Closing Panel Discussion:

Structural changes impacting investor behavior:

Low yield environment, the accompanying high leverage, high asset valuation and digitalisation have changed investor behaviour. Do we see trends in the market that could in these circumstances cause consumer detriment? What would be the mitigating factors?

Panel host:

- **Niina Bergring**, Head of Life and Non-life Insurance Division, FIN-FSA

Panelists:

- **Steffen Kern**, Chief Economist and Head of Risk Analysis and Economics, European Securities and Markets Authority
- **Erika Tikka**, Head of External Fixed Income team, Keva
- **Sari Lounasmeri**, CEO of the Finnish Foundation for Share Promotion (Pörssisäätiö)

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Panel discussion:

So my name is Nina Bergring I'm working at the Finn FSA as the head of the life and long life insurance supervision and also supervision of investment risks in the whole insurance sector here in Finland.

And we've had a wonderful day today.

We've had the banking sector view.

We've had the.

The insurance sector view we've had the legislator view all surroundings and certain big phenomena that we are.

Now, having in the markets and in the economy, and now we will move on to the panel, which will take the investor viewpoint to these same big phenomena on the market and I.

Would like to start.

By asking my panel to join me.

On the stage please.

And then I will go and introduce you all once.

Once we have assembled here.

I have to say it's been a very thought.

Provoking day and.

Let's hope.

We can in this panel sort of also pull together some.

Some thoughts and and and maybe bring some.

New ideas so.

If you start from there, go ahead, that's excellent.

And I will take this and so Stephanie.

Oh my God.

Thank you.

Wonderful, so I'll stop the introductions.

So here to my left.

First, May I introduce you to Mr Steven Kern.

He's the chief economist and head of risk analytics at ECMA, the European Securities and Markets Authority.

He's a person who has a very holistic but also very detailed view of the markets as well as the economy, and he has a very distinguished career spanning banking.

Academia and may I call it smart supervision.

Perhaps so really, he contributes with a very big.

Wealth of knowledge and wisdom.

Stuck with this panel OK?

Excellent then we have Saudi loan.

US Mary here in the middle mystery lowness Mary is the CEO of the Finnish Foundation for Share Promotion.

Sunny has research.

Championed and developed the retail investor space here in Finland.

She knows it inside and out.

I should.

Say and she has really a good knowledge about how the retail investor thinks and acts in and behaves in the market.

Last but not least, may I?

Introduce to Miss Erica.

She is the head of external fixed income team at Kiva and she was actually this year nominated as one of the.

Top 50 female investors in the.

World, so we have really a truly professional and experienced fixed income investor here amidst us.

So maybe I will also join you.

The panel.

Our topic is obviously the same big phenomena that has been discussed from various viewpoints today.

I I personally think and believe that the.

Always the seed to the next as an analysis.

Inevitable crisis.

May be shown by.

The solutions to the crisis we've had prior.

Right?

Ah, because actors.

In the market, investors always adapt to the prevailing.

Environment and thus.

May create new risks.

And new types.

Of of of of of our.

Seeds for the crises.

Miss Murphy and today introduced us to a few animals.

She spoke about elephants, rhinos, and black Swans.

I hope this panel now.

Will take the goal.

Asked to

Really, try to discuss these structural changes, investor behavior and uncover the whereabouts, whereabouts.

Of the next black Swans.

I hope.

And so I thought we would go and start.

By really looking at the big picture first.

How does the environment look like?

Where might the biggest risks lie ahead?

We have been surfing the great big debt cycle, the low interest rate environment has been mentioned.

High leverage, so Steven, if we start with you and if you could highlight us on your point of view and based on your knowledge, what kinds of big risks do you see lying ahead?

Thank you Nina.

Let me first of all, say what a great pleasure it is to be here.

Your your introductory words will really.

More than overall overly kind after, say, and.

It's a great pleasure to.

Be here and thank you for things that for, uh, to to invite me to this.

And I'm going right away at this macro perspective.

And and that you actually mentioned, because at the end of the.

Day, you're saying?

That we're or people in the markets.

Are looking for.

I do not.

Right?

Know the Black Swan.

Any anyone here in this room doesn't know.

Black is a Black Swan.

That's the whole idea.

It's a concept, and if we knew we would probably be very wealthy people, but it is worthwhile looking at the parameters that we have first point to notice about the current market environment that we have.

Right?

It's that it is very benign.

It looks very benign, but let's face it, the ice is still on which we are walking, right?

We have seen markets recover from the corona situation in Europe. Overall equity markets are 50% up since that rough from the from the corona situation from the Truffle 2 in March 2020.

Here in Finland you know particularly well what what I'm talking about here. I think 100% up needs doubled.

In that.

One year your your equity market capitalization, so this reflects a great degree of optimism.

And the question is, is that optimism actually weren't against the background of the state of the global economy of our European regional economies?

The weaknesses that we have, the supplies, those supply chain disruptions that we've seen.

