EU CAPITAL MARKETS UNION

CALL FOR EVIDENCE: EU REGULATORY FRAMEWORK FOR FINANCIAL SERVICES

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment.

The PRI represents 1400 signatories globally with $60 trillion in assets under management. In Europe, there are 790 signatories, including 174 asset owners. We welcome the opportunity to contribute to the European Commission's *Call for evidence: EU regulatory framework for financial services*.

The PRI welcomes a sustainable Capital Markets Union, particularly proposals to increase opportunities for long-term investors to invest in sustainable infrastructure development, and the Commission's link between investment, climate and sustainable development in Europe.

The initial green paper, published in 2015, highlighted green bonds as a particular focus. The PRI agrees with Aviva, BlackRock, HM Treasury and others that the Commission and CMU action plan should recognise that environmental, social and governance risks and opportunities are considerations for all investors, consistent with their fiduciary duty.

Responsible investment, including ESG integration, stewardship, voting and public policy engagement, fully aligns with Europe's own policy objectives, such as EU 2020. The PRI believes that the CMU should explicitly incorporate ESG issues to form a key component of Europe's plan to develop responsible financial markets.

PRI signatories that manage assets are required to report publicly and annually on their responsible investment activities. In 2014, 830 signatories responded. In 2015, over 950 signatories responded. A transparency report is published for each signatory, which anyone – including non-signatories and policymakers – can access. The PRI publishes an annual Report on Progress, which summarises the results of the signatory-reported data.[1]

The PRI reporting framework defines a global standard of responsible investment reporting, providing evidence and transparency on responsible investment practice, styles and terminology. The PRI reporting framework is referenced in investment guidance in South Africa and Denmark, with discussions underway in other regulatory jurisdictions.

The PRI is providing supporting evidence for questions 1, 6 and 11. We recommend that:

[1] http://www.unpri.org/wp-content/uploads/PRI_Report-on-Progress_2015.pdf

- **Solvency rules must be sufficiently balanced with a view on other European Union objectives, in particular, EU 2020 and the Long-Term Investment Fund Regulation.**
- **The European Commission and Member States reference the PRI reporting framework to minimise reporting time and costs for investors.**
- **The European Commission provides a definition on risk and transparency that integrates ESG issues as part of investment practice.**

The PRI has engaged with the European Commission on the Non-Financial Reporting directive, the Shareholder Rights directive, and contributed to the DG Environment's recent report, Resource Efficiency and Fiduciary Duties of Investors[2]. The PRI has also followed the implementation of the IORP directive, Solvency II, the Markets in Financial Instruments Directive and the Long-term Investment Fund Regulation.

ISSUE 1 – UNNECESSARY REGULATORY CONSTRAINTS ON FINANCING

To which Directive(s) and/or Regulation(s) do you refer in your example?

Solvency II Directive

The Commission launched a consultation in July on the impact of the Capital Requirements Regulation on bank financing of the economy. In addition to the feedback provided to that consultation, please identify undue obstacles to the ability of the wider financial sector to finance the economy, with a particular focus on SME financing, long-term innovation and infrastructure projects and climate finance. Where possible, please provide quantitative estimates to support your assessment.

Solvency and liquidity rules for insurers and pension funds can be seen as obstacles for responsible, long-term value creation. Solvency rules must be sufficiently balanced with a view on other European Union objectives, in particular, EU 2020 and the Long-Term Investment Fund Regulation.

Please provide us with supporting relevant and verifiable empirical evidence for your example:

In 2013 and 2014, there was industry concern that Solvency II may reduce insurance companies' willingness to invest in long-term infrastructure, in particular because longer-term investment carries higher capital charges. The research is summarised on Page 26, in the *Case for Public Policy Engagement*[3].

ISSUE 6 - REPORTING AND DISCLOSURE OBLIGATIONS

To which Directive(s) and/or Regulation(s) do you refer in your example?

[2] http://www.unpri.org/wp-content/uploads/Fiduciary-duty-21st-century.pdf
[3]

Shareholders Rights Directive
IORP (Directive on Institutions of Occupational Retirement Pensions)
Directive on Non-financial Reporting

Please provide us with an executive/succinct summary of your example:

The EU has put in place a range of rules designed to increase transparency and provide more information to regulators, investors and the public in general. The information contained in these requirements is necessary to improve oversight and confidence and will ultimately improve the functioning of markets. In some areas, however, the same or similar information may be required to be reported more than once, or requirements may result in information reported in a way which is not useful to provide effective oversight or added value for investors.

