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)

- 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

*First name and last name:

*Name of your organisation: European Banking Federation

*Name of the public authority:

Contact email address: d.mularova@ebf.eu

The information you provide here is for administrative purposes only and will not be published

*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 x

No

*If so, please indicate your Register ID number: 4722660838-23

*Type of organisation:

- Academic institution
- Consultancy, law firm
- x Industry association
- Non-governmental organisation
- Trade union
- Company, SME, micro-enterprise, sole trader
- Consumer organisation
- Media
- Think tank
- Other

*Please specify the type of organisation:

*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

*Please specify the type of public authority:

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

- Austria
- x Belgium
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Iceland
- Ireland
- Italy
- Latvia
- Liechtenstein
- Lithuania
- Luxembourg
- Malta
- Norway
- Poland
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- The Netherlands
- United Kingdom
- Other country

*Please specify your country:

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

at least 1 choice(s)

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

*Please specify your activity field(s) or sector(s):

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)

- A common taxonomy, set of minimum standards and disclosure framework are essential for efficient allocation of financial resources to green assets, market and risk analysis, development of comparable products and benchmarks. The EC should build on the work of the TCFD and the UNEP FI pilot project, ensuring appropriateness to the EU environment.
- Long-term finance is constrained by regulatory requirements, challenges to perform risk assessment on the long-term horizon, or demand for higher risk and liquidity premiums, making the projects less viable from economic and finance perspectives. Some constraints can be addressed by regulatory or policy decisions and clarity and certainty of the regulatory environment and public policies.
- Incentivizing (e.g. via tax, warranties, liquidity schemes) the lending to green projects, providing assistance as well as risk sharing by the public sector would act as catalyst to environmental policies, given the role banks can play as transmitters of political economic impulses. Also, building a common EU scheme for sustainable public-private partnership, incentivizing the cooperation between public and financial institutions could help to speed the transition.
- Any change in prudential regulation which could have unintended consequences (stability of the financial system; lending to small and medium-sized businesses that cannot access EU's underdeveloped capital markets etc.) should be carefully considered.

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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?

- The EU should give priority to considering how it could use existing or develop international definitions and initiatives in order to provide a common, clear and not ambiguous EU taxonomy (including climate carbon-related assets, green asset, short, medium and long-term; circular economy principles) and a set of minimum standards (which, among others, should also refer to renewable energy and/or energy efficiency aspects).
- The EU should achieve a comprehensive and detailed taxonomy, but at the same time flexible enough to allow adding new assets and financial products, given the dynamic and evolving nature of sustainable projects and products.

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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?

- A common EU standard has a potential to support growth of the Green Bond market as long as it does not impose overly strict requirements on issuers so as not to curb the development of a nascent market. It should be easily understood and provide relevant information for investors and analysts. The EC should rely on existing well-functioning standards or labels, such as GBP.
- Such a standard should define the minimum reporting procedures for green bonds (same for all) preventing the green washing. As a first step, green instruments on the basis of covered bond and the project bond should be developed.
- The development of a green covered bond is feasible through the definition of the standards needed for new housing or rehabilitation of old housing considered as green. In these areas, best practices are developing in the local markets.
- The green project bond could have a green label if the underlying project is deemed green. Provision of a third-party assessment of risks against which the investor can benchmark his own assessment, together with the development of a common taxonomy, valuation and reporting, will mitigate the risk of green washing.
- For a “Green Use of Proceeds Bond”, which accounts for the vast majority of outstanding green bonds, investors then have the chance to apply a mix of both standards for their own assessment.

