EFAMA

European Fund and Asset Management Association

EFAMA's REPLY TO THE EC CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY

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EC CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY

INTRODUCTION

The European Commission's initiative for a Renewed Sustainable Finance Strategy comes at a time of unprecedented environmental, economic and social challenges. In the face of accelerating climate change and the ongoing pandemic, European institutions and the financial sector share the urge for ambitious and effective policies to promote sustainable growth and an inclusive economic recovery.

As the voice of the European investment management industry, we renew our full support to the objectives of the EU Green Deal and the Paris Agreement. Our members are committed to play their role to help achieving the Commission's objective of channelling at least €1 trillion towards sustainability-related investments over the next decade.

The 2018 Action Plan on Financing Sustainable Growth already sets solid foundations for a framework to integrate sustainability in investment decisions. As many legislative proposals were developed in parallel, some inconsistencies and gaps have emerged. The renewed strategy needs to put together the different pieces of the regulatory puzzle, to make the new rules work in practice in a well-sequenced, consistent and coordinated manner.

This is not sufficient however, and there is a need to address the ESG data gap. Insufficient availability of meaningful, reliable, comparable, and public ESG data is a key impediment to the realisation of the full potential of sustainable finance. A review of the Non-Financial Information Directive should be prioritized.

We also see merits in a well-balanced framework of incentives for non-financial corporates, as well as a better alignment of sectorial and national rules with the objectives of the EU Green deal.

While adjusting the regulatory framework to the corporate world, we should be mindful of the potential negative socio-economic impacts of the transition, which may lead to the disappearance of certain economic activities, assets and business models. This may disproportionately affect different regions or sectors of the economy, and induce job cuts especially at the low-skilled and low-pay end of the market.

We believe that a clear EU-wide trajectory on greenhouse gas emission reductions, based on the objectives set out in the Green Deal, could translate into a better defined transition path for companies. This could be complemented by incentives including public guarantees, public-private partnerships, fiscal incentives and carbon pricing.

KEY RECOMMENDATIONS

- **Improve the availability of ESG data and the relevance of non-financial reporting**

ESG data on investee companies are essential to enable asset managers to satisfy end-investors' demands and meet the new ESG regulatory requirements. To comply with the EU taxonomy and the sustainability-related disclosures regulation, asset managers will need to consider sustainability risks and opportunities as well as, if relevant, the adverse impacts of investment decisions on sustainability factors.

At this juncture, non-financial disclosures by companies are often not comparable, frequently lack essential information and are of limited usefulness when it comes to assessing sustainability risks and opportunities, not to mention adverse impacts. The NFRD review should aim at closing this gap and result in more meaningful, comparable, reliable and publicly available ESG disclosures on investee companies.

We also suggest to establish an EU-wide ESG database, leveraging on digitalisation. Such a database has the potential to alleviate the data gap, especially in the short- to medium-term.

- **Ensure that the preferences of (retail) investors are taken in due consideration**

End-investors should always have the last word when it comes to their investment preferences. Asset managers are subject to fiduciary obligations and must design the strategy according to these preferences, which increasingly consider the impact of investment decisions on sustainability.

When this is not in line with investors' preferences, **asset managers cannot breach their fiduciary duty** by forcing sustainability considerations upon their clients. We therefore believe that the consideration of adverse impacts of investment decisions on sustainability should not be required for all investments but only when this is in line with end-investors preferences.

Upstream in the investment process, financial advisers should take appropriate steps to ensure that retail investors are asked about their sustainability preferences in a simple and adequate way. More guidance could be useful for this purpose. However, the Commission should avoid prescriptive measures or duplication with the integration of sustainability considerations in MiFID II.

At the same time, retail investors' preferences encompass a broader range of considerations than sustainability alone, such as risk tolerance or time horizon. Appropriate diversification is also essential to ensure investors' protection. In a market where the availability of sustainable investment products is still insufficient, and critical pieces of regulation remain to be finalised or implemented, we would **advise caution against the systematic offering of sustainable investment products as a default option**.

- **Enhance the transparency of sustainability research and ratings**

Measures to improve the availability of public ESG information would also reduce investors' reliance on third-party providers which, combined with the **high levels of concentration in the market for ESG ratings** and data, contributes to raising the costs for ESG information.

Despite some improvements in recent years, the comparability, quality and reliability of ESG data, research and ratings from third-party providers is generally insufficient to support investment decisions.

We would welcome **increased transparency of data sources, methodologies used** and how conflicts of interest are managed. More frequent updates of the information would also benefit users.

Likewise, there is a need for more transparency and consistency on how CRAs integrate ESG considerations in their rating methodologies.

- **Robust DNSH criteria under the EU taxonomy will effectively result in a so-called ‘brown taxonomy’**

While we see the potential benefits of a system to identify harmful activities, we believe that the EU Taxonomy for environmentally sustainable activities and, in particular, its ‘Do No Significant Harm’ (DNSH) criteria, will *de facto* fulfil this purpose. The development of a separate and exhaustive list would greatly increase the complexity of an already complex sustainable finance framework and result in potential confusion, with counterproductive effects.

We believe that finalising the work on the **EU Taxonomy should be prioritised** and that the application of its DNSH criteria can achieve the objectives of a ‘brown’ taxonomy while avoiding undue regulatory complexities. Moreover, in line with our general recommendation to introduce a clear EU-wide trajectory for the transition of the real economy, we consider that establishing transition pathways for all economic sectors would be much more informative for investors than a static green/brown classification. Such pathways would allow to concretely assess and measure investee companies’ progress towards the Paris Agreement objectives and effectively mobilise transition investments.

- **Promote long-termism and investor engagement with a proper implementation of the Shareholder Rights Directive II**

The recent revision of the Shareholder Rights Directive aims at encouraging long-term shareholder engagement. We believe it has a great potential to deliver on this goal. However, one year after its prescribed application date, it has still not been transposed properly by all Member States. Therefore, we believe it is premature to decide whether any further measures to tackle any undue short-termism in capital markets are necessary.

Investor engagement has proven to be one of the most effective means to foster better corporate environmental, social and governance practices. To perform their role as stewards of the companies they invest in, Shareholders, need to be equipped with proper tools. To further enable shareholders’ engagement, it would be useful to facilitate access to the board, which, in practice, is often refused.

It is important shareholders can propose resolutions on the agenda of general meetings and that there are sufficient minority shareholder protection safeguards in place. While we hope that this will be improved with a proper transposition of the revised Shareholder Rights Directive, we suggest to carefully monitor the implementation of SRD II across the EU and to avoid gold plating (for instance, of the provision enabling shareholder resolutions).

Regarding directors’ remuneration, we note that the revised Shareholder Rights Directive, once implemented, should not only improve the transparency of directors’ remuneration, but also give more powers to shareholders in this respect.

We are not convinced that mandating to link directors’ variable remuneration to the sustainable performance of the company would bring the intended effect. What matters is a real shift in corporate thinking and the Board designing a well thought-through and consistent sustainability approach. As for the asset management industry, we note that asset managers’ remuneration is already subject to strict rules under the sectorial legislation (the Undertakings for Collective Investment in Transferable Securities Directive, Alternative Investment Fund Managers Directive and Investment Firms Regulation).

SECTION I: QUESTIONS ADDRESSED TO ALL STAKEHOLDERS ON HOW THE FINANCIAL SECTOR AND THE ECONOMY CAN BECOME MORE SUSTAINABLE

Question 1: With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate and environmental-related challenges, do you think that (please select one of the following):

☐ Major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.

☒ Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.

☐ No further policy action is needed for the time being.

☐ Don't know / no opinion / not relevant

Question 2: Do you know with sufficient confidence if some of your pension, life insurance premium or any other personal savings are invested in sustainable financial assets?

☐ Yes

☐ No

☒ Don't know / no opinion / not relevant

Question 3: When looking for investment opportunities, would you like to be systematically offered sustainable investment products as a default option by your financial adviser, provided the product suits your other needs?

☐ Yes

☐ No

☒ Don't know / no opinion / not relevant

Question 4: Would you consider it useful if corporates and financial institutions were required to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement?

☐ Yes, corporates

☐ Yes, financial institutions

☒ Yes, both

☐ No

☐ Do not know / no opinion / not relevant

Question 5: One of the objectives of the European Commission's 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects. Do you believe the EU should also take further action to:

	1 (strongly disagree)	**2** (disagree)	**3** (neutral)	**4** (agree)	**5** (strongly agree)	**Don't know / No opinion**
Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models	☐	☐	☒	☐	☐	☐
Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law	☐	☒	☐	☐	☐	☐

Please refer to Annex I for additional remarks

SECTION II: QUESTIONS TARGETED AT EXPERTS

Question 6: What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years? [BOX max. 2000 characters].

Three main challenges (and solutions):

- As many legislative proposals were developed in parallel, some inconsistencies and gaps have emerged. The renewed strategy needs to ensure the new rules work in practice, in a well sequenced, consistent and coordinated manner, as well as provide for appropriate implementation time.

- The ESG data gap remains a key impediment. The financial sector urgently needs swift solutions to narrow down this data gap, including by setting up an EU central database for ESG information, before a revised NFRD provides for long-term answers.

- Financial market participants can only channel funds to the real economy to the extent that there is a clear and comprehensive EU-wide strategy in place to support these objectives. Existing regulation must be complemented by a framework of incentives and disincentives for companies in the real economy. Sectorial national legislation should also be aligned with EU objectives and the expectations on the financial sector.

Three main opportunities:

- In its position as a global sustainability leader, EU institutions have the opportunity to shift global consensus around ESG issues, promoting cross-regional initiatives and best practices through the International Platform on Sustainable Finance.

- Measures to narrow down the ESG data gap would: enable better consideration of sustainability risks and, if relevant, adverse impacts while making investment decisions; result in more meaningful and reliable disclosures to end-investors; reduce investors' reliance on third-party data providers and avoid that additional research costs are transferred to European savers.

- A renewed strategy brings the possibility to introduce a clear trajectory for the transition of the real economy and to promote sustainability beyond mere reporting. Policy should be made with a goal of changing behavior and promoting innovation, instead of adding administrative burdens.

