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the movement for Responsible Investment

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1) Beyond the five priority areas identified for short term action, what other areas should be prioritised?

Mainstream Responsible Investment Across the Capital markets Union

The Capital Markets Union must mainstream Responsible Investment (RI) in Europe's finance sector by mandating the consideration of environmental, social and corporate governance (ESG) factors across the identified priority areas and the entire Capital Markets Union project more broadly. This will help overcome market ineffectiveness and inefficiencies, ensuring that assets are accurately priced by the market on the basis of long-term value. We define RI as an investment approach which takes account of ESG factors in the belief that they are often financially material, positively or negatively, particularly over the long-term.

In addition to the financial arguments necessitating consideration of ESG factors, European citizens whose savings underpin capital markets care deeply about many of these issues. For example 90% of Europeans think that climate change is a 'very serious' or a 'serious' problem and 80% agree that fighting climate change and using energy more efficiently can boost the economy and jobs in Europe, according to Eurobarometer[1]. It is disappointing that the Green Paper only mentions ESG factors so briefly, in question 7, and implies that they are some type of investment category or product, such as Green Bonds. Mainstream thinking has moved beyond this and understands ESG integration as an investment approach that considers all potentially financially material risks and opportunities to investment portfolios; numerous studies[2] have shown that an RI approach is financially beneficial; the investors managing $45 trillion assets globally have publicly declared climate and Responsible Investment commitments, including being signatories to the PRI.[3]

The EU's job creation and growth targets and the Capital Markets Union project must be aligned with the EU's sustainability goals, particularly the goal of smart, sustainable and inclusive growth. Encouraging Responsible Investment in capital markets via a mix of hard and soft law measures is essential to meet the goals in the Europe 2020 and Europe 2030 strategies. It does not mean constraining job creation and growth, and embedding RI approaches at the investment stage can, if done skilfully, obviate the need for further downstream regulation. ShareAction therefore recommends that an additional priority on sustainability is introduced to the Capital Markets Union project.

The Commission should refrain from using the phrase 'non-financial' factors to discuss ESG factors in legislative texts and other communications, as it gives a misleading impression that these factors are not financially material, and is out of step with market developments.

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[1] Eurobarometer, 'Special Eurobarometer 409: Climate Change', March 2014, European Commission, Directorate-General for Climate Action

[2] Including a meta study of over 100 studies commissioned by Deutsche Bank: Fulton, M., Kahn, B. M. and Sharples, C., 'Sustainable Investing: Establishing Long-Term Value and Performance', 2012.

[3] UN PRI, 'PRI Fact Sheet', 2013, http://www.unpri.org/news/pri-fact-sheet/

Overcome Damaging Misaligned Incentives Through Enhanced Disclosure of Investment Policies and Practices

For the investment system to deliver sustainable and stable growth in the real economy, investors with long-term liabilities must behave as genuine long-term investors. The Kay Review of UK Equity Markets and Long-Term Decision Making[4] found that too often investors with long-term liabilities judge performance and award mandates over short-term horizons. Their asset managers do not 'invest', basing decisions on the fundamental value of an asset and its long-term prospects but they 'trade' speculatively, basing decisions on short-term price fluctuations and the behaviour of other market participants. Heavily intermediated investment chains, characterised by misaligned incentives and timescales between parties further exacerbate the problem of short-termism.

ShareAction welcomes the Commission's consideration of this problem and inclusion of the findings of the Kay review in the Staff Working Document accompanying the Green Paper (section 6.2). We also welcome the Commission's focus on strengthening investment in the EU's productive economy, real assets and long-term investment in particular. However, we do not believe that creating a new product, ELTIFs, or removing restrictions that exist in some member states around institutional investors investing in certain asset classes or domestic markets will be sufficient to make investors with long-term liabilities overcome a multitude of cultural and structural barriers and enact proper long-term investment approaches. The Green Paper mentions the huge sums invested by Europe's pension and insurance sector, on behalf of millions of ordinary citizens. Therefore the revision to the IORPs Directive[5] must be considered as a vehicle for tackling these problems; through robust disclose requirements, including of portfolio turnovers and meaningful investment policies by pension funds.

