Questionnaire by the High Level Expert Group on sustainable finance interim report

Fields marked with * are mandatory.

Introduction

About this questionnaire

The High Level Expert Group on Sustainable Finance was set up in early January 2017 to help develop an overarching, comprehensive EU strategy on Sustainable Finance by giving operational, practical, and concrete recommendations.

The questionnaire below has been prepared by and under the responsibility of the High-Level Group in relation to the interim report, published in mid-July 2017 and presented at a stakeholder event on 18 July 2017. It is aimed at gathering targeted feedback on the analysis and reflections in the interim report of the High-Level Expert Group and informing the preparation of the final report.

The responses you provide will be made public (if you agree so below) and will serve as information to the expert group. In addition, an aggregated and anonymised feedback statement will be published along with the final report as a further contribution to the wider policy debate on Sustainable Finance in the European Union.

The questionnaire is not a Commission consultation. All the questions as well as evaluation of the responses are under the responsibility of the expert group. Responses will be transmitted to the High-Level Expert Group for their consideration. The Commission is providing the survey tool to gather responses. Responses will be handled in accordance subject to standard Commission protocols on data privacy (see privacy statement on this web-page).

Timelines/Process

This questionnaire is open from Tuesday 18 July 2017. The **final deadline for the questionnaire is 20 September**. Early transmission of responses (before 6 September) will facilitate processing and early exploitation by the High-Level Expert Group.

Respondents are invited to provide evidence-based feedback, including specific and concise operational suggestions on measures that can be enhanced as well as complementary actions that can be taken, in order to deliver a sustainable financial system in the EU. Respondents are not required to answer all questions and may choose to respond selectively.

To ensure a fair and transparent process **only responses received through the online questionnaire can be considered**.

Should you encounter problems when completing this questionnaire or if you require particular assistance, please contact fisma-sustainable-finance@ec.europa.eu.

Disclaimer

The European Commission is not responsible for the content of this questionnaire even though it uses the EUSurvey service: it remains the sole responsibility of the High-Level Expert Group. The use of the EUSurvey service does not imply a recommendation or endorsement by the European Commission of the views expressed within this questionnaire.

Important notice on the publication of responses

*Contributions received are intended for publication on the Commission’s website. Do you agree to your contribution being published?
(see specific privacy statement)

- (•) Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- ( ) No, I do not want my response to be published

1. Information about you

*Are you replying as:

- ( ) a private individual
- (•) an organisation or a company
- ( ) a public authority or an international organisation

*Name of your organisation:

Eumedion

Contact email address:

The information you provide here is for administrative purposes only and will not be published

rients.abma@eumedion.nl

*Is your organisation included in the Transparency Register?

(If your organisation is not registered, we invite you to register here, although it is not compulsory to be registered to reply to this consultation. Why a transparency register?)

- (•) Yes
- ( ) No

*If so, please indicate your Register ID number:

65641341034-11

*Type of organisation:

- ( ) Academic institution
- ( ) Company, SME, micro-enterprise, sole trader
- ( ) Consultancy, law firm
- ( ) Consumer organisation
- (•) Industry association
- ( ) Media
- ( ) Non-governmental organisation
- ( ) Think tank
- ( ) Trade union
- ( ) Other

*Where are you based and/or where do you carry out your activity?

The Netherlands

*Field of activity or sector (*if applicable*):

at least 1 choice(s)

- [ ] Accounting
- [ ] Auditing
- [ ] Banking
- [ ] Credit rating agencies
- [x] Insurance
- [x] Pension provision
- [x] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Social entrepreneurship
- [ ] Non-financial services
- [ ] Energy
- [ ] Manufacturing
- [ ] Other
- [ ] Not applicable

2. Your opinion

Question 1. From your constituency's point of view, what is the most important issue that needs to be addressed to move towards sustainable finance? (sustainable finance being understood as improving the contribution of finance to long-term sustainable and inclusive growth, as well as strengthening financial stability by considering material environmental, social and governance factors)

1500 characters maximum (spaces included)

A sustainable economy and a sustainable financial system are essential in restoring public trust in corporations and financial institutions. Participants of Eumedion, the Dutch representative body of institutional investors in the field of corporate governance and sustainability, are committed to a sustainable capital market and a long-term investment horizon. To better factor sustainability factors into the assessment of financial risks, institutional investors need good quality, informative and assured corporate reporting, preferably delivered through an integrated report (see our answer to question 6). Material environmental, social and governance (ESG) factors are having an impact on the ability of companies to create sustainable long-term value. Good quality and material sustainability information enables investors to make better informed long-term investment decisions (and is in turn also relevant for other stakeholders).

