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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:

Transparency Task Force

Contact email address:

The information you provide here is for administrative purposes only and will not be published

sandytrust@btinternet.com

*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

*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?

United Kingdom

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

at least 1 choice(s)

- ☐ Accounting
- ☐ Auditing
- ☐ Banking
- ☐ Credit rating agencies
- ☑ Insurance
- ☑ Pension provision
- ☑ 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)

The TTF welcomes this consultation and is supportive of a number of the recommendations of the HLEG. Members of the TTF are drawn from across financial service and beyond, with representatives from the long term savings and investment industries, NGOs, activist groups and academia. As such we represent a passionate, expert and diverse group of professionals, who all urgently recognise the need to transform the world's capital markets to become a force for good.

The most important issue that needs to be addressed is to align capital market players around a shared sense of purpose, to actively support society with solving the many challenges faced as we move into the 21st century.

There has been an enormously positive reception to Team PISCES in the UK and we genuinely feel that there is an increasing desire within the industry for change. As your consultation notes, few people "want to exploit their fellow citizens or the planet in an unsustainable way" and this extends to those working in financial services.

However, this is a transformational change in many ways and as your consultation notes will require a favourable policy environment to support this transformation occurring in a rapid but structured fashion. Success will depend on striking the right balance between policy, regulation and nudges to allow market forces to drive this change.

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)

In the UK, there have recently emerged a number of pooled funds and indices, which have clear objectives around supporting the transition to a 2 degree world. Additionally, there are a number of institutions who are resolutely purposeful and long term in everything they do.

We believe that if purpose is embedded more holistically into the objectives, culture and business practices of products and organisations, this would be more effective than a classification system, as asset owners and investment managers would be highly incentivised to deliver sustainable performance.

However, recognising this may be somewhat aspirational at this point in time, we can see how a taxonomy for sustainable assets could be helpful, particularly for organisations who want to move their investment strategies in a purposeful direction but may not have the in-house skills to undertake the assessment themselves.

We believe any taxonomy should be consistent with broader global purposeful goals such as the UN Sustainable Development Goals.

A taxonomy or kitemark for financial products may be more straightforward to implement as it would put the onus on the manufacturer of the product to ascertain its suitability. We are wary of signatory agreements with no disclosure or reporting requirements, such as the UN's Principles for Responsible Investment. We strongly support the aims of this initiative but are aware of organisations who are signatories but have made little progress on implementation.

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)

Investment analysis can be short term in outlook and those charged with fiduciary duties have a high degree of choice about whether to include ESG factors and the broader purpose of investment portfolios. Introducing requirements for asset owners to consider ESG risks and long term outcomes, would drive demand for analysts to report on these matters and in turn encourage companies and other asset manufacturers to disclose more fully.

We would like to see ESG factors explicitly included in investment governance, buy and sell side analysis and business sustainability ratings from ratings agencies which explicitly consider longer term risks. If demand is driven from asset owners, we believe this could help to unleash market forces to improve the availability of comparable information on assets and the availability of longer term, holistic risk assessments of those assets.

From a risk perspective, the EU should focus on climate risk and solutions. A failure to mitigate climate change will significantly increase the challenge of dealing with almost all of the other Sustainable Development Goals and as many recognise we are in a perilous situation with regards to climate.

We would therefore encourage the EU to focus on carbon reducing assets as the first phase of any asset categorisation strategy, using methodologies like The Transition Pathway Initiative, to prominently highlight risky assets and to consider appropriate capital penalties and incentives in relation to such assets.

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)

It can be difficult for pension funds and investment managers to access infrastructure projects. We can also see how these projects could match long term liabilities extremely well and so be attractive from a number of perspectives.

A mechanism for connecting private investors with public authorities would therefore be extremely helpful for all parties. This organisation should also consider how to deal with the challenge of small scale, localised, community driven projects and how to aggregate these for large scale investors.

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)

We strongly agree with the statement. Short termism is endemic in financial services and is a serious impediment to longer term thinking. Short termism and silo-ed thinking can also combine to ensure risks which are longer term but completely foreseeable are not identified.

A striking example of this is the current energy transition. Few energy analysts predicted the collapse of the US Coal industry yet for some commentators this was a foreseeable risk. See
the Tragedy of the Horizon project publication “All Swans are Black in the Dark”.

A number of commentators, including the Bank of England, have highlighted the further chance of significant capital market impacts from the energy transition, which could be highly disruptive in specific sectors. Despite this many with fiduciary duties are able to ignore this risk from their considerations, believing that it is an ESG consideration and therefore non-financial, at least in the short term.

The Law Commission in the UK has made a number of recommendations to the UK government to enhance the definition of fiduciary duty by requiring those charged with fiduciary duty to document whether and how they incorporate ESG factors. We suggest fiduciary duty should be required to incorporate ESG factors and longer term analysis, to encompass the wider long-term interests of investors and the creation of non-financial value. Improved disclosure of relevant risk factors will support this.

