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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)

- (x) 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

*Name of your organisation:

Institut für Finanzdienstleistungen, e.V., Hamburg

Contact email address:

The information you provide here is for administrative purposes only and will not be published

up@udo-philipp.de

* 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

* Type of organisation:

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

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

Germany

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

at least 1 choice(s)

- ☐ Accounting
- ☐ Auditing
- ☐ 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):

non for profit organization lobbying for a more sustainable financial industry

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)

1500 characters maximum (spaces included)

The most important issue is to make the "real economy" more sustainable. By doing so, most companies will have to change their business modell and many new businesses will come into existence. This will stimulate a significant wave of new investments, a lot of which will have to be financed by new equity or new loans. This is a fundamental prerequisite to make the financial industry more sustainable as well.

Today, banks that only lend to sustainable projects have a loan-to-deposit-ratio of approximately 60%. (e.g. GLS bank 63% https://www.gls.de/privatkunden/gls-bank/zahlen-fakten/ or Triodos 64% http://www.annual-report-triodos.com/en/2016/servicepages/downloads/files/annual_report_triodos_ar16.pdf, p.27)

This means that almost 40% of the money that customers think is being invested into sustainable loans is deposited at the ECB or invested into government bonds, despite that fact that this liquidity goes with 0.4% negative interest rate. These banks do not park their money at the ECB because they want to have a loans-to-deposit-ratio of 60%. They are obliged to do so because despite huge efforts they do not find more sustainable projects to lend to.

Also, many other banks have a surplus of savings.

The best way of transforming the real economy and thus fostering sustainable investments is to make sure that the price for CO2 reflects the high external costs of CO2.

Also, to make the financial more sustainable it is important to get rid of short term focus (cf #5)

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?

1500 characters maximum (spaces included)

We think an EU sustainability taxonomy should cover all products and institutions where savers put their money at work, i.e. banks, funds, equities, bonds.

From a content perspective, the taxonomy should cover the UN sustainable development goals and give the savers a clear perspective if their money is invested into companies that meet sensible ESG criteria or not.

The taxonomy should also include a clear perspective on the stability of the financial institution that is collecting the money, i.e. the leverage used, the dependency on short term wholesale financing and the amount of trading activities (including market making).

It should also give transparency on the remuneration policy of the institution, i.e. short term bonuses and the level of compensation of the top management compared to the median employees.

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?

1500 characters maximum (spaces included)

We think an EU sustainability taxonomy should cover all products and institutions where savers put their money at work, i.e. banks, funds, equities, bonds.
From a content perspective, the taxonomy should cover the UN sustainable development goals and give the savers a clear perspective if their money is invested into companies that meet sensible ESG criteria or not.
The taxonomy should also include a clear perspective on the stability of the financial institution that is collecting the money, i.e. the leverage used, the dependency on short term wholesale financing and the amount of trading activities (including market making).
It should also give transparency on the remuneration policy of the institution, i.e. short term bonuses and the level of compensation of the top management compared to the median employees.

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?

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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?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

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?

1500 characters maximum (spaces included)

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Short termism is present in the whole economy. The following measures could attenuate this:
-        Managers’ compensation: make sure that all compensation >500,000 Euros is deferred for 5-10 years and can only be paid out if the company develops decently
-        Have incentives for investors to hold on to their stocks, e.g.
o        financial transaction tax
o        Give long term shareholders more voting rights
-        Make sure that patient capital like pension savings is invested into equities and not bonds
o        The EU pension product PEPP should be revisited and modelled more closely to the Swedish premium pension (AP 7)
The ideas above also apply for financial institutions. In addition, the following applies specifically to the financial industry
-        Regulation for insurance companies and pension funds that give incentives to invest into equities instead of bonds
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-	Force banks and insurance companies to use much more equity in their own financing since their leverage is far too high
-	abolishe the tax privilege of debt compared to equity financing
-	Base the fee for the deposit insurance and for the bank resolution fund on the duration of the financing structure of the bank, i.e. a short-term refinancing instrument should lead to a high fee and a long term refinancing instrument to a low fee

Introduce a new tax on bank liabilities or make the fee for the deposit insurance and for the bank resolution fund progressive the shorter term the duration of the liability is.

