

EU Policy Conference

# Can long-term investing unlock the potential of the CMU?

Towards a Sustainable Capital Markets Union

European Parliament, 1 June 2016



With the support of  
Flavio Zanonato, MEP (S&D, IT)

Eurosif, the European Forum for responsible investing and the Italian Sustainable Investment Forum – Forum per la Finanza Sostenibile – with the kind collaboration of MEP Flavio Zanonato (S&D, IT) organised on the 1st of June 2016 a conference on Long-Term investment as part of the Capital Markets Union. In view of the European Commission's recent release of its Capital Markets Union (CMU) Action Plan defining the building blocks of an effective and integrated CMU to be put in place by 2019, Eurosif wanted to seize the opportunity to highlight the crucial drivers that need to be part of the policy equation in order to guarantee on one side that the CMU is able to deliver economic growth and job creation as it commits to, while not denying the main pillars of sustainability.

**The discussion was kindly introduced by our host at the Parliament, MEP Flavio Zanonato (S&D, IT),** Member of Committee on Industry, Research and Energy. Our honourable guest highlighted the extent to which the CMU initiative is an opportunity to put financial markets to work to the benefit of SMEs, consumers and the real economy. In order to achieve these goals, there is a need to ensure that the CMU will not be used as a tool to deregulate the financial sector, but rather as a means to empower SMEs to access new sources of funding and encourage large institutional investors to make long-term sustainable investments. Enhanced tax transparency and 'patient capital' are part and parcel of this endeavour.

Flavia Micilotta, Eurosif Executive Director reminded the audience of the important position of SRI in the financial industry today and of its growth by 55 percent in Europe (between 2012-2014) totalling 13 trillion USD. SRI is no longer a niche and an absolute must in EU policy design. The Capital Markets Union presents several opportunities for SRI and therefore it is crucial to ensure that ESG criteria are respected and integrated coherently in a policy approach.

The Keynote Speech was delivered by Mr Niall Bohan, Head of Unit, Capital Markets Union, DG FISMA at European Commission.

Mr Bohan stressed the importance E and S issues have today and the extent to which they determine the societal change we are currently facing.

The financial system can potentially play an important role in mobilising private capital to finance an orderly transition from environmentally harming applications to more sustainable solutions. The COP 21 agreement, has affirmed the need for financial policy to facilitate this shift. If well managed, the transition to a low carbon and resource efficient economy can create economic opportunities for EU businesses.

The Paris Agreement aims to keep climate change within reasonable limits by keeping global temperature increase well below 2 degrees Celsius above pre-industrial levels. In this context, the EU is leading the way with its ambitious climate goals. Targets for 2030 include: a 40% cut in greenhouse gas emissions compared to 1990 levels; at least a 27% share of renewable energy consumption and therefore at least 27% energy savings compared with the business-as-usual scenario. However, considerable financial means are required for the implementation of these climate goals and green finance needs to be translated into policy. An important green finance instrument is represented by green bonds. Green bond issuance in 2015 amounted to EUR 42 bn globally, which still remains a small part of the total bond market.

There is a number of ongoing initiatives on green finance, including the G20 Green Finance Study Group which is currently working on a synthesis report on sustainable investment and the FSB Task Force on Climate-related Financial Disclosures (TCFD) which aims to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

At EU level, there are several Commission services working to integrate different ESG aspects into the CMU: there is a working group on green bonds, DG JUST recently organised a consultation on sustainable investment, and DG FISMA a consultation on non-binding guidelines for ESG disclosure in the context of the Non-Financial and Diversity Disclosure Directive. There were 350 contributions to the DG FISMA consultation and the non-binding guidelines are due by the end of the year. In addition, ESG disclosure is being considered in the context of IORPs II (institutional investors) and PRIIPs regulation (retail investors). However, more scientific work is needed to inform policy and regulatory decisions in these areas (e.g. carbon stress testing, green bond taxonomies). Notably, there is a need for empirically sound disclosures and clear expectations from issuers and investors on ways to use these ESG disclosures.

In addition to regulation, green public procurement also plays an important role, e.g. EU is committed to using 20% of its public spending to support Climate Action.

On 1st June the Commission published a stock-taking [Communication](#) on the Investment Plan for Europe and next steps, recognising the need to invest in more green projects.

