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European Commission Consultation on the Renewed Sustainable Finance Strategy

Contents

Introduction

On 11 December 2019, the European Commission adopted its Communication on a European Green Deal, which significantly increases the EU's climate action and environmental policy ambitions.

A number of levers will need to be pulled in order to build this growth strategy, starting with enshrining the climate-neutrality target in law. On 4 March 2020, the European Commission proposed a European Climate Law to turn the political commitment of climate-neutrality by 2050 into a legal obligation. This follows the European Parliament's declaration of a climate emergency on 28 November 2019 and the European Council conclusions of 12 December 2019, endorsing the objective of achieving a climate-neutral EU by 2050.

The ongoing COVID-19 outbreak in particular shows the critical need to strengthen the sustainability and resilience of our societies and the ways in which our economies function. This is necessary to, above all, minimise the risk of similar health emergencies in the future, which are more likely to occur as climate and environmental impacts escalate. In parallel, it will be paramount to ensure the resilience and capacity of our societies and economies to resist and recover from such emergencies. The COVID-19 outbreak underscores some of the subtle links and risks associated with human activity and biodiversity loss. Many of the recent outbreaks (e.g. SARs, MERS, and avian flu) can be linked to the illegal trade in, and consumption of, often endangered wild animal species. Furthermore, experts suggest that degraded habitats coupled with a warming climate may encourage higher risks of disease transmission, as pathogens spread more easily to livestock and humans. Therefore, it is important – now more than ever – to address the multiple and often interacting threats to ecosystems and wildlife to buffer against the risk of future pandemics, as well as preserve and enhance their role as carbon sinks and in climate adaptation.

Financing the European Green Deal and increasing the financial resilience of the economy, companies and citizens

Above all, the transition to a sustainable economy will entail significant investment efforts across all sectors, meaning that financing frameworks, both public and

private, must support this overall policy direction: reaching the current 2030 climate and energy targets alone would already require additional investments of approximately €260 billion a year by 2030. And as the EU raises its ambition to cut emissions, the need for investment will be even larger than the current estimate. In addition, significant investments in the upskilling and reskilling of the labour force will be necessary to enable a just transition for all. Hence, the scale of the investment needs goes well beyond the capacity of the public sector. Furthermore, if the climate and biodiversity crises are to be successfully addressed and reversed before potentially dangerous tipping points are reached, much of the investment needs to happen in the next 5-10 years. In this context, a more sustainable financial system should also contribute to mitigate existing and future risks to wildlife habitats and biodiversity in general, as well as support the prevention of pandemics -such as the COVID-19 outbreak.

In this context, the European Green Deal Investment Plan – the Sustainable Europe Investment Plan – announced on 14 January 2020 aims to mobilise public investment and help to unlock private funds through the **EU budget** and associated instruments, notably through the InvestEU programme. Combined, the objective is to mobilise at least €1 trillion of sustainability-related investments over the next decade. In addition, for the next financial cycle (2021-2027) the **External Investment Plan (EIP) and the European Fund for Sustainable Development Plus (EFSD+)** will be available for all partner countries with a new External Action Guarantee of up to €60 billion. It is expected to leverage half a trillion Euros worth of sustainable investments. Lastly, the **European Investment Bank (EIB)** published on 14 November 2019 its new climate strategy and Energy Lending Policy, which notably sets out that the EIB Group will align all their financing activities with the goals of the Paris Agreement from the end of 2020. This includes, among other measures, a stop to the financing of fossil fuel energy projects from the end of 2021.

However, the financial system as a whole is not yet transitioning fast enough. Substantial progress still needs to be made to ensure that the financial sector genuinely supports businesses on their transition path towards sustainability, as well as further supporting businesses that are already sustainable. It will also mean putting in place the buffers that are necessary to support de-carbonisation pathways across all European Member States, industries that will need greater support, as well as SMEs.

For all of these reasons, the European Green Deal announced a Renewed Sustainable Finance Strategy. The renewed strategy will build on the 10 actions put forward in the European Commission's initial 2018 Action Plan on Financing Sustainable Growth, which laid down the foundations for channelling private capital towards sustainable investments.

As the EU moves towards climate-neutrality and steps up the fight against environmental degradation, the financial and industrial sectors will have to undergo a large-scale transformation, requiring massive investment. Progress has already been made, but efforts need to be stepped up. Building on the achievements of the Action Plan on Financing Sustainable Growth, the current context requires a more comprehensive and ambitious strategy. **The Renewed Sustainable Finance Strategy will predominantly focus on three areas:**:

1. **Strengthening the foundations for sustainable investment by creating an enabling framework, with appropriate tools and structures**. Many financial and non-financial companies still focus excessively on short-term financial performance instead of their long-term development and sustainability-related challenges and opportunities.

2. **Increased opportunities to have a positive impact on sustainability for citizens, financial institutions and corporates**. This second pillar aims at maximising the impact of the frameworks and tools in our arsenal in order to "finance green".

3. **Climate and environmental risks will need to be fully managed and integrated into financial institutions and the financial system as a whole**, while ensuring social risks are duly taken into account where relevant. Reducing the exposure to climate and environmental risks will further contribute to "greening finance".

Objectives of this consultation and links with other consultation activities

The aim of this consultation, available for 14 weeks (until 15 July), is to collect the views and opinions of interested parties in order to inform the development of the renewed strategy. All citizens, public authorities, including Member States, and private organisations are invited to contribute. Given the diversity of topics under consultation, stakeholders may choose to provide replies to some questions only. Section I (covering questions 1-5) is addressed to all stakeholders, including citizens, while Section II (covering questions 6-102) requires a certain degree of financial and sustainability-related knowledge and is primarily addressed at experts.

This consultation builds on a number of previous initiatives and reports, as well as complementing other consultation activities of the Commission, in particular:

- The final report of the High-Level Expert Group on Sustainable Finance (2018);
- The EU Action Plan on Financing Sustainable Growth (2018);
- The communication of the Commission on 'The European Green Deal' (2019);
- The communication of the Commission on 'The European Green Deal Investment Plan' (2020);
- The reports published by the Technical Expert Group on sustainable finance (TEG) with regard to an EU taxonomy of sustainable activities, an EU Green Bond Standard, methodologies for EU climate benchmarks and disclosures for benchmarks and guidance to improve corporate disclosure of climate-related information.

This consultation also makes references to past, ongoing and future consultations, such as the public consultation and inception impact assessment on the possible revision of the non-financial reporting directive (NFRD), the inception impact assessment on the review of the Solvency II Directive or the future consultation on investment protection.

Section I. Questions for 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-related and environmental challenges, do you think that:

- ◯ 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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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
- ○ Don’t know / no opinion / not relevant

If no, what other steps should be taken instead to accelerate the adoption by corporates and financial sector firms of business targets, strategies and practices that aim to align their emissions and activities with the goals of the Paris Agreement?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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	○	○	○	●	○	○

	1 (strongly disagree)	2 (disagree)	3 (neutral)	4 (agree)	5 (strongly agree)	Don't know / No opinion
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	○	○	●	○	○	○

In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective?

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Shareholder engagement on environmental issues is a very important tool for investors and is currently taking place with good effect. This process will intensify under SRD II, as well as under the EU sustainable finance regulatory regime more broadly. SRD II has not yet been fully implemented across the EU and we would recommend monitoring of its application to assess whether it effectively encourages long-term engagement, before taking any further actions.

Collaborative investor engagement through investor alliances such as Climate Action 100+ could potentially be further encouraged through more formalised arrangements. We support the recommendations made by ESMA in its report on short-termism to clarify the legal boundaries of investors acting in a coalition to drive ESG related changes.

Related to this, we support EU actions to facilitate cross-border communication between companies and investors, cross-border voting and appropriately facilitating the filing of shareholder resolutions, which is not possible in many EU Member States. It is important to provide investors with means to better perform their role as stewards of the companies they invest in. These initiatives are key in developing sustainability and to bring a more long-term focus in capital markets.

In relation to discouraging investors from financing environmentally harmful activities that are not in line with environmental objectives, market tools, such as a carbon tax could discourage harmful activities and incentivise a move to sustainability. It should be applied progressively and consistently with EU policies and sectoral roadmaps. We think that the emphasis should be on transition and engaging with corporates to move to more sustainable business models. Engagement by investors who embed ESG in their practices can yield better outcomes in terms of transition than complete divestment, therefore we have answered “neutral” in response to this question.

Section II. Questions targeted at experts

The following section asks further technical and strategic questions on the future of sustainable finance, for which a certain degree of financial or sustainability-related expertise may be useful. This section is therefore primarily addressed 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?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Three main challenges for mainstreaming sustainability:

1. **The availability of high quality, consistent ESG data reporting** – compliance obligations under the SFDR and the Taxonomy Regulation will trigger a need for more and better ESG data well in advance of any planned updated to the NFRD. Data gaps and the costs of acquiring some of the data from private vendors may be prohibitive, particularly for small to medium sized managers.

2. **Ability of investee companies and the wider economy to transition** – financial services do not operate in a vacuum separate from the real economy and can only make progress on sustainability as fast as these underlying companies can. A whole of economy, cross-sectoral approach to transition is essential for sustainable finance to succeed.

3. **Implementation of the EU sustainable finance regime** – the sequencing and timeframes of requirements need to be pragmatic and practical. We agree on the urgency of the need to act on climate change but there needs to be enough implementation time allowed after the final rules are clarified, for regulators as well as industry, given practical aspects such as documentation updates and data availability.

Three main opportunities for mainstreaming sustainability:

1. **Investor demand and interest** – there is very strong demand and robust growth in ESG products. This growth is likely to accelerate in the years ahead, supported by the EU regulatory framework.

2. **Green Deal** – this should be a major catalyst for transition and an opportunity for blended finance in order to facilitate the transition to climate neutrality.

