



European Securities and  
Markets Authority

## Response form for the Consultation Paper on EU Growth prospectus



## Responding to this paper

ESMA invites responses to the questions set out throughout this Consultation Paper. Responses are most helpful if they:

- respond to the question stated;
- contain a clear rationale; and
- describe any alternatives ESMA should consider.

ESMA will consider all responses received by 28 September 2017.

## Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

- Insert your responses to the questions in the Consultation Paper in the form “Response form\_Consultation Paper on EU Growth prospectus”, available on ESMA’s website alongside the present Consultation Paper ([www.esma.europa.eu](http://www.esma.europa.eu) → ‘Your input – Open consultations’ → ‘Consultation on technical advice under the new Prospectus Regulation’).
- Please do not remove tags of the type <ESMA\_QUESTION\_EUG\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
- If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
- When you have drafted your response, name your response form according to the following convention: ESMA\_EUG\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_EUG\_ABCD\_RESPONSEFORM.
- Upload the form containing your responses, in Word format, to ESMA’s website ([www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input – Open consultations’ → ‘Consultation on technical advice under the new Prospectus Regulation’).

## Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly indicate by ticking the appropriate checkbox on the website submission page 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 confi-



dential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

### **Data protection**

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

### **Who should read this Consultation Paper**

This Consultation Paper may be of particular interest to investors, issuers, including issuers already admitted to trading on a regulated market or on a multilateral trading facility, offerors or persons asking for admission to trading on a regulated market as well as to any market participant who is affected by the new Prospectus Regulation.



## General information about respondent

Name of the company / organisation	CFA Institute
Activity	Other Financial service providers
Are you representing an association?	<input checked="" type="checkbox"/>
Country/Region	Europe

## Introduction

**Please make your introductory comments below, if any:**

<ESMA\_COMMENT\_EUG\_1>

Dear Sir/Madam,

CFA Institute appreciates the opportunity to comment on ESMA's consultation paper on draft technical advice on content and format of the EU Growth prospectus.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 140,000 members in 150 countries and territories, including 133,000 Chartered Financial Analyst® charterholders, and 147 member societies.

In 2017, CFA Institute published the report 'Designing a European Summary Prospectus Using Behavioural Insights', which looks at the issues involved in improving the clarity of financial information disclosure documents. As part of the report, CFA Institute proposes a six-page A4 template for a prospectus summary. We attach this report and the summary prospectus template to our responses to this consultation, and invite ESMA to consider both the report and the summary prospectus template in its own deliberations on this issue.

We welcome this opportunity to comment on the proposed content of the EU Growth prospectus. Please do not hesitate to contact us should you wish further elaboration of the points raised.

Kind Regards

Svi Rosov, CFA  
Analyst, Capital Markets Policy, EMEA

Rhodri Preece, CFA  
Head, Capital Markets Policy, EMEA

References:

Erta, K., S. Hunt, Z. Iscenko, and W. Brambley. 2013. Applying Behavioural Economics at the Financial Conduct Authority. London: Financial Conduct Authority.

Spindler, G. 2011. "Behavioural Finance and Investor Protection Regulations." Journal of Consumer Policy, vol. 34 (September): 315.

<ESMA\_COMMENT\_EUG\_1>





**Q1 : Do you consider that specific sections should be inserted or removed from the registration document and / or the securities note of the EU Growth prospectus proposed in Article A? If so, please identify them and explain your reasoning, especially in terms of the costs and benefits implied.**

<ESMA\_QUESTION\_EUG\_1>

CFA Institute agrees that the sections in paragraphs 1 and 2 of Article A are appropriate.

<ESMA\_QUESTION\_EUG\_1>

**Q2 : Do you agree with the proposal to allow issuers to define the order of the information items within each section? Please elaborate on your response and provide examples. Can you please provide input on the potential trade-off between benefits for issuers coming from increased flexibility as opposed to further comparability for investors coming from increased standardisation?**

<ESMA\_QUESTION\_EUG\_2>

CFA Institute believes that standardising disclosure documents is an important part of a successful disclosure regime. The issue of standardisation is a key part of our 2017 report 'Designing a European Summary Prospectus Using Behavioural Insights.'

