

Press release from:

THE TRANSPARENCY TASK FORCE

20th September 2017

The Transparency Task Force Responds to HLEG Interim Report ‘FINANCING A EUROPEAN ECONOMY’.

The Transparency Task Force (TTF) has provided input to the EU High Level Expert Group (HLEG) on Sustainable Finance interim report entitled ‘FINANCING A EUROPEAN ECONOMY’. http://europa.eu/rapid/press-release_IP-17-2022_en.htm. The TTF supports the Chair of the expert group Christian Thimann who wrote; “We hope that this Interim Report will help to stimulate debate on sustainable finance and create the basis for engagement by a wide range of stakeholders to inform the Group’s final report due in December. “

The Interim report sets out that the “rapid evolution of the sustainable finance agenda could provide the best opportunity for the EU to reorient its financial system from short-term stabilisation to long-term impact” and;

1. “Considers the full value of financial assets, incorporating sustainability factors into valuation and product design.
2. Is productive, serving its users in their projects and needs, notably households, firms and governments.
3. Is resilient, withstanding and recovering from a wide range of both external and internally generated shocks.
4. Demonstrates alignment between the sustainability preferences of its users and the outcomes of the decision-making process, ensuring accountability and transparency.
5. Takes a long-term perspective and overcomes the ‘tragedy of the horizon’.”

Sandy Trust, co-lead of the TTF Response Squad wrote: “There has been an enormously positive reception to Team PISCES in the UK and we genuinely feel that there is an increasing desire within the industry for change. As your consultation notes, few people “want to exploit their fellow citizens or the planet in an unsustainable way” and this extends to those working in financial services.”

JB Beckett, co-lead of the TTF Response Squad wrote: “We hope that the TTF’s response to the consultation has provided worthwhile input that may assist the EU in achieving those objectives.

We are happy to have on-going dialogue on the matters raised, and if there are areas where the EU is particularly keen to have examples we will seek to assist where we can.”

Andy Agathangelou, Founding Chair of the Transparency Task Force said: “The original inspiration for Team PISCES came from David Pitt-Watson (an Ambassador of the Transparency Task Force) and his work on 'The Purpose of Finance'. Team PISCES is for those that like the idea of the world's capital markets becoming a 'force for good' and at worst want the financial ecosystem to 'do no harm'. I am enormously optimistic that we can support initiatives like this to help meet this objective.”

1. About the TTF response:

The response by the TTF sets out the views of the Transparency Task Force (TTF), which welcomes the opportunity to engage the Expert Group in this area of great interest and importance. Whilst several members of the TTF have been involved in producing this document it should not be assumed that the views given reflect those of all members of the TTF as not all members of the TTF have been involved in producing it and some have contrarian views. Of course, many of our members and the organisations they represent may feed in their thoughts to you independently of the TTF.

2. About the Transparency Task Force (TTF)

The Transparency Task Force first originated in the UK in 2015; to become a global collaborative, campaigning community that is dedicated to driving up the levels of transparency in financial services, right around the world.

We believe that higher levels of transparency are a pre-requisite for fairer, safer and more efficient markets that deliver better value for money and better outcomes to the consumer.

Furthermore, because of the correlation between transparency, truthfulness and trustworthiness, we expect our work will help to repair the self-inflicted reputational damage the Financial Services sector has suffered for decades. We seek to effect the change that the financial services sector needs and the consumer deserves.

The TTF is free to consider what is ultimately best for the consumer without commercial conflicts and we are perhaps unique in being made up of a truly pan-industry cross-section of members, trade bodies and professional associations. As such we are well-placed to establish consensus that does not merely reflect the wishes of one particular “tribe” or another. The TTF is organised through the following teams:

- The Banking Team
- The Foreign Exchange Team
- The Market Integrity Team

- The Costs & Charges Team
- The Financial Stability Team
- The Scams & Scandals Team
- The International Best Practice Team
- **Team PISCES***
- Team PAM

Over 250 people are already involved in our teams. They are a 'coalition of the willing', working together to be 'part of the solution'.

3. About TTF Team PISCES.

*The original inspiration for Team PISCES came from David Pitt-Watson (an Ambassador of the Transparency Task Force) and his work on 'The Purpose of Finance'. David spoke at a Finance Innovation Lab & St. Paul's Institute event in January 2017. <https://www.transparencytaskforce.org/app/download/5810024460/The+Purpose+of+Finance+Report.pdf>

'What's the purpose of finance?' is a question of profound importance. It helps to focus the mind on what really matters and it can shape your entire outlook on the financial services industry - it's many shortcomings but also it's potential for good as well.

