EBF final response 14 July 2020

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This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The responses to this consultation paper will provide important guidance to the Commission when preparing, if considered appropriate, a formal Commission proposal.

CONSULTATION DOCUMENT

CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY

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https://ec.europa.eu/info/business-economy-euro_en

You are invited to reply **by 15 July 2020** at the latest to the **online questionnaire** available on the following webpage: https://ec.europa.eu/info/publications/finance-consultations-2020-sustainable-finance- strategy_en

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses**.

Responses authorised for publication will be published on the following webpage: https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en#contributions

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.[1] 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.

[1] See for instance "UNEP Frontiers 2016 Report on Emerging Issues of Environment Concern", UNEP, 2016.

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.

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire on time will be analysed and included in the report summarising the responses**. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-sf-consultation@ec.europa.eu.

More information:
on this consultation
on the protection of personal data regime for this consultation

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

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

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

We believe the short-term focus should be on implementation and enforcement of the recently developed tools and legislation. Further progressive action may be needed in targeted areas. Indeed, we note that there is a topical dimension that has not been covered, as aspects related to the Coronavirus and its impacts both in terms of human and public health are missing. Indeed, the Commission seems to focus considerably on the carbon impact but as we see with the current events, we have now an additional urgency. While the EU should not step back from its priorities to fight climate change, other environmental objectives essential for avoiding future pandemics, such as deforestation, land use, biodiversity, as well as focus on human rights, social aspects and upward social convergence should be accelerated. The minimum criteria for social impact should be defined at EU level as soon as possible.

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/Do not know.
- If yes, do you consider that you have had sufficient access to information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets? Please explain and specify whether you searched for the information yourself or whether the information was made available to you [BOX 2000 characters].
- If no, would you like to be offered more information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets and divest from non-sustainable assets?
    - Yes/No/Do not know
    - If necessary, please explain your answer [BOX 2000 characters].

DO NOT APPLY.

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/do not know

DO NOT APPLY.

Question 4: Would you consider it useful if corporates and financial institutions were <u>required</u>

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;
- 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? [BOX, 2000 characters]
- Do not know.

The corporate and banking sectors depend on each other and corporate's investment strategies are largely supported (financed) by the banking sector.

In some cases, financial institutions' roles go beyond lending, banks become business partners sharing the same business objectives so what is useful for one sector can ultimately benefit the other. Long-term investment strategies with a focus on complying with the Paris agreement goals will undoubtedly contribute to a more effective perception of the role of the financial and corporations' sectors in an increasing greener and sustainable economy among the public / consumers. All economic actors should therefore be required to communicate if, and explain how, their business strategies and targets contribute to reaching the goals of the Paris Agreement. However, the timing of such disclosures is significant as it requires that companies disclose robust, complete, homogenous and comparable data from companies first, so that the financial sector could subsequently leverage on this information to calculate and manage alignment of their own lending portfolios and report how their own strategies and targets contribute to the objectives of Paris Agreement. It is also important to consider the emissions generated throughout the supply chain, to ensure that a large part of the generated emissions is not going unreported. There is also a need for harmonization of methodologies to monitor indirect GHG emissions.

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:

- Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models: scale from 1 (strongly disagree) to 5 (strongly agree). 4
- 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: scale from 1 (strongly disagree) to 5 (strongly agree). 3
- In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective?[BOX, 2000 characters]

Increasing the financing of sustainable activities and projects requires a combination of both active engagement and divestment strategies. Active engagement allows to drive conversations and monitor improvement over time. Only when such dialogue fails to trigger significant action, is it the moment to consider divesting. The EU should however refrain from establishing strategies for private investment but should provide incentives to stimulate the desired behaviour.

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?

OPPORTUNITIES:

- **Promote the role of the banking sector within the society**

- Alignment of interest and strategies with investors, employees, and society in general.
- Support customers' needs/demands and strengthening client relationships, positive competition edge for market leaders in the fast-growing market.
- Taking further advantages of digital technologies and expanding them to all business frameworks, improving the scale and efficiency towards sustainable investments. Taking further steps to strengthen knowledge and technical expertise sharing.
- Local economies: to mainstream sustainability in the financial sector, it must become highly relevant to the real economy, including SMEs. An opportunity comes from placing more focus at a national and local community level. SMEs play a critical part in both and sometimes initiatives starting from the bottom up resonate more with local businesses and communities. Banks are an integral part of local communities and can play a key role in driving local initiatives to capture hearts and minds of businesses and consumers in delivering on the 2030 climate and energy targets. The same is true of national state bodies that are trying to drive change – make the objectives touch home, make them relevant to local communities, build them into existing initiatives and engender competition to succeed.

- **Opportunities to combine Covid-19-related recovery stimuli with sustainability objectives, acceleration of social aspects of sustainability including enlarging just transition fund to cover social convergence and increase the resilience of supply chains towards increasing the self-sufficiency of EU and decreasing overreliance on third countries suppliers**.
- In the current context, prompted by the Covid-19 pandemic, it is necessary to connect with the needs of citizens and businesses to understand how best to engage them in the transition. Clear communication to gain the understanding of critical requirements necessary to ensure finance being geared towards sustainable, resilient business models and economy as well as benefits of improving the overall sustainability of economy and societies, including the impact on the job market, is key. Ensuring the right dialogue among stakeholders (citizens, business and civil society, etc.) to reach a common vision on how to approach the transition, is also critical.

- **Just transition in the medium and long term**

  Redirecting significant financial resources to sustainable investments will **shift the economy to perform on long-term financial performance targets**. Furthermore, it will create a positive impact not only for the economy but also for the citizens. Sustainable investments will help to create a healthier environment for living which is also expected to have an impact on society's health indicators overall. Governments should develop transition paths, including social impacts, based on scenarios in line with the Paris Climate Agreement to help businesses adapt their business models accordingly and provide fiscal incentives for green investments and activities.

OBSTACLES and CHALLENGES

1. POLITICAL

- **Lack of global approach**

  While the EU´s ambition is welcome, climate change is a global challenge requiring a global response. Competitive implications for the EU Economy, possible frictions in international capital flows, particularly in the short term, should EU press its ambitions unilaterally, are to be expected. Globalization requires more international as well as institutional working tables for the successful and effective transition to sustainability. In fact, even a single jurisdiction arbitrage could severely dent the effort made by other committing countries.

  It is also important to spread information globally and to provide training on issues related to sustainability both from the point of view of environmental protection and social justice. This will strengthen the internal thrust at country level towards adopting shared sustainability policies. Market stability and economic-political tensions are risks arising from short-sighted views. The launch of the recent International Platform on Sustainable Finance (IPSF) by the European Union and other important institutions from Argentina, Canada, Chile, China, India, Kenya, Morocco, New Zealand, Singapore, Norway and Switzerland, together with the International Monetary Fund (IMF), is a clear step forward. This is an example of coordinated and appropriate international cooperation that will cover capital market initiatives and encourage sustainable investment globally.

  The current pandemic and economic crisis have reinforced the need for a comprehensive and global approach to cope with the heightened asymmetries, weaknesses and inequalities of our system that must be properly considered to achieve sustainable, inclusive and fair development. Climate biodiversity and major health crises, such as the recent pandemics, are a direct consequence of human activity, and there is just a small window of opportunity to overcome the challenges of the current pandemic situation, and to avoid sowing the seeds of future ones. Recovery should come with conditions targeting an inclusive and sustainable economy, and mutual support and coordination are essential.

  At international level, EU trade policy could be a useful tool to promote the fight against climate change, environmental degradation, and human trafficking. The role of climate in trade deals could be strengthened. Also, tax policies such as the carbon tax could be a way to avoid a loss of competitiveness for European firms, internalizing the costs associated, in particular, with climate change.

- **Global economic recession, fierce economic competition between large economies, political instability.**
- Obstacles linked **to budgetary limits** due to the financial needs caused by the Covid-19. There is a risk that renewable energy will not be able to compete with cheaper carbon intensive energy, unless subsidized.

2. EU LEGISLATION

COMPLEXITY

- **The complexity of the sustainable finance framework, with partly overlapping initiatives and requirements, is increasing, with significant obligations placed on the financial services sector. In some instances, direct regulation of businesses should be considered instead of indirect measures, via the financial sector. Increased complexity** will negatively impact effectivity. Definitions should be aligned within regulatory frameworks. The focus of reporting requirement should be on high informational value and materiality. Only perfect alignment between reporting requirements under the reviewed Non-Financial Reporting Directive (NFRD), the Sustainable Finance Disclosure Regulation (SFRD), the Capital Requirements Regulation (CRR) Pillar II disclosures and the Taxonomy Regulation, will ensure the usefulness of companies' data that banks will have to report. Effectiveness will increase and costs of implementation will decrease if companies can report only once to a central data register, which financial institutions can access for application to finance decisions.

- **Usability of the taxonomy**. Taxonomy is a starting point for the quantification of exposures, the development of financial products and services on a comparable basis and increase of the climate change-related financial assets. While the understanding of E&S risk management is now well defined in due diligence, definitions of lending with positive E&S impact can range widely from country to country. Clear tagging of green activities linked to the codes already used by banks and a clear link to the national laws, is lagging. We welcome the recent efforts by the Commission TEG to improve the usability. The EBF is, together with UNEP FI, undertaking a project on the possible use of the EU taxonomy for certain banking products which is expected to contribute to the debate on the usability of the taxonomy for banks. The project is expected to conclude by the end of 2020.

CONSISTENCY

- **Definitions and Standards**

  While we appreciate the EU efforts to drive standardization, there is a need for wider international standardization to the maximum extent possible for the financial sector given that the financial industry is much more internationally interrelated then other kinds of industrial value chains. Currently there is no systematic approach to measure and benchmark the progress and performance of sustainable banking at global level.

  Lack of consistency in reporting makes it difficult to assess a bank's portfolio as the information available can be subjective, and therefore, not comparable. A simple set of metrics and mandatory disclosures that all industries have to use and report on would help achieve a better outcome in the short term and could be built on over time as understanding improves. At present, reporting/disclosure obligations arise under numerous different pieces of proposed legislation and guidelines, each with slightly different scopes and definitions, creating a difficult landscape.

PROPORTIONALITY

- **Lack of proportionality** mechanisms both for financial market participants and companies.

3. LACK OF DATA, ANALYTICS , KNOWLEDGE AND AWARENESS, PROJECTS AND INCENTIVES

Lack of Data

- E&S information may not be available in certain markets and may not be presented for financial market participants in understandable and decision useful ways. If companies are not able to provide the data required by the EU Taxonomy, there is a risk of under-representation of the environmentally sustainable sectors and/or the risk of an information gap between larger companies and small and medium-sized enterprises. **A unique reference capable of enabling the standardization and collection of relevant ESG information and sources is therefore advisable.**

- The availability of good quality data is necessary for mainstreaming sustainability in the financial sector. The relevance of reporting is not always evident or assured. For example, at the level of investment funds, there are labels, but the data available to asset managers are so disparate that there is a risk of green washing: depending on the data used, the result may vary (positive or negative). Furthermore, in some instances there is an issue with the quality of the verification of the compliance of the investment policies applied by the funds' managers. **There is therefore a need for a centralized EU hub (register) where relevant, reliable, comparable, and legitimate data are available for free or at an affordable cost (See response to question 14).**

Lack of knowledge and awareness

- Training and education need to be stepped up both in the private and public sectors. The commercial staff of banks and financial intermediaries may not be sufficiently trained to initiate discussions with their customers. The customers may not have sufficient knowledge, for example of the changing regulatory or business environment, nor sufficient incentives for sustainable considerations. Development of training programmes and competences is important as well as clear communication at all levels, including national governments' communication of the EU agenda, requirements and impact.

- In addition to further policy support at national level to mobilise funding through the private sector, public education is crucial, both in terms of financial barriers (e.g. education regarding potential energy savings and , understanding of long-term savings relative to high upfront costs) and non-financial barriers (e.g. lack of awareness, quality supplier information, an understanding of the duration and complexity of work).

- Banks are aware of the necessity over time to limit their exposures in terms of lending to businesses which are not compatible with the achievement of the 2030 climate and energy targets and of the importance of government policy on a 'just transition' in dealing with many of the property and land assets which they would have traditionally taken as security for credit facilities provided. The financial sector will need to protect itself against holding depreciating 'brown assets' as security for lending. This requires accelerating staff training within the financial sector, particularly the staff dealing with SMEs who need to ask their SME clients questions about their positive climate credentials and their neutral climate credentials in terms of 'doing no harm' and, their accelerated approach to educating businesses, as well as their need for fiscal supports to enable businesses to invest in order to improve the energy rating of their premises.

Lack of projects and incentives

- There is a lack of pipeline of investment projects that respond to the strategic objectives of the EU. Technical assistance and advisory support at all levels of public administration will help to identify and prepare sustainable projects and provide capacity building to project promoters.

- While banks can provide "green" and "ESG" products, achieving customer buy-in and incentivising genuine change can be challenging. To really drive action, customers (households, SMEs, corporates) need to be further motivated through initiatives such as public funding, favourable tax treatment, grants.

- With the correct support, the financial sector can play a key role in playing in mainstreaming sustainability among its SME and personal customers. SMEs across the EU account for 99% of all enterprises and 67% of total employees. These SMEs operate within an ecosystem, employing staff who are awakening to the sustainability agenda, supplying service upstream to larger enterprises that are gradually increasing their sustainability certification demands in terms of products supplied, and in turn, beginning to push down the supply chain, in terms of the sustainability certification, in respect of the products they purchase.

- Given the influence of SMEs in local communities, banks recognise the opportunity to leverage that influence by providing advice and financial support, which combined with national Government support and investment could expect to see substantial change delivered over time.

- In addition to lack of general incentives, there is a lack of incentives for companies to disclose relevant data necessary for scope 3 calculation of banks.

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?

 Please provide a maximum of three examples [BOX max. 2000 characters].

- Capital Markets Union and Banking Union
- CMU: larger European capital markets are necessary to mobilise the private investments needed to achieve 2030 sustainable goals. The regulatory obstacles

identified by the different expert groups including Markets4Europe[1] should be addressed.

- Impediments for green securitization are addressed in response to section 3.2.
- **Complex listing requirements. A simplification of listing requirements is needed.**
- **Complex processes for issuance of green products and higher cost due to** mandatory prospectus, reporting and assurance.
- **The presence of a few listed SMEs**. Sustainable Investments are mainly addressed to institutional investors and EU SMEs are rarely able to provide investors with fully detailed and qualified ESG information.
- BU: Eliminating ring-fencing incentives and finalising BU would put banks on a much better footing to continue supporting clients and society in the transition towards a more sustainable future.
- Reporting: The promotion of credit supply for sustainable economic activities requires coherent information in order to grant the availability of relevant and consistent ESG data. Nowadays, the non-financial information disclosure requested by the EU Directive 95/2014 is not enough to draw on the data for which Europe asks banks to make a disclosure. If companies are not able to provide the data required by the Taxonomy, there is a risk of under-representation of the environmentally sustainable sectors and/or the risk of an information gap between larger companies and small and medium-sized enterprises. A unique reference capable of enabling the standardization and collection of relevant ESG information and sources is therefore needed.
- Taxonomy: Some sub-activities are lacking NACE codes. Huge expertise is required to analyse and understand the technical criteria (thresholds) per activity.

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?

The EU and Member States have a number of public policy tools available to drive sustainable investment, such as taxes, subsidies, state aid mechanisms, regulation and others. We believe that these tools play an important role in the EU's sustainable finance agenda to enable the transition to a sustainable economy to help achieve a carbon neutral economy by 2050. It would be useful that the European Commission assess the impact of any tools already used to incentivise sustainable investments, and, how these tools are to be used across jurisdictions to safeguard the competitiveness of the European economy and businesses of all sizes. Furthermore, the recently proposed EU Just Transition Fund is a step in the right direction.

[1] https://markets4europe.eu/

Climate change, but also most of the policies designed to combat it, including sustainable finance and carbon pricing, could indeed have adverse redistributive effects. There is evidence that most well-off households are better equipped to deal with the effects of climate change and face the changes in relative prices brought about by the policies designed to combat it. The sustainability agenda should have at its core the concept of a just transition and ensure that all the decisions and tools designed to achieve a carbon neutral economy by 2050 contribute to it. The EU needs to ensure that sustainable policies consider its redistributive effects and include the necessary measures to combat it. Green-dividend style policies for private individuals have been touted as a potential solution. These policies would entail a redistribution (lump-sum or need-based) of revenues generated by Green policies such as a carbon tax.

The role that an effective carbon pricing mechanism could play in setting the right framework to reduce emissions and drive investment in low carbon technologies and infrastructures should be carefully assessed. International alignment should be prioritised, so that any potential solution works across countries and avoids carbon leakage. It would be advisable that the carbon policy instruments are part of a broader framework of policies, including on energy efficiency or research and development, in order to achieve the necessary emissions' reduction.

The EU can anticipate the effects in the identified sectors by setting up programmes to help companies transform themselves and by adopting policies to retrain their staff. While some jobs will be lost, the transition to a climate-neutral economy, the protection of biodiversity and the transformation of agri-food systems have the potential to deliver new jobs rapidly while improving the resilience of societies and the way of life for citizens. The skill and business models' transformation could be supported, for example, with tax credits to the companies concerned, based on meeting certain targets and thresholds for transition. New and innovative business models can be subsidized or publicly co-financed to share the risk.

While it is not entirely clear what is meant by financing tools, the EC must assess carefully the impact of any measures, and also how they are sequenced with respect to other jurisdictions, to avoid unnecessarily damaging the competitiveness of European businesses and enlarging the social gap. It would, for example, be counterproductive for Europe to press ahead unilaterally with a brown penalising factor on banks´ exposures to high emitting sectors that are in their journey to transition, for a number of reasons. These sectors need to transform. If European banks were to be penalized for supporting their transition, they would stop lending to these sectors, but this would not stop other banks in other jurisdictions from stepping in, and quite likely without demanding clear transition paths from the companies. Therefore, the objective sought, by means of a penalizing factor, would not be fulfilled, on the contrary, could be quite counterproductive. In addition, the economic and impact of the penalizing measures in the economy could be very significant in the short to medium term, when firms are in the transition stage.

Europe needs to find the right balance between the transition ambition and the capacity of the economy to undertake this transformation. The European Just Transition Fund will be instrumental in achieving this, and therefore the territorial transition plans have to be carefully designed. However, the Just Transition Mechanism will likely be insufficient to offset the negative socio-economic impacts around Europe. Other funding vehicles will be necessary to close the funding gap, such as Innovation and Modernisation funds, which are not part of the EU budget, but are financed by a part of the revenues from a key policy tool, the auctioning of carbon allowances under the EU Emissions Trading System, with a special focus on lower-income Member States in the case of the Modernisation Fund.