It is unlikely that having the ability to rearrange items within each section would prove materially beneficial to issuers, but the risk of decreasing comparability for investors is real. Investor protection is often best achieved not through regulation, but through enabling investors to protect themselves with high-quality, accurate, and reliable information about a given investment. However, disclosure requirements can backfire when investors are not able to absorb the quantity of information presented, which can be thought of as increasing transaction costs (in particular, search costs) for the market participant (Spindler, 2011). While standardising the order of information may seem trivial, it is unfortunately the case that investors suffer from numerous behavioural biases (see, for example: Erta, Hunt, Iscenko, and Brambley, 2013) so minimising the friction involved in comparing issuances is important.

We would also propose removing paragraph 3 from Article A, which allows the issuer to re-define the order of the required information items (defined in paragraphs 1 and 2) in the interests of improving comparability.

<ESMA\_QUESTION\_EUG\_2>

**Q3 : Given the location of risk factors in Annexes IV and V of the Prospectus Regulation, do you consider that this information is appropriately placed in the EU growth prospectus? If not please explain and provide alternative suggestions.**

<ESMA\_QUESTION\_EUG\_3>

No comment.

<ESMA\_QUESTION\_EUG\_3>

**Q4 : Do you agree with the proposal that the cover note to the EU Growth prospectus should be limited to 3 pages? If not, please specify which would be an appropriate length limit for the cover note? Could you please explain your reasoning, especially in terms of the costs and benefits implied?**

<ESMA\_QUESTION\_EUG\_4>

A common complaint made about disclosure regimes by CFA Institute Members is the expanding use of boilerplate disclosure – the presentation of generic information that satisfies compliance considerations but is not materially relevant to the company, security, or product. We therefore support this attempt to limit the cover note to the EU Growth prospectus to 3 pages, and offer our 6 page prospectus summary template from our 2017 report ‘Designing a European Summary Prospectus Using Behavioural Insights’ as an example of how a large amount of information can be presented in a concise, clear, and readable manner in a fixed number of pages.

<ESMA\_QUESTION\_EUG\_4>

**Q5 : Do you agree that the presentation of the disclosure items in para 81 is fit for purpose for SMEs? If not, please elaborate and provide your suggestions for alternative ways of presenting the disclosure items.**

<ESMA\_QUESTION\_EUG\_5>

CFA Institute agrees that items listed in paragraph 81 for disclosure in the EU Growth prospectus are appropriate for SMEs.

<ESMA\_QUESTION\_EUG\_5>

**Q6 : Do you agree with the proposal to introduce a single registration document that is applicable in the case of equity and non-equity issuances? If not please provide your reasoning and alternative approach.**

<ESMA\_QUESTION\_EUG\_6>

CFA Institute supports measures, such as this proposal to introduce a single registration document that can be applicable in the case of equity and non-equity issuances, that reduce unnecessary burdens for firms wishing to access public markets. We see no reason why a suitably designed single registration document could not satisfy the requirements of both equity and non-equity issuances.

<ESMA\_QUESTION\_EUG\_6>

**Q7 : Do you agree with the requirement to include in the EU Growth prospectus any published profit forecasts in the case of both equity and non-equity issuances without an obligation for a report by independent accountants or auditors? If not please elaborate on your reasoning. Please also provide an estimate of the additional costs involved in including a report by independent accountants or auditors.**

<ESMA\_QUESTION\_EUG\_7>

CFA Institute has concerns about the use of profit forecasts in the EU Growth prospectus, particularly those that are not signed-off by independent accountants or auditors. Profit forecasts are, at best, uncertain, and the level of uncertainty is most likely higher for SMEs, which tend to be more risky by nature, relative to larger, more established firms. In addition, profit forecasts may be problematic by making investors more susceptible to framing biases. Framing can cause different responses to the same piece of information by changing the way in which information is presented. That is, by making certain information more or less salient, the framer can direct the reader’s attention towards or away from this information and thereby trigger some other bias (such as overconfidence) in order to achieve a desired decision by the reader (see Erta, et al., 2013). Profit forecasts are likely to be upward-biased by definition so are likely to make investors susceptible to overconfidence, over-extrapolation, or projection biases. CFA Institute would propose that profit forecasts be omitted from the prospectus, or if this is not possible, then they should be signed off by independent accountants or auditors to minimise the risks involved with forecasting such a key metric of firm performance.