Institutional investors, including pension funds, should be required to disclose meaningful Statements of Investment Principles (SIPs). Although disclosure of investment policies and practices by parties involved in capital markets is not a panacea, it is a helpful driver of more long-term, Responsible and engaged investment behaviour. The disclosure requirements of the UK Stewardship Code[6] have helped drive such behaviours in the UK since the Code's introduction in 2010. For example, 80% of pension funds now take stewardship into account when selecting their asset managers[7] and 96% of the UK's 33 largest asset managers say that they conduct stewardship because they believe it affects investment returns.[8] According to Eurosif, the UK is now home to Europe's largest Sustainable and Responsible Investment market.[9]

Improve Transparency and Accountability to European Citizens

Improving public trust in financial services must be a priority to achieve the Capital Markets Union. 'Investment products' and 'personal pensions and securities' were the lowest scoring services markets in the 2014 European Commission Consumer Markets Scoreboard[10]. Transparency and accountability to clients and beneficiaries must become the norm in the investment sector, not just

[4] Kay, J., 'The Kay Review of UK Equity Markets and Long-Term Decision Making', 2012, Department of Business, Innovation and Skills, UK, 2012

[5] 'Proposal for a Directive of the European Parliament and Council on the activities and supervision of institutions for occupational retirement provision (recast) /* COM/2014/0167 final - 2014/0091 (COD) */'

[6] The UK Stewardship Code, updated 2012 from the Financial Reporting Council is available at https://www.frc.org.uk/getattachment/e2db042e-120b-4e4e-bdc7-d540923533a6/UK-Stewardship-Code-September-2012.aspx

[7] NAPF, 'NAPF Engagement Survey: pension funds' engagement with investee companies', 2014, available at http://www.napf.co.uk/PressCentre/NAPFbuzz/~/media/Policy/Documents/0412_NAPF_engagement_survey_2014.pdf

[8] Galdiolo, S., and de Ste Croix, C., 'Responsible Investment Performance of UK Asset Managers: The 2015 ShareAction Survey', ShareAction, 2014, available at http://shareaction.org/sites/default/files/uploaded_files/AssetManagerBenchmarkSurvey2015.pdf

[9] Eurosif, 'European SRI Study', 2014, p.65

[10] http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/10_edition/docs/cms_10_factsheet_en.pdf

to retail investors but also to the end beneficiaries of institutional investors, such as pension fund savers.

The savings of millions of European citizens underpin capital markets through their pension funds, insurance products and retail savings products; the Green paper notes that €12 trillion is held by the EU's pensions and insurance sector alone and this money must be invested in a way that supports sustainable growth and job creation. Although many savers are alienated by the jargon and complexity of the investment system, studies[11] have repeatedly show that savers care about ESG issues and the broader economic impacts of the decisions institutional investors make on their behalf. Giving savers more rights to information about, and scrutiny over, investment institutions acting on their behalf will help drive demand for more Responsible Investment that benefits our societies and help ensure that capital markets work in the best interests' of beneficiaries, society and the environment rather than for the enrichment of intermediaries.

It is worth noting that public opinion is increasingly impacting investor voting decisions in the USA. Institutional investors are voting, voting against management and voting in favour of shareholder proposals more often. Particularly in the case of mutual funds where disclosure of voting records is now mandatory, showing how transparency drives more engaged shareholder ownership.[12]
Retail savers and beneficiaries of institutional investors should have the right to know:

- where their money is being invested
- how ownership rights are being exercised on their behalf
- their scheme's investment policy, including any policies on responsible ownership or ethical investment
- how the policy is being implemented
- how the scheme is managing future long-term risks to their money.

They should have the right to participate by:

- being consulted on investment and voting policies
- attending annual meetings where they can question their pension scheme's board
- receiving a substantive response to queries about specific decisions

3) What support can be given to ELTIFs to encourage their take up?

