SUMMARY OF THE CONTRIBUTIONS TO THE HLEG ON SUSTAINABLE FINANCE CONSULTATION DOCUMENT

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The questionnaire and below consultation document have been independently prepared by the High-Level Expert Group (HLEG) on Sustainable Finance and concern the policy recommendations and options exposed in the Interim Report published in July 2017.

The European Commission only provided technical support to the HLEG consultation launched on 18 July 2017 through its online consultation tool. The below HLEG consultation document summarizing the HLEG consultation therefore ***cannot*** be regarded as a European Commission consultation document.

The questionnaire developed by the HLEG was an opportunity for stakeholders to provide targeted input to help shape the Sustainable Finance discussion in the European Union.

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Introduction

The High-Level Expert Group (HLEG) on Sustainable Finance was set up at the end of December 2016 to help develop an overarching, comprehensive EU strategy on Sustainable Finance by giving operational, practical, and concrete recommendations. The HLEG published its interim report in mid-July 2017 and presented the report at a stakeholder event on 18 July 2017.

In order to gather targeted feedback on the analysis and reflections in the interim report and to inform the preparation of the final report, the HLEG prepared and issued a consultation questionnaire. The responses received have served as information to the HLEG during the preparation of the final report. Each HLEG member and observer has received responses to all questions relevant to their respective work streams within the HLEG, thus ensuring that responses from the consultation have been considered in the context of defining the final recommendations.
This aggregated and anonymised feedback statement, summarizing the respondents' answers, is published along with the final report, as a further contribution to the wider policy debate on Sustainable Finance in the European Union.

This online consultation was open from 18 July until 20 September 2017. It aimed at gathering targeted feedback on the analysis and reflections in the interim report. The consultation consisted of 13 questions addressing subjects of broad and current interest in the area of sustainable finance issues related to particular members of the financial system and particular issues covered by the interim report (see Annex).

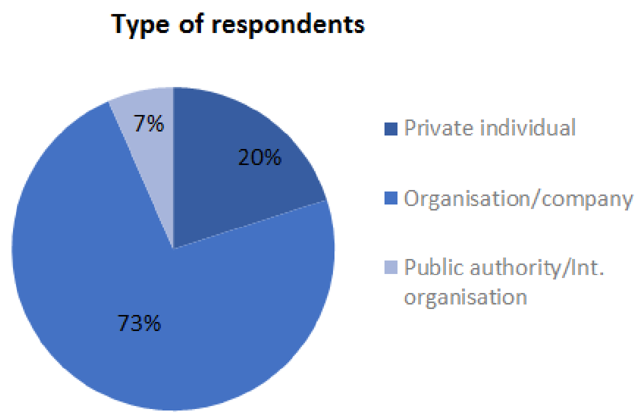
It should be noted that the online questionnaire is an HLEG consultation and not a European Commission consultation (the European Commission only provided its online consultation tool). All questions as well as the evaluation of responses were prepared and analysed by the HLEG.

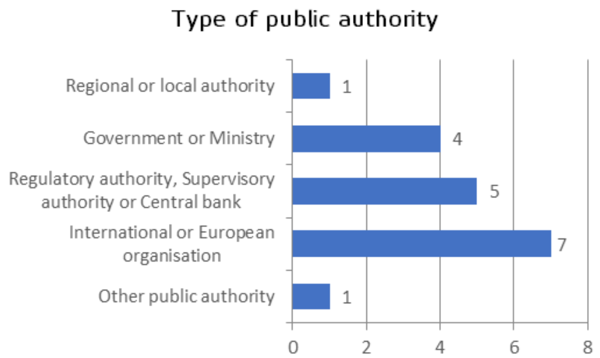
This document is broken down into the following sections:

