

# Questionnaire by the High Level Expert Group on sustainable finance interim report

Fields marked with \* are mandatory.

## Introduction

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### 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: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

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\* 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

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\* Are you replying as:

- a private individual
- an organisation or a company
- a public authority or an international organisation

\* Name of the public authority:

Contact email address:

The information you provide here is for administrative purposes only and will not be published

amali.seneviratne@actuaries.org

\*Type of public authority

- International or European organisation
- Regional or local authority
- Government or Ministry
- Regulatory authority, Supervisory authority or Central bank
- Other public authority

\*Where are you based and/or where do you carry out your activity?

Other country

\*Please specify your country:

Canada

\*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

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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)

Those working in finance (including actuaries) need to increase their knowledge of sustainable finance. This will provide the foundation of technical expertise required to implement the initiatives in this report.

It is essential to use market mechanisms and a risk-based approach to facilitate a smooth transfer from a carbon-intensive economy to carbon-neutrality. Markets respond to policy signals, require true and complete information to function effectively, can be distorted by significant players and are subject to herd mentality. Currently there are two key distortions which may affect accurate pricing of risk:

1. The carbon price appears to significantly understate the social cost of carbon and has proved insufficient to counteract the impact of fossil fuel subsidies (even net of relevant energy taxes).

2. Fossil fuel subsidies, which amount to a multi-billion “buy signal”. Even though the majority of subsidies appears to be spent in producer-states, some indirectly financed by developed countries.

We give high priority to disclosure of information relevant to markets to price in the risks and costs of carbon transition at corporate level. A policy objective should be to make compliance with the TCFD recommendations mandatory. Develop tax systems that support the investment on sustainable/green projects which are stable over time (since changes that penalize past investment limit the mobilization of capital), and which avoid penalizing sustainable energy. See e.g. Spain.

**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)

We agree that a taxonomy could be helpful in assisting regulators to emphasize and provide appropriate incentives towards the sustainable and away from unsustainable, which is higher risk. Any such taxonomy will need to be flexible and principles-based, as technology and markets evolve over time.

The goal of sustainable finance is to help ensure sustainable and inclusive prosperity (as opposed to, for example, a sole emphasis on growth as measured by GDP or similar measures). It is not possible to provide in this response an exhaustive list of assets and products for inclusion. However, “sustainable” is not necessarily a binary condition - there is a gradient of sustainability, the

topography of which will change over time with technological and societal evolution. In addition, although some projects, such as a wind farm or reforestation, may be considered sustainable, the derivatives which underpin cross-border currency financing for such a project may be regarded as “neutral”. Other projects of a sponsoring entity may be extractive and considered unsustainable. A comprehensive taxonomy needs to recognise the full gradient, from sustainable to unsustainable, as well as the fungible nature of many projects.

## **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)

A European standard and label for green bonds/sustainable assets should not be regarded as “once and done”. It will need to be flexible and adaptable to developments in science, technology, markets and society. It needs to be monitored regularly, particularly following a relevant event, such as a credit or market shock. An analogy may be drawn with the actual and post hoc “desired” reactions of credit agencies to the credit shock of 2007/08. The process by which standards and labels can be rapidly refocused in the event of a shock needs to be determined in their initial design. In addition, as discussed above, the labelling structure may need to extend through the full spectrum from sustainable to neutral to unsustainable to achieve maximum utility.

In relation to “green-washing”, it is probably impossible and undesirable to design a system which is fool-proof. The best way to avoid misuse will be for market participants (including retail customers) to be sufficiently well-equipped in knowledge and skills to be provided with reliable, objective and complete disclosures, and to be motivated to distinguish true from false, and the significant from the insignificant. The core components will include, for example, the adoption of the TCFD disclosure recommendations and continued, focused education and awareness-building.

## **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)

A key service might be to help enhance the governance process involved in the access of local / mayoral / community initiatives to wider financing pools.

Currently, there is considerable concern regarding the absence of “shovel-ready” major green infrastructure projects in which to invest. This in part may be because the need for many such projects can be best found at the local level, such as enhancing energy efficiency and battery charging infrastructure. Intermediation of these ‘small’ or local level funding requirements can potentially add cost and introduce a further disconnect between the saver and the local level / mayoral / community initiative. Despite this, there are significant benefits of intermediation if conducted effectively, for example, in pooling of risk or spreading the cost of due diligence or of expertise sharing. In performing this intermediation role, Sustainable Infrastructure Europe will need to avoid the adverse effects such as adding bureaucracy or red-tape. However, it could protect consumers from excessive fees and rogue or corrupt advisors / schemes. It should aim to make transparency a key objective, operating in straightforward, inexpensive and not administratively burdensome manner, to facilitate the disclosure of true and useful (but not excessive) information to relevant stakeholders.

