European Commission, DG Justice and Consumer Affairs: Public consultation on long-term and sustainable investment

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Introduction (by the European Commission)

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 to 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.

ShareAction Response

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?

Summary: In our view while there is increasing interest in integrating ESG factors into investment decisions, there remain questions about the depth of commitment across the industry and there remains a long way to go before ESG is truly integrated into the investment system. This is despite the fact that there is good evidence that integrating ESG can lead to better returns for investors, and better run companies with more positive impacts for savers, society and the environment.
According to the Global Sustainable Investment Alliance, the amount of professionally managed assets managed with regard to ESG principles grew 61 per cent in 2 years to US$21 trillion by the end of 2014. The growth in signatories to the UN-backed Principles for Responsible Investment (PRI) and the cumulative assets under management (AUM) that they represent is also an encouraging sign that ESG issues are factored in to investors’ decisions. PRI signatories currently represent around €53tn ($60tn USD) in assets under management, approximately half of the global institutional investment market.

However, research by ShareAction and others has found that the quality of Responsible Investment (RI) policies and the depth of ESG integration in investment decisions is highly varied, even for investors who are signatories to the PRI or other similar initiatives. ShareAction’s 2015 survey of RI performance at the 33 largest asset managers operating in the UK found that although 94% of the asset managers were signatories to the PRI, only 42% publicly disclose policies on how they incorporate environmental and social considerations into the investment process. For many investors, consideration of ESG factors is limited to exclusions. Systematic integration of ESG factors in investment decision making processes is rarer. According to Eurosif’s 2014 market study exclusions cover about 41% (€7 trillion) of European total professionally managed assets whereas systematic integration is estimated to cover a minimum of 11%.

If not, why?

It seems that more investors want to be seen to be investing responsibly, but there is a danger that RI policies and statements may be just marketing material, or ‘greenwashing’. A recent report by EY, commissioned by DG Environment, summarized the problem:

'despite most institutional investors claiming to apply sustainable and responsible investment strategies, the final impact on investment decisions is rarely disclosed and the actual investment decisions do not seem to result in widespread long-term sustainable investments.'

A lack of definitions of key RI terms, a lack of comparable metrics or monitoring means that it is still easy for investors to have RI policies for public display or publicly commit to RI-related initiatives, without actually systematically integrating ESG factors into their decision making.

Also, investment portfolios tend to be greatly diversified as shareholders seek to mitigate risk by spreading their shares across a variety of different companies. As the recent Kay Review revealed, the price of this diversification is a loss of information and control. Investors are less familiar with the activities and performance of any one individual company in their portfolio

Please specify which considerations are reflected in your investment policy and

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4 EY report
Our latest research, into the 9 largest occupational pension providers in the UK\textsuperscript{6}, with £1.9 trillion (2.41 trillion €) combined AUM found that some investors’ policies still consist of vague, brief statements about ‘ESG’. One ‘environmental, social and ethical investment policy’, we looked at said only:

‘The Trustee believes that environmental, social and corporate governance (‘ESG’) issues can affect the performance of investment portfolios and should therefore be taken into account as part of the Scheme’s investment process.

The Trustee has given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Scheme’s investments.

It is accepted that pooled vehicles will be governed by – and constrained by – the individual investment policies of the investment managers’\textsuperscript{7}

However the majority of the providers did go beyond mentioning ‘ESG’ and discussed specific ESG issues, or ESG issues with respect to certain sectors, in more detail. For example 8 of the 9 providers mentioned climate change in their investment policies and 3 assess the risk of stranded assets in relation to fossil fuel companies’ project portfolios. The other ESG topics we looked at were:

- Human rights
- Labour rights
- Nature
- Remunerations and Operations
- Taxes and Corruption
- Arms
- Extractive Industries
- Power Generation

In general we found that the majority of providers at least mentioned these topics in their RI policies, but there was normally a lack of detail around how the issue is managed, what relevant international norms and standards are considered or specific criteria around engagement or exclusions of investee companies. There was a wide range of performance, with different providers scoring well on different topics, and some examples of best practice observed for each topic.

It is important to make a distinction between financially material and non-financially material ESG factors. Due to investors’ responsibilities to deliver the best financial returns to their clients, many investors believe that they are prohibited from taking non-financially material factors into account. Research on investors’ fiduciary duties and how these are commonly interpreted, for example by the UK’s Law Commission and the aforementioned EY report for DG Environment, have found that there is confusion on this matter. Often investors believe that their fiduciary

\textsuperscript{6} de Ste Croix, C., and Moisio, M., Reclaiming Ownership: A survey of governance and Responsible Investment at UK Automatic Enrolment Pension Providers

\textsuperscript{7} 2016 report
duties prevent them from considering any ESG factors, even those that are financially material. The European Union's use of terminology is unhelpful in this regard and adds to the confusion as the term 'non-financial' is used to describe both financially material and non-financially material ESG factors (for example in the Non-Financial Reporting Directive).

Investors managing investment products marketed as 'ethical' do have a remit to take non-financially material issues into account. However, this does not mean that ethical fund providers lead the way on integrating ESG issues. ShareAction's 2012 survey of the UK's 20 largest retail ethical investment funds\(^8\) found that they mostly excluded 'sin stocks', such as tobacco, gambling and pornography but investment policies often did not address key ESG issues like climate change. For example, 63% of providers surveyed screen out alcohol, compared to only 11% who screen for child labour.