3. **ESG and the return correlation** – various reports have noted that ESG products performed relatively well during the Covid 19 crisis. The way that these products are managed, the long-term value they add, their resilience and performance are all correlated, which validates the mainstreaming of sustainability.

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?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Further to our answer to Question 6, the main obstacle we are aware of is access to reliable, consistent, data from investee companies to fully integrate sustainability and achieve compliance with new obligations under the EU sustainable finance regulatory regime. At the moment, data can be patchy, unreliable and not comparable, with very diverse results depending on the data agency. The currently fragmented landscape regarding data reporting is a major obstacle and we welcome greater convergence and standardisation under the NFRD review, as well as the creation of a common EU ESG data portal.

However, given the global nature of business and finance and as sustainability is a global challenge, the development of an EU based sustainability reporting framework will have limitations without greater international convergence. An updated NFRD framework in the EU should not operate in isolation of other international disclosure frameworks that are already in place and that have pioneered best practice in this area.

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?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Managing the transition to climate neutrality in a way that prevents or minimises negative socio-economic impacts will be a significant challenge, requiring a careful balancing act. The EU’s acknowledgement of this reality and the embedding of the “just transition” concept in the Green Deal is an important aspect in this regard. Subject to conditions being met, financial support could be offered for companies that set out coherent plans to transition to sustainability, which could facilitate the redeployment or re-training of staff.

Preventing or mitigating major socio-economic impacts necessitates an integrated approach that fully takes the “S” factors of an ESG approach into account – a “sustainability risk” under the EU framework is defined in relation to “E”, “S” and “G” risks, which means that there could need to be some careful consideration involving weighing up the “E” and

“S” impacts in decision-making. We recognise that there is a need for more social impact analysis to be integrated into the various sets of climate scenarios available in the market. We support Eu action to engage with climate scenario providers to integrate social aspects into their pathways.

A transition that is too abrupt, occurring without the development of necessary underlying technologies and business lines with associated replacement employment, will risk the onset of major socioeconomic dislocation. This underscores the importance of focussing on the new “green” investment under the EU Taxonomy and associated opportunities rather than a “Brown Taxonomy” that could potentially precipitate socio-economic dislocation and take the focus away from incentivising and enabling the transition.

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?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Businesses and investors need certainty in order to plan and prepare for the transition. Therefore, clear communication on targets and sign-posting of the phasing out of certain activities or assets is to be encouraged to ensure an orderly transition. The communication will need to go beyond the stated policy goals to detail the policy levers that will be used to deliver on these goals, setting out timeframes, targets, etc.

As the Taxonomy Regulatory Technical Screening Criteria are being put in place, it would be important to further educate the financial sector and companies as to how it is to be applied, to set out what the expectations are in relation to various real-life scenarios and to develop further guidance and Q&As to facilitate implementation. As above, early signposting of the further evolution of the Taxonomy will be important.

Similarly, the EU regulatory framework on sustainable finance is evolving rapidly with 10 initiatives identified under the existing Action Plan and further initiatives to arise as a consequence of this consultation on a renewed strategy. Clear communication, sequencing, coordination and consistency is essential in the further roll-out and development of this regulatory framework. Interdependencies need to be identified, acknowledged and addressed, whereby one regulatory obligation may go live but is connected to another regulatory aspect that has not yet been clarified. Questions around practical challenges and feasibility need to be addressed, for example, whether financial market participants can update their fund documentation with sufficient clarity on time and whether National Competent Authorities can feasibly review all of the updated fund documentation fillings within the prescribed timeframes. An example in this regard is the implementation of the SFDR, the final Regulatory Technical Standards for which will likely not be adopted until mid-2021, yet the compliance obligations begin from 10 March 2021. Such matters need to be considered as we move forward to ensure a clear and well-coordinated policy framework and well-sequenced regulatory implementation.

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
- ◉ Don’t know / no opinion / not relevant

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 (see for instance The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business, WWF, 2019), 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
- ( ) Don't know / no opinion / not relevant

If yes, please specify potential actions the EU could take.

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Recognising the interlinkage between climate change and biodiversity loss and that ecosystem degradation is linked to the long-term prospects for corporates, we support reflection of this in the EU's sustainable finance agenda. This is consistent with the TCFD framework and the Convention on Biological Diversity CoP 15 which has as its objective, the setting of targets relating to biodiversity. Additionally, we note that biodiversity indicators are included under the principal adverse impact statement proposed by the ESAs under the SFDR Regulatory Technical Standards. It is important that any such indicators be complemented by reporting requirements under the NFRD so that financial participants can access this data.

Furthermore, we would note that biodiversity loss may not be relevant for all corporates, as this is directly linked to the area of activities and services provided. Therefore, any requirements in relation to biodiversity will need to be applied only where relevant. We support a materiality assessment and sector specific approach in connection with this.

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?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We would emphasise the importance of stakeholder engagement, transparency, certainty, clarity and predictability in the governance framework relating to sustainable finance. Further to our response to Question 9, businesses need clarity, certainty and appropriate lead-in timeframes to plan and prepare for the transition and newly applicable requirements. Public consultations on planned approaches or changes and predictability around reviews and revisions to the framework are important aspects, as is ensuring a cohesive policy approach to sustainability across all areas of EU policy activity.

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.

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Given the global nature of economics, business and finance as well as the global nature of climate change, the internationalisation of the EU sustainable finance framework should be a policy imperative. In particular, convergence regarding the ESG data reporting standards and the EU Taxonomy, has to be a key priority.

Actions at the Member State level need to be aligned and could include for example, green budgeting, infrastructure investments and procurement practices consistent with EU environmental goals. The "do no significant harm" principle should apply across the board and the Taxonomy should be used where applicable.

We believe that investment in sustainable projects can be promoted through the use of regulated investment funds as a means of aggregating and directing investor money. To this end, we recommend that existing EU reliefs from withholding taxes on interest and dividends and from capital gains tax on gains which are available to related corporates are extended to fund vehicles in order to eliminate unnecessary tax burdens which could disincentivise investment in sustainable projects.

We recommend the introduction, at an EU level, of enhanced tax breaks to encourage investment in sustainable projects. These might include accelerated and enhanced capital allowance deductions (which would not be subject to clawback on disposal after a suitable investment period), capital gains tax incentives as well as the easing of restrictions on interest deductions for investment in suitable projects.

1. Strengthening the foundations for sustainable finance

In order to enable the scale-up of sustainable investments, it is crucial to have sufficient and reliable information from financial and non-financial companies on their climate, environmental and social risks and impacts. To this end, companies also need to consider long-term horizons. Similarly, investors and companies need access to reliable climate-related and environmental data and information on social risks, in order to make sound business and investment decisions. Labelling tools, among other measures, can provide clarity and confidence to investors and issuers, which contributes to increasing sustainable investments. In this context, the full deployment of innovative digital solutions requires data to be available in open access and in standardised formats.

1.1 Company reporting and transparency

In its Communication on the European Green Deal, the Commission recognised the need to improve the disclosure of non-financial information by corporates and financial institutions. To that end, the Commission committed to reviewing the **non-financial reporting directive (NFRD)** in 2020, as part of its strategy to strengthen the foundations for sustainable investment. A public consultation is ongoing for that purpose.

The political agreement on the Regulation on establishing a framework to facilitate sustainable investment ('Taxonomy Regulation') places **complementary reporting requirements on the companies that fall under the scope of the NFRD**.

In addition to the production of relevant and comparable data, it may be useful to ensure open and centralised access not only to company reporting under the NFRD, but also to relevant company information on other available ESG metrics and data points (please also see the dedicated section on sustainability research and ratings 1.3). To this end, a **common database** would ease transparency and comparability, while avoiding duplication of data collection efforts. The Commission is developing a common European data space in order to create a single market for data by connecting existing databases through digital means. Since 2017, Commission Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) has been assessing the prospects of using Distributed Ledger Technologies (including blockchain) to federate and provide a single point of access to information relevant to investors in European listed companies (European Financial Transparency Gateway - EFTG).

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?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The lack of consistent and comparable data on sustainability-related risks is currently a key challenge for financial participants. A common, publicly accessible, free of cost, data platform for ESG information could provide significant benefits. This central database would improve affordability for smaller market participants and the access to a single source will reduce costs and onwards impact to investors. This database should clearly define and standardise data and will improve the usability of data as it will be consistent with EU Taxonomy. A central database will make it easier to integrate with other financial data and allow core data to be aggregated and packaged by data service providers. Comparing companies across industries / sectors is still likely to present challenges, even after an agreed EU framework is put in place. Therefore, the database should also offer transparency into the inputs of the ESG information to enhance comparability.

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[1]?

- ○ Yes
- ○ No
- ◉ Don't know / no opinion / not relevant

If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation), how likely is it that you would use the taxonomy for your business decisions (such as adapting the scope and focus of your activities in order to be aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely).

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

1.2 Accounting standards and rules

Financial accounting standards and rules can have a direct impact on the way in which investment decisions are made since they form the basis of assessments that are carried out to evaluate the financial position and performance of real economy and financial sector companies. In this context, there is an ongoing debate around whether existing financial accounting standards might prove challenging for sustainable and long-term investments. In particular, some experts question whether existing impairment and depreciation rules fully

[1] 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.

price in the potential future loss in value of companies that today extract, distribute, or rely heavily on fossil fuels, due to a potential future stranding of their assets.

Recognising the importance of ensuring that accounting standards do not discourage sustainable and long-term investments, as part of the 2018 Action Plan on Financing Sustainable Growth, the Commission already requested the European Financial Reporting Advisory Group (EFRAG) to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. EFRAG issued its advice to the Commission on 30 January 2020. Following this advice, the Commission has requested the IASB to consider the re-introduction of re-cycling through the profit or loss statement of profits or losses realised upon the disposal of equity instruments measured at fair value through other comprehensive income (FVOCI).