Consideration should therefore be given to how a well-designed carbon tax (carbon Price) could contribute to transition funding. Furthermore the EU could consider additional support measures for the affected areas around Europe, such as providing the possibility for companies in these areas, lower taxes for a specific period of time, appropriately targeted fiscal benefits, flexible pension schemes for older employees, tax incentivized part time or shared jobs, in order to avoid social pressures from local communities, as well as increased and long-standing communication of the benefits that will arise over time for future generations etc.

Banks' financing of the projects with specific social characteristics during the crisis has increased as did the issuance of social bonds. It is expected that banks will, in the future, be increasing financing of social beneficial projects, be it educational projects required to prepare the workforce for the more sustainable sectors, such as renewables, the which are expected to create new job opportunities or to finance the digital transition. Addressing social concerns and ensuring fair and a just recovery and transition will require acceleration of the development of social criteria in addition to the Sustainable Finance taxonomy, even if simplified, to begin with. Consistency of definitions are important not only for transparency reasons and for avoiding "social washing" but also for inclusion of social bonds into recovery programmes and attracting funding. Please see also our response to question 72.

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?

- Please express your view by using a scale from 1 (not important at all) to 5 (very important).
  5
- For scores of 4 to 5, what are, in your view, the mechanisms necessary to be put in place by policymakers to best give the right signals to you as a corporate or a financial institution? [BOX, 2000 characters]

The clarity and stability of the political and regulatory environment, including public policies are essential for banks as well as companies to engage in long-term business models and decision-making. Policymakers have to define clear paths on how each sector will reconvert to meet the targets of a low carbon economy, backed by policies and incentives, enabling banks to support companies in their transition, under a certain and predictable environment. The EU Green Deal is a welcome blueprint on how Europe can transform into a fair and prosperous low carbon economy, and we expect it to be fleshed out in detail, together with a commitment from MS to implement it as envisaged. The Next Generation EU instrument to boost the recovery after the Covid-19 crisis have to enshrine the EU Green Deal priorities. Harmonization and consistency are essential and we would welcome efforts by the European Commission to harmonize the different initiatives where possible by providing:

- consistency between the different initiatives;
- clear definitions;
- simplifications of information procedures where possible;
- a gradual implementation process.

The EC together with the Member States can provide more guidance by setting out transition paths based on scenarios. This would facilitate banks in supporting their clients to make the right decisions towards a greener society.

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

- Yes, institutional investors
- Yes, credit institutions
- Yes, both
- No
- Do not know

Yes, but only when there are clear and useful methodologies available. The temperature-oriented-rating of a portfolio could prove very hard to estimate. A given project could fall under different temperature scenarios depending on its interaction with other projects (potentially outside an institution's portfolio) or with each country's green policies. We believe the EU should provide the necessary tools, methodology & framework that the relevant counterparties (institutional investors and credit institutions) could use to disclose information about their portfolios. Otherwise, the costs involved and the complexity associated will be unmanageable.

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,[2] as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?

- Yes / No / **Do not know**
- If yes, please specify potential actions the EU could take. [BOX max. 2000 characters]

The COVID-19 pandemic is a reminder of the close relationship between biodiversity loss (exacerbated by climate change) and human health. However, it is a complex issue and should be examined in the framework of the taxonomy, rather than as a separate workstream. The EU should propose a pragmatic step-by-step plan with a number of clear priorities while taking into account constraints. This plan could start with the points that are easy to implement. Thus, as regards existing actions on biodiversity loss, they should be strengthened, but above all, shared in a simple and transparent way by raising awareness among the general public.

While developing of taxonomy on biodiversity may take longer to develop, the EU should seek increased company transparency on respective risk exposure/assessments and corresponding actions and increased responsibilities for biodiversity in the supply chain (including outside the EU), although we acknowledge the lack of data and methodologies to measure impact.

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?

 [BOX, 2000 characters]

The EU Green Deal should be a transversal priority to all EU policies. EU Green Governance should be embedded in the Multiannual Financial Framework. This is the best way to ensure accountability and predictability on the public funding side in the long term. Therefore, the MFF must include a European Green Deal and Green Deal Investment Plan, if possible, financed with the emission of green securities at EU level. Regulatory requirements and public involvement in green projects would trigger green private investments.

Inside the European Commission it is important to ensure greater coordination to avoid initiatives such as expert groups on sustainable-linked topics, or, calls for proposals on sustainable-linked projects launched by single DGs without coordination with all relevant DGs. The Sustainable Finance Platform will have a central role in involving the private funding side. For this reason, it must be much broader than the current TEG, involving business and financial sector representatives at large.[2] Consultations on the upcoming initiatives and a good cooperation with the main finance industry associations at European level is also proving essential.

Furthermore, the impact of what has been implemented and how much of the needed funding has been mobilized should be measured by means of key KPIs.

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.

 [BOX, 2000 characters]

Introduction of an adequate set of incentives for the different economic sectors, activities or projects, including for retailers.

Well designed and targeted incentives could lead to a meaningful increase in sustainable activities and products both on the supply and demand side.

Appropriately targeted fiscal benefits applied within reason, as well as an adequate carbon price and redirection of subsidies, may play an important role in mobilising the switch towards more sustainable actions. Fiscal stimuli, in particular, are proven to be very effective in influencing the way companies behave.

[2] Please refer to our join letter with Business Europe https://www.businesseurope.eu/sites/buseur/files/media/public_letters/iaco/2020-01-14_businesseuropeebf-v.dombrovskis_-_platform_on_sustainable_finance.pdf

The European Commission could also accelerate the work and the mandate given to EBA to explore the possibility of introducing a supporting factor in the capital framework for banks for certain sustainable activities.

In addition to incentives the EC together with the Members States can provide more guidance by setting out transition paths based on scenarios. This would facilitate banks in supporting their clients to make the right decisions towards a greener society. **We suggest promoting further climate impact measurements to develop scenarios and setting targets to align with the Paris Agreement.** There are already good examples such as the Collective Commitment for Climate Action of the Principles of Responsible Banking of the UN and national initiatives such as the Dutch Climate Commitments. These are initiatives where banks commit themselves to start measuring climate impact (e.g. PCAF and PACTA) to develop scenarios further and to set targets aligned with the Paris Agreement.

Blended finance and public programmes allowing for guarantees to incentivise sustainable projects and the integration of sustainable finance into promotional structures will also play a key role. **We welcome public-private funding to accelerate the transition and** encourage the EC further in stimulating green public and private funding based on clear transition paths and ask national Governments to align as much as possible with their National Climate Agreements.

Further actions are needed to develop a pipeline of investment projects that respond to the strategic objectives of the EU. Technical assistance and advisory support at all levels of public administration must help to identify and prepare sustainable projects and provide capacity building to project promoters. The envisaged Structural Reform Support Programme that will provide technical support to Member States is useful in this regard, but the Commission must ensure that the support to public administration and the support to each project is provided in a coordinated way. This could include assistance to combine different funding opportunities in comprehensive regional plans. The recommendations of the Court of Auditors will have to be considered to address the current inefficiencies of the EU Advisory Hub to be useful for sustainable investments.

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, 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?

- Yes / No / Do not know.
- If yes, please explain how it should be structured and what type of ESG information should feature therein. [BOX, 2000 characters]

Yes. The EU should support a common, publicly accessible, free-of-cost (or at affordable costs) environmental data space not only for environmental data but for all ESG factors to foster comparability. The EU should support development of a centralized data register that would facilitate building of ESG disclosures and the access to relevant and reliable data at the EU level (ideally in a standardized form but also providing access to disaggregated raw data) in an open source format. With all the different initiatives, it is important that the Commission acts to facilitate and improve ESG disclosures and the access to relevant and reliable data at the EU level, based on EU legislation.

The Commission should build or support, based on existing solutions and infrastructures already in place, an EU infrastructure that could collect periodically, with the help of new reading technologies, existing climate change mitigation and adaptation data of companies that publish non-financial statements under the NFRD and other available relevant information, ESG metrics and relevant data points. It should also be possible to upload additional information to the register on a voluntary basis, but compliant with quality and credibility rules previously established.

The EU should also open its databases that collect environmental reporting data and make those re-usable for finance providers via the central repository. Goods and Services (activities) EGSS under the UN System for Environmental Economic Accounting should be complementary to the data that companies and financial institutions report. This data is critical for financing, and to track the economic performance of sustainable activities.

Eurostat data sources should also be made re-usable for finance purposes (for example to apply in deterring the carbon footprint of an activity following the PCAF method).

The public sector (national banks, local authorities, utility companies, …) could also publish their data (energy efficiency, air pollution, …) on a statistical basis, protecting the private information for individuals. Please see:
https://ec.europa.eu/jrc/en/publication/joint-jrc-eba-workshop-banking-regulation-and-sustainability
and
https://www.ebf.eu/sustainable-finance/usability-of-the-taxonomy-ebf-responds-to-european-commissios-technical-expert-group-consultation.

We understood from the digital strategy that a common European Green Deal Dataspace is already envisaged. We believe a centralized data register as described above could be explored in this context to ensure one single data space. It should however comprise all ESG data as the sustainability objectives are closely interlinked and it is useful to analyse a company based on a holistic approach.

In addition, the European Commission could launch a project to identify the information gaps of relevance for climate change mitigation and adaptation information that are not in the scope of the EU Non-Financial Reporting Directive (NFRD) with respect to the Taxonomy.

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?[3]

- Yes/No/Do not know.
- If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation),[4] 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). If necessary, please specify [BOX, 2000 characters].

DOES NOT APPLY.

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 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 / Do not know.
- If yes, what is in your view the most important area (please provide details, if necessary):
  - Impairment and depreciation rules. [BOX, 2000 characters]
  - Provision rules. [BOX, 2000 characters]
  - Contingent liabilities. [BOX, 2000 characters]
  - Other, please specify. [BOX, 2000 characters]

We believe that the requirements and guidance in IFRS are sufficiently dealing with issues of potential future loss in value of companies resulting from potential future stranding of their assets.

IFRS 6 Exploration and evaluation of mineral resources define the principle of capitalization of exploration costs, including licences and surveys (i.e. on discovery of a commercially-viable mineral reserve the capitalized costs are allocated to the discovery, whereas if a discovery is not made, the expenditure is charged as an expense). In addition, IFRS 6 specifies the circumstances in which entities should test exploration and evaluation costs for impairment. After demonstrating technical and commercial feasibility of extracting a mineral resource, the assets are reclassified according to other IFRSs, such as IAS 38 Intangible assets and IAS 16 Tangible assets.

IAS 36 Impairment of assets applies to tangible, intangible assets, and machinery equipment. An impairment test should be conducted when there is an indication of impairment (however for intangible assets not yet available for use, the recoverable amount is measured annually, whether or not, there is an indication of impairment). The test may be conducted for a cash-generating unit (group of assets that do not generate cash inflows individually). When there is a legal or constructive (when the entity accepts responsibility) obligation for clean-up costs for environmental damage, in accordance with IAS 37 an entity is required to recognize a provision in Profit or Loss for the best estimate of the costs of clean up. However, no provisions are made for costs that may be incurred in the future if there is no present obligation (i.e. when these costs can be avoided by future actions).

According to IAS 38 and IAS 16 the depreciable amount is allocated on a systematic basis over the asset’s useful life. The residual value and the useful life should be reviewed at least at each financial year-end and if expectations differ any change is accounted prospectively as a change in estimate.

IFRS 9 requires banks to consider forward-looking elements and material changes both at macro and micro level for building provisions for expected credit losses.

The EBA also did not identify any major impediments in the financial reporting that would foster short-termism or otherwise hamper sustainability developments.

However, given that financial institutions are increasingly offering sustainable products in their product offering with pricing differentials, where the spread charged to customers for this financing depends on the companies´ sustainability index, we would like to raise the following issue.

For these products, the price is being reduced when the index is lower, or increased, if this worsens. The way in which this pricing is carried out has a direct impact on the accounting record of the operations, given that, unless this margin (the increase or decrease in spread directly related to the company's sustainability index) is insignificant, the loan cannot pass the SPPI test (only capital and interest payments) and cannot be recorded at its amortised cost.

We believe that it would positively encourage financial entities to offer sustainable financing and reflect the differences in pricing, thus rewarding those companies with a better sustainability performance, if the rating is duly incorporated into the credit risk. This could be achieved if CRAs increase the transparency on how they integrate ESG factors into their ratings, as well as progressing towards further harmonisation across CRAs in this area.

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?

- Please express your view by using a scale of 1 (not concerned at all) to 5 (very concerned).
  3
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

  We do not think it is necessarily a problem of concentration in the ESG ratings and data market; it is the ratings systems and overall process that is not transparent and faces challenges.

  Currently the market is very fragmented and the level of comparability of different methodologies is very low and does not allow for an easy use of ESG ratings. While there are many unregulated data and rating providers, the data available currently is still not sufficient for the financial sector to comply with the forthcoming legislative obligations, or to scale up sustainable finance. However, we are observing the ongoing consolidation in the market (ISS acquired Oekom in 2018, Morningstar acquired Sustainalytics, etc.) The EU should supervise the development of this market in order to keep a good balance, avoiding any future market concentration and any increasing costs for obtaining data.

  The EU centralized data register as proposed in response to question 14 could substantially improve the data availability and analysis and increase understanding and management of the ESG risks.

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

- Please express your view by using a scale of 1 (very poor) to 5 (very good).2
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

While some asset managers or investors may find merits in the diversity of ratings, research or analysis, it seems that most find it confusing to receive very diverging ratings from different providers on the same company or product. The lack of comparability is due to the lack of transparency and uniformity of the rating scales, criteria and objectives as well as lack of standardized disclosures and, for the time being, absence of a common taxonomy.

At present comparability remains very low while the quality and reliability of ESG data vary from provider to provider. Recently there has been some improvement in terms of coverage and data quality. Quality is also improving with a better non-financial reporting of companies.

The providers offer different sensitivities to different issues, leading to lack of comparability and understanding as methodologies used by providers are considered proprietary information. Not only the rating comparison with peers is difficult, but also the positioning of the same company in different rating scales by different providers is difficult to assess (if not impossible).

The quality of data reporting by numerous agents has improved in the last few years: generalist data vendors (e.g. Bloomberg or Refinitiv), ESG-focused data vendors (e.g. Sustainalytics, Carbone 4, CDP), credit rating agencies (e.g. Moody's or S&P), exchanges (such as LSE, JSE, etc.), and asset managers (e.g. RobecoSAM, etc.) and further improvement is expected with the implementation of the EU taxonomy.

However, data providers have focused, so far, in a static quantitative approach more than in a qualitative approach. The focus of data providers is still on exclusions and relative ESG performance while there is a need for increased focus and data on positive impact. This has increased the difficulty to compare ESG data. Often, data seem to lack update promptness and need to be double checked. In several circumstances, banks have to engage with issuers in order to ascertain or complement the ESG data from providers.

In addition, data providers are often focused on large corporates whereas the information needed is also relevant for medium-size companies or even very small companies. The lack of coverage for SMEs is one of the main challenges. With the development of the ESG data range covering different degrees of granularity, the challenge will be to find the right balance between usability and granularity.

Lack of verifiability of data (indication of where the data is sourced) and lack of reliability of data (quality assurance) is also an issue. There is also a significant risk that the assignment of ratings or labelling of companies / financial products, in the different ESG criteria, could become a declarative process, of mere registration and little auditability. Therefore, it is important to guard against deviations in terms of competition between companies that may pose risks to the investor and to financial institutions, arising from the use of ESG "labelling".

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

- Please express your view by using a scale of 1 (very poor) to 5 (very good). 3
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

Both the private and public sectors have recently stepped up the quality and quantity of ESG research, especially regarding climate change but a lot of good research remains publicly not available. The available macro and micro level data analysis give insights of how authorities and peers are using ESG material. However, lack of data for large sectors of the economy including SMEs coupled with lack of data standardization/comparability and ESG methodologies at an infancy stage, hinders the usability of ESG research for decision-making processes.

The accuracy of the data is critical. In the interests of fairness to those being assessed, and, to ensure investors are being provided with the correct information, agencies need to be accountable for keeping data up to date and applying consistent approaches to assessing similar companies. Agencies rely heavily on reports from various sources, which are not always substantiated and/or accurate. Once they are attached to a company's profile, ESG rating agencies can be reluctant to remove them even when they are advised of the inaccuracy of the information. This comment also applies in respect of Question 18.

As for the answer on question 18, the quality and relevance depend on the provider that carried on the research and ESG data quality. In general, it is informative although it seems too often to rely on media reports. The main tools used to make assessments are often those that can be easily retrieved and are publicly available. Information received very often recall websites that report non-audited facts and partial judgements by the authorities. Such data is generally indicated in the reports under a specific heading. Given the fiduciary duty of investors, the usefulness of such information is questionable. There are typically public statements that indicate great commitment to quality standards, integrity and high ethical standards; however, these are not clearly substantiated.

There seems to be a high risk of disclosure and use of incorrect data and indicators, to the detriment of financial institutions, investors and companies, either because these indicators are based on non-quantifiable data or because they may never be verified. Unlike the assessment of other financial risks (market risk, credit risk, etc.), where numerous institutions have a word to say (such as supervisors, auditors, rating companies, etc.) with very concrete methodologies and processes of evaluation and control, ESG data may be less transparent or reliable and clearly depends on the level of investor literacy.

Some companies have their own research departments and work with questionnaires that companies are required to fill in, so these data providers have their own information next to the data that is reported by companies. We believe that helps to enhance the quality of the ratings although likely to push the pricing up.

Another point that may raise concern are the costs and access to ESG data for financial institutions. We believe that strong support by the EU in this domain is necessary, so that financial intermediaries can access sufficient databases and research at European level (see our response to Q.14).

In addition, to increase the quality of published information, there should be improved flow of information between companies being assessed and the raters. When a company is invited to participate in an assessment and agrees to do so, significant resources are required to support it. In turn, rating agencies should be required to share insights and best practices from similar entities in similar markets, to allow the rated company to see how they compare with the best and what 'best' looks like.

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?

- Individual: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good). 3
- Aggregated: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good).3
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

There is lack of clarity on what an ESG rating is measuring (ESG risk exposure/ ESG management preparedness/level of disclosure/physical risks, etc), and it cannot be compared with a credit rating where the ultimate aim is to provide opinion on the likelihood of timely payment within a range of definitions (regulatory intervention; first dollar default; ultimate loss for investor). It is difficult to understand the methodology behind a specific ESG rating as ESG rating providers consider the methodologies as proprietary information.

