A low-angle, upward-looking photograph of several modern skyscrapers with glass facades, reaching towards a clear blue sky. The buildings are arranged in a circular pattern around the center, creating a sense of height and urban density. The lighting suggests late afternoon or early morning, with some windows reflecting the sky and others showing interior lights.

# Sustainable Financing and Investing Survey 2019

Markets alert to the  
environment and society

Europe Focus

# Executive Summary

## Values to the fore as environmental and social consciousness sweeps the capital markets

Users of the capital markets, the world over, are now highly alert to environmental and social issues — a remarkable result, considering that nearly all practitioners were trained in a different paradigm, in which financial return and shareholder value were the pre-eminent considerations.

Our global survey of 500 issuers and 500 investors, across Europe, Asia, the Middle East and the Americas, shows around 60% of both groups say environmental and social issues are 'very important'. Three quarters of the rest say they are 'somewhat important'. Hardly any are indifferent. The US, Europe and Canada are leaders on several indicators, with awareness in the Middle East also high. But even in the least aware regions, the vast majority of our sample are paying attention to these issues.

By studying the views of issuers and investors alongside each other, this survey reveals how the wishes and needs of the two groups interact and feed off each other. While on some matters, issuers and investors diverge, on many of the major questions, they are aligned. The most important reason for the rise to prominence of sustainability concerns is the organisation's own values and belief that this is right.

No less than 62% of investors that saw these issues as important said 'We believe it's right to care about the world and society'. Among issuers, 65% say caring about these matters is 'aligned with our values as an organisation'. Issuers and investors also feel pressure from their stakeholders — customers, employees, regulators and society at large. But in virtually every region, the organisation's own values are the most often cited factor, and in the rare exceptions, values come a close second.

This suggests capital markets participants have responded to a shift in society, not reluctantly, but enthusiastically — they share in and endorse the new consciousness.

## The survey points to many notable trends shaping sustainable finance, including:

- ◆ Supporters have yet to win the argument that sustainable investing is profitable. Nearly 40% of investors believe it sometimes involves accepting lower returns or higher risk, while only 42% of issuers see a potential financial gain from responsibility — a lower share than among investors
- ◆ As jurisdictions from China to the European Union have begun to legislate for sustainable finance, the influence of regulators is strong in driving sustainability consciousness, for issuers and investors
- ◆ Disclosure to the market on sustainability performance, by issuers and investors, has a long way to go. Issuers are ahead and many expect to increase disclosure in future — nearly two thirds of them welcome it. Many investors still disclose little or nothing on the sustainability of their portfolios
- ◆ Climate change is recognised as a reality that already impacts business, or will soon. Despite — or perhaps because of — the heavy reliance of the Middle East on oil and gas, this region is the strongest for recognising this. The US has the least near term concern, but it is still nearly 50%. A fifth of US issuers think they will never be affected by climate change, but none do not believe in it
- ◆ Large shifts in capital allocation are coming, in response to sustainability issues. Two thirds of issuers (and in the Middle East 85%) expect to reallocate capital noticeably in the next five years
- ◆ Significant barriers exist to fuller development of sustainable investing. Chinese investors feel freest to pursue this, with only 30% citing obstacles, but globally, 60% do. Chief among them are shortage of expertise, lack of attractive investment opportunities and lack of comparable ESG data — highlighting the importance of building the capital markets' intellectual armoury for sustainability, through education and research



# Europe Report

## Customers and society push Europe towards sustainability

### Vying with North America for leadership

**Issuers and investors in Europe — often seen as the cradle of responsible investing — vie with those in North America to be at the forefront of sustainable finance and investing. On some indicators, Europe appears to be ahead, on others, North America.**

In Europe, 2.4% of investor respondents will still admit environmental and social issues are 'not very important' to them, and another 1.7% don't have a view — attitudes that none of our respondents in the Americas would seem to hold.

But other questions in the survey reveal differences of degree and nature between the two markets, which tend to indicate that many sustainable finance practices are more deeply embedded in Europe. Seventy-six percent of investors in Europe have a firm-wide policy on responsible investing, against 68% in the Americas.

And while 12% of Americas investors still say they rarely or never take into account an issuer's ESG credentials and performance, because investors should think only about financial indicators, only 4% of Europeans hold this view.

This divergence has already been influenced by regulators. France established a legal form for 'solidarity investment funds' in 2001 and since 2010 has required all employee saving schemes to offer them.