**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)

Make clear the Fiduciary Duty of company directors (as well as of asset owners, asset managers and investment consultants). This must be accompanied by reporting clarity, so that these actors can be held accountable for their actions. The International Actuarial Association has previously commented on the Task Force for Climate Related Disclosure's recommendations in relation to (long-term) scenario analysis within corporate financial reports to facilitate much needed improved risk pricing in the market. A strong policy signal should be sent that makes these recommendations mandatory if insufficient voluntary uptake is achieved within a reasonable period (or possibly in any event).

To achieve this will require (re)education at the corporate level and within the financial sector itself. To this end, we support Aviva's white paper "A Roadmap for Sustainable Capital Markets - How can the UN Sustainable Development Goals harness the global capital markets?" Regulators could work with educators and professional associations to incorporate consistent concepts in the education syllabi for relevant financial, economic and actuarial qualifications.

Strong encouragement is needed to remove or limit, to the extent practical, the rewards for short-term behaviour, including a re-examination of structures of executive remuneration / discouragement of short-term incentives.

We also flag our response to Q12; examination of the price signalling in the property casualty insurance markets.

## 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)

The report discusses, and we agree, that there is a need to clarify the fiduciary duty of Directors, as well as a need to improve reporting (i.e., strongly promoting or making mandatory the TCFD recommendations). As we have responded to earlier questions, this should be extended to asset owners, asset managers and investment consultants. In other words, we believe that litigation risk will ultimately be a powerful driver for a change to longer-term thinking. There is increasing use of courts around the world to move toward long-term sustainability. The twin planks of clear duty and disclosure will shine a strong message, but they will be transparently and objectively provided if enforced through effective regulation/supervision, with the courts being the ultimate backstop.

Regulators play an important role, with more consistent rules and oversight regarding sustainable assets and their treatment within capital and solvency frameworks. Ultimately, the most effective and efficient driver of change will be asset owners, who in turn will push asset managers, all of whom will push company directors. Regulatory thinking needs to be connected all the way through this value chain.

This will also require consistency regarding education, continuing education and entrance requirements for participation in the financial sector. Requiring meaningful and practical credentials to work in the finance sector represent strong signals.

## 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)

Two important aspects of the apparent lack of shovel-ready projects are:

- Emphasis on local scale and placement of real effort into sustainability at the “rooftop” or “community” level. This requires public engagement and education, as well as good governance processes. The role of Sustainable Infrastructure Europe has already been discussed in implementation, including the provision of guidelines that might be considered at the local level.
- Market distortion caused by continuing fossil fuel subsidies and failure to price externalities appropriately (specifically, but not solely, carbon price). Removing these distortions can create the necessary pathway, bring clarity to the need for alternative energy sources and catalyse a move to ensure that the next generation of energy production is scaled up and in place in a timely manner. Further research is needed to identify practical approaches that can effectively overcome these concerns.

The critical element is to be clear and unambiguous about the desired transition timetable for these two key policy levers (subsidies and pricing). But, in the absence of effective action on these fronts, it is difficult to see why market participants would contribute significant additional effort or investment – the political risk remains significant. As well as the short-term and persistent market distortion this causes, intergenerational fairness is a significant issue.

## 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)

Over time, seigniorage has passed from governments/central banks to the “high street” or deposit-taking banks. Despite popular misconception, money is created when a bank loan is granted and a corresponding amount is deposited in



the borrower's account( See the Bank of England Quarterly Bulletin 2014 Q1). This process can be unstable and can fuel unsustainable behaviours, particularly in relation to consumption. The uneven allocation of money creation may also fuel financial exclusion/inequality. There is a need to Impose controls on lending/money creation designed to promote lending for (sustainable) investment, rather than lending for (unsustainable) consumption is needed. (See Prof R Werner's work)

There is a role for central banks to ensure that large sustainable projects are partly de-risked via credit support/risk-sharing (per p45 of the report). Sustainable lending should be supported but also unsustainable discouraged (penalised) via capital targets (as mentioned, question 6). Such a "penalty" should fully reflect the long-term cost-shifting implicit in an "unsustainable" undertaking. This should apply to all regulators, not just banking.

