Wednesday 6th July 2016

Joint statement – Urgent re-think of Europe's financial sector's direction and purpose needed as new financial lead appointed

Today, Members of the European Parliament had the opportunity to grill Commission Vice-President Valdis Dombrovskis on the transfer of the Financial Services portfolio to his responsibilities, following the resignation of Commissioner Jonathan Hill. Our organisations believe that the change of leadership to Europe's Commissioner in charge of Financial Stability and Capital Markets Union triggered by the UK's EU referendum could provide an opportunity for a well-needed re-think of the financial sector's direction and purpose.

We have long been concerned by the short-termist approach of Europe's financial regulators, who have prioritised short-term efficiency through deregulation, while ignoring the social, environmental and governance issues critical to delivering markets that are efficient and stable over the longer term. As a result we are concerned that this will reintroduce the high risk financial strategies which caused the 2008 economic crisis.

With Lord Hill as Commissioner the EU took a number of steps which not only increased the risks of financial instability within the Union, but undermined its global leadership on sustainable development and finance at the service of socially and environmentally sustainable societies. Despite numerous civil society groups (1) raising these concerns with the Commission, they were barely discussed or acknowledged in the Commission's conclusions from their "call for evidence on the regulatory framework for financial services".

The Commission's approach ignores the fact that even in the short-term, sustainable investments have been demonstrated to outperform the market (2). It is blind to the substantial financially material risks for European companies and investors of not adequately considering environmental, social and governance factors for projects in Europe and beyond – for example the ongoing involvement of European investors in projects which violate human rights and cause land grabs. It risks Europe's financial sector being an obstacle to the orderly transition to a low carbon, sustainable economy agreed to by the Paris climate change agreement and called for by the European Systemic Risk Board.

The transfer of the Financial Services portfolio to Commission Vice-President Valdis Dombrovskis provides an urgently needed opportunity to change direction; to ensure the EU becomes a leader in a world where financial resilience is defined by sustainability. This new approach should be defined by three elements:

- The realignment of the Commission's reform initiatives, such as the Capital Markets Union, to serve the real economy and the needs of millions of people across Europe who are still suffering the consequences of that previous crisis in their daily life – unemployment, low wages, erosion of labour and social rights, and rising inequality;
- An integrated sustainable finance strategy should be developed by the Commission as a building block of the forthcoming EU 2030 Strategy;
- The introduction of financial and fiscal regulatory reforms which prioritise environmental, social and governance factors at every step of the investment chain, contributes to the Sustainable Development Goals and the Paris Agreement and to a low carbon, sustainable economy.

Re-booting Europe's financial system towards this different course will not only strengthen citizen and investor confidence in the European project, but help provide clear leadership in a time of political uncertainty and financial market instability.

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(1) The published submissions are available here:
https://ec.europa.eu/eusurvey/publication/financial-regulatory-framework-review-2015#

(2) See for example Friede, G., Lewis, M., Bassen, A. Busch, T., (2015), *ESG & Corporate Financial Performance: Mapping the global landscape*, Deutsche Asset & Wealth Management and the University of Hamburg. This meta- study of over 2,000 empirical studies found that in 62% of studies examined there was a positive correlation between company ESG performance and financial returns.

Clark, G.L., Feiner, A., and M. Viehs (2014). *From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance*, Smith School of Enterprise and the Environment and Arabesque Asset Management. This study examined over 200 academic studies, industry reports, articles and books and finds that 90% of studies show that sound sustainability standards lower cost of capital for companies, 88% show that solid ESG practices result in better operational performance of firms and 80% of studies show that stock price performance of companies is positively influenced by good sustainability practices

(3) Source US SIF Foundation (2016) The Impact of Sustainable and Responsible Investment, available for download a: http://www.ussif.org/Files/Publications/USSIF_ImpactofSRI_FINAL.pdf