

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](mailto: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:

Contact email address:

The information you provide here is for administrative purposes only and will not be published

r.vantilburg@uu.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

* Type of organisation:

- | | |
|---|---|
| <input type="radio"/> Academic institution | <input type="radio"/> Company, SME, micro-enterprise, sole trader |
| <input type="radio"/> Consultancy, law firm | <input type="radio"/> Consumer organisation |
| <input type="radio"/> Industry association | <input type="radio"/> Media |
| <input type="radio"/> Non-governmental organisation | <input checked="" type="radio"/> Think tank |
| <input type="radio"/> Trade union | <input type="radio"/> 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
- ☐ 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)

First, focus on the whole financial sector, not only the niche of sustainable finance. It is 'mainstream' lending and investments that currently support highly unsustainable social and ecological trends. Sustainable finance requires also divestments of unsustainable companies.

Second, the recommendations need to go beyond increasing transparency and also address incentives. As the report rightly states, there is no inherent trade off between sustainability and financial return and most asset owners want their investments to also have a positive social and ecological impact. However, mandates, contracts and common practices within the investment chain currently do not reflect this fully. As a result, sustainability plays a much smaller role in the actual investment decision than asset owners prefer and than would be warranted from even a purely financial risk and return perspective.

Thirdly, needed is a clear and ambitious timetable to facilitate the coordination between different actors. Otherwise the danger is that everybody is waiting for one another with companies not reporting adequately on ESG as they feel investors do not take ESG data into account, and vice versa.

Fourth, do not focus exclusively on climate. There are other environmental themes (like the nitrogen cycle, deforestation and biodiversity loss) that threaten human wellbeing and thus financial returns and stability. These each face specific challenges that financial institutions need to act upon.

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.

A harmonized approach, such as PCAF (<http://carbonaccountingfinancials.com/>) is useful.

A combination of mandatory and voluntary standards are an important tool for investors such as pension funds. Climate related standards should be linked to the TCFD framework and represent an integrated approach. An integrated approach goes hand in hand with appropriate incentives and restrictions instituted in the real economy.

We invite the European Commission to include social and governance aspects beyond environmental aspects. Standardisation should also include simplification of data and reporting standards and allow for comparability. Any standardisation should build on existing frameworks. We suggest to use the United Nations' SDGs as a starting point for defining sustainable assets and financial products. Any EU initiatives and standardization should at all times leave room for innovation in the different sectors. We suggest the use of review clauses, as they could allow for adjusting standards to innovative developments from the investors' side.

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)

Crucial is the data that are available from companies. These need to be complete, coherent and forward looking with regard to all material information. Not only with regard to carbon but also on biodiversity, water, land use and other material ecological issues. Currently reporting on environmental impact and dependencies is far from complete. Whereas especially carbon emissions are widely seen as a material factor for some years now, also here the reporting is still far from complete. Especially on scope 3. For other forms of natural capital (water, biodiversity and land use) the situation is even worse (Maas et al 2017 Investors and Companies' Biodiversity and Natural Capital Reporting and Performance).

This seems to be a direct violation of accounting standards that demand that all material information is reported. The EU should guard the implementation of its rules on non-financial reporting (Directive 2014/95/EU) by sanctioning companies in sectors for which natural capital is material (for instance according to the SASB materiality map) if they do not adequately report on this along the lines as set out in the guidance of the European Commission of June 27 2017.

Next to data on natural capital, information is also needed on the process and governance of the natural capital related risks, the business model of the company and how it creates value in the long run.

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)

The most important issues for infrastructure projects are predictability, a reliable legal framework, procedures and permits as well as political stability. The concept of and standard contracts for Public Private Partnerships (PPP), combining public interests and funding with market discipline is key to successful infrastructure investments (see the example of the UK). This concept should be promoted among Member States. Using one contract across all PPP structured projects all over Europe will materially lower costs and increase quality. The EC could be a facilitator, guaranteeing long term predictable cash flows, taking away barriers and mitigating risks through labelling and standardisation. Matchmaking is less prevalent, we would rather advise to build on the existing EIAH used by the EIB and its local offices.

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?

