

EU Initiative: Clarification of the duties of care, prudence and loyalty of institutional investors and asset managers as regards sustainability issues

Conselho Empresarial para o Desenvolvimento Sustentável (BCSD Portugal) welcomes the initiative “Institutional investors’ and asset managers’ duties regarding sustainability” and the opportunity given to stakeholders to comment on the Inception Impact Assessment.

The European Union (EU) has committed to achieving a net zero economy by 2050 and has accepted the UN’s Agenda 2030 and the Sustainable Development Goals (SDGs). Attaining these commitments entails the adoption of new frameworks for action and a shift towards sustainable investments. Private and public flows of money towards low carbon and sustainability goals will be decisive. Investments should be shifted towards activities that increase environmental awareness, protect biodiversity and ecosystem services, mitigate climate change, develop new skills and produce social added value.

It is BCSD’s view that the goals of this initiative can be achieved by non-legislative action and public policies such as producing guidelines that can clarify the existing duties and the long-term benefits of sustainable finance. There are plenty of financial institutions and players within EU countries that are not familiarized with the concept of sustainable development. There is still room for raising awareness and exploring private instruments before imposing new regulation. Revisiting existing provisions of EU legislations governing institutional investors and asset managers through legislative action could prove too costly for finance players and discourage innovative approaches.

Nevertheless, the focus on sustainable finance is an absolute necessity and BCSD Portugal believes further action must be taken to promote the benefits of sustainable finance and to inform interested stakeholders of the path adopted by the EU (a path that sooner or later will be reflected in legislative options).

Other than disclosure, investment policy and asset allocation, risk management and governance arrangements, policy options should cover:

- **Cost of capital:** decrease cost of capital flow to investments/funds/loans that contribute to sustainable development, particularly green economy and circular economy;
- **Carbon price:** investors can be required to consider long-term sustainability if measures like carbon pricing are in place and directly influence the long-term stability of businesses;
- **Awareness within the financial sector:** there is a massive lack of awareness inside the financial sector about the relevance that sustainable finance has for long-term sustainable and inclusive growth, as well as for strengthening financial stability. As such, it is highly recommended to create mechanisms and incentives that create a need for the financial sector to educate their workers and board members on these issues;
- **European standards and labels for green bonds and other sustainable assets:** establishing a normalized framework for green bonds and other sustainable assets (such as minimum key indicators disclosed).

Furthermore, climate, environmental, social and governance issues should all be applied. Governance criteria can embed sustainability in financial institutions and act as the backbone for a complete shift towards low-carbon financing. Climate and environmental issues are at the heart of EU commitments and must be enabled by appropriate finance mechanisms. Lastly, social issues have always been at the heart of EU policy and should therefore be considered in all relevant policies and mechanisms.

BCSD Portugal is a non-profit association of public interest that represents companies engaged with sustainability. BCSD Portugal has more than 90 business members, 20% of which are micro and SME with the remaining being large companies. The member companies have a wide sectorial representation: utilities, mobility & transports, gas & petrol, energy, tourism, food, retail, metal industry, services, waste management, etc. In total, the turnover of the members is close to 65 billion euros, 38% of Portuguese GDP, and aggregate about 270,000 employees.

Our vision is that “in 2030, Portugal is at the forefront of European countries regarding business solutions that promote a low-carbon economy, that enhance ecosystems services and that contribute to well-being”.

BCSD has an active working group on sustainable finance towards: (a) improving asset management performance on sustainability and (b) catalysing investment flow of retail banking towards green initiatives. The following companies are actively engaged: Altri, Banco Santander Totta, BPI Gestão de Activos, Caixa de Crédito Agrícola, Caixa Geral de Depósitos, CTT, EDP - Energias de Portugal, EY, Fidelidade Companhia de Seguros, Galp, Millennium bcp, PwC.