Question 7: Overall, can you identify specific obstacles in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making?

Our members have identified the following examples:

1. The assessment of the alignment with the EU taxonomy is only feasible as long as asset managers can obtain the specific data on the investee companies. Such data is currently largely unavailable. The NFRD review is essential for closing this data gap. However, data resulting from the NFRD review cannot be realistically expected to become systematically available earlier than in 2-3 years' time. This is a key challenge which can be somewhat alleviated through the creation of an EU ESG database. The data challenge will be prevalent for foreign companies not subject to the EU requirements, for which such database would be very helpful also. For more information please refer

to our response to the EC consultation on the NFRD review: https://www.efama.org/Publications/Public/Responsible_Investment/20-4035.pdf

2. In addition to the need for enhanced sectoral and national regulation targeted to companies in the real economy, we also note obstacles related to the alignment of financial decision-making with the EU objectives of a reduction in GHG emissions. Notably:

    a. the poor functioning of the marketplace supporting the ETS, given in part to the non-binding nature of its targets;

    b. the lack of a meaningful carbon price, including the absence of a carbon border tax to avoid carbon leakage; and

    c. the lack of a clear framework and phase-out timeline for coal and fossil fuel subsidies across the EU.

    Overall, we note that EU energy policies are misaligned with 2030 and 2050 targets.

3. As legislation has been prepared at different points in time and its implementation may be difficult, or even lead to contradictory outcomes, sustainability should be integrated to every review process of existing legislation. Whenever new legislation is created, it should be evaluated whether an older legislation could and should be withdrawn, to keep the overall amount of regulation manageable.

Question 8: The transition towards a climate neutral economy might have socio-economic impacts, arising either from economic restructuring related to industrial decarbonisation, because of increased climate change-related effects, or a combination thereof. For instance, persons in vulnerable situations or at risk of social exclusion and in need of access to essential services including water, sanitation, energy or transport, may be particularly affected, as well as workers in sectors that are particularly affected by the decarbonisation agenda.

How could the EU ensure that the financial tools developed to increase sustainable investment flows and manage climate and environmental risks have, to the extent possible, no or limited negative socio-economic impacts?

We do believe it is challenging to ensure that investments, especially those pursuing environmentally sustainable objectives, have no or limited negative socio-economic impacts. The market offers solutions with a positive environmental as well as social impact, but these opportunities need to be identified and considered keeping an holistic perspective. In this sense, we believe that the Commission's Just Transition Fund takes the right approach and we welcome this initiative. In addition, we highlight that:

- Companies should be able to apply to the Just Transition Fund or a similar funding pool when presenting sound transition plans, which include a financial and social impact assessment. Companies that qualify should have access to financial support for re-training or re-skilling workers wherever possible, and for supporting affected workers.

- There is a need for more social impact analysis to be integrated into the various sets of climate scenarios available in the market. We believe the EU could also engage with climate scenario providers to integrate social aspects into their pathways. Several industry initiatives can be leveraged in that perspective such as the Workforce Disclosure Initiative which encourages companies to promote SDG 8 on decent jobs for all, through more social data disclosure, including training and workforce planning.

- Rules targeted at the real economy can better deal with the potential negative socio-economic impacts by creating pathways for either transitioning towards more sustainability or suspending certain economic activities. It is important, however, that such rules do not indiscriminately discourage investment in certain activities, effectively cutting the sources of financing for European companies of all sizes.

Question 9: As a corporate or a financial institution, how important is it for you that policy-makers create a predictable and well-communicated policy framework that provides a clear EU-wide trajectory on greenhouse gas emission reductions, based on the climate objectives set out in the European Green Deal, including policy signals on the appropriate pace of phasing out certain assets that are likely to be stranded in the future?

☐ 1 - Not important at all

☐ 2 – Rather not important

☐ 3 – Neutral

☒ 4 - (rather important)

☐ 5 – Very important

☐ Don’t know / no opinion / not relevant

Question 9.1 What are, in your view, the mechanisms necessary to be put in place by policy-makers to best give the right signals to you as a corporate or a financial institution?

Financial institutions in the investment management industry are striving to develop and implement best market practices in the integration of ESG considerations in their business, actively contributing in the rule-making process with their expertise. They are also trying to understand how the different pieces of the regulatory puzzle fit together, including the Sustainability-Related Financial Disclosures Regulation (SFDR) which, in the meantime, has already been amended by the EU Taxonomy Regulation. Compliance with both of these regulations will be very challenging especially due to the insufficient availability of comparable, reliable and public ESG data.

This is further exacerbated by very challenging, if not impossible, timelines. Preparation for compliance with SFDR is hampered by insufficient clarity on level 2 measures, essential to understand how to comply with the new rules. The final acts will only be published around mid-2021, while most of the SFDR provisions will apply as of March 2021. Therefore, it is of great importance to take stock of what has been done so far and analyse how it all fits together while reflecting on the renewed sustainable finance strategy. The renewed strategy should put the different pieces of the puzzle together and make the new rules work in practice, in a well sequenced, consistent and coordinated manner.

Overall, we identify the need for clear targets and well-defined plans to embed sustainability in companies’ businesses and investment decisions, and this is true for both corporates and financial institutions. More certainty will provide clear and effective price signals to companies and investors so that can already start to adapt.

Question 10: Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?

☐ Yes, institutional investors

☐ Yes, credit institutions

☐ Yes, both

☒ No

☐ Do not know

Question 11: Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss in particular on corporates who are dependent on ecosystem services, such as in sectors like agriculture, extractives, fisheries, forestry and construction. The importance of biodiversity and ecosystem services is already acknowledged in the EU Taxonomy. However, in light of the growing negative impact of biodiversity loss on companies' profitability and long-term prospects,1 as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?

☒ Yes

☐ No

☐ Do not know

Question 11.1 If yes, please specify potential actions the EU could take:

We agree that the EU's sustainable finance agenda should better reflect the growing importance of biodiversity loss, as we believe that biodiversity and climate change are intrinsically connected and need to be addressed simultaneously. Negative impacts of biodiversity loss on companies' profitability and long-term prospects can be an important aspect for investors to consider. At the same time, this may not be relevant for all corporates, as it is directly linked to the area of activities and services provided. Therefore, we recommend the EU to take a sector-specific approach when considering this particular aspect, making use of materiality assessments.

We are also conscious that biodiversity is still perceived as a complex theme and biodiversity-related data, metrics and disclosures are still underdeveloped. Although awareness is increasing, research efforts needs to be reinforced. In particular, there are two types of information that could help investors and encourage financial institutions' integration of biodiversity management and impact in their analysis and decision-making processes:

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[1] See for instance "The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business," WWF, 2019

- A framework fit for biodiversity, consistent with the climate-related disclosure guidelines and the TCFD framework.

- The development of a biodiversity taxonomy (water, ecosystems).

In addition, we note that the draft biodiversity indicators proposed by the ESAs in the RTSs under SFDR should be complemented by adequate reporting requirements under NFRD.

Question 12: In your opinion, how can the Commission best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level in order to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan?

The governance of the sustainable finance agenda should be characterized by a high degree of predictability and transparency for all involved stakeholders. This includes a predictable timing of revisions, timely consultation of stakeholders, public hearings, transparency in technical working groups, etc. We would also welcome better coordination across different Directorates of the Commission, to ensure that sustainability-linked initiatives are developed with the support and expertise of all relevant DGs.

Question 13: In your opinion, which, if any, further actions would you like to see at international, EU, or Member State level to enable the financing of the sustainability transition? Please identify actions aside from the areas for future work identified in the targeted questions below (remainder of Section II), as well as the existing actions implemented as part of the European Commission's 2018 Action Plan on Financing Sustainable Growth.

For the EU to take a leadership role, while preserving competitiveness in the EU economy, it is important to engage at the international level and aim at setting globally recognised standards. In this regard, we would recommend further supporting existing international standards for assessing and disclosing sustainable economic activities with a good track record and recognition. To further promote disclosures of ESG data and international convergence, the EU could consider tabling the inclusion of NFRD, or some of its elements, in negotiations on international trade agreements, thus requiring firms that collaborate or do business with EU companies to comply with its obligations. For more details on standard setting and improving ESG data disclosure overall, please see our response to the EC consultation on NFRD review: https://www.efama.org/Publications/Public/Responsible_Investment/20-4035.pdf

We also support IOSCO's work to focus, notably, on improving sustainability–related disclosures made by issuers and asset managers.

At the European and international level, we would welcome more convergence and would like to see more emphasis placed on market-driven best practices to enable the financing of the sustainability transition. Given the complexity of these issues, we believe that developing voluntary best-practice tools could help firms to go further where it is more needed and more meaningful, while maintaining flexibility on other matters. More regulatory measures, on the other hand, risk increasing the compliance burden on financial market participants without bringing about the desired effects.

At a national level, we believe that Member States and the public sector should lead by example: green budgeting, infrastructure investments and procurement practices should be consistent with EU environmental goals. The "do no significant harm" principle should apply across the board, and the taxonomy should be used where applicable.

1. STRENGTHENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE

1.1 Company reporting and transparency

Question 14: In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data?

☒ Yes

☐ No

☐ Do not know.

Question 14.1 If yes, please explain how it should be structured and what type of ESG information should feature therein:

We strongly support EU action to develop a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including various 'E', 'S' and 'G' disclosures reported in line with the various EU rules, and especially under NFRD. As we mention in the reply to Question 57 of this consultation, we believe that greater use of digitalization will contribute to narrowing down the ESG data gap and will improve the usability and comparability of non-financial information. To facilitate the use of such information, we suggest such a database should gather raw data to be disclosed in a structured and machine readable format.

For more details, please refer to EFAMA's reply to the EC's public consultation on the revision of the NFRD [https://www.efama.org/Publications/Public/Responsible_Investment/20-4035.pdf], as well as the joint industry letter on a central EU ESG data register [https://www.efama.org/Publications/20-024%20Joint%20industry%20letter%20ESG%20EU%20data%20register_EACB_EBF_EFAMA_ESBG_IE_PE.pdf], co-signed by EFAMA.