The methodologies behind ratings are constantly changing, which brings additional challenges. There is a lack of transparency, both in methodologies and review processes, including detailed public communication regarding any major changes to methodologies and associated likely impacts before they occur.

Investors have often been critical of the ability of agencies to identify and evaluate the risk. Specifically, in relation to banks, there is a knowledge shortfall also in relation to knowledge about law, regulation, and basic banking principles. There is also a lack of auditable information to analyse and compare. In practice, banks often have to evaluate each individual metric provided by ESG providers and test them for materiality and consistency and apply their own degree of confidence. Banks also often use internal ESG rating for investment decisions.

In addition, ESG ratings are produced by organisations that are understaffed relative to the complexity of the analytical tasks i.e. there is a low ratio of ESG analysts / rated companies (especially compared to credit rating agencies). Analysts cover hundreds of companies and do not have capacity to dedicate to an in-depth analysis of the company. They generally assign E, S, and G weights to companies without factoring in company specific risks. Ratings tend to cluster companies into sectors in a heterogeneous manner without providing a granular analysis of the sectors. This high-level sector approach implies that the materiality applied to a sector quite often does not correspond to what is relevant at individual company level. To this end it would be helpful to include a tag whereby the rating would explain whether the sector aggregation is automatic or has been manually allocated by an analyst.

ESG ratings combine a set of factors that may be wholly or partially unrelated and sometimes offsetting. The resulting ratings issued by ESG Ratings agencies tend to differ. A company may be considered very high risk, medium risk and low risk, at the same time, when rated by three different agencies. ESG rating agencies do not always enter into dialogue with the companies they rate which sometimes results in factually incorrect analyses and misleading/incorrect conclusions.

Based on available documentation, an ESG rating is in practice just a list of checks where the availability of certain documentation is seen as proof of real results. As integrated reporting standards such as TCFD become more prevalent, the foundation may be laid for improved analytical work.

Limited reliance on important industry standards (SASB, GRI, UNDP, Global Compact Principles, etc): it should be more explicitly disclosed when they are aligned to the standards and where not.

In addition, there does not seem yet to be any appropriate measures to manage the Chinese wall between those players, considering that they offer assessment and rating services to both issuers and financial actors.

While there are still issues with the comparability and quality of the ratings, we see some positive trends in improving data quality thanks to the increased companies' disclosure, increased coverage of companies by data providers and more regular update of data. While ratings were traditionally very backward-looking and had little predictive value, there is an emerging tendency by data providers to focus on material issues/risks and their likely impact on companies' performance. The focus should indeed be on a shift from backward-looking perspective and excessive focus on disclosure ESG compliance (tick the box) to ESG strategic considerations.

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

- Yes / No / Do not know.
- If yes, please explain why and what kind of action you consider would address the identified problems. In particular, do you think the EU should consider regulatory intervention? [BOX, 2000 characters]

The homogenization of the European regulatory framework on sustainable finance is crucial to achieve the EC objectives regarding sustainability. The main issue is the availability and reliability of data and lack of standard/harmonized definition and approach. This means that the data available is also difficult for comparison between peers but also for analyzing the development of the same company over time. There is a need for more transparency of the methodologies used by the rating providers. While technical algorithms and proprietary information does not have to be disclosed, it would be useful to understand what material information rating providers are looking at and how this is being used. It is also important that methodologies and information sourcing can consider relevant national conditions. This can, for instance, be special mortgage systems, collective agreements on the labour market, welfare benefits, that can have a positive impact on ESG rating. For instance, a mortgage system that provides loans to people from all social classes and makes it possible for most people to own their own home, should score well on the social dimension in ESG ratings.

To increase the harmonization, the Commission should promote sectoral/geographical studies to identify the material information for the ESG profile assessment (separately for climate change, other Environmental objectives, social) of the companies in the different segments, at present, as a future trend, and also, to develop a simplified template to gain data from SMEs specifically per sectors. As a first step, homogenization of analysis criteria by ESG rating agencies and ESAs' guidance on minimum standards could be sufficient.

In this regard, we would like to highlight some specific concerns.

- ESG rating agencies rate companies without their participation. An assessment, in the absence of participation by the company being assessed, has a significant bearing on the quality of the information being used to determine the ESG rating. At a minimum, standards for the ESG ratings should be required to flag whether a company participated in the assessment. It should be clearly stated where and how alternative data (not company reported) have been used e.g. government data bases, NGO materials (physical risk data). In order to ensure the consistency of the reporting, and the transparency of its provenance, we would like to propose:
  - a unified scale for similar categories of measurement across CRAs (first, clarify what is being measured and then introduce a common scale to each type of sector/activity in scope);
  - a set of rules to enable management of perceived conflict of interests (e.g. in the case of ESG data and ratings' providers also offering other services to the companies they rate);

- agencies could be a useful tool in helping to encourage clear and comparable disclosures; in support of EU regulation;
    - there is a significant focus on the environmental aspects of sustainability e.g. the taxonomy, carbon benchmarking, etc., however we see little emphasis amongst the main ESG rating agencies on environmental criteria; and
    - NFRDs' criteria should be incorporated in the assessment of material issues for companies in scope;
- when a company's rating is being downgraded there needs to be transparency, data quality and verifiability of information about it; rating agencies should be required to provide a formal notification to a company which is being downgraded prior to the event, together with a clear unambiguous rationale for same.

1.4 Definitions, standards and labels for sustainable finance

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: (i) developing possible technical criteria for the EU Ecolabel scheme for retail funds, savings and deposits, and (ii) 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
- Do not know
- If necessary, please explain the reasons for your answer [BOX 2000 characters]

Creating a complex accreditation structure for external verifiers should be avoided. However, we acknowledge that some level of coordination on the accreditation or authorization of GBS verifiers should take place at European level to ensure consistent approach across Member States. A set of standardized criteria must be followed to authorize these verifiers and ensure they are not ~~i~~entering into conflicts of interests because of the nature of their business model and the services they provide. Equally important is that any framework designed does not result in additional costs for issuers because of the complexity of authorization/authorization process of verifiers.

- **Question 23:** Should any action the Commission takes on verifiers of EU Green Bonds be linked to any potential future action to regulate the market for third-party service providers on sustainability data, ratings and research? Yes / No / Do not know
- If necessary, please specify the reasons for your answer [BOX 2000 characters]

The measures taken by the Commission concerning verifiers of EU Green Bonds should not be linked to future action to regulate the market for third-party service providers. The key is to ensure there is clear and simple guidance and standardization for third-party providers without interfering too much with the market and increasing costs for issuers. The aim is to encourage similar practices of verifiers in terms of the interaction between green bond opinion services and ESG ratings. We encourage consistency on how the issuance of green bonds and the disclosure associated with it feeds an issuer´s ESG rating.

While a framework at EU level is needed, the two regimes should not be linked as ESG providers do not have the same approach as companies that can license Green Bonds. It is therefore appropriate to avoid any misunderstanding by distinguishing the two regimes although potential alignment could be considered for issues such as independence, transparency of methodology or qualification.

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

- **Yes**/ No/ Do not know
- If necessary, please specify the reasons for your answer [BOX 2000 characters]
- The EU Green bond standard has not been considered by the technical expert group for non-European issuers, but this is not prohibited.
- In this respect, page 28 of the *"Usability Guide - EU Green Bond Standard"* provides for its use for non-European issuers, so this standard should be considered globally. Therefore, we do not see any problem for non-European issuers to comply with the proposed standard.

Non-European issuers are more likely to finance activities/projects outside the EU.

We believe that it must be left to non-European issuers to decide whether they can, and how, comply with the EU GBS requirements, on a voluntary basis.

In any case, it is likely that non-European issuers will face some issues in following the EU Green Bond standard such as NACE codes. It is likely that not all criteria defined in taxonomy will be applicable or relevant in all places due to differences in legislation, availability of data or geological site-specific factors. Also, many of the taxonomy's requirements rely on EU regulation. Demonstrating compliance may therefore prove difficult due to differing measurement techniques or prevailing green standards.

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?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree) 2
- If necessary, please specify the reasons for your answer [BOX, 2000 characters]

It would be preferable from the point of view of the entities and the clients that some references relative to the fact that the issuer adheres to the EU GBS, or, some key information about how the project, financed by that bond, is contributing to the Paris Agreement and the SDGs, are included in the prospectus. It could improve the consistency and comparability of information for such instruments although it is questionable to which extent it can help address greenwashing. However a judgment on the credibility of a Green Bond usually requires in-depth analysis and an amount of information which would most likely be too extensive to be put into a prospectus and be likely to discourage issuers of green bonds who would have additional work.

In those cases where a prospectus needs to be published in connection with Green Bonds issuance, all referred specific information, as well as all the relevant information about the pertinent frameworks and procedures in connection with the use of proceeds and eligible green assets, should continue to be included in the prospectus only by means of hyperlinks, or where such information is contained within the regulated information of the issuer, by reference. Procedures and frameworks about green assets are continuously being reviewed and updated according to best practices in the market. In addition to this, Green Bonds are very frequently issued out of prospectuses which are used for the issuance of a wide spectrum of bonds. Therefore, it is more appropriate for the issuers, for the regulators, and in the end, for the investors, that specific information about the "use of proceeds "of Green issuances, with the exception of the specific risk factors, can be reviewed and updated outside of the scope of the prospectus regulation. Otherwise, prospectuses should have to be updated by means of a supplement every time an update or an amendment is needed within the green bonds-related specific documentation such as the frameworks, third party opinions, etc.

A key consideration is the importance of finding a good balance between the interests of investors on the one hand and those of issuers on the other. The issuance of a Green Bond is already complemented by very specific information in dedicated documents: the Green Bond Standard and the Second Party Opinion. The base MTN or Stand Alone prospectus, as the case may be, includes key information on the Issuer and covers legal and technical aspects relating to any issuance, regardless of the specific use of proceeds.

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"

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree) 4
- If necessary, please specify the reasons for your answer [BOX]

See response to question 25. We could support inclusion of Key information on "green aspects" in the Green Bond Standard and the Second Party Opinion.

The commitment to follow the EU GBS would be best placed in the legal documentation Terms and Conditions. This includes a commitment to be transparent as defined in the EU GBS. However, as the EU GBS, and particularly the taxonomy, are subject to change, it would be good to be clear about the timing of the label, to show the relevant terms at the time of issuance and verification.

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 / Do not know.
- If yes, once the EU Taxonomy is established,[5] how likely is it that you would use the EU Taxonomy in your investment decisions (i.e. invest more in underlying assets that are partially or fully aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). Please specify if necessary [box, 2000 characters

  Not Applicable

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 <u>retail investors</u>. What actions would you consider necessary to standardise investment funds that have broader sustainability denominations?

- No regulatory intervention is needed.
- The Commission or the ESAs should issue guidance on minimum standards. x
- Regulatory intervention is needed to enshrine minimum standards in law
- Regulatory intervention is needed to create a label

Issuance of guidance or minimum standards in order to set a basic standardized framework for retail investments across the industry could be useful. We believe that the existence of a label would provide the market with more transparency and comparability.

The ongoing initiative on Ecolabel should be finalized first before creating any new labels. A well-designed Ecolabel could be a useful tool in reaching the European Commission's goal of steering assets towards more sustainable economic activities. We consider finding the right balance for a future financial product with Ecolabel criteria, the main challenge. If requirements to qualify for an EU Ecolabel are too high, a limited amount of assets will be in scope, which would decrease the impact as only a very narrow selection of funds would receive an Ecolabel. If the requirements are too low, clients of financial market participants might re-allocate less capital to more sustainable economic activities. In all cases greenwashing should be avoided.

We suggest:

- integrating the Ecolabel goals in the current PRIIPs regulation and especially in the Key Investor Information Document ('KIID') that is currently under review by the European Supervisory Authorities; integrating sustainability firmly in the KIID would also avoid double implementation and information burdens for fund managers;

- providing evidence and research on the impact of labels or minimum standards on ongoing costs; costs are the key detriment to retail investors' performance across Europe;

- provide consumer testing; we believe information alone will most probably not be a game changer; the proposed Ecolabel is a step in the right direction but legislators and policymakers should not expect too much impact from information as a stand-alone feature.

Binary labels are not well suited.

Preferably all UCITS and AIF's funds should receive a label (for example 1 to 5 stars) so consumers can compare ecological performances of funds that perform well versus funds that underperform. Retail investors should be thoroughly informed about the 'green' character of a fund, preferably in a PRIIPs KIID.

Besides the threshold, the Commission should use existing regulations like the PRIIPs Regulation to inform investors about the sustainability of a fund that presents itself as sustainable. For example, the Ecolabel regulation itself should then not, per se, be necessary for UCITS or AIF's as a link could be made in the PRIIPs' KIID to the Taxonomy regulation (to avoid greenwashing). PRIIPs already aims to encourage investments in sustainable investments, enhance transparency by means of information (KIID), and increase EU harmonization. These are the same goals that the Ecolabel regulation for financial products tries to achieve. The planned PRIIPs' review could be a good starting point for the JRC to integrate the two regulations for financial products.

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

- Yes / No / Do not know.
  - If necessary, please explain your answer [BOX, 2000 characters]
- If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?

A label is important for retail consumers (ongoing initiative on Ecolabel) to provide them with enough information and confidence to take informed decisions but we do not see the need for an investor who is a professional investor, and therefore, should be well-informed.

However, having said that we are not sure all professional investors have the capabilities (knowledge and capacity) to do in-house research (e.g. small and medium-sized institutions and charities). The existence of a label could provide more transparency and comparability to the market, as long as the label is broad and allows to cover different products. A very granular label for professional investors could risk causing a channelling of institutional capital to very niche activities/markets. If development of a label for professional investors is being considered it should be done in the context of the EU Ecolabel, in which case, there should be no differentiation between retail or professional investors.

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?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree 4
- If necessary, please explain. [BOX, 2000 characters]

Sustainability-linked bonds/loans can be useful for financing first mover companies as well as for clients in a long-run investment. Transition requires more flexible and different sustainable goals to be set. Strong fiduciary duty can strengthen the company project without a dedicated use of proceeds. Sustainability-linked loans and bonds offer valuable alternatives for companies who want to put a financial link to their sustainability goals but are, for whatever reason, not willing or not able to do so in a classic Green Bond that complies with the EU GBS. Linking loans and bond interest rate level to certain sustainability targets and KPIs, which is how the sustainability-linked loans work, will certainly help the transition of the investee companies and the entire economy toward a more sustainable business models.

To increase investors' participation in this market, it is fundamental to develop a standard in terms of transparency, main characteristics to be respected by the issuers, and in terms of KPIs for the measurements of the achieved results to which the yield of the bond/loans is linked. These metrics should also be easy to understand by retail investors, in order to provide them with the material indications of the contribution of the fund to sustainability in exchange of the lost financial return.

Establishing clear standards and guidance for such products would help counter the risk of green washing allegations, facilitate the set-up of respective facilities, and facilitate market access. It is important that the achievement of the targets is measured through objective indicators and assured by third parties. The presence of third independent parties to measure and certify the value of the KPIs is important to protect, in particular, retail investors.

While standardization of these fast developed products is desirable, the Commission must find a balance, taking into account that the SPI-linked market is still under development and standardization should not hinder the necessary innovation.

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

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). 4
- If necessary, please explain. [BOX, 2000 characters]

The standard should be linked to the EU Taxonomy, whenever possible, it should also leave room for set-ups that cannot (yet) be clearly covered by it. Currently, loans with negotiated rates are variable according to targets that are much broader than the scope of the EU Taxonomy, so it is not possible for a standard to set targets using the EU taxonomy. It will also depend on the ability of the EU taxonomy to be applied to lending portfolios as a suitable, objective and transparent instrument for measuring the results achieved in terms of sustainable goals.

Question 32: Several initiatives are currently ongoing in relation to energy-efficient mortgages[6] and green loans more broadly. Should the EU develop standards or labels for these types of products?

- Yes / No / Do not know.
- 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;
  - 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 [BOX, 2000 characters]

A coherent regulatory framework in the EU, based on EU Taxonomy standards, could be applied to labelled banking loans targeted to support green deal initiatives like those mentioned in relation to energy efficiency, enabling a better use of private finance and promoting a more efficient allocation of financial resources.

Although it could be beneficial in a longer term to develop a standard or a label for sustainable mortgages and loans (including social and other environmental considerations) there are currently large differences, in particular, between the national mortgage markets that could be a barrier to development of a common EU standard. The characteristics of mortgage markets vary considerably, and it might be better to monitor the development of a voluntary industry-led label, such as that of EMF-ECBC. Their Energy Efficient Mortgages Initiative (EEMI)[3], is currently establishing an Energy Efficient Mortgage Label, which aims to provide access to relevant, quality and transparent information to build recognition and confidence, leading to stimulation of market development in relation to energy efficient mortgages.

Also, during the COVID-19 crisis, it became evident that even without any particular regulation, issuance of social bonds increased. For the time being, we think that we need to "digest" what currently exists in the first instance, even though we are aware that we will have to move towards social, societal and governance aspects soon. Development of the minimum criteria for social impact should be defined at EU level first, as soon as possible.

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

- Yes / No / Do not know.
- If no, please explain the reasons for your answer, if necessary. [BOX, 2000 characters]
- If yes, please explain what the key elements of such a benchmark should be. [BOX max. 2000 characters]

The EU should first develop minimum criteria for social impact before considering benchmarks.

This said, a broader ESG benchmark could have a positive impact. Having only environmental-related benchmarks can give a message of higher importance of environmental criteria versus the social and governance dimensions. In addition, it could help to standardize the existing benchmarks by several entities, however it is necessary to analyse first, how existing benchmarks and labels are adopted in the market, and their impact before determining the need for further regulated benchmarks.

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

- Yes / No / Do not know.
- If yes, what should they cover thematically and for what types of financial products? [box max. 2000 characters]

Currently we do not foresee the need for new standards or labels. At this stage it is important to monitor the uptake by the market of the standards already developed or underdeveloped in the recent years including the taxonomy on green activities.

However, a clear communication on which actions the EC is going to undertake, in which term (medium, long term) and what product will be targeted is important to provide clarity for market participants.

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?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). 5
- For scores of 1 and 2, please list the main problems you see (maximum three). [BOX, 2000 characters].

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

- Yes / No / Do not know.
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

There are already 20 platforms on sustainable finance in Europe which is deemed sufficient. We do not consider that developing such trading venues will foster the mobilization of capital flows towards ESG projects. Bonds are important instruments that are not liquid, so it is not the re-creation of the existing market infrastructure that will increase liquidity given the nature of this instrument.