**In what form is this commitment expressed?**

A distinction must be made between asset managers and asset owners. For asset managers, commitment to ESG integration should be expressed through day-to-day investment operations, from research processes, buying and selling decisions, voting behaviour at company shareholder meetings to asset allocation and engagement with investee companies. For asset owners, commitment to ESG integration is best expressed through the mandates awarded to asset managers. We often here anecdotally from asset managers that lack of client demand is a reason for not doing more ESG integration. As such, we believe that the mandates that asset owners give to asset managers are a key determinant of which ESG factors are considered in investment decisions, and the importance attached to this. The PRI’s recent most report, *How Asset Owners can Drive Responsible Investment: Beliefs, Strategies, Mandates*,\(^9\) sheds useful light on this issue.

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)

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

Please provide an explanation:

**Improving investment returns:** Considering ESG factors is important for managing risk, but also is increasingly used by investors to identify good investment opportunities or to generate upside. Companies that perform well on ESG issues and

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\(^9\) http://2xjmlj84z8u1a2k5o34i1m7i.wpengine.netdna-cdn.com/wp-content/uploads/PRI-How-Asset-Owners-Can-Drive-Responsible-Investment.pdf
metrics tend to be better run and more profitable in the long-term. ESG integration or Best-in-Class investment strategies are two ways to do this when it comes to selecting investment opportunities. Engagement with investee companies is another way to generate upside.

Recent research by Alliance Trust Investments (2015) compared a set of companies over time – one set with a strong ESG programme, and another similar set with no emphasis on ESG or sustainability. The findings show that the group of companies with a strong sustainability focus outperform their peers both in terms of stock market value and financial returns. Such evidence suggests that investor engagement with investee companies with the goal of improving their sustainability performance results in clear benefits for shareholders.10

Evolving best practice: there is an ever increasing amount of best practice that investors can draw on to help develop their Responsible Investment policies and practices, for example looking at peers in their own country or abroad; using emerging international norms and standards, like the UN Global Compact or joining collaborative investor initiatives like CDP (Carbon disclosure Project). Increasingly companies or investors who do not adhere to such codes are subject to scrutiny and questions from their peers and other stakeholders.

Consumer demand: the final beneficiaries of institutional investors, such as pension fund members are increasingly demanding action by the private sector on ESG issues, such a climate change. In other spheres, consumers increasingly demand ethical products and more transparency about where their products come from. The Divestment from Fossil Fuels movement, which is spearheaded by students at universities with invested assets, is a clear example of ordinary citizens' interest in the impact that investors have on ESG issues. According to Fossil Free, institutions with a combined AUM of $3.4 trillion have committed to divest from fossil fuels.11

2. Information on ESG risks and opportunities

Summary: It is not possible to define an exhaustive list of material ESG risks, but there is a growing evidence showing that ‘ESG’ risks or specific risks within this umbrella category are financially material. The risks associated with climate change are particularly pertinent. The growing numbers of investors taking ESG risks into account in their investment decisions further demonstrates the financial materiality of such risks. There is a link between financial materiality and the regulatory environment; fines for corporate misdemeanours on ESG issues increases the material risk to investors for example.

There is no definitive list of ESG issues that can be financially material to company performance; this depends on the individual company and new issues may always emerge. However the PRI's guidance is useful.12

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11 http://2ximlj8428u1a2k5o34l1m71.wpengine.netdna-cdn.com/wp-content/uploads/Main-Definitions-to-
- Environmental issues relate to the quality and functioning of the natural environment and natural systems. This include climate change, greenhouse gas emissions, resource depletion and renewable energy.

- Social issues relate to the rights, well-being and interests of people and communities and include as human rights, labour standards, slavery, health and safety and human capital management.

- Governance issues can include board structure, executive pay, shareholder rights, information disclosure and matters of business strategy.

ShareAction campaigns on issues where we believe the investment system can change the behaviour of investee companies. The financial materiality to investors of particular ESG issues is an important consideration when deciding which campaigns to take on. Our current campaign topics include: Corporate lobbying; Corporate tax evasion; Digital rights; Factory farming; Living Wages; Renewal Electricity and Climate Change

ShareAction’s Investor Briefings, which include additional topics, are available at: http://shareaction.org/category/investor-briefing/

The evidence of the financial materiality of ESG factors to company performance and, as a corollary to investment performance, is mounting. Of note is the recent meta-study by Deutsche Asset and Wealth Management. Institutional investors are becoming increasingly aware of the need to consider ESG risks: a 2015 survey carried out by the investment consultancy Mercer and LGT Capital Partners found that 76% of the investors surveyed incorporated ESG risks into investment decisions.

Climate change is perhaps the most significant material risk facing investors. We welcome the February 2016 report of the European Systemic Risk Board and its analysis that a late, sudden transition entails higher systemic risks than a gradual, managed transition.

We also welcome the 2015 Mercer report Investing in a Time of Climate Change which highlights that climate change is not only a risk to investments in the energy sector but will affect a diverse range of sectors in unpredictable ways. We support Mercer’s recommendation that investors must develop investment beliefs and new governance processes to appropriately manage the risks relating to climate change.

The Economist Intelligence Unit looked at the value at risk as a result of climate change to the total global stock of manageable assets. They concluded that an estimated $13.8 trillion of global assets are at risk if global temperatures rise by an average of 6°C. This represents more than the market capitalisation of the London Stock Exchange.

It is also important to note the link between financial materiality and the regulatory environment.

