Public consultation on long-term and sustainable investment

Fields marked with * are mandatory.

Introduction

Fostering growth and investment is one of **European Commission's top priorities.**

To maintain and extend its competitiveness, Europe needs significant new long-term and sustainable investment.

These can also help achieve the EU's policy objectives linked to the transition to low carbon and climate resilient economy and promote environmentally and socially sustainable wealth creation, including respect for fundamental rights.

The Communication on Long-Term Financing of the European Economy [COM/2014/168 final] emphasized that one of the key features of long-term financing is that investors take longer-term aspects such as environmental, social, governance issues into account in their investment strategies. It further underlined the importance of ESG issues for the longer-term sustainable performance of companies and investors and announced further reflection on incentives for more sustainable investment. The Action Plan on building a Capital Markets Union [COM/2015/468 final] also reiterates the importance of ESG investments.

This consultation seeks to gather information on how **institutional investors, asset managers and other service providers in the investment chain factor in sustainability (ESG) information and performance of companies or assets into investment decisions.** The consultation will also gather information about possible obstacles to long-term, sustainable investment.

The results of this consultation will be used by the Commission to assess the state of play in this field. A feedback document outlining the overall results of the consultation will be made public.

Definitions

For the purpose of this consultation, the following definitions are used:

Sustainable or responsible investment is a comprehensive approach to investment that explicitly takes account of environmental, social and governance (ESG or sustainability) issues and the long-term health and stability of the market as a whole. The evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term. It also implies that an investor should be an *active asset owner* engaging with companies (for example through dialogue on strategy, risk, corporate governance) to improve their performance. [See Principles for responsible investment, What is responsible investment?]

Material *environmental* factors include, among others, carbon emissions, climate change risks, energy usage, raw material sourcing and supply risks, waste and water management. *Social* factors include, in particular, customer and employee relations, health and safety, human capital management, fundamental rights. *Governance* matters include, in particular, board accountability, structure and size, management ability to deliver a strategy, executive compensation schemes, bribery and corruption.

Specific Privacy Statement:

SpecificPrivacyStatement.pdf

About the respondent

*1. Please provide your full name (authority, association, organisation, enterprise, ..., as applicable)

Federation of European Accountants (FEE)

*2. Please provide contact details (e-mail, phone number, postal address)

paul.gisby@fee.be

*3. Are you replying as:

- ( ) a. Public authority
- ( ) b. Institutional investor
- ( ) c. Asset manager
- ( ) d. Other service provider or advisor
- ( ) e. Company
- (•) f. Association
- ( ) g. Retail investor
- ( ) h. Private person
- ( ) i. Other

*f. Association

- ( ) Investor association
- ( ) Association of beneficiaries of institutional investors
- ( ) Association of asset managers
- ( ) Business federation
- ( ) Trade Union
- ( ) NGO
- (•) Other

* Please specify:

Professional association

* 4. Is your organisation registered in the EU Transparency Register? (If not, you may register here, although you do not have to be registered to reply to this consultation.)

- (x) Yes
- ( ) No

* If registered, please indicate your ID number:

4713568401-18

* 5. Please indicate your country of residence or establishment:

- ( ) Austria
- ( ) Belgium
- ( ) Bulgaria
- ( ) Croatia
- ( ) Cyprus
- ( ) Czech Republic
- ( ) Denmark
- ( ) Estonia
- ( ) Finland
- ( ) France
- ( ) Germany
- ( ) Greece
- ( ) Hungary
- ( ) Ireland
- ( ) Italy
- ( ) Latvia
- ( ) Lithuania
- ( ) Luxembourg
- ( ) Malta
- ( ) Netherlands
- ( ) Poland
- ( ) Portugal
- ( ) Romania
- ( ) Slovakia
- ( ) Slovenia
- ( ) Spain
- ( ) Sweden
- ( ) United Kingdom
- (x) Other

* Other, please specify:

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Based in Belgium, a European body representing  professional accountants in all 28 Member States
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* 6. Please indicate whether you consent to publication:

- (x) Under the name indicated – I consent to the publication of all information in my contribution, and I declare that none of it is under copyright restrictions that prevent publication.
- ( ) Anonymously – I consent to the publication of all information in my contribution, except my name/the name of my organisation, and I declare that none of it is under copyright restrictions that prevent publication.
- ( ) No, I do not consent to the publication of my contribution. I understand that my anonymised responses may be included in published statistical data, for example, to show general trends in the response to this consultation.

Please note that before completing the survey you will have the opportunity to upload documents to further support or illustrate your views.

Questions

1. Rationale for ESG inclusion into investment decisions

1.a. Do ESG factors pay a role in the investment decisions of investors? If not, why?
If yes, please specify which considerations are reflecting in your investment policy and mandates? In what form is this commitment expressed?