In the current stage, efforts should be made to incentivize both issuers and investors of capital markets instruments, namely sustainable financial instruments.

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?

As per our answer on question 36 we would not consider it is necessary to develop a sustainable finance-oriented exchange. Were the EU to introduce a separate sustainable finance-oriented exchange, the following features could be considered:

- simplified listing requirements and simple ESG standards;
- standardized disclosure and reporting with a limited standard for SMEs, in line with the request for SMEs for be? subject to limited reporting standards under de revised NFRD;
- strong management.

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.[7] 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 (ESMA report, EBA report, 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.

- Adopt more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management;
- Define clear objectives on portfolio turn-over ratios and holdings periods for institutional investors;
- Require Member States to have an independent monitoring framework to ensure the quality of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs);
- Other, please specify. [box max. 2000 characters] X

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Of particular relevance is also EBA's recommendation for the "improvement of information flows and data access systems, to support the role of the banking sector in raising awareness among businesses, SMEs and retail customers on the challenges of sustainability and ESG risks". European Authorities' initiatives aimed at the creation of dedicated databases and platforms may significantly support the sharing of skills and a better understanding among all players of the long-term risks and opportunities that could affect the solidity of companies' business models etc. (please see also our response to question 14 on central database.)

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

- Yes / No / Do not know.
- If yes, please explain what action(s). [BOX max. 2000 characters]

We consider that to revert the actual trend in which the market dynamics and the enterprise cultures incite entities to focus on the short-term targets it is necessary to amend several regulatory obligations that encourage such behaviour of the entities.

The following actions could reduce barriers and foster the supply of sustainable lending long term:

i. developing a uniform definition of ESG risk and criteria for understanding the impact of ESG risks on corporations;
ii. providing corporates and financial institution with analysis methods and tools which can help to assess the impact of ESG risks on lending;
iii. setting principles and requirements that can ensure, at least by industry, comparability and reliability of ESG risk and goals' disclosure (green washing risk mitigation);
iv. strengthen the ESG goals' accountability towards all stakeholders;
v. favouring innovation in sustainable finance to identify new instruments which can support the transition toward sustainable business model better (esp. ESG-Linked Loans; SDG KPI-linked bonds; Impact Loan; Blended Finance products; Green Project Finance etc.);
vi. addressing Transition Finance, to allow all companies committed to transition to have access to sustainable finance;
vii. incentivize sharing of examples and experience across countries and most relevant financial institutions;
viii. introducing incentives (see our response to question 68).

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**/Do not know.
- If yes, please indicate what share. [box 2000 characters]

No. It should be subject to internal policies. In many companies it is already the case. Some financial institutions have already committed themselves to linking variable renumeration to ESG by signing the PRB.

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

- Yes/No/Do not know.

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 / Do not know.
- If yes, what action should be taken? Please explain or provide appropriate examples. [BOX max. 2000 characters]

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

Yes/**No**/Do not know

With the introduction of the Shareholders Rights Directive 2, the facilitating of shareholders' engagement secured a firmer foundation. The voting framework after the introduction of SHRD 2 will not be uniform across the EU. To secure fully a uniform voting framework, EU action in the form of a regulation is recommended. We support harmonization of voting practices in Member States, since currently some countries' voting frameworks are quite complex.

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

- Yes/No/Do not know.
- If yes, please explain. [BOX max. 2000 characters]

We understand that large companies, at least in some countries, are already required to provide a report on non-financial information, which must be put to the shareholders' vote as a separate point in the annual general meeting. The report contains ESG performance indicators. Sustainable companies, as studies have shown, are more resilient and perform better compared to companies that have poor ESG performances. Given that ESG strategy/performance impacts on financial performance, a vote on a company's ESG governance should become mainstream.

Investors are becoming more interested in sustainability, therefore the pressure on companies to address certain non-financial issues is increasing. With the introduction of SHRD 2 it will be easier to address the non-financial performance of a company as the shareholder engagement is facilitated. Strict EU action (e.g. legislation) could slow this (organic) development down.

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 / Do not know.
- If no, please explain the reasons for your answer if necessary. [BOX max. 2000 characters]
- If yes, in your view, what do you think this impact is, do you think that the EU should address it and how? [box max. 2000 characters]

Even if passive, it is still a reduced part of the ESG investment universe. Its presence is expected to increase during the next years. Passive management does not imply a passive attitude towards the management of companies in which passive managers invest. Greater involvement with sustainability objectives by ETFs and passive investment fund managers may lead to greater pressure on companies to raise the ESG data reporting and improve their ESG ratings. The indexing of ESG benchmarks formed by companies with the best ESG ratings induces positive discrimination for those companies that carry out the best sustainable management.

Also with passive strategies, all relevant risk factors should be taken into account to make the best investment decisions, including ESG factors. Low cost is one of the advantages of a passive strategy. We believe that with ESG Ratings and some (minimal) exclusions this can be done in such a way that it does not increase cost. We see new propositions (like factor investing) that combine elements of active and passive investing. The difference is not always as clear as it used to be. However, we think this can be even better achieved by focusing on the index providers. More ESG indices are launched and this should be further encouraged. Passive funds can then remain truly passive.

To foster more sustainable corporate governance, as part of action 10 of the 2018 Action 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 maximization of social, environmental, as well as economic/financial performance. x
- Yes, as these issues are relevant to the financial performance of the company in the long term.
- No, companies and their directors should not take account of these sorts of interests.
- I do not know.

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

There is evidence that younger generations tend to have a higher degree of awareness on topics such as climate change and environmental pollution, among others. Besides, the ever more frequent climate-related disasters are also a cause of concern for many people. Therefore, even if there were no explicit and compulsory laws in this respect, companies that take into account these topics will be better prepared, more resilient and also more appealing for customers in the long term.

Banks have their role to play. So do business corporations. Various banks and corporations are aligning their business conduct with the United Nations Guiding Principles on Business and Human Rights (UNGPs) and OECD Guidelines. Increasingly so, banks and corporations appreciate the added value of legislation allowing for a level playing field and a format to take appropriate action.

Legislation may help setting minimum standards, providing consistency and clarity on what is specifically required. Today, for many companies it is often unclear what they should do to implement the OECD Guidelines and UNGPs. Efforts to define and implement the OECD Guidelines and the UN Guiding Principles through multi-stakeholder or industry initiatives remain important and should not be replaced by legislation. Both, in their own way, are very valuable and should be seen complementary to each other as part of a smart mix.

While we deem it highly relevant to take these aspects into account, we would advise analysing the results of the first round of EU regulation before engaging in further regulation. However further guidance and development of the social impact criteria at EU level would be desirable, as well as further work on due diligence legislation.

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

- Yes/No/Do not know.

Yes, we would support development of a simple and practical framework built on the International Guidelines already available, in particular, **for the social impact.** We suggest that the European Commission give further guidance on the 'S' in the Action Plan and how this aligns with the expected legislative initiative on mandatory human rights and environmental due diligence obligations for EU companies to which Commissioner Didier Reynders is committed. We would like to ask the Commission to take into consideration the two trajectories: the S in the EU sustainable Finance Action Plan + Commissioner Didier Reynders' proposal. We would appreciate alignment where possible to specific financial commitments and business commitments.

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

- **Yes** / No / Do not know.
- If yes, please select your preferred option:
    - All companies, including SMEs.
    - All companies, but with lighter minimum requirements for SMEs
    - Only large companies in general, and SMEs in the most risky economic sectors sustainability-wise.
    - Only large companies.
- If necessary, please explain the reasons for your answer. [box max. 2000 characters]

The requirements for SMEs should be developed in a proportionate and simplified way. However, as with financial institutions' reporting, where banks cannot fulfil their legal disclosure obligations unless they receive the information from their customer, the big companies will be reliant on the information from SMEs if SMEs are part of their supply chain. If SMEs are allowed to comply with lighter requirements, the implications for large companies will have to be reflected.

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 / Do not know.
- If necessary, please provide an explanation of your answer. [box max. 2000 characters]
-

The ongoing legislative process envisages changes to the MiFID II Delegated Directive and Regulation requires financial adviser to consider an investor's ESG considerations when providing financial advice. Given that this important update to MiFID II framework is in the making, we see no need for further guidance with regards to investment advice for the time being.

A detailed guidance is unlikely to be useful when advisers ask retail investors, seeking financial advice, questions. While we agree that financial advisers must have enough training regarding sustainability in order to offer better client protection, a guidance could be useful, as a tool to support investment firms in identifying the main topics to investigate. However investment firms must be free to decide the specific questions in order to profile their clients.

We agree that ESG factors should be included in the investment process on a 'high-level, principle-based approach'. We believe a taxonomy must be in place before a change to the MiFID II could be made. Including ESG factors in the target market framework means, however, that these ESG factors will have to be determined in detail / on a financial instrument basis. These ESG factors are however not defined yet and (most) producers of investment products are not required to provide such information. Besides the above, how can ESG preferences be related and/or compared to the financial interests and goals of retail investors in assessing the target market? When assessing the target market in a product governance process, what should be predominant: financial objectives or sustainable objectives? The current standard for data exchange is the EMT that could be viewed as a market initiative that is still under construction. We urge legislators to embrace, as much as possible, established market initiatives. Any future approach to identify environmental, social and governance criteria should take the form of a single indicator only. A single indicator is more comprehensible, simple and meaningful to implement. Specifying ESG considerations separately will be complex for distributors, product manufacturers, and clients. It is unclear whether the EC foresees a harmonized and single suitability test or whether it will be a multi-stage suitability. A more granular approach could only be undertaken by firms after there is clarity around the taxonomy. Matching high-level preferences to products that are suitable could have outcomes that are not in the best interest of clients.

It should be made clear that when clients express that ESG considerations should not be considered in their investment preferences and/or services, there is no need to ask detailed questions in relation to ESG factors. At least, a possibility should be given to financial institutions to provide investment advisory or management portfolios services oriented or not towards sustainability objectives, publishing this condition, in line with what is done, for example, in "independent / non-independent consulting".

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

- Yes / No / Do not know.

Retail investors should be offered investment products that meet their preferences. If the provider has sustainable investment products that meet these preferences, available, they should be offered as any other products.

At this stage, a binding regulation to offer systematically sustainable products to clients would generate supply problems and affect the governance control of investment products. It should be made clear that when clients express that ESG considerations should not be considered in their investment preferences and/or services, the offer of sustainable investment products could be made only if in the best interest of the client.

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

- 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. [1-5] 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.[1-5]4

- 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. [1-5] 4
- Directly, through targeted campaigns. [1-5] 4
- As part of a wider effort to raise the financial literacy of EU citizens. [1-5] 4
- As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. [1-5] 4
- Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. [1-5] 4
- Other, please explain.[box max. 2000 characters]

In order to sustain the market developments and safeguard an inherent proper assimilation, it is important, from the outset, to promote Sustainability Literacy among all stakeholders, and develop special literacy programmes for groups such as owners of small and medium-sized enterprises (SMEs) and retail investors. Important too, is to integrate finance literacy into training programmes for financial professionals and to promote EU certified courses of financial literacy (and sustainability) as part of training programmes in firms. New experiences and experimental projects may be created in cooperation with international networks of financial literacy stakeholders. The EBF is already active in financial education and intends to strengthen its initiatives with incorporating sustainability aspects (https://www.ebf.eu/priorities/financial-education/).

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?

- Please express your view by using a scale of 1 (not important at all) to 5 (very important).4
- For scores of 4 to 5, what actions should the EU take in your view? [BOX max. 2000 characters]

Yes. The assessment process of financial products according to ESG factors is important, due to the possibility of providing corrective measures and mitigating any negative effects. It is however essential that the measurement process (methodology & requirements) is harmonized to avoid differences in approach and valuation; and it should not lead to an oversimplification and/or the detriment of comparability. Carbon footprint is important to know, however, the added value of this information only comes when put into context. It should also not be the only measure that is considered. For instance, there are many important qualitative criteria in the taxonomy which may be overlooked if all focus is on limited numeric measurements. Ultimately the financial products' measurement is an indirect one, with better accuracy, and impact is achieved if the companies / issuers themselves all disclose comparable, comprehensive and relevant information.

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

- Yes / No / Do not know.
- If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way.[box max. 2000 characters]

No. Financial products with a longer-term investment horizon, such as bonds or shares, or green loans have a greater potential to allocate capital to sustainable projects. Additionally, with respect to the issuance of ESG debt, the certification required for its issuance enables a greater dedication and control of the invested capital than in the case of investment in equities. Through equity investment, a relevant equity stake in a company is required to be able to influence management of the company and improve its ESG impact. Regarding these financial products, the effort should concentrate on expanding the clients' base by offering customized investment and lending products to retail customers, too, as this will contribute to a better understanding of the measures taken for the transition to zero emissions economies.

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?

- Please express your view by using a scale of 1 (not important at all) to 5 (very important). –
- If necessary, please explain your answer. [box, max. 2000 characters]

5

Alternative forms of financing could help reach relevant economic thresholds, leading to a higher rate of implementation of the underlying projects. The aggregation of small-scale projects could generate an attractive structure and size for institutional investors. Green bonds / Green securitisation are powerful tools to facilitate transition and mitigate physical and transition risk. In particular, we consider specific sectors such as residential real estate, commercial real estate, infrastructure/projects and SME lending to have the most impact although we would not compare the size of the market relative to the global financial commitment necessary to achieve policy objectives.

Securitisation can aggregate individual green assets. The size of individual transactions is often too small to make sustainable finance through Green Bonds, Green Loans or Positive Impact loans instruments viable. Therefore, these instruments might exclude a significant proportion of smaller investments that, taken in aggregate, are needed to fund global sustainability goals. Green securitisations could be one of the most effective potential means to harness small scale developments like green mortgages, residential rooftop solar energy and small SME loans for energy storage projects. Green securitisation is effectively the only avenue for investor exposure that has direct attribution to the identified assets. We also deem that the public sector has an important role as an enabler, both from a policy point of view (i.e. introduction of tax incentives) and as issuers of green debt (i.e. basket of mini-bonds). In this respect we value the synergies between the public and the private sector as another important tool to channel more funds towards the green sector. Additionally, securitisation, opening up to Green bonds / Green securitisation to retail investor would help expand investments *(see below Q 55)* and enhance the provision of incentives such as tax breaks.

A European Green Loan Securitisation Framework as an add-on to the existing securitisation framework could be a powerful tool and act as a multiplier to fund sustainable assets as well as the transition efforts to increase sustainability further. However, the recently revised securitisation framework is not sufficiently attractive to issuers or investors and is unlikely to incentivise securitisation. It needs to be reviewed to encourage financing of sustainable assets and its subsequent refinancing through securitisation. (please see our answer on Question 55.)

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

- Yes/No/Do not know.
- If yes, please list the barriers you see (maximum three). [BOX max. 2000 characters]
-

The Simple, Transparent and Standard (STS) Securitization Regulation, which entered into force in January 2019, aims at creating a label that will give investors more assurance of the quality. However, the STS Regulation will not enable the re-launch of the securitisation market in Europe. It introduces so many regulatory and operational constraints that it is more likely to disincentivise securitisation issuances further. Furthermore, the very complex disclosure requirements are still in the process of being rolled out by the European Commission. This creates a lot of uncertainty on the market.

Issuing an STS securitisation is extremely demanding and operationally constraining. It requires meeting more than 100 criteria with very limited benefits in terms of cost and capital. In addition, current capital requirements for transactions meeting the "best in class" STS criteria remain significantly higher than those for other high-quality fixed income investments: if a bank holds a securitised product on its balance sheet, it is extremely punitive to its regulatory Liquidity Coverage Ratio. STS is qualified as HQLA Level 2b, with a haircut of 25% (residential loans, fully guaranteed residential loans, auto loans) or 35% (loans to SMEs, other consumer loans etc.).

The volume of loans for sustainable finance will increase and will represent a potential for the development of the European securitisation market for green loans, provided that the current regulatory constraints on the use of the STS label are addressed. Now that the STS regulation is in force, the application of this label should be reviewed and further developed, building on the substantial potential of securitisation in promoting sustainable finance. Different technical solutions could be envisaged.

The regulatory framework for ESG ratings (which are not ratings but simply "verification reports") should be adjusted. The CRAs should play a bigger role and should be obliged to invest in order to build the know-how necessary to incorporate climate change risks fully into their fundamental and structured finance ratings. There is scope to argue that their ratings would lose regulatory relevance if they failed to address these issues.

With respect to investors there appears to be a bias in the regulation towards professional or qualified investors. Green securitisation, especially if compliant to the Simple, Transparent and Standard (STS) Securitisation Regulation should be readily available for retail investors. In particular, the opening-up to a new specific investors' group (mainly millennials and women, typically the most receptive investors' group to sustainability) would expand the volume of investments.

Aside the complexity of STS regulation, there are overlapping layers of roles that make it difficult and costly for issuers to issue green products, such as reporting formats and ESG ratings. While in this initial phase, the role of ESG external verifiers is important to prove to investors that a product is actually green, and to protect investors from potential green-washing practices, we think that once the market/investors are more prepared and knowledgeable on green products, the verification process should be simplified/streamlined, to ensure a faster access to market and to funding. Rationalisation and harmonisation would be beneficial for the product issuance, while, for example, implementing sanctions would lower the risk of greenwashing.
In addition, the unavailability of the STS label for synthetic securitisations and the lack of clear rules around Significant Risk Transfer (SRT) and the opaque and lengthy process to obtain SRT

recognition, limit the application of securitisation as a product to transfer risk from a bank balance sheet to an investor. In view of the expected volumes of green assets, such an SRT system is instrumental in creating room on banks' balance sheets in order to meet the demands from green investments.

In conclusion, there is a need to reform the actual securitisation framework (including STS) given its current dysfunctionality. The development of sustainable finance could be facilitated by the setting up of a European Securitisation Mechanism for Green Loans with an additional Green European modified STS label, in a similar way to the Green Bond label, and a possible guarantee of a recognised public body, for example the European Investment Bank.

The great advantage of such an initiative would be to allow both the development of a market financing solution targeted by the Capital Market Union, and the support of sustainable finance. The additional green STS-improved securitisation label would attract investment funds targeting green investments. The public organization, guaranteeing the securitisation, could also play a role in certifying that the green securitisation criteria are met. Alternatively, an accreditation regime for external reviewers could be envisaged in the way that it is for the EU Green Bond Standard.