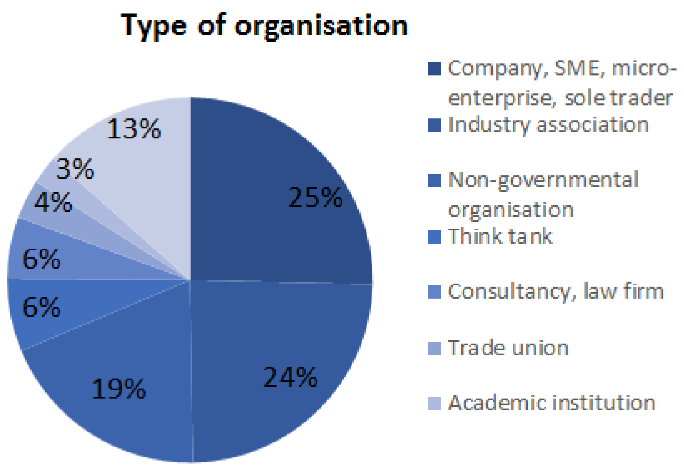
1. Overview of the respondents, which outlines the nature, activities and geographical location of the respondents;
2. Overview of the questionnaire, which outlines the most important issues raised to address the development of sustainable finance;
3. Summary of comments on policy recommendations raised in the interim report;
4. Summary of other areas suggested to be covered by the HLEG;
5. Presentation of the most important issues raised by specific interest groups.

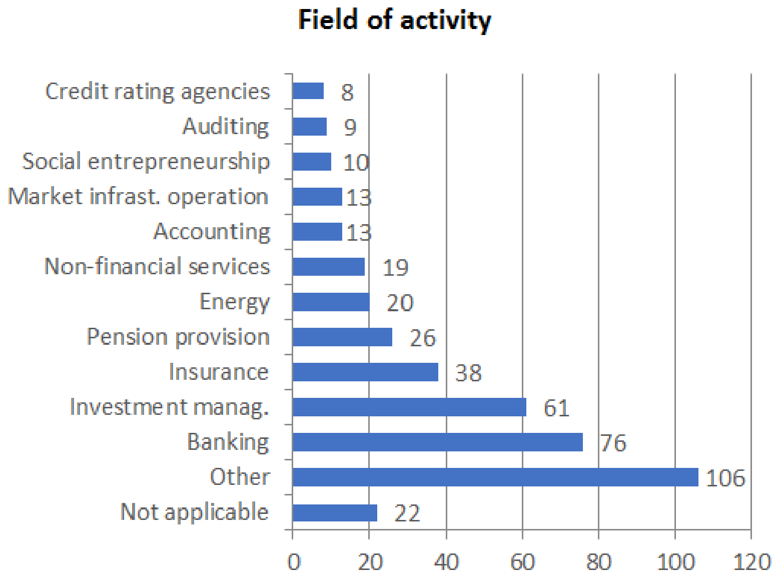
1. Overview of the respondents

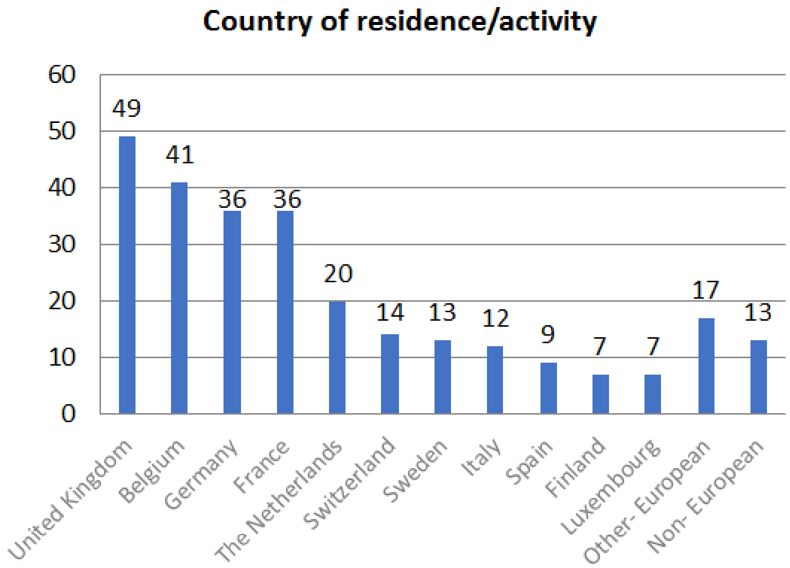
Respondents were categorized based on whether they were responding as an organization or company, individual person or public authority or international organisation. The organisation/company and public authority/International organisation categories were further broken down into type of organisation. A further breakdown was also requested based upon field of activity/sector and geographical location. The breakdown of the respondents is outlined in the charts below. 274 completed questionnaires were submitted online.











2. Overview of the questionnaire

HLEG received answers from different interest groups that can be organised into three overarching categories (financial system participants and facilitators; financial system observers; and other market participants and observers) within which some specific trends emerged, underlining respondents' particular interests and perspectives on the development of sustainable finance.

