition Benchmarks Regulation.

Investment Firms (IFD/IFR), Directive on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORP), as well further disclosures with a more narrow product focus such as European venture capital funds, social entrepreneurship funds, money market funds.

**Entities covered:** The mandatory scope of the entities disclosing information within ESAP should be determined by the **scope of the respective EU rules**, as mentioned above. We understand the scope will be dependent on revisions of any of those rules, in particular the NFRD.

In addition, we see a significant value added in allowing **voluntary disclosures by companies outside the scope of EU rules** – including non-EU entities – wishing to submit their information to ESAP. Transparency should be ensured for such disclosures, such as their voluntary basis, source of information, applicable standards of reporting, verification /assurance procedures applied to the reported information.

To ensure transparency and reliability of the ESAP disclosures, include **data on the source of information, as well as any external assurance** provided over the disclosures – such as external audit report or assurance over the sustainability-related information – conditional on the future requirements. In the cases where no assurance is provided, this should be appropriately disclosed and correctness of the information should be certified / confirmed by the reporting entities.

## Governance and funding

For ESAP to achieve its main objective, as well as serve wider purposes in the future such as to centralise information for supervisory/financial stability purposes, the ESAP governance structure should be driven by consideration of **different stakeholder interest representation** and efficient functioning of the project. We recommend the project be organised as a **public-private partnership** with its governance involving all three European Supervisory Authorities, with ESMA playing the key role, and all interested stakeholders such as reporting companies, institutional and retail investors, asset managers, data, rating and research providers, academia and civil society. All stakeholders should be considered on an equal footing.

As a matter of principle, ESAP should be funded by the users that will benefit most from it and for which it will represent the biggest cost saving. Given its public interest dimension, public funding could cover 50% of its development cost whilst financial industry stakeholders would fund the remaining 50%. ESAP running costs should be funded by its users through annual membership fees reflecting the user type and the economic interest derived from its use.

Financial industry participants and service providers – namely rating and research providers, asset managers, institutional investors and banks – will make major savings thanks to ESAP and they should therefore bear the bulk of its running costs through their membership fees. Membership fees should be linked to the level of business interest and its size, for example as a percentage of turnover / revenues in case of data providers, percentage of assets under management for asset managers. Meanwhile, **fees should be symbolic for retail investors, academia and civil society, as their interest in ESAP is not business related**. Reporting companies should be exempted from contributing to the running costs of ESAP.

To ensure easy and open access for retail investors and citizens, who could be discouraged by a paywall, we suggest **setting up an appropriate data download threshold, below which anyone can access information within ESAP free of charge**. Such an approach would address the public interest dimension and encourage retail investors' participation in the capital markets. Membership registration and fees would only apply upon exceeding a pre-defined data threshold, which would also make less costly ESAP user management.

## Data format and usability

**Data format:** We support the widest possible usage of structured data format to ensure the ESAP data is machine-readable. In terms of specific data format, we **suggest the Commission assesses feasibility**

**of extending the scope of application of the European Single Electronic Format (ESEF).** The Transparency Directive already requires all issuers on EU regulated markets to use ESEF while preparing their annual financial reports. First reports were to be published for financial year 2020 but application date was delayed by one year due to Covid-19. Extending the scope of ESEF to include other disclosures would bring usability benefits by increasing comparability and supporting capability to make analysis across entities and products. We realise challenges exist related to ESEF such as the need for a taxonomy<sup>2</sup>, in particular for sustainability information, as well as certain costs that companies currently not reporting in ESEF would need to bear. Those costs stem from dedicated software purchase and staff training or to pay an external contractor. Hence, we recommend conducting **a proper feasibility assessment and a cost-benefit analysis of different formats.**

Additional advantage of using structured data formats includes the possibility to apply certain **data quality checks** once information is uploaded onto ESAP. We support data quality checks being set up, as suggested in the consultation – verification of correct reporting taxonomy usage, availability of the required metadata, as well as defined key tests, in particular for financial information such as matching figures of the asset and liability side of the balance sheet. On such data tests, we see clear advantages of providing data quality checks on ESAP to boost information reliability; we recommend, however, that development of any rule-based checks should be gradual and based on appropriate validation of such rules. Poorly set up rules may create a burden for reporting companies, as error messages will be generated when submitting information to ESAP. Once there is a sufficient amount of historical/cross-sectional data within ESAP, rule-based checks can be designed and validated to be used for the ESAP submissions.

**Use of identifiers:** We suggest to **require the use of Legal Entity Identifiers (LEI)** – both for the reporting entities and financial products – as well as **NACE codes** use. This will ensure regulatory consistency, improve comparability and transparency of data and avoid dependency on private providers of classification codes.

LEIs were developed in the wake of the financial crisis of 2007-2008 to help supervisors understand the build-up of risk and interconnections in financial markets. They provide an essential tool for supervisors to follow market trends, prevent systemic crises and manage them if they happen. Their logic is to apply to all financial institutions and funds, and these identifiers are now required for listed companies and entities conducting financial transactions in the European Union. Important too is the use of NACE codes to ensure alignment with the EU Taxonomy Regulation and, more generally, EU legislation.

**Database software:** The choice of the ESAP software should be guided by a considered approach to ensuring usability and accessibility of information at any time by all types of users. ESAP should be accessible **without the need to invest in a specialised software** / interface that would create barriers for less resourceful financial market participants, civil society and academia. Thus, we welcome access **via web portals and functionality of bulk downloads.**

We suggest using **open-source software** while interconnecting national OAMs. We understand a likely phased approach to occur. Therefore, it is important to consider the need to further develop the central access point facility in future to include any additional reporting information or make adjustments to the existing reporting standards. Open-source software tends to be more flexible, more easily and freely accessible for the users than proprietary solutions. Such software allows to avoid dependence from a particular private developer.

**Open source and interoperable software solutions** will also be important to facilitate in future interconnection of national OAMs and potential interconnection of ESAP with databases / registers from other jurisdictions.

---

<sup>2</sup> We suggest considering the EU Taxonomy Framework and future EU sustainability standards for the development of the reporting taxonomy for the sustainability-related information.