BF BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

PRESS RELEASE

Green investment products should not be developed at the expense of EU Citizens as long-term and pension savers and should first of all ensure long-term and sustainable value creation

BRUSSELS, 20 NOVEMBER 2019 - BETTER FINANCE PUBLISHES ITS SURVEY ON "GREEN" INVESTMENT PRODUCTS IN COOPERATION WITH FINANCIAL ANALYSTS

Besides addressing crucial environmental and social issues, the concept of sustainable finance should translate into investment products that are exemplary in complying with EU investor protection, governance and conduct of business rules. An investment can be as 'green' or 'sustainable' as you like, individual investors as long-term and pension savers will not entrust their lifetime savings to such products if they do not address their primary need for sustainable long-term value creation.

Sustainable finance must fully incorporate the most basic of requirements such as fair, transparent, clear and non-misleading investor information. The trust of EU citizens as savers and investors is at stake.

With this in mind, BETTER FINANCE and the CFA Institute embarked on a project to analyse what professional financial analysts and consumer stakeholders understand by Sustainable Value for Money. Based on extensive feedback from these stakeholders, the study found that professional analysts and individual investors are largely aligned in their understanding of what is needed to achieve Sustainable Value for Money.

A Hippocratic Oath for Finance Professionals: the "G" part of ESG

Investing is not a full-time job for EU Citizens. There is a broad consensus amongst stakeholders that individual investors lack the necessary knowledge, financial literacy and time to fully understand the exceedingly complex financial products offered to them. Nor should they have to. The responsibility of offering adequate investment solutions for individual investors falls squarely on financial professionals. They have a duty of care towards their clients and, like healthcare professionals, should at all times act in their best interest, at all stages of the investment process: advice, distribution, and execution. A Hippocratic Oath of sorts…

In the same vein, stakeholders agreed that, to help savers make an informed decision, pre-contractual information should be simplified, standardised and only disclose what is certain, limiting it to easy-to-understand information on actual total cost and performance and ensuring comparability between all retail investment products.

Supervision, Enforcement and Redress

Distrust in the finance industry doesn't just stem from the complexity of products and conflicts of interest amongst advisors. The lack of enforcement mechanisms and safeguards (such as collective redress or compensation schemes) also contribute to the misgivings EU Citizens have about entrusting their savings to opaque capital markets.

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The European Supervisory Authorities (ESAs - ESMA, EIOPA, EBA) have a key role to play in dispelling these fears. Industry and consumer stakeholders agreed that the recent reform of the powers and governance of the ESAs still fell short of what the Capital Markets Union truly needs: independent ESAs, with fully-fledged regulatory, supervisory and product intervention powers.

Combining effective supervision and enforcement with adequate redress in case of harm or loss would go a long way towards restoring investor trust. The CMU as a whole would benefit from a dispute resolution mechanism that would fall under the competence of a European authority (such as ESMA).

Bridging the gap between EU households and the Real Economy

Improving financial literacy and reacquainting individual investors with capital markets, in particular by promoting employee share ownership in the EU, would allow EU citizens to acquire experience with equity investing and encourage issuers of securities to work on, and improve the quality of, financial information in order to attract more research and investors to raise capital, in particular in SMEs and in sustainable activities.

Addressing short-termism in corporate governance

Small shareholders face many difficulties in exercising their rights and struggle to influence the corporate governance of the companies they are invested in. The EU's Shareholder Rights Directive should go further in clarifying the rights and obligations of issuers and improving the conditions for individual shareowners to actively participate in decision-making processes.

In order to address the detrimental short-termism at the heart of equity markets, asset managers must better align their economic interest with those of the end-investors: a long-term horizon and a decent long-term real return (i.e. after inflation).

Ensure long-term and sustainable value creation

"It is crucial for public policies to urgently address negative externalities such as greenhouse gas emissions" says Guillaume Prache of BETTER FINANCE. *"Green investment products are not a substitute for such public policies and should not be developed at the expense of pension adequacy. If sustainable finance is to achieve what it set out to do, it should first ensure long-term and sustainable value creation for EU Citizens."*

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