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

- Yes/No/Do not know.
- If yes, what regulatory and/or prudential measures should the dedicated framework contain and how would they interact with the existing general rules for all securitisations and specific rule for STS securitisations? [box max. 2000 characters]

The prudential treatment under CRR, Solvency II and the LCR requires improvement in order to develop the STS securitisation market in general and the Green STS securitisation market in particular. Currently, capital costs and benefits are not commensurate with the risks of safe STS securitisations and distort the market to the point where it is not attractive for many players. So a recalibration of CRR risk weights (re-introducing the 7% floor as was applicable until recently) and Solvency II capital charges (especially for non-senior tranches), as well as qualification as Level 2A HQLA for (Green) STS Securitisations in the LCR, would be the first priority in repairing the securitisation market in general, and opening up a relevant green securitisation market.

In addition, to boost green securitization, we are proposing to mirror the concept of the proposed Sustainable Finance Supporting Factor (see response to question 88) applied at the end of the usual credit risk assessment performed by the bank, within the securitisation framework (for securitisations to be sold to external investors, but not for retained-securitisations). The merits of securitising a "sustainable" underlying pool should be recognised after all the eligibility criteria for obtaining the STS label have been fulfilled. Thus, for the qualifying sustainable securitisation, the preferential prudential treatment should be further improved compared to the basic STS label. This improvement of the current securitisation framework will enable banks to securitise a pool of green loans in order to free up the capital to be used for new green loans' financing. The proposed European securitisation mechanism for green loans would benefit from an increasing underlying volume of assets in banking balance sheets. This increase should be regarded as a common objective of banks, legislators, regulators and supervisors.

Finally, there could also be considerations for introducing a more favourable fiscal framework to incentivise green securitisation.

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 maximise the potential of digital tools for integrating sustainability into the financial sector?

Yes / No / Do not know

If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider? Please list a maximum of three actions and a maximum of three existing initiatives. [BOX max. 2000 characters]

- EU policy actions can undoubtedly accelerate the adoption of more sustainable services and processes thanks to digitalization within financial institutions. An important role is played by new technologies such as AI and Blockchain / DLT which are rapidly expanding. To exploit their potential fully, it is necessary to create an open collaborative ecosystem with particular focus on data sharing in the Environmental Social Governance (ESG) across different sectors.
  Digitalization should support the market's increased reporting efforts, enabling digitalization and automatization, wherever possible. The envisaged EU Non-Financial Reporting Standards should be designed in a way that enables digitalization and automatization. Digitalization should also support increased transparency and increased alignment with the EU Taxonomy for companies with economic activities covered by the Taxonomy. The work could be carried out on the EC's Platform for Sustainable Finance, to be set up in September 2020. If Taxonomy alignment could be assessed in a digital way, and automated, it would likely fasten the objective of the EU Action Plan to "orient capital flows" to environmentally beneficial activities and facilitate banks' assessment of taxonomy alignment. A digital policy action, and/or strategy, could very well connect to the EU Taxonomy. Therefore, we would like the EU, as a policymaker, to include automatization and digitalisation into EFRAG's assignment to develop an EU Sustainable Reporting Standard. If a standard were prepared in such a way it could be automated, which would strike two wins in one hit.
- To further enable the financial sector to develop efficient tools that contribute to the sustainable transition of the economy, the EU regulatory framework should be technology neutral and innovation friendly, without imposing an unnecessary burden on financial services providers vis-à-vis other players, such as platforms.

- The technologies at stake (with particular reference to Blockchain / DLT and IoT) are, however, still at an early stage of adoption, with a few (large) financial institutions leading the pack on top of significant investments in ICT and R&D that the vast majority of players simply cannot afford. Direct support of the EU and Member States for the development of digital finance solutions should be available in the areas of digital green finance where there is an apparent lack or absence of relevant solutions by private market actors.

- The role of public research and development is paramount for the economies built on the innovation paradigm like the one of the EU. We believe that the EU and Member States should continue providing its financial resources to basic research in a few focal technological areas that are universal yet of value for SDG finance, such as mathematics, algorithms / programming, cybersecurity, cryptography, distributed ledger technology, artificial intelligence, big data, quantum computing, etc. Attracting best talents in these fields to EU universities and applied research institutes from all over the world should be a priority. Respective physical infrastructure for these technological areas should be made available to educational and research establishments. Public funds bridging basic research, applied research and experimentation need to be easily available to all interested market players. The EU and Member States should enable firms of all sizes to have the possibility of attracting best talents in the fields of technology and an access to high-tech and yet expensive infrastructure (e.g. high performance computing) at affordable rates.

- Banks should also be supported by a regulatory framework to assess financial risks linked to climate changes using sustainability-related data to integrate environmental and social risks, progressively, into risk management in different areas such as credit risk assessment, managerial and regulatory scope. To reach this goal, financial institutions should adopt the application of specialised data-driven methods and analytics tools.

- In addition, the role of different kinds of incentives (economical, fiscal etc.) for all the stakeholders is key in accelerating and stimulating the adoption of sustainable financial services and processes.

- Finally, the COVID-19 outbreak has taught us that it is essential to establish a fully digital and remote relationship with customers. Particular attention must be paid to the inclusion of the weakest and most vulnerable categories to allow them full access to financial services. Consequently, all actions aiming at digital education are highly relevant so as to limit the digital divide. To improve the inclusion and the protection of the elderly and vulnerable, banking customers (meaning customers that due to ageing or personal circumstances are less comfortable in dealing with digital financial solutions and or are especially vulnerable to being exploitedin financial activities), financial services firms should be required to adopt principles of inclusive design in their digital offering, by considering usability challenges, physical and cognitive conditions.

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 / Do not know.
- If yes, please explain what actions would be relevant from your perspective and which public authority would be best positioned to deliver it. Please list a maximum of three actions [BOX max. 2000 characters]
-

Collaboration between the industry and public authorities will be a key in supporting the development of digital finance solutions. Digital tools can play an important role in helping consumers and retail investors with reference to:

- strengthening projects and corporates' ESG goals and accountability towards all stakeholders (shareholders, customers, and communities can check and compare ESG metrics);
- easing of burdensome and complex processes related to verifying taxonomy compliance of activities and/or investment and check KPIs;
- fostering innovative and sustainable financial instruments; for example, digital tools could allow citizens / consumers to participate via crowd funding in the financing of ESG projects; interest rates on project loans could be linked to ESG KPIs, which retail investors /lenders could check online.

The role for public authorities is to create incentives, develop policies and facilitate access to data for corporates (listed, unlisted, SMEs) in a proportional manner. The financial institutions should be developing the digital finance solutions.

Public authorities, central banks and supervisors, should take actions to stimulate the mobilization of private capital in order to achieve sustainability goals by new forms of investment in sectors with a social impact (as education and medical research) and to support the adoption of a sustainable business plan or green solutions for SMEs.

These initiatives should include the use of new technological instruments as new forms of participatory financing via internet-based platforms. In this context, authorities could create a framework for the integration of a crowdfunding platform in banking to support organizations or individuals through enlisting the cooperation, and funding from a large number of angel or retail investors.

In addition, a tax incentive mechanism for IT investments allowing companies to capitalize high costs could be considered, and crypto-assets and tokenisation should be supported to provide better access to capital.

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

- Yes / No / Do not know.
- If yes, please detail, in particular if you see a role for EU intervention, including financial support. [BOX max. 2000 characters]

The usage of digital tools by the EU, Member States, or local authorities to involve EU citizens in co-financing local sustainable projects could be very valuable. Such schemes increase the commitment of residents to improve their local communities, as well as raising awareness about sustainability issues in general. A growing number of communities worldwide are seeing the value of leveraging on digital tools to empower their citizens to take an active part in their communities. The adoption of such a model on a larger scale should require EU and Member States intervention, not only to provide guidance, but also access to guarantees, co-financing to ensure both credibility and economic support. In this case, in addition to the technologies already mentioned above, an important role is represented by financial instruments such as crowdfunding or social lending, through which the issuer can propose sustainable projects and investments to join.

A remarkable example in this space is "Citizenergy - The European Platform for citizen investment in renewable energy". The project created a European crowdfunding platform for renewable energy to encourage cross-border investment in sustainable energy and to provide information on sustainable energy opportunities from both crowdfunding platforms and cooperatives (https://eurocrowd.org/citizenergy/).

DLT provides one relevant example. The adoption of Decentralised Ledger Technology (DLT) for Green Bonds may enable them to reach and create new markets at both ends of the investment pipeline. DLT-based Green Bonds could facilitate more efficient bond markets, increasing investor confidence, improving wider capital flows and reducing the cost of reporting. However, it is important to note that further investment in DLT from the industry and authorities is necessary, particularly from a scalability perspective. This issue may require policy action from authorities.

The combination of citizen and government participation also tends to attract additional sponsorship from corporate investors. Fiscal incentives or temporary rights of use can be useful for attracting investors. It should be cheaper to invest in a sustainable financial instrument than in a classic financial instrument.

These tools do not have to be necessarily developed by respective national authorities. In contrast, showcasing and using the most suitable and cost-effective tools developed by third parties would demonstrate that authorities stay neutral towards the origin of the solution and facilitate the uptake of digital tools by all market actors. Such government actions could be complementary to those of the private sector and could include fiscal incentives for sustainable investments, and the implementation of digital finance solutions in government financing, grants, and the process of public concessions.
Green Finance combined with new technologies is becoming a more and more complex topic to grasp by novice individual investors. Therefore, the use of digital tools by citizens should follow an educational campaign to increase citizen's financial knowledge on SDG finance, green finance governance and respective accountability to ensure EU citizens take informed decisions with the help of the most relevant digital tools.

In addition to the technologies already mentioned above, **an important role is played by financial instruments such as crowdfunding or social lending, through which the issuer can propose joining sustainable projects and making investments**. In this way, through the use of digital tools/platforms, citizens can take an active role in their communities. Currently these platforms operate mainly at domestic level. A strong accelerator could be the introduction of regulation at European level that would allow the overcoming of national barriers. The use of digital tools should be encouraged, especially for the young, as they are naturally digital and the link between digitalization and sustainability will remain throughout their life and on to the next generations.

1.1. 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 three for each.

KEY REGULATORY OBSTACLES

- **Lack of adequate guidance tools** (e.g. National Plan for Energy and Climate), **lack of public financial supporting tools and incentives** (e.g. public guarantee schemes and fiscal incentives, tax benefits and subsidies) dedicated to all sustainability areas (e.g. pollution, biodiversity, waste management, circular economy) as opposed to only renewable resources and energy efficiency.

  Available incentives are still supporting sectors operating in “linear” ways (as opposed to “circular” models). To improve environmental conditions, it is necessary to transition from a "linear" economy model to a "circular" one. This transition is an even more pressing need for all those countries with a relevant manufacturing sector and, at the same time, a scarce availability of raw materials. The key elements to make the transition to a “circular” model are: the efficient use of resources, recycling, and the reduction of waste. The transition mentioned above, would require focusing on three key markets: manufacturing in all its sectors, agriculture and agri-food, energy production.

- Existing frameworks like Basel III discourage the financing of sustainable economic activities by requiring financial institutions and insurers to allocate sizeable amounts of capital and liquidity cover to support investments in long-term debt.

- . **Ineffective ETS**. Pricing of negative externalities, such as greenhouse gas emissions, could be an effective way of increasing the bankability of sustainable economic activities. We are therefore encouraging the European institutions to support and improve the carbon emissions trading system (ETS) or to stimulate, otherwise, an effective price for carbon emissions. Adequate carbon pricing requires a reform of the ETS. The market stability reserve may help to provide businesses and investors with greater certainty regarding the carbon price. This is a step in the right direction, but more is needed for the ETS to work effectively. One option is to speed up the rate at which the carbon cap is reduced, in line with the ambitions of the Paris Climate Change Agreement. The carbon cap can also be adjusted downwards if emissions fall more quickly than expected. This would mean a supplementary policy that would not be affected by the ‘waterbed effect’ to the same degree. Benchmarks, used as a basis for allocating free emission permits, should also be adjusted more quickly.

- **Lack of pervasive knowledge** of regulations and upcoming regulation by companies, lack of understanding of sustainability benefits, not to mention the complexity of EU legislation and the interaction between different pieces of legislation.

KEY MARKET OBSTACLES

- **Costs**
  a. **High costs for sustainable projects** due to R&I, certification/verification/compliance, additional reporting, and monitoring, ESG scoring and rating, and data provision. In addition, verifying taxonomy compliance may prove burdensome for certain businesses, hence, a simplified reporting framework for SMEs should be developed.
  b. Long-term revenues vs short-term costs
  c. **Return on Investment is still perceived as lower for sustainable projects** (probably due to information asymmetry or lack of knowledge of valid sustainable options).

- **Lack of usability and data availability.** Taxonomy and disclosures requirements shall be closely linked. Concerning the EU framework, the disclosures requirements foreseen for financial market participants according to the taxonomy regulation should be fully aligned with the disclosure duties foreseen for the industrial sectors in the review of the EU's NFRD. Furthermore, to ensure data usability, market participants will need an approach to comply with disclosure requirements that is as automated as possible. In this regard, further alignment of classification systems would be beneficial, in order not to generate double accounting of sustainable activities and facilitate the usability.
- **ESG-related risks mildly incorporated into Rating Agencies Assessment services.** Incorporating green elements into RAS could impact banks and insurance companies' capital requirements.
- Absence of deep capital markets in emerging and developing countries, which makes them more dependent on bank loans for infrastructure financing.

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

 Yes / No / Do not know

If necessary, please provide details. [box. Max. 2000 characters]

Most of the obstacles should be addressed at EU level to maintain the level playing field among countries, markets, and sectors. NECPs are however, important elements at a national level as they provide clarity on the speed of the transition path and related policies. They are key at EU level for benchmarking compliance with EU sustainable goals. It is important to avoid fragmentation across Member States' regulations, nevertheless it might be useful for the NECPs to include fiscal incentive frameworks and/or other benefits to propel sustainable finance (government guarantee funds to facilitate access to credit for companies that require financial support to implement eco-sustainable projects, preferential tax policies for enterprises that invest in eco-sustainable projects etc.).

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

The EU initiatives on Sustainable Finance and sustainable financial tools (e.g. green bond, green loans, taxonomy aligned investments), currently available, are mainly addressed to large companies and relevant operations/projects. A different, proportional, simplified and less costly approach should be adopted to allow and foster SMEs and smaller investors to invest in sustainability and green transition.

Increased deployment of guarantees, subsidy schemes, simplified disclosures tools (with appropriate technical assistance) should also be envisaged as well as SME sustainable financial literacy to raise SMEs' awareness on energy-efficiency and renewable energy investment opportunities.

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?

- [Box max. 2000 characters]

While some European firms are very innovative and operate in high-tech areas, many innovative firms have difficulties in scaling up. Public investment in R&I in the EU is on a par or higher compared to competitors, however, industrial deployment of innovation is still facing obstacles. For this to change, EU strategy should act in two directions:

- support selected companies and their R&I projects through financial structures that are inclusive (crowd-in) vis-à-vis private capital;
- build on the experience gained in the Public-Private Partnerships in H2020, to develop a dynamic industrial innovation ecosystem involving broad research and innovation communities.
-

Without concerted public and private investment in cases where markets alone cannot meet the demand for capital, Europe risks underinvesting in the large-scale deployment of innovative technologies in strategic value chains. This seems to be particularly true in the post covid-19 scenario. Depending on the stage at which the company is found, the capital needs, R&D development, a range of funding schemes at EU and national level should be mobilized in order to incentivize, leverage and/or 'de-risk' private investment.

From the bankability point of view, we believe that three types of financial structures can be envisaged, thereby introducing innovative financial instruments:

1. blended finance supporting early-stage;
2. guarantee system and de-risking schemes for financing at a later stage of development, enhancing the access to finance by addressing market failures and investment gaps; the combination of grants-loans with security tools, adjusting the composition time by time according to the work in progress in line with the EU Taxonomy;
3. equity financing with a dedicated EU Green Deal Fund, funded by the EU, national and regional capital, and structured as co-investment with other investors, to crowd in private financing.

A similar approach could be applied for companies investing in Social Innovation. Development a sort of Sustainable InnovFIN similar to the EIF guarantee tool InnovFIn should be considered.

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

- Yes / No / Do not know

The creation of special category for research & innovation in the EU Taxonomy should contribute to increase the visibility and commercialization of promising inventions, attracting further private finance to innovation in technologies for energy savings, efficient energy generation, energy storage and transmission.

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

- Bringing more financial engineering to sustainable R&I projects? Yes / No
- 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)? Yes / No
- Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes / No
- Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes / No
- Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes / No
- Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes / No
- Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions? Yes / No
- Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? Yes / No
- If necessary, please explain your answer. [Box max. 2000 characters]

I Entrepreneurs and SME must be able to innovate and must learn to innovate and to take risks. The EBF COVID Recovery paper has some references to innovation (link to final report to be provided).

2.3 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?

- Please express your view on the current market functioning by using a scale of 1 (not well functioning at all) to 5 (functioning very well). 2
- Please specify your answer. [BOX max. 2000 characters]

The EU financial system faces important barriers and inefficiencies inter alia due to:

- **lack of a centralized register on ESG data** categorized by industry or of digital platforms with tools and AI instruments available for a preliminary assessment of counterparties' ESG risk; such tools could support the role of the banking sector in providing financial solutions which may support companies to manage ESG risk and incentivize them to adopt sustainable business models (See also our response to question 14);
- **asymmetric composition of the EU Member states' business sectors**; countries characterized by a higher concentration of SMEs face particularly difficult challenges in pursuing sustainable investments; verifying taxonomy compliance of activities and/or investment often involves burdensome processes for SMEs and Start-up; in this context, regulation should balance well the data requested from different companies; while start-ups and SMEs have the potential to be a major driver of innovation for sustainable development, further attention should be given to their financial needs to support the "brown" companies in their transition to more sustainable business models; the Public Authorities and financial institutions should cooperate to identify mechanisms for complementing traditional sources of credit for SMEs operating in the green economy with more sophisticated financial instruments that allow a longer-term view; emerging solutions to be taken into consideration could include fintech, crowdfunding for sustainable projects and impact finance;
- **lack of available green investment options in smaller countries or the lack of competitiveness of EU industries internalizing green standards; a broad EU border carbon tax, though politically difficult, may ensure the profitability** of those industries and the investor returns;

Moreover, as commented in question 60 there are barriers that do not affect exclusively sustainable investments; those **general concerns** derive from the differences in the interpretation of the different NCAs; for instance, the divergent interpretations in terms of incentives included in MiFID II do no permit a same level playing field inside the EU; a common regime in which all the rules relative to sustainable investments are homogeneous for all the Member States is a fundamental pillar;

- from another perspective, Green Covered Bonds are used most in EU countries and are a major source of mortgage funding at EU level; with Green Covered Bonds, the issuances are collateralised by green or sustainable assets; the Green Covered Bond market is currently less mature than the Green Bond market, however, it will certainly develop over time as the availability of green or sustainable collateral will grow in banks' balance sheets; s**o far, the issuances of Green Covered Bonds are limited, due to the complexity and difficulty of obtaining sufficient volume of assets to support issuances under the funding programmes**; a clear definition of eligible assets is needed in order to ensure rising volumes that will constitute cover pools for green covered bonds; furthermore, the definition must make it possible to have different degrees of green, depending on the share of loans in the cover pool fulfilling the criteria; otherwise there is the risk that the financial sector will not be able to act as a catalyst for more sustainable finance in all countries.