Lately, and the big uncertainties about the robustness of the economic recovery.

So these questions need to be kept in mind at the same time, what comes comes on top of that.

Is that the valuations themselves need to be reconsidered across market segments?

High yield equity in particular?

What comes on top?

John talked about it as well.

Is the rising concern, with inflations and tide to that.

The expectation of array traversal John said it is array traversal or any other policy reversal for that for that purpose is well communicated, coordinated and gradually then.

It can have also a.

Smooth impact on the overall.

System and that could be a precondition for for a smooth variety. Finally, there is also rising credit risks right our public sectors and also the corporate sector have issued a vast amount of debt in the last 1 1/2 years and in order to tackle the situation that we have probably rightly so.

But it is building up large credit risks.

We've talked in the past about fallen angels about and this risk.

Has not fully materialized, thank God, but now we need to look at zombie firms after a fading out of of policy.

Support of guarantees.

How will many of these companies actually perform in in many Member States of the European Union, the concerns around zombie firms are actually pretty substantive.

So bottom line on that first.

Cluster of issues.

The really big view on the market is that we really need to be alert of the broader framework conditions and the fragilities and vulnerabilities that the system has.

And please allow me to add 2 perspectives that you also mentioned.

First of all on leverage.

Leverage is structurally speaking for us US regulators.

Supervisors of great concern because at the end of the day it is at the core of many systemic problems, but also many consumer protection issues.

That we have in.

In the current situation, it is particularly pertinent.

Not so much on the institutional side where, for example, amongst the alternative investors in the European Union we have an average leverage of 100% amongst hedge funds.

It is higher naturallyspeaking 400% and we see pockets of an even higher leverage exposures in the in the fund universe there.

But overall, the Verge has been pretty stable now.

What is quite striking, and I hope we can.

We can talk about the retail perspective in that context.

This in in a minute is that the at least the potential for retail investors to expose themselves to.

Leverage has risen enormously, right?

The variety of products to which they can engage.

That are actually.

Being used like retail alternative investment fund, whose news has been rising like for example leverage ETFs whose use.

Has been rising.

Contracts for difference.

The additional options through turboz where the use of turbo instruments structured finance instruments with a knockout option has risen by 100% just in the last two years, for example. That shows that retail clients can actually have different channels and use different channels.

Increasingly so to expose themselves to leverage parking even without being aware.

Errors that right gets me to the final point of the digitalization universe, part of the of the of that story is of course as well.

The whole complex of NEO brokers and new digital trading platforms that actually partially even offer leverage as part of the product of variation.

Of your account that you can then leverage for buying investment products.

Now this digital advance and again previous because John has made it clear.

Generally speaking, is is a great move forward for the European Union and and it's aimed to engage citizens more in capital markets.

No doubt about this one. Still until today the average participation rate in share markets in Europe is at 6%, with huge variations across the Member States. I think 1 Member State has 1% if I'm not.

Mistaken was Latvia and the highest is in malt at 15% and all of the rest is somewhere in between.

But that by international standards is very low and it is one policy objective to enhance this participation rate right?

Digital finance and these digital platforms offer us this opportunity.

So this is a great development, especially now that we see this coming up a little bit, especially amongst younger investors.

Younger generations through the apps that they can use at the same time the risks are clear.

It is transparency of the products and the services that are being offered.

It is a lot about the promise of low commissions or even zero commissions, a label that we doubt is appropriate to use and asthma and the and the Member and CS have made that.

Clear that without was this is a a good way of displaying it, because there are costs, no doubt about this one, no matter what the.

New broker.

Say there is the big problem of payment for order flow, where apparently the trading platforms and brokers can have agreements amongst each other to channel.

Order flow through these organisations which the client doesn't even see and where it might actually get.

A less good deal than the best execution that it under the law should actually method law should actually hope for.

And in addition to come a number of governance issues and transparency issues that that come with it, so we have spelled out a number of statements.

Warnings there is now regulatory frameworks on the way.

John mentioned Micah Dora to talk about this and the hope is that through these instruments.

We can channel these new digitalization trends.

A little bit.

Come in and make them safer for the retail investors.

So the on on the on a final note for looking out for the black Swans is not so easy.

Of course it's a.

It's never.

It's never so easy, but the vulnerabilities are clear.

Is actually have in the system.

The big trick for us is especially in the world of new assets in the digital environment and in crypto assets to watch out for what these new realities actually need for us and where we need to adjust our thinking.

Nico is there.

But you know that we need to be aware that these instruments that.

We look at our evolving very fast look at stable coins.

The discussion that now oh let's go back to animals on this one.

Just for a moment I.

Mean you know if you.

If you look at it, good.

May I stop you there?

Actually, Stephen, because we have so many things to discuss and we'll come back to these animals once again and I thought you might, you.

I think the biggest right OK?

You might talk about dogs if I don't.

We'll come back to dogs, yeah?

That's a different problem.

Yeah, but we heard that.

You know participation has been increasing, right?