A. Financial system participants and facilitators: (representing about half of the respondents) comprises asset managers, banking sector, consulting firms, credit rating agencies, insurance sector, market infrastructure and pension funds.
   – A fundamental principle advocated by financial system participants and facilitators is the requirement to establish a **coherent and predictable policy and regulatory framework**. This should encompass establishing a clear long-term horizon EU policy on sustainability as well as

a series of incentives (capital relief, fiscal rules) encouraging the private sector to invest in sustainable projects. A particular concern expressed by the majority of respondents in this category is the **risk of over-regulation** of the sustainable assets market and advocated for the establishment of market-led standards.

- The respondents in this category also indicated the importance for clarification of the definition of **fiduciary duty** which should include the notion of sustainability.
- The final key point raised by market participants is the need to develop a **matching platform for investors and project sponsors** which would help to address the lack of supply of projects available for investment through sustainable financing instruments.

B. Financial system observers*:* (representing about a third of respondents) comprises academia, non-governmental organisations, public sector, think tanks, and trade unions.

- Besides the topic of disclosure and transparency, there was no real transversal trend within the category of financial system observers. However, two of the four interest groups within this category, the NGOs and trade unions, share a common concern about incorporating all ESG aspects, including the **social dimension** in the assessment of assets sustainability, emphasizing, in particular, the need for respect of human rights.
- The number of academics proposed to use other methods of financial analysis to accelerate the transition to sustainable finance. Certain academia and think tank respondents raised the question about clarifying the role of supervisory authorities as well as central banks, including the European Central Bank, in developing sustainable finance, through favourable monetary policies, alignments of their portfolios on a decarbonisation trajectory, or launching of 'green quantitative easing' programs.

C. Other market participants and observers: (making up less than 20% of submissions) comprises the energy sector, fintech, individual respondents, and miscellaneous respondent groups.

- Other market observers provided very scattered answers, which can be expected given the variety of respondents' backgrounds. It is interesting to note that the individual respondents were very much aligned with the general trends referred to above.

3. Most important issues for the development of sustainable finance and comments on the interim report policy recommendations

In the first and twelfth questions, respondents were invited to share their view on the most important issues to be addressed to move towards a more sustainable finance system, as well as to provide their perspective on the policy recommendations and policy areas in the interim report.

Certain strong trends transcending all the answers were noted:

- More than 30% of respondents underlined the importance of a **clear policy and regulatory framework** setting out a long-term EU strategy on sustainability and providing a conducive environment for sustainable investment and subsequent finance.
- Similarly, more than 30% of participants expressed their conviction about the importance of improved **disclosure**, including harmonized metrics, data quality, availability and

comparability, and standardized reporting requirements. The issue of transparency was raised frequently with regard to credit rating agencies. Many respondents advocate for more incisive incorporation of ESG in credit ratings and a good share made clear references to the Task Force on Climate-related Disclosures (TCFD).

- The necessity to develop a commonly agreed **taxonomy** of sustainability is another outstanding concern expressed by more than 20% of respondents.
- Just less than 20% of consultation participants consider the development of **harmonized standards** of sustainable products and assets as important.
- Another issue which was at the centre of respondents' attention is the definition of **fiduciary duty**, which generally could be extended to embed wider environmental, social and governance considerations.
- A similar proportion of respondents emphasised the need for education and awareness raising of financial sector employees, actors, but also of the public, about sustainability.
- Among other issues raised by respondents were: the need for long-term approach, the idea of introducing a sustainability test for financial regulation, the idea of creating a new 'European Observatory' and a public research unit, as well as further funding for research in the sustainable finance area, carbon pricing, central banks' action.
- Three quarters (73%) of the respondents agreed, and 7% disagreed (20% no answer or opinion) with the statement that 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.

4. Suggestions of other areas to be covered by the HLEG

At the end of the questionnaire (question 13), participants were able to provide suggestions of areas to be covered within the HLEG work. The answers provided included a wide variety of options, starting with the invitation to align HLEG work on sustainable finance with existing initiatives and standards (17% of respondents). Respondents have also suggested focusing on the engagement and education of the public and financial industry (13%). The development of clear definition, standards and metrics (10%), but also of granular data allowing comparison (9%), is also among the top proposals advanced by respondents. The role of central banks and their monetary policies was raised by 9% of consultation participants. 8% of respondents proposed to HLEG to focus as well on the S and G of the ESG. A broader consultation with other stakeholders, such as EU working groups, companies, academia, NGOs, etc., was suggested by 6% of respondents. Among other proposals emerging from the answers to the questionnaire are: focus on transparency and disclosure, HLEG going beyond the EU in scope, considering alternative methods of financial analysis, adopting a holistic view of sustainability, focusing on carbon pricing and fossil fuel subsidies, developing a more restrictive or on the contrary a less restrictive regulation, and focusing on fintech.