"France established a legal form for solidarity investment funds in 2001 and since 2010 has required all employee saving schemes to offer them."

Since 2016, institutional investors have had to report on how they factor in environmental, social and governance (ESG) issues and climate change. Now, the EU itself is introducing a much broader swathe of sustainable finance legislation.

China's came first, but the EU laws are the most thorough attempt yet made to use market mechanisms such as disclosure and labelling to stimulate sustainable investing.

Both European issuers and investors in the survey are ahead of most other regions in feeling impelled by regulators to care about ESG.

When it comes to issuers, separating Europe and North America is harder. Exactly the same shares have public strategies for reducing their environmental impacts (66%) and private strategies (26%).

On strategies for social impact, the two continents are again evenly matched, though European issuers are slightly less likely (67% to 75%) to have made their strategies public. Contrasts emerge more between the mechanisms that impel consciousness of these issues, and the techniques used to tackle them.

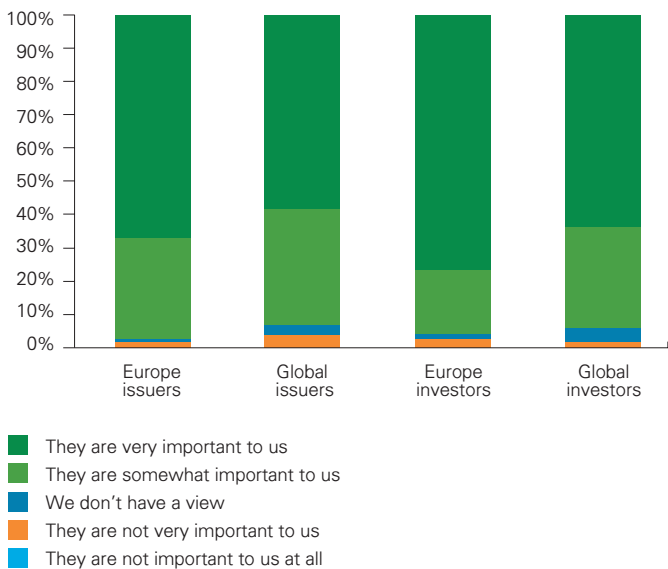


### Key Findings

- ◆ Environmental and social issues are factored into financing decisions more in Europe than in other regions
- ◆ 96% of Europe's investors and 97% of its issuers (above global averages) regard environmental and social issues as important
- ◆ It is the only region where most investors identify material ESG issues and always factor ESG considerations into investment decisions
- ◆ This reflects client demand — 57% of investors say most of their clients want them to be skilled in ESG and responsible investing: the highest proportion of any region
- ◆ Also strong social pressure — Europe has the highest perception that society expects market actors to focus on the environment and society, as well as above average demand from regulators
- ◆ Leadership in disclosure — an unrivalled 33% of investors disclose ESG characteristics of their entire portfolios, against a global average of 24%; issuer disclosure is second to none

### Europe's attention to environment and society ahead of global levels

Our organisation's attitude to environmental and social issues is...