But then there are lots and lots of risks that asthma has rightly so been highlighting and and trying to take into account.

But sorry, I know you are.

Totally enjoying the ride.

So to say of higher participation, can you explain us what are the phenomena here, especially here in Finland that you've seen and and.

How do you?

See this development of of of digitalization as well as new kinds of products.

What is your viewpoint on that development?

Yes, I think Steven was doing.

Really excellent job of highlighting all the possible risks and also all the market phenomena that we see.

And of course.

Like in addition to that being a risk, the other side is of course an opportunity and a lot of these issues like actually involve the opportunity that we can see that private individuals, individual investors are more excited than ever.

We have more participation than ever.

It does.

Course has to do with several factors happening at the same time we see as it values going up.

It means that the people are excited.

On the other hand, in reality the time when most individual investors entered the market has been both during the corona crisis and also during the financial crisis.

Actually, when the stock market is going down at that time in Finland, we've seen number of individual investors increase so.

In that way it shows that people are actually thinking long term that they are saying like OK when the prices go down, I enter and then of course this time as well as as well as during financial crisis we can see that that clearly it was a good choice for them to to do that and that of course makes people happy, makes them talk about it more.

We see the rise of technology, both having social media.

Platforms I know that there are different differing views about how good that is, but with PC that people are getting more and more excited, they are sharing their views.

It's not just learning from your family members or your friends, but you can actually be in touch with anybody and learn and learn about it.

Of course, it means that we have to somehow.

Also then follow who talks about what, what is their modus and motivation to say those things and so forth.

So we do need financial literacy to back back up this and make sure that it's not just all these puff people being super excited about something, but also that that there is rationale behind it.

But then we also see a lot of.

Different phenomena that makes people excited to enter the market.

Actually in terms of the potential figures that you were saying at like during the last two years.

Because because less than two years ago and then we got into use these new equity savings accounts and we also see that whenever there is some sort of a tax break or or something positive like that, then people like to utilize that and also that actually the structure is making making investing.

Also starting it is making it also easier for people.

So we need media.

A big rise in the number of investors and actually at the moment 17% of population, so we're five and a half million. So 930,000 Finns of the individuals or owning shares in listed companies so.

So not, not other instruments. Shares in listed companies, so that's a really big amount. 17% and there we see the combined effect of having what is happening in the market to the asset values.

What is happening with the with technology with the social media discussions also with getting easier access to information and also having like lower.

Level of costs.

We see that that actually it's starting to be true, even five or ten years ago.

He was telling people like OK first save and collect a large sum of money and then you can start investing.

That's no longer true, because the cost structure is going down, and it's actually possible that you can really start investing with small amounts.

And that's probably why we also see the public.

The switch in who investors are the normal investor in Finland used to be a 60 year old man, probably living on the coast Time coast side like in big cities, possibly sweetest picking and so forth.

And actually the profile is going down in age, so we have a lot of young investors entering the market and also.

And also not all investors are men anymore.

So a lot of positive changes happening in terms of like having the having investor profile being more thorough genius.

I think we might go back to the dogs now because it is confusing and and the retail investor protection.

And as we heard in the last speech by Barry, then the retail investor protection.

Is close at heart for supervisors.

And and and the regulators.

But this dual world of having on one had the.

Very detailed, maybe two, and ID deregulation, but at the same time having these new markets of of Dogecoins and Shiba inu's and stable coins and crypto's. And I don't even know all of them. Plus investment advised by Twitter etc. So before we can.

Be there and.

And support the.

Retail investor and maybe help them and and safeguard from the worst.

Of the risks.

So, so how?

What kinds of risks could come out of these?

And now, Steven, if we may go back to you as to what you were going to say about, maybe these dog animals or.

I mean.

The point about let's, let's be clear about the different categories of digital new digital opportunities that we have.

If we look at the crypto assets and the stable coins as one category that is currently in the process of regulation by the European.

I think one thing we need to be clear about as regulators supervisors, is that like I was finishing up earlier on it's moving, it's moving target and they evolve over time.

It's not only hard to understand exactly what economic purpose they fulfill, especially in open environment where some of these.

Instruments are issued by somebody who doesn't even disclose his or her name or his address and is located somewhere where there is a server occasion, right?

So really understanding the business models and their purposes is not, so it's not so easy in the case of stable coin, that's a very interesting example.

And here we come back to the beasts, right?

Imagine we are zoologists right?

And then we are looking at a new species.

Currently we are.

At the point.

Where we can't even know where we have a zoologist or biologist.

An argument whether this is a fish or a bird or a mammal, right?

So some of these are stable coins are.

Understood to have properties like banks or deposit taking institution.

Means for offering redactional power, then there is the perspective that they are really currencies, that that's what they're called.

It's a coin, right?

And then there is now a big discussion of whether they abide by way of their investment strategy or the way they is.

The structure of their reserves portfolios shouldn't actually be compared to funds.

Money market funds.

I would contest.

Maybe even hedge funds in their nature, right?