5. Presentation of the most important issues raised by interest groups (that responded to the online questionnaire)

This section provides a broad assessment per interest group based on the respondents to the online questionnaire.

A. Financial system participants and facilitators

Asset managers

The asset managers are focused on the establishment of a clear operating framework. A strong, credible, and consistent policy framework giving the certainty to operate is expected. Asset managers also suggest an EU regulation that would encourage and facilitate long-term investment, i.e. a review of the framework for risk weighting has been suggested. Asset managers advocate also for an improved clarity around fiduciary duty that would encompass the long-term interest of the company and the creation of non-financial value. In the opinion of some respondents, the policy incentives would stimulate sustainable development, hence they propose to establish a proper pricing for social and environmental externalities, mainly carbon pricing, reflecting the real value of assets and to introduce preferential taxation for sustainable investments. Asset managers are amongst those who did not see short termism as a problem or did not express an opinion about it.
Asset managers are also concerned with the issue of disclosure, including transparency in the use of proceeds, the development of standardised reporting, harmonised metrics and impact indicators. Asset managers in particular emphasised the need for reliable and comparable data. In addition to requirement for harmonised, robust labels for sustainable products was raised a number of times.

The asset managers have also raised the question of insufficient supply of projects to be funded through sustainable financing instruments suggesting the development of a matching platform for investors and projects sponsors.

Regarding the issue of standards, asset managers advocate for the introduction of a voluntary label, and a flexible but detailed standard, preferring the model where the market self-regulates.
The importance of education of finance professionals and consumers on sustainability and sustainable finance was also acknowledged.

Banking sector

Stable, coherent and predictable policy and regulatory framework was the common thread running through all the answers of respondents representing the banking sector. The majority warned against a policy uncertainty both on political and technical levels. On the former, banking representatives highlighted the need for a clear political commitment through a long-term policy on sustainability. Moreover, this interest group gives a great importance to various governmental incentives for the private sector in order to encourage further engagement on sustainability and investment in sustainable projects. On the technical level, banking sector representatives expressed their concern about the current regulatory framework hindering long-term investment through overly restrictive capital, liquidity coverage ratio and liquidity requirements, and they warned against an over-regulation of the sustainable finance area. Moreover, they underlined the importance of sustainability test for financial regulation.

The question of disclosure regarding ESG issues was the second most frequently mentioned topic, as respondents noted the importance of comparable metrics, common reporting formats, and transparency standards.

Other issues underlined by the banking sector representatives were the need to raise awareness about sustainability among market players and consumers, the insufficient supply of investment projects, the need of a flexible cross-asset EU taxonomy, and the need to establish adequate pricing for externalities. The banking sector also suggested the promotion of private-public partnerships projects for risk-sharing purposes using blended finance techniques.

Consulting firms

Disclosure remains a central issue in the perspective of consultancy firms. They raise the question of traceability of assets use throughout the supply chain that, in their opinion, would boost consumer trust. Moreover, respondents underlined the need for standardised impact metrics and the development of reporting requirements.
Furthermore, consultancies suggest that the EU could drive up the demand for sustainable finance mainly through the establishment of a credible and coherent climate policy and related regulation that would coordinate expectations and have the ability to reduce financial institutions' uncertainty. In addition, the topic of widening fiduciary duty to incorporate specific ESG considerations was also raised.

Credit rating agencies

Credit rating agencies (CRA) are concerned by disclosure, namely about the use of bond proceeds, and more specifically by the lack of Key Performance Indicators (KPIs) and reporting standards that would provide comparable information to investors. CRAs have suggested the adaptation of a flexible standard that would not hinder innovation. Half of respondents in this category highlighted the need for policy signals encouraging evolution towards sustainable finance sector. Among these suggestions were: the adjustment of minimum capital requirements, as well as the adoption of fiscal incentives. CRAs were amongst those who did not see short termism as a problem.