Enhanced Disclosure Requirements, in Particular Concerning Environmental, Social and Corporate Governance Factors

We are in principle supportive of collaborative vehicles like ELTIFs that will assist institutional investors of all sizes to access opportunities for long term investment in the real economy. In particular, ELTIFs will be useful to smaller pension funds that have been reluctant or unable to invest in the asset class because of their lack of scale and, therefore, require mechanisms that facilitate the pooling of funds. Collaboration among institutional investors is necessary to create funds of sufficient scale. There is demand for collaborative investment vehicles that do not involve high set-up and other costs, which provide transparency on structure and give investors meaningful oversight over asset selection. For such vehicles to be successful, investors must have sufficient control, involvement in asset selection, direct oversight and the possibility to invest directly thus avoiding the costs that come with using 'funds of funds' and other layers of intermediation.

[11] For example, National Association of Pension Funds, 'What do pension scheme members expect of how their savings are invested?', 2014 and UKSIF, 'Attitudes to Ownership 2014: Exploring pension fund and public opinion on ownership and stewardship issues', 2014, and Borgers, A. C. T. and Pownalla, R. A. J., 'Pensions and Investments: Social and Environmental Preferences of Beneficiaries, and Financial Illiteracy', TIAS/Tilburg University, 2014

[12] Aggarwal, R., Erel, I., Starks, L., 'Influence of Public Opinion on Investor Voting and Proxy Advisors', Georgetown University McDonough School of Business, 2014

ShareAction is concerned that ELTIFs could repeat the mistakes of past collaborative investment vehicles, namely burdensome costs, poor risk/return profiles and inadequate transparency concerning the investment vehicle and underlying assets. For example, the UK joint venture Pensions Infrastructure Platform (PIP) was launched in 2011 to 'allow UK funds to invest in low-risk infrastructure in a collective manner'[13]. Comprising of over 10 pension funds, PIP seeks to connect funds to projects they could not access individually. Unfortunately, several of the founding pension funds have already left the platform before it awarded its first mandate, citing concerns about cost structure and the risk/return profile of target investments[14]. The PIP experience highlights the desire for consortium approaches to infrastructure investment, but also some of the potential pitfalls of such vehicles.

In order for ELTIFs to become popular vehicles to channel investment appetite for long term investments, the funds must have clearer guidelines and enhanced transparency requirements including regarding environmental, social and corporate governance (ESG) criteria. This is discussed in more detail in our response to Q7. Overall, clarity of information will improve the risk/return profile of funds, improve investor confidence in ELTIFs which is essential in order to increase their take-up, and improve the efficiency of planning and procurement processes.

The regulatory technical standards to be developed by ESMA, or guidance from the Commission, could be used to specify that the information requirements for ELTIF prospectuses should include ESG risks. As such risks are particularly likely to be financially material over the long-term, it is appropriate to require this disclosure for long-term investment vehicles. Furthermore, rapidly increasing numbers of investors are taking ESG factors into account in investment decisions, and as such may not be able to invest in ELTIFs without clear information on ESG factors. According to Eurosif, since 2011 assets under management where ESG is integrated into investment decisions grew by 65% compared with 22% growth for the overall asset management industry in European countries with the largest financial services sectors.[15]

It is positive that Regulation 2013/0214 on ELTIFs specifies that:

> '*The prospectus shall include all information necessary to enable investors to make an informed assessment regarding the investment proposed to them and, in particular, the risks attached thereto'*.

However this requirement is too vague to ensure that ESG risks will be appropriately considered and disclosed. ESMA and the Commission should develop guidelines and standards incorporating robust ESG criteria for ELTIF prospectuses in consultation with organisations such as the Green Investment Bank, PRI, CDP and ShareAction so as to complement existing internationally recognised frameworks and definitions.

Ensure alignment with Europe 2020 and 2030 goals

Encouraging projects funded through ELTIFs to have procurement and employment policies that favour local products and workers will help to meet the Europe 2020 Plan's goal of 75% employment for 20-64 year olds and the CMU's broader goal of stimulating job growth. Furthermore evidence is increasingly demonstrating that investment in sustainable infrastructure can boost infrastructure productivity and lead to accumulated savings over time[16]. As mentioned in our response to question 1, the CMU agenda of investment, jobs and growth must be aligned with

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[13] IPE, 'UK schemes abandon infrastructure platform over costs, returns', 26 February 2014, http://www.ipe.com/uk-schemes-abandon-infrastructure-platform-over-costs-returns-updated/10001063.article

[14] IPE, 'UK schemes abandon infrastructure platform over costs, returns', 26 February 2014, http://www.ipe.com/uk-schemes-abandon-infrastructure-platform-over-costs-returns-updated/10001063.article

[15] Eurosif, 'European SRI Study', 2014

[16] http://www.longfinance.net/images/reports/Financing_the_transition_executive_summary_26March2015.pdf

Europe's sustainability agenda. The aforementioned targets in EU plans must guide the sustainability framework that will apply to ELTIFs.