And the variety of perspectives on something that does not fit at all.

The current regulatory framework.

Is the one that makes it so difficult?

Micha goes a long way in actually addressing that in in getting them covered from a regulatory perspective.

But as the market is changing so fast, I think we'll need to stick to this topic and see how we can adjust all the rules under supervisory practices around these things.

When we look at the trading platforms on the.

And and the.

And the brokerage.

Firms, I'm glad.

Sorry Doc you mentioned the the the dimension of social trading and in particular the the phenomenon of copy trading.

Qualitatively speaking, this is not new.

We know in past decades people talked about investments.

Over a beer in the evening these days it is through social media. There is, however a little bit of a qualitative step in the sense that some of these platforms, when it comes to copy trading, offer you the opportunity to copy somebody's port forward, right? But we can't, you know US, regulators, supervisors. I wouldn't call it.

Buy a real name, but you know we can.

I think we should ask ourselves, is it right that somebody tries to copy the portfolio of.

Homer Simpson

Right?

I'm taking virtual example right?

I mean nothing against Homer Simpson.

Great guy right?

But is he the right person to give advice?

Or should we?

We really rely on experts that that actually.

So there is a number of pretty fundamental questions of that we need to look out for.

Talk about experts.

Now if we go.

Verika what does?

An institutional investor make.

All of this.

All of these new phenomena and the sort of the mean stocks and the massive moves and volatility in certain markets that we saw during the.

COVID crisis what?

Is the institutional investors take on all of this?

Well, that is a wide question.

Uhm, if I may take an angle of this retail investor participation that sorry talked about and we realized before that you will be Miss Sunshine and I will be miss skeptical in terms of this and.

What this retail investor participation means is that pro cyclicality of the market increases and it means that whatever phenomena we are dealing with, it gets amplified.

It gets amplified in good and bad.

And don't get me wrong, we as a long term investor we like volatility.

We like this person.

We like that cross correlation of assets changes because it provides investment opportunities as well.

But the difficulty lies there that it's hard to make a distinction.

When we talk about normal fluctuations in like in status quo or are we dealing with something permanently building up to something different?

Or is it permanently changing the way how we see the fair value of assets and?

And the retail participation makes it worse or no worse, but more difficult.

And for example, in the asset classes that I cover, which is not equities, I work on the corporate bond side.

I see bifurcation into two classes where market is either increasingly liquid or increasingly illiquid and nothing in between and in that liquid bucket you have.

Quite untested instruments. I'm talking about ETF's, daily liquidity, mutual funds that are trying to replicate the market that is inherently illiquid.

And and there's that mismatch.

And then on the on the illiquid side I'm talking about.

More orphaned areas or or private debt there actually.

Investors are now taking the role that the banks lending departments used to.

And so it means that we have untested participants on both sides on the liquid side and on the illiquid side.

I'm glad Erica you raised up these investors taking the role that banks used to have before, because the low interest rate environment and the previous crisis.

And as we heard earlier today, banks.

Have become so much safer and perhaps a bit duller.

Some say after the financial crisis and a lot of the lending has transformed from bank balance sheets to the investors balance sheet in this low in interest rate environment and the search for yield has been.

And, i.e., the investors really trying to find returns where they are very hard to find structurally.

So how would you?

Erica, if you continue, how would you describe the behavior of institutional investors in this environment and what kind of risks might you see stemming from that fairly massive capital?

Allocation, yeah movement, yes.

Well, it is common knowledge for everyone that.

We institutional investors have have had to go down the the risk spectrum and we have been forced to innovate new ways to to generate returns and.

I maybe use an example.

Investors seek for risk, premium and.

When you talk about fundamental risk, like fundamental balance, sheet strength, and all that, it may be easier to to understand how the risk and return go hand in hand and and there's a term used in our asset class.

It's called fool's yield.

And it means the breaking point when you go beyond that, you're not no longer compensated for the risk you're taking.

So when you're talking about balance sheet balance, balance sheet risk, and all that, it may be easier to figure out where that full field point is.

But then a common denominator where long term investors have thought yield is illiquidity and illiquidity is a common denominator for many kinds of strategies.

It's it's small caps, it's complex strategies.

All that they follow a common denominator in illiquidity.

And that's a that's a puzzle that how do you know when you are compensated enough for carrying that illiquidity?

And when you are not?

When are you getting that fools illiquidity premium?

I'm very much.

For investing in using illiquidity for your benefit, I think it's.

One of the few competitive advantages that, for example, pension fund can take in a rational manner, of course, because of our, you know, long term liabilities, we can naturally exploit illiquid and inefficient markets and I think we're quite.

Competent also that, but then there's this other side where.

If you are on that wolf premiere.

Buckets, and if you don't really know if you are compensated for that illiquidity, it can be sort of a weapon of mass disruption as well.

How it unwinds it can be violent so.

Yeah, that that that is a.

Bit scary and and also I'm wondering how much.

Do we see retail investors participating in this potentially fools?