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 recognition and consistent measurement of climate and environmental risks?

- (•) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

If yes, what is in your view the most important area (please provide details, if necessary):

- *Impairment and depreciation rules.*
- *Provision rules.*
- *Contingent liabilities.*
- *Other, please specify.* [Y]

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We see potential for further consideration of a number areas to determine as to whether or not they would impact the ability to recognise climate and environmental risks on an adequate and timely basis. Further areas for consideration and also consultation with the accountancy boards and professions could include:

- IFRS 9 – Equity instruments. IFRS 9 provides the entity holding the instruments with the possibility to make an irrevocable election at initial recognition to present changes in fair value in other comprehensive income ("FVOCI election"). This possibility does not exist with respect to mutual fund units even if the respective investment fund is mainly invested in equities. This leads to an unequal treatment of direct and indirect investments.

- IFRS 16 – Leasing. Climate risk disclosure could significantly impact the accounting for leasing liabilities particularly in sectors such as the airline industry

- IAS 19 – Employee benefits. While many employers have defined contribution pension schemes, there are still a number of defined benefit schemes in existence.

Climate and environmental risks could significantly impact the liabilities companies have accrued for defined benefit schemes.

- IAS 36 – Impairment. The standard will need to evolve to include impairment indicators that capture climate related risks.

- IAS 38 – Intangibles. Purchased intangibles could be impacted by climate and environmental risks.

- IAS 40 – Investment property valuations and fair value recognition would be impacted.

In addition to the above considerations in respect of recognition criteria for the other standards such as IFRS 9, we believe there may be disclosure / presentation implications to be considered and discussed further as follows:

- IAS 1 – Elevated requirements to disclose estimation uncertainties associated with assets subject to estimated measurement techniques – this includes sensitivities around unobservable inputs.

- IFRS 7 – Risk disclosures. As climate risks become mainstream and have a more direct impact on financial statements, this will require increased disclosure around how these risks are managed. This could drive the requirement for entities to augment their internal risk management process around climate related risk (less so for "G" and "S" risk).

1.3 Sustainability research and ratings

A variety of sustainability-related assessment tools (ratings, research, scenario analysis, screening lists, carbon data, ESG benchmarks, etc.) are offered by specialised agencies that analyse individual risks and by traditional providers, such as rating agencies and data providers. In the autumn of 2019, the Commission launched a study on the market structure, providers and their role as intermediaries between companies and investors. The study will also explore possible measures to manage conflicts of interest and enhance transparency in the market for sustainability assessment tools. The results are due in the autumn of 2020. To complement this work, the Commission would like to gather further evidence through this consultation.

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:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Currently there is considerable fragmentation in the market, with ESG scores and inputs used varying across vendors. However, we would have a concern that consolidation is occurring in terms of the providers that can provide the full suite of data that asset managers need. With the increased need for data to comply with the EU sustainable finance regime, reliance on a handful of third party ESG data vendors could develop, which could lead to anti-competitive practices and a corresponding increase in pricing. We therefore support the development of a free access EU public register of ESG data to address this challenge.

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
- (x) 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:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

ESG data comparability, quality and reliability can vary considerably. A distinction needs to be made between quality and reliability on the one hand and comparability on the other. Good quality and reliable data can be available, depending on which framework and metrics an investor is assessing against. However, there is a concern with comparability, due to a lack of universal ESG reporting framework.

The correlation between ESG scores from different data providers is often limited. Non-financial information currently publicly disclosed by companies does not adequately meet the needs of the intended users and is not sufficiently comparable. Research from CSRHub shows that the correlation between ESG scores from different rating agencies can be as low as 0.3, indicating a clear lack of consistency.

A recent study from the Massachusetts Institute of Technology (MIT) also highlighted this discrepancy. Carbon Emissions data (tCO2e: Tonnes of Carbon dioxide equivalent, Scope 1 and 2) is currently disclosed by fewer than 4,000 companies, meaning that data providers use models to calculate estimated emissions for many investee companies. There are significant gaps in coverage and differences in values between data providers. The comparability, quality and reliability is poor, which is a concern given that this data forms the key input to TCFD calculations. Scope 3 data has very significant quality and coverage issues.

As in the above example, the lack of correlation is driven by lack of access to reported data which necessitates the need to rely on modelled data and proxies. This reinforces the need for companies to report better information. Further key drivers impacting comparability include:

- Scope divergence – different inputs being used by ratings agents in their scope for a rating
- Measurement divergence – ratings agencies use different indicators to measure the same ESG attributes
- Weight divergence – putting higher weighting on valuing parts of ESG
- Data sources – the use of questionnaires versus publicly available data creates inconsistency
- Infrequent review cycles for traditional rating agencies can lead to ESG data being stale

The various agencies have their own methodologies to arrive at ratings which investors (the users) do understand and make detailed assessments of before using these ratings. It should be recognised that different methodologies and areas of focus do naturally lead to different ratings, which in turn encourages competition, product development and innovation. Therefore, a balance needs to be struck in terms of enhancing comparability but at the same time facilitating different approaches and enabling innovation to occur. This points to a focus on ensuring that providers are transparent about their methodologies so that investors can decide whether they want to use them or not.

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:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There are concerns over the quality and reliability of ESG research currently available in the market and fund managers have developed their own approaches to mitigate these concerns. Larger asset managers in general would not depend exclusively on research information from ESG providers, rather they would use it to complement their own market analysis, possibly using a number of different sources. Their in-house research is largely around pre-trade information and they source this information themselves. Smaller asset managers may use more external sources (weighting of internal/external sources may differ) to support their ESG reporting. More transparency in relation to the methodologies used by the research providers is needed.

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)	2 (poor)	3 (neutral)	4 (good)	5 (very good)	Don't know /No opinion
Individual	○	◉	○	○	○	○
Aggregated	○	◉	○	○	○	○

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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Investment decision-making in relation to individual and aggregated ESG factors is challenging due to a lack of a common standard supporting ESG metrics. It should also be considered that ratings may not always be the right instrument to use, rather the supporting analysis that underpins the ratings should be examined. The issue is relevance of ratings and not quality, they are not consistent across rating agencies. There are also different methodologies in ratings which should be noted.

In setting any common standard which allows for sector specific elements, when it comes to standardisation, a balance needs to be struck in terms of the degree of prescriptiveness and flexibility to avoid it becoming a box ticking exercise. It is also essential that there is clarity in terms of what are mandatory disclosures and what disclosures could be considered best practices at a sector specific level.

Question 21. In your opinion, should the EU take action in any of these areas?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We would support EU taking action in the form of increasing transparency in relation to the methodologies used by these various rating and data providers to build the ratings.

The focus should be on enhancing and disclosing meaningful factors and measurements. The proposal for a common EU data register with free of charge, publicly available access to ESG data will assist in addressing issues of transparency, consistency and comparability.

For the Commission to bring consistency to the non-financial reporting disclosures (including alignment with existing regulations) future consultation with professional bodies on an international basis is fundamental, as is the involvement of national accounting standard-setters, the European Supervisory Authorities, the European Central Bank, IOSCO and the OECD. The Commission could use the Platform on Sustainable Finance to assist in coordinating such an initiative.

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

The market for sustainable financial assets (loans, bonds, funds, etc.) is composed of a wide variety of products, offered under various denominations like 'green', 'SDG', 'transition', 'ESG', 'ethical', 'impact', 'sustainability-linked', etc. While a variety of products allows for different approaches that can meet the specific needs and wishes of those investing or lending, it can be difficult for clients, in particular retail investors, to understand the different degrees of climate, environmental and social ambition and compare the specificities of each product. Clarity on these definitions through standards and labels can help to protect the integrity of and trust in the market for sustainable financial products, enabling easier access for investors, **companies**, and savers.

As set out in the 2018 Action Plan on Financing Sustainable Growth, the Commission services started working on:

1. developing possible technical criteria for the EU Ecolabel scheme to retail funds, savings and deposits, and
2. establishing an EU Green Bond Standard (EU GBS).

The Commission also committed to specifying the content of the **prospectus** for green bond issuances to provide potential investors with additional information, within the framework of the Prospectus Regulation.

EU Green Bond Standard

The Technical Expert Group on Sustainable Finance (TEG) put forward a report in June 2019 with 10 recommendations for how to create an EU Green Bond Standard (EU GBS). This was completed with a usability guide in March 2020, as well as with an updated proposal for the standard (see Annex 1).

The TEG recommends the creation of an official voluntary EU GBS building on the EU Taxonomy. Such an EU Green Bond Standard could finance both physical assets and financial assets (including through covered bonds and asset-backed securities), capital expenditure and selected operating expenditure, as well as specific expenditure for sovereigns and sub-sovereigns. The standard should in the TEG's view exist alongside existing market standards.

The overall aim of the EU GBS is to address several barriers in the current market, including reducing uncertainty on what is green by linking it with the EU Taxonomy, standardising costly and complex verification and reporting processes, and having an official standard to which certain (financial) incentives may be attached. The TEG has recommended that oversight and regulatory supervision of external review providers eventually be conducted via a centralised system organised by ESMA. However, as such a potential ESMA-led supervision would require legislation and therefore take time, the TEG suggests the set-up of a market-based, voluntary interim registration process for verifiers (the Scheme) of EU Green Bonds for a transition period of up to three years.

Below you will find four questions in relation to the EU GBS. **A separate dedicated consultation with regards to a Commission initiative for an EU Green Bond Standard will be carried out in the future**. Please note that questions relating to green bond issuances by public authorities are covered in section 2.7 and questions on additional incentives can be found in section 2.6.

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
- ○ Don't know / no opinion / not relevant

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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

An EU-wide framework for green bond verifiers could help to create a level playing field and instil confidence in this market. We support national authorisation/accreditation, as national supervisors and national authorities understand local markets well, they are better placed to be in charge of the authorising as well as supervision. This would help ensure proximity and an appropriate level of scrutiny of smaller players and projects. This is also consistent with the EU principle of subsidiarity.