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?

1500 characters maximum (spaces included)

We think the most important issue is to convince both the real economy and the analyst community that European governments will definitely implement the Paris climate goals. Ideally, as soon as possible a clear path towards drastic measures (like end date of combustion engines for cars, high CO_2 price, etc) would be spelled out. As soon as investors and analysts believe that politicians walk the talk, they will start withdrawing their money from projects that are not sustainable.

As soon as there is a mandatory sustainability rating for companies, financial institutions and asset managers, there will also be increased pressure from the end customers on such alignment.

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?

1500 characters maximum (spaces included)

We think that we need a clear and mandatory path to fulfilling the Paris Climate goals, e.g. introduce a high price for CO_2, etc.
With these measures there will be a plethora of private sustainable investment projects because without such investments the companies would go out of business.

Integrating sustainability and long-term perspectives into credit ratings

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

1500 characters maximum (spaces included)

Other: make ESG rating mandatory for all bonds and equites. This rating should not be mixed with a credit rating and should not be performed by a credit rating agency. There are highly skilled and specialized rating agencies for sustainability issues like e.g. sustainalytics (http://www.sustainalytics.com) or Oekom Research (http://www.oekom-research.com/index_en.php). Such companies should perform the mandatory rating and not classical rating agencies. Cf also answer to question 3

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?

1500 characters maximum (spaces included)

- Make sure there are sufficient sustainable projects to be financed (cf question 1)
- Make sure all banks have to undergo a sustainability rating (cf question 3 and 8) so that savers have full transparency what part of their savings go into sustainable lending
- Penalize trading activities via a financial transaction tax
- Have strong incentives to use long term financing for bank liabilities (cf question 5.1. last bullet point)
- Reform the calculation of risk weighted assets. Set much higher floors for bank internal models, especially for mortgages.

Role of insurers

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

1500 characters maximum (spaces included)

- Review the Solvency 2 capital framework to get rid of constraints on long term investment
- Review the liability side of insurers
o Get rid of or strongly dis-incentivize guaranteed returns for life insurance products

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♣         These guarantees force insurance companies to invest into safe bonds
instead of long term projects
o         Get rid of the possibility of cancelling the insurance policy at short
notice without high penalties (currently customers of German life insurers can
cancel at extremely short notice without almost any penalties and receive their
guaranteed return). This forces insurers to invest into safe and highly liquid
bonds
-         Reform the EU pension PEPP using the Swedish Premium Pension AP7 as a
model.
-         Make sure all insurers have to undergo mandatory ESG rating
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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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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?

1500 characters maximum (spaces included)

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The interim report mentions the need for a more effective CO2 price signal. It
is not mentioned in this survey despite the fact that this is probably the most
important issue.
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Question 13. In your view, is there any other area that the expert group should cover in their work?

1500 characters maximum (spaces included)

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We feel the monetary policy is missing from the report. Whilst the deflationary
environment in the Eurozone warrants negative interest rates and quantitative
easing, the ECB currently buys bonds without consideration for ESG criteria.
The ECB could have a clear mandate of only buying bonds that have a
sustainability rating of A or better.

The EU could also analyse if it were legally possible and sensible for the ECB
to buy carbon emission rights instead of bonds. By doing so, the ECB would also
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inject money into the system but instead of driving up the prices of bonds,
they would drive up the prices of carbon emission rights. This would have a
very welcome side effect: it would make carbon emission much more expensive and
the broken carbon emission trading in Europe could be fixed in that manner.
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Useful links

Interim Report on sustainable finance (http://ec.europa.eu/info/publications/170713-sustainable-finance-report_en

High-Level Expert Group on Sustainable Finance (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#high-level-expert-group-on-sustainable-finance)

Contact

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