UKSIF Public Policy Webinar

HLEG on Sustainable Finance interim report

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Purpose of the webinar:

1. To brief UKSIF members on the recommendations
2. To prepare topics for next week’s seminar

Three key topics for discussion next week – to form the basis of the UKSIF submission

Please email Ellie Stewart with nominated topics via events@uksif.org
HLEG Overview

- European Commission announced the HLEG on sustainable finance in September
- To make recommendations to the EC to:
  - Better integrate sustainability into EU financial policy
  - Protect the stability of the financial system from environmental risks
  - Mobilise private capital to finance sustainable investments
- HLEG interim report published July 2017
- Feedback accepted until 20 September
- Final report to be published in December
Policy Recommendations

- **Recommendation 1**: A classification system for sustainable assets.
  - Organise the definition of share EU classification of sustainable assets
  - Invite EIB to coordinate development of classification for climate finance
  - Develop classification systems for other green policy goals

- **Recommendation 2**: A European standard and label for green bonds and labels for sustainable funds.
  - Official standards for green bonds based on EU taxonomy - GBP
  - Develop a sustainable finance label funds invested in sustainable finance products including green bonds
Policy Recommendations

- **Recommendation 3: Fiduciary duty that encompasses sustainability**
  - EC should clarify in upcoming reviews (inc. AIMFD, MiFID II, PRIIPs, UCITS) the duties of loyalty and prudence integrate ESG
  - EC should clarify mandates of relevant existing authorities in-line with this agenda
  - EC should promote a common interpretation of fid duty

- **Recommendation 4: Disclosures for sustainability**
  - Support further work on frameworks and methodologies to promote sustainability reporting
  - Firms should disclose how sustainability information is integrated into the investment process and in voting and engagement
  - Firms should act in-line with the TCFD recommendations
Policy Recommendations

• Recommendation 5: A sustainability test in financial legislation
  • Impact assessments should examine environmental, social and economic impacts
  • Current methodologies of environmental and social assessment should be improved

• Recommendation 6: Create ‘Sustainable Infrastructure Europe’
  • Responsible for advising authorities on infrastructure projects and matching them with investors
  • Additional support for structuring capital-raising plans to make attractive for investors
Policy Recommendations

- Recommendation 7: Position the European supervisory agencies on sustainability
  - EC should ensure ESAs address sustainability issues within their existing objectives
  - Common guidelines and supervisory convergence on ESG disclosure by investors and lenders

- Recommendation 8: Accounting standards for energy efficiency
  - EC should support Eurostat to reinterpret guidance on the accounting consequences of EPCs.
Policy Areas for Further Discussion

• Long-term policy signals to the private sector
  • Emphasis on long-term finance
  • Review of regulation and current market practices to align with this agenda
  • Protection of those who take long-term risks in the face of short term pressures

• Governance of firms and financial institutions
  • Directors’ duties to incorporate value creation and sustainability
  • Sustainability expertise on asset owner governing bodies
  • European corporate governance and stewardship principles
  • Asking clients and beneficiaries about ESG preferences
Policy Areas for Further Discussion

• Integrating sustainability in ratings
  • ESG factors and long-term risk integrated into ratings
  • Disclosure of TCFD info by credit rating agencies

• Frequency of financial reporting
  • ESMA should investigate reporting frequency

• Accounting frameworks
  • How to integrate sustainability and ensure frameworks do not inhibit long-term investment

• Benchmarks
  • Supervisors and AOs encourage use of multiple reference points by AMs
  • HLEG will review interplay of benchmarks, indices and sustainability investment
Policy Areas for Further Discussion

- **Banking**
  - Investigation into long-term lending by banks

- **Insurance companies**
  - Investigation into implications of Solvency II on long-term investment

- **Stock Exchanges and green financial centres**
  - EU could set up network amongst sustainable finance hubs – to exchange best practices, aligning standards and achieving market scale.
  - EU could encourage financial centres on green and sustainable finance initiatives
Policy Areas for Further Discussion

• A strong pipeline of sustainable products for investment
  • Making small and middle-scale projects sizeable for capital markets
  • Emphasis on stronger role for PPP
  • ‘European Observatory’ function to aggregate data, track investment needs and help re climate change policy

• Involvement of society in sustainable finance issues
  • Creation of a public goods research unit
  • Ensuring academic and professional curricula include sustainability issues
  • Promoting sustainable investment at the retail level

• Social dimensions
  • Social bond issuance
  • Defining social enterprise (consistently!)
  • Increasing Horizon 2020 funding
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Thank you

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