



ICGN

International Corporate Governance Network

22 January 2018

European Commission: Public consultation on institutional investors and asset managers' duties regarding sustainability

ICGN submission (originally submitted in an online questionnaire)

The International Corporate Governance Network (ICGN) is a global investor-led body based in London whose mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

ICGN was established in 1995, and today our network of governance professionals spans over 45 countries and includes investors representing assets under management in excess of US\$26 trillion. As such, ICGN offers an important investor perspective on corporate governance to help inform public policy development and the encouragement of good practices by capital market participants. For more information on the ICGN, please visit www.icgn.org.

Our policy positions are guided by the ICGN Global Governance Principles and Global Stewardship Principles, both of which have been developed in consultation with ICGN Members and as part of a wider peer review.

We are pleased to respond to the European Commission's consultation on institutional investors and asset managers' duties regarding sustainability. One of ICGN's policy priorities relates to promoting long-term investment perspectives and sustainable value creation-- topics which closely relate to the conclusions of the High Level Expert Group's report on sustainable finance.

1) Do you think relevant investment entities should consider sustainability factors in their investment decision-making?

Yes. It is increasingly clear that sustainability factors can have important influences on the long-term value creation of companies, and, taking a systemic perspective, these factors can also affect financial markets and economies in a macro context. We believe that it is the fiduciary responsibility of institutional investors to consider sustainability factors in the investment decision-making process. This is explicitly referenced in ICGN's Global Stewardship Principles, where one of the seven principles relates to ensuring inclusion of environmental, social and governance (ESG) factors in the investment process and as a guide to investor engagement.

2) What are the sustainability factors that the relevant investment entities should consider? (Please make a choice and indicate the importance of the different factors (1 is not important and 5 is very important). (Please refer to the definition in the Glossary).

	Yes	No	No opinion
*Climate factors (these include climate mitigation factors as well as climate resilience factors)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Other environmental factors	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Social factors	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Governance factors	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

We are purposely weighting the factors at the same level of importance. We believe that the attempt to rank order individual sustainability factors in terms of importance is a flawed approach. It is our view that all sustainability factors can be highly important in individual cases. The materiality of individual sustainability risks is likely to differ from firm to firm and sector to sector, such that a generic ranking is either superficial or of limited use.

3) Based on which criteria should the relevant investment entities consider sustainability factors in their investment decision making?

It should seek to focus on how sustainability factors can drive both risk and opportunity for individual companies and impact (positively or negatively) companies' capacity for sustainable value creation. It is also important to consider the systemic impact of key sustainability factors (such as climate change) on financial markets and economies at the macro level.

4) Which of the following entities should consider sustainability factors in their investment decision-making? (Possibility to select several answers). If so, please indicate the level of impact that this would have (1 is the smallest impact and 5 is the highest impact).

	Yes	No	No opinion
*Occupational pension providers	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Personal pension providers	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Life insurance providers	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Non-life insurance providers	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Individual portfolio managers	<input checked="" type="radio"/>		

While not all investors have long-term investment horizons, we believe that sustainability factors should be relevant for all investors.

5) To your knowledge, what share of investment entities active in the EEA (European Economic Area) currently consider sustainability factors in their investment decisions?

	All or almost all	More than two thirds	More than half	More than a third	None or almost none	No opinion
*Occupational pension providers	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Personal pension providers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
*Life insurance providers	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Non-life insurance providers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
*Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
*Individual portfolio managers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

6) To your knowledge, which is the level of integration of sustainability factors by the different investment entities (active in the EEA)?

	High integration	Medium integration	Low integration	No integration	No opinion
*Occupational pension providers	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Personal pension providers	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Life insurance providers	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Non-life insurance providers	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
*Individual portfolio managers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

7) Which constraints prevent relevant investment entities from integrating sustainability factors or facilitate their disregard. Please provide the importance of the different constraints that you consider relevant (1 is not important and 5 is very important).

	1	2	3	4	5	No opinion
*Lack of expertise and experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Lack of data/research	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Lack of impact on asset performance	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Inadequate methodologies for the calculation of sustainability risks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Inadequate sustainable impact metrics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*Excessive costs for the scale of your company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
*No interest from financial intermediaries	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*No interest from beneficiaries/clients	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*European regulatory barriers	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

- | | | | | | | |
|-------------------------------|-----------------------|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| *National regulatory barriers | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Lack of fiscal incentives | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Lack of eligible entities | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Others | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

This is still a developing area for many investors and we need to have better data and a greater consistency of reporting standards to allow investors to link sustainability factors to the business case and the ability of companies to generate sustainable value creation.