Insurance sector

Insurers are more concerned with the need to develop a coherent, reliable and coordinated policy and regulatory framework. 75% of respondents in this category declared that Solvency II can provide disincentives to long-term investment by setting out 'unnecessarily high capital requirements' on sustainable finance. Insurance sector representatives had also highlighted the need of a clarification of fiduciary duty definition that would encompass the notion of sustainability. As it was the case for other interest groups, insurers had also underlined the need of a clear and generally accepted taxonomy.

The transversal issue of disclosure is also in the focus of the insurance sector that stresses the importance of standardised reporting templates and material metrics, comparable across sectors and allowing aggregation of performance data.

Two thirds of respondents highlighted the limited supply of sustainable projects available for investing. Insurers expressed their hope that initiatives such as the Investment Plan for Europe will continue in the view of creating a strong pipeline of assets.

Market infrastructure

The two respondents representing market infrastructure business had a strong focus on disclosure. They requested more clarity about the information issuers have to disclose, a reporting framework, development of key indicators and methodology for metrics calculation.

Pension funds

Pension funds also expressed the need for a clearer policy and regulatory framework. One of their main concerns is the establishment of precise definitions for sustainable assets, as well as the development of a coherent, stable and long-term horizon policy on sustainability. Moreover, five out of eight respondents representing the pension funds stressed the importance of incentives to support integration of sustainability into investment information by establishing effective pricing for negative externalities.

However, the major focus in their answers was given to the matter of disclosure, namely the development of harmonised and comparable metrics that would show the impact of projects financed through sustainable financial instruments.

B. Financial system observers

Academia

Academia was consistent with the general trends observed in the answers given by other interest groups and put a major accent on the existence of a clear and coherent policy framework and the importance of disclosure. Respondents emphasised the role of policy and fiscal incentives, but also of easing capital requirements (green supporting factor), in the promotion of investment in sustainable projects. Concerning the issue of disclosure, they underlined the importance of reporting standards and availability of data on the investment and supply chain.

It is worth mentioning that eleven respondents proposed to use other methods of financial analysis to accelerate the transition to sustainable finance. At least four respondents proposed to adapt the risk assessment to take into account climate-related risks, potentially making sustainable assets more attractive.

Six respondents underlined the issue of a financial system decoupled from real economy, while three others emphasized the role of central banks and monetary policies, including quantitative easing, in stimulating sustainable investment. It is interesting to mention that five respondents have also suggested encouraging research in the field of sustainable finance.

NGOs – specifically on ESG

This category of respondents put a major focus on the question of disclosure. Some proposed mandatory reporting for sustainable finance labels and enhanced transparency of material risks. Some others raised the issue of standards for impact measurement. Overall, ESG focused NGOs argue that disclosure is essential for an effective analysis of ESG risks and opportunities. Taxonomies should be developed with all stakeholders, be clear and comprehensive so as to include all ESG aspects and be applicable to all financial activities. Also green bond standards should be subject to strict requirements, aligned with the Paris Climate agreement and all ESG criteria.

ESG-focused NGOs referred to the policy and regulatory framework aligned with long-term perspectives and encouraging sustainability/ESG integration into investment decisions amongst others to tackle the problem of short termism. Moreover, respondents advocated for disinvestment in fossil fuels that, in their opinion, hinder the development of sustainable finance.

The need for education and increasing the awareness among market participants about sustainability and sustainable finance was also raised by ESG NGO respondents.

NGO – Other topics

NGO representatives, not focused specifically on ESG topics, are, as other interest groups, focused on the question of disclosure, encompassing the need for transparency of the environmental and social impacts derived from investments. Nonetheless, NGO representatives are requesting more often than other groups a reporting on all ESG aspects, and not only green, including for green bond standards. Another general issue that is on the NGO radar is the need for a coherent policy framework, including, in the case of some respondents, a binding regulation to avoid green-washing and hold market actors accountable.

There are some questions representing a particular interest for this group – they expressed a particular requirement for the inclusion of social dimension in the assessment of assets sustainability, emphasising the need for respect of human rights. Another matter of special interest to NGOs are the risks associated with public-private partnerships (PPPs) that from their perspective contributed to numerous debt crises and should be put under a closer scrutiny. Moreover, NGOs make frequent reference to the need to adopt in the financial sector a governance model that avoids short termism and is based on investors' engagement; some argue for the need to consider larger stakeholder interests.