Develop a classification system for sustainable assets and financial products

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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 European Investment Advisory Hub (EIAH) is an efficient single point of entry for municipalities to receive advice on sustainable projects. Creation of a separate dedicated organisation is not seen as necessary. Hence, we welcome the HLEG’s recommendation to leverage the EIAH with subsidiaries in the regions and expand its services to:
  - work alongside local authorities and policymakers to increase understanding of how private capital can accelerate short-term deployment of sustainable infrastructure solutions;
  - improve the sustainability of currently investable assets, e.g. water companies etc. by improving regulatory mechanisms (including measures involving sustainability objectives and linking rewards to those objectives;
  - work on legislation that promotes adoption of sustainability measures across national and local infrastructure and the involvement of private capital e.g. through land value capture policies to support compact urban development.
- To support the EIAH, policymakers should send a clear political signal by prioritizing the sustainable sectors and defining specific actions to improve the demand for such assets.
- Building a common EU scheme for sustainable public-private partnership, incentivizing the cooperation between public and fin. institutions could help to speed the transition, but would require further education for EU’s municipalities and procurement authorities on the benefits of PPP transactions, as compared to funding through public funding.

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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

xDon't know / no opinion **/ not relevant (but we may need to say yes to be able to fill in 5.1)**

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?

- The maturity transformation and risk assessment are key activities of banks and as such are not perceived by banks themselves as a main obstacle for long-term funding. Instead, compliance with regulatory requirements and even more importantly, the instability and uncertainty of the regulatory environment forces banks to build their balance sheets in a constrained way to:
  - comply with the current regulatory requirement;
  - optimize the use of capital under the current regulatory environment; and
  - avoid "locking in" capital in case of future changes to the regulatory framework.
- The majority of the investments are measured in very short periods of time (even below a year). This impacts on how investors interact with management teams and make investment decisions. Long-termism can be fostered by promoting the training of the financial sector on ESG impacts of their investment decision and modifying how investment professionals' performance is measured.

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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 could analyse the possibility of institutional investors to report on green/sustainable performance indicators of their investments to increase transparency and to enable investors to make their decisions also based on sustainability factors of the respective fund.
- Voluntary disclosures by issuers could improve climate-related information and analysis tools for analysts. We support the work of the FSB TF and its objective of greater public disclosure of financial risks arising from climate change and policy responses, where material and relevant to the business of a given issuer. Such disclosures should inform research analysts who play an

Mismatched time horizons and short-termism versus long-term orientation

important role in helping investor managers make informed decisions with the available information from a pre-offer (e.g. by publishing sector reports, background briefings for the media) to the aftermarket (e.g. through ongoing research on sectors or specific securities).

- Investment bank research rely exclusively on public disclosures to assess the risk and opportunities of climate change is a source of new investment ideas and strategies.
- Specific ESG training to analysts and investment managers can also be considered to help the development of best practices.
- The importance of responsible/sustainable investment with asset owners who are not yet PRI signatories should be promoted to help build the capacity of smaller asset owners to set responsible/sustainable mandate/fund requirements.

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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 European Commission, cooperating with the EIB, should propose guidelines on investing in green assets and should also establish new ad hoc financial instruments. Furthermore, since public projects, such as big green infrastructures are long-term oriented and should be included in this pipeline, it could be helpful to promote and facilitate public investing on green projects (for example avoiding too restrictive accounting rules on green investments for public institutions or promoting a facility which could help in aggregate smaller local green projects).
- The EU and national governments, through the EFSI, should increasingly continue to support projects that would otherwise not be financially viable, particularly for projects with unquantifiable usage/demand risk. Some of this risk could be mitigated through partial usage of guarantees provided by NPB, which would be a strong political signal and could turn an unmarketable transaction into one which would be marketable. To strengthen that development, we would welcome the inclusion of SDG goals in the EFSI investment criteria.
- In order to enhance the visibility of financeable green projects, the European Investment Project Portal (EIPP) could be the main platform.
- Further education for EU's municipalities and procurement authorities on the benefits of PPP transactions, as compared to funding through public funding is necessary.

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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
- x Require all credit rating agencies to include ESG factors as part of their rating
- All of the above
- 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.

- We support the integration of ECC risk factors into ratings. Given the early stage, as a first step, we would support standardization of the criteria and scales of valuation (to make them comparable), allowing however each credit rating agency to apply its own methodology.

