12 September 2017

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)

Pension funds invest with the purpose of maximising the result for good pensions for their beneficiaries. As identified in the Interim Report, pension funds' long-dated liabilities allow them to adopt the purest long-term investment strategy and invest in asset classes that are not accessible to short-term investors, such as illiquid, private assets. Both national and European prudential frameworks and supervisory initiatives should not unduly disincentive pension funds from these types of investment.

Sustainability is already part of pension funds' risk-return decisions, so we support the integration of sustainability into investment information, for example through disclosure and standardisation. Adequate carbon pricing and energy efficiency requirements reflecting true externalities are necessary.

In addition, we plead for a stable political environment at both European and national level whereby the EU sets clear ambitions for sustainable finance in the form of scenarios that can be used by investors to assess their investments. 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.

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?

Any standardisation should build on existing frameworks. We suggest using the United Nations' SDGs as a starting point for defining sustainable assets and financial products. Any EU initiatives and standardisation 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. 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.

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?

We advocate using the Green Bond Principles (GBP). The EC could, by building on existing frameworks, develop a broadly accepted market standard to accommodate standards by third parties and/or initiate a benchmarking platform to compare standards and create transparency. Minimum requirements could be set by the EC in order to avoid and prevent green washing. An explicit connection between the proceeds of a green bond and the ESG policy of the issuer of the green bond is needed. Indicators and metrics can then be developed by both issuers and investors to track the impact performance for green bonds and substantiate their sustainability claim. A balance needs to be struck between standardisation and administration.

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?

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?

- X Yes
- o No
- o 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?

A balanced mix between actors with a shorter horizon (to offer liquidity and price discovery) and actors with a longer horizon, such as pension funds, is needed. Large collectives can help to guarantee long term sustainable investments. Having a long investment horizon allows pension funds to invest in asset classes that are not accessible to short-term investors, such as illiquid, private assets. In addition to higher expected returns as well as potentially lower risks, these investments make a significant contribution to the European economy. Most affected by the mismatch are transition-based investments. Policy horizons should be longer, to avoid unintended consequences of prudential regulation and leave enough room for investments in illiquid assets. We furthermore plead to integrate the ICGN mandate models. Furthermore, we value the comparability that is possible based on IFRS, as it is important for investment decision making.

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?

The EU should state and formulate a clear ambition on sustainability including environmental, social and governance standards. This should be flanked by an increased transparency on the sustainability goals of companies. Creating long term value should become part of the DNA of the European economy. Companies and businesses need incentives to implement a comprehensive ESG policy affecting economic and financial decision-making. Remuneration in companies should focus on the creation of real value. An idea could be to include education and knowledge about ESG into the fit and proper requirements of board members. Standardisation about reporting and better checks and balances would be helpful in this respect. In addition carbon pricing and the elimination of subsidies for fossil fuels are necessary in order to drive the transition needed.

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?

The EU should provide for long term targets for energy, transport and set an ambitious framework in order to contribute to the Paris agreement. National investment plans could include ESG criteria and thus be multipliers of an EU-wide ambition to be a frontrunner of sustainable finance. Building on existing efforts and experience of the European Commission and the EIB (e.g. EIPP) is important. National capital-raising plans could feed projects into the EIPP. The EU and the Member States should provide for a good investment climate, stable pricing/tariffing (on pricing and subsidies) and a stable policy framework in order to provide long term investors with certainty. Also a first-loss absorption mechanism should be provided at EU level for projects. Setting up aggregation mechanisms (i.e. investment platforms for the EFSI) and a bigger scale of projects by bundling and pooling investments are important for pension funds.

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:

- o Create a European credit rating agency designed to track long-term sustainability risks
- o Require all credit rating agencies to disclose whether and how they consider TCFD-related information in their credit ratings
- o Require all credit rating agencies to include ESG factors as part of their rating
- o All of the above
- X Other

Question 8.1 Please specify what other ways you would deem most effective in encouraging credit rating agencies to take into consideration ESG and/or long-term risk factors.

Credit rating agencies should disclose whether and how they consider ESG factors in their ratings (and not be limited to the TCFD-recommendations).

We support the statement on ESG in credit ratings from the working group of the UNPRI principles. Being private entities, CRAs should be able to set their own methodologies, but at the same time they should disclose and be transparent about the risks that are being factored into the ratings. They should be more specific on ESG risks by sectors. Irresponsible behaviour increasingly leads to financial impact as more data become available and affect ratings. CRAs should be more specific on the timeframe for which they indicate the ratings.

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?

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?

No comment

Social dimensions

Question 11. What do you think should be the priority when mobilising private capital for social dimensions of sustainable development?

For pension funds, social responsibility is at the core of their work. For that reason we endorse the statement that the financial system needs to stimulate job creation and investment in Europe, as well as making the transition to long-term sustainable finance (long-term) and better development (inclusive growth).
Besides financial stability, social stability needs to be recognised as a key systemic factor. Poor social protection, limited social inclusion and poor working conditions present societal risks that damage financial stability and the continuity of pension funds.
In addition to climate change, mega-trend impacts such as automation, urbanisation and changing demographics on social dimensions such as employment rates and social exclusion create financial risks to the real economy and need to be addressed by sustainable finance solutions. As suggested, social bonds would provide this solution but we invite the group to consider more options.
We would invite HLEG to develop further recommendations on:

- *Standards for the social dimensions of financial risks and opportunities (in line with the FSB Taskforce on Climate Related Financial Disclosures);*
- *Reflect on the possibility to develop social bonds or at least minimum requirements for social standards. For this, inspiration can be found in the way standardisation via the GBP helped develop the market for green bonds;*
- *Addressing the social dimensions of financial risks linked to existing proposals such as the Circular Economy Strategy; Innovation Union; Digital Single Market; Pillar of Social Rights; Skills agenda.*

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?

EIOPA's IORP stress test should not cover ESG risks in the future. Currently, it would be hardly possible to define stress test parameters for assets managed under ESG criteria, which differ from the parameters used for conventionally managed assets. As the Interim Report rightly states, the quantification of scenarios and metrics would be very difficult or impossible. There is not enough sufficient high-quality data available and ESG criteria are often defined differently between pension funds. There is no clear picture in the scientific literature whether risks and returns of ESG portfolios are actually systematically different from those of conventionally managed portfolios. Any kind of quantification of certain environmental risk factors (such as risks resulting out of climate change) would be very difficult.

The HLEG recommends ESA's to increase their knowledge and expertise on sustainability within their current mandates. As a general remark, European pension funds do not have a harmonised prudential regime. They fall under the supervision of the national supervisory authorities. We believe it is necessary that both European and national supervisors start building up capacity and tools in order to be able to consider ESG factors in the future in financial supervision whilst striving for supervisory convergence.

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

We support the ambitious agenda of the European Commission on sustainable finance. Sustainable finance only will be successful if Europe liaises with other parts of the world and acts as a driver for the development of sustainability towards its Member States. Sustainability calls for a global approach with all the global players being part of an overall sustainability agenda. As mentioned in the report, pension funds have the purest approach to long term/sustainable investment. The ultimate goal for pension funds is to provide their beneficiaries with a good pension after retirement.

With regard to sustainable finance it has to be taken into account that there are different stakeholders involved in pension funds: scheme members, employees and employers. Policy makers need to take into account that pension funds need a solid policy framework and a stable economy. Cost of capital increases with instable policy and therefore higher perceived risks, which in turn lead to a demand for higher returns. We furthermore call for a holistic view on sustainable finance including environmental, social and governance aspects. Social and governance aspects of ESG policies should get the same attention as environmental aspects.