8) How challenging is it for relevant investment entities to integrate the different sustainability factors? (1 is not challenging and 5 is very challenging) - Please refer to the definition in the Glossary).

- | | 1 | 2 | 3 | 4 | 5 | No opinion |
|--|-----------------------|-----------------------|----------------------------------|----------------------------------|-----------------------|-----------------------|
| *Climate factors (<i>these include climate mitigation factors as well as climate resilience factors</i>) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Other Environment factors | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Social factors | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Governance factors | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Across all ESG factors it can be difficult to quantify their impact in a financial context. Governance is a bit more developed than E&S factors, but a mechanical linkage of sustainability to company valuation remains challenging.

9) In which area should relevant investment entities consider sustainability factors within their investment decision-making? Please make a choice and indicate the relevance of the different areas (1 is minor relevance and 5 is very high relevance).

- | | Yes | No | No opinion |
|----------------------|----------------------------------|-----------------------|-----------------------|
| *Governance | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Investment strategy | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Asset allocation | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Risk management | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Others | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

10) Within the area of governance, which arrangements would be most appropriate to enable the integration of sustainability factors? (1 is the not appropriate and 5 is the very appropriate).

- | | 1 | 2 | 3 | 4 | 5 | No opinion |
|---|-----------------------|-----------------------|----------------------------------|----------------------------------|-----------------------|-----------------------|
| *Specific sustainability investment Committee | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Specific sustainability member of the Board | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Sustainability performance as part of remuneration criteria | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Integration of sustainability factors in the investment decision process | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Integration of sustainability checks in the control process | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| *Periodic reporting to senior management/board | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |

*Others



11) Should insurance and pension providers consult their beneficiaries on an annual/periodic basis on their preference as regards sustainability factors?

- Yes
- No
- No opinion

Beneficiaries should know the extent to which their insurance and pension providers are taking appropriate consideration of sustainability factors.

12) Within the portfolio's asset allocation, should relevant investment entities consider sustainability factors even if the consideration of these factors would lead to lower returns to beneficiaries/clients in the medium/short term?

- Yes
- No
- No opinion

We believe that investors should focus on long-term sustainable value creation, and it is not apparent to us why consideration of sustainability factors should impact short term performance.

13) Within the area of risk management, does the current set of corporate disclosures provide the relevant investment entities with adequate information to perform sustainability risk assessments in respect of investee companies?

- Yes
- No
- No opinion

There is scope for improvement in linking sustainability factors to the risk management process.

14) Do the overall information or risk metrics available enable the relevant investment entities to adequately perform sustainability risk assessments?

- Yes
- No
- No opinion

A "qualified" yes. Data quality and reporting standards relating to sustainability have improved significantly in recent years, but we believe there is scope for improvement if these factors are to be linked robustly into risk assessments.

15) Do you think that uniform criteria to perform sustainability risk assessments should be developed at EU level?

- Yes
- No
- No opinion

Unless they are very general and overarching, uniform criteria could be a bit too prescriptive or mechanical to be relevant for sustainability risk assessments in individual companies. Many sustainability factors relate to specific industrial sectors. If the EU were to go in this direction, it might want to consider framing sustainability assessments on a sectoral basis.

16) In case material exposure to sustainability factors is identified, what are the most appropriate actions to be performed by the relevant investment entity?

A generic answer to this is not likely to be meaningful; It must be case/company specific. It could affect valuation in some cases, or, in more extreme cases, whether a company should be invested in or divested. Given the importance of investor stewardship, exposure to sustainability factors should also be the subject of engagement between investors and company management/boards.

17) Should relevant investment entities disclose how they consider sustainability factors within their investment decision-making?

- Yes
- No
- No opinion

We believe that consideration of sustainability factors is part of good investor stewardship, and that best practice stewardship involves public disclosure of how investors look at sustainability issues.

18) Which stakeholder groups would incur costs and which would benefit from integrating sustainability factors within investment decision-making by relevant investment entities?

	Benefits	Costs
*Occupational pension providers	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
*Personal pension providers	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
*Life insurance providers	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
*Non-life insurance providers	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
*Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
*Individual portfolio managers	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
*General public	<input checked="" type="checkbox"/>	<input type="checkbox"/>
*Retail investors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
*Financial advisors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
*Service providers (index provider, research providers...)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
*Other stakeholders (please specify)	<input type="checkbox"/>	<input type="checkbox"/>

The wording of this question is flawed. We answered as we did as we believe that there could be short term costs to considering sustainability factors, but over the longer term we believe that this can provide benefits in excess of the costs.