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
- ( ) Don't know / no opinion / not relevant

Question 23.1 If necessary, please explain your answer to question 23:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The EU should be encouraging the necessary transparency from verifiers of Green Bonds. An example of this would be Fitch's ESG Relevance Scores which provide necessary transparency on their ratings.

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
- ( ) Don't know / no opinion / not relevant

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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Non-EU issuers may be challenged to demonstrate compliance with the EU GBS, as compliance is linked to the EU Taxonomy and associated Technical Screening Criteria, which only apply in the EU. A potential solution to this includes encouraging other jurisdictions to take up the EU Taxonomy but coverage is still likely to be only partial. If other jurisdictions were to develop their own taxonomies, the EU could consider establishing an equivalence framework in order to recognise other taxonomies.

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:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We agree that inclusion of specific information on green bonds in the prospectus is necessary in order to appropriately inform investors regarding their investment and enhance comparability between products. Striking the right balance in terms of the level of prescriptiveness and standardisation will be important to ensure that investors are sufficiently informed on the one hand and that green bond issuers are not deterred on the other due to any challenges and costs associated with new requirements.

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:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We understand the rationale behind a more proportionate approach for green bond disclosures in a prospectus versus a standalone green bond prospectus. However, to our point above, investors need to be sufficiently informed and able to compare products. Therefore, in keeping with our answer to Question 25, we think that me level of formalised disclosure (beyond inserting a link) is necessary in all cases, whether the green bond is incorporated into a financial product or sold as a standalone product.

Other standards and labels

Already now, the Disclosure Regulation defines two categories of sustainable investment products: those promoting environmental or social characteristics and those with environmental or social objectives, the latter being defined as ‘sustainable investments’. Both types of products have to disclose their use of the EU Taxonomy, for the environmental portion of the product.

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

- [ ] Yes
- [ ] No
- [x] 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?

- [x] 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
- ○ Don't know / no opinion / not relevant

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

- ○ Yes
- ◉ No
- ○ Don't know / no opinion / not relevant

If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?

- ○ Yes
- ○ No
- ○ Don't know / no opinion / not relevant

If necessary, please explain your answer.

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We would caution against setting new standards at the present time but instead focus on accountability through disclosures (which are already in place and being finalised under the SFDR) and minimum expectations. Setting new standards now risks relying on today's understanding of ESG integration when approaches are continually developing. Therefore, there is a risk of preventing innovation in sustainable finance. Appropriate levels of oversight will be required to ensure that a fund is meeting expectations. Effective supervision cannot be achieved via a tick box approach as it will require judgement to effectively assess actions by firms.

Professional investors increasingly undertake very sophisticated due diligence relating to ESG and tend to have their own objectives and perspectives in relation to that. A standardised EU label would be of limited value to them. Instead, the focus should be on providing meaningful disclosure to investors, as standardised under the SFDR.

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
- (x) 5 - Strongly agree
- Don’t know / no opinion / not relevant

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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Sustainability-linked bonds (SLBs) and sustainability-linked loans (SLLs) are one of the fastest growing segments of sustainable finance and have much broader application than pure green bonds or loans. SLBs and SLLs have a very important role to play in making the transition to a more sustainable economy. The development of EU standards in this area will help to promote these instruments by increasing transparency, alleviating green-washing concerns and allowing for greater comparability.

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

- 1 - Strongly disagree
- 2 - Disagree
- 3 - Neutral
- 4 - Agree
- (x) 5 - Strongly agree
- Don’t know / no opinion / not relevant

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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The EU Taxonomy is the regulatory foundation for sustainable finance within the EU and any standard-setting for SLBs and SLLs should be aligned to the 6 key environmental objectives and the "do no significant harm" principle with disclosure requirements also aligned accordingly.

Question 32. Several initiatives are currently ongoing in relation to energy-efficient 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
- ( ) Don't know / no opinion / not relevant

If yes, please select all that apply:

- a broad standard or label for sustainable mortgages and loans (including social and environmental considerations);
- a standard or label for green (environmental and climate) mortgages and loans; [**Y**]
- a narrow standard or label only for energy-efficient mortgages and loans for the renovation of a residential immovable property;
- other: please specify what type of standard or label on sustainability in the loan market you would like to see

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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
- ( ) Don't know / no opinion / not relevant

If yes, please explain what the key elements of such a benchmark should be.

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> The ESG investment universe is very broad and diverse, encompassing the 17 UN Sustainable Development Goals and the benchmarks deployed reflect this diversity. It would be very challenging to try to impose one standardised benchmark over this entire area. We believe that reliance on the new rules in relation to benchmark disclosure under the SFRD is sufficient and the focus should now be on the application of that framework. The EU Benchmarks Regulation should also be applied to ensure that benchmarks are sufficiently regulated and robust in their composition.

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
- ○ Don’t know / no opinion / not relevant

1.5 Capital markets infrastructure

The recent growth in the market for sustainable financial instruments has raised questions as to whether the current capital markets infrastructure is fit for purpose. Having an infrastructure in place that caters to those types of financial instruments could support and further enhance sustainable finance in Europe.

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
- ○ Don't know / no opinion / not relevant

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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We see the recent growth in the market for sustainable financial instruments as evidence that the current capital markets infrastructure is fit for purpose and working well. As the stated objective is to mainstream sustainability in markets and transition markets generally, we do not propose a segregation of markets on exchange or trading arrangements.

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?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

1.6 Corporate governance, long-termism and investor engagement

To reflect long-term opportunities and risks, such as those connected to climate change and environmental degradation, **companies and investors need to integrate long-term horizons** and sustainability in their decision-making processes. However, this is often difficult in a context where market pressure and prevailing corporate culture prompt corporate managers and financial market participants to focus on near-term financial performance at the expense of mid- to long-term objectives. Focusing on short-term returns without accounting for long-term implications may lead to underperformance of the corporation and investors in the long-term, and, by extension, of the economy as a whole. In this context, investors should be driving long-termism, where this is relevant, and not pressure companies to deliver short-term returns by default.

The ongoing COVID-19 outbreak in particular underscores that companies should prioritise the long term interests of their stakeholders. Many companies in the EU have decided to prioritise the interests of key stakeholders, in particular employees, customers and suppliers, over short-term shareholder interest (The European Central Bank also recommended on 27 March 2020that significant credit institution refrain from distributing dividend so that "they can continue to fulfil their role to fund households, small and medium businesses and corporations" during the COVID-19 economic shock). These factors contribute to driving long-term returns as they are crucial in order to maintain companies' ability to operate. Therefore, institutional investors have an important role to play in this context. As part of action 10 of the Action Plan on Financing Sustainable Growth, in December 2019 the European Supervisory Authorities delivered reports, the European Supervisory Authorities delivered reports in December 2019 (ESMA report, EBA report and EIOPA report) that had the objective of assessing evidence of undue short-term pressure from the financial sector on corporations. They identified areas within their remit where they found some degree of short-termism and issued policy recommendations accordingly. For instance, they advise the adoption of longer-term perspectives among financial institutions through more explicit legal provisions on sustainability.

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:

- (x) 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

We agree with adopting more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management. This would create a level playing field between purely credit institutions and credit institutions that provide investment services, as well as MiFID firms generally, which will fall within scope of amendments to the MIFID framework covering sustainability and risk management and governance.

We think that further careful consideration is required in the area short-term versus long-term investment. A well-functioning market needs to provide for both legitimate long-term and short-term needs, based on investor profiles (e.g. retail investor versus pension fund) and the investment horizon of the products. Liquidity in markets is essential and short-term financial instruments underpin this liquidity. There are different types of capital, including public equity, private equity, venture capital, debt, private placements, etc. each serving different purposes with their own specific recommended holding periods. This diversity goes against imposing a single definition of long-term (which is considered 'good') versus short-term (which is considered bad).

Related to this debate, we would contend that portfolio turnover should not be considered as an accurate measure of "short-termism". Portfolio turnover reflects inflows and redemptions from investors, and portfolio adjustments due to market conditions, and therefore does not give a true reflection of "short-termism".

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
- ◯ Don't know / no opinion / not relevant

The Shareholder Rights Directive II states that directors' variable remuneration should be based on both financial and non-financial performance, where applicable. However, there is currently no requirement regarding what the fraction of variable remuneration should be linked to, when it comes to non-financial performance.

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
- ◯ Don't know / no opinion / not relevant

In answering this question a distinction needs to be drawn between remuneration for financial institutions, which is already subject to a detailed remuneration regulatory framework and that of corporates, which is not. We note that ESMA has concluded that 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. It should also be noted that the SFDR already sets out new obligations on financial participants to include information on their remuneration policies and explain how those policies are consistent with the integration of sustainability risks and to publish that information on their websites. As the Commission has noted, SRD II states that directors' variable remuneration should be based on both financial and non-financial performance, where applicable.

We do agree that generally a share of variable remuneration should be linked to non-financial performance. However, this needs to be specific to the nature of the business activity and circumstances. The materiality of allocating such a share of variable remuneration to ESG performance will vary, for example this share may be much higher in the oil and gas sector than in other sectors. While we agree in principle that variable remuneration should include non-financial performance metrics, we would caution against setting a had limit across all sectors and activities, as this would not be sufficiently tailored to specific circumstances.

In conclusion, we believe that shareholders should insist on a meaningful percentage of variable renumeration being linked to sustainability, but we are not convinced that this is a regulatory issue. Investors can and should achieve this without legislation.

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
- ( ) Don't know / no opinion / not relevant

The Shareholder Rights Directive II introduces transparency requirements to better align long-term interests between institutional investors and their asset managers.

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
- ( ) Don't know / no opinion / not relevant

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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Further to our response under Question 5, we support actions to enhance collaborative action between investors to engage investee companies in order to promote long-termism and sustainability.