Question 15: According to your own understanding and assessment, does your company currently carry out economic activities that could substantially contribute to the environmental objectives defined in the Taxonomy Regulation?[2]

☐ Yes

☐ No

☒ Don't know / no opinion / not relevant

1.2 Accounting standards and rules

Question 16: Do you see any further areas in existing financial accounting rules (based on the IFRS framework) which may hamper the adequate and timely

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[2] The six environmental objectives are climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems.

recognition and consistent measurement of climate and environmental risks?

☒ Yes

☐ No

☐ Do not know

Question 16.1 What is in your view the most important area(s)?

☐ Impairment and depreciation rules

☐ Provision rules

☐ Contingent liabilities

☒ Other

Please specify which other area(s):

We would like to recall our concerns around the unequal treatment of funds and equity holdings under IFRS9. Please refer to EFAMA comments on IASB's Discussion Paper regarding Financial Instruments with Characteristics of Equity (FICE) of December 2018. This unequal treatment may discourage investment through collective investment funds pursuing sustainable finance strategies. To maintain "the economic efficiency and other advantages Collective Investment Vehicles (CIVs) provide", we recommend this neutrality should be maintained for accounting purposes.

1.3 Sustainability research and ratings

Question 17: Do you have concerns on the level of concentration in the market for ESG ratings and data?

☐ 1 - Not concerned at all

☐ 2 - Rather not concerned

☐ 3 - Neutral

☒ 4 - Rather concerned

☐ 5 - Very concerned

☐ Don't know / no opinion / not relevant

Question 17.1 If necessary, please explain your answer to question 17:

Sustainability ratings and research play a very important role in helping investors and asset managers make informed investment decisions and in capital allocation to sustainable investments. Our members heavily rely on third-party ESG rating and data providers due to the insufficient availability of public ESG data on investee companies. This reliance will be further exacerbated by the upcoming disclosure requirements, while we cannot reasonably expect public ESG disclosures to improve significantly in the short-term.

While we hear that in some market there are still many ESG data providers, overall, we observe an increasing concentration in the market for ESG data, partly driven by increased mergers activity. The market tends to be dominated by a handful of large providers who control a substantial market share, thus able to inflate the prices in many cases. This is especially problematic for smaller asset managers that have less resources and less bargaining power, as well as the end-investors who bear the costs.

The offering of a broad range of products and services, combined with high market concentration, raises conflict of interest concerns as well. For instance: the same entity may be providing a rating as well as a 'second opinion' on a company; a provider of both research and labels will base the labels on its own research and prejudice the rating of any funds that adopt a different approach.

Question 18. How would you rate the comparability, quality and reliability of ESG data from sustainability providers currently available in the market?

☐ 1 – Very poor

☒ 2 – Poor

☐ 3 – Neutral

☐ 4 – Good

☐ 5 – Very good

☐ Don't know / no opinion / not relevant

Question 18.1 If necessary, please explain your answer to question 18:

The comparability, quality and reliability of ESG data from third data providers varies depending on a provider, as well as across different regions. We acknowledge that in recent years, market research providers and sustainability ratings agencies have increased their efforts to collect and analyse data on the Environmental, Social and Governance (ESG) performance of issuers. Nevertheless, we believe that further improvements are necessary to facilitate sustainable investments and achieve the objectives of the Green Deal.

We also find that the quality and reliability of ESG data varies greatly depending on the robustness of the research methodology applied by each provider. Generally, the usability of this data for investment decisions is greatly limited by the insufficient transparency on the methodologies used, sources of data, processes for ensuring quality of the results and transparency on the relations with the rated company. While investors may appreciate getting different options and approaches, we would welcome more transparency on methodologies, sources and reliability of data, as well as managing conflicts of interest.

We also consider that it would be very useful to ensure that non-financial reporting be standardised in a way that allows company-specific information to be easily loaded into the research systems of interested financial market participants (e.g. through common standard reporting, common interfaces, etc.) so that they can have access to this information without having to rely on ESG data providers.

Question 19: How would you rate the quality and relevance of ESG *research* material currently available in the market?

☐ 1 – Very poor

☒ 2 – Poor

☐ 3 – Neutral

☐ 4 – Good

☐ 5 – Very good

☐ Don't know / no opinion / not relevant

Question 19.1 If necessary, please explain your answer to question 19:

Our comments in response to Question 17 and 18 remain largely valid. Overall, members have concerns over the quality and reliability of ESG research currently available in the market. We would welcome more transparency on the methodologies used by providers, how the research is built and how data is obtained and verified.

In addition, ESG research material and its associated ratings are almost invariably backward-looking. Our members would value obtaining forward looking information as well (e.g. on ESG strategies or readiness for climate change transition), predictions based on ESG risks and opportunities and, in general, more metrics that look at future trends.

Asset managers also note issues related to the timing and frequency of the update of ratings and research, with reports sometimes outdated even up to a year. Given the pace of change in the ESG space, this time lapse is significant. The timing and frequency of sustainability reporting also affect investors' ability to use voting as a tool to drive companies' ESG behaviour in a timely manner.

Due to frequent dissatisfaction with third-party ESG data and ratings, asset managers increasingly decide to purchase *raw* ESG data to populate into their own proprietary rating and performance metrics.

Given the increasing interlinks between financial and non-financial information, it would be also useful that ESG research be incorporated to mainstream financial research instead of being separate.

Question 20: How would you assess the quality and relevance of ESG *ratings* for your investment decisions, both ratings of individual Environmental, Social or Governance factors and aggregated ones?

	1 (very poor quality and relevance)	**2** (poor quality and relevance)	**3** (neutral)	**4** (good quality and relevance)	**5** (very good quality and relevance)	**Don't know / No opinion**
Individual	☐	☒	☐	☐	☐	☐
Aggregated	☐	☐	☒	☐	☐	☐

Question 20.1 If necessary, please explain your answer to question 20:

As in our comments in response to Question 20, we find that the quality and relevance of ESG ratings for investment decisions is limited by inconsistent and insufficiently transparent methodologies used by providers, especially at the company-level.

Sometimes, ESG ratings on the same company vary significantly. Moreover, some of our members perceive ESG ratings offered by many providers as superficial compared with their needs for an in-depth company specific ESG analysis. Focus tends to be on the sector- and geographic-specific risks, while lacking company-specific risks and more profound understanding of what the business does and how it is run. Once again, more transparency on methodologies and how data is obtained and verified, as well as on managing conflicts of interest, are needed. Due to frequent dissatisfaction with third-party ESG data and ratings, asset managers increasingly decide to purchase raw ESG data to populate into their own proprietary rating and performance metrics.

Question 21: In your opinion, should the EU take action in this area?

☒ Yes

☐ No

☐ Do not know / no opinion / not relevant

Question 21.1 If yes, please explain why and what kind of action you consider would address the identified problems.

In particular, do you think the EU should consider regulatory intervention?

With an increasing investor and stakeholder focus on ESG factors, as well as the new EU sustainable finance rules (including the EU taxonomy, sustainability disclosure regulation, changes to the UCITS, AIFMD and MiFID II regulatory frameworks), we believe it is very important to improve the functioning of the market for ESG third party data providers.

We would also welcome more transparency on the methodologies used, how data is obtained and verified as well as on how potential conflicts of interests are managed. To improve the quality of research and ratings and avoid factually incorrect analyses and misleading or incorrect conclusions, we would also suggest that rating and research providers increase their dialogue with rated companies.

1.4 Definitions, standards and labels for sustainable financial assets and financial products

EU Green Bond Standard

Question 22: The TEG has recommended that verifiers of EU Green Bonds (green bonds using the EU GBS) should be subject to an accreditation or authorisation and supervision regime. Do you agree that verifiers of EU Green Bonds should be subject to some form of accreditation or authorisation and supervision?

☐ Yes, at European level

☒ Yes, at a national level

☐ No

☐ Do not know

Question 22.1 If necessary, please explain your answer to question 22:

We are supportive of an EU framework for EU Green Bonds. We believe that the accreditation and authorisation of verifiers can help prevent conflicts of interest and ensure a level playing field.

However, as national supervisors and national authorities have a better understanding of local markets, they are best placed to be in charge of authorisation and supervision. This would help achieve appropriate scrutiny of smaller players and projects.

Question 23: Should any action the Commission takes on verifiers of EU Green Bonds be linked to any potential future action to regulate the market for third-party service providers on sustainability data, ratings and research?

☐ Yes

☐ No

☒ Do not know / no opinion / not relevant

Question 24: The EU GBS as recommended by the TEG is intended for any type of issuer: listed or non-listed, public or private, European or international. Do you envisage any issues for non- European issuers to follow the proposed standard by the TEG?

☒ Yes

☐ No

☐ Do not know

Question 24.1 If necessary, please explain your answer to question 24:

We envisage *indirect* issues. The EU GBS proposed by the TEG requires an alignment with the EU Taxonomy and its technical screening criteria which, in many cases, may not be applied outside of the EU. This, we believe, may be an obstacle for non-EU bond issuers and may hamper the proliferation of the EU GBS. In particular, compliance with the social standards of the EU Taxonomy will likely be challenging for non-EU issuers.

If other regions were to establish different taxonomies close to the European one, and if non-EU corporates were to issue a bond that meets all the EU Taxonomy criteria without being formally aligned with it, those should be recognised. The Commission could consider, in due course, setting up a sort of equivalence framework to recognise non-EU taxonomies that, while reflecting local specificities, meet the European criteria and the requirements on verification and transparency. It is likely that not all criteria defined in Taxonomy will be applicable or relevant across different locations, due to differences in legislation, availability of data or site-specific factors. It would be beneficial to have Commission's guidance on where, and to what extent, deviation would be acceptable.

Prospectus and green bonds

Question 25: In those cases where a prospectus has to be published, do you believe

that requiring the disclosure of specific information on green bonds in the prospectus, which is a single binding document, would improve the consistency and comparability of information for such instruments and help fight greenwashing?