<ESMA\_QUESTION\_EUG\_7>

**Q8 : Do you consider that the requirement to provide information on the issuer’s borrowing requirements and funding structure under disclosure item 2.1.1 of the EU Growth registration document should be provided by non-equity issuers too? If yes, please elaborate on your reasoning.**

<ESMA\_QUESTION\_EUG\_8>  
No comment.  
<ESMA\_QUESTION\_EUG\_8>

**Q9 : Do you think that the information required in relation to major shareholders is fit for purpose? In case you identify specific information items that should be included or removed please list them and provide examples,. Please also provide an estimate of elaborating on the materiality of the cost to provide such information items.**

<ESMA\_QUESTION\_EUG\_9>  
CFA Institute agrees that the information required in relation to major shareholders is sufficient, and we invite ESMA to view our 2017 report ‘Designing a European Summary Prospectus Using Behavioural Insights’ for an example of how this information could be presented in the final document.  
<ESMA\_QUESTION\_EUG\_9>

**Q10 : Do you agree that issuers should be able to include in the EU Growth prospectus financial statements which are prepared under national accounting standards? If not please state your reasoning. Please also provide an estimate of the additional costs involved in preparing financial statements under IFRS.**

<ESMA\_QUESTION\_EUG\_10>  
CFA Institute has for many years advocated for the adoption of IFRS because of the benefits arising from the use of comparable, best-practice accounting standards by firms. However, we believe the first order objective of the EU Growth prospectus is to encourage SME access to the relatively underdeveloped EU capital markets. For this reason, we believe that allowing the use of financial statements prepared under national accounting standards is appropriate, and adoption of IFRS should not be a precondition for the EU Growth prospectus.  
<ESMA\_QUESTION\_EUG\_10>

**Q11 : Do you consider that there are other additions or deletions that would improve the utility of the EU Growth registration document? If yes, please specify.**

<ESMA\_QUESTION\_EUG\_11>  
No comment.  
<ESMA\_QUESTION\_EUG\_11>

**Q12 : Do you consider that the disclosure items in the EU Growth registration document are clear enough to be understood by issuers? If not, please provide your views on whether any of the items would require additional guidance to issuers.**



<ESMA\_QUESTION\_EUG\_12>

In our 2017 report 'Designing a European Summary Prospectus Using Behavioural Insights' we place significant emphasis on the way in which information is presented. Relatively simple-to-implement, yet important, formatting decisions can be made to greatly improve the clarity of the information being presented to investors. On pages 1 and 2 of our proposed template for a summary prospectus, we show how information, similar to that prescribed for the EU Growth registration document, can be presented in a way that is concise and comprehensible.

Significant emphasis is placed on the use of well-defined sections, outlined by coloured section headings, which are typically more engaging for readers than the body of text. These headings help to focus the attention of the reader on the nature of the particular information about to be presented. The information itself is presented in a tabular format as much as possible, which is more comprehensible than information presented in paragraphs.

The risk factor section is probably the most complete example of this approach. In our prospectus summary, we have devoted an entire page to the risk factors, which are presented in ten 'cells' or sections. Each section heading is split into two colour-coded areas – one to reflect the likelihood of the risk factor eventuating (red for high, yellow for medium, green for low likelihood), and the other reflecting the extent of the financial impact should that risk factor eventuate (red for high, yellow for medium, green for low impact). Below these coloured section headings is a short paragraph describing each risk factor.

We would like to extend ESMA an invitation to use our prospectus summary template to inform its decisions about the presentation of information in the EU Growth registration document, as well as other elements of the EU Growth prospectus.

<ESMA\_QUESTION\_EUG\_12>

**Q13 : Please indicate if further reduction or simplification of the disclosure requirements of the EU Growth registration document could significantly impact on the cost of drawing up a prospectus. If applicable, please include examples and an estimate of the cost alleviation to issuers.**

<ESMA\_QUESTION\_EUG\_13>

No comment.

<ESMA\_QUESTION\_EUG\_13>

**Q14 : Do you think that the presentation of the disclosure items in para 97 is fit for purpose for SMEs? If not, please elaborate and provide your suggestions for alternative ways of presenting the information items.**

<ESMA\_QUESTION\_EUG\_14>

CFA Institute agrees that items listed in paragraph 97 for disclosure in the EU Growth securities note are appropriate for SMEs.

<ESMA\_QUESTION\_EUG\_14>

**Q15 : Do you agree with the proposal to introduce a single securities note that is applicable in the case of equity and non-equity issuances? If not please provide your reasoning and alternative approach.**

<ESMA\_QUESTION\_EUG\_15>



CFA Institute supports the proposal to introduce a single securities note that is applicable in the case of equity and non-equity issuances. Considering that a large motivation for the EU Growth prospectus is to stimulate access to EU capital markets by SMEs, as part of the Capital Markets Union agenda, we think it is desirable to standardise and simplify, as much as possible, the issuance process. Having a single document across equity and non-equity issuances is consistent with this desire.

