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BANKING AND FINANCE

Public consultation on institutional investors and asset managers' duties regarding sustainability

Fields marked with * are mandatory.

Introduction

At the end of 2015, governments from around the world chose a more sustainable path for our planet and our economy by adopting the Paris agreement on climate change and the UN 2030 Agenda for Sustainable Development.

Sustainability has since long been at the heart of the European project. The EU is committed to development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Next steps for a sustainable European future European action for sustainability' {SWD(2016) 390 final}).

The EU wants its financial system to be aligned with its sustainability objectives. The commitment to incorporating sustainability elements into EU financial services policies and cross cutting initiatives is ingrained in the Mid-Term Review of the Capital Markets Union Action Plan (Mid-Term Review of the Capital Markets Union Action Plan - COM(2017) 292 final).

To develop the overall vision of sustainable finance that this requires, the Commission decided last year to appoint a High-Level Expert Group (HLEG) on sustainable finance under the chairmanship of Christian Thimann. This group is supporting the Commission to develop an overarching and comprehensive EU strategy on sustainable finance.

On 13 July 2017, the HLEG published its interim report which provided a comprehensive vision on sustainable finance. It identified two imperatives for Europe's financial system. "The first is to strengthen financial stability and asset pricing, by improving the assessment and management of long term risks and intangible factors of value creation. The second is to improve the contribution of the financial sector to sustainable and inclusive growth by financing long-term needs and accelerating the shift to a sustainable economy".

In its interim report (EU High-Level Expert Group on Sustainable Finance, 'Financing a sustainable European economy' Interim report, July 2017), the HLEG proposed eight early recommendations for policy action on sustainable finance. The third recommendation focused on establishing a "fiduciary duty" that encompasses sustainability. The HLEG suggested clarifying that the duties of institutional investors and asset managers explicitly integrate material environmental, social and governance (ESG) factors and long term sustainability.

Given the maturity and the interest of the HLEG recommendation, the Commission has decided to start work on an impact assessment to assess whether and how a clarification of the duties of institutional investors and asset managers in terms of sustainability could contribute to a more efficient allocation of capital, and to sustainable and inclusive growth.

The duties of care, loyalty and prudence are embedded in the EU's financial framework governing obligations that institutional investors and asset managers owe to their end-investors/scheme members. These duties are the foundation of investment process.

The implementation of these duties implies fulfillment of various obligations for asset managers and institutional investors that include, for instance, the duty to act in the best interest of beneficiaries /investors, with due care, skill and diligence in performing their activities, including the identification and management of conflict of interests. They are also required to act honestly, and ensure adequate and proportionate performance of their activities.

Although these duties are embedded in the EU financial legal framework, it appears unclear that they require institutional investors and asset managers to assess the materiality of sustainability risks (i.e risks relating to environmental, social and governance issues). Market practices indicate that institutional investors and asset managers generally understand these duties as requiring a focus on maximising short-term financial returns and disregard long-term effects on performance due to sustainability factors and risks. This can lead to misallocation of capital and might give rise to concerns about financial stability since markets can be vulnerable to abrupt corrections, such as those associated with the delayed transition to low carbon economies.

This consultation will help the Commission gather and analyse the necessary evidence to determine possible action to improve the assessment and integration of sustainability factors in the relevant investment entities' decision-making process.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-investors-duties-sustainability@ec.europa.eu.

More information:

- on this consultation
- on the protection of personal data regime for this consultation

Glossary

Relevant investment entities: entities managing assets entrusted to them

Sustainability factors: for the purpose of this consultation, sustainability factors refer to environmental, social and governance issues as defined by the United Nations Environment Programme (UNEP) (*UNEP Inquiry, Definitions and Concepts: Background Note, 2016*). The exact scope of sustainability factors to be addressed is also the object of this consultation.

Environmental issues relate to the quality and functioning of the natural environment and natural systems including biodiversity loss; greenhouse gas emissions, renewable energy, energy efficiency, natural resource depletion or pollution; waste management; ozone depletion; changes in land use; ocean acidification and changes to the nitrogen and phosphorus cycles

Social issues relate to rights, well-being and interests of people and communities including human rights, labour standards, health and safety, relations with local communities, activities in conflict zones, health and access to medicine, consumer protection; and controversial weapons.

Governance issues relate to the management of investee entities. Issues include board structure, size, diversity, skills and independence; executive pay; shareholder rights; stakeholder interaction; disclosure of information; business ethics; bribery and corruption; internal controls and risk management; and, in general, issues dealing with the relationship between a company's management, its board, its shareholders and its other stakeholders.

