March 2019

CMVM

“Documento de Reflexão e Consulta sobre as Finanças Sustentáveis”

Feedback by

GranitoGroup

IMPACT ECONOMY

The Granito Group commends the Portuguese Securities Market Commission (CMVM) for releasing the "Documento de Reflexão e Consulta sobre as Finanças Sustentáveis" inviting players to comment on it. This embodies CMVM's regard towards the sustainable economy and its interest in equalizing the Portuguese financial market with other European economies in what sustainable finance is concerned.

The Granito Group has thoroughly assessed the document and would like to convey the following comments:

A. Introduction

The document provides a comprehensive outlook on the sustainable finance market globally and in Portugal. We would recommend framing the document through the lenses of ESG materiality rather than from the viewpoint that capital markets should contribute to sustainable development (as mirrored in para. 7 and 8, for instance). Hence, given the embryonic nature of sustainable finance in Portugal and the lack of knowledge that typifies most local financial players, we would recommend the framing of the subject to be as follows:

a. Sustainable finance is one of the most pronounced and fast growing trends in capital markets globally. Out of the $85 trillion of assets under management globally, $23 trillion incorporate non-financial information such as environmental, social and corporate governance data into decision-making.

b. Sustainable finance is an umbrella term that encompasses nearly 20 investment disciplines, such as ESG Integration, Positive Screening, Thematic Investing or Impact Investing. Each one of these different investment approaches follows different risk-return expectations and applies distinctive asset management methodologies. For instance, an equities fund manager that follows an ESG Integration policy may allocate capital in companies with superior ESG performance, which can be found in all industries, including coal, oil & gas, tobacco, alcoholic beverages, or mining. But if another fund managers adopts a Negative Screening or Impact Investing approach, no companies in the above sectors would be considered in investment decisions.

c. ESG information is material to financial decisions. ESG information could affect – positively or negatively - a company's business model and value drivers, such as revenue growth, margins, required capital and risk. Not considering ESG information in asset management would be imprudent and reckless.

d. As more data leads to better investment decisions, sustainable finance paves the way for better risk-adjusted returns.

Para 7. For a comprehensive glossary of impact economy terms and definitions, we suggesting the work conducted by the Granito Center for the Impact Economy. See here: https://granito.center/glossary.php

Para 12.

. It should be stated that $23 trillion of assets globally are now managed under responsible investment strategies. This corresponds to approximately 27% of the global market (Global Sustainable Investment Alliance, 2016). The number of sustainable investment funds globally has increased nearly 50% in 2018, when compared to the previous year (Morningstar, 2019). Presently, 90 percent of institutional investors believe ESG integrated portfolios are likely to perform as well or better than non-ESG integrated portfolios, and 72 percent are using ESG to make investment decisions. More than half say they consider ESG integration to be part of their fiduciary duty (Responsible Investing Survey, 2018).

. Socially responsible investments should not be mistaken by Social Impact Bonds

Para 20. The issue of “risks” is at the core of the sustainable finance agenda and should be further expanded by CMVM. Failing to manage environmental, social and governance risks can lead to material business impacts, including missed profits.

Para 23. This is absolutely correct. The sustainable finance market faces a terminology problem. The Granito Group attempted to address this issue in this article published by British magazine Family Capital: https://www.famcap.com/2018/11/sustainable-finance-has-a-terminology-problem-heres-a-proposal-to-fix-it/

Para 28. In March, the European Union agreed on a new law that forces asset managers, insurers and pension funds to disclose environmental risks in their investments. The law is meant to hinder "greenwashing". It would be fundamental if CMVM takes the same stance and instructs Portuguese financial players to disclose their ESG policies and practices.

Para 40. We recommend highlighting and elaborating on ESMA's three public consultations on sustainable finance initiatives to support the European Commission’s Sustainability Action Plan in the areas of securities trading, investment funds and credit rating agencies (CRAs), alongside IOSCO’s statement setting out the importance for issuers of considering the inclusion of ESG matters when disclosing information material to investors' decisions.

Para 48. It could also be mentioned that in the spring of 2016, The Pensions Regulator (“TPR”) endorsed a legal interpretation of fiduciary duty proposed by the Law Commission, namely that “where [trustees] think ESG issues are financially significant you should take these into account”. And in 2018 the Department for Work and Pensions introduced legislation strengthening ESG-related requirements for trust-based occupational pension schemes.

Para 52. In Sweden, a leading driver continues to be the pension fund initiative 'Ethical Council', which consists of the collaboration between four of the Swedish pension system funds (AP1, AP2, AP3 and AP4), aiming to make a difference by acting as 'strategically accountable and committed owners who exert influence on companies worldwide to improve their efforts on environmental and social issues'.

Para 71-77. It could have been interesting to carry out a quick gap analysis and delineate where Portugal is still lagging behind vis-à-vis its European peers.

Given the current state of the art of sustainable finance in Portugal, the Granito Group recommends CMVM to take the following next steps:

Design, implement and lead a national strategy to scale up sustainable finance in Portugal. The strategy should be executed in various phases and address multiple issues and financial players. As a minimum bottom line, the strategy should cover:

. Conduct of a survey on the size of the ESG market in Portugal

. Development of comprehensive guidelines and best practices on sustainable finance. This would serve as a roadmap for Portuguese financial players to incorporate ESG information in their activities.

. Gradual enforcement of a regulatory framework that encourages and improves consistent, standardized and transparent disclosure of information relevant to evaluating ESG factors. This should reflect the European Commission's overall initiative to standardize ESG disclosure — part of its action plan for financing sustainable growth — launched in June 2018.

. Clarification of the concept of fiduciary duty and the need to incorporate ESG information.

London and Lisbon
March 19th 2019

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