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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)

- (x) 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
- (x) an organisation or a company
- ( ) a public authority or an international organisation

*Name of your organisation:

BETTER FINANCE

Contact email address:

The information you provide here is for administrative purposes only and will not be published

maczynska@betterfinance.eu

* 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:

24633926420-79

* 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?

Belgium

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

at least 1 choice(s)

- [ ] Accounting
- [x] Auditing
- [x] 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)

BETTER FINANCE believes that EU savers, the main source of long-term (LT) funding for the EU economy, and sustainable finance are natural partners. In fact, EU citizens as savers are by nature mostly LT driven since 67% of their total assets are deployed in LT investments (intended as property and equity), versus only 37% for pension funds (despite their purely LT horizon) and 11% for insurers, and their main saving goals are LT, such as retirement. For these reasons EU savers have a great need for "sustainable finance" products, but first sustainable finance needs to regain their trust. This is a challenge given the low confidence of EU consumers in finance as a whole.

For sustainable finance to win and keep the trust of savers and individual investors BETTER FINANCE requests that:
1) LT and pension savers be recognised as major stakeholders in sustainable finance as they are not only there to pay the fees and bear the risks but also to get a fair share of the LT rewards and benefit from fully transparent information including on returns, costs, risks, failures and weaknesses;
2) sustainable finance products sold to savers and individual investors be the most compliant with EU rules on fair, clear and not misleading information. This exemplary compliance with general investor and consumer protection rules must constitute a fortiori a key requisite for granting any ESG or SRI label. Our research findings on closet indexing show that it is unfortunately not always the case.

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)

Sustainable finance suffers from a lack of clear, consistent and mutually agreed definitions. BETTER FINANCE believes that an EU classification system of sustainable assets would bolster retail investors confidence and help them understand which assets qualify as sustainable investments.

Therefore, it should be ensured that sustainable finance is not seen just as a marketing gimmick. It is crucial to establish a common language, i.e. independently validated common definitions and standards for “SF”, “ESG”, “SRI”, “2° investing”, “green” bonds, etc. at least at the EU level, but preferably at the UN one.

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)

While working on a European standard and label for sustainable finance it is vital to take into account financial services users' and retail investors' perspectives as they are not only by nature mostly long-term driven but also their main saving goals are long-term: retirement, housing, children’s studies, transmission of wealth, etc. Therefore the EU should consider and provide for:
1. Standards that ensure “long-term and sustainable value creation” and pension adequacy (i.e. with the highest probability of providing decent real returns to EU citizens as savers and current or future pensioners over the long-term). “Decent” returns are returns that at the very least do not destroy the value of their lifetime’s savings: i.e. net (after charges) real (after inflation) returns that are positive over the long-term, and sufficiently high to allow EU citizens to get an adequate pension replacement income. The advice to save early and amply – always put forward by the financial industry as well as Public Agencies as the solution – misses an even more crucial prerequisite for pension adequacy: returns. Our research demonstrates that real net pension returns have too often been negative.
2. Green bonds and sustainable assets that first of all apply ESG criteria to their own activities, especially governance and transparency ones; and that are therefore exemplary in terms of compliance with EU consumer and investor protection rules, in particular information and disclosure ones.

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)

Creating a new entity is hardly relevant from individual investors' perspective as it is more likely for them to invest in collective instruments (such as investment funds) than infrastructure projects.

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)

BETTER FINANCE welcomes the fact that the Interim Report of the High-Level Expert Group highlights the need to "incorporate long-term and sustainable value creation". We agree that too much of financial system is biased towards the short term, even though key objectives of EU savers, like retirement financing, focus on the long term. Therefore, we also fully support the idea that short-termism as an obstacle to long-term orientation in economic decision-making must be eliminated and the financial industry and EU regulators must adjust their goals, metrics and disclosure requirements to the mostly long-term horizon of EU savers and investors.

Attenuating this conflict would also require professional investors (insurers in particular, see answer to Q1) to dramatically increase their holdings in long-term assets.

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)

BETTER FINANCE subscribes to the idea that the ESG criteria should be integrated into financial investment decisions. Comparing LT actual performance with corresponding mainstream capital markets' benchmarks, and avoiding using newly created ESG specific benchmarks will be the first step.
We strongly agree with HLEG that measurement is essential for understanding performance. The labeling as "sustainable" should not be a pretext to charge high fees for under-performing products, as we found in our research on closet indexing.
Unfortunately, recent EU regulations are not going in this direction:
1) The PRIIP delegated act eliminated all LT performance and benchmark disclosures and replaced those (10 year minimum in the current KID for UCiTS funds) with a 5 year only low quality "future scenario".
2) The proposed PEPP Regulation requires only 5 year performance disclosure for personal pension product that has at least a 30 to 40 year duration.
BETTER FINANCE asks EU authorities to adopt the LT view in the performance disclosure requirement and in the risk measurement. In order to prevent further cases of mis-selling in the sector, LT performance measurement should be used as a key lever to best align the investment and analyst community with LT sustainability considerations in the real economy. The impact of applying ESG criteria on the actual LT real performance should be measured and EU savers and individual investors should be provided with a clear information on the outcomes.