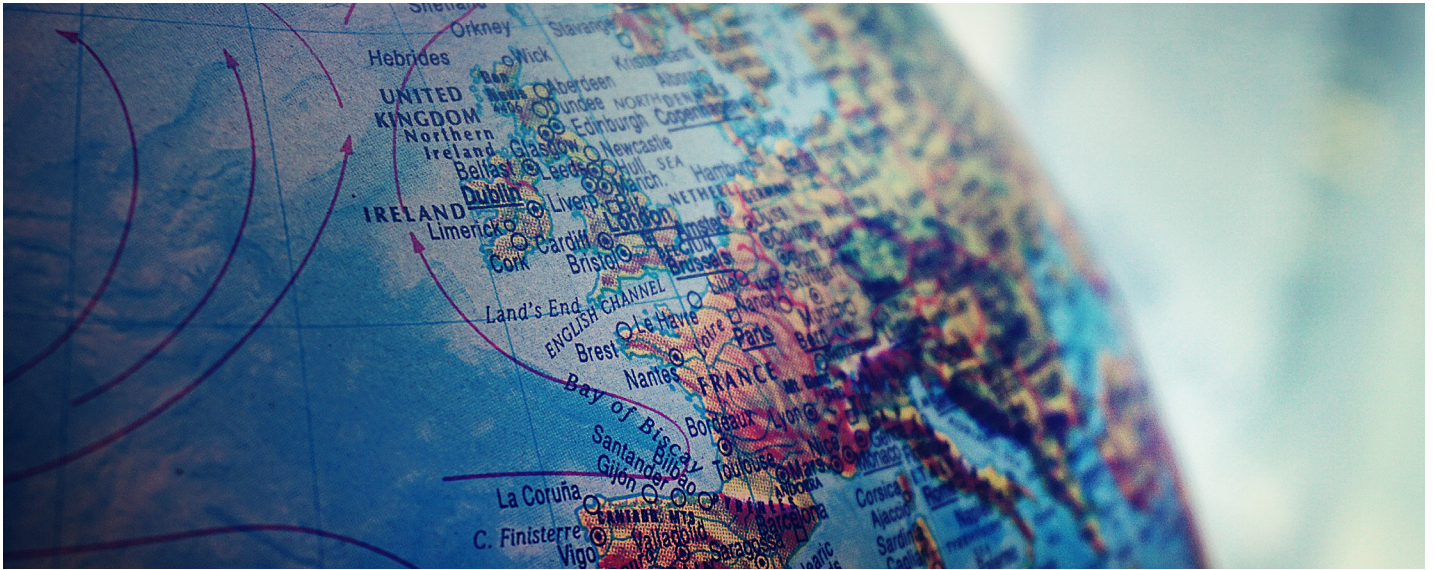


### Investors much more confident of return from environmental and social awareness than issuers

We care about environmental and social issues because...



# Europe Report



## Drivers of sustainable finance

Stakeholder pressure strongly felt

**External pressure to take account of the environment and society is very evident in Europe. More investors here than anywhere else care about environmental and social issues because 'society expects it' – 63%, compared to a global average of 48%, close to the Americas' level.**

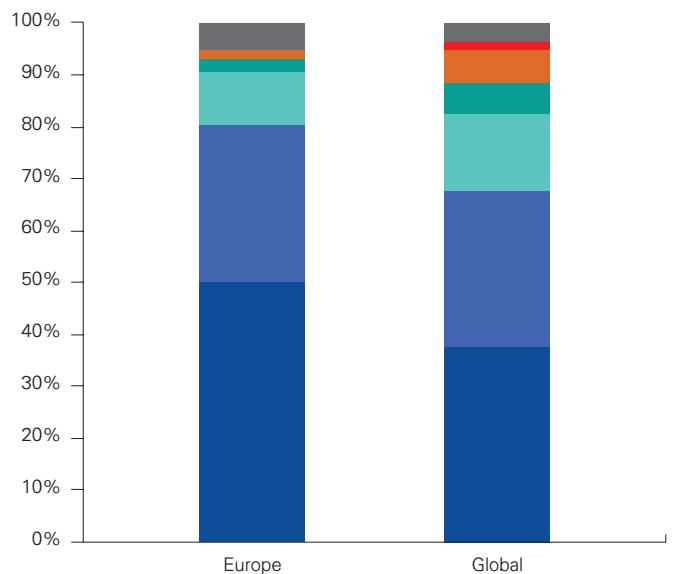
European investors also have the highest consciousness that their clients expect them to be skilled in responsible investing and offer this as a service, with 67% saying over half of clients want this, against 47% in the Americas.

A stark difference from the Americas is in how many of investors' clients are willing to give environmental and social issues equal priority with financial returns – 76% of investors put this share at over 20%, against 39% in the Americas.

Similarly, European issuers are above average in how much they feel demand from customers to perform well on environmental and social issues, at 48%. The push from NGOs (cited by 34%) and regulators (53%) is above the norm in Europe, too – and pressure from employees, at 48%, is the highest in the world. Regulatory pressure on investors is well above average, too – 58% versus 51% globally.

## Half of European issuers say climate change is already affecting them

Issuers: will climate change begin to affect our business or activities...



- I don't know
- I do not believe in climate change
- It will never affect it
- It will more than 30 years from now
- It will in the long term (10 to 30 years from now)
- It will in the medium term (up to 10 years from now)
- It is already affecting it

## Disclosure

Europe leads the way

**A third of European investors disclose the ESG characteristics of their entire portfolios, more than in any other region (the global average is 24%).**

Moreover, they report a world-leading 46% alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) or other reporting frameworks, compared with a 32% global average. European issuers, meanwhile, have the lowest proportion refusing to make environmental and social disclosures of any region (still nearly 10%) and are the least likely (6%) to feel that requirements for them to disclose are excessive. They are also above average in the one third who say their disclosures will increase and that this is a good thing.