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13 Z:\Knowledge Bank\Policy & Research\ESG and Corporate Financial Performance - mapping the global landscape - Deutsche Wealth and Uni of Hamburg.pdf
14 Advisory Scientific Committee, February 2016, Too Late, too sudden: Transition to a low-carbon economy and systemic risk, No.6/February 2016, European Systemic Risk Board
15 Add source
For example, fines for companies that damage the environment or treat workers or communities badly increase the financial materiality of poor ESG performance. One example of this is the costs to BP, and its shareholders resulting from the 2010 Macondo oil spill. According to Reuters, BP will pay a total bill of $53.8 billion for the disaster, of which $14 billion related to clean-up costs. The remaining cost relates to fines and settlements to various stakeholders.17

There are numerous other instances of policymakers taking action to increase the, or create a, link between financial materiality and poor performance on particular ESG issues by companies. For example, the 2015 UK Modern Slavery Act increases the material financial risks for companies who use slave labour in their supply chains by creating 2 new civil offences linked to modern slavery.

EU policymakers wishing to harness the investment industry to improve company performance on ESG issues and foster sustainable development should consider interventions which will further increase the financial materiality of ESG issues. For example setting a meaningful carbon price, improving access to redress for communities affected by negative corporate behaviour or increasing fines possible for corporate misdemeanours. This approach can not only catalyse more investor scrutiny of company ESG performance but also help ensure that negative externalities are paid for by those responsible for creating them.

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?

It is best practice for investors to use a range of data sources, from specialist agencies like Sustainalytics to companies’ own annual reports. 77% of respondents to ShareAction’s 2015 asset manager survey18 said that they use a range of internal and external data sources and that they have direct contact with investee companies as part of their research and monitoring process.

Opportunities to collaborate with other investors are an important type of opportunity for investors to take action on ESG issues. Often the individual holdings of (even very large) institutional investors are too small to enable effective engagement with investee companies. The PRI’s Clearing House is a good source of information about opportunities for collaboration.

Civil society research fills an important gap and remains a major active catalyst for improving the normative strength of what are currently only voluntary or self-reported declarations. NGOs are important watchdogs and remain a major source of challenges over a whole host of ESG related issues as outlined in our campaigning agenda (as set out in response to Q2.a). ShareAction’s investor briefings are valued and used by investors. For example briefings that ShareAction prepared with civil society partners on Royal Dutch Shell’s operations in the Arctic19 resulted in

investors raising questions with the company on the quarterly earnings call, based on the concerns raised in the briefing. Shortly after this earnings call Shell announced that they would suspend their Arctic operations for a year.

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

Companies are increasingly reporting on ESG issues, which is a positive development. However it remains difficult for investors to access useful, actionable information. It is hoped that the Non-Financial Reporting Directive will improve the comparability and standardisation of information as this remains a problem. Investors need to be able to quickly and easily compare companies with their peers in order to factor ESG issues into investment decisions.

The UK Modern Slavery Act (2015) is a pertinent example of this issue. The Act is an important measure to tackle modern slavery and we welcome the responsibilities it places on investors. However the reporting requirements for companies do not result in the necessary comparability to enable investors to draw meaningful conclusions. Civil Society is having to pressure for consistency of reporting, which is disappointing as the legislation should have resolved this problem from the outset.

Also current legal frameworks which rely on a combination of some hard law with mostly soft law (for example ‘comply or explain’) or voluntary mechanisms are not effective in situations where companies are reluctant to disclose information. The number of recent shareholder resolutions asking companies to disclose more information about their ESG related risks and medium to long-term plans demonstrates that the information investors want and need is not readily available. According to Ceres, there were 102 shareholder resolutions relating to climate change or carbon asset risk filed by their investor network participants in 2015 alone.

Shareholder resolutions are a costly and labour intensive exercise, particularly in the UK where at least 100 shareholders are required in order to table a resolution. Investors should not have to resort to such measures to find out vital information about investee companies. ShareAction participated in the ‘Aiming for A’ coalition which submitted shareholder resolutions to BP and Royal Dutch Shell at their 2015 Annual General Meetings. It took 1 member of full time staff approximately 3 months to coordinate and submit all the necessary paperwork and information from the co-signatories. The resolutions asked the companies to disclose information relating to the robustness of their business models in the face of government commitments to tackle climate change and the transition to a low carbon future; essential information for investors considering the companies’ medium to long-term prospects.

The shareholder resolutions were passed by 98% and 99% at BP and Shell respectively, demonstrating the investor appetite for this information. Although the results of these votes means that the companies are legally obliged to publish the information requested in the resolution text, ShareAction’s initial analysis of the information recently published by BP in response indicates that they are failing to disclose much of the information requested. Shell is yet

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21. The Guardian, (16/04/2015), [BP promises more transparency on climate change issues](http://www.theguardian.com/business/2015/apr/16/bp-promises-more-transparency-on-climate-issues), accessed 31/03/2016
to publish a response. We would be happy to discuss this issue with the Commission or share our analysis once it has been completed.

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

Independent research is costly, and largely out of reach for smaller investors and civil society. In order to conduct robust research, it is necessary not only to access but also to analyse information from a variety of sources, including the company itself. This is time consuming and therefore costly. If key ESG information remains outside the public domain and only available to those who can afford this, this will harm the potential impact of the Non-Financial Reporting Directive.

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

The fact that companies have legally permissible options for not disclosing such data means that in many cases they may choose not to. The shareholder resolutions example discussed in the response to question 2c demonstrates how difficult it can be to force companies to disclose such information. Therefore we recommend that the Commission closely scrutinises companies use of the exemption clauses within the Non-Financial Reporting Directive to ascertain whether provisions designed to protect trade secrets are being abused.

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

a) relevance of ESG issues to company performance, yes
b) attracting financing for specific projects, for example green bonds, yes
c) legal or regulatory constraints, yes
d) demand from investors, yes
e) pressure from stakeholders,
f) other; yes Lower cost of capital

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

As mentioned above in our response to question 2d, as relevant information is often not in the public domain and prohibitively expensive for civil society, this prevents civil society from fulfilling its important role in scrutinising such information and holding companies accountable. Anecdotally, ShareAction has also heard from investors that as the data is often not audited by experts, they can doubt its reliability.

