Press Release – For immediate release

The European Sustainable and Responsible Investment Forum calls for Sustainability as 6th Principle to Capital Markets Union

The European Sustainable Investment Forum (Eurosif) urges EU policy-makers to deliver a Capital Markets Union meeting investors' growing concerns for sustainability issues and contributing to growth that serves EU citizens and the real economy.

Brussels, 12 May 2015 – As momentum is growing around the Capital Markets Union (CMU) initiative and the deadline for the consultation about the recent Green Paper is only a few days away, Eurosif, the premier pan-European sustainable and responsible investment membership organization, is publishing today a policy Manifesto to make the **promotion of long-term oriented investment practices, aligned with sustainable growth and economic development objectives, the 6th principle** on which the Capital Markets Union should be based, in addition to the five already put forward by the Green Paper.

The Eurosif paper makes **23 specific policy recommendations to incorporate growing investors' concerns for sustainability and excessive financial markets short-termism in the making of the Capital Markets Union. These recommendations are clustered around 5 high-level policy themes.**

A growing, but still small, proportion of investors realises that current business models, and more generally economic activity assuming unlimited natural resources, are not sustainable, creating systemic risk. The Bank of England itself recently warned that global warming could have "significant effects" on markets and financial bodies and the G20 has recently asked the Financial Stability Board to look into potential effects of stricter climate change rules on the global financial sector.

The Capital Markets Union Initiative seeking to "*unlock investment in EU companies and infrastructure*" as well as "*improve the allocation of risk and capital*" has to contribute to delivering sustainable economic growth, compatible with today's environmental and social challenges. This would also have the merit of contributing to curb the excessive short-termism of capital markets, which was one of the factors that led to the recent global financial crisis.

"*Europe's growth and job creation agenda cannot be decoupled from the broader sustainability agenda. They are two sides of the same coin. In today's world, sustainability factors can have a material impact on the financial performance of companies and investors. Incorporating sustainability elements into the Capital Markets Union will contribute to build resilience in the financial system and increase investors' confidence.*" said François Passant, Eurosif Executive Director.

To support sustainable, long-term economic growth, Eurosif urges the Commission to adapt the Capital Markets Union agenda so as to:

1. Incorporate a strong and comprehensive corporate disclosure policy package.

- Environmental, social and governance (ESG) factors can be material to corporate financial performance, including corporate cost of access to capital.
- Corporate information disclosure around ESG factors can help investors to more accurately price companies and support those investing in long-term sustainability oriented projects. Investment approaches incorporating elements of corporate sustainability reporting have grown faster than the overall EU asset management market in 2011-2013.
- The Non-Financial and Diversity Disclosure Directive adopted last year marks an important first step that needs to be complemented by a more comprehensive disclosure regime, to better meet investors' expectations and improve the allocation of capital. This would create a virtuous circle, thus boosting Europe's competitiveness.
- Climate information disclosure and integrated reporting have a key role to play in that agenda.

2. Ensure that environmental, social and governance considerations are incorporated in investment practices.

- As ESG factors can affect the long-term performance of companies and have a material impact on stock value and investment portfolio performance, they are relevant to most asset classes.
- Sustainable and Responsible Investment (SRI) is an investment approach recognizing the materiality of these factors and the fact that about 84% of the value of a company today lies in its intangible assets. SRI approaches tend to be long-term oriented and connected to the real economy.
- As such, policy-makers should strive to build a policy framework conducive to such practices. Clarifying the compatibility between fiduciary duty and concerns for material ESG factors and enhanced disclosure around how asset owners take into account these are examples of measures that could foster SRI-compatible mindsets and practices.

3. Align incentives to reward corporate and investor stewardship practices reinforcing long-term value creation.

- Focusing on incentives is critical, as the current capital markets incentive system is primarily focused on short-term financial value.
- Re-aligning incentives (and rewards) with sustainable value creation, both on the investors' and companies' sides, will contribute to drive a new set of behaviors, aligned with the long-term growth and jobs ambition of the CMU initiative.
- Re-thinking remunerations and fee structures or expanding stewardship codes to other players of the investment chain, beyond investors themselves, can play an important part in this re-alignment.

4. Promote a sound corporate governance framework via active and long-term oriented share-ownership.

- There is consensus that governance is material to the financial performance of a company.

- Responsible and long-term oriented corporate governance is a critical component of a successful Capital Markets Union, as it helps boost confidence on capital markets and reflects on the entire company, while ensuring successful, long-term growth.
- Paradoxically, while investors increasingly look at this as part of their evaluation and due diligence processes, few of them actively make use of their ownership rights. Yet, constructive and long-term oriented shareholder-investee company dialogue can be a powerful lever for long-term value-creation.
- Progressing an ambitious revision of the Shareholder Rights Directive, and requiring that asset managers offer active ownership options in their investment contracts could contribute to reinforce this.

5. Scale-up long-term sustainable growth by leveraging financial innovation.

- A degree of latent institutional investor demand for investments into long-term productive assets exists, as such investments have the potential to meet some of their needs.
- Yet, it is sometimes challenging for certain investors to implement these investments, as they may lack capacity and expertise or when underlying projects are too small.
- A number of policy initiatives can be taken to scale up such investments such as for instance building a larger green bond market, reviving securitization in a sustainable way or making environmental and social screening a standard feature of long-term oriented investment vehicles and financial instruments aligned with the CMU objective such as the European Long-term Investment Funds (ELTIFs) for instance.

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Notes to Editor:

1. The full Eurosif Capital Markets Union Agenda is available on Eurosif's website here.
2. The Eurosif Agenda builds upon the Capital Markets Union Green Paper and the adjacent Consultation (COM(2015) 63 final).
3. The Bank of England One Research Agenda mentioning climate risk can be found here.
4. The Eurosif European SRI Market Study 2014 shows that all investment strategies incorporating elements of corporate sustainability reporting have grown faster than the overall European asset management market.
5. Integrated Reporting means the integrated representation of a company's performance in terms of both financial and other value relevant information. Integrated Reporting provides greater context for performance data, clarifies how value relevant information fits into operations or a business, and may help embed long-termism into company decision making. See http://integratedreporting.org/
6. 84% of a company's value lies in its intangible assets according to Ocean Tomo 2015 Annual Study of Intangible Asset Market Value.

7. Various meta-studies drawing upon leading academic show that ESG factors can be material to the financial performance of companies and their cost of access to capital. See for instance Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance, 2015; Deutsche Bank Climate Change Advisors, Sustainable Investing: Establishing Long-term Value and Performance, 2012.
8. For further information on European Long-Term Investment Funds, see here. ELTIF legislation was adopted on April 2015.
9. Eurosif is the leading pan-European Sustainable and Responsible Investment (SRI) membership organisation whose mission is to promote sustainability through European financial markets. Eurosif works as a partnership of Europe-based national Sustainable Investment Forums (SIFs) with the direct support of over 65 Member Affiliate organisations drawn from the sustainable investment industry value chain. These Member Affiliates include institutional investors, asset managers, financial services, index providers and ESG research and analysis firms totalling over €1 trillion assets. Eurosif's indirect European network spans across over 500 Europe-based organisations. The main activities of Eurosif are public policy, research and creating platforms for nurturing sustainable investing best practices as well as collaborative initiatives with other organisations around these activities.

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