Illiquidity or fool's yield and illiquid strategies and and perhaps products that that are not understood well understood very brief answers.

So we we continue to the rhinos in a moment, but sorry, how do you see it in Finland?

Is is the investments in illiquid and complex products increasing and are you worried?

Actually a lot of individual investors at the moment they're interested in having it.

Very transparent investing directly in shares and like by being shareholders in companies.

And actually, I think that they want more and more this transparency and they want to understand what they own and in that way I think that that the risk is actually lower when you don't have these complex structures, but instead you're.

You're directly being a shareholder, and that way you understand what where the risk comes from.

So in that way I would be.

That worried, I think that that first of all it's definition.

Homer Simpson example, I would definitely like.

I have high respect for air government rather have people copy her portfolio and follow what Erica is doing, but I do at the same time have this feeling that like we have big institutional investors who are being upset about the fact that now we have a huge number of small.

Investors who are actually doing the things that they used to do and like, and instead of like just being there in the corner among couple of people talking about strategies like they and the social media platforms saying like hey, I know this.

This market that normally they could be utilized this together and like play against these bigger players and do this and that and then they do it and I think like as long as it's transparent.

As long as it's clear what the motivations are, I think instead of prohibiting and stopping people from doing something first, I think we should go to the platforms where people are at and like participate in the discussion.

Give them advice of maybe have to have two rules like have to have have the game plan like what is it OK to say?

Who can?

Say what and what type of questions you see.

Ask so I think more financial literacy.

More information, more transparency, but also I don't think individual investors are these fools.

We we see that the number of investors is going up when the market goes down.

So that means basically big institutions are selling.

Small investors are buying, so I don't think that's being a fool, and on the other hand, we also see that actually.

Individual investors are relatively long term investors, so they are not doing this.

Work and I think.

It varies based on the market.

Because we do see a lot in the United States, we see a lot of people taking actually.

Like that, they don't necessarily invest their own money that they like.

I think when you're taking a loan and you invest that money, then of course there's a lot more risk when the market starts going down.

But in Finland, where we see people savings still going up, a lot of majority of the money being invested into the market is their own savings.

I think they're less risk because they probably.

They have the more patients they can wait, like when the cycle changes.

Do you, do you see in Europe a lot of leveraged investing or or these sort of more complex and?

And what is your main worry about that?

Or perhaps how how it unravels, or how large is it?

Well, let's I, I guess the one of the problems is that it's it's very multifaceted.

I think the majority like like you're saying it.

Sorry the majority of new investors and.

Particularly up long term, and do plain vanilla engagements.

They use modern technology and so on, but they roughly try to stay in control of what is going on, and that's the positive side of it.

At the same time we see also.

The phenomenon of increasing leverage across a number of of very complex products, right? I mean if you see for example structured retail financial products rising by nearly 40%.

In the last two years, from a low base, no doubt about this one, not comparable to the Investment Fund universe for example, but still.

I mean, you can see that retailers are getting themselves a number of retailers are getting themselves into products that they can neither fully understand, nor can they compare these products. SRP's are for all intents and purposes.

Fully incomparable products we as regulators supervisors find it hard to tell these products apart and really make the comparison.

A retail client has no chance of doing that.

And and that that of course then is is part of the problem.

And the other thing, let's go back to the crypto assets.

They're all the rage many young people people invest in them.

There I've got serious doubts about the the appetite for transparency, because obviously everybody who invests in the crypto asset must be acutely aware that he or she is investing in something that is totally intransparent.

Like I said earlier on that there, we at the moment as long as they are not regulated or supervised.

We don't even have 8 prospectors that you might not like because it's too long, but I mean it's a lot, but you don't even have the.

Chance of finding.

Out who it is you're dealing with.

And the platforms on which they are traded oppose a number of questions in terms of transparency you you can see that maybe it is easy through the overtly easy through digital means to buy assets just at a push of a button, where maybe you might have thought twice if you had really.

Being aware of the issues that come along that come along.

Not the majority of people, but certainly a segment of consumers.

We ask from a public policy perspective are concerned.

Sorry, I'm I'm so happy 'cause you are so optimistic about the retail investor.

Finally, having learned to buy low and sell high but at the same time we know that many investors have solvency, regulations and and also other risk policies that may cause.

The other actions, so as you mentioned, when institutions sell, the retail has been pieing.

So Erica, we know that risk levels have been creeping up in many insurance pension investor portfolios due to this low interest rate, environment and and low return.

Target environment, how do you manage those risks?

The higher risks risk levels in the portfolio.

How are you preparing for the?

Potential crisis, which also I think your.

Company when when?

You gave your results last.

Week you were warning about the inevitable crisis.

So how do you manage that risk?

At the moment in this environment?

Well, this may sound as a boring, boring answer, but I don't know if you can manage at manage it at any other level.

That idea syncratic level so that it's.

It's not a stock market, it's a market of stocks, and it's not a bond markets and market of individual bonds and and that's.

