

Eurosif Response to the European Commission Single Market Act Consultation

Submitted on **February 28, 2011**.

More information about the consultation process can be found at:

http://ec.europa.eu/internal_market/consultations/2010/smact_en.htm

The European Commission adopted the Single Market Act on October 27, 2010. It consists of 50 policy proposals to be submitted to public debate over a 4-month period running up to **February 28, 2011**. Following the results of this consultation, the Commission will propose to seal the commitment of the other European Institutions on a final version of the Single Market Act and will publish a definitive list of policy proposals for 2011-2012.

Consultation Questions

1. What is your overall assessment of the Single Market Act?* (compulsory)

- Positive
- Neutral
- Negative

Additional explanation (optional) (maximum 2000 characters)

Eurosif welcomes the Single Market Act (hereafter SMA) as an attempt to develop a series of comprehensive policies to strengthen the EU single market initially designed in the 1990s. Market realities have indeed changed since the single market was created, as rightfully assessed by the European Commission in the consultation document. Moreover, the recent financial crisis forces the industry and policy makers to find innovative strategies to navigate through the current difficult economic realities.

The new economic context brought about by the global financial slowdown imposes an additional focus on financial services reform, addressed in several of the 50 proposals open for debate in the SMA (particularly in proposals n°12, 16, 21, 31 and 38). While Eurosif acknowledges the focus of the SMA proposals on generally promoting a sustainable economic growth, Eurosif stresses that specific attention needs to be given to the following topics in the definitive list of Internal Market Policies for 2011-2012:



- Concrete propositions that will help restoring trust in the private sector through **increased business and investment transparency**. Although present well before the financial crisis, the need for greater corporate and investor transparency has emerged particularly after a thorough assessment of the possible failures that caused the current turmoil. To this end, Eurosif recommends a more concrete approach of the Proposal n°38, so that it includes timelines of legislative measures on corporate and investor transparency.
- Company value and performance need to be rethought when considering the new economic realities. **For investors in particular, material, timely and comparable information across companies remains crucial in order to make valid mid- and long-term investment decisions that take into consideration environmental, social and governance (ESG) factors**. The current legislation does not provide investors with solid foundation to ensure that all material non-financial information is correctly taken into account when making investment decisions.¹
- Eurosif strongly recommends that the definitive list of SMA policies addresses the issue of **integration of long-term considerations into investment practices**. The investment industry can contribute actively to supporting a sustainable, long-term economic growth by considering long-term factors when working with trustee companies. Thus, the integration on ESG factors in investment practices becomes a key aspect in promoting an EU sustainable economic growth.

Although some of the issues mentioned above, namely the integration of ESG issues into business and investment practices, are already being addressed by the Commission in other initiatives (i.e. the recent consultation on non-financial reporting), Eurosif wishes to see a better integration of these initiatives in the definitive list of SMA policy proposals to be defined.

Finally, Eurosif wishes to acknowledge the complexity of the SMA and applauds the concrete timelines attached to most of the 50 propositions. The successful implementation of these propositions in due time is key to the revival of an EU efficient Single Market. As stated by Prof. Mario Monti, although the EU single market seems to be less popular than ever, it is now more important to ensure a positive EU macro economical performance.²

2. The Single Market Act proposes 50 actions: please indicate the actions you consider to be the most important (up to 10 choices possible)* (compulsory)

- | | |
|--|--|
| <input type="checkbox"/> 1. EU Patent | <input type="checkbox"/> 26. Transport infrastructures |
| <input type="checkbox"/> 2. Copyright | <input type="checkbox"/> 27. Energy infrastructures |
| <input type="checkbox"/> 3. Counterfeit and piracy | <input type="checkbox"/> 28. European radiospectrum |
| <input type="checkbox"/> 4. Internal market for services | <input type="checkbox"/> 29. Respect for fundamental social rights |
| <input type="checkbox"/> 5. Electronic commerce | <input type="checkbox"/> 30. Posting of workers to other Member States |
| <input type="checkbox"/> 6. Standardisation | <input checked="" type="checkbox"/> 31. Pensions |
-

¹ Currently, non-financial data disclosure by companies is regulated in the 4th Accounts Directive (2003/51/CE), that favours a “comply-or-explain approach”. The Transparency Directive (Directive 2004/109/EC), regulating transparency requirements for listed companies, currently contains no reference to the disclosure of non-financial data.

² On the invitation of Commission President Barroso, Mario Monti, President of the Bocconi University and former member of the European Commission, delivered on 9 May 2010 a report on the re-launch of the Single Market, a key strategic objective of the Commission.