Measures to encourage investors with long-term liabilities to pursue long-term investment strategies

As discussed in our response to question 1, investors with long-term liabilities frequently do not pursue genuinely long-term investment strategies. Intermediation in the investment chain, short-term mandates awarded to asset managers and the judgement of investment strategy results over the short-term horizons are important causes of this problem. Institutional investors must be required to disclose meaningful investment policies, including how the investment strategy matches the duration of liabilities. Such measures, in addition to enhanced transparency and accountability to end beneficiaries, will help drive more long-term behaviour by institutional investors and, therefore, demand for long-term investment vehicles such as ELTIFs.

7) Is any action by the EU needed to facilitate the development of standardised, transparent and accountable ESG (Environment, Social and Governance) investment, including green bonds, other than supporting the development of guidelines by the market?

The treatment of ESG factors in the Green Paper is confused. Although investment products and vehicles with a strong focus on environmental, social or corporate governance issues such as green bonds exist and this is to be welcomed, ESG must be understood as part of a Responsible Investment approach which is appropriate, and increasingly common, for all asset classes. This approach is based on the understanding that ESG factors can be financially material to investments, particularly over the long-term and therefore should be considered in investment decisions.

As such the Commission must ensure that ESG considerations transcend all investment practices and asset classes. The Commission should play a leading role in defining standardised definitions and measures, in collaboration with other globally recognised initiatives. Robust definitions and requirements in relation to ESG factors will ensure that disclose requirements for investors, corporations and other projects seeking investment are meaningful, useful and comparable.

Specific Measures

The EU should continue to progress legislation and regulatory measures that ensure corporate ESG disclosures are comparable, timely and meaningful. The "Level 2" measures for Directive 2014/95/EU[17] should include sector specific and general Key Performance Indicators and guidance for companies preparing their reports. These measures should address the scope and measurement methods for reporting of ESG impacts and risks, including at least: land use, water use, greenhouse gas emissions and use of materials.

Mandating comprehensive ESG consideration and disclosure by corporations, as well as by investment managers and institutional investors, should not be considered a burden, but a valuable process that results in investors, corporations and projects seeking investment obtaining a better understanding of their own risks and processes. Standardisation will also mitigate the unnecessary burden of needing to comply with multiple different sets of indicators and requirements in different jurisdictions

Institutional investors and asset managers should be required to produce Statements of Investment Principles (SIPs). These SIPs should include meaningful information on how investors are managing long-term risks, including ESG risks, their approach to engagement with investee companies and voting. ShareAction's benchmarking studies of the Responsible Investment performance of the UK's largest pension funds, asset managers and insurance companies have

[17] Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups

found that when disclosure requirements are vaguely defined by policymakers or regulators the result is often correspondingly vague disclosures that have limited value. For asset owners seeking to appoint investment managers, or for investment managers making investment decisions it remains far too difficult to judge which organisations are genuinely doing a good job of integrating ESG considerations. There is a danger that positive public statements on RI and ESG are merely greenwashing or marketing initiatives with little impact on actual processes and decisions. As such markets are not working as efficiently as they could be by rewarding organisations that do make investments in ESG related capabilities.

The Commission should also act to clarify the notion of fiduciary duty, or comparable duties upon investors to invest in beneficiaries' best interests. The UK's Law Commission[18] recently found that such duties are often misinterpreted as a duty to maximise short term returns and justify the exclusion of ESG considerations. DG FISMA should cooperate with DG ENV and DG CLIMA in relation to their study of fiduciary duties and efficient resource use across Europe[19]. Where European Directives and Regulations refer to investors' duties to invest in beneficiaries' best interests, for example in Article 20 of the IORPs Directive, it must be clarified that this means their long-term best interests and that financially material ESG factors must be taken into account.