☐ 1 – Strongly disagree

☐ 2 – Disagree

☒ 3 – Neutral

☐ 4 – Agree

☐ 5 – Strongly agree

☐ Don't know / no opinion / not relevant

Question 25.1 If necessary, please explain your answer to question 25:

Information included in the prospectus must meet high standards of accuracy, which is linked to the liability attached to prospectus. Inclusion of ESG information in the green bond prospectus may reduce the risk of greenwashing. From an investor perspective, the biggest advantage would be more certainty due to a stringent liability regime and high scrutiny followed when prospectuses are issued. This could be further increased by providing a second party opinion.

On the other hand, inclusion of further information in the prospectus is linked to increased liability for issuers which could discourage green bonds issuance and reduce the overall market. Standardization is always welcome, but a too stringent process could deter some corporates from issuing green bonds due to additional costs, effort and legal requirements to meet the new green bond standard. The prospectus is the appropriate place to explain how and if any green labels (EU GBS, GBP, etc.) are used when / if green bonds are issued. There should be a link or other guidance as to where the relevant detailed documents will be provided. The documents themselves will be updated from time to time (Green Bond Framework, reporting, third party reviews).

The flexibility provided by having a separate document that outlines issuers' strategies and approaches on green financing outside from a prospectus could also be a way to facilitate the issuance process.

Question 26: In those cases where a prospectus has to be published, to what extent do you agree with the following statement: "Issuers that adopt the EU GBS should include a link to that standard in the prospectus instead of being subject to specific disclosure requirements on green bonds in the prospectus"

☐ 1 – Strongly disagree

☐ 2 – Disagree

☒ 3 – Neutral

☐ 4 – Agree

☐ 5 – Strongly agree

☐ Don't know / no opinion / not relevant

Question 26.1 If necessary, please explain your answer to question 26:

In principle, we favour a proportionate approach requiring green bonds disclosures in the prospectus. Nevertheless, if it were to come with the same liability obligations as a stand-alone green bond prospectus, issuance might still be discouraged. It could be worth considering to formalize the reference to a green bond framework.

Other standards and labels

Question 27: Do you currently market financial products that promote environmental characteristics or have environmental objectives?

☐ Yes

☐ No

☒ Don’t know / no opinion / not relevant

Question 28: In its final report, the High-Level Expert Group on Sustainable Finance recommended to establish a minimum standard for sustainably denominated investment funds (commonly referred to as ESG or SRI funds, despite having diverse methodologies), aimed at retail investors. What actions would you consider necessary to standardise investment funds that have broader sustainability denominations?

☐ No regulatory intervention is needed.

☒ The Commission or the ESAs should issue guidance on minimum standards.

☐ Regulatory intervention is needed to enshrine minimum standards in law.

☐ Regulatory intervention is needed to create a label.

Question 29: Should the EU establish a label for investment funds (e.g. ESG funds or green funds aimed at professional investors)?

☐ Yes

☒ No

☐ Do not know.

Question 29.1 If necessary, please explain your answer to question 29:

We see no immediate need for labels for investment funds aimed at professional investors. Labels are most important for retail consumers, while professional investors have the tools and knowledge to select sustainable investment without the aid of labels. The feasibility of labels aimed at professional investors could be further explored, when the EU taxonomy is fully developed.

With that being said, we do see merits in creating minimum standards for labels targeted towards retail investors that can help promote cross-border investment.

Question 30: The market has recently seen the development of sustainability-linked

bonds and loans, whose interest rates or returns are dependent on the company meeting pre-determined sustainability targets. This approach is different from regular green bonds, which have a green use-of-proceeds approach. Should the EU develop standards for these types of sustainability-linked bonds or loans?

☐ 1 – Strongly disagree

☐ 2 – Disagree

☒ 3 – Neutral

☐ 4 – Agree

☐ 5 – Strongly agree

☐ Don't know / no opinion / not relevant

Question 30.1 If necessary, please explain your answer to question 30:

Transition towards a more sustainable economy requires more flexible and different sustainable goals to be set. We do see it as a logical next step after the development of the EU GBS to develop criteria for general corporate purpose lending. In terms of EU GBS, we see merit in exploring whether use-of-proceeds and sustainability-linked loans could be pooled together, thereby allowing both elements to be in the EU GBS. This would especially benefit smaller issuers, as a system with multiple standards would divide liquidity into different bonds and make it difficult for smaller issuers to use the standards. Establishing clear standards and guidance for such products would help counter the risk of green washing allegations, facilitate the set-up of respective facilities and facilitate market access.

Question 31: Should such a potential standard for target-setting sustainability-linked bonds or loans make use of the EU Taxonomy as one of the key performance indicators?

☐ 1 – Strongly disagree

☐ 2 – Disagree

☐ 3 – Neutral

☒ 4 – Agree

☐ 5 – Strongly agree

☐ Don't know / no opinion / not relevant

Question 31.1 If necessary, please explain your answer to question 31:

We see potential merits in making use of the EU Taxonomy while developing a standard for target-setting sustainability-linked bonds or loans. However, as the EU taxonomy is still under development and focuses primarily on environmentally sustainable activities, it could be useful to allow some other ESG-oriented activities, currently not covered by the EU taxonomy.

Therefore, this potential standard could use the taxonomy as reference for environmental target setting (e.g. aiming to align the company's business activities to a certain degree by a certain year). However, sustainability-linked loans may cover also social and governance targets, hence a broader sustainability framework would be required.

Question 32. Several initiatives are currently ongoing in relation to energyefficient mortgages (see for instance the work of the EEFIG (Energy Efficiency Financial Institutions Group set by the EC and the United Nations Environment Program Finance Initiative or UNEP FI) on the financial performance of energy efficiency loans or the energy efficient mortgages initiatives) and green loans more broadly. Should the EU develop standards or labels for these types of products?

☐ Yes

☐ No

☒ Do not know no opinion / not relevant

Question 33: The Climate Benchmarks Regulation creates two types of EU climate benchmarks - 'EU Climate Transition' and 'EU Paris-aligned' - aimed at investors with climate-conscious investment strategies. The regulation also requires the Commission to assess the feasibility of a broader 'ESG benchmark'. Should the EU take action to create an ESG benchmark?

☐ Yes

☒ No

☐ Do not know

Question 33.1 If no, please explain your answer to question 33:

ESG funds pursue a wide variety of different strategies and approaches. Clients' demand for ESG products is on an upward trend, as well as being increasingly diversified and sophisticated. Clients' demand and market trends are driving a fast pace of innovation for ESG products.

In this context, we believe that any such ESG benchmark would effectively hold back market- and client-driven ESG product innovation. In addition, the design and calibration of an ESG benchmark in parallel to industry-led actions would at best prove problematic and, at worse, restrict market developments and neglect clients' preferences.

In addition, with other pieces of EU regulation still to take effect, such as the Taxonomy and low-carbon benchmarks, narrowing down the scope of investments that can be included within an ESG benchmark could restrict the ability of companies to transition to greener business practices. Furthermore, given the evolving nature of ESG data and materiality, a defined set of ESG factors not only can stifle innovation, it also prevents investors from being able to adapt to and adequately incorporate new environmental, social or governance concerns in a timely manner.

Question 34: Beyond the possible standards and labels mentioned above (for bonds, retail investment products, investment funds for professional investors, loans and mortgages, benchmarks), do you see the need for any other kinds of standards or

labels for sustainable finance?

☐ Yes

☒ No

☐ Do not know

1.5 Capital markets infrastructure

Question 35: Do you think the existing capital market infrastructure sufficiently supports the issuance and liquidity of sustainable securities?

☐ 1 – Strongly disagree

☐ 2 – Disagree

☒ 3 – Neutral

☐ 4 – Agree

☐ 5 – Strongly agree

☐ Don't know / no opinion / not relevant

Question 36: In your opinion, should the EU foster the development of a sustainable finance- oriented exchange or trading segments that caters specifically to trading in sustainable finance securities and is better aligned with the needs of issuers?

☐ Yes

☒ No

☐ Do not know

Question 36.1 If necessary, please explain your answer to question 36:

We do not think that the existing capital market infrastructure creates obstacles to the issuance and liquidity of sustainable securities in particular. On the contrary, we believe that sustainable assets should be treated as other mainstream instruments in capital markets, in line with the EU agenda on mainstreaming sustainability in the financial industry. In addition, we believe that the creation of alternative marketplaces or trading segments risks exacerbating the liquidity concerns for sustainable securities.

Question 37: In your opinion, what core features should a sustainable finance–oriented exchange have in order to encourage capital flows to ESG projects and listing of companies with strong ESG characteristics, in particular SMEs?

While we are not convinced of a sustainable finance- oriented exchange or trading segments, if one or such were to be created, we consider that SMEs should benefit from a regime that would:

- Not introduce bundling for SMEs exclusively, as it would be impossible for asset managers to manage in parallel a bundled regime for SMEs and an unbundled regime for the rest of their assets in portfolio

- Promote better SMEs research provision thanks to sponsored research that would be easily accessible, disseminated under the best conditions, documented in a user-friendly format, especially for research on a single issuer,

- Facilitate liquidity in SMEs via the protection of the pre-trade waivers that foster the capacity of long-term investors to invest in the SMEs market because of important execution cost and impact finally the potential growth of the global economy,

- Help SMEs themselves to raise their profile with prospective investors.

1.6 Corporate governance, long-termism and investor engagement

Question 38: In your view, which recommendation(s) made in the ESAs' reports have the highest potential to effectively tackle short-termism? Please select among the following options.

☐ Adopt more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management;

☐ Define clear objectives on portfolio turn-over ratios and holdings periods for institutional investors;

☐ Require Member States to have an independent monitoring framework to ensure the quality of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs);

☒ Other, please specify.

Question 38.1 Please specify what other recommendation(s) have the highest potential to effectively tackle short-termism:

We do not see the above mentioned recommendations as effective means to tackle short-termism.

- Short-term investment tactics have a legitimate role to play in terms of risk and liquidity management. The terms "short-term" and "long-term" should not be used to describe "bad" and "good" behaviour.

- Each different source of capital serves a different purpose and has its specific recommended holding period. We therefore strongly caution against imposing any specific definition or time-frame for long-term investment, as that depends on the investment needs and financial profile of end-investors.

- Moreover, portfolio turnover is not an appropriate measure of short-termism, as it does not reflect an asset manager's time-horizon but rather inflows and redemptions from investors and portfolio adjustments to market conditions.