The following questions cover selected areas that are addressed in the recommendations (chapter VI) of the interim report, which the expert group considers to be crucial and would appreciate your feedback on:

Develop a classification system for sustainable assets and financial products

Question 2. What do you think such an EU taxonomy for sustainable assets and financial products should include?

1500 characters maximum (spaces included)

The lack of clear, widely accepted classification standards may create uncertainty for investors, companies and other stakeholders and may be a barrier for financial institutions to take more action regarding investments in sustainable assets and financial products. Clear standards will increase trust in sustainable assets and financial products among investors and will reduce the costs of sustainable investing. Standards such as the Green Bond Principles for example have been a key enabler for the growth of the global green bond market. EU-specific classification standards may contribute to sustainable finance, as long as these standards are compatible with strong existing initiatives like the Green Bond Principles, or build upon existing policy frameworks like the EU environmental policy objectives and the UN Sustainable

Development Goals. Regarding social bonds or other financial products targeting social issues, no credible widely used standards exist. A classification standard regarding social issues should be aligned with the European Commission’s aim to develop a favourable financial environment for social enterprises.

Establish a European standard and label for green bonds and other sustainable assets

Question 3. What considerations should the EU keep in mind when establishing a European standard and label for green bonds and other sustainable assets? How can the EU ensure high-quality standards and labels that avoid misuse/green-washing?

1500 characters maximum (spaces included)

Institutional investors are increasingly looking for sustainable investment opportunities that combine financial return with positive social and environmental impact. This development is reflected in the recent growth of the market for green bonds as well as the adaptation of impact investing strategies focusing on the realisation of the UN Sustainable Development Goals. When establishing European standards, it is essential to build upon existing frameworks such as the Green Bond Principles. To ensure high quality and avoid misuse of standards in order to gain trust from investors, the EU may apply additional transparency and disclosure requirements for issuers of green bonds.

In addition, governments should develop mechanisms for the proper pricing of social and environmental externalities. When for example the effects of CO2-emissions are priced into the assets of companies, sustainable alternatives will become more attractive for institutional investors, and this will enhance the move towards sustainable finance system.

Create “Sustainable Infrastructure Europe” to channel finance into sustainable projects

Question 4. What key services do you think an entity like “Sustainable Infrastructure Europe” should provide, more specifically in terms of advisory services and connecting public authorities with private investors?

1500 characters maximum (spaces included)

According to the Interim Report (p. 44 and 59) an entity like ‘Sustainable Infrastructure Europe’ is a dedicated organisation that is responsible for advising municipalities and other public authorities on structuring and developing infrastructure projects and matching them with investors. As key service, such an entity should bundle small and middle-scale projects in order to make such projects appealing to large institutional investors. Furthermore, ‘Sustainable Infrastructure Europe’ could support access to capital by developing a risk-sharing mechanism, by providing guarantees on investments, and by linking project revenues to inflation.

The report also touches upon areas for further analysis. The following questions focus on a selection of these, which the group would appreciate your feedback on:

Mismatched time horizons and short-termism versus long-term orientation

Question 5. It is frequently stated that the inherent short-termism in finance, especially financial markets, represents a distraction from, or even obstacle to, a long-term orientation in economic decision-making, including investments that are essential for sustainability. Do you agree with this statement?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 5.1. If you agree with this statement, which sectors of the economy and financial system are particularly affected by the 'mismatch of time horizons'? What are possible measures to resolve or attenuate this conflict?

