BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

Impact Assessment- Institutional investors' and asset managers' duties regarding sustainability

BETTER FINANCE welcomes this impact assessment aiming at ensuring that material sustainability factors are consistently taken into account and disclosed by institutional investors and asset managers. BETTER FINANCE agrees with the European Commission on the fact that increasing the transparency of the integration of sustainability in the investment process of asset managers and institutional investors will lead to reduced search costs for end-investors.

In order to effectively contribute to the strengthening of the Capital Market Union, BETTER FINANCE believes that sustainable investment products require binding standards ensuring the trust of EU citizens in sustainable retail investment products and positive returns.

1. Build trust in sustainable retail investment products

BETTER FINANCE already highlighted that sustainable finance products must win and retain the trust of EU citizens, since they represent the main source of long-term funding for the EU economy. Also, the EC consumer scoreboards repeatedly rank pensions and investments as one of the worst consumer markets in the EU.

However, as pointed out by BETTER FINANCE[1], regrettably the Interim Report released by the High-Level Expert Group (HLEG) on sustainable finance last July does not even mention savers and individual investors. The EU must include EU citizens as long-term and pension savers in the policy making on sustainable finance. Ensuring the transparency and disclosure of material sustainability factors as well as long term sustainability in the investment process would help regaining EU citizens and investors' trust.

For EU citizens sustainable finance should translate into products that are the most compliant with EU rules on fair, clear and not misleading information. This compliance should constitute a key requisite for granting any ESG or SRI label. However, BETTER FINANCE's research on Closet indexing[2] revealed that some products labelled as "sustainable" do not comply with EU investors protection rules.

[1] see our press release http://betterfinance.eu/fileadmin/user_upload/documents/Press_Releases/en/Other_investors/PR_-_SUSTAINABLE_FINANCE__-_2017_0714_01.pdf),

[2] see our press release on http://betterfinance.eu/fileadmin/user_upload/documents/Press_Releases/en/Other_investors/PR_-_SUSTAINABLE_FINANCE__-_2017_0714_01.pdf)

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BETTER FINANCE has for instance drawn attention to the example of the French Government's SRI Fund Label Committee who granted this label to funds which are not complying with the MiFID information disclosure rules [3]:

- They are claiming to be actively managed and diverging from mainstream by using ESG criteria when they have actually only been "hugging" their mainstream benchmarks before fees.
- They are advertising an objective of over performing a mainstream benchmark using ESG when, in the past 10 years, they have not been able to achieve even half of their benchmark performance and have not even caught up with inflation over that period. And this without issuing any information or warning to fund investors about this repeated failure to meet stated objectives.

2. Ensure "*Long-term and sustainable value creation*"

BETTER FINANCE has been campaigning for setting standards that would ensure "*long-term and sustainable value creation*": those standards should ensure 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 real value of their lifetime's savings. To this end, such returns (after charges and inflation) must be positive over the long term and sufficiently high to ensure an adequate pension replacement income.

3 Article 24, MiFID II Directive 2014/65/EU on Markets in Financial instruments