YES.
In our experience, investors are increasingly paying attention to ESG factors across all sectors. ESG factors, until recently seen as specific issues affecting particular sectors (such as extractive industries and the energy sector, for example), are becoming increasingly important in investors' assessment of the long term sustainability of all companies. This is because businesses that consider, evaluate and report ESG factors are more likely to take a long term view of their business - and have a better appreciation of the risks that could impact on their business model - than those that do not. As such, consideration of ESG factors is relevant to investment decisions and has the potential for increasing investment return without a commensurate increase in investment risk.

The increasing importance of ESG factors in investment decisions is highlighted in an EY global study "Tomorrow's Investment Rules 2.0" (http://www.ey.com/GL/en/Services/Specialty-Services/Climate-Change-and-Sustainability-Services/EY-tomorrows-investment-rules-2) , which states that 37% of respondents in 2015 "usually conduct a structured, methodical evaluation of environmental and social impact statements and disclosures" - compared to only 19.6% in 2014.

Increasingly, investors sign up to responsible investing initiatives such as the United Nation's Principles for Responsible Investment (PRI) and provide public responsible investing policies. Some investors even report on their responsible investment activities and results.

The Institute of Chartered Accountants in England and Wales has produced a best-practice guideline titled "Environmental and social governance in investment and transaction decisions". This document is not publicly available but a copy has been attached to this response for further information.

1.b. What is the main rationale for institutional investors and asset managers to take ESG risks and opportunities into account in their investment decisions? Please indicate all the relevant issues (multiple choice)

- [x] a) risk management:
- [x] b) alignment of investment policies with the long-term interests of beneficiaries of the institutional investor,
- [x] c) pressure from clients on whose behalf the institutional investor invests funds,
- [ ] d) seeking a positive social or environmental impact of investments,
- [ ] e) ethical considerations,
- [ ] f) legal or regulatory constraints, please specify,
- [ ] g) other, please specify.

a) risk management:

- [x] i) managing asset value risk in the short-term, including preservation of investment value, better investment performance,
- [x] ii) managing asset value risk in the medium-to long-term, mitigation of exposure to long-term and systemic risks,
- [x] iii) management of liability risks,

Please provide an explanation :

For specific institutional investors, i.e. pension funds, it is increasingly seen as part of their fiduciary duty to address ESG issues in their investment policy. This is not only because, as research demonstrates, investing in companies that pay attention to ESG factors results in higher investment returns, but also because failing to take into account ESG factors in investment strategies creates higher risks in the longer term.

2. Information on ESG risks and opportunities

2.a. Which ESG risks do you perceive as material to investors?

The main ESG risks affecting business in general relate to climate change, water scarcity, energy and energy security, human rights, pollution, personal and process safety, corruption and ethics but the ESG risks perceived as material to investors have traditionally varied from sector to sector, from country to country and sometimes even from company to company.

However, the EY global study indicates that:

- there has been a significant shift by investors to considering ESG risks as being relevant to all sectors of industry rather than being of concern only to specific sectors, such as energy, extractive and manufacturing industries;
- the single most important non-financial disclosure likely to affect investment decisions is, in fact, the absence of a clear strategy to create value in the short, medium and long term; and
- amongst the most important non-financial issues affecting investors are the impact of business regulation (87% listing it as “important” or “essential”), minimising risk (87%), evidence of improved future valuation with business forecasts (74%), good corporate citizenship (83%) and client demand from corporate investors (73%).

2.b. What are the main sources of reliable and relevant information for investors on material medium- to long-term risks and opportunities, particularly on ESG issues?

The main source of information for investors on material medium to long-term risks is still directly from the company - primarily from the Annual Report, but also from reports produced by the company under the Integrated Reporting (IR) Framework or ESG reports prepared using, for example, the GRI G4 Guidelines.

Information is also obtained from the press and business commentary and also from financial data providers (e.g. Bloomberg) and from rating agencies (such as RobecoSAM, FTSE4Good).

Chapter 4 of EY's global study focuses on this question.

2.c. Is it difficult for investors to access such information? If so, please specify:

As investors are still largely reliant upon publicly available information provided by the business itself, the Federation does not believe that it is difficult for investors to access such information. We believe that the real issue is the quality of the information disclosed and, particularly, its comparability. There is still little in the way of a common legal framework for such information (particularly outside of Europe) and there exists several competing and non-binding frameworks that companies may or may not adopt.

There may also be an issue of self-selection, in that the companies that choose to voluntarily disclose ESG information may not be those with the greatest underlying ESG risks or that individual companies may not always concentrate their disclosure on their issues of highest risk.

Additionally, it is still the largest companies that disclose ESG related information (not least because it is expensive to publish such information) so less information is available for investors in relation to smaller companies.