- Due to the strict regulation of asset managers' remuneration under the sectorial legislation (UCITS, AIFMD and the Investment Firms Regulation), we do not see potential for any short-term behaviour. This is true irrespective of whether the average share of the variable component compared to the fixed component is high or low.

- Regarding corporate directors' remuneration, we hope that practices in listed companies will improve with the implementation of SRD II, which is effective as of 10 June 2019, however has not been yet properly implemented in all Member States.

On the other hand, we do support ESMA's recommendations regarding:

- the need to **enhance disclosure of ESG information,** suggesting to amend NFRD,
- facilitating institutional investors' engagement by, amongst others, enabling shareholder vote on the non-financial statements.
- monitoring SRD II implementation, as SRD II already puts in place sufficient measures to address poor executive pay practices and tackle short-termism through effective engagement.

For more details, please refer to our response to ESMA's consultation: https://www.efama.org/Publications/Public/19-4068.pdf

Question 39: Beyond the recommendations issued by the ESAs, do you see any barriers in the EU regulatory framework that prevent long-termism and/or do you see scope for further actions that could foster long-termism in financial markets and the way corporates operate?

☐ Yes

☒ No

☐ Do not know.

Question 40: In your view, should there be a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?

☐ Yes

☒ No

☐ Do not know.

Please refer to Annex I for additional remarks

Question 41: Do you think that a defined set of EU companies should be required to include carbon emission reductions, where applicable, in their lists of ESG factors affecting directors' variable remuneration?

☐ Yes

☒ No

☐ Do not know.

Question 42: Beyond the Shareholder Rights Directive II, do you think that EU action would be necessary to further enhance long-term engagement between investors and their investee companies?

☒ Yes

☐ No

☐ Do not know.

Question 42.1 If yes, what action should be taken? Please explain or provide appropriate examples:

Shareholders, to perform their role as stewards of the companies they invest in, need to be equipped with proper tools. To further promote shareholder engagement, it would be useful to facilitate shareholders' access to the board, which, in practice, is often refused.

The majority of companies in Europe have a concentrated ownership structure, especially in case of small- and mid-caps. Such companies have less incentives for a dialogue with their minority shareholders, as resolutions voted need the majority shareholder approval. This may hinder investors' ability to file a resolution or vote against management in case of dissenting views, including on environmental or social matters.

It is important shareholders can propose resolutions on the agenda of general meetings and that there is a sufficient minority shareholder protection safeguards. While we hope that this will be improved with a proper transposition of the revised Shareholder Rights Directive, and hence we strongly recommend that the implementation of SRD II across the EU is carefully monitored and that gold plating is avoided. Moreover, as the 5% threshold may be rather high in some cases, we suggest to re-evaluate this provision in a couple of years' time.

We believe that enforcing the one-share-one-vote principle would encourage a more long-term outlook.

While some improvements are needed to further facilitate shareholder engagement, it is key that the provisions of SRD II are properly implemented across at the EU. We suggest that the EC monitors the situation and re-evaluates whether additional actions in this area are needed a few years' time.

Question 43: Do you think voting frameworks across the EU should be further harmonised at EU level to facilitate shareholder engagement and votes on ESG issues?

☐ Yes

☒ No

☐ Do not know.

Question 44: Do you think that EU action is necessary to allow investors to vote on a company's environmental and social strategies or performance?

☒ Yes

☐ No

☐ Do not know.

Question 44.1 If yes, please explain your answer to question 44:

We believe it would be helpful to enable investors to vote on company's environmental and social strategies or performance whenever investors deem it material and in line with end-investors' interest. In many EU MS still filing of resolutions is not possible or not effective. This should be changed too.

Question 45: Do you think that passive index investing, if it does not take into account ESG factors, could have an impact on the interests of long-term shareholders?

☐ Yes

☒ No

☐ Don't know / no opinion / not relevant

Question 45.1 If no, please explain your answer to question 45, if necessary:

Many index funds already integrate ESG strategies, and in many countries such funds may benefit from local "ESG" labels. Index funds integrate ESG to varying extent and often use voting, engagement, screening and ESG portfolio construction.

Insufficient engagement in case of index investing is a misconception of investment management practices. Both active and index fund managers engage with companies to varying degrees, depending on a fund strategy and objectives. Engagement is a frequently used tool by index fund managers to improve fund performance as they cannot exit their positions (i.e. sell the instruments) and they are required to mirror the index, they are also often long-term shareholders for this reason.

Question 46: Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change. Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?

☐ Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.

☒ Yes, as these issues are relevant to the financial performance of the company in the long term.

☐ No, companies and their directors should not take account of these sorts of interests.

☐ I do not know

Question 47: Do you think that an EU framework for supply chain due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?

☒ Yes

☐ No

☐ Do not know

Question 48: Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?

☒ Yes

☐ No

☐ Do not know.

Question 48.1 If yes, please select your preferred option:

☐ All companies, including SMEs.

☒ All companies, but with lighter minimum requirements for SMEs.

☐ Only large companies in general, and SMEs in the most risky economic sectors sustainability-wise.

☐ Only large companies.

2. INCREASING OPPORTUNITIES FOR CITIZENS, FINANCIAL INSTITUTIONS AND CORPORATES TO ENHANCE SUSTAINABILITY

2.1 Mobilising retail investors and citizens

Question 49: In order to ensure that retail investors are asked about their sustainability preferences in a simple, adequate and sufficiently granular way, would detailed guidance for financial advisers be useful when they ask questions to retail investors seeking financial advice?

☒ Yes

☐ No

☐ Do not know.

Question 49.1 If necessary, please explain your answer to question 49:

We agree that an assessment of sustainability preferences should be part of the financial advice for investment products. We also tend to agree that Commission's guidance for financial advisers would be useful at this stage, among other things, to provide additional clarity and to reduce implementation costs for the industry by ensuring that all market participants are working towards answering the same questions. However, in order to maintain adequate flexibility with respect to current practices, we emphasise that any such guidance should not be prescriptive and should be developed in consultation with financial services providers from all parts of retail servicing spectrum.

In addition, we note that the European Commission's recently proposed changes to the MiFID II

Delegated Directive and Regulation already require financial adviser to consider an investor's ESG considerations when providing financial advice. Given that this important update to MiFID II framework is currently ongoing, we highlight that the Commission should seek to avoid any duplication with this workstream.

Question 50: Do you think that retail investors should be systematically offered sustainable investment products as one of the default options, when the provider has them available, at a comparable cost and if those products meet the suitability test?

☐ Yes

☒ No

☐ Do not know.

Please refer to Annex I for additional remarks

Question 51: Should the EU support the development of more structured actions in the area of financial literacy and sustainability, in order to raise awareness and knowledge of sustainable finance among citizens and finance professionals? Please reply using a scale of 1 (completely disagree) to 5 (fully agree)

☐ 1 – Strongly disagree

☐ 2 – Disagree

☒ 3 – Neutral

☐ 4 – Agree

☒ 5 – Strongly agree

☐ Don't know / no opinion / not relevant

Question 51.1 If you agree, please choose what particular action should be prioritised:

	1 (strongly disagree)	**2** (disagree)	**3** (neutral)	**4** (agree)	**5** (strongly agree)	**Don't know / no opinion**
Integrate sustainable finance literacy in the training requirements of finance professionals.	☐	☐	☐	☒	☐	☐
Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens' education at school, possibly in the context of a wider effort to raise	☐	☐	☐	☐	☒	☐

awareness about climate action and sustainability.						
Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions.	☐	☐	☐	☒	☐	☐
Directly, through targeted campaigns.	☐	☐	☒	☐	☐	☐
As part of a wider effort to raise the financial literacy of EU citizens.	☐	☐	☐	☐	☒	☐
As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities.	☐	☐	☐	☐	☒	☐
Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals.	☐	☐	☐	☐	☒	☐
Other	☐	☐	☐	☐	☐	☐

2.2 Better understanding the impact of sustainable finance on sustainability factors

Question 52: In your view, is it important to better measure the impact of financial products on sustainability factors?

- **Please express your view by using a scale of 1 (not important at all) to 5 (very important).**

☐ 1- Not important at all

☐ 2 – Rather not important

☒ 3 -(Neutral

☐ Rather important

☐ Very important

☐ Don’t know / no opinion / not relevant

Question 53: Do you think that all financial products / instruments (e.g. shares, bonds, ETFs, money market funds) have the same ability to allocate capital to sustainable projects and activities?

☐ Yes

☐ No

☒ Do not know.

2.3 Green securitisation

Question 54: Do you think that green securitisation has a role to play to increase the capital allocated to sustainable projects and activities?

☐ 1 - Not important at all

☐ 2 – Rather not important

☐ 3 - Neutral

☒ Rather important

☐ Very important

☐ Don't know / no opinion / not relevant

Question 54.1 If necessary, please explain your answer to question 54:

Green securitisation does have an important role to play to increase the amount of capital allocated to sustainable projects and activities. It will provide information to the market via pricing between green and non-green assets. Further green securitization structures will allow SMEs and micro-companies to gain access to capital markets with the purpose of funding green initiatives, allow for green initiatives to be funded at a competitive price and allow for green illiquid assets (loans) to be more liquid (large scale listed notes). However, due consideration must be given to lessons from the financial crisis in relation to securitization and the quality of underlying assets.

Question 55: Do the existing EU securitisation market and regulatory frameworks, including prudential treatment, create any barriers for securitising 'green assets' and increasing growth in their secondary market?

☐ Yes

☐ No

☒ Do not know / no opinion / not relevant

Question 56: Do you see the need for a dedicated regulatory and prudential framework for 'green securitisation'?

☐ Yes

☐ No

☒ Do not know / no opinion / not relevant

2.4 Digital sustainable finance

Question 57: Do you think EU policy action is needed to maximise the potential of digital tools for integrating sustainability into the financial sector?

☒ Yes

☐ No

☐ Do not know

Question 57.1 If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider? Please list a maximum of 3 actions and a maximum of three existing initiatives:

In the context of the NFRD review, it is crucial that ESG data is not only centralised but also provided in a structured and machine-readable format.