In that regard we support the recommendations made by ESMA in its report on short-termism to clarify the legal boundaries of investors acting in a coalition to drive ESG related changes. We also support actions to facilitate cross-border communication between companies and investors, cross-border voting and appropriately facilitating the filing of shareholder resolutions.

We note that SRD II, which will encourage shareholder engagement, has not yet been fully implemented. We would recommend in the first instance monitoring its application to assess whether it effectively encourages long-term engagement, before taking any further actions.

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
- ( ) Don’t know / no opinion / not relevant

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
- ( ) Don’t know / no opinion / not relevant

If yes, please explain you answer.

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We believe it would be helpful if investors could vote to adopt the sustainability report. The importance of serving stakeholders and embracing purpose is becoming increasingly central to the way that companies understand their role in society – each company’s prospects for growth are inextricably linked to its ability to operate sustainably and serve its full set of stakeholders.

Questions have been raised about whether passive index investing could lower the incentives to participate in corporate governance matters or engage with companies regarding their long term strategies.

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

There may be a misperception that index-based investing is associated with poor outcomes from a sustainability perspective when this is not the case. Managers of index funds with no specific ESG strategy will still engage with companies on ESG matters as a shareholder on behalf of their investors. There is an important role for stewardship to play in meeting the expectations of clients investing in index strategies exactly because there is no option to sell a security. This acts as a strong incentive to engage with the investee companies to address any negative effects and add value over the long-term.

We would emphasise that the investment approach of the investment vehicle or portfolio is irrelevant to the quality of stewardship/corporate governance activity by that investor. In this regard, it is important to understand that asset managers engage across aggregate shareholdings for the most part, not on a fund by fund basis. Most asset managers will have a central team that does engagement and voting on behalf of all of their portfolios collectively. There is an obvious economy of scale and amplification of effect to engagement in this way. In this regard, it is the quality of the actual stewardship conducted that is important rather than what kind of fund product the shares are held in.

A key pillar of the approach is active ownership where such funds use their scale as a major investor to encourage the companies in which their clients invest to develop resilient strategies, think longer-term and consider their stakeholders. Specifically, this is reflected in the following activities:

- Company engagement – for example on climate change, remuneration and diversity
- Using voting rights globally, with one voice across all active and index funds
- Addressing risks and opportunities which are systemic and long term
- Seeking to influence regulators and policymakers
- Coalescing with other investors and stakeholders

To foster more sustainable corporate governance, as part of action 10 of the 2018 action plan Plan on Financing Sustainable Growth the Commission launched a study on due diligence (i.e. identification and mitigation of adverse social and environmental impact in a company's own operations and supply chain), which was published in February 2020. This study indicated the need for policy intervention, a conclusion which was supported by both multinational companies and NGOs. Another study on directors' duties and possible sustainability targets will be finalised in Q2 2020.

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.
- [ ] Don’t know / no opinion / not relevant

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?

- [x] Yes
- [ ] No
- [ ] Don’t know / no opinion / not relevant

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

- [x] Yes
- [ ] No
- [ ] Don’t know / no opinion / not relevant

Question 48.1 If yes, please select your preferred option:

All companies, including SMEs

All companies, but with lighter minimum requirements for SMEs [**Y**]

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

Only large companies

If necessary, please explain the reasons for your answer. [box max. 2000 characters]

A supply chain due diligence requirement should apply to all companies, but with lighter minimum requirements for SMEs, in order to ensure a consistent but proportionate approach.

2. Increasing opportunities for citizens, financial institutions and corporates to enhance sustainability

Increased opportunities need to be provided to citizens, financial institutions and corporates in order to enable them to have a positive impact on sustainability. Citizens can be mobilised by providing them with opportunities to invest their pensions and savings sustainably or by using digital tools to empower them to make their communities, their homes and their businesses more resilient. Financial institutions and corporates can increase their contribution to sustainability if the right policy signals and incentives are in place. Furthermore, international cooperation and the use of sustainable finance tools and frameworks in developing countries can help build a truly global response to the climate and environmental crisis.

As part of the European Green Deal, the Commission has launched a European Climate Pact to bring together regions, local communities, civil society, businesses and schools in the fight against climate change, incentivising behavioural change from the level of the individual to the largest multinational, and to launch a new wave of actions. A consultation on the European Climate Pact is open until 27 May 2020 in order to better identify the areas where the Commission could support and highlight pledges as well as set up fora to work together on climate action (including possibly on sustainable finance).

2.1 Mobilising retail investors and citizens

Although retail investors today are increasingly aware that their own investments and deposits can play a role in achieving Europe's climate and environmental targets, they are not always offered sustainable financial products that match their expectations. In order to ensure that the sustainability preferences of retail investors are truly integrated in the financial system, it is crucial to help them to better identify which financial products best correspond to these preferences, providing them with user-friendly information and metrics they can easily understand. To that end, the European Commission will soon publish the amended delegated acts of MIFID II and IDD, which will require investment advisors to ask retail investors about their sustainability preferences.

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
- ( ) Don't know / no opinion / not relevant

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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We are aware that ESMA plans to update its suitability guidelines to take account of the new Delegated Acts under MiFID that will incorporate sustainability preferences. While guidance would be helpful we would caution against adopting an overly prescriptive approach, given the highly evolving nature of the ESG landscape. A box-ticking approach which seeks to define ESG preferences in a detailed and overly granular way should be avoided, as this is unlikely to lead to meaningful outcomes for investors.

Knowledge among retail investors in sustainable finance is worryingly low – a recent survey by BaFin found that 60% of those surveyed were not familiar with the term "sustainable investments". See below link to article:

https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2019/fa_bj_1906_nachhaltige_Geldanlage_en.html.

We are concerned with the fact that nothing will stop retail investors comparing the Taxonomy related disclosure of two financial products that are not essentially similar (e.g. an ESG thematic fund versus an ESG impact fund that has a broader impact objective). Therefore, we support efforts to educate and inform investors in relation to sustainable investments as per Question 51.

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
- ○ Don't know / no opinion / not relevant

While we are supportive of the ongoing mainstreaming of sustainability into investment products, we would have a concern that, at this stage, the availability of sustainable investment products (as they will be understood under the MiFID II Delegated Acts integrating sustainability factors into investment advice) is not sufficiently broad to satisfy a "systematic" offering. In a market that is not mature enough yet, there is a concern that this requirement could end up forcing a poorly diversified offering on retail investors. There are other important considerations to be taken into account when providing investment advice to retail investors (e.g. risk tolerance, investment horizon) and therefore amending advice or default options in a way that could place sustainability above these considerations needs careful consideration. We consider it important to ensure that investors are offered a broad range of products that are capable of meeting their diverse needs.

Furthermore, we note that the Delegated Acts integrating sustainability into investment advice are still being developed, as well as the Regulatory Technical Standards for the SFDR, which will address investor disclosures relating to sustainability. These regulatory measures will apply soon and we think that the focus should be on implementing them as a priority and then learning from the experience of their application in the market before undertaking further regulatory measures in respect of investment advice / default options.

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?

- ○ 1 - Strongly disagree
- ○ 2 - Disagree
- ○ 3 - Neutral
- ◉ 4 - Agree
- ○ 5 - Strongly agree
- ○ Don’t know / no opinion / not relevant

If you agree (for scores of 4 to 5), please choose what particular action should be prioritised:

- Integrate sustainable finance literacy in the training requirements of finance professionals. [**4**]
- 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.[**5**]
- 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. [**4**]
- Directly, through targeted campaigns. [**3**]
- As part of a wider effort to raise the financial literacy of EU citizens. [**5**]
- As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. [**5**]
- Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. [**5**]

Other, please explain.[box max. 2000 characters]

2.2 Better understanding the impact of sustainable finance on sustainability factors

While sustainable finance is growing, there are questions on how to measure and assess the positive impact of sustainable finance on the real economy. Recently, tools have been developed that can be used to approximate an understanding of the climate and environmental impact of economic activities that are being financed. Examples of such tools include the EU Taxonomy, which identifies under which conditions economic activities can be considered environmentally sustainable, use-of-proceeds reporting as part of green bond issuances, or the Disclosure Regulation, which requires the reporting of specific adverse impact indicators.

Yet, an improved understanding of how different sustainable financial products impact the economy may further increase their positive impact on sustainability factors and accelerate the transition.

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

- ○ 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 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
- ○ Don't know / no opinion / not relevant

If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The most influential investors will be those purchasing new debt. They are providing access to new capital that can finance sustainable projects, which is why green bonds can be such a useful instrument. Investors in traded listed securities will have less influence on capital allocation, unless they actively engage with investee companies. Index tracking funds will be more constrained in allocating capital to sustainable projects and activities, as their role is to track an underlying index, but again this is where shareholder engagement has a role to play in encouraging companies to transition to sustainability.

2.3 Green securitisation

Securitisation is a technique that converts illiquid assets, such as bank loans or trade receivables, into tradeable securities. As a result, banks can raise fresh money as well as move credit risk out of their balance sheets, thereby freeing up capital for new lending. Securitisation also facilitates access to a greater range of investors, who can benefit from the banks' expertise in loan origination and servicing, thereby diversifying risk exposure. Green securitisations and collaboration between banks and investors could play an important role in financing the transition as banks' balance sheet space might be too limited to overcome the green finance gap. The EU's new securitisation framework creates a specific framework for high-quality Simple, Transparent and Standardised (STS) securitisations, together with a more risk-sensitive prudential treatment for banks and insurers.

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
- ● 4 - Rather important
- ○ 5 - Very important
- ○ Don't know / no opinion / not relevant

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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

By leveraging green lending capabilities, green securitisation can play an important role in helping to close the yearly investment gap to achieve EU climate goals. Although demand for green securitisation bonds remains relatively low at present, many institutional investors (including sovereign wealth funds, sovereigns and supranationals such as multilateral development banks) have increased their commitments to invest in green assets in line with their policy objectives.

