Questionnaire by the High Level Expert Group on sustainable finance interim report

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UNI Europa Reply

Question 1. From your constituency’s point of view, what is the most important issue that needs to be addressed to move towards sustainable finance? (sustainable finance being understood as improving the contribution of finance to long-term sustainable and inclusive growth, as well as strengthening financial stability by considering material environmental, social and governance factors)

1500 characters maximum (spaces included)

In its role as representative of the finance employees in Europe, UNI Europa Finance (UEF) would like to draw the expert group’s attention to the needs and possibilities associated with the group of stakeholders that employees represent. While UEF welcomes the work of the group to develop a comprehensive set of recommendation for transforming the European economy, it is our opinion that more attention should be given to issues such as guaranteeing the right of employees to sell environmentally friendly financial products to customers above more lucrative products. With financial advisors being able to suggest and influence their customer’s purchases, ensuring that this advice can be given in favour of green products is important. Likewise important is making certain that employees if participating in a company run retirement plan, are given the option to request that their savings are invested in sustainable financial options. Finally but of equal importance, there seems to be a lack of attention being given to the social and governmental aspects of the ESG criteria in the current work of the HLEG. It is UEF’s sincere hope that the environmental aspects, while important, are balanced out with increased focus on the other two criteria as well. After all, President Juncker’s call for a more social Europe should be included in all Commission work, not only a few niche dossiers.

Develop a classification system for sustainable assets and financial products

Question 2. What do you think such an EU taxonomy for sustainable assets and financial products should include?

1500 characters maximum (spaces included)

As the HLEG so far seems to have mostly focused on the environmental aspects of the ESG criteria, including the social dimensions of responsible and sustainable investment in an EU taxonomy is important. Issues such as the right to conduct collective bargaining, freedom of association and proper working conditions must also feature in any such taxonomy.
Establish a European standard and label for green bonds and other sustainable assets

Question 3. What considerations should the EU keep in mind when establishing a European standard and label for green bonds and other sustainable assets? How can the EU ensure high quality standards and labels that avoid misuse/green-washing?

1500 characters maximum (spaces included)

UEF suggests that the EU should include, in any kind of standard setting, considerations as to employee conditions. With the focus by the Commission on reinforcing the social Europe, ensuring that quality labelling for products also include references as to the labour relations that exist in the underlying companies should be of high importance. Stable labour relations favour stable business conditions and will ultimately ensure a better product as satisfied employees provide more reliable results. These criteria would include the existence of active social dialogues in the companies, the respect of proper working conditions and fair wages, commitment to conduct collective bargaining, health and safety considerations for employees and the adequate training ensuring the employees are able to do their jobs properly. Likewise, employees in charge of selling these certified products should be free of sales pressure and have the possibility to provide unbiased advice to customers. This goes back to the answer provided to question 1. Furthermore, the case could also be made for further strengthening the possibilities and protections of whistle-blowers. By providing safe conditions for employees to blow the whistle, they will feel more empowered to do so when they see blatant examples of green-washing and misuse occurring. This is why the important work that the EU is currently doing in parallel of creating cross-sectorial whistle-blower protection rules is so important.

Create “Sustainable Infrastructure Europe” to channel finance into sustainable projects

Question 4. What key services do you think an entity like “Sustainable Infrastructure Europe” should provide, more specifically in terms of advisory services and connecting public authorities with private investors?

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Mismatched time horizons and short-termism versus long-term orientation

Question 5. It is frequently stated that the inherent short-termism in finance, especially financial markets, represents a distraction from, or even obstacle to, a long-term orientation in economic decision-making, including investments that are essential for sustainability. Do you agree with this statement?

☐ Yes
☐ No
☐ Don’t know / no opinion / not relevant
Question 5.1. If you agree with this statement, which sectors of the economy and financial system are particularly affected by the ‘mismatch of time horizons’? What are possible measures to resolve or attenuate this conflict?