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

No Response

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

Specific investment instruments such as green bonds are a welcome development. The fact that the majority of green bonds have so far been oversubscribed due to the huge
demand from a wide variety of investors\textsuperscript{22} send a clear signal to policymakers and the investment community about the high levels of interest in green investment opportunities.

However, ShareAction remains concerned that efforts to promote sustainable investment in the Capital Markets Union are limited to specific instruments such as green bonds. Consideration of ESG factors should be understood as an approach to investment and risk management, not a category of investment products. Such an approach to investment should apply to all asset classes and sectors of the economy, rather than only as a particular class of assets with certain characteristics such as illiquidity or maturities above a certain length.

The OECD’s framing of long-term investment as “patient, productive and engaged” is a useful one. So while the recent growth in green bonds is a positive shift, it plays only a small role in the wider shift needed to consider ESG risks as part of a long-term investment strategy. Green bonds have so far succeeded in directing capital to green investment projects, but they cannot mitigate environmental risks that occur throughout investors’ portfolios.

There is also a very real risk that that investor appetite for such products could be undermined unless definitions, standards and monitoring are brought in rapidly. A few high profile scandals regarding the use of funds raising via green bonds for projects which are not actually very ‘green’ could harm or even destroy the growth of this nascent sector. The Climate Bonds Initiative’s work defining such key features of green bonds is very welcome, but as a voluntary initiative it is limited in scope.

Action for better verification and enforcement of codes may be additionally stimulated by the recent interest of the Financial Stability Board and its chairman Mark Carney, who has remarked that in the case of climate change there are already nearly 400 initiatives to provide information about the costs, opportunities and risks created by climate change. Existing schemes vary in their status (from laws to voluntary guidance); scope (from greenhouse gas emissions to broader environmental risks); and ambition (from simple disclosure to full explanations of mitigation and divestment strategies). Carney points out that “The existing surfeit of existing schemes and fragmented disclosures means a risk of getting “lost in the right direction”\textsuperscript{23}.

### 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.

No response

#### 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.

Misaligned timescales and outsourcing of investment management and advice by institutional investors is a significant barrier in this regard. Most institutional investors’ mandates to fund managers tend to run for around 3 years minimum. Despite the long-term liabilities many institutional investors such as pension funds face, their fund managers often have incentives linked to one or three year rolling performance horizons, which pressurizes fund managers to prioritise short-term performance.

In line with the findings of the Kay Review, we believe that incentives remain a huge barrier to factoring sustainable ESG considerations into investment decisions, including remuneration incentives across asset managers and company directors that are designed with too much emphasis on short-term goals and rewards.

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?

While leading investors, often with ‘ethical roots’ such as charitable foundations, do take ESG integration into account when selecting asset managers and monitoring performance, there is evidence that this practice is not nearly as prevalent as it should be.

Our surveys have uncovered evidence that even the largest institutional investors do not always take ESG capabilities into account when they select their asset managers. In some cases even basic RI policies are not backed up by vetting of fund managers’ capabilities to deliver.

Our 2014 survey of the 24 largest occupational pension schemes in the UK24 found that when making appointments, the majority of those occupational schemes that use equity, bond and property managers explicitly consider their ability to comply with the fund’s Responsible Investment policy (94%, 88% and 81% respectively).

Of the 16 occupational schemes that both responded to the questionnaire and employ external managers, only 5 require all of the following elements which ShareAction considers best practice:

- compliance of managers with the scheme’s Responsible Investment position
- reporting by managers on Responsible Investment and stewardship issues
- compliance of managers with the PRI and/or the UK Stewardship Code.

Of the 16 funds which acknowledged the responsibility to monitor investment managers, 15 required the following from fund managers:

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• reporting and updates on ESG and stewardship issues (for example through reports, analysis and research and/or through meetings and presentations)
• specific updates on voting activity
• specific updates or reports on the effect of engagements on company behaviour.

The survey also looked at whether pension funds had commended, criticised or encouraged their investment managers’ stewardship performance. Responses showed that they have engaged with their managers on a wide range of issues, including encouraging enhanced reporting, concerns about investee companies’ board composition, directing engagements over particular social concerns, and encouraging managers to join the PRI.

Our 2016 survey looked at the 9 largest pension providers servicing the automatic-enrolment market in the UK25, and therefore included a mix of big insurance companies and master-trusts (multi-employer trust based schemes). The total assets under management of these 9 firms is £1.9 trillion and they therefore represent a significant proportion of the estimated £3 trillion UK life insurance and pensions market.

4 providers said that they require evidence of RI and Stewardship capabilities when selecting external managers, 4 do not require such evidence and one only uses internal managers. 4 providers (but not the same 4) said that when appointing external providers, they require compliance with their own RI policies, 4 do not and one only uses internal managers.

As many institutional investors delegate everything ESG and investment related to their asset managers without proper scrutiny, intervention from policy makers is required to more clearly set out institutional investors responsibilities in this regard. We hope that the IORP II Directive, when agreed, will contain such measures for example in with regard to the requirement for schemes’ SIPPs (statements of investment policy principles). EIOPA’s work stream on SIPPs is also to be welcomed

**Best Practice**

In terms of best practice, Aegon was the only provider for whom we were able to conclude that their RI policies are binding on externally managed assets. The UK's Environment Agency Pension Fund is also exemplary of best practice in this area. In 2014/15 they launched a search for sustainable equity managers and published a summary of observations from this search and tender process. They stated that they were looking for managers who implement more than just a basic or exclusion-led ESG approach. They paid particular attention to managers who link ESG analysis and financial performance and use sustainability to add value by anticipating not just following the market on ESG factors. Although their tender was demanding they received 60 responses which was at the top end of their expectations.