Public sector

Disclosure and a widely accepted taxonomy are at the centre of public sector focus. Respondents highlighted the need for defined measures and indicators to assess the impact of sustainable investments, as well as the lack of transparency by market participants. Regarding taxonomy, public sector representatives regret the lack of a definition and a common understanding of what constitutes sustainable finance.

Some of the public sector representatives raised the need for a coordinated EU approach to sustainability and a regulatory framework giving signals for private investment, including the pricing of externalities and the inclusion of ESG consideration into fiduciary duty.
A small number of respondents have also recommended the increase of the supply of sustainable investment projects.

Think tanks

The majority of think tank group respondents referred to the importance of a conducive policy and regulatory framework for the development of sustainable finance, emphasizing the private sector's need for a stable and predictable environment, and for governmental incentives. The question of disclosure recurs in the answers of this interest group, emphasising the need for data availability in order to establish sustainable finance standards and measure the impact on sustainability.

To be noted, three respondents drew HLEG attention to the role of central banks, including ECB, in developing sustainable finance, through favourable monetary policies, alignments of their portfolios on a decarbonisation trajectory, or launching of 'green quantitative easing' programs.

Trade unions

Some representatives of this interest group advocated for embedding all ESG criteria in the European sustainable standard and label, emphasizing the importance of respecting employees' rights by providing a decent work environment. Moreover, some others suggested that education on sustainability and accountability was offered to financial sector employees to ensure they are up-to-date with developments in ESG-themes.

Two respondents proposed that trade union representatives are present in the EU supervisory body that would oversee the European standard and label.

C. Other interest groups

Energy sector

Representatives of fossil fuel industry have a strong stance on sustainable development and suggested to perform the transition to low-carbon economy by using the gas and the gas infrastructure. Their main argument is the need to ensure a resilient and secure energy system. Concerning regulatory regimes, one respondent suggested that they are not subject to retroactive changes. One other respondent expressed his/her strong conviction that companies will never disclose all the economic parameters as a matter of competitive advantage.
On the other hand, renewable energy and large energy distribution companies had a less pronounced position and evoked mainly the role of coherent policy framework and subsequent incentives in transitioning to sustainable finance.

Fintech

Three fintech companies specialized in sustainable finance answered the questionnaire. One respondent focused on the benefits technology can bring to the sustainable finance sector by lowering the transaction costs for issuers and providing strong verification of green impact. A second noted the importance of political signals to develop sustainable finance sector and of availability of good data indicative of exposure to climate change, whilst the third underlined the importance of ESG disclosure.

Individuals

The answers given by individual respondents were scattered, which was an expected result given the wide variety of respondents' backgrounds. However, the major trends noted in other interest groups were also present, even though they were less prominent. For instance, a majority of respondents expressed their belief that the policy and regulatory framework plays an important role in shaping the sustainable finance sector, through policy and fiscal incentives, end of subsidies to fossil fuels, and establishment of adequate pricing for externalities. Similarly, the issue of disclosure was also mentioned, in the context of establishment of KPIs, data availability, and reporting on ESG impact.

The majority of individuals but not all saw short termism as a problem that could be dealt with in different ways. Three respondents brought up the subject of central banks' actions and their monetary policy that could encourage investment in sustainable projects.

Other

This category includes industry associations that do not represent financial market actors. While the answers given are very diverse, the industry associations warned against an overregulation, or precise and restrictive taxonomy. They did also declare that the existing accounting and reporting frameworks do not constitute an issue in terms of sustainability and not all saw short termism as a problem.

Annex

Q1 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)

Q2 What do you think such an EU taxonomy for sustainable assets and financial products should include?

Q3. 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?

Q4. 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?

Q5. 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?

Please choose 1 option from the list below

- ( ) Yes
- ( ) No
- (•) Don't know / no opinion / not relevant

Q6. 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?

Q7. How can the EU best create a strong and visible pipeline of sustainable investment projects ready for investment at scale?

Q8. 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

Q9. What would be the best way to involve banks more strongly on sustainability, particularly through long-term lending and project finance?

Q10. What would be the best way to involve insurers more strongly on sustainability, particularly through long-term investment?

Q11. What do you think should be the priority when mobilising private capital for social dimensions of sustainable development?

Q12. Do you have any comments on the policy recommendations or policy areas mentioned in the Interim Report but not mentioned in this survey?

Q13. In your view, is there any other area that the expert group should cover in their work?