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:

Eurosif

Contact email address:

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

flavia.micilotta@eurosif.org

*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

*If so, please indicate your Register ID number:

70659452143-78

*Type of organisation:
- ○ Academic institution
- ○ Company, SME, micro-enterprise, sole trader
- ○ Institutional investor
- ○ Consultancy, law firm
- ○ Consumer association
- ○ Industry association
- ○ Media
- ● Non-governmental organisation
- ○ Think tank
- ○ Trade union
- ○ Other

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

Belgium

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

at least 1 choice(s)

- [ ] Accounting
- [ ] Auditing
- [ ] Banking
- [ ] Credit rating agencies
- [ ] Insurance
- [ ] Occupational pension provision
- [ ] Personal pension provision
- [ ] Collective Investment Management
- [ ] Individual portfolio management
- [ ] Financial advice
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Service provider (e.g. index provider, research providers)
- [x] Other
- [ ] Not applicable

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

Promotion of Sustainable and Responsible Investment

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

2. Your opinion

2.1 Questions addressed to all respondents:

I. General overview

1) Do you think relevant investment entities should consider sustainability factors in their investment decision-making?

- (●) Yes
- ( ) No

No opinion

Please explain the reasons:

According to Eurosif's definition, Sustainable and Responsible Investment ("SRI") is a long-term oriented investment approach, which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long-term returns for investors, and to benefit society by influencing the behaviour of companies.
SRI requires investors to understand how investee companies manage their environmental and social risks and impacts and develop long-term sustainable growth strategies for their business. Behind SRI is the notion that ESG factors are direct or indirect value drivers that are material to the long-term success and performance of a business, both in terms of risks and opportunities.
Because they represent long-term beneficiaries who have a natural interest in preserving the wealth in their investment portfolios, pension plan trustees tend to focus on longer-term issues. Within the financial arena, institutional and private asset owners determine capital allocation and are therefore crucial to encouraging both corporations and financial institutions to move towards more sustainable behaviour. Progress will require key decision-makers to abandon conventional approaches to investing, which have thus far been based to a large extent on chasing short-term gains. As holders of some of the largest pools of investment capital with the greatest potential impact on industry practices, pension funds are particularly well-positioned to effect change. Pension fund trustees must give their asset managers clear mandates to incorporate ESG criteria into their investment decisions, reflecting their need to meet their long-term horizons for pension fund liabilities (i.e. payments to plan participants).

2) What are the sustainability factors that the relevant investment entities should consider? (Please make a choice and indicate the importance of the different factors (1 is not important and 5 is very important). (Please refer to the definition in the Glossary).

	Yes	No	No opinion
Climate factors (these include climate mitigation factors as well as climate resilience factors)	●	○	○
Other environmental factors	●	○	○
Social factors	●	○	○
Governance factors	●	○	○
Others	○	○	○

Importance for climate factors:

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ● 5

Importance for other environmental factors:

- ○ 1

- ( ) 2
- ( ) 3
- ( ) 4
- (•) 5

Importance for social factors:

- ( ) 1
- ( ) 2
- ( ) 3
- ( ) 4
- (•) 5

Importance for governance factors:

- ( ) 1
- ( ) 2
- ( ) 3
- ( ) 4
- (•) 5

Please specify, which specific factors within the above categories you are considering, if any:

The above-mentioned categories underpin crucial elements of sustainability which need to be considered as part of a responsible investment approach. While all are essential, it is fundamentally up to the client to choose which are the most material and strategic to their particular investment strategy. Because 'there is no one size fits all, with the financial materiality of different ESG issues varying across sectors' , it isn't possible to establish upfront, a prioritisation of these categories.

'Why and How investors use ESG information: evidence from a global survey, Amir Amel-Zadeh and George Serafeim, HBS 2017 http://www.hbs.edu/faculty/Publication%20Files/17-079_546e8c67-bfa4-4356-8c50-6e99873391a0.pdf

3) Based on which criteria should the relevant investment entities consider sustainability factors in their investment decision making?