One of their key observations was that:

‘There are a large number of managers that are now integrating environment social and governance (ESG) factors into their investment process in a reasonably thorough way,

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with suitable analytic tools and combining it with good governance. This means that for asset owners, implementing responsible investment is easier than ever before.”

They advise other asset owners undergoing a tendering process to ask the fund manager the ESG questions instead of asking the ESG specialist to test whether the fund manager is really serious about ESG. They concluded that:

‘there are no constraints stopping asset owners ensuring that in their main global equity mandates their managers are properly engaging with responsible investment.’

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?

For our most recent survey of the UK’s 9 largest automatic-enrolment pension providers, we sent a questionnaire to these organisation which included questions on how ESG is considered by the governing bodies. As 2 of the providers surveyed have master-trust based schemes, governed by a board of trustees, and also contract-based schemes where Independent Governance Committees (IGC) scrutinise investment practices they were asked to complete the survey twice; once for with respect to the board of trustees and once for the IGC.

Only 4 out of the 11 providers told us that ‘the Responsible Investment (RI) policy is an agenda item for discussion at least annually by the board of trustees/IGC’. Only 4 told us that trustees or IGC members ‘receives formal training on RI and stewardship’.

Therefore, although we did not ask questions specifically about remuneration, these findings on training and frequency of discussion are a troubling indication of how seriously ESG and stewardship are taken by executives and board members of institutional investors. Although we would encourage boards to link ESG performance and active asset ownership, it seems to be the case that many boards need to commit to discussing and building competence around these issues as a first step.

VBDO (the Dutch Association of Investors for Sustainable Development) also gathered relevant data on this subject in their report ‘Benchmark Responsible Investment by Pension Funds in the Netherlands 2015’

They found that less than half (44%) of the pension funds set sustainability targets for employees or departments that are used in evaluation or remuneration. Only 16 of the 50 pension fund assessed have developed KPIs with regard to their RI practices. 8 Pension funds had KPIs that also measured the impact of the investments on society or corporations. More widespread adoption of RI related KPIs is a likely prerequisite to linking RI and remuneration.

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26 Environment Agency Pension Fund (July 2015), Sustainable Global Equity Managers: Observations from our search and tender, p.1
27 Ibid., p.6
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.

Scale does seem to influence institutional investors’ ability to integrate and act on ESG issues due to the resources available, knowledge of the topic and commitment to training. UKSIF’s Ownership Day survey\(^{29}\) found that out of the 6% of pension funds who disagreed with the proposition that ESG factors are material to long-term performance of the fund, all were smaller funds (assets of under £5 billion). Larger funds (assets over £10 billion) were also likely to be committed to the UK Stewardship Code whilst smaller funds (assets of under £2 billion) were most likely to say they had no intention of committing to the Code. The survey points out:

> ‘There is further anecdotal evidence that smaller funds find it more difficult to fully consider ESG issues due to lack of time, resources and in some cases understanding.’

VBDO’s study of RI by insurance companies in the Netherlands found a correlation between the size of investment organisations and its performance on RI. Although large companies performed best, followed by medium and then small companies, there were examples of small companies performing well showing that size does not have to be a barrier to doing RI.

Although there does seem to be a link between scale and RI adoption, bigger does not necessarily mean better in this respect; in ShareAction’s last benchmarking study of Responsible Investment by the UK’s 24 largest Occupational Pension Schemes\(^{30}\), two schemes received zero points. The desire to innovate and manage long-term risk must also be there.

In the Law Commission's 2014 review of fiduciary duty stewardship of investee companies was deemed to be appropriate for pension funds of all sizes, as smaller funds generally outsource investment management and can instruct their managers to act as engaged shareholders. The caveat is that small funds must thus instruct managers and scrutinise them.

Scale is also important because the larger an investor’s stake in a company, the more clout they have to influence. Of course, in an era of highly diversified portfolios large schemes may still have small stakes in individual companies but they have the potential to make larger investments. The disadvantage faced by smaller schemes can be mitigated by investor collaboration, indeed a headline requirement of the UK’s Stewardship Code is willingness 'to act collectively with other investors where appropriate'. We would encourage policymakers to facilitate and remove any obstacles to institutional investors’ collaboration.

A further barrier to asset owners’ ability to integrate ESG considerations into their mandates for investment managers is the lack of shared measures of what good practice looks like in relation to stewardship of assets, particularly around company engagement and voting practice. At selection


stage, asset managers present their engagement activities in different ways, some anonymised, some with specific examples, but whatever the case it is difficult for an asset owner to know what good looks like. Even where there is compliance with the UK Stewardship Code, a lack of standardised reporting makes comparison tricky. As we noted in our 2015 survey of asset managers:\footnote{Galdiolo, S. and de Ste Croix, C. (2015), \textit{Responsible Investment Performance of UK Asset Managers The 2015 ShareAction Survey}, ShareAction, London, available at \url{http://shareaction.org/wp-content/uploads/2016/01/AssetManagerSurvey2015.pdf}}:

“In general, public disclosures focus on inputs (number and type of engagement and voting activities) rather than outputs (result and impact from such activities). There are limited methods and metrics currently available for measuring the results of these activities but ShareAction predicts this will be a key area for development in the field of RI over the next few years. Communicating the results of these activities is essential for allowing clients to judge the value of the asset manager’s investment approach, and for securing more resources for conducting stewardship.”

We are aware of calls for further research at a European level to begin to establish benchmark measures around detailed stewardship, and would be very interested in discussing at an early stage any detailed proposals in this area.