Green Bonds

Green bonds are extremely popular. The majority of green bonds issued so far have been oversubscribed due to huge demand from a wide variety of investors. The first $1bn green bond, issued by the International Finance Corporation in March 2013, sold out within an hour of issue and issuance of green bonds tripled from $11billion in 2013 to $36 billion in 2014.[20]

ShareAction is concerned that in order to satisfy this investor demand, green bonds could be issued to that are not for genuinely green projects. Therefore there is a growing need for better transparency requirements and universal definitions of 'green' in relation to green bonds to counteract to danger of greenwashing and potentially damaging the reputation and credibility of green bonds as a whole. The Green Bond Principles[21], established by a consortium of investment banks in January 2014 and now managed by an independent secretariat at the International Capital Markets Association highlight the importance of tracking proceeds, allocating funds to eligible projects and providing adequate, regular reporting on the use of proceeds. However, these principles do not provide definitions of 'green' projects and this is left to the issuer to determine.

We advise the Commission to work with the World Bank, the International Finance Corporation and the Climate Bonds Initiative to develop a robust, sector specific standards and definitions of 'green' projects that can be used to determine if an issuance can be marketed as a green bond. As supply of green bonds is not currently sufficient to meet demand, the Commission could also look at ways to encourage issuance of green bonds by companies, municipalities, governments and EU institutions.

10) What policy measures could incentivise institutional investors to raise and invest larger amounts and in a broader range of assets, in particular long-term projects, SMEs and innovative and high growth start-ups?

ShareAction welcomes the Commission's focus on strengthening investment in the EU's productive economy, real assets and long-term projects. In our view, there is already significant appetite for high quality, long-term, illiquid investment opportunities, such as infrastructure, amongst European institutional investors. Institutional investors increased their investment in

[18] The Law Commission, 'Fiduciary Duties of Investment Intermediaries', 2014, available at http://lawcommission.justice.gov.uk/docs/lc350_fiduciary_duties.pdf

[19] European Commission, DG ENV and CLIMA, 'Study on resource efficiency and fiduciary duties of investors', for the call for tender see: https://etendering.ted.europa.eu/cft/cft-display.html?cftId=470

[20] ShareAction and Climate Bonds Initiative, 'Green Bonds: Exploring Opportunities for Investment', 2015, available at http://shareaction.org/sites/default/files/uploaded_files/IntroductiontoGreenBonds.pdf

[21] http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/

European infrastructure by 465% from 2010-13, compared with the 4 previous years[22]. BlackRock recently surveyed the 2015 asset allocation intentions of 169 of their largest institutional clients and found that some 69% of those surveyed planned to increase their allocation to real assets, defined as real estate, infrastructure, commodities, timber and farmland[23]. In fact, there is a problem that too many investors are chasing too few of such available assets.

Therefore we advise the Commission to proceed with caution so as not to fuel an infrastructure bubble or to repeat costly mistakes which Public Private Partnerships (PPP) have led to in other countries. As such, tax incentives are neither necessary nor appropriate to incentivise infrastructure investment by institutional investors. The Commission must be wary of using tax payers' money in this way to subsidise goods or services that they are also funding directly via their tax contributions. The private financing of infrastructure also often impedes free public access to public goods and the increases exclusion of some groups of citizens, for example when tolls are introduced on motorways.

In our view, the Commission can encourage truly long term investing by ensuring that all investment vehicles and financial instruments aligned with the CMU objective screen the underlying investments according to ESG criteria and are transparent about these processes. ESG screening should be an eligibility requirement for underlying assets in ELTIFs, EVCA and (by definition) EUsEFs, as well a big infrastructure investments. The risk/return profile of long-term investments is particularly sensitive to ESG concerns it will be critical for the success of these projects that ESG concerns are addressed over the lifetime of the project. This will help mitigate financial risks that may materialize over the long-term and therefore reassure investors, institutional ones in particular, that these risks are adequately scrutinized.