Please explain:

In order to successfully integrate sustainability factors in the decision-making process, investment entities should carefully define their investment policy in accordance with investment preferences and in line with the time-horizon as consistent with the investors' obligations. Legal obligations applicable to investors across EU countries and which already specifically refer to ESG should be taken into account as part of the overall approach. With the support of the European Commission, Eurosif has produced a specific toolkit for investors , particularly focusing on pension funds. This guide was produced mainly to help trustees better understand and integrate SRI into their pension fund's strategy. Furthermore, over the years, Eurosif has identified a number of investment strategies available to investors to practice SRI and hence embed sustainability into their investment strategies.

http://www.sd-m.de/files/Eurosif-pension-toolkit-2004-2005.pdf

http://www.eurosif.org/responsible-investment-strategies/

4) Which of the following entities should consider sustainability factors in their investment decision-making? (Possibility to select several answers). If so, please indicate the level of impact that this would have (1 is the smallest impact and 5 is the highest impact).

	Yes	No	No opinion
Occupational pension providers	◉	○	○
Personal pension providers	◉	○	○
Life insurance providers	◉	○	○
Non-life insurance providers	◉	○	○
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)	◉	○	○
Individual portfolio managers	◉	○	○

Please explain:

In order for SRI to become mainstream, sustainability factors need to be considered by all actors in the investment cycle. Asset owners are, of course, the most relevant party in the equation, but if these actors are to consider sustainability for their investment decisions, then the advisers they work with, such as asset managers of other intermediaries, are also very important.

Level of impact for occupational pension providers:

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ◉ 5

Level of impact for personal pension providers:

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ◉ 5

Level of impact for life insurance providers:

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ◉ 5

Level of impact non-life insurance providers:

- ( ) 1
- ( ) 2
- ( ) 3
- ( ) 4
- (x) 5

Level of impact for collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF):

- ( ) 1
- ( ) 2
- ( ) 3
- ( ) 4
- (x) 5

Level of impact for individual portfolio managers:

- ( ) 1
- ( ) 2
- ( ) 3
- ( ) 4
- (x) 5

II. Problem

5) To your knowledge, what share of investment entities active in the EEA (European Economic Area) currently consider sustainability factors in their investment decisions?

	All or almost all	More than two thirds	More than half	More than a third	None or almost none	No opinion
Occupational pension providers	( )	(x)	( )	( )	( )	( )
Personal pension providers	( )	(x)	( )	( )	( )	( )
Life insurance providers	( )	( )	( )	(x)	( )	( )
Non-life insurance providers	( )	( )	( )	(x)	( )	( )
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)	( )	( )	( )	( )	( )	(x)
Individual portfolio managers	(x)	( )	( )	( )	( )	( )

6) To your knowledge, which is the level of integration of sustainability factors by the different investment entities (active in the EEA)?

	High integration	Medium integration	Low integration	No integration	No opinion

Occupational pension providers		X			
Personal pension providers			X		
Life insurance providers			X		
Non-life insurance providers			X		
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)			X		
Individual portfolio managers		X			

7) Which constraints prevent relevant investment entities from integrating sustainability factors or facilitate their disregard. Please provide the importance of the different constraints that you consider relevant (1 is not important and 5 is very important).

	1	2	3	4	5	No opinion
Lack of expertise and experience					X	
Lack of data/research			X			
Lack of impact on asset performance				X		
Inadequate methodologies for the calculation of sustainability risks				X		
Inadequate sustainable impact metrics				X		
Excessive costs for the scale of your company			X			
No interest from financial intermediaries		X				
No interest from beneficiaries/clients			X			
European regulatory barriers		X				
National regulatory barriers		X				
Lack of fiscal incentives			X			
Lack of eligible entities	X					
Others						

Please provide more details on what the constraints/reasons are and how they limit the integration of sustainability factors:

Eurosif has been tracking the state of SRI in Europe in its biennial study since 2003. The study researches the amounts of AuM allocated by asset owners and managers in Europe. During the last review, the total figure amounted to over €11 trillion across the different SRI strategies . In total 278 asset managers and asset owners with combined AuM of €15 trillion participated in our survey, representing market coverage of 81%. The breakdown provided in the answer below reflects the findings of our study.