\section*{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.}

As discussed above in our response to question 5(a), although scale and resources are a factor, motivation to act on ESG issues and dedicate resources to them is also necessary. Action by policymakers can provide this motivation. For example, the UK Stewardship Code launched by the Financial Reporting Council in 2010 has contributed to improvements in this area.

\textbf{UK Stewardship Code}

The Code sets out a number of areas of best practice that investors should aspire to beyond the seven key principles. The Code states that effective stewardship goes beyond voting and includes monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance. Additionally, the seven principles seek to ensure robust policies on areas such as conflicts of interest and voting, that are publicly disclosed and reported on.

The Code is voluntary and the ‘comply or explain’ model is intended to ensure flexibility particularly for firms who may consider some of the principles to be less applicable to them. However there are significant drawbacks to this model. ShareAction’s 2015 survey of the 33 largest asset managers operating in the UK\footnote{Galdiolo, S. and de Ste Croix, C. (2015), \textit{Responsible Investment Performance of UK Asset Managers The 2015 ShareAction Survey}, ShareAction, London, available at \url{http://shareaction.org/wp-content/uploads/2016/01/AssetManagerSurvey2015.pdf}}, looked closely at compliance with the Code.
All the asset managers had issued statements of compliance with the Stewardship Code, but the quality of both their statements of compliance and their adoption of ESG integration and engagement practices varied significantly. Often when organisations do not ‘comply’ with the Code, they also do not offer robust, or any, explanations. Only 64% of these managers disclosed a conflicts of interest policy, despite this being a headline requirement of the Code. 5 managers who did not disclose a conflicts of interest policy did not provide an explanation for this.

Our research also found that environmental and social issues still receive less attention than governance issues. Only 42% of the asset managers publicly disclose policies on how environmental and social issues are incorporated into the investment process. The Code does not help to address this because environmental and social issues are only mentioned once in the guidance notes, but not in the headline principles. This suggests that measures by policymakers to promote inclusion of ESG issues in investment decision making and more engagement need to explicitly mention environmental, social and governance issues, rather than just talking about engagement, monitoring and stewardship.

The FRC itself has also acknowledged the flaws in this model and admitted that its need to reassess its approach to ensuring compliance. In its 2015 end of year report, it stated:

‘While the FRC understands that development of a culture of stewardship will take time, the reporting of too many signatories does not demonstrate that they are following through on their commitment … there is evidence that action is needed to ensure appropriate momentum is maintained in implementing the Stewardship Code, with a mixed picture of progress. In December we stated that we would be looking to distinguish between the reporting of signatories and in summer 2016 will make a public assessment on the basis of their reporting.’

Charities Responsible Investment Network

The Charities Responsible Investment Network, administered by ShareAction has helped UK charitable trusts and foundations think more about ESG. The network provides research and training on ESG issues to members, a platform for networking, and assists members with engagement with companies and asset managers.

DG Enterprise and Industry Initiative

The European Commission demonstrated forward thinking in October 2011 when it appointed the International Corporate Governance Network, the PRI and the European Federation of Financial Analyst Societies to lead a new programme to build the capacity of investors to integrate ESG information in investment decisions. The collaboration was set to result in a comprehensive professional development programme, as well as guidance on best practice.

In the official press release the then Commission Vice-President Antonio Tijani said:

"The transformation to a sustainable economy will be driven by industry and investors together. Europe's enterprises need to know their shareholders

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understand how social, environmental and governance performance affects financial performance. Bringing together some of the leading organisations in the field, this ambitious programme will build on current best practice and help to make adequate consideration of material, non-financial information the norm among investors and analysts. It will enable investors to calculate the long-term value of companies more accurately and generate greater recognition from the market for sustainable, responsible and innovative business practices.”

DG Justice should look at the results of that initiative and see if the original 18 month initiative is worth following up and if any important lessons were learnt.

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.

ShareAction’s 2015 report, Realigning Interests, Reducing Regulation34 found that the best performing pension schemes globally, on a range of measures including Responsible Investment, tended to have an alignment of interests between “key parties, including beneficiaries; scheme boards; scheme executives; asset managers; and employers.”35 The research examined the pension systems in Australia, the Netherlands and Denmark and also noted the conclusions of The Office of Fair Trading’s comprehensive study of the workplace pensions market:

‘better alignment of the incentives of employers, trustees, advisers, providers and investment managers with those of scheme beneficiaries is the best way to ensure that actions are taken in the interest of scheme beneficiaries’ 36

The evidence from Australia was particularly compelling; not-for-profit ‘industry’ pension schemes, where trustees are appointed by employers, beneficiaries or unions, have outperformed their for-profit ‘retail’ counterparts, where trustees are appointed by commercial providers or via executive search. The not-for-profit funds delivered on average 2.4% higher real returns over the last decade than their for-profit counterparts. The not-for-profit industry funds also seem to be leading the way on innovative and RI strategies. 30 industry funds even established their own asset management company, IFM, due to dissatisfaction with the services available on the market. As these not-for-profit pension funds own IFM investment, decisions can be taken with a longer term view and in beneficiaries’ enlightened best interests, according to IFM and the funds who use them.