1500 characters maximum (spaces included)

The problem of short-termism is in UEF’s opinion not limited to any one sector or part of the economy, but as is mentioned in the preliminary recommendations themselves, increasingly prevalent across the board. Part of the reason for this is the increasing focus on keeping shareholders satisfied and these shareholder’s own expectations of getting large returns on a continual basis, almost no matter the sector. How exactly to reverse this trend is however a much more difficult question to answer. In UEF’s view there is a need to insert a buffer somewhere in the system that would move shareholders away from only focussing on the short-term. This could include creating a certain quarantine period for payouts, as is the case for certain categories of finance employees. Simultaneously, it is important that all shareholders, no matter the size of their investment, are properly informed about the investments the company is engaged in and how they live up to internationally agreed ESG criteria.

Governance of the investment and analyst community

Question 6. What key levers do you think the EU could use to best align the investment and analyst community with long-term sustainability considerations in the real economy?

1500 characters maximum (spaces included)

A strong pipeline of sustainable projects for investment

Question 7. How can the EU best create a strong and visible pipeline of sustainable investment projects ready for investment at scale?

1500 characters maximum (spaces included)

Integrating sustainability and long-term perspectives into credit ratings

Question 8. What are some of the most effective ways to encourage credit rating agencies to take into consideration ESG factors and/or long-term risk factors?

Please choose 1 option from the list below

- Create a European credit rating agency designed to track long-term sustainability risks
- Require all credit rating agencies to disclose whether and how they consider TCFD-related information in their credit ratings
- Require all credit rating agencies to include ESG factors as part of their rating

X All of the above
Question 8.1 Please specify what other ways you would deem most effective in encouraging credit rating agencies to take into consideration ESG and/or long-term risk factors.

1500 characters maximum (spaces included)

With the inclusion of public rankings of sustainability into the consideration of rating agencies, the possibility of green washing through company declared compliance with sustainability goals could be mitigated. It is however in UEF’s opinion important that a European credit rating agency if created, would be thoroughly independent and immune to political interference. The reason being, that while political interference calling for more sustainability would be a good thing, political interference calling for the opposite, although probably done in a more subtle way, would have incredibly harmful effects on the whole project of transforming finance.

Role of banks

Question 9. What would be the best way to involve banks more strongly on sustainability, particularly through long-term lending and project finance?

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As has been raised by UEF in several previous consultations on the development of the European economy, giving smaller and local financial institutions more leeway to support their local area financially would help to achieve many of the goals set forth in this report. By increasing the proportionality of European financial legislation, smaller local institutions could provide funding for ESG compliant projects, backed by the first-hand knowledge about the viability of the projects in question. This would include lowering the capital requirements for smaller non-SIFIs and particularly on projects with long-term repayment prospects. The issuance of local-bonds would help to this end by directly connecting local savers and SME’s in need for further capital.

Role of insurers

Question 10. What would be the best way to involve insurers more strongly on sustainability, particularly through long-term investment?

1500 characters maximum (spaces included)

Social dimensions

Question 11. What do you think should be the priority when mobilising private capital for social dimensions of sustainable development?

1500 characters maximum (spaces included)

The idea behind focusing on ESG criteria should be to give each of them equal weights. It is thus UEF’s opinion, that starting to attribute more weight to one or the other criteria would be the
wrong way to go about things. Considerations for both environmental impacts and impacts on labour relations should as a principle form the basis of all investments in the future.

Other

Question 12. Do you have any comments on the policy recommendations or policy areas mentioned in the Interim Report but not mentioned in this survey?

1500 characters maximum (spaces included)

As mentioned previously in our response, a further focus, both in the report and in this questionnaire on social dimensions would have been most welcome and is truly a missed opportunity for a comprehensive study.

Question 13. In your view, is there any other area that the expert group should cover in their work?

1500 characters maximum (spaces included)

Reading through the recommendations there is a lot of attention given to how financial institutions and citizens should be either incentivised or pushed to help in the intended transformation. However, there seems to be little considerations given to the role that employees should play in this transformation, even though they will be deeply involved. As has been explained in the previous answers, there are numerous reasons for including employees in the transformation. It is therefore UEF’s sincere hope that the final recommendations, to be presented next year, will include explicit mentions regarding employee conditions and involvement.

About UNI Europa

UNI Europa Finance is the European-level trade union body for the finance sector. It represents 100 unions with 1.5 million workers in the banking and insurance industries. UNI Europa Finance is part of UNI Europa, representing 7 million workers in the services and communication sectors. UNI Europa is member of the ETUC and registered in the European Commission’s Transparency Register. It is part of UNI Global Union and recognised by the European Union as a social partner.