The event continued with a panel discussion moderated by Francesco Biccato, Secretary-General of the Italian Forum for Sustainable Investment.



# Long-Term Investments can deliver sustainable and inclusive growth leading to a more competitive market place: what are the hurdles and opportunities Europe will be facing?

Moderated by **Francesco BICCIATO**, Secretary-General Italian Forum for Sustainable Investment

**Luke HILDYARD** - Policy Lead for Stewardship and Corporate Governance, Pensions & Lifetime Savings Association

**Alison TATE** - Director of External Relations, ITUC - International Trade Union Confederation

**Peter DE PROFT** - Director General, EFAMA - European Fund and Asset Management Association

**Marta JANKOVIC** - Vice-Chair of the Invest Europe Professional Standards Committee and Chair of the Invest Europe Responsible Investment Roundtable

**Richard HOWITT** - MEP (S&D, UK) – European Parliament Rapporteur on Corporate Social Responsibility

**Pervenche BERES** - MEP (S&D, FR) - Member of the Committee on Economic and Monetary Affairs

Francesco Bicciato introduced the panellists and the topic of the event by highlighting the relevance of long-term investments in support of quality employment. Sustainable finance drives the shift from speculative finance towards the real economy, through the integration of ESG analysis in our economic model. Bicciato also reminded the audience of the extent to which Eurosif membership and activities are available for both the European Commission and Parliament in view of any due diligence and analysis relating to SRI.





**"More and more research shows that ESG issues are material to business and financial returns."**

**HILDYARD Luke** - Policy Lead for Stewardship and Corporate Governance, PLSA - Pensions & Lifetime Savings Association

Representing over 1trillion EUR worth of assets under management, PLSA believes that due to the nature of their mission, pension funds should be natural long term investors. It is increasingly recognised that investing in ESG conscious companies gives investors more confidence in the diligence, operations and ultimately returns of those companies. More and more research shows that ESG issues are material to business and financial returns. PLSA will be soon publishing a study focusing on the link between employee wellbeing and financial returns.

There is an important recognition among PLSA members of ESG issues and of their relevance for investment. However, more work needs to be done especially in regard to smaller funds, many of which are still unaware or unwilling to take ESG issues into account. In order to address the issue, one needs to transition from a situation where investors need to acknowledge their lack of understanding of all those issues which are at stake.

**TATE Alison** - Director of External Relations, ITUC - International Trade Union Confederation

The ITUC is focused on the need for investors to direct investment to social and physical infrastructure, respecting core labour standards. 2016 seems to be the most vulnerable year for the global economy since 2008. This is due, in part, to short-termism in investment generating economic instability (the average holding of shares is currently 5 months). 'Patient capital' can be an antidote to short-termism and speculative investment and part of the solution to address ESG issues.

Following the Paris Climate Agreement investors need to take action to encourage companies to plan to be a part of a lower carbon, climate resilient economy. This requires moving from "business as usual" i.e. to have a decarbonisation plan with concrete emission reduction and job creation targets, taking into account due diligence as laid out in the UN Guiding Principles on Business and Human Rights and other relevant standards. In this sense, divestment should be a last option, rather efforts should focus on investor engagement with companies on these issues. Without consideration of ESG issues, the long term viability of pension funds is threatened.



**"Without consideration of ESG issues, the long term viability of pension funds is threatened."**

**DE PROFT Peter** - Director General, EFAMA - European Fund and Asset Management Association

Many investors are trying to address ESG issues by being more selective in their investments. Since investors have a fiduciary duty to act in the best interest of their beneficiaries, investors need to first define their values and objectives and then figure out ways to include them in their investment policy. Asset managers (AM) act as intermediaries between investors and companies, and thus give clients the opportunity to act on ESG issues, which is especially relevant for pension funds as natural long-term investors.

The creation of a single market for personal pensions is crucial for capital markets to ensure the most cost-effective and sustainable pensions, to unlock capital, facilitate economies of scale through the EU passport, and ultimately bring more capital into the real economy.

There is an important link between a single market for personal pensions and long-term sustainable investment: by channelling long-term capital into the real economy, the single market would facilitate 'patient capital', ESG would be an indicator of better financial risk and global value creation would be increased.