We welcome the recommendation of the High-Level Forum on CMU to establish an EU Single Access Point (ESAP). This would result in a central access to financial and non-financial public corporate disclosures under the existing EU regulations, including NFRD and SRD II. This is in line with the recent call by several trade associations, including EFAMA, for a central EU ESG data register.

Concerning the Forum's recommendation on Shareholders' Rights, we also agree it would be useful to encourage the use of new digital technologies (i.e. DLT) to facilitate wider engagement and communication between investors and companies, cross-border voting, and shareholder identification.

Question 58: Do you consider that public authorities, including the EU and Member States should support the development of digital finance solutions that can help consumers and retail investors to better channel their money to finance the transition?

- ☐ Yes
- ☐ No
- ☒ Do not know

Question 59: In your opinion, should the EU, Member States, or local authorities use digital tools to involve EU citizens in co-financing local sustainable projects?

- ☐ Yes
- ☐ No
- ☒ Do not know / no opinion / not relevant

2.5 Project Pipeline

Question 60: What do you consider to be the key market and key regulatory obstacles that prevent an increase in the pipeline of sustainable projects? Please list a maximum

three for each.

Regulatory obstacles:

As we mentioned in our reply to Q 6, the regulatory inconsistencies and gaps that resulted from the 2018 Action Plan constitute the main obstacle to the project pipeline. The Renewed Sustainable Finance Strategy needs to ensure that the new rules work in practice, in a well sequenced, consistent and coordinated manner, as well as provide for appropriate implementation time.

Absence of a clear trajectory towards the transition objectives of the real economy also is an impediment.

Market obstacles:

The ESG data gap on investee companies remains the key obstacle to identifying and screening investment opportunities in sustainable projects. This is reflected in the Financial Impact Assessment of the EU Taxonomy performed by the JRC and results of the testing of the Draft EU Ecolabel Criteria done by the EC. ESG data gap will make it also very difficult to comply with various sustainable finance rules, especially in the short-to-medium turn. NFRD review is expected to close this gap, at least to an extent. However, data results from it, cannot be reasonably expected before 2-3 years' time.

We note that innovative projects often carry a higher risk profile, especially in technological innovation. This may discourage investment needed for the use of new technologies to support the transition. Effective risk-sharing tools must be put in place, such as Public-Private Partnerships or guarantees to finance, e.g. capital-intensive businesses and infrastructure investment.

Mispricing of externalities guides financing and risk decisions. Pricing of externalities would provide a level starting point for the low carbon solutions and reveal the business models associated with higher physical and transition risks caused by climate change.

Question 61: Do you see a role for Member States to address these obstacles through their NECPs (National Energy and Climate Plans)?

☒ Yes

☐ No

☐ Do not know

Question 61.1 If necessary, please explain your answer to question 60 and provide details:

We believe that NECPs could help address these obstacles by promoting incentives and policy measures to make certain projects more lucrative and to create new sustainable projects, as well as encouraging cooperation with Member States and regional entities on different sustainability programs. With their 10-years duration, NCEPs can also help promote long-term outlook in financial markets and reduce regulatory uncertainty by setting long-term targets which consider technological lifecycles appropriately and do not change overly frequently. It is however important to avoid fragmentation across Member States regulations.

Question 62: In your view, how can the EU facilitate the uptake of sustainable finance tools and frameworks by SMEs and smaller professional investors? Please list a maximum of three actions you would like to see at EU-level:

EU initiatives on sustainable finance and related tools (e.g. green bond, green loans, taxonomy aligned investments) currently available are mainly addressed to large companies and relevant operations or projects. A different, proportional, simplified and less costly approach should be adopted to foster SMEs' investments towards EU transition objectives. A proportionate, simplified ESG disclosures standards for listed SMEs could also be helpful in this respect. In the question on the incentives, we also provide views on e.g. public-private partnership, public guarantees, etc. which would be particularly helpful to help SMEs transition to sustainability. We also support the idea of the dedicated loans with the EU Just Transition Fund.

Question 64: In particular, would you consider it useful to have a category for R&I in the EU Taxonomy?

☒ Yes

☐ No

☐ Do not know / no opinion / not relevant

2.6 Incentives to scale up sustainable investments

Question 66: In your view, does the EU financial system face market barriers and inefficiencies that prevent the uptake of sustainable investments?

☐ 1 – Not functioning well at all

☒ 2 – Not functioning so well

☐ 3 – Neutral

☐ 4 – Functioning rather well

☐ 5 - Functioning very well

☐ Don't know / no opinion / not relevant

Question 66.1 If necessary, please explain your answers to question 66:

As we mentioned in different sections of this consultation, the EU financial system still faces key challenges related to insufficient disclosures by corporations, lack of standardisation and inconsistent methodologies used by ESG rating agencies. With the standardization and creation of sector-specific green criteria the uptake of sustainable investments is starting to spread. However, benefits are largely still reputational, which is mainly relevant to larger companies.

Question 67: In your view, to what extent would potential public incentives for issuers and lenders boost the market for sustainable investments?

☐ 1 – Not Effective at all

☐ 2 – Rather not effective

☐ 3 – Neutral

☐ Rather effective

☐ Very effective

☒ Don't know / no opinion / not relevant

Question 68: In your view, to what extent would potential incentives for investors (including retail investors) help create an attractive market for sustainable investments?

☐ 1 – Not Effective at all

☐ 2 – Rather not effective

☒ 3 – Neutral

☐ Rather effective

☐ Very effective

☐ Don't know / no opinion / not relevant

Question 69: In your view, should the EU consider putting in place specific incentives that are aimed at facilitating access to finance for SMEs carrying out sustainable activities or those SMEs that wish to transition?

☒ Yes

☐ No

☐ Do not know / no opinion / not relevant

Question 69.1 If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue?

We think it could be useful to improve financial incentives for SMEs and smaller professional investors. Tax incentives, despite the current legal challenges at EU level, have proven as excellent direct incentives at national level. Developing labels could also help increase visibility of SMEs with "green" projects and encourage their financing.

2.7 The use of sustainable finance tools and frameworks by public authorities

Question 70: In your view, is the EU Taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector, for example in order to classify and report on green expenditures?

☐ Yes

☒ Yes, but only partially

☐ No

☐ Do not know.

Question 70.1 Please explain which public authority could use it, how and for what purposes, as well as the changes that would be required to make it fit for purpose:

The TEG only developed around a third of the EU green taxonomy, yet it covers more than 93% of the EU's carbon footprint. As it currently stands, it can start applying to all those sectors covered. Public sector can apply the taxonomy to inform:

- Public infrastructure investments
- Public-related pensions and savings investments – sovereign wealth funds
- Public green procurement

While the taxonomy can definitely inform public budgeting, and can eventually be used to classify and report on green expenditures, given the complexities, we recommend first to conduct a thorough analysis on how best to do so and an impact assessment. It is not evident exactly how to report on and narrow down the application of the taxonomy to those areas and items for which it makes sense given the complexity of deployment of national budgets (and other internal budgets e.g. regional, municipal, provinces).

The taxonomy should act as a filter for all infrastructure investments in activities covered by the taxonomy. It is important to understand that there are three parts of the taxonomy:

1. Substantial contribution – positive contribution to one or more of the environmental objectives.
2. Do no significant harm (DNSH) – limits adverse impacts in the other five environmental objectives.
3. Minimum safeguards – limits social adverse impacts.

Member States should ensure that their investments – in infrastructure or related areas – comply at the very least with the DNSH and minimum safeguards stipulated in the taxonomy to avoid double spending, social and environmental negative impacts.

Member States should systematically ensure that all related public pension (e.g. civil servants pension schemes) and saving schemes (including sovereign wealth funds) direct or indirect investments are invested responsibly and sustainably. These funds should encourage taxonomy-compliant investments.

Question 71: In particular, is the EU Taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector in the area of green public procurement?

☐ Yes

☒ Yes, but only partially

☐ No

☐ Do not know

Question 71.1 If "no" or "yes, but only partially", please explain why and how those

reasons could be best addressed in your view:

The taxonomy – already as it stands – should be used as the reference for those economic activities analysed. The taxonomy is a sort of "procurement list" or "shopping list" to build a sustainable economy. Therefore, it is particularly fit to inform public procurement.

It will make sense to use the "do no significant harm" criteria and minimum safeguards as a filter (mandatory criteria), and the substantial contribution criteria to incentivise green procurement. A phase-in timeline for the application could be useful.

Question 72: In particular, should the EU Taxonomy[3] play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.

☐ Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation

☒ Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation

☐ No

☐ Do not know

Question 73: Should public issuers, including Member States, be expected to make use of a future EU Green Bond Standard for their green bond issuances, including the issuance of sovereign green bonds in case they decide to issue this kind of debt?

☒ Yes

☐ No

☐ Do not know

2.8 Promoting intra-EU cross-border sustainable investments

Question 74: Do you consider that targeted investment promotion services could support the scaling up of cross-border sustainable investments?

☐ Yes

☐ No

[3] The six environmental objectives set out in the Taxonomy Regulation are the following: (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control, (6) protection and restoration of biodiversity and ecosystems.

☒ Do not know

2.9 EU Investment Protection Framework

Question 75: Do you consider that the investment protection framework has an impact on decisions to engage in cross-border sustainable investment? Please choose one of the following:

☐ Investment protection has **no impact.**

☐ Investment protection has **a small impact** (one of many factors to consider).

☐ Investment protection has **medium impact** (e.g. it can lead to an increase in costs).

☒ Investment protection has a significant impact (e.g. influence on scale or type of investment).

☐ Investment protection is a factor that can have a **decisive impact** on cross-border investments decisions and can result in cancellation of planned or withdrawal of existing investments.

☐ Don't know / no opinion / not relevant

2.10 Promoting sustainable finance globally

Question 76: Do you think the current level of global coordination between public actors for sustainable finance is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?

☐ 1 – Highly insufficient

☒ 2 – Rather insufficient

☐ 3 – Neutral

☐ 4 – Rather sufficient

☐ 5 – Fully sufficient

☐ Don't know / no opinion / not relevant

Question 76.1 What are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions?