The way that money is utilised can have an enormous impact on the behaviour of individuals, organisations, markets, societies and countries. Team PISCES stands for;

- P** is for Purpose;
- I** is for Impact Investing;
- S** is for Sustainability;
- C** is for Corporate Social Responsibility;
- E** is for Environment, Social and Governance;
- S** is for Socially Responsible Investing.

Together Team PISCES forms a large and broad cross industry, NGO and academic group. To facilitate our continued rapid progress we have organised Squads, with each Squad focused on a particular issue. The members and squads of Team PISCES can be found by downloading a spreadsheet here: <https://www.transparencytaskforce.org/app/download/5810286861/TTF+Team+PISCES+members.xlsx>

The Purpose Statements Squad: This Squad will be campaigning to collect 'Purpose Statements'? i.e. "I believe the Financial Services sector ought to develop a greater sense of Purpose because....." (or similar, exact wording to be finalised). Take a look at the Transparency Statements part of the TTF website to see the kind of output we are after.

The Purpose Meta-Study Squad: This Squad will be collating existing Purpose-related materials, and possibly conducting a Meta-Study of those materials.

The Mandatory Fact-Finding Squad: It will be campaigning for Mandatory Fact-Finding, such that professional advisers (such as IFA's for the Retail Market and Investment Consultants for the Institutional Market) are required to establish if the products and solutions they recommend are truly suited to their client's values-based preferences (i.e. they properly take into account views regarding Impact Investing, Socially-Responsible Investing, investing Sustainably and so on) This campaign will align with and support the Regulatory concepts of 'Suitability' and 'Know Your Client'.

The Concept Map Squad: This Squad will work together to create a 'Concept Map' that shows the inter-relationship and inter-dependencies between the various concepts relevant to this space. ...and describes them, to aid understanding and avoid unnecessarily problematic and essentially trivial semantic differences. This Squad may also go onto create a Taxonomy such that vocabulary, terms, phrases, language used and so on is better understood and better defined/standardised wherever possible.

The Standardised Reporting Squad: This Squad will work together to campaign for better reporting and will push for greater standardisation of reporting. It may go on to campaign for the UK to have something similar to Article 173 in France which is about reporting on climate change by Asset Managers by institutional investors.

The Measurement of Impact Squad: This Squad will campaign for better 'Measurement of Impact'.

The Tools for Trustees Squad: This Squad will work together to provide Trustees (and similar) with practical tools, guidance, process steps and so on to enable them to carry out their duties more effectively.

The Response Team Squad: This Squad will work together to provide TTF Team PISCES' response to the EU Consultation on Sustainable Finance, see: http://europa.eu/rapid/press-release_IP-17-2022_en.htm led by two of our expert practitioners in the field of sustainable finance and Environmental Social Governance (ESG);

- Sandy Trust, Senior Manager, Grant Thornton UK LLP conceived this Squad and is one of its two Squad Leaders. <http://www.grantthornton.co.uk/insights/shaping-a-vibrant-economy-a-blueprint-for-the-uk/>
- JB Beckett, UK Director, Association of Professional Fund Investors; Author of NewFundOrder; Author for the CISI; and Ambassador of the Transparency Task Force is also a Squad Leader for the Response Team Squad. JB also co-leads the Responsible Investing framework at the UK insurer Scottish Widows. http://app.esg-magazine.com/2017/04/20/jb-article/pugpig_index.html

As the Transparency Task Force is the collaborative, campaigning community dedicated to driving up the levels of transparency in financial services, right around the world, we are in general terms extremely pleased with the thrust of the interim report and believe that it represents a tremendous opportunity for the market to make a step-change in how the capital model approaches sustainability.

Our over-riding view is that we wish to encourage the EU to support the HLEG to be a catalyst for change, facilitating consistent reporting, growth and disclosure in green finance.

4. Expert Group Interim Report on Sustainable Finance

The consultation sets out the problem facing the EU;

“Currently, the EU is not on track to deliver the €11.2 trillion required to meet its 2030 energy policy targets. The latest estimates put the annual investment gap at around €177 billion between 2021 and 2030, totalling €1.77 trillion. The biggest gaps relate to investment in energy efficiency in buildings (74%) and transport (17%).

