

ESAP, or the value of giving European solutions to European problems

By Jacopo Borgognone, Policy Adviser Financial Markets, European Banking Federation

Last November, the European Commission published the first package of legislative measures adopted under the 2020 Capital Markets Union Action Plan - the new regulatory roadmap towards greater EU markets integration that resumed the path begun in 2015 with the first Action Plan on Building a CMU. Along with three proposals included in the package, the Commission tabled the establishment of a **European Single Access Point (ESAP)** for public financial and sustainability-related information on EU companies and investment products.

Once fully implemented, ESAP will serve the purpose of providing financial investors, financial analysts, market intermediaries and lenders with **centralized access to public financial and non-financial information** on EU entities and securities, including – most importantly – **ESG information** disclosed by EU companies under reporting obligations, as well as by smaller and unlisted entities that might decide to tap into ESAP's voluntary disclosure regime.

Yet, ESAP is not just about innovation. In all effects, it carries the promise of giving a European answer to a European problem, one that has deep roots and consequences.

A RECURRING EUROPEAN PROBLEM: DATA AND INVISIBLE BOUNDARIES

For long years, the story of capital markets integration in the EU has been that of two opposing tendencies pulling in different directions. On the one side, the increasing complexity and fragmentation of EU's national markets has grown embedded in 27 different legal systems (e.g., tax and insolvency law), each accustomed to its own specificities, incompatibilities, and legacies (or, as insiders want it, "barriers"). On the other side, the need to realize the full potential of the single market by making capital fully and readily available cross-border continues to drive up the demand for higher levels of market integration – with the long-cherished ambition that, one day, the EU would sit on equal terms with more liquid international financial centers.

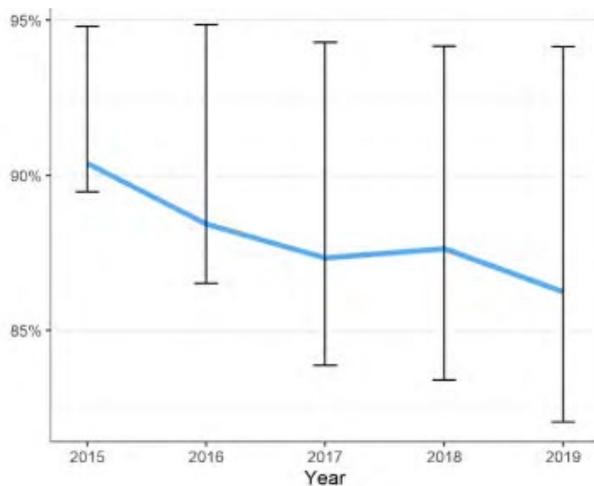
To date, the scales appear to be tipping towards the first picture; yet a successful ESAP holds the potential to turn the tide and remove one bottleneck where it hurts the most, i.e., allowing data to freely circulate within the EU.

According to the latest European Commission's assessment¹, EU investors find it difficult to access financial and non-financial data, including collected information pursuant to EU law. To some extent there is a problem of information scarcity, and in particular in relation to ESG data, but the broader issue is the **fragmentation** in the systems of collection and storage of reporting streams, existing barriers to discovery and free usage of data (e.g., costly fees), language, unfriendly interfaces, inability to bulk download, and poor interconnections between national repositories.

This not being the only reason, one would argue that, as a result of scattered information, EU capital markets remain fragmented **along national borders**, while only some countries manage to remain attractive to cross-border investment.

¹ European Commission, 2019, *Impact Assessment Accompanying the Proposal*, Link: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021SC0344&from=EN>, last accessed: 20/06/2022

Figure 2: Cross-border equity holdings in the EU 27 – home-bias



Source: DG FISMA based on JRC flow, *Ibid*, last accessed: 20/06/2022

Perhaps unsurprisingly, European capital markets remain underdeveloped: they are less liquid and relied upon than Asian or U.S. counterparts. For instance, widely available pre-pandemic data indicate that **the market funding ratio of companies in the EU-27** remained flat, leading to additional risks in terms of overreliance on bank lending and failure to share risk.

Banks, on the other hand, as both users and services providers in capital markets, strongly support deeper and better integrated EU capital markets for the benefits of their customers, European citizens and businesses alike.

What is more, according to European Commission estimates, between now and 2030, additional 650³ billion a year in funds to finance the green and digital transition will be needed. Again, banks will provide a good share of this funding, yet the role that more liquid and integrated capital markets will have to play is essential. As ECB President Christine Lagarde puts it, we need to 'reinforce the CMU agenda by supporting the development of a Green CMU'⁴.

Against this background, ESAP is definitely a step in the right direction.