- | | |
|--|--|
| <input type="checkbox"/> 7. Integrated transport system | <input type="checkbox"/> 32. Industrial restructuring |
| <input type="checkbox"/> 8. Energy taxation | <input type="checkbox"/> 33. Recognition of professional qualifications |
| <input type="checkbox"/> 9. Business-to-business services | <input type="checkbox"/> 34. Student mobility |
| <input type="checkbox"/> 10. Ecological footprint of products | <input type="checkbox"/> 35. Recognising skills and training |
| <input checked="" type="checkbox"/> 11. Energy Efficiency | <input type="checkbox"/> 36. Social business |
| <input checked="" type="checkbox"/> 12. SME access to finance | <input type="checkbox"/> 37. Social innovation |
| <input type="checkbox"/> 13. Small Business Act review | <input checked="" type="checkbox"/> 38. Corporate governance |
| <input type="checkbox"/> 14. Accounting rules | <input type="checkbox"/> 39. Product safety |
| <input type="checkbox"/> 15. EU project bonds | <input type="checkbox"/> 40. Access to basic banking services |
| <input checked="" type="checkbox"/> 16. Private investment and venture capital | <input checked="" type="checkbox"/> 41. Responsible lending and borrowing |
| <input type="checkbox"/> 17. Public procurement | <input type="checkbox"/> 42. Tax obstacles for citizens |
| <input type="checkbox"/> 18. Services concessions | <input type="checkbox"/> 43. Passenger rights |
| <input type="checkbox"/> 19. Common consolidated corporate tax base (CCCTB) | <input type="checkbox"/> 44. Evaluating implementation of rules with Member States |
| <input type="checkbox"/> 20. VAT | <input type="checkbox"/> 45. Information exchange between public authorities (IMI) |
| <input type="checkbox"/> 21. Interconnection of business registers | <input type="checkbox"/> 46. Alternative dispute resolution and collective redress |
| <input type="checkbox"/> 22. E-identification/authentication | <input type="checkbox"/> 47. National transposition of EU rules |
| <input type="checkbox"/> 23. International trade | <input type="checkbox"/> 48. Consultation and dialogue with civil society |
| <input type="checkbox"/> 24. International public procurement | <input type="checkbox"/> 49. One-stop-shop for information and assistance |
| <input type="checkbox"/> 25. Services of general economic interest (SGEI) | <input type="checkbox"/> 50. Informal problem-solving tools |



If you wish, you can state the reason for your choice (optional) (maximum 6000 characters)

Eurosif has chosen as priorities those areas that are consistent with Eurosif's agenda relating to sustainable and responsible investment (SRI). Please find below the motivations behind Eurosif's choices.

Proposition n°11, Energy efficiency:

The development of European markets in energy efficiency services is crucial for the support of the current EU energy efficiency targets: a 20% cut in CO₂ emissions by 2020³ and an even more ambitious target of being 80-95% energy efficient by 2050.⁴ Making energy efficiency a priority in the coming years is thus vital to ensuring that these targets are met. Therefore, Eurosif recommends that this be an important issue to be included in the SMA definitive list of policy proposals.

Proposition n°12, SME access to finance:

As discussed in the 2010 consultation on the modernisation of the Directive 2004/109/EC on the transparency requirements for listed companies (the Transparency Directive), reporting and disclosure requirements impose considerable administrative burdens on small and medium enterprises (SMEs). This has a knock-on effect on their access to capital markets and ultimately diminishes their role as engines of social innovation and economic growth. At the same time, Eurosif considers that investors need to be made more aware of SMEs, as equity capital is often concentrated on very large companies to the detriment of smaller firms seeking funds.

Proposition n°16, Private investment and venture capital:

The adoption of the Single Market Act provides the EC with the historical opportunity to create the conditions for a more active mobilisation of private savings in support of investment. It is imperative not only to encourage private investing, but to promote responsible investment among European citizens and investors, which, again, supports the development of an EU green economy. Eurosif wishes to draw the attention to the lack of accessible information for investors on the products/funds in which they invest.

Proposition n°31, Pensions:

The safety and sustainability of pension systems is a key element that needs to be successfully addressed in order to cope with new realities of public finances and the demographic dynamics that Europe is facing.⁵ Pension funds particularly serve an important role in the functioning of pension sustainability and adequacy. They also fund the European economy and play an important role in the EU financial markets. Eurosif wishes to stress the significance of how pension funds address long-term considerations (including environmental, social and governance (ESG) issues). The way pension funds integrate ESG issues in their investment practices can boost or inhibit the sustainability and transparency of pension systems

³ The EU's current goals for 2020 involve reducing emissions by 20% on 1990 levels, increasing the share of renewable energy in the bloc's energy mix by 20% and improving energy efficiency by 20% (one of the objectives set out in the Europe 2020 Strategy).

⁴ As agreed in the "Roadmap for moving to a low carbon economy by 2050." In October 2009, EU leaders endorsed a long-term target of reducing collective developed country emissions by 80-95% by 2050 compared to 1990 levels. This is in line with the recommendations of the UN's scientific arm - the Intergovernmental Panel on Climate Change (IPCC) - for preventing catastrophic changes to the Earth's climate.

⁵ At present there are four people of working age for every person over 65, by 2060 there will be just two people of working-age for every person over 65.



overall.⁶ Considering the strategic importance that pensions have for Europe's macro economic development, Eurosif recommends that this be a priority for the list of SMA policy proposals.