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
- ( ) Don't know / no opinion / not relevant

We support a harmonised EU regulatory regime for green securitisation to facilitate the growth and development of sustainable finance.

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

- (•) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

A simple and clear definition of green securitisation will help to encourage the market to develop more quickly.

Improved regulatory capital treatment for Green Securitised Bonds or tax incentives (at national level) for investing in green securitisations would help to promote green securitisation to all securitisation investors.

2.4 Digital sustainable finance

The ongoing COVID-19 outbreak is highlighting the key role of digitalisation for the daily personal and professional lives of many Europeans. However, it has also revealed how digital exclusion can exacerbate financial exclusion – a risk that needs to be mitigated.

Digitalisation is transforming the provision of financial services to Europe's businesses and citizens As shown in the Progress Report of the UN Secretary-General's Task Force on Digital Financing of the Sustainable Development Goals (SDGs), digital finance brings a wide array of opportunities for citizens worldwide by making it easier to make payments, save money, invest, or get insured. However, digital finance also brings new risks, such as deepening the digital divide. It is therefore paramount to ensure that the potential of digitalisation for sustainable finance is fully reaped, while mitigating associated challenges appropriately. In this context, the Commission has launched a consultation dedicated to digital finance.

In the area of sustainable finance, technological innovation such as Artificial intelligence (AI) and machine learning can help to better identify and assess to what extent a company's activities, a large equity portfolio, or a bank's assets are sustainable. The application of Blockchain and the Internet of Things (IoT) may allow for increased transparency and accountability in sustainable finance, for instance with automated reporting and traceability of use of proceeds for green bonds.

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

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

In particular, digitalisation has the potential to empower citizens and retail investors to participate in local efforts to build climate resilience. For instance, M-Akiba is a Government of Kenya-issued retail bond that seeks to enhance financial inclusion for economic development. Money raised from issuance of M-Akiba is dedicated to infrastructural development projects, both new and ongoing.

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
- (x) Don't know / no opinion / not relevant

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

- [x] Don't know / no opinion / not relevant

2.5. Project Pipeline

The existing project pipeline (availability of bankable and investable sustainable projects) is generally considered to be insufficient to meet current investor demand for sustainable projects. Profitability of existing business models plays a role, with some projects (e.g. renewable energy), being more bankable than others (e.g. residential energy efficiency). Identifying the key regulatory and market obstacles that exist at European and national level will be key in order to fix the pipeline problem. Please note that questions relating to incentives are covered in section 2.6.

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 of 3 for each:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Withholding taxes and capital gains taxes on cross-border investments creates an obstacle to investment in substantiable projects. To this end, we recommend the extension of existing withholding tax exemptions from interest and dividends available for intra-corporate transactions to be extended to fund structures to facilitate investment via regulated funds. Investment in new and innovative technologies are expensive and carry substantial risk. The ability to get a permanent tax deduction for such investment should help stimulate investment in this area. To this end, we recommend the introduction of enhanced tax breaks for investment in qualifying technology.

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

- [ ] Yes
- [ ] No
- [x] Don't know / no opinion / not relevant

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

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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 3 actions you would like to see at EU-level:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 63. The transition towards a sustainable economy will require significant investment in research and innovation (R&I) to enable rapid commercialisation of promising and transformational R&I solutions, including possible disruptive and breakthrough inventions or business models.

How could the EU ensure that the financial tools developed to increase sustainable investment flows turn R&I into investable (bankable) opportunities?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

To incentivise R&I activities, we recommend that there is an EU-wide introduction of enhanced tax breaks for qualifying R&I activity. In implementing such a regime, it would be important that these tax breaks would be available at a national level irrespective of where the R&I activities were conducted throughout the EU (and not limited to situations where all or most of the work is undertaken in any one EU country).

In order to enhance the attractiveness of financing these ventures, we recommend exemptions from withholding taxes on debt finance in this area and an elimination of thin capitalisation rules across the EU in order to enhance the tax effectiveness of debt finance in this sector.

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

- ○ Yes
- ○ No
- ◉ Don’t know / no opinion / not relevant

Question 65. In your view, do you consider that the EU should take further action in:

	Yes	No	Don't know / No opinion
Bringing more financial engineering to sustainable R&I projects?			
Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)?			
Better identifying areas in R&I where public intervention is critical to crowd in private funding?			
Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds?			
Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)?			
Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication?			
Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions?			
Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks?			

Question 65.1 If necessary, please explain your answers to question 65:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

2.6 Incentives to scale up sustainable investments

While markets for sustainable financial assets and green lending practices are growing steadily, they remain insufficient to finance the scale of additional investments needed to reach the EU's environmental and climate action objectives, including climate-neutrality by 2050. For instance, companies' issuances of sustainable financial assets (bonds, equity) and sustainable loans currently do not meet investors' increasing interest. The objective of the European Green Deal Investment Plan, published on 14 January 2020, is to mobilise through the EU budget and the associated instruments at least EUR 1 trillion of private and public sustainable investments over the coming decade. The purpose of this section is to identify whether there are market failures or barriers that would prevent the scaling up of sustainable finance, and if yes what kinds of public financial incentives could help rectify this.

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:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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

◉ 4 - Rather effective

○ 5 - Very effective

○ Don’t know / no opinion / not relevant

Please rate the effectiveness of each type of asset for each type of incentive:

- Bonds
- Loans
- Equity
- Other

Question 68. In your view, for *investors* (including retail investors), to what extent would potential financial incentives help to create a viable market for sustainable investments?

○ 1 - Not effective at all

○ 2 - Rather not effective

○ 3 - Neutral

◉ 4 - Rather effective

○ 5 - Very effective

○ Don’t know / no opinion / not relevant

Since you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments?

- Revenue-neutral public sector incentives
- Adjusted prudential treatment
- Public guarantee or co-financing
- Other

Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other):

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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
- ( ) Don't know / no opinion / not relevant

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

Even though the potential scope of sustainable finance is broad, it is often viewed as being only confined to the ambit of private financial flows within capital markets. Nevertheless, the boundary between public and private finance is not always strict and some concepts that are generally applied to private finance could also be considered for the public sector, such as the EU Taxonomy. This is recognised in the European Green Deal Investment Plan and the Climate Law, where the Commission committed to exploring how the EU Taxonomy can be used in the context of the European Green Deal by the public sector, beyond InvestEU. The InvestEU programme, proposed as part of the EU's Multiannual Financial Framework 2021 – 2027, combines public and private funding and once the taxonomy is in place (from end-2020 onwards) will serve as a test case for its application in public sector-related spending.

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
- (•) Don't know / no opinion / not relevant

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

- [x] Don’t know / no opinion / not relevant

Question 72. In particular, should the EU Taxonomy[2] 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?

[2] 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.

- [ ] 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
- [ ] Don’t know / no opinion / not relevant

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
- [ ] Don’t know / no opinion / not relevant

2.8 Promoting intra-EU cross-border sustainable investments

In order to attract and encourage cross-border investments, a range of investment promotion services have been put in place by public authorities. Investment promotion services include for instance information on the legal framework, advice on the project, such as on financing, partner and location search, support in completing authorisations and problem-solving mechanisms relating to issues of individual or general relevance. In some cases specific support is provided for strategic projects or priority sectors.

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

- [ ] Yes
- [ ] No
- [x] Don’t know / no opinion / not relevant

2.9 EU Investment Protection Framework

To encourage long-term sustainable investments in the EU, it is essential that investors are confident that their investments will be effectively protected throughout their life-cycle in relation to the state where they are located. The EU investment protection framework includes the single market fundamental freedoms, property protection from expropriation, the principles of legal certainty, legitimate expectations and good administration which ensure a stable and predictable environment, including remedies and enforcement in national courts. These elements can have an impact on cross-border investment decisions, especially for long-term investments. While a separate consultation on investment protection will take place soon, the purpose of this section is to investigate whether the above-mentioned factors have an impact on sustainable projects in particular, such as for instance for long-term infrastructure and innovation projects necessary for the EU's industrial transition towards a sustainable economy.

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

The global financial challenge posed by climate change and environmental degradation requires an **internationally coordinated**. To complement the work done by the Network of Central Banks and Supervisors for Greening the Financial system (NGFS) on climate-related risks and the Coalition of Finance Ministers for Climate Action mainly on public budgetary matters and fiscal policies, **the EU has launched together with the relevant public authorities from like-minded countries the International Platform on Sustainable Finance (IPSF)**. The purpose of the IPSF is to promote integrated markets for environmentally sustainable investment at a global level. It will deepen international coordination on approaches and initiatives that are fundamental for private investors to identify and seize environmentally sustainable investment opportunities globally, in particular in the areas of taxonomy, disclosures, standards and labels.

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

For scores of 1-2, what are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions? [BOX max. 2000 characters]

Climate change and achieving sustainability is evidently a global challenge but, the fragmented nature of the international landscape with different jurisdictional approaches and rules serve to undermine a cohesive global approach.

The EU should seek global alignment and consistency insofar as possible. It should use all of the existing international fora (such as the OECD, World Bank, the WTO, IOSCO, the International Platform on Sustainable Finance) to achieve this. It should also work with the pre-eminent global standard setters on sustainability reporting (such as TCFD, SASB, GRI, CDSB and IIRC) to build existing best practice and develop it further.

Question 77. What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs?

Please list a maximum of 3 proposals:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The EU and its Member States can:

1. Encourage action on sustainable finance in international fora and encourage the OCED, World Bank, IOSCO, etc. to take a leadership role

2. Convene an international forum on sustainable finance to demonstrate the approach that the EU is taking and facilitate the transfer of ideas, exchange views

and mutual learning (a global uptake of the Taxonomy and a global ESG data register could be encouraged, for example)

3. Embed sustainable finance in trade and development negotiations and agreements

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

Please select all that apply:

Please select as many options as you like.

