EU citizens for Sustainable Value for Money

G. Prache closing speech, 20 November 2019

BETTER FINANCE strongly supports the ambitions, the strong focus and considerable efforts of the EC with respect to sustainable finance.

In particular:

- The so called "taxonomy" which we ask to be fact and science-based, not on ideologies, fears or other emotions

- The ecolabel for retail investment products; this is why BETTER FINANCE has successfully applied for membership of the EU Ecolabel board.[1]

- The Shareholders Rights Directive (SRD 2) to improve the governance and long-term engagement of investors.

Our four most important requests:

First, we need to do more against greenwashing: ESG labeled investment products must be exemplary in complying with investor protection rules, in particular on key information disclosures.

Green investment is a unique opportunity to restore the damaged trust of individual investors. Let's not destroy it. I have been a member of the French Fund SRI Label Committee for three years now where I have had to stress that policymakers must not forget the golden rule of investor protection: "*fair, clear and not misleading information*" as detailed in the MiFID II Directive, in particular for ESG investment products. I asked and obtained a change in the list of diligences to be carried out by SRI fund label evaluators.

In the upcoming BETTER FINANCE Research on ESG funds, we would hate to find out that too many ESG funds would be underperforming capital markets returns over the long-term and destroying the long-term real value of pension savings, and this because of higher fees and commissions, or because of flaws in their ESG approach.

Second, there is no rationale for accepting lower long-term returns for ESG retail investment products.
Pension adequacy must be part of sustainable finance.
Such products should be benchmarked against clear and simple mainstream capital market indices.

[1] https://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=374

The European Federation of Investors and Financial Services Users
44, Rue d'Arenberg, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu - http://www.betterfinance.eu

We must clarify the debate on whether pension savers should accept lower long-term returns when saving into ESG products. There is no reason why long-term returns of investments in sustainable activities and assets should be lower than the average ones of global capital markets. In fact, there are clear reasons for the opposite to occur. Actually, there is more and more academic evidence showing that ESG investments are performing better than mainstream ones over the long-term.

A positive long-term performance of ESG products in real terms (after the deduction of inflation) is needed to achieve pension adequacy, as pensions are and will increasingly rely on pensions savings. Pension adequacy is - and should be - part of the "S" and "G" of ESG approaches.

So, for the sake of transparency, intelligibility, trust and integrity, all ESG products aimed at retail savers should benchmark their long-term performance against simple objective capital market indices, rather than a plethora of complex, non-intelligible and therefore misleading ESG-specific indices. The use of those in key information documents should be restricted to professional investors.

Third, ESG investors, - "institutional" ones in particular – should switch from issuer screening to impact investing.

BETTER FINANCE is not convinced that merely excluding some issuers (negative screening) or just including certain issuers (positive screening) will have any positive impact on the environment, on social progress or on good governance.

For example, dropping Shell shares from European investment portfolios may end up transferring a major European oil company with a huge long-term investment capacity (free cash flow) to non-European investors at a very advantageous price. This would not guarantee anything in as far as saving the planet from global warming is concerned. On the contrary, we strongly believe that European investors should instead much more actively engage with the management of the company, in particular in the general assembly meetings, to obtain an adequate and as quick as possible transition to a more environmentally friendly business model.

To really help save the planet and mankind, ESG investing needs to switch from issuer screening to impact investing.

This implies fundamental changes:

- In the governance of so-called institutional investors: address short-termism and the misalignment of interests and have much more long-term, engaged impact ESG investors.

The European Federation of Investors and Financial Services Users
44, Rue d'Arenberg, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu - http://www.betterfinance.eu

- Thoroughly facilitate the direct involvement and engagement of citizens as long-term savers ("natural" long-termists), by prioritizing shareholders rights, MiFID review and CMU policies on the access and protection of the individual end-investors

- Developing independent web comparing tools (like in Norway) to respond to, in particular, the desire of many of the younger generations of citizens to become themselves impact investors.

Policymakers must assume their core responsibility to act against "negative externalities"

But all this will not work if Public policymakers continue to avoid addressing "negative externalities" such as GHG emissions: this is their prime responsibility and power. No one else can correct the effect of these externalities.

Where is the so urgently needed and critical EU - if not planet wide - carbon tax, or – better still - the greenhouse gases tax (including the even more damaging methane emissions)?

Why is it still about three times cheaper for Belgian employers to provide company cars to their employees than to increase their salaries.

Why is France still mixing plastic and paper in its garbage collection and waste treatment and "recycling" activities?

Why is Germany damaging all Europeans' health and emitting record GHG per capita by relying heavily on coal powered energy? [2]

So, it should come as no surprise that BETTER FINANCE sympathizes with the younger generations' frustrations. This is why our entire Brussels Team joined one of the Thursday demonstrations of school and college children and teenagers in Brussels earlier this year.[3]

[2] https://www.worldometers.info/co2-emissions/germany-co2-emissions/
[3] https://betterfinance.eu/communication/videos/?page-video12447=1

The European Federation of Investors and Financial Services Users
44, Rue d'Arenberg, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu - http://www.betterfinance.eu