**JANKOVIC Marta** - Vice-Chair of the Invest Europe Professional Standards Committee and Chair of the Invest Europe Responsible Investment Roundtable

A long-term investment model is at the core of the investment classes represented by Invest Europe: private equity, venture capital and infrastructure sectors.

Private Equity Managers have a lot of power with respect to investment decisions, regarding portfolio companies, due to the direct ownership model. This comes with responsibility and accountability, including on ESG issues. Consideration of ESG issues is increasingly being demanded by institutional investors.

Policy-makers need to note that investors focus not only on single issues such as climate change, but rather on a wide range of ESG issues including human rights and broader social issues.



**"The creation of a single market for personal pensions is crucial for capital markets to ensure the most cost-effective and sustainable pensions."**



**"Policy-makers need to note that investors focus not only on single issues such as climate change, but rather on a wide range of ESG issues."**



**HOWITT Richard** - MEP (S&D, UK) – European Parliament Rapporteur on Corporate Social Responsibility

MEP Howitt highlighted the degree to which the EU is currently not the leading force behind sustainable investment. This needs to change. The CMU Initiative needs to enable a switch to more sustainable infrastructure and technologies by raising the necessary capital and empowering companies to make the switch.

There are a number of policy initiatives that can promote sustainable investment. For instance, the Shareholder Rights Directive (SRD) currently on the table provides an opportunity to link executive pay to sustainability, as many companies already do, which could potentially have a large impact. As regards the Non-financial and Diversity Disclosure Directive, there has been a great amount of policy work by the Commission and implementation efforts by Member States, which can also help with the transformation towards a more sustainable economy.

The next step should be to increase transparency of investors on ESG issues, while also increasing comparability of financial and ESG disclosures. Unless we can compare companies on their financial performance, we cannot compare them on their ESG performance, and it is increasingly acknowledged that more sustainable companies have access to cheaper capital.

Nevertheless, one needs to recognise that in the EU fiduciary duty is a norm, not a law. Therefore, there is no formal legal requirement for investors to maximise returns for their clients, and it should certainly not be a reason for short-termism and an impediment to incorporating ESG issues into investment decision-making.

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**BERES Pervenche** - MEP (S&D, FR) - Member of the Committee on Economic and Monetary Affairs

MEP Beres's opening remark focused on the current and unfortunate lack of roundtables - including, under the leadership of the Commission - gathering actors interested to promote and implement long-term investment.

Today the CMU initiative is on the table, presented as a means for enabling SMEs to access capital. On the other hand, governments need to finance the implementation of the Paris Agreement. However, there is yet no provision reconciling the goals of the CMU with those of the Paris Agreement. Moreover, the CMU does not include ecological transformation as one of its major drivers.

Policy needs to drive the market. Even if the market is doing its best, it cannot be successful in financing the ecological transformation without appropriate financial policy in place.

**OULTON Will** - Eurosif President

In his closing remarks Mr Oulton pointed out that Sustainability and ESG issues can be more easily embedded in financial markets if the quality of information and awareness are increased.

Today, in the general public across Europe financial illiteracy is still very much a concern and a deterrent to the further demand for Sustainable and Responsible Investment (SRI).

An example is millennials who are more interested in how their money is invested and in to what types of business activity. Eurosif has a significant role to play in developing the know-how and promoting examples of best practice.

To further develop a sustainable European capital market system better information on the environmental and social impacts of retail financial products would greatly enhance the level of understanding from users and savers – a cohesive regulatory framework can do much to achieve this going forward.



**"Even if the market is doing its best, it cannot be successful in financing the ecological transformation without appropriate financial policy in place."**



## About Eurosif

Eurosif – The European Sustainable Investment Forum is the leading European sustainable and responsible investment (SRI) membership organisation whose mission is to promote sustainability through European financial markets. A partnership of national Sustainable Investment Fora (SIFs) across Europe, Eurosif draws from a pool of over 400 organisations and some of the main stakeholders within the sustainable investment industry. These organisations include institutional investors, asset managers, financial services, index providers and ESG research and analysis firms totalling over €8 trillion in assets. Eurosif is also a founding member of the Global Sustainable Investment Alliance, the alliance of the largest SIFs around the world. The main activities of Eurosif are public policy, research and creating platforms for nurturing sustainable investing best practices.

Eurosif's EU Transparency registration number with the European Commission is 70659452143-78.

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