As part of our survey, we asked our respondents to list what elements they believed held more potential to stimulate the industry growing further. This exchange fostered a debate around the present and future needs of the different players and which of the main drivers were essential. It is interesting to note how the strong pull from institutional investors has virtually doubled since 2012, showing the extent to which this investors' class retains the power to shape the industry. The slight decrease in the degree to which external parties (NGOs, media,…) can influence the debate just proves that the industry is becoming increasingly mature and that the endogenous drivers are the strongest ones. Materiality consistently remains a key aspect for investors. We are hoping that the regulators, today so involved in directives that carry key value in this sense, will do much to respond to their needs. This year, we asked our respondents to explain the main drivers and deterrents to their SRI strategy work. What follows is a compilation of answers that gathers the main sentiment among SRI professionals. The leading role played by fiduciary duty as a main driver for SRI sends a very strong message for policy makers. In the fiduciary duty debate, fund managers have come to see fiduciary duty as a deterrent to ESG criteria incorporation into their investment process. A critical piece of evidence for this argument is the lack of consistency in the correlation between non-financial indicators and fiduciary duty. In December 2015, Eurosif issued its policy position for regulators on the Capital Markets Union Action Plan, as a follow-up to the manifesto published in May of the same year. One of the main recommendations made was in favour of a clear definition of fiduciary duty as including ESG issues. As climate and wider ESG risks are material to business, we believe that acting in the beneficiaries' best interest means having a long-term approach to business and fully factoring in ESG issues in investment decisions. Concerning the top deterrents to SRI for investors, we find that the top reason is linked to a theory that can now be considered largely disproved: the concern that integrating ESG factors in the investment strategy could negatively affect returns. In second place, we find the current lack of viable products. This is potentially linked to a bigger concern for the industry regarding the future of the European retail demand for SRI, which as we argue in this report, offered interesting pockets of growth across EU members states over the past two years.

8) How challenging is it for relevant investment entities to integrate the different sustainability factors? (1 is not challenging and 5 is very challenging) - Please refer to the definition in the Glossary).

	1	2	3	4	5	No opinion
Climate factors (*these include climate mitigation factors as well as climate resilience factors*)	○	○	●	○	○	○
Other Environment factors	○	○	○	●	○	○
Social factors	○	○	○	○	●	○
Governance factors	○	●	○	○	○	○
Others	○	○	○	○	○	○

Please explain:

The wealth of data that exists on ESG is not equally balanced across the three criteria. The quality of detail on climate and environmental KPI is more evolved today and due to its nature and historical record, easier to quantify, hence it has been easier to assess the impact on company's performance.

III. Policy options

9) In which area should relevant investment entities consider sustainability factors within their investment decision-making? Please make a choice and indicate the relevance of the different areas (1 is minor relevance and 5 is very high relevance).

	Yes	No	No opinion
Governance	◉	○	○
Investment strategy	◉	○	○
Asset allocation	◉	○	○
Risk management	◉	○	○
Others	◉	○	○

Please specify others:

Valuation- target price

Relevance for governance:

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ◉ 5

Relevance for investment strategy:

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ◉ 5

Relevance for asset allocation:

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ◉ 5

Relevance for risk management:

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ● 5

Relevance for others:

- ○ 1
- ○ 2
- ● 3
- ○ 4
- ○ 5

10) Within the area of governance, which arrangements would be most appropriate to enable the integration of sustainability factors? (1 is the not appropriate and 5 is the very appropriate).

	1	2	3	4	5	No opinion
Specific sustainability investment Committee	○	○	○	●	○	○
Specific sustainability member of the Board	○	○	●	○	○	○
Sustainability performance as part of remuneration criteria	○	○	○	○	●	○
Integration of sustainability factors in the investment decision process	○	○	○	○	●	○
Integration of sustainability checks in the control process	○	○	○	●	○	○
Periodic reporting to senior management/board	○	○	●	○	○	○
Others	○	○	○	○	○	○

11) Should insurance and pension providers consult their beneficiaries on an annual/periodic basis on their preference as regards sustainability factors?

- ● Yes
- ○ No
- ○ No opinion

Please explain:

12) Within the portfolio's asset allocation, should relevant investment entities consider sustainability factors even if the consideration of these factors would lead to lower returns to beneficiaries/clients in the medium/short term?

- (x) Yes
- ( ) No
- ( ) No opinion

Please explain:

Investors should always consider ESG in terms of the material impact it can have on their investments. These aspects should be carefully weighted in line with the investment time-horizon and considering their risk mitigating potential. If even after all the above considerations, the investment entity considers that ESG does not lead to any positive implications, this should be reported on.

13) Within the area of risk management, does the current set of corporate disclosures provide the relevant investment entities with adequate information to perform sustainability risk assessments in respect of investee companies?

