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Position of the European Financial Congress[1] in relation to the European Commission's consultation document on mobilizing finance for sustainable growth[2]

Methodology for preparing the answers

The answers were prepared in the following stages:

Stage 1

A group of experts from the Polish financial sector were invited to participate in the survey. They received selected extracts of the consultation document of the European Commission. The experts were guaranteed anonymity.

Stage 2

The survey project coordinators from the European Financial Congress prepared a draft synthesis of opinions submitted by the experts. Responses were obtained from experts representing:

- universal and development banks as well as investment funds,
- insurance companies,
- regulatory institutions,
- the academia.

The draft was sent to the experts participating in the survey with the request to mark the passages that should be modified in the final position and to propose modifications and additions as well as marking the passages they did not agree with and would like them to be removed.

Stage 3

On the basis of the responses received, the final version of the European Financial Congress' answers was prepared.

[1] European Financial Congress (EFC – www.efcongress.com). The purpose of the EFC is to promote debate on how to ensure the financial security and sustainable development of the European Union and Poland.
[2] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#towards-an-eu-strategy-on-sustainable-finance

Answers of the European Financial Congress to consultation questions

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)

Sustainable finance must support the stability of the financial system and provide funding to projects taking account of all external project costs, including social and environmental costs. The first important step would be to eliminate harmful subsidies for projects with detrimental external effects. It is essential to adopt the same values in regulations, policies and management practice. Risk assessment should consider, for instance, the risks associated with climate change and the frequency and intensity of extreme weather events.
The final outcome should be accessible financial instruments providing liquidity and investment safety, functioning in transparently regulated markets.

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

Setting precise and fixed criteria for sustainable assets is not an easy task. This is also due to the fact that knowledge and technology are advancing, which may impact the criteria adopted. It could be a good and practical approach to have a list of typical sustainable projects, as this would enable access to financing for less experienced operators.

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?

There is a real risk of green-washing. Despite some objections, a model with rating agencies recognising or attesting that a financial product supports sustainable assets could be a practical solution at the EU level. The problem of monitoring and evaluation must not be ignored. The access to such label should be equal and transparent, and the relevant labelling costs should be proportionate, as competition needs to be supported.

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?

In the case of sustainable infrastructure, the key role remains with public authorities. What matters for the private sector is the constancy of investing principles, the rules of play, and implementing them. The investment process must always start with careful planning based on variants. Other public sector services include the supervision, monitoring and implementation of technical and asset classification standards. It should also be the role of such an entity to promote and disseminate good practices, including those involving innovative financing solutions.

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?

We agree with this, in general. Aside from the well-known phenomenon of short-termism in financial markets, changes to the rules of play and regulations introduced by public authorities in the course of investments are of concern for investors. However, it should be borne in mind that the financing period has a bearing on project risk, as shown by long-term analyses, especially in view of developments in customer behaviours, economic trends or technologies.

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?

The solution would be an effective supervision and regulatory system for the financial market and manager incentives for long-term corporate performance. For investors taking long-term risks, on the other hand, minimisation of regulatory changes is the prerequisite for taking action. A good example of a better match between regulations and the long-term perspective is the IFRS 4, to be launched in 2021, which provides for additional reporting for a better company risk assessment.

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?

The investment policy of European financial institutions such as the ESI Funds, EIB, EIF and the standards of measures and financing criteria used by them can be transferred to cooperating national institutions, leveraging the effect of synergy and cooperation. The critical challenge is to coordinate the measures and to collaborate in order to share the long-term investment risk.

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?
Mark one option, please:
a/ Create a European credit rating agency designed to track long-term sustainability risks.
b/ Require all credit rating agencies to disclose whether and how they consider TCFD-related information in their credit ratings.
c/ Require all credit rating agencies to include ESG factors as part of their rating.
d/ All of the above
e/ Other

The most appropriate approach would be to ensure that all rating agencies include ESG factors as part of their rating. However, at the same time it should be underlined that when proposing a given solution (direct or indirect - i.e. via qualitative requirements - indication in appropriate technical standards or guidelines that ESG factors should be included in CRAs methodologies), it is important to formulate it in such a way (explaining why it is justified from an economic point of view) that it does not constitute a breach of Article 23 of Regulation No 1060/2009 of 16 September 2009 and the agency independence principle.

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.

Introduction of ESG standards to operations of rating agencies could be indirectly forced by large funds and European financial institutions. They may choose not to invest in or not to finance instruments without such ratings.

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

Asset classification (Q2) would be necessary for this purpose. A system of State aid admissibility could be used as an incentive for the banks to get involved. Incentive mechanisms for long-term project financing are known and proved. Guarantee systems offering a high level of financial leverage or lower capital requirements are particularly effective. State aid for a specific project of a specific economic operator improves that operator's financial parameters ("bankability") and its chances of obtaining credit financing. The current EU legal framework for State aid admissibility creates an unclear and complex model (see the group exemption regulation) that entails bureaucracy and is thus costly. The redesign of the EU policy towards supporting sustainable growth should also involve changes to State aid legislation.

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

A predictable policy of supporting certain directions of development and a stable legal framework. In particular, different, lower capital requirements for such assets, or exempting them from asset taxation, could serve as effective tools to support the development of such instruments. As regards the insurers themselves, they could promote sustainability by, for example, offering discounts on natural catastrophe insurance to customers who demonstrate sustainable management – linking the cause and the effect.
This could be achieved, for instance, by means of a new compulsory insurance against weather events / disasters (such as flood), whose design would on the one hand protect citizens against the effects of increasingly severe climate events and, on the other hand, charge the additional costs to persons or operators causing or generating such changes (e.g. customers who do not manage sustainably).

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

Predictable conditions of action should be the priority when mobilising private capital. On the other hand, building the awareness of the need for long-term investments and promoting prudence in own risk management should contribute to improving the availability of private capital resources.

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?

It is important to take note of the impact of reporting/accounting principles on the functioning of financial institutions and to take account of the specific nature of insurance, in particular in respect of long-term savings and the impact of such regulations as Solvency II on the business strategies of insurers.

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

Strengthening the need for cooperation between generations in the societies.
Climate change measures require action at the expense of the societies and citizens of today in order to improve the quality of life of the societies and citizens of tomorrow. Without the internalisation of intergenerational solidarity by societies, additional regulations, even with the most noble purposes and intelligent/smart designs, will not achieve their objectives, as they will be seen as an additional burden, not as a joint action and building effort.