- [x] Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.)
- [x] Lack of clearly identifiable sustainable projects on the ground
- [ ] Excessive (perceived or real) investment risk
- [ ] Difficulties to measure sustainable project achievements over time
- [ ] Other

Question 79. In your opinion, in the context of European international cooperation and development policy, how can the EU best support the mobilisation of international and domestic private investors to finance sustainable projects and activities in emerging markets and developing countries, whilst avoiding market distortions?

Please provide a maximum of 3 proposals:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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
- ◯ These tools need to be adapted to local specificities in emerging markets and/or developing economies
- ◉ Don’t know / no opinion / not relevant

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

Climate and environmental risks, including relevant transition risks, and their possible negative social impacts, can have a disruptive impact on our economies and financial system, if not managed appropriately. Against this background, the three European supervisory authorities (ESAs) have each developed work plans on sustainable finance[3]. Building, among others, on the ESAs' activities further actions are envisaged to improve the management of climate and environmental risks by all actors in the financial system. In particular, the political agreement on the Taxonomy Regulation tasks the Commission with publishing a report on the provisions required for extending its requirements to activities that do significantly harm environmental sustainability (the so-called "brown taxonomy").

[3] More information on the ESAs' activities on sustainable finance is available on the authorities' websites. See in particular ESMA's strategy, EBA Action Plan, and EIOPA's dedicated webpage.

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
- ○ Don't know / no opinion / not relevant

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We understand the proposed rationale of a Brown Taxonomy and note that a Brown Taxonomy could potentially assist in underpinning a risk based supervisory regime relating to climate change. However, many of our members remain unconvinced about the merits of a Brown Taxonomy for the following reasons:

1. There is already an EU Taxonomy for Sustainable Finance to encourage capital flows towards sustainable investments and the focus needs to be on effectively implementing and applying this new Taxonomy due to come into effect on a phased basis from January 2022.

2. The area of harmful activities is already addressed in the existing Taxonomy through the 'Do no significant harm' requirement. Furthermore, an assessment and disclosure relating to any principal adverse impacts on sustainability is embedded in the SFDR and UCITS and AIFMD Delegated Acts.

3. We are unclear if a Brown Taxonomy will actually assist in facilitating the economic transition needed to bring about climate neutrality. This consultation has posed several questions relating to encouraging shareholder engagement and influencing and incentivising companies to transition to sustainability. A Brown Taxonomy, effectively focussed on exclusion and divestment, could be at odds with such a strategy to retain ownership over such companies and seek to effect meaningful change.

We support effective implementation of the existing Taxonomy and better disclosures and data reporting on ESG factors as a way forward.

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

○ Don't know / no opinion / not relevant

3.2 Financial stability risk

The analysis and understanding of the impact of climate-related and environmental risks on financial stability is improving, thanks in particular to the work done by supervisors and central banks (see for instance the [Network of Central Banks and Supervisors for Greening the Financial System (NGFS)]), regulators and research centres. However, significant progress still needs to be made in order to properly understand and manage the impact of these risks.

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 select all that apply:

Please select as many options as you like.

- [x] Physical risks
- [x] Transition risks
- [x] Second-order effects
- [ ] Other

Question 85. What key actions taken in your industry do you consider to be relevant and impactful to enhance the management of climate and environment related risks?

Please identify a maximum of 3 actions taken in your industry

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We see the most impactful actions to manage climate risk from a funds industry perspective as:

1. Integration of sustainability by companies within the investment process, including investment analysis, climate scenario analysis and investment decision making

2. Placing active stewardship at the core of business activity and purpose of management companies

3. The development of ESG and climate-related investment funds to enable transition and drive and support innovation to achieve carbon neutrality

Question 86. Following the financial crisis, the EU has developed several new 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

Insurers manage large volumes of assets on behalf of policyholders and they can therefore play an important role in the transition to a sustainable economy. At the same time, insurance companies have underwriting liabilities exposed to sustainability risks. In addition, the (re)insurance sector plays a key role in managing risks arising from natural catastrophes though risk-pooling and influencing risk mitigating behaviour. The Solvency II Directive sets out the prudential framework for insurance companies. The Commission requested technical advice from the European Insurance and Occupation Pensions Authority (EIOPA) on the integration of sustainability risks and sustainability factors in Solvency II. The Commission also mandated EIOPA to investigate whether there is undue volatility of liabilities in the balance sheet or undue impediments to long-term investments, as part of the 2020 Review of Solvency II. The Commission also mandated EIOPA to investigate whether there is undue volatility of their solvency position that may impede to long-term investments, as part of the 2020 Review of Solvency II. EIOPA is expected to submit its final advice in June 2020.

In September 2019, EIOPA already provided an opinion on sustainability within Solvency II. EIOPA identified additional practices that should be adopted by insurance companies to ensure that sustainability risks are duly taken into account in companies’ risk management.

On that basis, the Commission could consider clarifications of insurers’ obligations as part of the review of the Solvency II Directive. Stakeholders will soon be invited to comment on the Commission’s inception impact assessment as regards the review. The Commission will also launch a public consultation as part of the review.

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

If yes, please specify which actions would be relevant [BOX max. 2000 characters]

Banking prudential framework

In the context of the last CRR/D review, co-legislators agreed on three actions aiming at integrating ESG considerations into EU banking regulation:

- a mandate for the EBA to assess and possibly issue guidelines regarding the inclusion of ESG risks in the supervisory review and evaluation process (SREP) (Article 98(8) CRD);
- a requirement for large, listed institutions to disclose ESG risks (Article 449a CRR) (note that some banks are also in the scope of the NFRD;
- a mandate for the EBA to assess whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with sustainability objectives would be justified (Article 501c CRR).

Because the work on ESG risks was at its initial stages, co-legislators agreed on a gradual approach to tackling those risks. However, given the new objectives under the European Green Deal, it can be argued that the efforts in this area need to be scaled up in order to support a faster transition to a sustainable economy and increase the resilience of physical assets to climate and environmental risks. Integrating sustainability considerations in banks' business models requires a change in culture which their governance structure needs to effectively reflect and support.

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
- [x] Don’t know / no opinion / not relevant

Asset managers

Traditionally, the integration of material sustainability factors in portfolios, with respect to both their selection and management, has considered only their impact on the financial position and future earning capacity of a portfolio's holdings (i.e., the 'outside-in' or 'financial materiality' perspective). However, asset managers should take into account also the impact of a portfolio on society and the environment (i.e., the 'inside-out' or 'environmental/social materiality' perspective). This so-called “double materiality” perspective lies at the heart of the Disclosure Regulation, which makes it clear that a significant part of the financial services market must consider also their adverse impacts on sustainability (i.e. negative externalities).

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
- [x] No
- [ ] Don’t know / no opinion / not relevant

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Duties regarding sustainability will be extensively integrated into the UCITS and AIFMD frameworks under the forthcoming Delegated Acts soon to be adopted and follow consultation and technical advice from ESMA. We see these Delegated Acts as sufficiently clarifying the framework. The principle of double materiality and assessing adverse impacts on sustainability risks and other factors will soon be firmly embedded. Therefore, there is no need for further revisions in relation to fiduciary duties.

Pension providers

Pension providers’ long-term liabilities make them an important source of sustainable finance. They have an inherently long-term approach, as the beneficiaries of retirement schemes expect income streams over several decades. Compared with other institutions, pension providers’ long-term investment policies also make their assets potentially more exposed to long-term risks. Thus far, the issues of sustainability reporting and ESG integration by EU pension providers have been taken up in the areas of institutions for occupational retirement provision (IORPs) (“Pillar II” - covered at EU level by the IORP II

Directive) and private voluntary plans for personal pensions ("Pillar III" – covered at EU level by the PEPP Regulation) already in 2016 and 2017 respectively. The Commission will review the IORP II Directive by January 2023 and report on its implementation and effectiveness.

However, according to a stress test on IORPs run by EIOPA in 2019 and assessing for the first time the integration of ESG factors in IORPs' risk management and investment allocation, only about 30% of IORPs in the EU have a strategy in place to manage ESG-related risks to their investments. Moreover, while most IORPs claimed to have taken appropriate steps to identify ESG risks to their investments, only 19% assess the impact of ESG factors on investments' risks and returns[3]. Lastly, the study provided a preliminary quantitative analysis of the investment portfolio (with almost 4 trillion Euros of assets under management, the EEA's Institutions for Occupational Retirement Provision (IORPs) sector is an important actor on financial markets.) which would indicate significant exposures of the IORPs in the sample to business sectors prone to high greenhouse gas emissions.

In 2017, the Commission established a High level group of experts on pensions to provide policy advice on matters related to supplementary pensions. In its report, the group recommended that the EU, its Member States and the social partners further clarify how pension providers can take into account the impact of ESG factors on investment decisions and develop cost-effective tools and methodologies to assess the vulnerability of EU pension providers to long-term environmental and social sustainability risks. The group also pointed out that, in the case of IORPs which are collective schemes, it might be challenging to make investment decisions reconciling possibly diverging views of individual members and beneficiaries on ESG investment. Moreover, in 2019, EIOPA issued an opinion on the supervision of the management of ESG risks faced by IORPs.

[3] The analysis shows that the preparedness of pension schemes to integrate sustainability factors is widely dispersed and seems correlated to how advanced national frameworks were. IORP II directive sets minimum harmonisation and was expected to be transposed in national law by January 2019 (and hence could not necessarily be expected to be implemented by end-2018 for the EIOPA survey for the 2019 stress test).