Geographically, the biggest gaps are in central and eastern Europe. Investment needs for climate adaptation and resilience are generally not available. This is largely because most member states have not set out their climate adaptation requirements, and where they have, the quality of current national/regional adaptation plans vary considerably. Closing the investment gap will bring significant benefits, including clean energy and reduced greenhouse gas emissions; it will also create new jobs in Europe, reduce energy poverty and improve air quality. Given the scale of the gap, unlocking energy efficiency investment in buildings must be the top priority.

One key solution is for EUROSTAT to issue guidance to national statistical authorities on classifying energy performance contracts as services or as buy-and-leaseback contracts. This would enable governments to contract and finance energy efficiency investment programmes to the private sector off balance sheet. Along with reforms of state aid, this would be a significant step forward in boosting investment where it is most needed.”

The TTF supports the aim of the Working Group to find solutions to meet targets.

5. TTF Response to Further Areas raised by the High Level Expert Group (HLEG)

The TTF Response also considered related areas such as;

1. Long-term policy signals to the private sector
2. Governance of firms and financial institutions
3. Integrating sustainability in ratings
4. Frequency of financial reporting
5. Accounting frameworks
6. Benchmarks
7. Banking
8. Insurance Companies

9. Stock exchanges and green financial centres
10. A strong pipeline of sustainable projects for investment
11. Involvement of society in sustainable finance issues
12. Social dimensions

6. TTF Response to Early Recommendations raised by the High Level Expert Group (HLEG)

The TTF response included;

1. To align capital market players around a shared sense of purpose, to actively support society with solving the many challenges faced as we move into the 21st century.
2. We believe any taxonomy should be consistent with broader global purposeful goals such as the UN Sustainable Development Goals.
3. Encourage the EU to focus on carbon reducing assets as the first phase of any asset categorisation strategy, using methodologies like The Transition Pathway Initiative, to prominently highlight risky assets and to consider appropriate capital penalties and incentives in relation to such assets.
4. A mechanism for connecting private investors with public authorities would therefore be extremely helpful for all parties. This organisation should also consider how to deal with the challenge of small scale, localised, community driven projects and how to aggregate these for large scale investors.
5. Short termism is endemic in financial services and is a serious impediment to longer term thinking. Short termism and silo-ed thinking can also combine to ensure risks which are longer term but completely foreseeable are not identified.
6. A serious issue in the UK is the need to rebuild trust and integrity in financial services. Incorporation of purpose and improved communication on this to end investors, has the potential to significantly enhance the overall financial services brand.
7. Financial services companies at all stages of the asset financing lifecycle must be incentivised to seek out sustainable investment projects.
8. Regulatory nudges can be helpful and may accelerate natural market demand. One idea may be to require credit agencies to incorporate a 'risk warning' around the duration of their analysis and any factors that have been included, ie, when ratings are issued providing an explicit statement on the extent to which ESG factors are included in analysis.
9. Allow banks to embed an appropriate policy and governance structure within their organisations, report on the adherence of the bank to this structure and make it easier for banks to make appropriate long term decisions.
10. Implementing a supportive policy framework would allow insurers to then themselves embed an appropriate policy and governance structure within each company, led from the top, which could then cascade down into products and investments. This should include the need to incorporate ESG and also a clear company position on engagement and stewardship. Specifically, investment mandates

should be clear on how to assess investee companies against climate goals and triggers for engagement activities.

7. Final thoughts

The Transparency Task Force is highly appreciative of the excellent work that the EU and the international community has undertaken to establish Sustainable Development Goals and set COP21 global warming targets. The TTF welcomes this latest initiative.

We can see that there is an opportunity for significant progress being made on how emissions and environmental impact are disclosed, and to develop Green Finance across the EU.

Also, we wholeheartedly agree with the consultation's objectives of creating a regime that achieves a high degree of consistency in how holistic environmental factors are reported, and gives governance bodies confidence that the information presented to them contains a comprehensive assessment of the impacts that are incurred by asset managers.

As mentioned earlier, our over-riding view is that we wish to encourage the HLEG to utilise this consultation to be a catalyst for consistent reporting and disclosure across the European Economic Area and beyond.

The ultimate objective must surely be to create a capital model that is sustainable and beneficial to the environment and social values. This is certainly the vision of the Transparency Task Force on this matter.

Sandy Trust and JB Beckett

For and on behalf of the Transparency Task Force

Andy Agathangelou,

Founding Chair of the Transparency Task Force