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)

Implementing changes to fiduciary duty scope to explicitly include longer term and ESG risks would be a game changer. It would open the door to the risk of liability claims against those fiduciaries neglecting these aspects. This could drive demand for investment solutions, analysis and support to mitigate the risk - leading to changed behaviour along the investment value chain. A suitable transition period may be required.

In the UK, investment consultants operate in a relatively unregulated space yet have great power over investment strategies. Requiring investment consultants to incorporate ESG/long term thinking into their advice could have a similarly transformative effect.

Aligning ESG considerations into the Long Term Incentive Plans (LTIP) for analysts and money managers; as well as reducing the percentage of remuneration from short term incentive plans would also help. Symmetrical annual management charges (whereby fees can be reduced) based on risk-adjusted performance and/or environmental impact would be another idea worth exploring.

Other regulatory levers could also be considered, by introducing capital incentives or penalties into regulatory solvency and capital regimes such as Solvency II.

A serious issue in the UK is the need to rebuild trust and integrity in financial services. Incorporation of purpose and improved communication on this to end investors, has the potential to significantly enhance the overall financial services brand.

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)

Focusing on climate risk, the EU should create a supportive policy and regulatory framework for all market players.

The EU must support member state governments with standing behind nationally determined contributions by implementing a science based approach to setting, reviewing and monitoring progress. Policy incentives around tax, approval for projects and/or capital incentives and penalties for green assets can help to support the corporate community in facilitating meeting NDCs. Removing the market distortions of fossil fuel subsidies and/or implementing an appropriate carbon price will be important. Note that a carbon tax can be revenue neutral and positive for citizens, as in British Columbia.

Corporates must be required to disclose in line with the TCFD recommendations and these disclosures should be bought into the scope of audits. Note that a market driven, investor led approach to requiring this could be as effective as a regulatory requirement.

In particular, financial services companies at all stages of the asset financing lifecycle must be incentivised to seek out sustainable investment projects.

Creating private sector capital hungry for sustainable projects would allow an organisation such as Sustainable Infrastructure Europe to advertise the availability of investment capital, which would incentivise states, regions, cities and communities of all sizes to work with developers to rapidly accelerate the pace of energy transition.

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
- ○ Other

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)

Banks currently engage in long-term financing of infrastructure projects but few projects are assessed on ESG criteria and not all projects have a positive environmental impact. Changing the capital adequacy rules under Basel III to allow a lower cost and therefore higher provision of financing for green projects, would be a solution to re-intermediate banks at the heart of a sustainable European economy, such as; amending ratios for Tier 1, capital conservation buffer, countercyclical buffer, ECB backed AAA Green bonds, controlled exposure to venture capital, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

Some banks are starting to consider and embed a sustainability policy around lending and project finance. However, this has largely been due to individuals at certain banks or as a result of pressure by NGOs, acting to oppose projects which clearly do not support longer term sustainability, such as the Adani Carmichael coal mine project in Australia. Few banks act on this and a regulatory framework would incentivise market participants to embed ESG governance into their lending and project finance decisions.

This would allow banks to report on the adherence of the bank to this structure and make it easier for banks to make appropriate long term decisions.

Retail banks could have a stronger role at the local level, lending for sustainable investment, as opposed to unsustainable consumption.

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)

A supportive regulatory and policy framework.

Solvency II’s quarterly reporting requirements do risk encouraging a short term view. And there are no current incentives that we are aware of within Solvency

II to encourage insurers around sustainability. Further, there are capital penalties, particularly within the Standard Formula approach for some investments, such as infrastructure or unrated third parties, which do discourage insurers from investing sustainably.

Implementing a supportive policy framework would allow insurers to then themselves embed an appropriate policy and governance structure within each company, led from the top, which could then cascade down into products and investments. This should include the need to incorporate ESG and also a clear company position on engagement and stewardship. Specifically, investment mandates should be clear on how to assess investee companies against climate goals and triggers for engagement activities.

In turn this would need to be incorporated into investment management agreements and reported on, allowing Boards to embed long-termism /sustainability and monitor progress against these objectives.

As well as this, insurers could focus on more and better engagement with employees and customers on sustainability.

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)

The People's Trust is a new UK investment trust with a stated purpose of "better returns for you and a better impact on society." In addition to specific long term objectives around investment this company is investing 1% of fund in direct social impact investing, with the aim of increasing this to 5% of fund if sufficient good quality social impact loans are available.

By widening fiduciary duty appropriately, and implementing a supportive policy and regulatory framework to incentivise this type of investment with tax or capital incentives. Alongside the incentives, development of social impact metrics in mainstream investment management, would help to integrate social finance more broadly and allow comparability between funds.

There is also a clear customer win here, by providing an investment with purpose, which allows customers to feel good about their investment and what their money is doing to support societal improvement. As mentioned earlier, this really has the power to be a significant building block in improving trust in financial services, transforming the way in which people view insurers and their pension.

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)

No further comments.

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

1500 characters maximum (spaces included)

Yes. There is a generally very poor understanding of the current state of play associated with climate change and the very high level of risk, with the general public and many financial services professionals very poorly informed. Improving the level of awareness around the topic may help to personally incentivise more individuals and the HLEG could consider how this could be encouraged.

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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