<ESMA\_QUESTION\_EUG\_15>

**Q16 : Do you consider that the disclosure items in the EU Growth securities note are clear enough to be understood by issuers? If not, please provide your views on whether any of the items would require additional guidance to issuers.**

<ESMA\_QUESTION\_EUG\_16>

In our 2017 report 'Designing a European Summary Prospectus Using Behavioural Insights' we place significant emphasis on the way in which information is presented. Relatively simple-to-implement, yet important, formatting decisions can be made to greatly improve the clarity of the information being presented to investors. On pages 4 and 6 of our proposed template for a summary prospectus, we use clearly-defined sections, outlined by the use of coloured section headings, to make information typically present in a securities note easy to follow. We would like to extend ESMA an invitation to use our prospectus summary template to inform its decisions about the presentation of information in the EU Growth securities note, as well as other elements of the EU Growth prospectus.

<ESMA\_QUESTION\_EUG\_16>

**Q17 : Do you consider that there are any other additions or deletions that would improve the utility of the EU Growth securities note? If yes, please specify and provide examples. In addition, please consider whether the categorisation of disclosure items for non-equity securities is fit for purpose. If not, please specify and provide your suggestions.**

<ESMA\_QUESTION\_EUG\_17>

No comment.

<ESMA\_QUESTION\_EUG\_17>

**Q18 : Please provide an estimate of the benefit in terms of reduced costs that the production of a single securities note implies.**

<ESMA\_QUESTION\_EUG\_18>

No comment.

<ESMA\_QUESTION\_EUG\_18>

**Q19 : Please indicate if further reduction or simplification of the disclosure requirements of the securities note of the EU Growth prospectus could significantly impact on the cost of drawing up a prospectus. If applicable, please include examples and an estimate of the cost alleviation to issuers.**

<ESMA\_QUESTION\_EUG\_19>

No comment.

<ESMA\_QUESTION\_EUG\_19>

**Q20 : Do you think that the presentation of the disclosure items in para 112 is fit for purpose for SMEs? If not, please elaborate and provide your suggestions for alternative ways of presenting the information items.**

<ESMA\_QUESTION\_EUG\_20>

CFA Institute agrees that items listed in paragraph 112 for disclosure in the EU Growth prospectus summary are appropriate for SMEs.

<ESMA\_QUESTION\_EUG\_20>

**Q21 : Given the reduced content of the summary of the EU Growth prospectus do you agree with the proposal to limit its length to a maximum of six A4 pages? If not please specify and provide your suggestions.**

<ESMA\_QUESTION\_EUG\_21>

A recurring complaint we have heard from CFA Institute Members is the excessive length of disclosure documents. Prospectus summaries have also suffered from this expansion, with many being dozens of pages long, and often full of boilerplate disclosure. Information overload is detrimental to investors' ability to protect themselves by becoming informed of important and material information about their investment. For this reason, we support the effort to limit the EU Growth prospectus summary to six A4 pages, and have created our own template for a six-page A4 summary in our 2017 report 'Designing a European Summary Prospectus Using Behavioural Insights'. We invite ESMA to view this template as an example of the large amount of important information that can be presented in a concise and clear manner within the six-page limit.

<ESMA\_QUESTION\_EUG\_21>

**Q22 : Do you agree that the number of risk factors could be reduced to ten instead of 15? Do you think that in some cases it would be beneficial to allow the disclosure of 15 risk factors? If yes, please elaborate and provide examples. Please also provide a broad estimate of any benefits (e.g. in terms of reduced compliance costs) associated with the disclosure of a lower number of risk factors.**

<ESMA\_QUESTION\_EUG\_22>

In our 2017 report 'Designing a European Summary Prospectus Using Behavioural Insights' we present a six-page A4 template for the prospectus summary that includes 15 risk factor cells. These are split into two different parts of the summary – 10 risk factor cells relate to firm-specific, business, or economic risks, while the remaining 5 risk factor cells are for risk factors relating to the specific security. It should also be noted that in our proposed summary prospectus, the risk factor cells need not be used and may be left blank. Considering that the numbers 10 or 15 are picked in a somewhat arbitrary manner, we propose that the summary have no more than 15 risk factors, with the issuer having the ability to describe only the most relevant and material risk factors, rather than generating boilerplate risk factors to meet the minimum number. Equally, it is unlikely that any issuer faces more than 15 (or even 10) genuinely critical risk factors so we agree that there need to be a strict upper limit on the number of risk factors presented.