## Investment practices

Deep ESG integration

**Europe stands out as the only region where a majority of investors (53%) always factor ESG considerations into investment decisions.**

It is also the only area where most investors have a formal approach to identifying material ESG issues for investments: 53% versus a global average of 35%. In the Americas this is 32%. This deep integration reflects the requirements of asset owners. An unmatched 15% of investors serving retail clients and 26% of those serving institutions say more than half their clients care as much or more about social and environmental concerns as financial returns, when making investment decisions.

As a consequence, European asset managers are seeking more guidance from their banks than peers in other regions, with particular focus on: measuring the impact of their investments, the ESG characteristics of individual issuers, how the economy is likely to evolve in response to climate change and green, social and sustainable bonds. They are also above average in the one third who say their disclosures will increase and that this is a good thing.

## Climate scenario analysis

Issuers not ready yet

**European issuers' sensitivity to climate change is high. The region scores above average on both recognising climate change's current impact and anticipating impact in the next 10 years.**

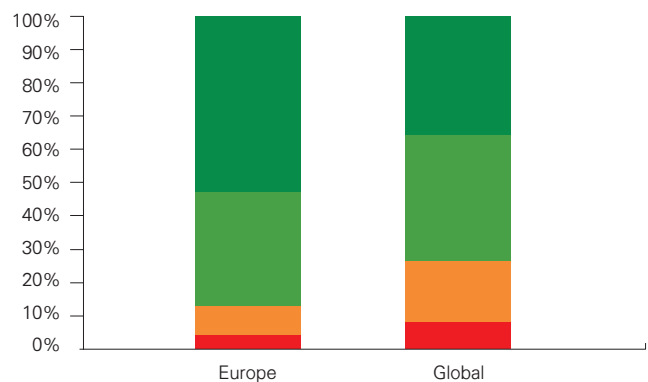
Even so, only a minority of issuers have yet used scenario analysis to assess potential future impacts of climate change. About 35% of issuers have done it, a quarter are thinking about it, and some have worked with consultants (27%) or partners in financial services (23%) or their industry (37%) to determine standard assumptions on potential losses.



“A stark difference from the Americas is in how many of investors' clients are willing to give environmental and social issues equal priority with financial returns.”

## More than half of European investors always factor in ESG

Investors: when our firm is considering an investment in securities, we take into account the issuer's ESG credentials and performance...



- Always – this is a core part of our investment decision making
- Sometimes when it is likely to be financially material
- Only in funds which explicitly have an ESG mandate
- Rarely or never – investors' job is to consider whether it is a good investment solely on the basis of financial indicators

# Methodology

**GlobalCapital, the capital markets newspaper, and Euromoney Data conducted a global survey of investors and capital markets issuers in June and July 2019. The survey is unusual in questioning issuers and investors at the same time.**

The questionnaires for issuers and investors were different, but in many cases the questions were complementary, to give insight into the perceptions each group have of the other.

The study was designed to cover a wide diversity of organisations, by size, geography and type of activity.