WHAT SOLUTION: THE EUROPEAN SINGLE ACCESS POINT

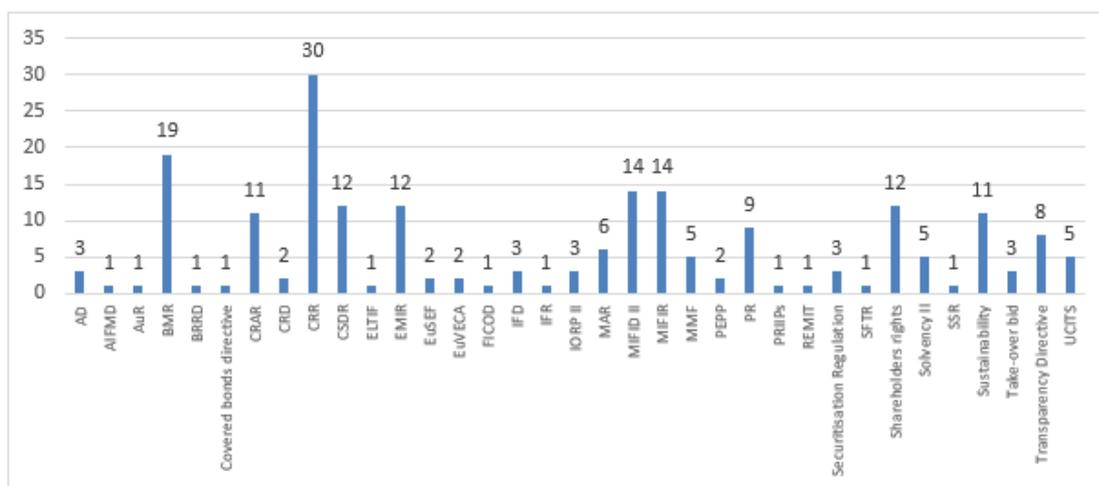
In essence, ESAP provides for a single digital platform for the centralized collection, storage and access to information already published in accordance with existing European legislation, as well as future European directives and regulations which will be linked to ESAP.

³ Speech by Mr Paolo Gentiloni, European Commissioner for Economy, at the European Commission's high-level conference on the Capital Markets Union, 6 June 2021.

⁴ Speech by Ms Christine Lagarde, President of the European Central Bank, at the European Commission's high-level conference on the proposal for a Corporate Sustainability Reporting Directive, Frankfurt am Main, 6 May 2021, Link: <https://www.bis.org/review/r210506c.pdf>, last accessed: 20/06/2022

Currently, the European Commission has estimated that regulated information in the EU stems from more than 35 existing legislative frameworks, for a total of more than 200 current obligations for public reporting.

Figure 3: Number of public reporting obligations per legislative framework



Source: BR-AG, European Commission, Impact Assessment Accompanying the Proposal, 2019, *Ibid*, last accessed: 20/06/2022

To limit the scattering of information at EU level, and provide an efficient tool against market fragmentation, the said platform will be equipped with user-friendly utilities and advanced search functionalities (including an access portal) that should facilitate investors to rapidly identify companies and projects to invest in, especially on a cross-border basis.

Notably, ESAP is supposed to solely build on existing national and European channels for data reporting. To this end, the proposal entrusts 'collection bodies,' i.e., the entities mandated to receive information from companies under existing legislation (such as ESAs, NCAs or officially appointed mechanisms) to transmit information to ESAP.

Such information will need to be published in a format allowing data-extraction and machine-readability. This will likely result in considerable costs for 'data preparers', i.e., entities subject to reporting obligations under EU law, considering that only 5% of the information currently provided under regulatory obligation has to be delivered in a structured way using computer-readable formats⁵.

Finally, the European Commission's proposal stipulates that access to ESAP should be direct, immediate, and free of costs. ESMA may still charge fees for searching large volumes of data. The proposal foresees an extremely ambitious timeline with the establishment of ESAP by 2024 and entrance into a full working regime by 2026 following a phased-in approach. The said regime would include reporting streams from 37 pieces of EU legislation.

⁵ European Commission, 2019, Impact Assessment Accompanying the Proposal, Link: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021SC0344&from=EN>, last accessed: 20/06/2022

INGREDIENTS FOR SUCCESS

The future success of ESAP largely depends on the degree to which European co-legislators can dismiss a final text that, on the one hand, puts reporting entities in a position to transfer key financial and non-financial information in a machine-readable and comparable manner, while, on the other hand, incentivizes end-users, e.g., retail investors and financial institutions, to use the single point of access to identify investment opportunities.

In this regard, the following two points, at minimum, warrant further consideration:

1. ESAP should “start small, think big”

To ensure that ESAP is effectively and timely deployed where it is needed the most, its implementation should ‘start small’ by giving priority to sustainability and key financial information. The information covered by the go-live date should be that immediately relevant to companies to become more visible to investors and for lenders and companies to finally rely upon an accessible ESG data set.

Once established and adopted by market participants, ESAP could ‘think big’ by going beyond its primary objective to include additional reporting streams. ESAP is a strategic project with the potential to scale the full integration of EU capital markets; its scope should grow as its functionality is ensured and data becomes machine readable.

2. ESAP should include ESG information from the start

As the ever-growing realm of ESG disclosures move into full swing, the lack of any system for EU-wide collection and distribution of sustainability data warrants urgent action. Banks, for instance, rely on the disclosures of companies for risk and portfolio management, investment and financing decision-making, as well as for their own reporting under sustainable finance regulation.

Hence, Sustainability information disclosed and required for disclosures under the upcoming Corporate Sustainability Reporting Directive, Taxonomy Regulation and Sustainable Finance Disclosure Regulation should be made available through ESAP as soon as data are reported by companies.

CONCLUSION

The successful establishment of ESAP carries game-changing potential. ESAP could relaunch the way Europeans see and approach EU investment markets with greater confidence and transparency. Alternatively, it could fall victim to its own reach, especially if turned from the outset into what it is not: a central hub for the entirety of financial information regulated by EU law.

That is why, at least in its initial phase, it is critical that ESAP remain a tool to assist investors and enterprises navigate invisible boundaries - a European answer to a European problem.