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)

First and foremost, sustainable finance products should not mislead long-term and pension savers about real long-term returns. Those that have repeatedly failed to deliver on their advertised objectives, and destroyed the real value of their clients' savings, must not hide it from EU citizens, but on the contrary give "a fair and prominent indication of any relevant risks" and "not disguise, diminish or obscure important items, statements or warnings" (article 27.2 of the MiFID I implementation directive). These products should also really do what they claim, in particular regarding "active" management claims as well as those claiming to make a difference by applying ESG criteria to their investments.
Unfortunately in its closet indexing research BETTER FINANCE has found evidence that some investment products labelled as "socially responsible" don't meet these basic requirements, quite the contrary.
Therefore, the EU should take these critical issues into account in order to establish EU-wide ESG "labels" as standards as well as a strong pipeline of sustainable investment projects.

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)

There is a two-fold action recommended by BETTER FINANCE in order to strengthen banking capacity to support the wider economy and sustainability.

As we have pointed out in our contribution to the EC public consultation on the CMU mid-term review more transparency on net performance is badly needed, especially in an environment of very low interest rates, rising inflation and often uncompetitive fees. EU citizens holding simple bank savings accounts are on average losing money after fees and inflation (bank savings accounts are currently destroying the real value of savings), and the EC and EBA do not even measure and do not seem to know it.

Additionally, it is crucial to better protect non insider investors and depositors in banks when enforcing the new Bail-in rules (BRRD) throughout the Member States. We refer in particular to the severe damages caused to retail bank investors in Slovenia (http://betterfinance.eu/fileadmin/user_upload/documents/Position_Papers/Investment/en/Bailin_-_How_far_does_it_have_to_go_-_Better_Finance_-_VZMD_161208.pdf).

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)

Like the EC, BETTER FINANCE points out the dramatically reduced investment of insurers in equities (6% only of their own risk assets). One cannot count their investments in equity funds as these largely come from unit-linked insurance products where the investment risk is usually borne entirely or mostly by retail clients.

BETTER FINANCE believes Solvency II rules must be further adjusted to encourage insurers to go back to the level of equity funding they provided at the beginning of the century (about 20% of their own risk portfolio, i.e. more than three times their current involvement of 6% of their total own-risk assets only). In particular, Solvency II calibrations for insurers' investments in listed equities and in private equity when the insurers' liabilities are very long term (i.e. for pension products liabilities) must be adjusted. Indeed, research shows that over the very long term, diversified portfolios of listed equities are less volatile and more performing than fixed income portfolios.

For the very same reason, the risk level of pension PRIIPs and of the future PEPP investing in listed equities and in private equity should be lowered. Indeed, there are pension products (i.e. very long term products) included in the scope of PRIIPS, notably:

- "life cycle funds" which are precisely designed for retirement purposes;
- insurance-regulated private pension products with a surrender value.

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 "social dimension" should also apply to EU citizens as long-term savers and investors in the ESG investments.
Therefore, when mobilising private capital, "long-term and sustainable value creation" and pension adequacy should be ensured, i.e. with the highest probability of providing decent real returns to EU citizens as savers and current or future pensioners over the long-term. "Decent" returns are returns that at the very least do not destroy the value of their lifetime's savings: i.e. net (after charges) real (after inflation) returns that are positive over the long-term, and sufficiently high to allow EU citizens to get an adequate pension replacement income. The advice to save early and amply - always put forward by the financial industry as well as Public Agencies as the solution - misses an even more crucial prerequisite for pension adequacy: returns. BETTER FINANCE research demonstrates that real net pension returns have too often been negative.

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)

As regards corporate governance BETTER FINANCE supports the idea of European corporate governance principles including a recommendation on "clear links between executive remuneration and key indicator of performance on sustainability measures (p. 26 of the report).

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

1500 characters maximum (spaces included)

Sustainable finance needs to acquire and retain the trust of EU citizens, as they are the main source of long-term funding for the EU economy. Unfortunately, EU citizens as long-term and pension savers so far remain absent from the EU policy work on sustainable finance. The HLEG Interim Report does not even mention savers and individual investors, and ignores the contribution and proposals from BETTER FINANCE that, at its own request, has been heard by the High-Level Expert Group.

For sustainable finance to win and keep the trust of savers and retail investors BETTER FINANCE requests HLEG to recognise long-term and pension savers as major stakeholders in sustainable finance as they are there not only to pay the fees and bear the risks but also to get a fair share of the long-term rewards and benefit from fully transparent information including on risks, failures and weaknesses.

HLEG should also ensure that sustainable finance products sold to savers and retail investors are the most compliant with EU rules on fair, clear and not misleading information. This exemplary compliance with general investor and consumer protection rules should constitute a fortiori a key requisite for granting any ESG or SRI label. Our research findings on closet indexing show that it is unfortunately not always the case.

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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