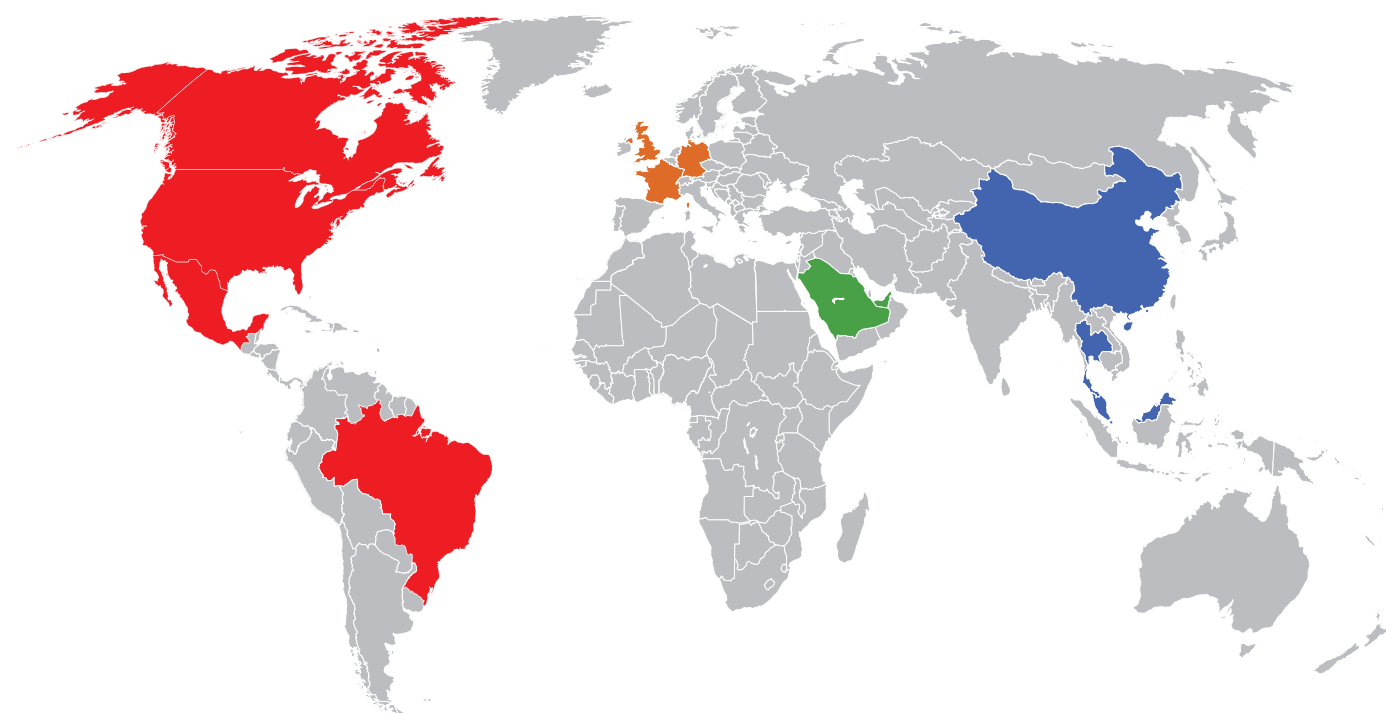
Investors and issuers were invited to participate in online surveys, comprising multiple choice questions. The surveys were offered in Chinese, English, French, German, Portuguese and Spanish. Over 1,300 completed responses were received from issuers and investors. To participate, they had to enter their contact details, the name, nature and size of their organisation, and where

they were based. Responses are treated anonymously.

From these, a structured sample was extracted for use in the survey. This comprised 500 issuers and 500 investors, distributed across 15 target markets in four regions.

Where there were too many responses from a particular country, those from larger organisations were used.

The sample analysed is as follows:

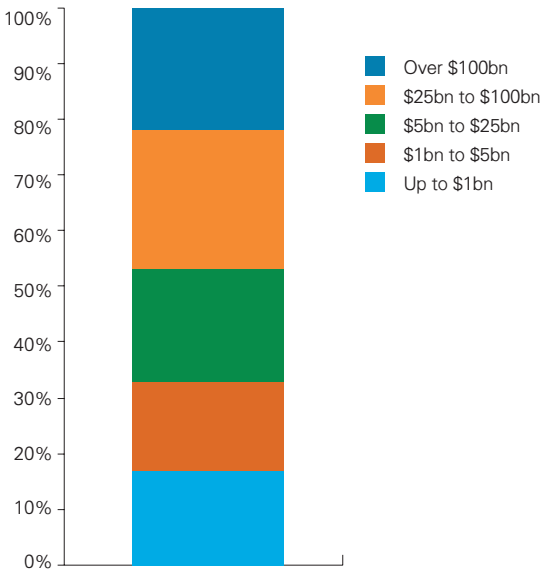


	Issuers	Investors
<b>Americas</b>	<b>135</b>	<b>135</b>
US	50	50
Canada	50	50
Brazil and Mexico	35	35
<b>Asia</b>	<b>175</b>	<b>175</b>
Mainland China	50	50
Hong Kong SAR	50	50
Singapore	35	35
Indonesia, Malaysia and Thailand	40	40