Proposition n°38, Corporate Governance:

The present financial crisis offers an historic opportunity to adopt policies encouraging longer-term thinking in financial markets. Given the important role businesses and investment institutions play in creating an environment for companies to access capital, it is critical that they are properly governed and incentivised in a manner that encourages sustainable risk taking.

Businesses need to be more transparent about the way they operate, and investors are seeking material, comparable and timely information to be able to successfully evaluate a company's performance. Eurosif welcomes the consultation on Corporate Governance in listed companies, to be launched by the Commission in June 2011. Also, it is highly important that this consultation will have built on the 2010 Green Paper on corporate governance in financial institutions and on the responses received to the recent Consultation on non-financial reporting by companies.⁷

***3. Does the Single Market Act propose appropriate measures to address the issues/challenges that are identified?** (compulsory)**

- Yes
- Partly
- No
- No opinion

Additional explanation (optional) (maximum 2000 characters)

While generally agreeing that the propositions set out by the Commission in the SMA are addressing the issues identified, Eurosif wishes to specifically highlight proposition n° 38, pertaining to corporate governance and corporate disclosure of ESG information.

The Green Paper on Corporate Governance scheduled to be published in 2011 will indeed address the issue of businesses' responsibility towards shareholders and society at large. However, Eurosif believes that in order to tackle the issues rightfully identified by the Commission in the SMA (i.e. the need for increased corporate societal responsibility, improved business and investor transparency, and the need for more accurate company valuation models), additional actions need to be included in the definitive list of SMA policy proposals.

Two areas remain paramount for Eurosif: First, a proposition on the way forward on corporate reporting, particularly on non-financial reporting, should be also clearly included in the final policy list. Second, Eurosif recommends that the Commission address the integration of long-term considerations (ESG) in investment practices by investors. **For concrete recommendations on the EU corporate and investor**

⁶ For more details, please read Eurosif's Response to the EC Consultation on the Adequacy and Sustainability of EU Pension Systems (November 15, 2010): <http://www.eurosif.org/policy/positions>

⁷ To read Eurosif's responses to these consultations, please visit: <http://www.eurosif.org/policy/positions>



non-financial reporting framework and process to be followed, please read Eurosif's Response to the Consultation on non-financial reporting by companies available at: <http://www.eurosif.org/policy/positions>

Finally, Eurosif wishes to stress the importance of attaching deadlines (in the definitive list of SMA policy proposals) to when the Commission would propose further legislative proposals on non-financial reporting by European companies, as well as on the integration of ESG factors into investment practices.

4. Are there any other issues you consider should be addressed in the Single Market Act in the chapter on "Strong, sustainable and equitable growth for business"? (optional)

Yes

No

Please see our response to Q3.

5. Are there any other issues you consider should be addressed in the Single Market Act in the chapter on "Restoring confidence by putting Europeans at the heart of the single market"? (optional)

Yes

No

6. Are there any other issues you consider should be addressed in the Single Market Act in the chapter on "Dialogue, partnership, evaluation: the keys to good governance of the single market"? (optional)

Yes

No



APPENDIX: About Eurosif

EUROSIF, the European Sustainable Investment Forum, is the pan-European network whose mission is to develop sustainability through European financial markets. Eurosif works as a partnership of the national Sustainable Investment Forums (SIFs) within the EU and with the support and involvement of Member Affiliates. Recognised as the premier European forum for sustainable investment, Eurosif's Member Affiliates are drawn from leading pension funds, asset managers, NGO's, trade unions, academic institutes and research providers, together representing assets totalling over €1 trillion. Eurosif's work includes a focus across asset classes - equity and fixed income markets, microfinance, renewable energy, property, private equity and hedge funds - all centred around the industry trends and future legislation affecting this space. The key benefits that Eurosif affiliate members receive include EU interfacing, SRI information and European wide initiatives that integrate Environmental, Social and Governance (ESG) issues into the financial services sector.

For the full list of Eurosif Member Affiliates, please see www.eurosif.org

Eurosif has two main roles: (1) to provide an international forum that allows members and Member Affiliates to work together on issues pertaining to Sustainable & Responsible Investment (SRI, see below for definition of SRI and its market size in Europe) and Corporate Governance in the EU financial services sector, and (2) to collect input from members and Member Affiliates and then communicate their ideas and initiatives to European policy makers, including the European Commission, as well as the European Parliament. Therefore, this note is mainly driven from and by the interest and expertise of our membership.

Sustainable and Responsible Investment Definition

Eurosif uses the term "SRI" as the most readily acknowledged expression for this field and defines SRI as follows:

Sustainable and Responsible Investing (SRI) is a generic term covering any type of investment process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues.

Market Size

Eurosif recently published the latest Sustainable and Responsible Investment (SRI) figures and trends in its "European SRI Study 2010". This unique study highlights the scale of European SRI as well as European and National trends across nineteen countries. Based on a survey of asset managers and self-managed asset owners, Eurosif found that total SRI assets under management (AuMs) have reached €5 trillion as of December 31, 2009, corresponding to a remarkable growth given the financial crisis over the past two years since the study was last published.