To overcome the market barriers and the inefficiencies that prevent the uptake of sustainable investment the following should be considered:

- **development of appropriately targeted fiscal benefits applied within reason as well as an adequate carbon price and redirection of subsidies from unsustainable to sustainable activities;**
- **increase the availability of relevant, reliable and comparable data** on a rather granular level that are necessary to ensure compliance with the envisaged regulation (EU should require a minimum disclosure data set for an SME that mirrors the metrics in the Taxonomy, metrics for the screening of mitigation, adaptation, do not harm, on a proportionate basis);
- **support banks to face the challenges linked to the evaluation of ESG** and, in particular, climate-related financial risks in terms of methodology (e.g. time horizon, forward-looking methodologies, risk materialisation, scenario(s), data granularity or risk governance);
- **introduction of a preferential prudential treatment of sustainable exposures** such as the Sustainable Finance Supporting Factor (SFSF) (see Q88);
- **introduction of a reduced Required Stable Funding in the NSFR** ratio for assets related to compliant economic activities/projects;
- **development of training schemes** at European level on criteria and norms on which sustainability activity thresholds for mitigation are defined and that could help specific financial actors and non-financial enterprises to build a common understanding of the taxonomy and disclosure requirements;
- **exploring synergies in sustainable finance, such as that of a supply chain approach**; the chain approach may allow for integration of opportunities and environmental risk analysis along the whole value chain;
- **exploring synergies between economic policies and technology investments** as the EU Commission does with the IPCEI framework (for instance on electrolysis storage).

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

- Please express your view on the importance of financial incentives by using a scale of 1 (not effective at all) to 5 (very effective).
- In case you see a strong need for public incentives (scores of 4 to 5), which specific incentive(s) would support the issuance of which sustainable financial assets, in your view? Please rank their effectiveness using a scale of 1 (not effective at all) to 5 (very effective).

Types of incentives	Bonds	Loans	Equity	Other
Revenue-neutral subsidies for issuers				
De-risking mechanisms such as guarantees and blended financing instruments at EU-level	5	5	3	
Technical Assistance		5		
Any other public sector incentives - Please specify in the box below.		5		

- Please specify the reasons for your answer (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider. [BOX max. 2000 characters]

De-risking mechanisms are believed to be the best incentives to increase investment in sustainability for both lending and bond issuance, as they increase the lending capacity of commercial banks to provide further financing for sustainable activities. The creation of a specific European Sustainable Finance Guarantee Fund could be a way to provide guarantees for several "de-risking mechanisms" linked to sustainable finance in the latter stages of the "financing chain", for financing entities and end clients (for example, SMEs) creating incentives for commercial leveraging and crowding in. The focus of the Fund should be on guarantees provided to financial institutions (private banks or medium/long-term investors such as funds or insurance companies) to support sustainable lending and investments, thus increasing additional sources for these projects as opposed to substituting existing lending sources with cheaper funding for the ultimate beneficiaries (i.e. SMEs and MidCaps). In this way a greater risk taken by banks and financial investors would be ensured, given the more even distribution with a guarantee in place, and, effectively help the mainstreaming of sustainable finance.

Concerning green bonds and green covered bonds, a possible subsidy to offset the additional cost of external verification/second opinion or targeted fiscal incentives is likely to increase the attractiveness of green bonds as it offsets the issuance costs with conventional bonds. If there is a lower risk of Green Covered Bonds, a preferential prudential treatment compared to other funding instruments not collateralised by sustainable assets, could be reasonably expected. We support the recommendations of the TEG suggesting that the EBA, as part of its mandate, also assess the possibility to develop a segment of green bonds that would define the conditions to be met by the EU-Green Bond Standard in order to possibly benefit from a preferential prudential treatment. Green Bonds, Green Loans or Green securitisation should be included under the eligible assets as acceptable collateral if certain attributes are met such as the eligibility criteria suggested for the Sustainable Finance Supporting Factor. The ECB and the national central banks of countries using the Euro, conduct credit operations with banks and other market participants based on adequate collateral. As a safety measure and as a measure to control risks, Central Banks apply valuation haircuts to the market value of assets mobilised as collateral. Haircuts apply when banks and other market players have recourse to normal Eurosystem credit operations as well as when they need to access Emergency Liquidity Assistance (ELA). To foster investing in sustainable assets, the ECB and Central Banks could revise the current haircut policy and apply smaller haircuts to sustainable assets and debt instruments (no matter their type). This liquidity incentive could be useful not only during normal times (through Eurosystem credit operations) and difficult times when banks may need to access ELA, but also during bank resolutions once the long-awaited funding in the resolution mechanism is set up. Importantly, it is crucial that the treatment applied by different central banks be homogeneous, in order to preserve the level playing field.

Incentives could facilitate the development of attractive financial products for clients, that can motivate them to invest in ESG, expand and grow their green finance portfolio through new instruments, in particular transition bonds, structured products and via green-linked opportunities outside the formal green markets (e.g. carbon trading) and increase exposure to the renewable energy sector particularly in some regions.

Setting up a consultation and technical support service and technical assistance, aimed to help banks in defining exhaustive and achievable metrics for sustainable finance, would be essential to overcome know-how gaps affecting this sector and would foster sustainable investments. The sharing of specific know-how within the EU is considered fundamental; such a process may be supported through dedicated EU-funded training initiatives addressed to banking sector professionals.

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

- Please express your view by using a scale of 1 (not effective at all) to 5 (very effective). 5
- For scores of 4 to 5, in case you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments? [drop down menu]
  - Revenue-neutral public sector incentives
  - Adjusted prudential treatment x
  - Public guarantee or co-financing x
  - 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). [BOX max. 2000 characters]

We favour the creation of a specific European Sustainable Finance Guarantee Fund aimed at providing guarantees to financial institutions (private banks or medium/long-term investors such as funds or insurance companies) to support sustainable lending and investments, thus increasing additional sources for these projects as opposed to substituting existing lending sources with cheaper funding for the ultimate beneficiaries (i.e. SMEs and MidCaps). Guaranteed green bonds should be offered to retail investors to increase the involvement of retails clients in sustainable investing.

Investors could be granted tax relief on personal or corporate income tax against a sustainable investment made, for example, in a sustainable-labelled investment fund or company. Investment income (dividends, interest, capital gains) in green companies/bonds could also be exempted from taxation up to a certain level (e.g. bond: 5 % interest tax free). Governments could grant premiums for investments in green companies/bonds (e.g. premium of 5 % of invested amount).

Additionally, sustainable investments could be promoted by establishing tax incentives in the Corporation Tax for the financing of such investments, for example, by increasing the limit on the tax deduction of interest expenses incurred by the borrower within the limits established in article 4 of Council Directive (EU) 2016/1164 (i.e. ATAD I) and a tax credit (on the cost of the funds) to the lender.

Analysis should also be conducted to determine conditions under which subscription taxes could be waived for sustainable investment funds to support growth in sustainability. A preferential tax treatment on the gains from the sale of sustainable investment could also be considered.

In order to mobilise private capital to sustainable activities, the ECB and other central banks should consider including social and green loans, bonds and securitizations as eligible assets accepted as collateral for credit operations and applying preferential haircut policies on sustainable assets.

For further possibilities, including tax incentives for retail investors in Green projects, please see our report “Encouraging and Rewarding sustainability”:

https://www.ebf.eu/wp-content/uploads/2019/12/ENCOURAGING-AND-REWARDING-SUSTAINABILITY-Accelerating-sustainable-finance-in-the-banking-sector.pdf

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

 Yes / No / Do not know.

 If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue? [box max. 2000 characters]

- Simplified reporting requirements for SMEs.
- Definition of guidelines and/or general “green covenants” for sustainable loans granted to SMEs - possibly differentiated based on the sector/ industry the counterparties belong to (e.g. definition of "positive covenants" or contractual clauses providing benefits for counterparties that achieve the expected sustainability objectives).
- Risk sharing schemes.
- Setting-up of a dedicated platform that would allow SMEs to access easily technical assistance services and, implicitly, decrease the costs related to these services.
- Introduction of financial and/or tax incentives for green and for transition investments.
- Information engagement with clients through letters & dialogues, including for SMEs.
- Inclusion of SMEs in national climate strategies and programmes. Setting up stable and transparent direct policy incentives that improve the risk-return profile of low-carbon sustainable-related activities, especially tax-based stimuli, often effective tools as they allow commercial banks and private businesses to respond by creating innovative business models that leverage those incentives.
- Development of specific credit guarantee facilities managed by the EIB Group and other development finance institutions to stimulate SME green lending and leasing, as SMEs usually do not hold enough collateral and are perceived as riskier compared to larger companies.
- Availability of a grant-funded technical assistance package to support financial intermediaries with project preparation, capacity building (marketing, staff training, awareness workshops with customers, etc.), and monitoring, and also to support prospective SME borrowers in identifying priority investments through energy audits and best-performing technologies.

2.4 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?

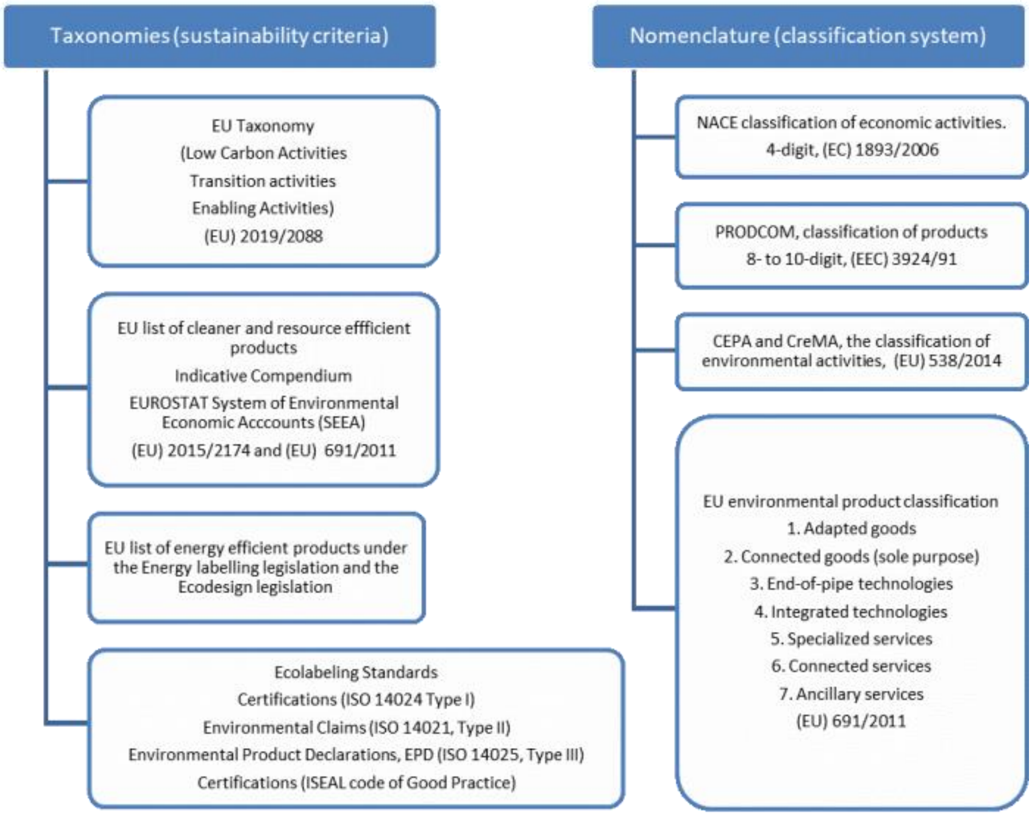
- ☐ Yes - please explain which public authority could use it, how and for what purposes. [Box max. 2000 characters]
- ☐ Yes, but only partially - please explain which public authority could use it, how and for what purposes, as well as the changes what would be required to make it fit for purpose. [Box max. 2000 characters]
- ☐ No - please explain why you consider that it is not suitable for use by public authorities, and how those reasons could be best addressed in your view. [Box max. 2000 characters]
- ☐ Do not know.

Yes, for purposes intended by the "Taxonomy Regulation", although we expect that public authorities may also face some problems with the availability of data to check whether some thresholds defined in the technical criteria are met. The usability of the Taxonomy, is not fully clear at this point, considering it is a relatively new piece of legislation. We would suggest that policymakers continuously review the legislation to ensure usability.

To classify and report on green expenditure, further changes will be needed to align reporting on Environmental Goods and Services Accounts, Taxonomy compliant activities and NFRD reporting in a coherent manner. Shared interests of EU Member States, supervisors, investors, banks, research institutes and companies in sustainability data require a common language with the possibility of exchanging data in automated systems.

A common language for sustainability needs at least two structural elements: a sustainability taxonomy and a nomenclature or classification system. This is summarized in Figure 1.

Figure 1. To identify a sustainable activity in automated systems, the sustainability criteria on the left-hand side, and "codes" on the right-hand side, must be combined.



Taxonomies: EU Taxonomy, EU lists of environmental and energy efficient products and ecolabelling standards

The structural element on the left of Figure 1 is the sustainability content. These are technical criteria, tools and labels to identify sustainable activities, products, services or processes. When companies disclose the percentage of sustainable activities, they may either refer to the EU Taxonomy or to other sustainability standards for products or processes. The left-hand side of Figure 1 contains the two main ecolabelling standards ISO and ISEAL, the EU "list of cleaner and resource efficient products" (and the EU "list of energy efficient products", as examples).

Nomenclature: economic classifications

The first structural element on the right-hand side of Figure 1 is the economic classification system. This is nothing else than a coherent numeric coding system to make automated exchange of data possible. An important part of it is the international system of economic classifications.

Investors and banks currently only use NACE or similar codes (ISIC, NAICS, GICS, etc.). NACE codes (up to 4 digits) describe the activities of a company, but not the products or services.

Information on groups of products and services, coded via PRODCOM (8- to 10-digit) are collected by EU Member States for production statistical purposes, but not yet made available for financial institutions.

Nomenclature: environmental classifications

On the right-hand side of the Nomenclature in Figure 1 there are also two environmental classifications: CEPA and CReMA and 7 environmental product classes. They are just classifications, thus codes, not criteria. These additional environmental identifiers for economic activity are a necessary element in the Nomenclature in Figure 1 because product codes alone do not always distinguish between sustainable and non-sustainable products.

These environmental classifications are also part of the data requirements of the System of Environmental-Economic Accounts (SEEA) that EU Member States use for their environmental-economic accounts.

Alignment between the Taxonomy and the Nomenclature is essential for its usability

Alignment between the EU Taxonomy and the Nomenclature improves the data quality and is essential for automated exchange of sustainability data.

As we summarised in the past, the usability of the taxonomy is dependent on actions carried out by both EU Legislators & Member States and Financial Market Participants. Both by themselves and in cooperation, as parties with shared interests, it is critical to ensure that classifications, disclosures, implementation, data, and assessment of the taxonomy follow a coherent information chain as depicted in the graph below.

Template for non-financial disclosures by companies

The EU Member States already make an estimation of the proportion of environmental activities of companies for the Environmental-Economic Accounts. Different data sources are used, like administrative data, telephone calls and regular production surveys. Many companies provide data at a very detailed product level, using the PRODCOM codes. Adding further variables, focusing on the sustainability of the products, is very challenging, time and cost-intensive. It is important that the EU harmonizes requests for information, in order to reduce the administrative burden.

Table 2. Template for companies to disclose alignment with Taxonomy and percentage of sustainable revenues and expenses (in this example, one row is one company; companies have multiple rows for different product groups).

To be filled-in by the company, but supported by equivalence tables													To be filled-in by company			
Company	**NOMENCLATURE (Activity Classification)**								**TAXONOMY (ENVIRONMENTAL CRITERIA)**				**FINANCIAL**			
ID	**Economic classification**						**Environmental classification**		**EU Taxonomy**		**Ecolabel**	**EGSS Compendium**	**Green revenues and expenditures**			
Ticker	**NACE code**	**Product or Service**	**CPA Code**	**CPA Description**	**PRODCOM code**	**PRODCOM description**	**CEPA/ CReMA**	**EGSS Product Class**	**EU Taxonomy Activity**	**Aligned (%)**	**EU ecolabel, ISO Tpe I, II, II or ISEAL**	**EU list of cleaner and resource effficient products**	**Associated revenues (Eur)**	**Associated revenues (%)**	**Associated Expenditure (Eur)**	**Associated Expenditure (%)**
Manuf_X	C 29.1	Product	29.10.2	Manufacturing of Passenger cars	29.10.24.50	Electric	CEPA 1	Adapted goods	Light passenger cars and commercial vehicles	100%	Green NCAP	Manufacture of electric and more resource efficient transport equipment	€	€	€	€
Manuf_X	C 29.1	Product	29.10.2	Manufacturing of Passenger cars	29.10.24.10	Hybrid	CEPA 1	Adapted goods	Light passenger cars and commercial vehicles	30% < 50g	EU ecolabel	Manufacture of electric and more resource efficient transport equipment	€	€	€	€
Manuf_Y	C 30.2	Product	30.20.11	Manufacturing of Rail locomotives powered from an external source of electricity	30.20.11.00	Rail locomotives powered from an external source of electricity	CEPA 1	Adapted goods	Passenger rail transport (interurban)	100%		Electric and more resource efficient transport equipment	€	€	€	€
Service_A	M 71.1	Service	71.11 and 71.12.12	Engineering and architectural services for low energy consumption and passive buildings and energetic refurbishment of existing buildings	n/a	n/a	CReMA 13B		Construction, Real estate activities	100%	BREEAM certified auditor (type I)		€	€	€	€
Service_B	H.49.1	Service	49.10.1	Passenger rail transport services, interurban	30.20.11.00	Rail locomotives powered from an external source of electricity	CEPA 1	Adapted goods	Passenger rail transport (interurban)	100%		Electric and more resource efficient transport equipment	€	€	€	€

See pages 16-19:

https://publications.jrc.ec.europa.eu/repository/bitstream/JRC119403/jrc_eba_workshop_-_report_final_version.pdf

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

- Yes / Yes, but only partially / No / **Do not know**
- If no or yes, but only partially, please explain why and how those reasons could be best

It is rather difficult to assess how useable the EU Taxonomy will be for the public sector considering it is a new piece of legislation.