- ☒ 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)

Institutional investors should be 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?

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We strongly support the identified policy direction of strengthening the ownership chain by providing model sustainability clauses that asset owners can include in their asset management agreements. This could fundamentally change the, currently often myopic and exclusively financially oriented, incentives in the investments chain. The mandates that asset owners give to asset managers should include clear principles/investment beliefs on the materiality of ESG and the need of a long term orientation. This needs to be translated into clear agreement on how ESG is integrated in the investment decision, in stewardship (engagement and voting), in the choice of (sustainable) benchmarks and how the asset manager reports on this. The contract should also have a fee and pay structure that is long term oriented and includes ESG performance. Also a reduction of the reporting frequency of asset managers may help to create a more long term oriented investment culture.

Supervisors and regulation should stimulate this development by focusing more on rewarding long term incentives in mandates rather than detailed regulation of the investment process itself. Regulation that itself can be a source of short termism as it often builds on theoretical notions of the efficient market hypothesis that make it more sensitive to short term market sentiments than to underlying value drivers. More concentrated equity holdings for instance are not just a sign of less risk diversity, but also offer an asset manager the chance to better understand his investee company and thus better manage risk.

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)

The market already created a strong and visible pipeline of sustainable investment projects. Please note internationally there are multi-billion euro

sustainable projects planned for coming years in wind energy, health networks and solar power, and so on. However potential sustainable investment projects lag behind because of (1) small scale, so no match with investment portfolio's of institutional investors, (2) bankable projects which are uncertain due to innovative features or dependency upon uncertain long term political commitments and (3) unbankable projects.

The first barrier, scale, is dealt with by the market; many organisations and funds develop and exploit aggregation mechanics. The EU can provide further support by establishing a project organisation that focuses on bringing together and coordinating the cooperation between private financial institutions, National Promotional Banks, the European Investment Fund and/or the European Investment Bank. Bankable sustainable investment projects that bear too much risk and uncertainty for institutional investors are helped by first time (or first loss tranche) investments supported by the EU. In the case of unbankable projects the EU can contribute by supporting national investment projects in making these bankable.

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)

From the perspective of institutional investors, such as pension funds, it would be helpful if banks report how they use ESG-factors in their lending and investing activities. For instance through the recommendations made by the FSB TCFD.

Banks' introduction of an ESG rating on their credit risk exposures (next to an internal P(d) and LGD rating) would in turn help institutional investors assess the contribution to their credit risks.

Furthermore, securitisation is a risk-sharing technique that can help a bank attract funding and strengthen its capital ratios in a diversified way. Investors can benefit from the lending and servicing expertise of banks.

Securitisation can be used for a variety of bank lending facilities: from loans to consumers and SMEs to large corporates and from car loans to trade finance and renewables financing. Benefits to society are funding, risk sharing and recycling of capital for the real economy, while avoiding pitfalls of the past. In short: through securitization deals between banks and institutional investors, institutional investors gain long-term exposure to -for example -the European project finance sector, including wind and solar projects, helping institutional investors to support green energy. Regulators can build on STS (Simple, Transparent and Standardised) criteria and treatment to securitisations of project finance loans and other (currently not eligible loan categories) by promoting a concept of green securitisation.

Role of insurers

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

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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)

Social aspects are an integral part of sustainability. Ecological transitions will have strong redistributive effects. With income and wealth inequality at such historical high levels and so short after the financial and economic (euro) crisis there are large groups in society that are financially vulnerable. Companies and financial institutions should be aware of the tensions that may arise and see how they can diminish these. They need to report about this and develop indicators, preferably based on the UN SDG's, that make the results of their efforts transparent. These then should be taken into mandates and risk framework of financial institutions, credit rating agencies and supervisors.

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)

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

1500 characters maximum (spaces included)

Useful links

[Interim Report on sustainable finance \(http://ec.europa.eu/info/publications/170713-sustainable-finance-report_en](http://ec.europa.eu/info/publications/170713-sustainable-finance-report_en)
[High-Level Expert Group on Sustainable Finance \(https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#high-level-expert-group-on-sustainable-finance\)](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#high-level-expert-group-on-sustainable-finance)

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