How we do it so?

We are very much believers in in name selection and also our external asset managers.

Are, you know at the same?

But it is.

It is tricky.

And of course the underwriting standards are getting loose.

The covenants are getting looser as well, and.

But also in this kind of.

A low yield environment.

People are sometimes questioning that what's the role of fixed income anymore?

Like why not put everything on the to the equity side and.

I approach it from that way that there are companies that are not yet suited for equity financing, yet they may not have operational history.

They may not have balance sheet strength to have that and and that's when the debt financing comes along.

We be finance also very early stage companies and of course as a dead investor you get compensation for that and you hope that you are getting adequate compensation in every single market environment for that.

Good, and we've heard how many trillions of euros will be needed for the transition to the sustainable future.

And no, no doubt debt markets will have a a role to play there as well.

If we go now to the rhinos.

Which is the climate change and the climate risks which we've heard today's the major structural risk facing every and any investor on the planet.

And we will not compete with the cop. 26 we only have few minutes time here before the questions. So I we will compete not on the.

Death or with.

But the clarity of of answers to this question, So what would you highlight as the biggest challenge or opportunity in our path to the sustainable future?

From your point of view, what are you most happy about in this sustainable investment phenomena, or what are you most worried about?

Or what is the toughest thing to do?

You can choose just one example of you.

Maybe I start with.

Sorry if you.

May want to start.

Oh, I think it's.

I think in in the threat or in the risk like there's definitely an opportunity and I think it's our opportunity and our time to have the courage to give the power to people.

Basically have give the power to the individual investors into the end shareholders and I.

See that a lot.

Of women and a lot of young people are actually getting interested in investing notice because they want to become wealthier.

But because they want to make a difference that they actually believe that by being involved in the financial markets for the first time ever, they're interested in this and they want to do it because they believe that that's how they think it changed the world and they.

Can do something further better?

And I think here we have a huge opportunity.

It says that then now is the time to deliver like we actually have to then have the means for them to select the the.

Investment targets that are sustainable, and that's already difficult.

How how to bring it to them in an easy way in a comparable way in a transparent way and and those?

I think today, like have been discussed in a really good way, like the difficulties that we have in that and then on the other hand also also the fact that that then that they have the possibility to make a difference, which means that then I think we need to.

Be more clear, direct and transparent and also have the ownership and have those powers to the shareholders.

I think in the European Union they have been little by little increasing the role of Daniel Channel meeting and the role of shareholders, but there the fact that we decide that we don't just want big institutions, financial intermediaries or or the.

All their leadership.

Of the of the listed companies to be the ones who are in charge, but it's actually the end investor.

The shareholder is the one and there, then we can't belittle that.

The real people who are the shareholders and say oh, they don't know what they're doing.

Together it's us and like we have to know what we're doing and I think there's actually good.

Evidence that shareholders.

Are making choices.

That are sustainable and and that are good for the future.

And I think we just have to have that faith and have those tools and like give.

That power to people.

OK Erica on from the institutional investor point of view what what do you want to lift up?

One angle only, so I chose capital allocation and probably that needs explanation.

Uhm well.

Throughout the history, companies have been born and developed to solve any problems that the society may have and climate change or back to a cleaner economy is not different from that per southeast.

It's just that its speed and scale can be humongous.

But I'm using the same framework that.

Governments and regulations regulators and so forth.

They set the scene where to operate and companies are the ones who invest, they innovate, they they carry the investment.

Risk and.

That's that's the link to the capital allocation in in the sectors that I cover, I see two types of companies.

There are companies that are these disruptors.

They are the newcomers that.

May have they they seem to have very lucrative.

The technological solutions for example and and then we have the companies in the old value chain which may look like they are part of the problem.

But they need time and capital to transform themselves, and what I'm worried about that.

It may be too easy to see the disruptors as a part of the solution, and the old ones as part of the the problem and.

And if the capital market doesn't serve its primary role, i.e., allocate capital inefficiently, it can mean that we are over capitalizing the wrong companies in the long term.

And we are under capitalizing the right companies and and it means it has a direct.

Impact on economic growth in the long term, and we all know also that investment returns are completely driven by long term economic growth and that's why.

Why you start from the somewhere else, but you end up in the long term economic growth.

So capital allocation is a very big sub rhino in this rhino problem.

Excellent Steven which which?

Which phenomena or risk or opportunity would you want to highlight in in this move into a sustainable future?

Climate risks anything related to that is good.

I would start off with the positives.

Of news that that.

You that you asked for earlier on?

I think the sorry pointed out in these days we get people who are who either want to, you know do these investments in order to be profitable but also impact investors who just want to make a change, right?

And then put their money together.

Analysis and and that is those are good enough, right?

I mean, these are very honorable motivations.

And the good news is that we see it right. OK, it's first half year of 2021 is the first time in history. If you want that. Investments in ESG funds.

Have been larger than conventional funds, right?

So you know that is that is a, uh, a big message, so people care, investors care.