Please identify the reporting provisions, either publicly or to supervisory authorities, which in your view either do not meet sufficiently the objectives above or where streamlining/clarifying the obligations would improve quality, effectiveness and coherence. If applicable, please provide specific proposals.

Specifically for investors and competent authorities, please provide an assessment whether the current reporting and disclosure obligations are fit for the purpose of public oversight and ensuring transparency. If applicable, please provide specific examples of missing reporting or disclosure obligations or existing obligations without clear added value.

The PRI encourages the European Commission to strengthen and streamline institutional investor reporting on responsible investment through reference to the PRI reporting framework, which includes ESG integration, active ownership and public policy engagement. In particular, the PRI reporting framework is relevant for pension fund *risk evaluation requirements* in the IORP Directive and *annual disclosure on equity investment strategy* in the Shareholders Rights Directive.

Investors look for robust reporting from corporations to make informed investment decisions. ESG data, as part of companies' reporting through the Non-Financial Reporting Directive, should therefore be published with annual financial reporting. Integrated reporting and/or sustainability reporting, ahead of annual shareholder meetings, results in improved quality of information available to investors and other stakeholders, and therefore, improved investment decision-making.

Please provide us with supporting relevant and verifiable empirical evidence for your example:

The 2015 reporting data shows that, 80 European asset owner signatories and 157 European investment managers disclose some or all of their policies on responsible investment:

	Yes, disclose some	Yes, disclose all	Total
Asset Owners	51	29	80
Investment Managers	92	65	157

A total of 81 asset owners review the investment manager's responsible investment policies in their selection, appointment and monitoring of investment managers. 55 asset owners review the investment manager's reporting to clients and the public.

- Further details of the PRI reporting framework can be found here: http://www.unpri.org/areas-of-work/reporting-andassessment/reporting-framework/.
- Transparency reports for each signatory are here: http://www.unpri.org/areas-of-work/reporting-and-assessment/reporting-outputs/2014-15-public-ri-transparency-reports/.
- The 2015 report on progress can be downloaded here: www.unpri.org/wp-content/uploads/PRI_Report-on-Progress_2015.pdf.

ISSUE 11 – DEFINITIONS

To which Directive(s) and/or Regulation(s) do you refer in your example?

Shareholders Rights Directive
IORP (Directive on Institutions of Occupational Retirement Pensions)
Directive on Non-financial Reporting

Different pieces of financial services legislation contain similar definitions, but the definitions sometimes vary (for example, the definition of SMEs). Please indicate specific areas of financial services legislation where further clarification and/or consistency of definitions would be beneficial.

Please provide us with an executive/succinct summary of your example:

The PRI encourages the European Commission to provide a definition on risk and transparency that integrates ESG issues as part of investment practice. This can be achieved by referring to the definitions provided by PRI on approach to responsible investment, including ESG integration, thematic investing and screening across asset class.

Please provide us with supporting relevant and verifiable empirical evidence for your example:

The PRI defines responsible investment as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions to better manage risk and generate sustainable, long-term returns.

Responsible investment is broader than SRI, thematic investment or best in class investment. It does not require ruling out investment in any sector or company. It simply involves including ESG information as part of investment decision-making, with a view to managing the risk and potential reward of relevant investments.

Responsible investment can and should be pursued even by the investor whose sole purpose is financial return, because to ignore ESG considerations is to ignore risks and opportunities that have a material effect on the returns delivered to clients and beneficiaries. This is consistent with the DG Environment's recent report into *Resource Efficiency and Fiduciary Duties of Investors*, which calls for action to "engage, enable and encourage" the entire investment community in taking environmental and resource efficiency issues into consideration.

The CMU is an opportunity for the European Commission to provide guidance to Member States on responsible investment, clarifying that fiduciary duty requires asset owners to pay attention to long-term factors (including ESG factors) in their decision-making and in the decision-making of their agents.

For a full list of definitions see www.unpri.org and, in particular, the PRI reporting framework, the 2015 Report on Progress and Fiduciary Duty in the 21st Century.

CONTACT

The PRI has experience in ESG regulation in a number of investment markets. The PRI offers its expertise to support the European Commission in implementing the Capital Markets Union to ensure it is a Sustainable Capital Markets Union, reflecting best practice, is well-implemented and remains current.

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