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

- ◯ Yes
- ◯ No
- ◉ Don't know / no opinion / not relevant

Question 93. More generally, how can pension providers contribute to the achievement of the EU's climate and environmental goals in a more proactive way, also in the interest of their own sustained long-term performance? How can the EU facilitate the participation of pension providers to such transition?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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
- ◉ Don't know / no opinion / not relevant

3.3 Credit rating agencies

Regulation 1060/2009 requires credit rating agencies (CRAs) to take into account all factors that are 'material' for the probability of default of the issuer or financial instrument when issuing or changing a credit rating or rating outlook. This covers also ESG factors. According to ESMA's advice on credit rating sustainability issues and disclosure requirements, the extent to which ESG factors are being considered can vary significantly across asset classes, based on each CRA's methodology.

Following the 2018 Action Plan on Financing Sustainable Growth, in response to concerns about the extent to which ESG factors were considered by CRAs, ESMA adopted guidelines on disclosure requirements for credit ratings and rating outlooks. ESMA's Guidelines on these disclosure requirements will become applicable as of April 2020. Pursuant to the guidelines, CRAs should report in which cases ESG factors are key drivers behind the change to the credit rating or rating outlook. Consequently, the current landscape will change in the coming months. The Commission services intend to report on the progress regarding disclosure of ESG considerations by CRAs in 2021.

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:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It is difficult to identify how CRAs are defining and measuring ESG metrics in a consistent manner across their credit ratings and greater transparency and uniformity of approach would be welcome.

We note commentary highlighting the benefit of a linkage between credit rating and ESG metrics. However, we agree with the UNPRI (United Nations Principles of Responsible Investment) that credit ratings are different from ESG ratings because credit ratings "reflect exclusively an assessment of an issuer's creditworthiness" and while "issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable". An example as to how transparency can be achieved is Fitch which provides ESG Relevance Scores. These scores are designed to display the relevance and materiality of individually identified ESG elements to Fitch's credit rating decision.

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:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 97. Beyond the guidelines, in your opinion, should the EU take further actions in this area?

- ◉ Yes
- ○ No

- Don’t know / no opinion / not relevant

The contribution of ESG factors to credit assessments can only grow in significance as more focus shifts to ESG considerations such as stranded assets and their impact on creditworthiness. CRAs should be encouraged to provide their own equivalent of Fitch’s ESG Relevance Scores to provide the necessary transparency. An important factor for consideration is consistency of treatment of ESG factors and transparency of their underlying methodology and treatment by the various agencies. The ESG Relevance Scores should be comparable across CRAs and interchangeable as appropriate.

3.4. Natural capital accounting or “environmental footprint”

Internal tools, such as the practice of natural capital accounting, can help inform companies’ decision-making based on the impact of their activities on sustainability factors. **Natural capital accounting or “environmental footprinting”** has the potential to feed into business performance management and decision-making by explicitly mapping out impacts (i.e. the company’s environmental footprint across its value chain) and dependencies on natural capital resources and by placing a monetary value on them. In order to ensure appropriate management of environmental risks and mitigation opportunities, and reduce related transaction costs, the Commission will support businesses and other stakeholders in developing standardised **natural capital accounting** practices within the EU and internationally.

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?

- (x) Yes
- No
- Don’t know / no opinion / not relevant

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Consideration should be given to the Natural Capital Protocol which is working on sector specific guidance. The Protocol seeks to integrate natural capital into the existing decision-making process.

3.5. Improving resilience to adverse climate and environmental impacts

(Please note that the Commission is also preparing an upgraded EU Adaptation Strategy. A dedicated public consultation will be launched soon).

Climate-related loss and physical risk data

Investors and asset owners, be they businesses, citizens or public authorities, can better navigate and manage the increased adverse impacts of a changing climate when given access to decision-relevant data. Although many non-life insurance undertakings have built up significant knowledge, most other financial institutions and economic actors have a limited understanding of (increasing) climate-related physical risks.

A wider-spread and more precise understanding of current losses arising from climate- and weather-related events is hence crucial to assess macro-economic impacts, which determine investment environments. It could also be helpful to better calibrate and customise climate-related physical risk models needed to inform investment decisions going forward, to unlock public and private adaptation and resilience investments and to enhance the resilience of the EU's economy and society to the unavoidable impacts of climate change.

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
- ( ) Don't know / no opinion / not relevant

Loss data [**Y**]

Physical data [**Y**]

Please specify why you think the European Commission should take action to enhance the availability, usability and comparability of climate-related loss data across the EU?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Given the uncertain nature of climate risks with regard to probability, impact and time horizon, past data may not be an accurate reflection of future predictions. Subjective bias may also impact how the data is modelled. Impact and probability may be unconsciously assessed based on past experience of similar events, however, these were not previously modelled. Having access to a comprehensive suite of climate-related loss data will mitigate this risk.

Physical (and transition) risks will likely be correlated with and exasperated by "tipping points", in a non-linear fashion and may manifest in a more diverse nature not akin to other organic scenarios previously modelled. Data will be an important consideration in this regard.

Scenario modelling for climate risks may require enhancement of current modelling tools to incorporate carbon emissions, greenhouse gases and controversies for instance. Correlation matrices and modelling parameters may require review. A consistent view of data across the industry is important to ensure standardised modelling techniques within each business.

Given the lack of consistent data across the industry on climate risk, the above factors risk manifesting into larger issues. We therefore encourage action in this area to devise risk modelling frameworks.

Financial management of physical risk

According to a report by the European Environmental Agency, during the period of 1980-2017, 65% of direct economic losses from climate disasters were not covered by insurance in EU and EFTA countries, with wide discrepancies between Member States, hazards and types of policyholders. The availability and affordability of natural catastrophe financial risk management tools differs widely across the EU, also due to different choices and cultural preferences with regards to ex-ante and ex-post financial management in case of disasters. While the financial industry (and in particular the insurance sector) can play a leading role in managing the financial risk arising from adverse climate impacts by absorbing losses and promoting resilience, EIOPA has warned that insurability is likely to become an increasing concern. Measures to maintain and broaden risk transfer mechanisms might hence require (potentially temporary) public policy solutions.

Furthermore, the ongoing COVID-19 outbreak is highlighting the growing risk arising from pandemics in particular, which will become more frequent with the reduction of biodiversity and wildlife habitat. UNEP's Frontiers 2016 Report on Emerging Issues of Environment Concern shows that such diseases can threaten economic development.

In this context, social and catastrophe bonds could play a crucial role: the former to orient use of proceeds towards the health system (e.g. IFFIM first vaccine bond issued in 2006), and the latter to broaden the financing options that are available to insurers when it comes to catastrophe reinsurance. Such instruments would help mobilise the broadest possible range of private finance alongside public budgets to contribute to the resilience of the EU's health and economic systems, via prevention and reinsurance.

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

If yes, please indicate the degree to which you believe the following actions could be helpful and substantiate your reasoning:

Financial support to the development of more accurate climate physical risk models.	[**5**]
Raise awareness about climate physical risk.	[**4**]
Promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or /sectors after a natural catastrophe.	[**3**]
Facilitate public-private partnerships to expand affordable and comprehensive related insurance coverage.	[**3**]
Reform EU post disaster financial support.	[**3**]
Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events.	[**4**]
Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks.	[**3**]
Regulate by setting minimum performance features for national climate-related disaster financial management schemes.	[**3**]
Create a European climate-related disaster risk transfer mechanism.	[**3**]
Other	

Substantiate your reasoning for each [BOX max. 2000 characters per heading]

Please explain why you think it would be useful for the EU to provide financial support to the development of more accurate climate physical risk models:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our members report that undertaking climate-related financial risk management assessments, particular scenario analysis to assess chronic physical risks, is complex, requiring recourse to third party consultants. Such assessments, therefore, add cost and can be difficult to undertake for smaller businesses. Many of the physical risk models are also still in development and therefore financial support could be helpful to further their development.

Costs associated with obtaining climate-related financial data place an additional burden on smaller businesses – this alongside the complexity of models and technical expertise required to analyse same may place smaller businesses at a significant disadvantage to continued and sustained access within this market.

Potential capital considerations associated with climate risk are also an output of scenario analysis – consistency of the underlying methodology and accuracy of models underpinning capital allocations between companies is important. A standardised development supported by the EU would alleviate risks and concerns here.

Consistent application of the ESG-related regulatory requirements is dependent on the accuracy of individual risk models implemented. To gain an appropriate taxonomy across EU Member States in this area during the initial phase of model development is important to ensure a homogenous view of climate risk. If the EU Member States are working off a similar codification with regards climate risk models to being with, future efforts to streamline and amalgamate models will be much easier.

Please explain why you think it would be useful for the EU to raise awareness about climate physical risk:

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

While many managers will be aware of acute physical risks, such as weather events, etc., there is less awareness of chronic physical risks arising from water scarcity, heat patterns, etc. Building broader awareness of the risks, but also a more comprehensive view of both acute and chronic physical risks should therefore be encouraged from an EU policy and educational standpoint.

Garnering an awareness and education on climate physical risk will encourage investors to move more towards a greener and sustainable investment philosophy, thus encouraging investment companies to enhance their product offering to meet this demand. It will also encourage industry bodies to act on behalf of the environment they are seeking to protect, with the regulatory guidance as leverage to promote development and awareness in this area.

Raising awareness at the EU level will also ensure a diverse audience (outside of the investment realm) and include consumers and retail groups, prompting them to think about climate at the individual / consumer level.

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
- ◉ Don’t know / no opinion / not relevant

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
- ○ Don’t know / no opinion / not relevant

What action should the EU take?

2000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We propose that assessments should be conducted particularly in relation to real assets. Conducting such assessments are data intensive and therefore accessing the requisite data to assess physical risks is important. The EU could help develop a database in this area, building on practices we believe exist in the US. The EU could help develop best practice guidelines for investors and credit institutions as to how to undertake such assessments to minimise reliance on third party consultants.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here.

Please be aware that such additional information will not be considered if the questionnaire is left completely empty.

The maximum file size is 1 MB.
You can upload several files.

Only files of the type pdf, txt, doc, docx, odt, rtf are allowed