2.d. Is access to such data expensive? If so, please specify:

The main sources of information are provided directly by the companies in question so we don't believe that access to such data is expensive – as mentioned in 2.c above, the challenge is less the cost of access to the information but more the quality, consistency and comparability of the available information disclosed by companies.

2e. What factors may prevent or discourage companies from disclosing such data?

Reputational risk is a big factor in the decision making process of companies when it comes to disclosing such data. Information that is inherently negatively oriented, such as environmental impacts or social risks, generally discourages companies from disclosing such data. More specifically, the disclosure conduct by peers influences companies to disclose or not to disclose. In situations where the company performs worse than its peers, and there is no clear pathway to resolve this, companies can be discouraged from reporting.

Publishing such information is a costly process for companies and may dissuade some from reporting, particularly for smaller companies. This can be linked to issues regarding the actual quality of the information – this can be a factor that can prevent companies from reporting if they are uncertain about being able to achieve a sufficient quality in ESG reporting.

There is a further issue in that the companies' strategy behind their disclosure of non-financial information in company reports is not normally to serve the needs of investors – thereby creating investor dissatisfaction with the quality of ESG related reporting. However, there are indications that companies may be increasingly moving from non-financial disclosures as a means of brand building and regulatory compliance to a more investor-centric strategy. This reflects the increased importance that ESG factors are assigned in context of corporate strategies and risk management.

2.f. What is the main rationale for companies to publish such information? Please indicate all the relevant issues. (multiple choice)

- [x] a) relevance of ESG issues to company performance
- [ ] b) attracting financing for specific projects, for example green bonds
- [x] c) legal or regulatory constraints
- [x] d) demand from investors
- [x] e) pressure from stakeholders
- [x] f) other

* f) other - please specify:

Publishing such information is seen by some companies as being a valuable tool in building their reputation. Allied to this is the realisation that by connecting ESG information to financial information this can assist with long term value creation for the company and have a direct impact on the long-term financial position of the business.

Another factor can be peer pressure - the fact that nearest competitors are already disclosing such information can be a powerful driver for businesses to disclose such information as well.

Additionally, some companies may publish the information if they believe that this will gain them access to a leading sustainability index.

2.g. Is there sufficient accountability for the disclosure by companies of such information?

While investors consider board and audit committee oversight as very important (in combination with assurance on the company's non-financial performance reporting), often companies are fail to live up to investors’ expectations. Accountability varies, but in many cases disclosure of ESG information is still a yearly exercise that is left to the sustainability department (or similar) but is not yet regularly fully integrated into the (financial) controlling lines.

External assurance of ESG information is very important to add credibility to external stakeholders, including investors, as is highlighted in our paper “EU Directive on disclosure of non-financial and diversity information - The role of practitioners in providing assurance” (http://www.fee.be/library/list/45-environmental-social-governance/1554-fee-issues-views-on-the-role-of-practitioners-in-providing-assurance-on-disclosure-of-non-financial-information.html). External assurance - provided by the statutory auditor or a member of the accountancy profession in 90% of cases - is instrumental in bringing value to the data reported and in enhancing the relevance and reliability of these reports.

According to a CFA institute survey (https://www.cfainstitute.org/about/press/release/Pages/08172015_121834.aspx), investors use the assurance provided on NFI in their investment decisions and 69% of respondents think that it is important that ESG disclosures be subject to independent assurance.

There is currently little in the way of international standardisation in respect of assurance of ESG related information. We believe that it is vital to develop international standards for sustainability reporting and assurance if ESG matters are to be raised to a higher level of importance in future investment decisions.

2.h. What are the best practices as regards internal corporate governance processes to ensure proper reliability of the disclosed information?

Best practices are shown by those companies who have proper reporting lines including internal controls and sign-off by responsible management - from operational level to the Managing Board.

2.i. What is the role of specific ESG investment instruments, like green bonds?

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

3. Integrating ESG information into risk assessment models of institutional investors and asset managers

3.a. What should an appropriate long-term risk assessment methodology look like? Please indicate some examples of good practice.

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

3.b. Are there specific barriers, other than those of a regulatory nature (see question 9) for investors to integrate medium-to long-term risk indicators, including ESG matters in their risk assessment? If so, please indicate what you consider to be the main barriers.

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

4. Integration of ESG aspects in financial incentives

4.a. When selecting and remunerating asset managers, how do institutional investors take into account asset managers' integration of ESG issues into investment strategies? What are the best practices in this area?

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

4.b. Is ESG performance and active asset ownership taken into account in the remuneration of the executives and/or board members of institutional investors? What are the best practices in this area?

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

5. Capacity of institutional investors

5.a. Do you think that the lack of scale or the lack of skills and resources of some institutional investors may affect their ability to integrate ESG factors in investment decision-making and engage on such issues? If so, how? Please provide evidence if possible.