We believe that ensuring consistency at a global scale, in face of proliferation of many standards and insufficient availability of robust, comparable and reliable ESG data , is one of the main challenges ahead in the sustainability agenda. Please see our position on NFRD review for our main recommendations in this respect.

Question 78: In your view, what are the main barriers private investors face when financing sustainable projects and activities in emerging markets and/or developing

economies? Please select all that apply.

☒ Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.);

☐ Lack of clearly identifiable sustainable projects on the ground;

☒ Excessive (perceived or real) investment risk;

☒ Difficulties to measure sustainable project achievements over time;

☐ Other, please specify.

Question 80: How can EU sustainable finance tools (e.g. taxonomy, benchmarks, disclosure requirements) be used to help scale up the financing of sustainable projects and activities in emerging markets and/or developing economies? Which tools are best- suited to help increase financial flows towards and within these countries and what challenges can you identify when implementing them? Please select among the following options.

☐ All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change.

☐ Some tools can be applied, but not all of them. If necessary, please explain [box max. 2000 characters].

☒ These tools need to be adapted to local specificities in emerging markets and/or developing economies. Please explain how you think they could be adapted [box max. 2000 characters].

☐ Do not know.

Question 80.1 Please explain how you think these tools could be adapted:

The EU taxonomy only provides the fundamental building blocks for a global taxonomy or for regional taxonomies. While its structure, methodology, principles, selection of metrics and framework can be applied across the globe, its technical screening criteria are embedded in EU specificities.

Several of its tools would need to be adapted to the specificities found in emerging markets, notably:

- EU environmental objectives and science defined the criteria and thresholds set in the EU taxonomy. The objectives for some environmental objectives e.g. mitigation could be extrapolated elsewhere based on what science recommends (e.g. IPCC 1.5 and IEA 2018 reports). However, some regions or countries might choose different objectives (e.g. carbon neutrality by 2070). Furthermore, for environmental objectives such as water, land or biodiversity, which are local specific, local conditions and circumstances, might influence the objectives and therefore threshold selection (e.g. land erosion and needed targets with regards nitrate levels).

- Criteria and objectives that underpin the ‘do no significant harm’ component of the taxonomy will need to be translated into local regulation (standards or certificate) and/or evaluated with respect to international standards for some activities. This could be achieved by creating an ‘equivalence table’ to help map the regulations in the EU to regulation in different regions that could be used as a reference point to determine the criteria of the ‘do no significant harm’ requirement.

Overall, we find that the definition of intermediate principles, lying between the high-level objectives of the Level 1 text and the very EU-specific technical screening criteria, could form the basis of a global framework, to be adopted in other jurisdictions to establish location-specific thresholds based on a same principles of the EU Taxonomy.

Question 81: In particular, do you think that the EU Taxonomy is suitable for use by development banks, when crowding in private finance, either through guarantees or blended finance for sustainable projects and activities in emerging markets and/or developing economies?

☐ Yes

☐ Yes, but only partially

☐ No

☒ Don't know / no opinion / not relevant

3. REDUCING AND MANAGING CLIMATE AND ENVIRONMENTAL RISKS

3.1 Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments

Question 82: In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called "brown taxonomy") at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?

☐ Yes

☒ No

☐ Do not know

Question 82.1 If no, please explain why you disagree:

While we consider potential benefits of a system to identify harmful activities, we do not think that the development of a 'brown' taxonomy is the best approach at this stage. We believe that finalising the work on the EU Taxonomy should be prioritised and that the application of its Do No Significant Harm Criteria (DNSH) can achieve the objectives of a 'brown' taxonomy while avoiding additional regulatory complexities.

In principle, a system to classify harmful activities could potentially be useful for investors, supervisors and the market at large. Firstly, it could simplify investors' efforts to identify, disclose and reduce their exposure to harmful assets, as well as increase transparency with regards to the policies adopted to mitigate any financial and sustainability risks arising from these activities; Secondly, it could support investment firms' commercial practices, including the development of new sustainable products and services; Thirdly, an harmonisation of definitions, metrics and indicators could facilitate data sharing and reporting to and from companies; Finally, it could represent a tool to support the companies most exposed to harmful activities in their transition path.

However, at this stage, we find that the **EU Taxonomy for environmentally sustainable activities and, in particular, its DNSH criteria, already fulfil this purpose**. We do not find the need to attempt the development of an exhaustive, all-encompassing list. We fear it would introduce an undue rigidity in the approach to develop a classification system, which should otherwise remain dynamic, and add complexity to the existing framework. We convene with the TEG's analysis that the **quantitative, performance-based criteria already developed to set DNSH thresholds could find application as the future 'brown' technical screening criteria**. This would effectively create three performance levels within the Taxonomy structure: substantial contribution (green), significant harm ('brown') and a middle category (DNSH).

Moreover, in line with our general recommendation to introduce a clear EU-wide trajectory for the transition of the real economy, we consider that providing for transition pathways for all economic sectors would be more meaningful for investors than a static green/brown classification. Such pathways would allow investors to assess and measure investee companies' progress towards the Paris Agreement objectives and hence be more effective in mobilizing investments needed to support the transition.

We suggest to **prioritise the work on finalising the EU Taxonomy for environmentally sustainable activities**, striving to make it as efficient and usable as possible. We recommend to combine this work with enhancing 'social' considerations. While 'However, in any case, social' taxonomy should not be as complex as the taxonomy for environmentally sustainable activities.

Question 83: Beyond a sustainable and a brown taxonomy, do you see the need for a taxonomy which would cover all other economic activities that lie in between the two ends of the spectrum, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?

☐ Yes

☒ No

☐ Do not know.

3.2 Financial stability risk

Question 84: Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system. What are in your view the most important channels through which climate change will affect your industry? Please provide links to quantitative analysis when available.

☒ Physical risks

☒ Transition risks

☒ Second-order effects

☐ Other, please specify

Question 86: Following the financial crisis, the EU has developed several macro-prudential instruments, in particular for the banking sector (CRR/CRDIV), which aim

to address systemic risk in the financial system. Do you consider the current macro-prudential policy toolbox for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change?

☐ 1 – Highly insufficient

☐ 2 – Rather insufficient

☐ 3 – Neutral

☐ 4 – Rather sufficient

☐ 5 – Fully sufficient

☒ Don’t know / no opinion / not relevant

Insurance prudential framework

Question 87: Beyond prudential regulation, do you consider that the EU should take further action to mobilise insurance companies to finance the transition and manage climate and environmental risks?

☐ Yes

☐ No

☒ Don’t know / no opinion / not relevant

Banking prudential framework

Question 88: Do you consider that there is a need to incorporate ESG risks into prudential regulation in a more effective and faster manner, while ensuring a level-playing field?

☐ Yes

☐ No

☒ Don’t know / no opinion / not relevant

Question 89: Beyond prudential regulation, do you consider that the EU should:

1. **take further action to mobilise banks to finance the transition?**
2. **manage climate-related and environmental risks?**

☐ Yes, option 1. or option 2. or both options

☐ No

☒ Don’t know / no opinion / not relevant

Question 90: Beyond the possible general measures referred to in section 1.6, would more specific actions related to banks' governance foster the integration, the measurement and mitigation of sustainability risks and impacts into banks' activities?

☐ Yes

☐ No

☒ Don't know / no opinion / not relevant

Asset managers

Question 91: Do you see merits in adapting rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability (negative externalities)?

☐ Yes

☒ No

☐ Do not know / no opinion / not relevant

If yes, what solution would you propose? [BOX max. 2000 characters]

Please refer to Annex I for additional remarks

Pension providers

Question 92: Should the EU explore options to improve ESG integration and reporting beyond what is currently required by the regulatory framework for pension providers?

- ☐ Yes
- ☐ No
- ☒ Do not know / no opinion / not relevant

If yes, please specify what actions would be relevant in your view. [BOX max. 2000 characters]

Question 94: In view of the planned review of the IORP II Directive in 2023, should the EU further improve the integration of members' and beneficiaries' ESG preferences in the investment strategies and the management and governance of IORPs?

☐ Yes

☐ No

☒ Do not know / no opinion / not relevant

3.3 Credit rating agencies

Question 95: How would you assess the transparency of the integration of ESG factors into credit ratings by CRAs?

☐ 1 – Not transparent at all

☐ 2 – Rather not transparent

☒ 3 – Neutral

☐ 4 – Rather transparent

☐ 5 – Very transparent

☐ Don't know / no opinion / not relevant

Question 95.1 If necessary, please explain your answer to question 95:

We think that the transparency of the integration of ESG factors into credit ratings by CRAs could be further improved. However, the guidelines addressing that have been published only in April 2020 and therefore it is too early to assess their effectiveness.

Question 96: How would you assess the effectiveness of the integration of ESG factors into credit ratings by CRAs?

☐ 1 – Not effective at all

☐ 2 – Rather not effective

☒ 3 – Neutral

☐ 4 – Rather effective

☐ 5 – Very effective

☐ Don't know / no opinion / not relevant

Question 96.1 If necessary, please explain your answer to question 96:

Some of the concerns raised in our replies to questions in section 1.3 of this consultation remain relevant to our assessment of the effectiveness of the integration of ESG factors into credit ratings by CRAs. Notably, we find a lack of transparency and consistency around *how* CRAs integrate ESG considerations in their rating methodologies.

As noted in ESMA's Technical Advice to the European Commission on Sustainability Considerations in the credit rating market, we agree with ESMA's assessment that the CRA Regulation does not need to be amended to more explicitly mandate the consideration of sustainability characteristics in CRA's credit assessments. It is important to increase transparency with regards to how ESG is integrated in credit ratings. However this is already addressed by the existing guidelines. At this stage, it is too early to say whether the guidelines have fulfilled their purpose as they were published only in April 2020.

3.4 Natural capital accounting or "environmental footprint"

Question 98: Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing standardised natural capital accounting/environmental footprinting practices within the EU and internationally?