We've seen a huge increase in green bond issuance, not least by the European Union itself.

I think and and an issuance in the third quarter that was oversubscribed by more than 10 times, right?

So you can see the investor appetite.

So those people want to put their money into this one, and that's the good news.

Because a lot of money is needed, John pointed out too that the figures are astronomers, right that it needs for the for the transition to take place.

No new fraction of that can actually be paid by the public sector.

The rest need needs to come from private sources in one way or another, and that gets me too.

The appoint that Erica made find hugely important the question of a capital allocation and capital misallocation.

So one of the big problems that we from a public policy perspective of course have at the moment is that this market is is is in in a in a very early evolutionary state with until now.

The generally acknowledged globally applicable standards of measurement of of of designation of what exactly is green?

What is sustainable and that gets us immediately into the big questions of the taxonomies that we need in order to.

Exactly tell whether a company is engaged in green activities, yes or no, and that is currently in the policy process, but these taxonomies need to come, and optimally speaking there would be globally acceptable in one way or another.

The second one are labels, of course, that built directly onto the taxonomies asking the question of how can we make sure that retail investors when they invest in something that is called green actually get something green, or as they fall victim to what we call greenwashing.

We have we.

We talked a lot about Green Russians these days, not because we don't believe in in in green investments.

Quite On the contrary, it has to happen.

And it's.

Things that happens but from a long term perspective, green investments can only be successful if the investors can trust what they actually invest in under whatever is labeled green with green.

And This is why the taxonomies, the labels and then also the anti greenwashing measures that we at European Union level together.

With the national authorities undertake our success.

So I'm I'm taking this as a very positive note at the end of our panel, but we will still have some time for questions, but it seems that all of the stakeholders here represented are totally willing to take part in the green transition, and what we?

Need is just.

Clarity and information and trust in the data.

In order to be able to choose from.

From the good old companies and the good new companies, for instance, excellent.

I think we can open for questions now if we have any in the audience here in the front please.

Meanwhile, I'm saying I didn't quite yet find the black Swans, but but I have an inkling of where we might look for them.

So let's come back to that, but you can think.

Also, that that you know if we have to crystallize where the black Swans are, I will ask that.

From you in a moment.

So OK, please for the question.

OK, thank you.

I'm all about our store and so and it's more like a statement than a question I have been working for sustainably with sustainable investors for 20 years, and I've seen the development that I really urge that very quickly we need to get.

International framework for ESG disclosure.

Because there are so many middle men, there are taking the space that we have left there to be taken over and make a business out of that and which makes companies not compareable and the data is not a good quality.

So so this is something that.

We really need to push forward to get this international standard because we are dealing with data.

This is ESG data.

If we are measuring it incorrectly.

We are also.

Deteriorating the climate and the nature and so on.

So keep up with that work so we can get this.

Solved, thank you.

That was a very important thing and and and data and trust in the data is very important.

Steven, do you just want to?

Say a few words about how the regulation is tackling this issue at this point in time in terms of disclosures and data soldiers.

And thanks for the statement speaks to my last point.

It's about taxonomies and the and the labeling that then enables private market participants to actually be precise about what they say.

The disclosure topic is part of the package in the European Union.

There is another law coming up the sustainable Finance disclosure regulation, through which the hope is that corporations and other market participants will be put and and they get templates that we've already drafted as regulatory technical standards that.

Issuers and market participants can fill in and which are comparable such that investors can, in the end determine whether the sort of activities that a corporation and issue undertakes are from sustainable finance perspective, correct, plausible, and so on.

So these are building blocks at European Union level.

Whether this will in the foreseeable future.

Be an area where a global compromise can be crafted.

Let's see, we were just looking at Glasgow and we see how difficult it is to reach global compromise on anything in this matter, unfortunately.

But we are in contact also.

Good contact with international regulators and supervisors to test the waters for getting this into the global field.

And what does the institutional investor Erica you mentioned?

That you choose good assets that's.

Your job you want to find the good companies, including the sustainability goodness of the company.

So do you have enough of data from let's say, the likes of?

Of of the first three companies or any other companies, when you choose your investments or what would you ask for more?

It would help your work in.

The analysis.

I think it's a bit old man.

Thread to, you know, complain about the.

The data, uh?

I think there is a lot of data, but we also everyone recognizes that we are on the development path, so you can't really, you know, anchor yourself to this situation.

Maybe something that I.

I sometimes the data that I miss in my work is.

Have the kind of the delta where the firm is going like where is the cap ex directing to and.

In my mind, it's often too much of the status quo or the past data, and I would like to know the.

The delta, but that that's really important because we will also see regulators and supervisors focusing on investors and banks and and insurance companies, including climate risks into their own risk and solvency assessments.

And that's where you need the delta.

You need to have the sort of the future plans of the companies.

Included in in the risk analysis, which I know is hard.

Obviously to communicate next question, may we have from the audience any hands.

Somebody might ask where do you see the black Swans?

And then they need pants.