A sustainability taxonomy/resilience rating system could lead to better calibration of risk/return models of investment opportunities. If such models do not have sustainability as a core objective, then they will drive decision-making down pathways which are only sustainable by chance rather than by design.

## 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)

Long-term sustainable investment should be encouraged by intelligent and consistent focus on sustainability within solvency requirements. This comment applies equally to insurers, pension schemes and banks. We also refer to Q12 below.

This is one way in which insurers could push for sustainability or resilience. As mentioned, a resilience rating system requires applicable underwriting skills at its core, and potentially could provide a major step forward in discussing how to achieve a truly sustainable future in the face of the challenges posed by climate change and limits to other scarce resources.

Other initiatives might include:

- Adopting indemnity bases that include "resilience reinstatement" as a standard policy feature in applicable policies.
- Providing long-term incentives to policyholders through multi-year insurance policies or through profit-sharing insurance pools.

In addition, further work regarding the trend in many life insurers and pension funds to ever-lower proportions of equity investment is needed, and similarly on the encouragement of short- and medium-term countercyclicality as defined in the Discussion Paper by the Bank of England's Procyclicality Working Group (July 2014).

Ultimately, a sustainable insurer will have embedded a sustainability culture

throughout all its activities, starting with recruitment and retention, staff development and incentive packages, all the way through to Board and executive management level remuneration structures.

## 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)

High priority should be given to targeted education and public awareness, specifically awareness within key target groups such as pension fund trustees / boards of banks and insurers. A recent Mercer's survey (their European Asset Allocation Report) suggested that only 5% of EU pension schemes have considered climate risk within their investment strategy. It could reasonably be inferred that unilateral personal action to mitigate climate risk at the individual citizen level will be lower still, as compared with pension trustees who, although not professionals, should have relevant advice readily available to them.

More work needs to be done to find mechanisms to support social awareness, such as through incentives provided by carbon dividend programmes.

As the report suggests (see references to the ESF on p46), financing and capital for local level initiatives will also be critical (targeting for example waste reduction, distributed energy production, insulation etc).

We also highlight the importance of a clear and accepted taxonomy / grading system, so consumers can trust a "green" fund to be green, or have ready access to sufficient information to be able to make that determination for themselves.

## 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)

A key issue requiring further study is that a critical mechanism for sending economic signals about risk, namely property insurance, typically uses annual policies. As premiums reflect anticipated conditions during the policy period, long term climate change will usually not be considered.

In a competitive market any firm which attempts to charge a price reflecting conditions after the policy term ends will either price itself out of the market (if risk is increasing) or suffer losses (if risk is decreasing). In short, insurers cannot price today's policies for tomorrow's climate conditions, meaning a critical mechanism on which governments rely to encourage loss mitigation (a key aspect of sustainable finance) may not be working

properly.

This difference in timescale (between current risk pricing and the developing impacts of greenhouse gasses) poses a number of questions that should be addressed, for example the impacts of this mismatch on both sides of the risk transfer transaction over time as well as in relation to other stakeholders such as government policy makers.

It may be said that reinsurers have a longer-term view, however they do not have enough influence over pricing by direct insurers to overcome short-horizon pricing practice and consequential failure to signal longer term cost pathways to the market.

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

1500 characters maximum (spaces included)

The primary areas where the report is comparatively silent are, as discussed above, carbon pricing and fossil fuel subsidies, which can act as distortions to an effective market signalling through the pricing of risk. We would suggest the group also consider the impact of 1 year insurance policy pricing.

Although there are brief mentions of other aspects of greenhouse gas emissions, the primary focus seems to be on carbon emissions. We believe that more prominent attention should also be given to other aspects, including fishery and agricultural sustainability and transportation. These sectors are crucial to future economic, demographic and food security and sustainability. In addition, contributions to pollution, although usually a shorter-term risk, involve many of the same causes and can significantly increase stakeholders interest in this area, being a shorter-term risk with potentially serious adverse implications.

We also suggest that invited observer status be extended to representatives of those responsible for financial education at both universities and professional and member bodies, as applicable, e.g., accounting, financial analyst, actuarial and pensions management. This could help accelerate the incorporation of long-term sustainability principles into relevant syllabi / examinations.

### 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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### Contact

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