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This topic is not within the scope of our expertise and we are unable to
provide an answer to this question.
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5.b. Please indicate measures/practices that have contributed to enhance institutional investors' capacity and ability to integrate ESG factors in investment decision-making and engage on such issues.

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This topic is not within the scope of our expertise and we are unable to
provide an answer to this question.
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6. Internal governance and accountability of the institutional investor

6.a. To what extent can good internal governance of institutional investors, such as mechanisms aiming to align interests between beneficiaries, board and key executives, influence their ability and willingness to integrate ESG factors in investment decision-making and engage on these issues? Please provide evidence or good practices if possible.

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This topic is not within the scope of our expertise and we are unable to
provide an answer to this question.
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6.b. Do beneficiaries of pension funds and other institutional investors with long-term liabilities obtain sufficient and clear information about how the fund or investor is managing ESG risks? Can they give their opinion/be consulted on these aspects? Please provide examples of good practice.

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This topic is not within the scope of our expertise and we are unable to
provide an answer to this question.
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6.c. Are beneficiaries interested in matters referred to above? Please provide evidence if possible.

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This topic is not within the scope of our expertise and we are unable to
provide an answer to this question.
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7. The role of other service providers

7.a. Is there sufficient long-term oriented, reliable and relevant external investment research? Are there barriers to good quality external investment research on ESG risks and opportunities? If so, please explain. What role, if any, do financial incentives or conflicts of interests of some service providers play?

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This topic is not within the scope of our expertise and we are unable to
provide an answer to this question.
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7.b. To what extent do investment banks, investments analysts and brokers provide information on medium-to long-term company performance, including corporate governance and corporate sustainability factors, when they make buy, sell and hold recommendations to investors?

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

7.c. To what extent do investment consultants consider the asset managers' approach to ESG issues and active asset ownership when advising institutional investors about the selection of asset managers?

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

7.d. To what extent do proxy advisors consider medium-to long term performance of companies, including ESG performance, in their voting recommendations?

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

7.e. To what extent do credit rating agencies take medium-to long term performance of companies, including ESG performance, into account in their ratings?

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

7.f. What are the best practices as regards independent external assurance (for example auditor review) for the disclosure by companies of material medium- to long-term risks and opportunities, particularly ESG issues?

Best practice is demonstrated by companies that focus external assurance on their key indicators and who use the results from such assurance for continuous performance improvement.

Best practice is achieved by focusing on the materiality assessment process (to identify the most important ESG issues), limited assurance on the full report (in order to ensure accuracy, completeness and balance of the information reported), and reasonable assurance on those parts of the report that relate to the company's strategic focus areas (to drive internal performance improvement and management).

The importance of external assurance to the relevance and reliability of ESG disclosures has been highlighted in our above mentioned paper and also in such publications as the World Business Council for Sustainable Development’s “Generating Value from External Assurance of Sustainability Reporting” (http://wbcsdpublications.org/project/generating-value-from-external-assurance-of-sustainability-reporting/).

8. The role of non-professional investors

8.a. Do you know of initiatives that led to more sustainable and responsible investment from non-professional investors? Please provide details about them.

There are Sustainable Investment and Finance Associations in Europe who have played a significant role in informing non-professional investors about the relevance and value of responsible investment - the Dutch association is leading in this regard with its research and external profile.

Also, recently mainstream banks have released and promoted products for responsible investment and have become more active in informing non-professional investors about the options for such investments. For example, a Swiss bank developed an ESG indicator (with a scale of A to G; comparable to energy efficiency labels) that is applied to all portfolios and funds. This ESG indicator is featured in all portfolio reports that clients receive as well as in all the fact sheets relating to its own funds, irrespective of whether these have a specific ESG focus or not. More information on their ESG indicator can be found on their webpage (in German only):
https://www.zkb.ch/media/dok/corporate/nachhaltigkeit/nachhaltigkeitsindikator.pdf

9. Legal or regulatory constraints

9.a. Are there legal or regulatory constraints likely to significantly and unduly prevent or discourage investors from taking a long-term view in their investment strategies and decisions and from investing in a sustainable way? If so, please provide details.

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

9.b. Do you believe that there are any barriers to the understanding by institutional investors and asset managers of their fiduciary duties that would not enable them to appropriately take ESG factors into account in their investment decisions? Please explain.

This topic is not within the scope of our expertise and we are unable to provide an answer to this question.

10. Others

10.a. Are you aware of any other incentives or obstacle(s) with a significant impact? If so, which ones?

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This topic is not within the scope of our expertise and we are unable to
provide an answer to this question.
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10.b. Would you consider further increase in sustainable investments if market or regulatory conditions for sustainable investment would be more favourable? If so, please provide estimations, if possible.

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This topic is not within the scope of our expertise and we are unable to
provide an answer to this question.
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You can upload additional documents here:

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Contact

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