29 September 2009

UKSIF

Response to "Reforming Financial Markets" from UKSIF – the sustainable investment and finance association

Introduction

UKSIF, the sustainable investment and finance association, promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments. We aim to support the UK finance sector to be the world leader in advancing sustainable development through financial services.

UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry. UKSIF's 200+ members and affiliates include pension funds, institutional and retail fund managers, investment banks, financial advisers, research providers, consultants, trade unions, banks, building societies and non-governmental organisations. For more information about UKSIF, please visit www.uksif.org.

The rationale underpinning our response

In our view, successful reform of capital markets must not only address the lessons of the recent financial crisis but also prevent future climate, resources and social stability crises that would be even more damaging. Creating a robust financial services framework for the capital re-allocation and responsible ownership needed to build a low carbon, resource efficient and socially sustainable economy is an essential part of financial reform. Capital market regulation which does not address these future challenges is unlikely to deliver a sustainable recovery.

A key indicator of success for financial reform should be the degree to which UK regulators and financial institutions take a clearly strategic approach to sustainable development issues. This includes

- recognition that a successful financial and economic system depends on healthy stocks of human capital, social capital and environmental capital
- fully integrating carbon intensity and impacts on ecosystems and social sustainability into their decision making
- ensuring sustainable behaviour throughout the investment chain
- engaging with civil society in a way that takes account of both consumer interests and the wider public interest

Annex A: Primary legislation proposals

Formalising and strengthening the arrangements for institutional cooperation

Question 1: The remit of the CFS should include risks to sustainable development, in the UK and internationally, from the activities or omissions of the finance sector. This should include but not be restricted to risks to the achievement of carbon targets and, as these are established, generally accepted non-GDP measures of wellbeing. The CFS remit should also cover risks to financial stability from sustainable development issues such as climate change and resource depletion.

Question 3: Public interest representatives could be appointed directly to the CFS. A Public Interest (or Stakeholder) Panel including representatives of consumers, business, civil society and the environment[1] could advise and monitor the CFS.

Strengthening the governance arrangements and statutory framework of the Financial Services Authority

Question 5: A financial stability objective would enable the FSA to give greater regard to sustainable wealth creation and the achievement of carbon targets and other measures of wellbeing. However, we would like to see a broader objective than "financial stability" that made it unambiguously clear that the FSA could address the impact of the finance sector on these wider aspects of sustainable development as well as vice versa. In our view, it must be unambiguously clear that the FSA can take measures such as integrating societal risks (eg. climate change) effectively into stress tests and using "soft regulation" to encourage socially and environmentally desirable behaviours.

Question 6: The advantages of amending the FSMA is that this should enable the FSA more effectively to promote and enable sustainable wealth creation by addressing both the contribution of the finance sector and capital markets to sustainable development, and the impact of sustainable development on the finance sector.

For example, following amendments, it should be unambiguously clear that the FSA can publish voluntary indexes and similar assessments of sustainable and responsible behaviour by financial institutions to highlight good practice and set norms. It should also be clear that the FSA can reward institutions more explicitly for such behaviour eg. with lighter touch regulation or lower fees. The Health and Safety Executive's Corporate Health and Safety Performance Indicator (CHaSPI) provides an early example of this type of approach, while the OECD offers an example of success in setting norms, eg. on tax.

In addition, it should be clear that the FSA is able to require financial institutions to

- sign and implement appropriate international codes of conduct, such as the Equator Principles[2] and the UN-backed Principles for Responsible Investment[3], including using a "comply or explain" approach where appropriate.
- report publicly on a range of relevant ESG information, including sustainability strategies and all information provided for financial ratings. Such regulation should be permitted via both FSA direct regulation of financial institutions and the UK Listing Authority.

Enhancing the FSA's powers

Question 9: We support this proposal.

Strengthening the FSA's consumer capability

Question 19: The new authority should address the sustainable consumption of financial services as well as more traditional consumer concerns. This should be reflected in its objectives, powers and governance. It should draw on the expertise available within the sustainable investment and finance community about responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. It should consider environmental, social and governance (ESG) aspects of product delivery as well as issues such as cost.

Annex B: Areas for discussion

Barriers to entry and encouraging new entrants to the retail banking market

Question 9: In principle, we see such new entrants potentially coming from social enterprises/NGOs, utilities, ICT companies, health businesses and other distribution businesses with a trusted interface to consumers. This is not a complete list. We anticipate changes in boundaries between financial services and other industries. We welcome the prospect of new entrants with a greater focus on innovation for sustainable development. Please see our note "Tomorrow's Thinner City: Creating a Framework for Innovation in Sustainable Financial Services"[4] for more discussion of this issue.

Question 10: We support this proposal.

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[1] eg. from a scientific body.
[2] Details at www.equator-principles.com/index.shtml.
[3] Available at www.unpri.org.
[4] Available at www.uksif.org/projects/policy/sustainable_recovery_discussions.

Question 11: We support disclosure standards but believe these need to support sustainable consumption of financial services, by addressing environmental, social and governance (ESG) aspects of performance as well as issues such as cost.

Access to simple, transparent products

Question 12: Government and regulators should support sustainable consumption of financial services as well as traditional definitions of value. Lessons from labels/certifications addressing environmental, social and governance (ESG) aspects such as the European SRI Transparency Guidelines logo, the Australasian Responsible Investment Certification Program and/or the Fairtrade label should therefore also be considered.

With best wishes

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