Question 72: In particular, should the EU Taxonomy[8] play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.

- Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation;
-
- Yes.
- No;
- Do not know.

Yes, we believe that the EU Taxonomy should, once fully developed, be a contributing factor to how public funds are used at EU level. As such, we believe the two outstanding elements of the EU Taxonomy – social and governance – should be incorporated into the framework as soon as possible considering that many existing EU projects linked to Cohesion funds or structural funds have at their core a social element that may otherwise be overlooked if only environmental considerations are used. Pending the development of the social taxonomy, the EU Commission should develop minimum criteria for social impact that can act as a bridge until the EU's work is more fully developed. Given the critical situation generated by the COVID-19 epidemic, some elements could be taken into account, such as workers' re-skilling, citizens' access to food, health services, housing, water, sanitation, energy, transport, financial services and digital communication - whichever is relevant or appropriate.

For human rights we suggest using a relatively simple checklist: https://www.ungpreporting.org/framework-guidance/

The starting point for evaluation of the social impact beyond human rights should be the European

Social Charter, with human dignity at its core: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012P/TXT with six basic indicators; jobs, and positive impact on people's access to food, health services, education, housing and essential basic services (water, sanitation, energy, transport, financial services and digital communication).

Follow-up questions:

- If yes, what role should it play and is the taxonomy, as currently set out in the [report of the Technical Expert Group on Sustainable Finance](), suitable for the following purposes? Select all that apply:
  - In the context of some EU spending programmes: BOX [max 2000 characters] x
  - In the context of EU state aid rules: BOX [max 2000 characters]
  - Other, please specify. BOX [max. 2000 characters]x
- If yes, but only if social objectives are included; what role do you see for a social, climate and environmental taxonomy? Select all that apply.
  - In the context of some EU spending programmes: BOX [max 2000 characters]
  - In the context of EU state aid rules: BOX [max 2000 characters]
  - Other, please specify. BOX [max. 2000 characters]

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

- Yes / No / Do not know.
- If no, are there specificities of public issuers and funded projects or assets that the existing guidance on green bonds, developed by the TEG, does not account for? [BOX max. 2000 characters]

[BOX max. 2000 characters]

Similar to how the EU Taxonomy for sustainable investments is structured, we would suggest that a common Green Bond Standard should be used by Member States and other public sector authorities when related to specific "green" projects. Having a common standard will help reduce fragmentations in the market and facilitate cross-country financial flows.

Considering that not all public issuances are related to "green" projects, any new framework should not be mandatory unless the project has a specific "environmental" objective or if it is marketed by a public authority as "green". As many smaller countries may have fewer investment projects suitable for Green Bond Standards, it is crucial that flexibility is maintained in order for Member States to attract large foreign investors for issuances, avoiding fixed income market fragmentation.

Incentives for Member States to use a Green Bond Standard should nevertheless be examined as a way to spur the development of this market and cement the EU's position as its global leader.

2.5 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/Do not know.
- If yes, please specify what type of services would be useful for this purpose:
  - Information on legal frameworks
  - Individualised advice (e.g. on financing)
  - Partner and location search
  - Support in completing authorisations
  - Problem-solving mechanisms
  - Other, please specify [box max. 2000 characters]
    - Prioritizing objectives and targets and directing investments to higher priorities each year.
    - Providing regular feedback to the various stakeholders of each country involved to enhance the transparency level and facilitate the monitoring.

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.
- Do not know.

Promoting sustainable finance globally

The global financial challenge posed by climate change and environmental degradation requires an **internationally coordinated** response. 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)?

- Please express your view by using a scale of 1 (highly insufficient) to 5 (fully sufficient).2
  - 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]

The global nature of these issues and those of financial markets justify a global response and global public-private partnership. However, the liberal, multilateral world order is under serious threat with competition rather than co-operation increasingly being the order of the day which makes global coordination far more challenging. Within the framework of international law, norms and obligations, there is a way to accelerate the delivery of the Paris Agreement, and/or the UN Sustainable Development Goals (SDGs) through the application of sanctions (punitive approach) or trade incentives (positive approach).

Multilateral and Bilateral Development Finance Institutions cooperate to a certain extent but also compete, (i) between themselves with rival programmes, and (ii) with the private sector, by providing rather than facilitating the flow of funding.

While we believe global coordination is not sufficient, we appreciate and support the EU coordination efforts at global level. The EU has also played an active role in this process by developing benchmark parameters, a classification system, and standards for sustainability activities; promoting investments in sustainable projects etc. We encourage expanding the use of the EU taxonomy, as a common language outside the EU, once enough progress at the EU level has been made. The global use of taxonomy is important to remove uncertainty, ensure comparability and allow competitive solutions on a level playing field. The success of the taxonomy will mainly depend on its usability and its potential to be applied in an automated way into IT systems and processes.

The recent IIF-EBF survey https://www.ebf.eu/wp-content/uploads/2020/01/Global-Climate-Finance-Survey-2020.pdf showed that the regulatory fragmentation is a big source of concern. Many firms remain concerned about the increasing number of new initiatives with similar goals. Many of these frameworks overlap and it can be difficult to distinguish between the goals of the initiatives. Over 65% of survey respondents believe that current regulatory initiatives will have a material impact on the market environment for sustainable finance. Citing the EU Action Plan for Financing Sustainable Growth as the single most common factor shaping global trends at present, we believe the EU should reinforce its efforts to drive the agenda globally. The NGFS' work streams and the TCFD recommendations on climate-related financial disclosure are other common factors highlighted by survey participants.

In addition, we would like to highlight the need of a key inter-operationalisation of the taxonomy with other international and European Economic and Environmental activity classifications.

For more information please consult our position on Taxonomy Usability, and see our response to Q 70 above).

This way, enhancing the reach of the different economic activity classifications and the reporting, happening in Member States, aligned with internationally agreed codes of conduct (SEEA is a collection system of environmental economic activities developed in cooperation with UN, OECD, WB etc). Further links:

https://publications.jrc.ec.europa.eu/repository/bitstream/JRC119403/jrc_eba_workshop_-_report_final_version.pdf

SEEA: https://seea.un.org/content/homepage

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 three proposals.

- [BOX max. 2000 characters]

At EU level

- Ensure a much wider membership and engagement of the envisaged Multi-Stakeholder platform compared with TEG; and dialogue with the businesses and financial industry representatives.
- Adopt sustainable strategies at a European rather than at a national level, especially for critical sectors in terms of environmental impact and use of resources.
- Create user-friendly guidelines that help companies and financial institutions to put standards into practice.
- Ensure appropriate tracking of development at EU-MS level, improving the measuring capabilities of Member States and reporting to Eurostat.

At global level

- Ensure the EU legislation takes into account the widely accepted global standards and frameworks to the maximum and appropriate extent possible in the EU context to ensure global recognition.

Question 78: In your view, what are the main barriers private investors face when financing sustainable projects and activities in emerging markets and/or developing economies? Please select all that apply.

- Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.).
- Lack of clearly identifiable sustainable projects on the ground.
- Excessive (perceived or real) investment risk.
- Difficulties in measuring sustainable project achievements over time.
- Other, please specify [BOX max. 2000 characters].

  - First, there is still a lack of common understanding of the definitions and taxonomies internationally. As a result, investors face legal uncertainty when investing in emerging markets or developing economies.
  - Among emerging and developing economies, there are many which are commodity producers and rely on revenues from this sector. That might prove incompatible with

sustainable finance objectives and conditions and result in lower financial resources for this country. There is the need to achieve a multifaceted equilibrium, taking into account climate, social, and political interests.

- Risks that act as disincentives to private sector investments:
  - political risks that are either directly caused by a government's actions (expropriation, nationalisation, currency inconvertibility, capital controls, taxation etc.) or are a consequence of/reaction to a government's actions (strikes, civil unrest, sabotage & terrorism etc.);
  - non-honouring of financial obligations by a host government/public sector entity;
  - inflation and exchange rate depreciation;
  - policy & regulatory uncertainty/variability;
  - ensuring property/concession rights;
  - dispute resolution mechanisms and contract / concession termination risks;
  - licensing and permitting risks.

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 three proposals. [BOX max. 2000 characters]

For developing countries there is a need for more coordinated policies in terms of subsidies granted by the EIB and IBRD. Long-term plans could include ECAs' revised strategies; for instance, ECAs should take into account the sustainability of importing countries in a long-term client relationship view. It would be important to dedicate part of the EU budget to sustaining financial programmes able to de-risk investments in emerging economies. In order to increase the level of investment funds directed at sectors and projects related to sustainability in emerging markets, partnerships between different external and internal sources of development finance can be beneficial so as to synergize their unique attributes. EU could promote and offer such partnerships which are not only about financing but also related to technological assets, managerial and professional skills, or knowledge/know-how.

There are several measures that the EU can take, that however require some important adjustments:

1- recognition that EU cooperation and development policy has to be considered within and integrated into the EU's geopolitical interests and policies; the EU needs to assess its competitive advantage in the face of such competition and develop its policy framework accordingly;
2- greater policy coordination between the EC Directorates spearheading mobilization and those responsible for financial supervision/regulation;
3- the scale of the investment needs goes well beyond the capacity of the public sector; the needs are so great that the public sector alone cannot provide the magnitude of financing required;
4- private investment facilitation requires changes and improvements at both the Provider's and the Recipient's end;
5- revision of regulation to ensure lower capital charges for long-term sustainable infrastructure investments as a way to increase the rate of return from holding such instruments and to crowd-in resources from insurers and other domestic and foreign institutional investors in climate-resilient infrastructure projects in developing economies;
6- adjust prudential treatment for green bonds, green covered bonds, and green securitizations compared to other funding instruments not collateralised by sustainable assets;
7- leverage on the abilities of the EIB and the EBRD to blend both market and public financial sources at EU-level to help overcome barriers to investment by providing long-term financing, introducing de-risking mechanisms and working with a network of international and local commercial banks to implement financing packages in support of energy efficiency and renewable energy projects.

A greater flexibility on their standard Loss-of-Rating clauses adapted to the reality of developing countries would expand their capacity for on-lending through partner banks.

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

- All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change.
- Some tools can be applied, but not all of them. If necessary, please explain [box max. 2000 characters].
- These tools need to be adapted to local particularities in emerging markets and/or developing economies. Please explain how you think they could be adapted [box max. 2000 characters].
- Do not know.

Once the Taxonomy is finalised and widely adopted by EU companies, it has a potential to become a reference worldwide. However, these tools are specific, tailored additions to an existing body of laws, policies and regulations that govern Environmental, Social and Governance issues. Many emerging markets/ developing countries are unlikely to have the same strong base/foundations, which will make adopting them significantly harder.

Imposing, *en masse,* such requirements, presumably primarily designed for EU countries, without any adaptation, could create disinterest at best and resentment at worst, especially in former colonies of European countries. They could be misconstrued as a means of establishing superiority, as opposed to fostering a spirit of partnership, which is the EU's objective.

Ensuring simplification and clarity of these tools and non-onerous associated costs are likely to be prerequisites for their adoption in recipient countries.

It may be useful to consider, through discussions on the EU International Platform on Sustainable Finance, how the EU Taxonomy might be adapted as a template for other markets and facilitate the integration of ESG activities both at the EU and global level.

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 / do not know.
- If no or yes, but only partially, please explain why and how the obstacles you identify could be best addressed [box max. 2000 characters].

The development banks may also face some issues due to the lack of available data.

The development of the EU taxonomy is an effective tool for asset tagging and the promotion of sustainable finance in Europe. Although the proposed taxonomy regulation is applied at EU level, it may serve as a reference case for consideration in other jurisdictions by development banks. However, sustainable taxonomies should be adapted in developing countries, where their levels of economic maturity differ, to include a wider range of activities that contribute to improving their current economic or energy-related situation in order for such countries to foster the transition to a low-carbon economy.

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.[9] 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").

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

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

- Yes **/ No** / Do not know.
- If no, please explain why you disagree [BOX max. 2000 characters]

- If yes, what would be the purpose of such a brown taxonomy? (select all that apply)
    - Help supervisors to identify and manage climate and environmental risks.
    - Create new prudential tools, such as for exposures to carbon-intensive industries.
    - Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities.
    - Identify and stop environmentally harmful subsidies.
    - Other, please specify. [box max. 2000 characters]

We agree with the approach the European Commission is taking in first finalizing the adoption of the sustainable taxonomy. We are in the early stage of the green taxonomy development, so it is important first to focus on the implementation and practical application of the existing taxonomy as well as the other environmental objectives before defining a broader taxonomy. The EU should now focus on making the current taxonomy more usable, increase operationality and reduce complexity.

We should await the envisaged EC report on the potential development of the brown taxonomy before any decision is taken. In its report, the EC should further explore the extent to which a brown taxonomy could provide further clarity for banks, investors, and supervisors on the environmental impact of economic activities and contribute to achieving the EU objective of climate neutrality. Clarity on purposes of its intended use, particularly, with respect to supporting the transition of all economic players, should be assessed. This applies to any potential extension of the taxonomy beyond so-called green or brown activities, including those activities that are neutral in terms of environmental impact, and those that do not have room for improvement. Importantly, any considerations on brown taxonomy, if the decision to develop it is taken, should be designed in a way that supports the transition of entire sectors and does not hinder their access to finance. Finance is essential for those sectors to be able to undertake the necessary transition and the brown taxonomy should not result in establishing penalising factors relating to the financing of such transitioning activities.

It should also be taken into consideration that the taxonomy was not defined for banks' risk management purposes. If a brown taxonomy has to be developed, it should allow for forward-looking strategies when assessing clients' climate-related risks and consider a more holistic assessment such as portfolio alignment. This implies defining an official transition, path against which, a company's transition strategy can be assessed.

Finally, it should be evaluated whether it would be productive for the EU to press ahead unilaterally with a brown taxonomy; and what the impact would be on the competitiveness of European businesses vis-à-vis other jurisdictions without a similar Taxonomy in force.

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

- Yes / No / Do not know.
- If yes, what should be the purpose of such a taxonomy? Please specify. [BOX max. 2000 characters]

Yes, as mentioned in the previous response, we believe the EU should consider extending the taxonomy to cover not only those economic activities that make a substantive contribution to one of the six environmental objectives and do not significant harm the other five as defined in EU Taxonomy Regulation (including those activities that are most exposed to the transition due to their current negative environmental impacts, but also those activities that are neutral in terms of environmental impact, and those that do not have room for improvement.

This is particularly important in the context of considerations for brown taxonomy. If neutral activities are not identified, a purely brown taxonomy risks having a significant negative impact on the market whereby neutral activities are also considered harmful activities and hence struggle to find the adequate financing.

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 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 provide links to quantitative analysis when available.

- Physical risks, please specify if necessary [BOX max. 2000 characters]
  Direct impact (droughts, floods, high temps, extreme events etc.) on our customers in agriculture, tourism, etc.]
- Transition risks, please specify if necessary [BOX max. 2000 characters]
  Policy and legal risks, technology risks, market risks and reputations risks for customers that do not adopt fast to new trends and demands]
- Second-order effects, please specify if necessary [BOX max. 2000 characters]
  We understand that second order effects, as the consequences of ESG factors, such as the impact of climate change on real estate prices, are already analysed by institutions and Regulators in current stress exercises. For that reason, whether we would consider them as

separate effects, needs to be carefully considered, so as to avoid double counting.

- Other, please specify [BOX max. 2000 characters]

As counterparty to all economic sectors and activities, the banking sector will be affected by all the abovementioned channels. The importance of each channel will depend on the speed and policy actions taken (or not). Hence, it is vital that authorities strike a balance between speed and inaction.

The potential impact of climate risks is large, non-linear, and hard to estimate. Losses from climate-related risks affect the financial system directly, through price impairment, reduced collateral values, and underwriting losses, and indirectly, through lower economic growth and tighter financial conditions, making it relevant for monetary policy as well.

The perceived long-term nature of stranded asset risks also makes investors hesitant to incorporate them into portfolio investment and risk management frameworks. A cycle of fire sales and asset price declines could affect even seemingly unrelated institutions and asset classes, exacerbating investors' concerns, and leading to sizeable market fluctuations and further asset portfolio losses.

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 three actions taken in your industry [BOX max. 2000 characters]

- Decisions taken by some relevant industry players to adopt green lending policies.
  - phasing out/or limiting the corporate financing to C02 most contributing economic activities (e.g. Coal Fuel fired Generation Assets/Non-conventional Oil/Gas exploration and production projects).
  - and at the same time fostering corporate financing towards sustainable friendly economic activities (e.g. development of Renewables asset construction), including commitments to climate neutrality and public target settings by individual banks but also collectively.
- Climate risks are being incorporated into risk appetite or strategy and the ownership of 'climate' risks are being defined via sustainability functions and via senior management committees where policies are being revised to include more stringent criteria for Green Bonds issuances for (re)financing of assets which exclude financing of coal mining, fossil fuels, or tobacco. Risk management functions are starting to evaluate climate risks via the more precise identification of clients with potential climate risks and via the creation of client CO^2 mapping/databases. Also, financial risk management practices in various banks are beginning to evaluate adequate scenario analysis / stress testing specifically related to climate risks. Banks are working to guarantee adequate resources and sufficient skills and expertise, dedicated to developing and managing the financial risks related to climate risks. Market Risks are being evaluated to refine the monitoring of their exposure via more specific limits linked to products such as commodities which are primarily exposed to the large price fluctuations in the event of Climate Risks.
- Initiatives driven by public sector: UN Principles for Responsible Banking, FSB TCFD/NBG, EBA Sustainable Finance Action Plan, EBA Pilot Sensitivity Analysis, ECB consultation on Guidelines, NGFS, Stress tests of selected supervisors' tests. Banks are establishing effective dialogue with all regulatory bodies and other relevant stakeholders.

- Client engagement with investors, lenders and financial services providers. The financial sector plays an increasingly active role in supporting businesses with their transition plans. Firms are building client-facing-capabilities/expertise, especially for those companies most exposed to transition risks, for institutional investors and retail clients, supporting with relevant products and services, which has quickly moved ESG consideration from niche to mainstream.

- Providing more disclosure to investors. Increasing the offering of sustainable products to our customers and developing internal methodologies for the impact calculation.