Help European Investors Access the Best Investment Opportunities

The Commission should look at ways to upskill European institutional investors, so that they can access European infrastructure investment opportunities, rather than investors from other countries who have greater expertise in the asset class. Traditionally, most institutional investors around the world, with the exception of Canadian and Australian pension funds, have invested in infrastructure assets through indirect vehicles using external fund managers. As such, most European institutional investors lack experience in assessing infrastructure projects and lack expertise in the legal and regulatory risks including those relating to construction, contracts, technology and other operational matters. These complex factors limit the ability of institutional investors, particularly smaller pension funds, from accessing attractive alternative investment opportunities or from properly assessing the risks. Although we understand the Commission's interest in attracting more investment into Europe from the rest of the world, in our view it is important that European investors do not miss out on attractive investment opportunities.

A large factor in European institutional investors' lower allocations to infrastructure is their lesser expertise in the asset class. The OECD estimates that less than 1% of pension funds' assets globally are allocated directly to infrastructure investment[24] and in the UK, pension schemes allocate around 2-3% of their total fund to infrastructure[25]. Canadian and Australian funds allocate 7-10% and are global leaders in infrastructure investing. Funds from both these countries have significant experience and therefore well-developed knowledge, expertise and resources to invest

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[22] Linklaters, Set to revive: Investing in Europe's infrastructure, Full Report, 10 March 2014

[23] Pensions Expert, 'Trendwatch: How schemes are rebalancing towards alternatives', 14 April 2015, http://www.pensions-expert.com/Special-Features/Trendwatch-How-schemes-are-rebalancing-towards-alternatives

[24] OECD, 'Towards a Green Investment Policy Framework: The Case of Low-Carbon, Climate-Resilient Infrastructure', 12 November 2012, http://www.oecd-ilibrary.org/docserver/download/5k8zth7s6s6d.pdf?expires=1431013038&id=id&accname=guest&checksum=5DFE96B5A73BFBF2179BC503ECDAB242

[25] Professional Pensions, ' UK schemes need to skill up to access infrastructure', 23 March 2015, http://www.professionalpensions.com/professional-pensions/news-analysis/2400922/uk-schemes-need-to-skill-up-to-access-infrastructure

in infrastructure, outperforming funds from other parts of the world. For example, Canadian pension fund manager Caisse de dépôt et placement du Québec and Hermes Infrastructure bought the UK government's 40% shareholding in Eurostar for £585.1m in 2015. They secured the project over competitors from the UK; the Universities Superannuation Scheme (USS) and the Lancashire County Pension Fund (LCPF). LCPF's chief investment officer Mike Jensen said on the matter:

> *"Part of the problem from our perspective was that this was relatively new ground for us. We hadn't already established strategic partnerships with any other investors so we were the sole bid for that particular asset."*[26]

This example is demonstrative of a wider trend for Canadian and Australian institutional investors securing attractive infrastructure investment opportunities at the expense of their European counterparts.

Public Private Partnerships (PPP) Must Be Approached with Extreme Caution by Policymakers

ShareAction understands the Commission's aim to channel financing to infrastructure and other long-term projects needed across the EU. However, the involvement of private parties can shift the premise of such projects by prioritising the need to provide a reasonable financial return to attract investors. This may require that the infrastructure generate revenue in some way. Such funding streams are often generated through 'user charges' models such as toll roads. In our view, private financing should not be used in a way that undermines sustainable and inclusive growth or equal access to public goods that citizens are also funding through their taxes.

There is mounting evidence of costly mistakes made under PPP arrangements in projects across Europe. For example, from 1997-2010 over 100 PPP health contracts were signed by the UK Government for work on English hospitals. The projects involved construction of new hospitals or sometimes renovations of existing ones as well as the operation of non-medical services such as catering, maintenance and laundry. The purpose of these contracts was to attract alternative sources of funding, in lieu of Government funding that was withdrawn. In 2010 it was reported that for projects with a capital cost of €14 billion, the UK's National Health Service is due to pay back a total of €80.7 billion[27].