- ( ) Yes
- (x) No
- ( ) No opinion

Please explain where the possible gaps are, if any:

The set of ESG disclosure available today to investors does not necessarily match the risk assessments needs of investors and in that respect, does not manage to eliminate the issue with information asymmetry. The objective of disclosure is to enable investors to value the share and to assess the firm's ability to create value. There are several problems that can further distance this objective and can be linked to regulation, the manager's behaviours or to transparency per se. The mandatory disclosure does not necessarily require that firms give useful information to third parties. This has huge repercussions on the materiality of the information. Another argument refers to the veracity of the information disclosed or to the level of over-manipulation done by companies. More specifically, in terms of the current level of corporate disclosure, the lack of aligned metrics represents another barrier for investors. The need for forward-looking data which companies are not able to provide, coupled with the discrepant time horizon between the disclosed information and the investors' needs contributes to rendering the issue of disclosure all the more complex.

14) Do the overall information or risk metrics available enable the relevant investment entities to adequately perform sustainability risk assessments?

- (x) Yes
- ( ) No
- ( ) No opinion

Please explain where the possible gaps are, if any:

The present tools are sufficient, though they could be improved.

15) Do you think that uniform criteria to perform sustainability risk assessments should be developed at EU level?

- (x) Yes
- ( ) No
- ( ) No opinion

Please explain:

The industry would profit from basic guidance at an EU level, but the overall approach should start with the investor.

16) In case material exposure to sustainability factors is identified, what are the most appropriate actions to be performed by the relevant investment entity?

Eurosif has identified a set of approaches which investors can use to shape their own investment strategy. The categories are regularly reviewed and they reflect the growth of the general SRI industry. These are: exclusions, norms-based screening, best-in-class selection, sustainability themed investment, ESG integration, engagement and voting on sustainability matters. Eurosif has been refining these approaches for the past 10 years and will continue to report on their evolution. For more information, please visit: http://www.eurosif.org/responsible-investment-strategies/

17) Should relevant investment entities disclose how they consider sustainability factors within their investment decision-making?

- (x) Yes
- ( ) No
- ( ) No opinion

Please explain:

If yes, what areas should the disclosure cover? Please make a choice and indicate the relevance of disclosure within the different areas (1 is minor relevance and 5 is high relevance):

	Yes	No	No opinion
Governance	(x)	( )	( )

Investment strategy	(x)	( )	( )
Asset allocation	(x)	( )	( )
Risk management	(x)	( )	( )
Other	( )	( )	( )

Relevance for governance:

- ( ) 1
- ( ) 2
- ( ) 3
- ( ) 4
- (x) 5

Relevance for investment strategy:

- ( ) 1
- ( ) 2
- ( ) 3
- ( ) 4
- (x) 5

Relevance for asset allocation:

- ( ) 1
- ( ) 2
- ( ) 3
- ( ) 4
- (x) 5

Relevance for risk management:

- ( ) 1
- ( ) 2
- ( ) 3
- ( ) 4
- (x) 5

If yes, where?

	Yes	No	No opinion
Pre-contractual disclosure (e.g. prospectuses)	(x)	( )	( )
Semi-annual/annual reports	(x)	( )	( )
Periodic reports	(x)	( )	( )
Website	(x)	( )	( )

Newsletters	◉	○	○
Factsheets	◉	○	○
Marketing materials	◉	○	○
Others	○	○	○

IV. Impacts for stakeholders

18) Which stakeholder groups would incur costs and which would benefit from integrating sustainability factors within investment decision-making by relevant investment entities?

	Benefits	Costs
Occupational pension providers	☑	☑
Personal pension providers	☑	☑
Life insurance providers	☑	☐
Non-life insurance providers	☑	☐
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)	☐	☑
Individual portfolio managers	☑	☐
General public	☑	☐
Retail investors	☑	☑
Financial advisors	☑	☐
Service providers (index provider, research providers…)	☑	☐
Other stakeholders (please specify)	☐	☐

Please explain:

2.2 Questions addressed to end-investors

1) Do you take into account sustainability factors when you choose your investment products or investment entity?

- Yes
- No

3. Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

1b43fd0b-9312-4c51-86e6-5103c0f1efde/Eurosif_feedback_ID_2018.docx

Useful links

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

Consultation details (https://ec.europa.eu/info/consultations/finance-2017-investors-duties-sustainability_en)

Specific privacy statement (https://ec.europa.eu/info/files/specific-privacy-statement-institutional-investors-and-asset-managers-duties-regarding-sustainability_en)

Contact

fisma-investors-duties-sustainability@ec.europa.eu