☒ Yes

☐ No

☐ Do not know / no opinion / not relevant

Question 98.1 If yes, please list a maximum of 3 initiatives:

We think there are indeed merits in the Commission creating more awareness and supporting businesses in using natural accounting / environmental foorprinting methods / models internally. This area is still in the early stage of its development and many businesses are not aware of such models / methods they can use. Meanwhile, it would help them assess sustainability risks of their business as well as their impact on the environment and climate change. This can have great potential to contribute to better and more reliable disclosures by companies.

While we would rather refrain from endorsing any specific initiative, we would like to mention some that our members referred to us:

- Business for Nature, Eva Zabey, https://www.businessfornature.org/
- Capitals Coalition, Mark Gough, https://capitalscoalition.org/
- Natural Capital Finance Alliance, Andrew Mitchell, https://naturalcapital.finance

3.5 Improving resilience to adverse climate and environmental impacts[14]

Climate-related loss and physical risk data

Question 99: In your opinion, should the European Commission take action to enhance the availability, usability and comparability of climate-related loss and physical risk data across the EU?

☒ Yes

☐ No

☐ Do not know / no opinion / not relevant

Question 99.1 If yes, for which of the following type of data should the European Commission take action to enhance its availability, usability and comparability across the EU?

☒ Loss data, please explain why [BOX max. 2000 characters]

☒ Physical risk data, please explain why [BOX max. 2000 characters]

Please specify why you think the European Commission should take action to

enhance the availability, usability and comparability of climate-related physical risk data across the EU?

We believe that there could be merits in improving disclosure and comparability of climate-related and physical risk-related ESG data disclosure by companies. We suggest to consider how existing and publicly reported data could be made more accessible to wider audience and users. Possible future data sharing efforts should build primarily on what is already reported. New reporting proposals could be based on the need for it and be considered only after it has been checked that this data isn't already available somewhere.

Obtaining quality data on climate-related losses and physical risks is often challenging. Physical risk data would help analyse the impact of stranded assets across the EU. Given that such data may carry political sensitivity, the European Commission could take stronger action to enhance its availability. As to the climate-related losses, transparent and comparable data would allow different countries to learn from each other and analyse how to avoid climate-related losses.

Financial management of physical risk

Question 100: Is there a role for the EU to promote more equal access to climate-related financial risk management mechanisms for businesses and citizens across the EU?

☒ Yes

☐ No

☐ Don't know / no opinion / not relevant

Question 100.1 If yes, please indicate the degree to which you believe the following actions could be helpful:

	1 (not at all helpful)	**2** (rather not helpful)	**3** (neutral)	**4** (rather helpful)	**5** (very helpful)	N.A.
Financial support to the development of more accurate climate physical risk models	☐	☐	☐	☒	☐	☐
Raise awareness about climate physical risk	☐	☐	☐	☐	☒	☐
Promote ex-ante "build back better" requirements to improve future resilience of the affected regions and or/sectors	☐	☐	☐	☐	☐	☐

after a natural catastrophe						
Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage	☐	☐	☐	☐	☒	☐
Reform EU post-disaster financial support	☐	☐	☐	☐	☒	☐
Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events	☐	☐	☒	☐	☐	☐
Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks	☐	☐	☐	☐	☒	☐
Regulate by setting minimum performance features for national climate-related disaster financial management schemes	☐	☒	☐	☐	☐	☐
Create a European climate-related disaster risk transfer mechanism	☐	☐	☐	☒	☐	☐
Other	☐	☐	☐	☐	☐	☐

Question 101: Specifically with regards to the insurability of climate-related risks, do you see a role for the EU in this area?

☐ Yes

☐ No

☒ Do not know

Question 102: In your view, should investors and / or credit institutions, when they provide financing, be required to carry out an assessment of the potential long-term environmental and climate risks on the project, economic activity, or other assets?

☐ Yes

☒ No

☐ Do not know / no opinion / not relevant

ANNEX I

We would like to share with the Commission some additional remarks to complement our replies to questions 5, 40, 50 and 91 of this consultation:

Question 5: One of the objectives of the European Commission's 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects. Do you believe the EU should also take further action to:

	1 (strongly disagree)	**2** (disagree)	**3** (neutral)	**4** (agree)	**5** (strongly agree)	**Don't know / No opinion**
Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models	☐	☐	☒	☐	☐	☐
Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law	☐	☒	☐	☐	☐	☐

The current focus of rules is on constraining access to capital for unsustainable business activities. This is fine as far as it goes – but if we are to address issues like climate change and inequality then whole companies and industries need to change rapidly. The strongest tool investors have to do this is ownership rights.

Investor engagement has proven to be one of the most effective means to foster better corporate environmental, social and governance practices. However, the level of investor engagement varies significantly from country to country. There is little to no engagement with companies in many Eastern and Central European countries. Equally, the rules on how many and which resolutions can be voted, as well as the possibility to table a resolution also vary significantly between countries.

Discouraging from financing environmentally harmful activities could be useful through market tools – such as a carbon pricing, a carbon border tax to avoid carbon leakage, or a potential pricing mechanism for other environmental degradations (e.g. damaging polluting particles). It should be applied progressively and consistently with EU policies and sectoral roadmaps. However, it should not result in any regulatory restrictions, as asset managers are stewards of end-investors' money and need to follow their investment preferences.

Question 40: In your view, should there be a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?

☐ Yes

☒ No

☐ Do not know

If yes, please indicate what share.

While in some cases there could be merits in linking variable director's remuneration to the achievement of sustainable performance of corporates, we are not convinced that mandating that across all companies would necessarily bring the intended effect. What matters is a real shift in corporate thinking and designing a well thought-through and consistent sustainability approach by the board. Meanwhile, the suggested rule could result in a mere box-ticking exercise. Therefore, we suggest that any regulatory measure should rather aim at increasing transparency as to *whether* and *how* a share of variable remuneration has been linked to sustainability performance, instead of imposing any prescriptive measures.

Moreover, as noted by ESMA[4], due to the substantial remuneration rules for investment funds which have already been put in place in recent years, there is no need for any legislative action in terms of remuneration of investment managers.

When it comes to asset management companies, the existing remuneration rules under ESMA's Guidelines for UCITS asset managers require multi-year arrangements, including for variable remunerations, that are appropriately tailored to both the investee company's performance and clients' interests. In this context, asset managers can apply all relevant performance criteria and ensure alignment to long-term value while being able to adapt them based on different activities, risks and investment strategies.

Question 50: Do you think that retail investors should be systematically offered sustainable investment products as one of the default options, when the provider has them available, at a comparable cost and if those products meet the suitability test?

☐ Yes

☒ No

☐ Do not know / no opinion / not relevant

We are supportive of initiatives that facilitate the expression of (retail) investors' preferences and ensure they are offered sustainable investment products when those meet the suitability test, such as the SFDR framework and amendments to MiFID II. Both aim to foster the mainstreaming of ESG products. As a priority, it will be essential to see these initiatives properly implemented.

With that in mind, we note that the language used in Question 50 is not aligned with the provisions in MiFID II for the time being. This alignment is essential, though, as several concepts, such as 'systematic

[4] ESMA Report on Undue short-term pressure on corporations (December 2019)

offerings', 'default option' and 'comparable costs' do not feature in the MiFID framework. For example, retaining the reference to "comparable costs" could imply that retail investors should not be offered financial products that are otherwise suitable for (and/or of interest to) them if such products are not comparable in cost to sustainable investment products**.** If these novel concepts are attached only to sustainable investments, this would mean that sustainability considerations have to be understood as more important than others (such as risk tolerance, investment horizon, etc.).

We also note that the question refers to the offering of 'sustainable investment products' which, in the Commission's draft delegated acts on the integration of sustainability factors in MiFID II, are interpreted narrowly as only referring to SFDR 'article 9' sustainable investment products. As the final delegated acts are still under development, we have already expressed our concerns that the currently proposed amendments will hinder the availability of ESG products to investors. Instead of simply inserting the necessary references to the Sustainable Finance Disclosures Regulation (SFDR) Article 8 products (i.e. products promoting environmental and social characteristics, aka ESG strategy products) and Article 9 products (i.e. products pursuing sustainability objectives) into MiFID II, the Commission proposes additional requirements for Article 8 products, which are not part of the SFDR framework. This will create a subset of Article 8 products that are considered non-ESG compliant under MiFID II while blurring the crucial line between Article 8 and Article 9 products. Please also refer to our response to the commission's draft amendments on the integration of sustainability considerations into MiFID II.

We therefore consider that, at this stage, the availability of sustainable investment products is not broad enough to satisfy such systematic offering. In a market that is not mature enough yet, this requirement could end up forcing a poorly diversified offering on retail investors.

Question 91: Do you see merits in adapting rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability (negative externalities)?

☐ Yes

☒ No

☐ Do not know / no opinion / not relevant

If yes, what solution would you propose?

We do not see merits in adapting rules on fiduciary duties, best interest of investors, prudent person rule, risk management and internal structures and processes in sectoral rules to directly require asset managers to consider and integrate adverse impact of investment decisions on sustainability.

As asset managers, we consider that considerations of adverse impacts of investment decisions on sustainability should only apply to those investment strategies where asset managers have a clear duty and mandate from investors to reflect ESG considerations. We fully see the relevance of integrating the portfolio's adverse impact and relevant considerations in those cases. To the contrary, we consider that such integration, where this mandate doesn't exist, contradicts the manager's fiduciary duty and disregards that the final decision as to the design of the investment strategy, its main considerations and its impacts, remains a key investor's choice.

Moreover, there is already an on-going work on the adjustments of the delegated acts on UCITS, AIFMD (and MiFID II) adapting rules on fiduciary duties, best interests of investors, risk management and internal structures and processes in sectorial rules.

EFAMA fully supports the integration of sustainability risks as part of risk management policy at fund level, but we believe that, from a risk management perspective, there is no reason to single out sustainability risks vis-à-vis all the other types of risks and introduce an artificial ranking amongst those different risks. In addition, and as already recognised by a number of public authorities, we would also like to see the possibility for sustainability risks to be assessed also on a qualitative basis. For more detailed recommendations please see our position paper on this subject: https://www.efama.org/Pages/Submitted%20after%202018-03-12T16%2022%2007/EFAMA-responses-to-European-Commission-consultations-on-MiFID,-UCITS-and-AIFMD-Delegated-Acts.aspx.