One example of a PPP initiative that has proved extremely poor value for taxpayers is the infrastructure works on Walsgrave hospital, Coventry. These works were originally planned as refurbishments to two hospitals at a cost of around EUR €37 million. However, it was determined that the project was too small and would be more attractive to private investors if the hospitals were demolished and instead a new single hospital was built outside the city centre, the University Hospital. The final cost of this reimagined renovation project increased to €494 million, which created significant budgetary holes for the hospital. To address these, the hospital made cuts through staff redundancies and ward closures, and introduced revenue raising measures such as hospital car parking charges. The 30 year contract will see the hospital continuing to repay private financiers on a yearly basis[28]. Governments across Europe have recognised the risks associated with PPPs. For example, a 2011 UK Treasury Committee report on PPPs found them to be more expensive, inflexible, prone to sub-standard building quality and theoretically unsound[29]. A 2014 report from the French senate called PPPs "budgetary time bombs"[30].

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[26] Ibid

[27] BankWatch Network, 'UK hospital PPPs', http://bankwatch.org/documents/PPPs/PPP-case-UKhospitals.pdf

[28] Ibid

[29] UK Treasury Select Committee, Report: Private Finance Initiative funding, 19 August 2011, http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/114602.htm

[30] Sueur, J-P. and Portelli, H., Les contrats de partenariats : des bombes à retardement ?, Rapport fait au nom de la commission des lois, no. 733 (2013-2014), 16 July 2014

If the Commission does choose to encourage PPPs in spite of all the deeply concerning evidence, any measures that encourage the uptake of PPPs through CMU must be accompanied with strict disclosure and transparency requirements to ensure a fair sharing of risk and returns and value for money for taxpayers. These should include clear procurement processes, full disclosure of contracts and periodic reviews of contracts to assess value for money. It is also vital that the European Fund for Strategic Investments (EFSI) operates with transparency and credibility. EFSI should consult with stakeholders when choosing projects, and have clear guidelines to determine their eligibility. EFSI's role in collating and coordinating important standardised information on projects seeking funding must be carried out robustly and transparently. EFSI should be required to produce an annual report that outlines how its agenda and decisions align with the Europe 2020 Plan and the 2030 framework for climate and energy policies.

The Commission identifies that further regulation may restrict the flow of long-term institutional investment to long-term projects. Onerous and complex regulatory arrangements may well deter investors from accessing infrastructure or other alternative asset investment projects. Or, even more worryingly, may result in investors or public authorities entering into arrangements whose risks they do not fully understand, leading to costly mistakes. Measures such as the standardisation of contracts and other project information and the convergence of regulatory environments covering legal contracts, underwriting process, procurement procedures, adjudication and measurements would aid in lowering finance and transaction costs. Many of the technical and regulatory burdens facing institutional investors could be simplified thus encouraging take-up and at the same time improving democratic accountability over PPPs. Simplifying and harmonising such requirements should not be confused with deregulation.

Improve Transparency and Accountability to Beneficiaries

When beneficiaries are given a voice or when institutional investors feel more accountable to them, a clearer and more rounded view of beneficiaries' best interests emerges, which drives demand for Responsible Investment in the real economy. And demand is essential so that asset managers and investment consultants will invest in capabilities to pursue such investments. As mentioned in our response to question 1, many savers care deeply about what financial institutions are doing with their savings even if they find it difficult to engage with these institutions. As discussed in our answer to question 7, fiduciary duties, or other duties upon investors to invest in the best interests of beneficiaries are often misinterpreted. Frequently only short-term financial factors are taken into account at the expense of a long-term approach and consideration of ESG factors that are financially material or that impact beneficiaries' quality of life in other ways.

There is evidence from ShareAction's research[31] and others'[32] that investment institutions which are more transparent and accountable are also more likely to have a more well developed view of beneficiaries' best interests and thus be investing responsibly in the real economy. For example, in the UK, some local authority pension funds, which are more accountable to beneficiaries than types of workplace pension fund are leading the way on investing in a way that generates a financial return for beneficiaries and benefits the local economy and society that they live in. The Strathclyde Local Government Pension fund recently announced a £10 million investment in renewable community energy projects so that, 'the investment made by our members in their own future will support the future of our communities, through improved infrastructure and jobs'[33]. Another five local authority pension funds in the UK recently established the 'Investing4Growth' joint investment platform to invest the money in their pension schemes in a way that achieves financial returns and a positive social and environmental impact. They state that:

[31] Livesey, B. and Toy, L., 'Entrusted with our Future: A survey of the RI Performance of UK Pension Funds', ShareAction, 2014

[32] For example by comparing Wagemans, F., Duiker, J., Fijt, E., de Kruif, D., 'Benchmark RI by Insurance Companies in the Netherlands 2014', VBDO, 2014 and Duiker, J., Fijt, E., de Kruif, D., 'Benchmark RI by Pension Funds in the Netherlands 2014', VBDO, 2014

[33] IPE, 'Strathclyde joined by UK green bank in community power investment', 17/02/2015 http://www.ipe.com/news/esg/strathclyde-joined-by-uk-green-bank-in-community-power-investment/10006714.fullarticle

'The available investment capacity comes from local communities, which have contributed to the funds over many years. Therefore the pension funds' investment is to be used for the benefit of these communities.'[34]

The end beneficiaries of institutional investors, such as pension fund members and insurance policyholders currently have extremely limited rights to information about how their money is invested. For example, many pension savers across the EU have no right to know where their money is being invested; schemes are not obliged either to publish a general overview of the companies they hold, or to respond to specific requests for information. In a world where savers' wellbeing in retirement increasingly depends on investment decisions made by people they did not choose, this is likely to become increasingly unacceptable. Improving accountability to savers is not just right in principle but also essential for tackling the absence of incentives for institutional investors to invest in the genuine best interests of the beneficiaries whose money they manage.

19) What policy measures could increase retail investment? What else could be done to empower and protect EU citizens accessing capital markets?

Lack of trust is a major problem for the investment sector. This can be tackled via better disclosure requirements on investment institutions and enhanced rights to information and participation for savers, as discussed in our response to question 10. We also recommend that the Commission, under the digitalisation agenda, looks at ways to excite and inform savers and retail investors about the role their money pays in the real economy.

Digital technology has the potential to bring savers closer to the businesses in which their money is invested, and to spread influence over the exercise of shareholder rights more widely among those whose capital is invested. But this potential has so far gone largely unrealised. Evidence suggests that this is not because of any insurmountable technological or legal barriers. For example, it would be perfectly possible for pension schemes and managers of collective investment funds to use the internet to poll savers on particular issues or controversial votes, using this to inform their own voting decisions.

Several pioneering retail investors illustrate innovative and best practice examples of how digital tools can connect individual investors to the projects being funded by their money. Abundance Generation, a UK-based direct investment platform for renewable energy, has an interactive and user friendly website that allows potential investors to examine maps, site photographs, construction timelines and contractual information on individual infrastructure projects open for investment[35].

Similarly, Triodos Investment Management's website has a 'Know Where Your Money Goes' tool that allows users to enter a search term or location which links to a map of nearby or relevant projects and further descriptions and photographs of the site[36]. These dynamic digital strategies connect an individual to the communities where their money is invested. As well as highlighting the real world impact of investment decisions, such tools could help to make institutional investors more transparent and accountable to their beneficiaries. We would welcome the inclusion of online platforms and dynamic digital tools into the CMU strategy to boost retail investment.

30. What barriers are there around taxation that should be looked at as a matter of priority to contribute to more integrated capital markets within the EU and a more robust funding structure at company level and through which instruments?

Introduce Country-by-Country Reporting

[34] http://www.investing4growth.co.uk/Aboutus.html
[35] See https://www.abundancegeneration.com/
[36] See https://www.triodos.com/en/about-triodos-bank/know-where-your-money-goes/

We suggest that the Commission progresses its review of country-by-country reporting on profits, taxes and subsidies (CBCR) as soon as possible. There has been renewed public focus on corporate transparency and tax payments, particularly since the LuxLeaks scandal. ShareAction has also noted that amongst the variety of issues that we campaign on, tax evasion by companies seems to be of most concern to our supporters and the wider public. CBCR information is relevant to tax authorities and investors to strengthen their understanding of the risks involved in investing in a given company.

The EU should also actively participate in discussions at the international level, including most notably the OECD's "Base Erosion and Profit Shifting Action Plan" to prevent a proliferation of different standards and initiatives for companies to comply with.