Question 86: Following the financial crisis, the EU has developed several macro- prudential instruments, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system. Do you consider the current macro- prudential policy toolbox for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change?

- Please express your view by using a scale of 1 (highly inadequate) to 5 (fully sufficient).
- For scores of 1-2, what solution would you propose? Please list a maximum of three. [BOX max 2000 characters]

Scale 4

- The EBA is currently working under the mandates given in CRR and is expected to issue consultation on incorporation of ESG into risk management frameworks and prudential regulation later this year. **We consider this mandate sufficient**. Overall prudential regulation has sufficient buffers to deal with events that undermine financial stability.

- Continuation of the dialogue, regular workshops and creation of a joint Working Group between regulators and industry would be welcome. EBA works should be assisted by research in forward-looking methodologies able to embed in the credit risk assessment the ESG profiles of the single counterparty or of its sector.

- **Data challenges in risk management practices of banks**: one of the main concerns regarding the integration of climate-related risk into the risk management practices of banks, is the lack of (historic) data. Inaccurate and incomplete data could result in incorrect assessments of climate risks and incorrect portfolio decisions. Policymakers and supervisors should place significant emphasis on data availability as part of its effort to enhance understanding of Climate Risk, working on this with accounting firms, industry, and wider stakeholders. The European Commission could take action to enhance the availability, usability and comparability of climate-related loss and physical risk data. (See response to question 14) .

- Related to this, **guidance on scenario development will be important** to achieve transparency and consistency for institutions developing their own scenarios based on their own specific circumstances.

- While the macroprudential framework has been advanced for the banking sector, with plenty of new tools and requirements after the crisis, it has not been accompanied by such advances in the non-banking sectors. On the other hand, main risks to the financial system have shifted to financial markets, as acknowledge by the authorities in most Financial Stability Reviews. Hence, there is an urgent need to amend the macroprudential framework for non-banks, so that authorities have the appropriate tools to fight the risks, including climate change.

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[11] 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 their solvency position that may impede 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/Do not know.
- 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 / Do not know.
- If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy? [box max. 2000 characters]

The sector agrees that ESG risks, or more specifically, climate-related risks, **should be considered by banks for inclusion in their risk management frameworks.** Yet, there are **still challenges in the**

development of methodologies for climate risk management which require further analysis and discussion. One of these is to fit climate risks with the way the Basel framework has been set up. It will be a challenge to include transition climate risk in the PD's and LGD's of Basel Pillar 1. For instance, climate risk is characterised by deep uncertainty and longer horizons, which is at odds with the standard approach to modelling financial risk by extrapolating historical data. It is also challenging to capture physical climate risk in Pillar 2 given the nature of these long-term, unpredictable events. Hence, banks are still actively exploring in what way climate risks can be further integrated in their risk management practices.

ESG factors are expected to be embedded and developed by the EBA as harmonized level 2 regulations. Therefore, the updated SREP Guidelines need to be clear to allow banks to understand what is expected from the supervisors and what is going to be assessed. EBA loan origination Guidelines are also a good starting point, but we suggest that EBA further develops section 4 of the guidelines to give clarity to industry on how to incorporate ESG into the loan origination.

The inclusion of ESG risks into prudential regulation is not the only way to accelerate the transition to a sustainable economy even though it could be effective. Based on the current context stressed by impacts arising from the health crisis, the introduction of prudential provisions, implying new capital requirements, if not assisted by supporting programmes for banks and financial institutions (e.g. incentive instruments and favourable risk-weighting for exposures to ESG responsible clients), could lead to worsening economic scenarios, such as prompting the banks to decrease their credit activities in support of the economy.

Therefore, to improve banks' funding capacities by aligning their investment decisions with the sustainable finance goals and develop attractive and competitive financial solutions for sustainable clients and projects, supported by sustainability literacy and training programmes, thus stimulating the market, we are proposing to relax prudential rules for certain sustainable assets, where a lower prospect of financial risk related to the ESG factors can be demonstrated on a forward-looking basis. These assets should benefit from a preferential prudential treatment. The evidence-based approach is important to avoid creating risks in banks' balance sheets in the push to shift loan books towards greener lending.

Maintaining a link between risk and capital is crucial to avoid any financial stability concerns. Pending the development of the methodologies for incorporation of the ESG factors into IRB/AIRB models and into the standard supervisory framework, and in line with the objective to maintain the link between long-term risk considerations and capital, we suggest that the European Banking Authority (EBA) explores, as part of its mandate, the possibility of introducing a supporting factor for certain assets (Sustainable Finance Supporting Factor) that are classified as sustainable under the EU taxonomy and at the same time, meet additional eligibility criteria established by the EBA.

Using forward-looking methodologies, it is suggested that the EBA investigates whether there are groups of assets/activities under the EU taxonomy that show a lower financial risk, and, specifically, a lower credit risk profile by virtue of their sustainability. Please see the details of our proposal for a Sustainable Finance Supporting Factor in the EBF report "Encouraging and Rewarding Sustainability" proposed in the context of a broader range of incentives that could accelerate sustainable finance.

The supporting factor would only apply to such eligible assets after the RWA requirement has been computed as usual (using the standardised or the IRB/AIRB approach). The SFSF(s) would apply both to SA-CR and IRB/AIRB approaches but once banks, applying the IRB/AIRB approach, will have embedded the sustainability profile in their validated internal rating model, the SFSF can no longer be used for IRB/A-IRB and will be embedded in changes to the STA.

Examples of potential eligible asset classes, whose RWAs could be multiplicated by a single SFSF or by different SFSF factors, are:

- **a. Green or energy efficient mortgages as for the European Mortgage Federation proposal or energy efficiency device production.**
- **b. Green covered bonds where lower risk compared to other funding, not collateralised by sustainable assets, could be reasonably demonstrated. We support the recommendations of the Technical Expert Group on Sustainable Finance (TEG) suggesting that the EBA, as part of its mandate, also assess the possibility of developing a segment of green bonds that would define the conditions to be met by the EU-Green Bond Standard in order to benefit, potentially, from a preferential prudential treatment.**

Furthermore, banks are and will increasingly be steering complete portfolios towards a decarbonisation path, thereby reducing both transition-related and systemic risk created by climate change. At portfolio level, banks will have to demonstrate the extent to which the lending of each institution, and per sector, contributes to reaching the goals of the Paris Agreement using customer data in combination with sector available statistics from reputable institutions. A bank using this kind of forward-looking methodology for one specific sector will have a lending portfolio in this sector aligned to the Paris Agreement, and in consequence, will have lower transition risks. Where a lower transition risk can be proven for a material proportion of businesses, it should be recognized from a capital requirements' point of view. This could incentivize asset allocation, pricing, and ultimately the behaviour of the market.[4]

Question 89: Beyond prudential regulation, do you consider that the EU should take further action to mobilise banks to finance the transition and manage climate-related and environmental risks?

- Yes one or both, please specify which action would be relevant [BOX max. 2000 characters]
- No.
- Do not know.

Yes. The current sustainable finance is too much investor driven, while in a bank financed, SME-based economy, banks will play an important role in accompanying companies in transition. Sustainable Finance is too focused on green financial investments and products. There should be more focus and discussion on transition finance and the role of banks going forward, including appropriateness, usefulness and operationality of currently developed, investor centric EU tools in banks.

The EU should use the EIB and EIF to contribute widely to funding these transition costs and to mitigating risk. As per multiple previous responses, the effectiveness of banks' mobilisation is strictly linked to the strengthening of support programmes i.e. risk sharing and economic supports, fiscal facilitations, incentives.

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 / Do not know.
- If yes, please specify which measures would be relevant. [BOX max. 2000 characters]

We consider that the EBA loan origination and monitoring and SREP guidelines could be a good starting point to add and harmonize some governance frameworks, such as internal structures, resources or internal control/compliance. Management and Board of Directors should be

[4] Please see also Sustainable improvements loan factor page 62 of the JRC report https://publications.jrc.ec.europa.eu/repository/bitstream/JRC119403/jrc_eba_workshop_-_report_final_version.pdf

accountable for comprehension, discussion and management of sustainability risks and impacts, not limited to climate risks. In addition, it is relevant to consider the efforts the financial sector has made in recent years in terms of governance regarding ESG, even non-binding recommendations such as the TCFD recommendations as a risk mitigant.

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 / No / Do not know.
- If yes, what solution would you propose? [BOX max. 2000 characters]

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.[12] Lastly, the study provided a preliminary quantitative analysis of the investment portfolio[13] 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.

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

- Yes/No/Do not know.
- If yes, please specify what actions would be relevant in your view.[BOX max. 2000 characters]

NA

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?[BOX max. 2000 characters]

NA

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

- Yes/No/Do not know.
- If yes, how could this be achieved, taking into account that IORPs are collective schemes whose members may have different views on ESG integration? [BOX max. 2000 characters]
- NA

2.7 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, and 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?

- Please express your view by using a scale of 1 (not transparent at all) to 5 (very transparent).
  3
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

In anticipation of ESMA's Guidelines becoming effective as of April 2020, CRAs took measures to improve transparency in integrating ESG factors into their credit rating methodology. To recognise the needs of shareholders for greater clarity on how ESG factors are integrated into credit analysis, CRAs committed themselves to providing more specific ESG frameworks. Even though considerable efforts have been made, so far, there are still improvements to be made in terms of homogeneity of frameworks across different Credit Rating Agencies (CRAs).

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

- Please express your view by using a scale of 1 (very ineffective) to 5 (very effective).
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

Scale 2

Due to the increasing potential that Environmental, Social, and Governance risks and opportunities have to affect creditworthiness, we understand that an improved, more effective and transparent integration of ESG factors into the credit rating procedure is strongly recommended.

Despite the efforts undertaken to evaluate the extent to which ESG factors are relevant and the way in which these factors are considered in credit ratings, their overall impact and materiality relies upon the decision of each CRA.

In most cases ESG factors are considered quite ineffective because they do not really represent a key driver of the credit ratings and as such credit ratings should not be understood as providing an opinion on sustainability characteristics of an issuer or entity.

Transition risk was underestimated as a risk driver in the past, so it merits further work, as well as equating the time horizons with forward-looking risk perspectives that also integrate physical risk as a relevant factor. In this regard, we understand that the signal of credit differentiation due to ESG factors could improve, but CRAs are constrained by their 16-point scale, so further work in adjusting the CRAs procedures is needed.

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

- Yes / No / Do not know.
- If yes, please specify what kind of action you consider would address the identified problems. In particular should the EU consider regulatory intervention? [BOX max. 2000 characters]

We consider it would be valuable to promote further clarity and transparency on how CRAs are integrating ESG factors into their methodologies; and this is adequately communicated to the market, to improve the visibility and understanding of the progress being made.

2.8 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?

- Yes / No / Do not know.
- If yes, please list a maximum of three relevant initiatives. [BOX max. 2000 characters].
- characters]:

With regard to natural capital accounting/environmental footprinting practices, there are some international public initiatives, such the impact tools from UNEP FI within the PRB framework, or True Price, the private side (https://trueprice.org), and the Natural Capital Coalition (https://naturalcapitalcoalition.org), but their usability needs to be assessed.

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

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 / Do not know.
- If yes, please select all that apply:
  - Loss data, please explain why [BOX max. 2000 characters]
  - Physical risk data, please explain why [BOX max. 2000 characters]

Yes, policymakers and supervisors should place significant emphasis on data availability as part of its effort to enhance understanding of Climate Risk, working on this with accounting firms, industry, and wider stakeholders. The European Commission could take action to enhance the availability, usability and comparability of climate-related loss and physical risk data, ideally in cooperation with the NGFS.

LOSS DATA: comparable, standardised and widely accessible loss data is critical for the risk management functions of financial institutions and the future integration of ESG scenarios into financial institutions' strategy. Thus far, reliable and granular loss data, is scarce and concentrated within a few private data-providers.

Enhancement of the (public) availability of climate-related loss data can lead to better benchmarking of banks' climate risk profile. As loss data is more widely available and used, a robust framework can start to take form, on which the market as a whole can (more or less) agree.

On the enhancement of comparability of climate-related loss data, a very clear consequence would be the standardization of methodologies on how to define loss data. The consensus on the comparability should also be comparable across jurisdictions in the EU and not only inside each separate Member State. It is important to note that this standardization, on its own, would only be sufficient when comparability is matched with a consensus on "best practices" on the methods being used. Therefore, definitions and methods should be aligned.
One implication would be increased usage of such data by banks and other market players. This, in turn would further help develop a more robust ESG framework, which would prove to be useful for different parties interested in physical risk data and could be used for ESG risk assessment.

PHYSICAL RISK DATA: Comparable, standardised, and widely accessible physical risk data is critical for the risk management functions of financial institutions, and the future integration of ESG scenarios in financial institutions' strategy. Thus far, reliable, and granular physical risk data is scarce and concentrated within a few private data-providers.

Enhancing the availability of physical risk data can provide a view on where the data landscape still needs to be developed and which parts of the physical risk assessment framework need to be further developed. Lastly, on the availability of physical risk data, more data availability would have an increasing impact on the improved understanding of the ESG risk. Sharing behaviour practices would stimulate the sector's learning curve on these risks, especially in the field of climate risks, which still needs to be considerably developed further.

The increased use of physical risk data by different parties would, as a result, improve the quality of the same data.

We see two more clear benefits from enhancing comparability of physical risk data for banks and other market players. First, more consistent comparability of the data provided to, or by financial players, will in its turn provide investors with a more consistent view on the physical risk across companies and possibly even, jurisdictions. This could also result in a wider adoption of sustainability considerations by investors, who have a narrower view on sustainability topics, thus strengthening sustainability across the board. Furthermore, comparability enhancement can also facilitate more reliable and informative physical risk assessments at different levels of the economy (individual/segment/sector/market view).

However there are some practical issues arising such as:

- How to report data from non-EU companies.
- Clarification of the breakdown behind the indicators (loss data and physical data).
- How would the repository be linked to other databases?
- How are data going to be collected and from who: corporates, from credit institutions…
- What is the envisaged timing?
-

- *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 / Do not know.
- If yes, please indicate the degree to which you believe the following actions could be helpful, using a scale of 1 (not helpful at all) to 5 (very helpful) and substantiate your reasoning:
  - Financial support to the development of more accurate climate physical risk models. [BOX max. 2000 characters]

The insurance sector already has the expertise on this. Taking in consideration that a significant part of the EU's companies are SMEs, it would be helpful if companies could have access to open source accurate models in order to proceed with their own assessment regarding their exposure on physical risk, without tapping their own financial recourses. Providing open source climate accurate models could help SMEs to take measures more easily, on a voluntary basis, to mitigate and adapt to climate change without additional financial costs for acquiring know how tools, which for many of them would be a deterrent.

- Raise awareness about climate physical risk. [BOX max. 2000 characters].

  Covid-19 will be an eye opener for general awareness, but efforts should be made so that the general public is more aware of these risks when taking financial decisions.

- Promote ex-ante "build back better" requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe. [BOX max. 2000 characters].

  Given the uncertainties surrounding the type of risk, it is difficult to support this approach, it is mainly relevant for public sector.

- Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage. [BOX max. 2000 characters].

  For symmetric and global risks such as pandemics this makes sense. Some EU countries are working on a new mechanism for pandemics' insurance cover that could entail some state backing; and are exploring funding options to have a scheme in place ahead of another potential coronavirus lockdown.

- Reform EU post-disaster financial support. [BOX max. 2000 characters].

  While some general guidelines and basic mechanisms at EU level could be desirable, the heterogeneity and unpredictability of the consequences of climate-related disasters make it difficult to consider a one-size-fits-all solution. Each event might require a different solution.

- Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events. [BOX max. 2000 characters].

  While catastrophe bonds add to the diversification of portfolios and are generally uncorrelated with other risks, the expected increase of frequency and severity of catastrophes warrant that these products should be carefully considered, especially if they are designed for the non-informed investor.

- Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks. [BOX max. 2000 characters].
  Sharing best practices and benchmarking initiatives is normally a wise thing to do.

- Regulate by setting minimum performance features for national climate-related disaster financial management schemes. [BOX max. 2000 characters].
  The definition of national climate-related disaster is not straight forward and one-size-fits-all schemes are not adequate to manage these risks.

- Create a European climate-related disaster risk transfer mechanism. [BOX max. 2000 characters].
  For symmetric and global risks such as pandemics this makes sense.

- Other, please specify. [BOX max. 2000characters].

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

- Yes / No / Do not know.
- If yes, which actions you would consider to be useful? In particular, is there scope for EU action to improve the offer of products and services for climate-related disaster risk reduction, enhance insurers' potential to promote increased resilience of their policyholders beyond a mere compensatory role? [15]
  - Yes / No / Do not know.
  - If yes, please explain which actions and the expected impact (high, medium, low). [BOX max. 2000 characters].

    Insurers will not insure climate change. Hence, for common symmetric disasters public-private partnerships to expand affordable and comprehensive insurance coverage, coordinated at an EU level to guarantee same coverage for all EU citizens, would make sense.
  - If no, please explain. [BOX max. 2000 characters]

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

- Yes / No / Do not know.
- If yes, what action should the EU take? Please list a maximum of three actions. [BOX max. 2000 characters]

  Yes, however, we do not see the need for any new regulatory obligations now except those already envisaged, but further harmonization and guidance in specific areas may be useful.

  Generally, ESG risk assessment focuses on direct environmental, social and governance impacts and risks. This should be complemented with information that concerns the financed or invested activities' short, medium and long-term impacts on climate, as well as the activity's vulnerability to climate transition and physical risks. Climate change risk can be approached from a range of perspectives, including whether the activity contributes to climate mitigation and/or adaptation, and whether there is any risk of contributing to locked-in technologies or a risk towards stranded assets.

  This assessment should be performed in a context of proportionality and adapted to the markets in which entities operate, and be flexible with the information to be provided. We would also support the development and standardization of scenario approaches, and guidance on decision-making horizons for different risk types in different geographies.

When considering what additional guidance may be needed, it is important to make a distinction between project/asset financing and general lending. Specific projects or asset level lending form a smaller part of the overall loan financing, but with a clear target in terms of the project/asset being financed. A larger share of lending is so called “general purpose lending”, where the financed target is not specified. For such lending, further guidance on how to apply ESG, including climate-related criteria would be welcomed.

3. ADDITIONAL INFORMATION

Should you wish to provide additional information (e.g. a position paper, report, further quantitative evidence, other) or raise specific points not covered by the questionnaire, you can upload your additional document(s). Please be aware that such additional information will not be considered if the questionnaire is left completely empty.