Our report makes a number of recommendations for improving UK pension scheme governance, which we believe have wider resonance for institutional investors. These recommendations include ensuring inclusion of scheme beneficiaries on governance boards, requiring company

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35 Ibid, p3
36 Ibid, p18
managers to use the same pension scheme as the rest of the workforce, and extending fiduciary standards and equivalent duties to “those responsible for governing and running pension schemes, including those responsible for investment management”37

VBDO’s Benchmark Responsible Investment by Pension Funds in the Netherlands 201538, mentioned above, noted that pension fund boards are often time constrained which can lead to the risk that RI will not being properly considered. They uncovered the following governance related best-practices to counter this risk (page 27):

- ‘The best-practice of PNO Media is to hire and external reviewer for the responsible investment policy. This responsible investment advisor is 100% independent and challenges the board as well as the asset-manager.
- Shell Pension funds warrants board ownership of the responsible investment policy by having two Board members act as focal point for ESG related topics who also determine the ESG agenda for the board.
- Spoorwegpensioenfonds has organized a workshop for the board with a specific focus on ESG. During this day the board was informed about the ESG policy was offered and possible ways for improvement. The board was able to review the policy and set goals for the coming year. The day enabled a fruitful discussion between the board and the asset manager’

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.

In our view the lack of transparency throughout the investment chain is a problem and a barrier to increased integration of ESG and an investment system that truly serves savers’ best interests. To ensure that investments are made in the best interests of savers, trustees need to be accountable to beneficiaries, and asset managers and investment consultants need to be accountable to trustees. We feel confident that a number of voices in the investment industry will begin calling for greater transparency on these points.

**Voting transparency**

Our 2015 report ‘Asset Manager Voting Practices: In Whose Interests?’39 showed that there is a significant variation in the voting decisions and disclosure of the UK’s 33 largest asset managers, as well as variation in disclosure of rationales for voting a particular way.

We concluded that:

> “Overall, there is room for improvement in the voting practices and disclosure of the majority of the UK’s largest asset managers. There is a role for regulators, clients and asset managers in driving these improvements”

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37 Ibid, p7
38 De Kruijf, D., and van Ipenburg, P., (October 2015) Benchmark Responsible Investment by Pension Funds in the Netherlands 2015: Bridging the Gap, VBDO
“useful for regulators to issue guidance on standardisation of voting disclosure, so that it is easier for clients to understand voting records and hold managers to account for the voting decisions made on their behalf.”

Beneficiary Engagement and Consultation

ShareAction’s work with pension funds and their beneficiaries’ has shown that it remains too difficult for beneficiaries to access the information they want and have their opinions listened to. ShareAction builds and operates ‘email your pension fund tools’ on a number of different campaign topics. The results of these initiatives show that even when beneficiaries take the time to contact their pension provider directly with specific questions, they often do not receive satisfactory responses.

For example, 1,119 emails have been sent by our supporters to pension providers asking them to engage with investee companies to promote the UK Living Wage. Our supporters forwarded us 52 pension fund responses from 22 different funds. The responses ranked as follows:

- 7 - ‘good’
- 11 – ‘more detail needed’
- 4 – ‘not answering the question’

680 emails have been sent by our supporters to pension providers encouraging them to ask investee companies to switch to obtaining all their electricity from renewable sources (in line with the RE100 initiative). Our supporters forwarded us 40 responses from 24 different pension funds which we ranked as follows:

- 9 - ‘good’
- 10 – ‘more detail needed’
- 5 – ‘not answering the question’

Best Practice

ShareAction has long campaigned for greater beneficiary engagement in the management of pension schemes. Our 2013 report, ‘Our Money, Our Business’ sets out our views in detail, but in summary we think it is essential as a matter both of principle and of sound management of investments that savers are given a voice in the investment system, and a huge part of ShareAction’s work is dedicated to this end.

The opaque investment system leaves people disconnected from their money. Giving savers a voice in the system would increase accountability, help to drive out bad practice, contribute to better returns for savers and help make the investment system a more positive force. Three steps to achieve this end are:

1. Include saver representatives in the governance structures of all types of pension schemes.

2. Address the lack of diversity in pension scheme governing boards.

3. Require schemes to formally involve savers, e.g. through saver AGMs, surveys, roadshows and using clearer communications, consulting savers on investment and voting policies, and creating a right to receive a substantive response to queries about specific decisions.

Another example of good practice is ShareAction’s work with around 200 supporters to enable and assist their engagement with their own pension provider. We currently support 18 ‘Pension Power’ teams to who are trying to improve their pension providers’ performance on the ESG issues that matter to them, for example climate change or paying living wages. Members’ councils or annual general meetings that savers can attend are extremely rare in the UK pension sector. Unfortunately this means that many savers have to rely on the support and coordination of an NGO so that they can communicate with their own scheme.

‘Our Money, Our Business’ set out some examples of good practice in relation to member engagement, but of particular note is Heineken’s Pension Scheme, where;

“following a concerted and innovative campaign to inform members about the new scheme, 95% of employees signed up voluntarily [to the scheme], with 97% of those making an active investment choice - an astonishing level given that in most schemes, roughly this many people do not make an active choice.”

6.c. Are beneficiaries interested in matters referred to above? Please provide evidence if possible.

Evidence of savers’ interest in these issues comes from ShareAction’s own work. Over the past three years we have built up a database of over 43,000 supporters who are interested in the responsible investment of their pensions, and institutional investors’ impacts on corporate behaviour. In 2015, these supporters took a total of 6,557 unique online actions (for example emailing their pension fund). All of this is despite the fact, as noted under question 6b, laws and regulations are not geared to encouraging or requiring such engagement. Please see our response to the previous question for more details on these actions.

ShareAction has also started to collect examples of beneficiaries taking action to with regard to ESG and their pension funds in other European countries. For example Ansvarlig Framtiden in Denmark led a campaign which succeeded in mobilising enough savers to get resolutions on divestment from coal and risky oil and gas projects onto the agenda for annual meeting at seven pension funds. In three of the seven pension funds where the resolutions were filed, members voted in favour of the proposals to divest from coal and high-risk fossil fuel projects. However, one of these decisions was later overturned by electronic votes, resulting in just 40% of members voting in favour overall. In one other fund the vote was split evenly and the three remaining voted narrowly against the resolutions. For more information please see http://shareaction.org/wp-content/uploads/2016/02/CaseStudy-AFPensionFund.pdf. An additional case study concerning the Schyssta Pensioner campaign in Sweden for better sustainability rules for Swedish state pension funds is attached to this response.