But here we have a hand.

I was just going to build on the topic of data for ESG because it's such an important one and just to illustrate for our bank, we've got maybe 3000 large corporate customers, 550,000 semis and we want to figure out what is the.

Greenhouse gas footprint of all those customers, so we can decide what the trajectory.

Is which to help?

And I think the SFDR that mentioned by Stephen will will assist, but I mean that there's a couple of challenges how far down the hierarchy of companies will it go with the SMB's or not.

Will it be audited information?

Can you trust what's been given and then to get to, uh, Erika point?

It's also what about the transition plans?

You get the data, gives you your kind of spot position of what this scope one and two three emissions are.

But you know the the, the, the different formats of their transition plans are pretty.

So if it's a comment rather than a question, but I'll turn to a question which is do you think this data should be audited?

And do you think there is the prospect of more standardization of transition plans to help get to the delta question in a faster way?

Do you, Steven, can you take that question?

And a style that does CSRD help in this.

Well, in in in the 1st place that helps the standardization right of the data and that of course inner by itself becomes a matter of regulatory and supervisory compliance, right?

I mean, of course, audit firms can?

It can help with this matter and hopefully there.

So, but at the end of the day, the issuers are then responsible and accountable to the regulators, supervisors to actually be accurate and informative in filling in the templates that they are given by the regulators, right?

So I think that inner by itself, once these instruments will be available, please be aware these are regulatory processes they take.

That's right, once they are, they are available across the board.

They they will actually happen.

They they are designed to have impact impact and they will have an impact.

What I think is important in the general field of data.

Is that first of all, I'm wondering as an economist and as an analyst.

One of my multiple personalities, but then also being the data guy at ESMA who suffers from exactly the same problems.

You know the bad quality and the lack of data.

One of my questions is.

How much will markets?

Penalize companies that fail to provide good data and good evidence.

For example, transition evidence to what extent will market participants investors say OK, this company doesn't get us good ESG data.

Then we'll just not invest in it, right?

That these market forces?

I'm wondering how much how far these market forces will take us on the way, and I hope they could take us along.

Way because just the imposition of rules and templates will not get us to the final end of it, there needs to be that extra impulse from investors who say listen, I want clear evidence about this company being clean within the framework of the reporting that it does, but also through incredible strategy.

And then I'm buying it.

Otherwise, I won't, and that is of.

Course a very very.

Big moment.

Next question, do we have in the audience?

Any hands here in the front excellent.

And actually this is now a question.

How in asthma have you been dealing with the scope for emissions like the substitution?

Do you have any any of that thinking or how to replace fossil based materials with the?

Non fossil based because this is something that is we have scope 1/2 and three. How to calculate them. But the substitution. Is there any sort of discussion? Are we ever getting there?

I would love to give you an answer on this one, but I don't have the expertise.

Honestly, I simply do not know, but I would be happy if we can take this offline, get you in touch with somebody who knows.

In the organization and maybe we put the question to again to Eric.

I think the retail investors will not be asked for Scope 1, two or three and not even four.

But Erica are our institutional investors.

Discussing scope 4.

No, we're sparkling still with scope 3.

Thank you.

OK.

Well, yeah, but I'm aware of the concept, though that was a joke, yeah?

So you'll have some time.

To figure that out, apparently.

Next question, we don't have much time, so this should be the last question, and perhaps if nobody is screaming to ask a question, I will.

Ask, did you?

Figure out even a hint of maybe a Black Swan whereabout whilst we discussed.

I have some ideas, but I want to hear.

From you first.

Can we all pick one?

Yeah, you can all pick one.

OK.

Let's see how many.

We get.

Then I chose liquidity.

But it's a.

That investors, assuming a role of liquidity provider, will not act upon it and products providing liquidity that there is mismatch with the underlying.

Positions so two sides.

Liquidity mismatch and too much liquidity risk which won't.

Pay for it.

So say sorry.

I'll just remain positive and I'm not going to choose.

One which is of course very irritating.

I'm just going to say that I think that the good thing is that we know of so many risks that there are a lot of factors for investors to follow that that's, in a way a good thing because.

Then it's more difficult to find the Black Swan because that would be something that we don't see, and I think the good part is that we.

Do see a lot of risks that there are.

Excellent, so that's the positive thought in Steven being the regulator supervisor.

You see a lot of risks, but do.

You see the black Swans where?

I get about the Black Swan.

I what what I know are the lakes which I would expect the blacks want to swim and for me the most prominent one in this case would be what we called risks, i.e., companies or enterprises that get themselves into trouble.

Which are at the periphery of the financial system like we've seen it recently?

Archegos GameStop, grinsell.

And toward at some point sent strong ripple on effects into the center of the financial system and caused disruptions.

And I won't either be picking black Swans, but I'm certainly hoping that all the investors out in the world know what they're investing in and also manage the risks and the inevitable crises that will soon not so soon or soon come to us.

Thank you for the panel.

Excellent discussion.

Let's thank the panel.