1500 characters maximum (spaces included)

Participants of Eumedion, for example pension funds and insurance companies, are committed to long-term investing due to the long-term investment horizon of their end-beneficiaries. However, short-termism is still a common phenomenon in financial markets. To lengthen the time horizon in the financial system, it is important that the European Commission aligns its sustainable finance objectives with the overall sustainability ambitions like the circular economy, the European Climate Change Programme and the Sustainable Development Goals. The resulting consistent policy frameworks targeting fundamental societal issues would provide clearer economic risks and opportunities that can better be understood and incorporated by financial market participants.

Governance of the investment and analyst community

Question 6. What key levers do you think the EU could use to best align the investment and analyst community with long-term sustainability considerations in the real economy?

1500 characters maximum (spaces included)

Our participants have a long-term investment horizon and are not focused solely on maximising short-term financial returns. We support the recommendation to clarify that the fiduciary duty includes material ESG factors and long-term sustainability (e.g. IORP II). We also agree that European principles for corporate governance should - such as the revised Dutch corporate governance code - define the accountability of the board for long-term value creation (p. 60).

The Interim Report (p. 61) suggests that quarterly reports might put too much focus on the short term. Quarterly reports often contain information that is of

value to investors when making investment decisions. It fosters trust and access to new capital, especially for companies in challenging circumstances. Long-termism should not be a substitute for transparency. Hence, we would be against any ban on voluntary publication of quarterly reports. However, those reports should be more focused on providing information on the strategy aimed at sustainable long-term value creation.
Integrated reports in accordance with the IIRC framework give investors when making investment decisions better insight into the long term value creation model of the company, its competitive landscape, the accompanying risks, and integrates financial and non-financial information. Eumedion supports an EU requirement for listed companies to draft their management reports in accordance with the IIRC framework.

A strong pipeline of sustainable projects for investment

Question 7. How can the EU best create a strong and visible pipeline of sustainable investment projects ready for investment at scale?

1500 characters maximum (spaces included)

To foster finance for a sustainable European economy, it is important to engage small- and medium enterprises (SMEs) and to target specific issues like climate change and social dimensions. The European Investment Fund, in cooperation with the European Investment Bank, should develop aggregation mechanisms to bundle small and middle-scale projects and make them sizable for the capital market. Examples of such projects may include the development of renewable energy projects and initiatives focusing on the circular economy. By doing so, a better match between supply and demand of sustainability-focused assets may increase the flow of finance for a sustainable economy.

Integrating sustainability and long-term perspectives into credit ratings

Question 8. What are some of the most effective ways to encourage credit rating agencies to take into consideration ESG factors and/or long-term risk factors?

Please choose 1 option from the list below

- [ ] Create a European credit rating agency designed to track long-term sustainability risks
- [ ] Require all credit rating agencies to disclose whether and how they consider TCFD-related information in their credit ratings
- [ ] Require all credit rating agencies to include ESG factors as part of their rating
- [ ] All of the above
- [x] Other

Question 8.1 Please specify what other ways you would deem most effective in encouraging credit rating agencies to take into consideration ESG and/or long-term risk factors.

1500 characters maximum (spaces included)

Credit rating agencies need freedom to judge credit risks, and credit risks only. Credit rating agencies already regularly identify ESG factors in their reports and ratings, simply because these factors are judged to be relevant for credit risks. We welcome that several credit rating agencies expressed in the PRI statement on ESG in credit ratings that they recognise the needs of investors for greater clarity on how ESG factors are considered in credit analysis. And that those credit rating agencies affirmed their commitment to evaluate the extent to which ESG factors are credit-relevant for different issuers. However, a requirement imposed by the European Commission or Member States prescribing that ESG factors should be part of the content of credit ratings or the methodologies used would be a step too far. As correctly stated in the aforementioned PRI statement, it is important that credit rating agencies maintain full independence in determining which criteria may be material to their ratings. The independence and integrity of credit rating agencies and their credit rating activities are of particular importance in guaranteeing their credibility vis-à-vis investors (see also recital 8 of the Regulation on credit rating agencies).

Role of banks

Question 9. What would be the best way to involve banks more strongly on sustainability, particularly through long-term lending and project finance?