There are also several studies into savers’ preferences that show their interest in these issues. For

41 Ibid
example:

Pensions and Lifetime Savings Association (Formerly NAPF) (2014), *What do scheme members expect of how their savings are invested?*, available at [http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/~/media/Policy/Documents/0391_what_do_pension_scheme_members_expect_of_how_their_savings_are_invested_an_NAPF_research_report.pdf](http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/~/media/Policy/Documents/0391_what_do_pension_scheme_members_expect_of_how_their_savings_are_invested_an_NAPF_research_report.pdf)

**Key Findings**

- 70% of UK adults surveyed ‘felt it important for pension providers to invest in companies that concentrate on avoiding unethical practices’
- 49% would like their employer ‘to choose a provider which makes a specific point of investing ethically, even if this fund would achieve lower returns on investment’.
- 40% of respondents indicated that they were not aware of what their pension provider does with their money between when they put it into their pension and when they eventually take it out when they retire.
- 65% of respondents would be interested in receiving general information about how their savings are invested (e.g. are they invested in stocks and shares, property etc). A very similar proportion were also interested in receiving information about the industries/sectors, countries and specific companies their savings may be invested in.


**Key Findings**

- 53% of those surveyed said pension funds should do more to ensure "fair" tax policies operate at the companies they invest in.
- Pension funds should also push for employers to pay the living wage, according to 51% of respondents
- 48% wanted schemes to do more to stop excessive executive pay and bonuses
- Four in ten (39%) people surveyed said environmental, social and governance (ESG) issues can affect long-term investment value
- Almost half (48%) said institutional investors should have stewardship responsibilities in the companies they're invested in


The researchers surveyed 1,119 working age Swedish adults.

**Key Findings**

- When questioned directly, 95% of respondents answered that their pension funds should consider social, ethical and environmental concerns in investment decisions.
- 60% of respondents said that their fund manager should include social, ethical and environmental concerns in investment decisions even if it does not increase investment returns or lowers them.
- When asked what fund managers should focus on when investing their pension money, only 19% said that fund managers should focus only on maximising financial returns. 34% said they should focus on ‘what benefits beneficiaries in general, not just financially but also socially and ethically’. 20% said they should focus on what benefits society in general, not just the beneficiaries.

**Eurostat** also has useful information about EU citizens’ views on environmental and social matters. Although recent surveys have not asked about these issues in relation to investments, the findings nevertheless merit consideration. For example, Eurobarometer 435 (November 2015), *Climate Change*, available at [http://ec.europa.eu/COMMFrontOffice/PublicOpinion/index.cfm/Survey/getSurveyDetail/instruments/SPECIAL/surveyKy/2060](http://ec.europa.eu/COMMFrontOffice/PublicOpinion/index.cfm/Survey/getSurveyDetail/instruments/SPECIAL/surveyKy/2060) found that:

“Climate change remains a key concern for the European public. Altogether, 91% see climate change as a serious problem, with 69% considering it a very serious problem. Almost half of all Europeans (47%) think that climate change is one of the world’s most serious problems and around one in six (15%) think it is the single most serious problem that the world faces’

Climate change is perceived to be the fourth most serious problem facing the world after poverty (30%), international terrorism (19%) and the economic situation (16%, a decrease of 8 percentage points from 2013).

Tackling climate change is mainly seen as the responsibility of national governments (42%), business and industry (35%) and the European Union (35%). However, there has been a noticeable increase in the proportion of Europeans who think that there is a collective responsibility for tackling climate change (16%, compared with 10% in 2013);

There is also a positive view of the economic benefits of tackling climate change – more than eight out of ten Europeans (81%) believe that fighting climate and using energy more efficiently can boost the economy and create jobs in the EU”

### 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?

No response

**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?**

No response
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?

Some investment consultants claim to rate asset managers on the quality of their work around ESG issues. However, it is extremely difficult to judge what such ratings take into account, how conclusions are arrived at, or what recommendations are subsequently made to institutional investors.

Furthermore, we are aware of other, anecdotal, reports that those investment consultants that do think about asset managers' ESG performance are in the minority in an industry that is widely regarded as having great influence. There are also questions around whether the incentives for investment consultants are geared towards advising clients to make changes in asset manager. Frequent changes in asset manager would tend to increase their focus on short-term performance rather than long term stewardship.

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

No response

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?

No response

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?

No response

8. The role of non-professional investors

No Response

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.

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.

Many investors, particularly asset owners such as pension funds, appear to believe that their legal obligations to their beneficiaries actually preclude them from acting in a way which takes account of wider considerations than short-term profit maximisation. We believe that this issue is well known to the Commission and has been well documented by the ShareAction, the PRI, UNEP FI, DG Environment and the UK Law Commission amongst others.
10. Others

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

ShareAction is planning a research project on incentives, in particular:

- Incentives that skew asset manager behaviour.
- What incentives drive against positive outcomes for savers, society and the environment (and what are the positive incentives)
- How the culture of the industry/organisation affects behaviour
- What can be done to tangibly change things (e.g. reduce negative practices, shift towards compensation that incorporates ESG etc.)

We may also consider the influence of other individuals in the financial system such as signals received from clients and investment consultants.

We would be happy to update the Commission as to the progress and results of this work.

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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