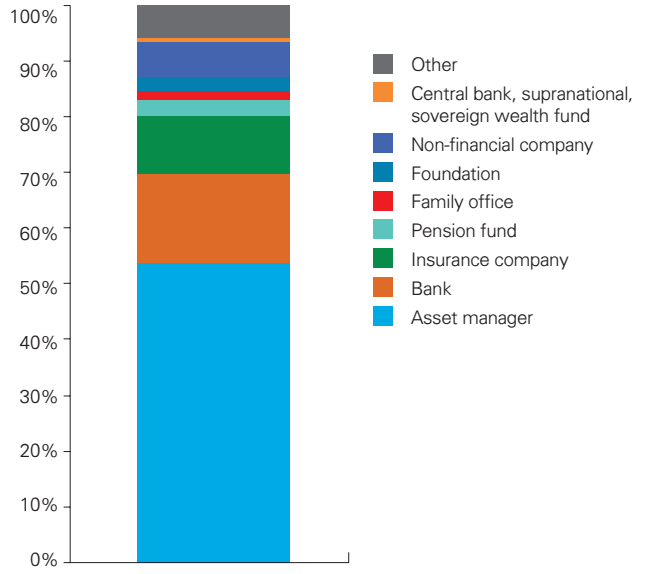
	Issuers	Investors
<b>Europe</b>	<b>120</b>	<b>120</b>
UK	50	50
France	35	35
Germany	35	35
<b>Middle East</b>	<b>70</b>	<b>70</b>
Saudi Arabia	35	35
UAE	35	35
<b>TOTAL</b>	<b>500</b>	<b>500</b>



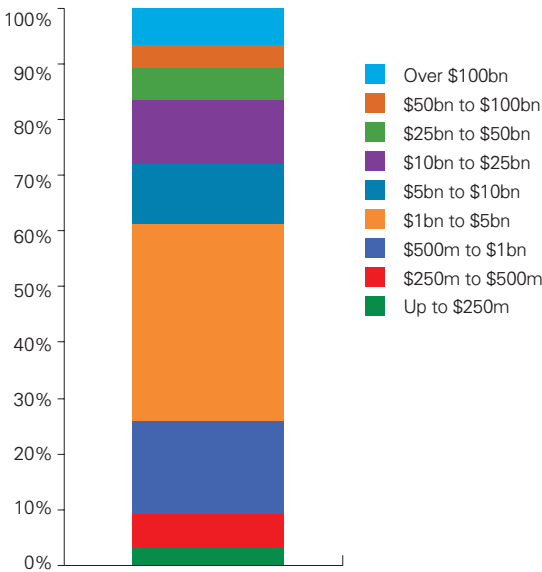
### Investors by assets under management



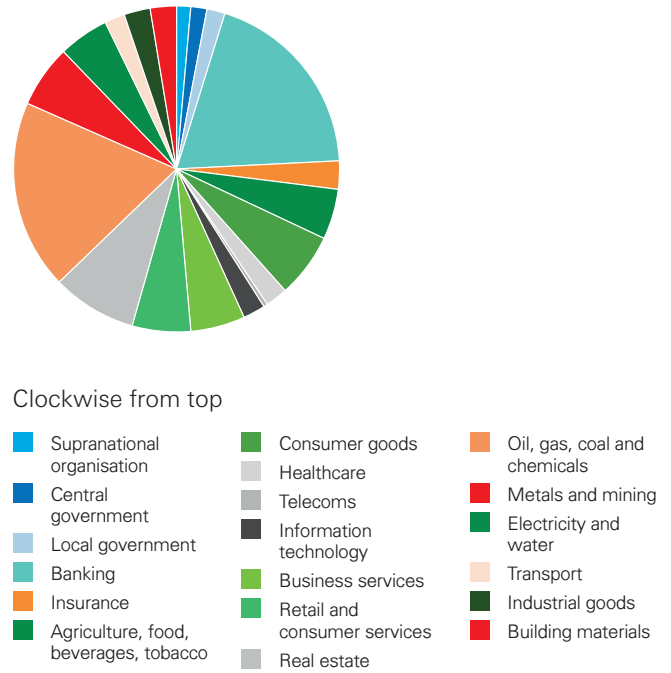
### Investors by type



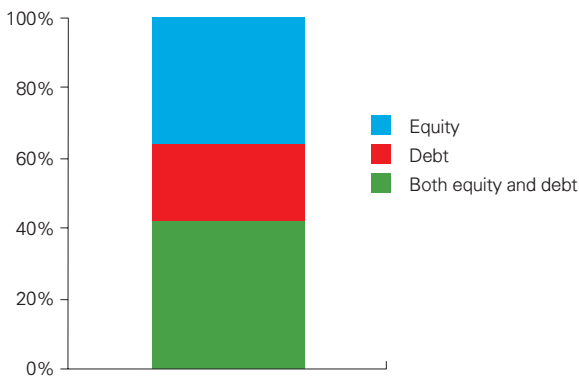
### Issuers by annual revenue




### Issuers by industry



### Investors by asset type





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