<ESMA\_QUESTION\_EUG\_22>

**Q23 : Do you agree that SMEs are less likely to have their securities underwritten? If not, should there be specific disclosure on underwriting in the summary as set out in Article 7(8)(c)(ii) of the Prospectus Regulation?**



<ESMA\_QUESTION\_EUG\_23>

No comment.

<ESMA\_QUESTION\_EUG\_23>

**Q24 : Do you agree with the content of the key financial information that is set out in the summary of the EU Growth prospectus? If not, please elaborate and provide examples.**

<ESMA\_QUESTION\_EUG\_24>

CFA Institute broadly agrees with the key financial information to be presented in the summary of the EU Growth prospectus, described in paragraph 106. However, one element missing from the financial information is cash flow data. Cash flow data is important for investors to understand the health of the business issuing the security, and we believe a concise statement of cash flows could be presented in the summary prospectus.

In our 2017 report 'Designing a European Summary Prospectus Using Behavioural Insights' we dedicate one page (out of six total) to statements of financial performance (income statement), financial position (balance sheet), and statement of cash flows. We are able to present a relatively detailed look at the firms' financials on this single page, and combine this with a small section of notes to these financial statements overleaf. We invite ESMA to consider this approach to presenting financial information and include elements of the cash flow statement in the requirements for key financial information in the summary of the EU Growth prospectus.

<ESMA\_QUESTION\_EUG\_24>

**Q25 : Do you think condensed pro forma financial information should be disclosed in the summary of the EU Growth prospectus? Please state your views and explain. In addition, please provide an estimate of the additional costs associated with the disclosure of pro forma financial information in the summary compared to the additional benefit for investors from such disclosure.**

<ESMA\_QUESTION\_EUG\_25>

CFA Institute acknowledges that pro-forma (e.g. non-GAAP or alternative performance measures (APMs)) financial information enables the conveyance of a company-specific view of performance (e.g. core profit) and is useful for investors. However, this type of information can be misleading, particularly for smaller-scale, less sophisticated investors.

Hence, we are not opposed to the presentation of such information within the prospectus - in so far as it is in conformity with ESMA guidance for reporting APMs (i.e. well defined, consistent, unbiased and reconciled to the most directly comparable IFRS/GAAP line item, and is not presented more prominently or as a substitute to national GAAP/IFRS information).

However, the summary of the EU Growth prospectus is intended to be a short document highlighting key information about the issuer and the security. Presenting two types of financial information may confuse investors or create a risk that the statutory/IFRS financial information is de-emphasized relative to the pro-forma information. Given the space constraints, we believe it is inappropriate to present two sets of financial information.

<ESMA\_QUESTION\_EUG\_25>

**Q26 : Do you consider that there are any other additions or deletions that would improve the utility of the EU Growth registration document? If yes, please specify and provide examples.**



<ESMA\_QUESTION\_EUG\_26>  
No comment.  
<ESMA\_QUESTION\_EUG\_26>

**Q27 : Do you consider that the disclosure items in the specific summary of the EU Growth prospectus are clear enough to be understood by issuers? If not, please provide your views on whether any of the items would require additional guidance to issuers.**

<ESMA\_QUESTION\_EUG\_27>  
CFA Institute broadly agrees with the elements presented by ESMA for inclusion in the summary of the EU Growth prospectus. We believe the key determinant of whether the summary document will prove to be a success for investors will be the format and presentation of this information. The summary of the EU Growth prospectus is an excellent opportunity to design a document that investors find concise, comprehensible, and useful. We believe ESMA should consider using behavioural insights in designing this document, and invite ESMA to use our summary prospectus template as an example of what could be achieved.  
<ESMA\_QUESTION\_EUG\_27>

**Q28 : Please indicate if further reduction or simplification of the disclosure requirements of the summary of the EU Growth prospectus could significantly impact on the cost of drawing up a prospectus. If applicable, please include examples and an estimate of the cost alleviation to issuers.**

<ESMA\_QUESTION\_EUG\_28>  
No comment.  
<ESMA\_QUESTION\_EUG\_28>