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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?

- Long-term sust. strategy to align policies with fin. developments and provide clarity and certainty (Industrial Strategies)
- Public entities to share risks for which there is no market and provide assistance
- Subsidies (tax benefits or subsidized funding conditions)/phase-out of inappropriate subsidies
- Monetary policy measures, (e.g. accepting certain green assets as collateral for central bank loans)
- Implementation of an EU ECC risk categorizing system for ECC screening
- Development of standard contracts for various types of green projects
- Dissemination of data to speed up and standardize performance risk analysis
- OECD to revise the sustainable lending guidelines to provide greater possibilities for commercial loans accompanying the respective projects
- Green supporting factor for exposure that provide environmental benefits (calibration to be consistent with the financial risk-ensuring financial stability). Brown penalizing factor will not promote sustainable finance, LPF and will penalize banks for lack of information outside their competence
- Capital treatment that varies over the time to encourage financing of origination of sust. assets and its subsequent refinance in capital markets
- Changes to CRR2 re LCR and NSFR to reduce liquidity constraints for medium to long-term green finding
- Banks to foster retail investors' understanding of sustainable projects' positive consequences

- Further details to be found in the EBF report on Green Finance (28 Sept 2017)

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Role of insurers

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

- A stronger involvement of insurance companies on sustainability could be possible through:
  - the creation of green loans which include an insurance against climate losses;
  - involvement in new business models such as the "product as a service" (e.g. car sharing and pooling that may need specific insurance and can positively impact CO2 reduction);
  - fiscal incentives for this kind of insurance.
- Another option could be, for example, to legislate the compulsoriness of insurances against climate losses in a certain urban context where the hydrogeological risk is particularly high (public-private partnerships in these cases should share the risk).
- Insurers which offer Traditional Products to its customer base need to invest on a long term horizon. As for any asset, it will be important to develop a market where prices could be observed and traded.

1500 characters maximum (spaces included)

Social dimensions

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

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- Sustainable Development Goals should be taken into due consideration when assessing priorities for private capital mobilization. In particular, the first one 'No poverty' can be addressed also through 'Financial Inclusion'. In fact, when people are included in the financial system, they are better able to climb out of poverty by investing in business or education.
- Climate change will have a strong social impact. Establishing a consistent definition of social enterprise used by the EIB, the EIF and the Commission is fundamental. Also, it should be a priority to fund pilot actions, e.g. through the EaSI programme, focused on the re-training of workers on new skills needed in a low carbon society and helping their placement.
- We would also recommend supporting the Impact Investing sector (a growing field as demonstrated by the Investing for Global Impact, a report by the Financial Times).

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?

Improve corporate disclosure of revenue related to the SDGs in order to support public equity/bond investors assessing and disclosing their positive impact.

- MSCI developed 'ESG Impact Metrics' to help investors identify publicly traded companies that generate revenue from positive social and environmental products and services.
- Expanding data availability for more aspects of sustainability and number of companies to which this applies. Sector specific positive social and environmental metrics (i.e. amount of clean water/day provided, number of people trained) could be developed in cooperation with the sector. Companies could then be encouraged to report against these metrics. EU sector associations could support efforts to establish a global positive impact metric for their sector.
- Expanding the availability of comparable positive impact metrics will make it easier for investors to measure the positive impact of public equity and debt funds, which could be an important way to improve communication to retail investors. The proportion of an investor's holdings of a company's equity and/or debt would represent the proportion of an investor's contribution to the company's positive impact (i.e. an investor supports X million litres/day of clean water through their equity/bond holdings of a water treatment company).

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

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- We would suggest covering the circular economy, assessing the advantages of a possible cooperation with the newly established expert group "Support to Circular Economy Financing".
- In addition, we would like to emphasize that the efforts taken should not be limited to the financial sector only. As the financial sector serves the real economy, the HLEG should focus on cross-industrial efforts, and the major roles that governments need to play.