1500 characters maximum (spaces included)

The role of banks is key for the development of a sustainable European economy. To foster sustainable long-term lending and project finance by banks, consistent and long-term oriented policies by governments are crucial (on a EU as well as national level). Setting concrete targets and deadlines, build on the EU's policy objectives around the path towards a low-carbon and circular economy will be a strong signal for banks to be more committed to sustainable finance. In addition to policy uncertainty, the uncertainty of capital requirements has a negative effect on long-term bank financing. We are not in favour of lower capital requirements for certain forms of sustainable finance instruments, as suggested in the interim report. Capital requirements should in our view be based on the risks (including material ESG risks) associated with a specific asset class. Such a measure may potentially weaken the link between capital requirements and risks for banks.

Role of insurers

Question 10. What would be the best way to involve insurers more strongly on sustainability, particularly through long-term investment?

1500 characters maximum (spaces included)

Insurers generally build their investment portfolio on payments received from their clients that will somehow be redistributed to claims related to those clients at more or less distant future dates. Additionally, many insurers borrow extra funds from investors to further increase leverage in their investment portfolio. According to EIOPA the liabilities of insurers in Europe are on average 10x the amount of (tier 1) equity capital under Solvency II in 2016. This leverage is a discretionary choice of the sector itself and underlines the need for strong reporting principles. We are convinced that the reporting on financial instruments should be based on principles that foster justified long term trust and accountability to their investors, and for insurance companies also to their clients. If the market prices of the investments change materially, this should be immediately reflected in the valuation of the portfolio, the performance and the book equity for all companies, including insurers. Fully in line with these principles, the IASB has set a world class standard on how to value and disclose financial instruments (IFRS 9) after a long and diligent due process. Systemic risks actually increase if investors cannot distinguish strong insurance companies from weaker ones. If anything, any further special accounting treatment that deviates from the current IFRS 9 for insurers is bound to impair the trust of investors in the sector and would not contribute to sustainable finance.

Social dimensions

Question 11. What do you think should be the priority when mobilising private capital for social dimensions of sustainable development?

1500 characters maximum (spaces included)

Investments for social dimensions should be part of the pipeline of sustainable investments, and will preferably be developed by The European Investment Fund in cooperation with the European Investment Bank (see question 7). The definition of social enterprises as currently used by the European Commission can function as a starting point in developing social bond principles. Second, the Sustainable Development Goals as adopted by the United Nations can function as a blueprint for a sustainable future of Europe. In developing a framework for sustainable financial system, the Sustainable Development Goals should be taken into account. Finally, to foster transparency on climate change related risks and opportunities, the European Commission should embrace the recommendations report from the Task Force on Climate-related Financial Disclosures as recently published by the Financial Stability Board.

Other

Question 12. Do you have any comments on the policy recommendations or policy areas mentioned in the Interim Report but not mentioned in this survey?

1500 characters maximum (spaces included)

The Non-financial reporting directive and the accompanying non-binding guidelines are a step in the right direction. Nevertheless, the standardisation and assurance of non-financial information is not yet the same as financial information (see p. 29). Therefore Eumedion welcomes further work on the harmonisation of the ESG-disclosure framework (see p. 57- 59). In addition to that the EU could take a further step by requiring (reasonable) external assurance for sustainability reporting.

According to the Interim Report (p. 60) progress can be made on the protection of those who take long-term risks in the face of short-term pressure by financial markets. It is, however, not clear to Eumedion what the HLEG is thinking of in this respect. Loyalty voting rights are often mentioned as potential instruments to encourage long-term share-ownership. Eumedion opposes European legislation in this area and firmly believes that shareholders' voting power should be proportionate to their economic interest.

Lastly, it is important for investors to understand what is expected from them in delivering on the objectives of the Paris Agreement and the European Climate Change Programme. Setting clear and concrete targets at Member State level is helpful in this respect since it provides reliable guidance to both investors and companies in their expected contribution to the transition to a carbon-neutral economy.

Question 13. In your view, is there any other area that the expert group should cover in their work?

1500 characters maximum (spaces included)

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Useful links

Interim Report on sustainable finance (http://ec.europa.eu/info/publications/170713-sustainable-finance-report_en

High-Level Expert Group on Sustainable Finance (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#high-level-expert-group-on-sustainable-finance)

Contact

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