22 July

Renewed Sustainable Finance Strategy

Important considerations from the banking sector

- **Focus on usability and enforceability of the currently developed tools and requirements**
- **Ensure clarity and stability of political and regulatory environment**
- **Reduce complexity and ensure consistency across EU legislation, regulation, and standards**
- **Enhance availability, reliability, and comparability of material ESG data by means of European reporting standard and central ESG Data Register**
- **Develop a uniform definition of ESG risk and criteria for understanding the impact of ESG risks on corporations**
- **Provide corporates and financial institutions with analysis methods and tools which can help to assess the impact of ESG risks on lending**
- **Favor innovation in sustainable finance to identify new instrument which can better support the transition toward sustainable business models (es. ESG-Linked Loans; SDG KPI-linked bonds; Impact Loan; Blended Finance products; Green Project Finance etc.)**
- **Address Transition Finance, to allow all companies committed to transition to access sustainable finance**
- **Develop minimum social criteria and ensure just transition**
- **Introduce incentives and enhance financial viability of sustainable activities (e.g. risk sharing mechanism)**
- **Promote global approach and level playing field**

Sustainability as an opportunity

The banking sector sees the EU sustainability agenda as an opportunity to further promote the role of the sector within the society and align its interest and strategies with clients, investors, employees, and society in general.

The fast-growing sustainability markets provide a positive competition edge for market leaders. To mainstream sustainability in the financial sector, it must become highly relevant to the business sector, including SME's. **An opportunity comes from placing more focus at a national and local community level as banks are an integral part of local communities and can play a key role in driving local initiatives in delivering on the 2030 climate and energy targets.**

Banks also see opportunities in combining Covid-19 related recovery stimuluses with sustainability objectives and accelerating of social aspects of sustainability. This would include enlarging just transition fund to cover social convergence and increasing the resilience of supply chains towards increased self-sufficiency of EU and decreased overreliance on third countries suppliers. 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 countries with a relevant manufacturing sector and, at the same time, a scarce availability of raw materials.

Global approach

While the EU championship in the fight against climate change is to be appreciated,

competitive implications for the EU Economy, possible frictions in international capital flows in particular in the short terms, should EU press its ambitions unilaterally, are to be expected. Climate change is a global challenge, requiring a global response. 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. The globalization requires more international as well as institutional cooperation 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.

At international level, the 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.

Financial industry is much more internationally interrelated then other kind of industrial value chains. Currently there is no systematic approach to measure and benchmark the progress and performance of sustainable banking at a global level. **Given this global interconnectedness, there is a need for wider international standardization to the maximum possible extent for financial sector.**

Reducing consistency and complexity, improving usability

As with any major transformation, there are challenges that will need to be overcome for the EU to meet their sustainability targets as envisaged. The complexity of the sustainable finance framework with partly overlapping initiatives and requirements is increasing, with a significant obligation placed on the financial services sector. **In some instances, a direct regulation of businesses should be considered instead of indirect measures via the financial sector.**

Increased **complexity will negatively impact effectivity** as well as usability of the tools developed by the EU. Now, reporting/disclosure obligations arise under numerous different pieces of proposed legislation and guidelines, each with slightly different scopes and definitions. Lack of consistency in reporting makes it difficult to assess a bank's portfolio. To avoid subjectivity and increase comparability, a **simple set of metrics and mandatory disclosures that all industries had 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**.

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, the Capital Requirements Regulation Pillar II disclosures and the Taxonomy Regulation, will ensure the usefulness of companies' data that banks will have to report.

The EU 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. The success of the EU taxonomy and further developments will depend on its operationality and potential to be used in an automated way.

Clear tagging of green activities linked to the codes already used by banks and a clear link to the national laws is lagging. Shared interests of EU Member States, supervisors, investors, banks, research institutes and companies in sustainability data requires a common language with the possibility to exchange data in automated systems.

To classify and report on green expenditure, further changes will be needed in order to align reporting on Environmental Goods and Services Accounts, taxonomy compliant activities and NFRD reporting in a coherent manner. A common language for sustainability needs at least two structural elements: a sustainability taxonomy and a nomenclature, or classification system.

Please see EBF proposal on the usability of the taxonomy on the EBF website :

https://www.ebf.eu/sustainable-finance/usability-of-the-taxonomy-ebf-responds-to-european-commissios-technical-expert-group-consultation/

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 further contribute to the debate on the usability of the taxonomy for banks. The project is expected to conclude by the end of 2020.

Data challenge: call for a central database

Environmental and social 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.

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. There is therefore a need for a **centralized EU hub (register) where relevant, reliable, comparable, and legitimate ESG data, based on a common reporting standard are available** either for free or at affordable cost.

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 published 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, based on a common standard. **The EU should also open its databases that collect environmental reporting data and make those re-usable for finance providers via this central register. Environmental** Goods and Services Sectors (EGSS) – activities 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.**

ESG research and rating

Currently the ESG research and rating market is very fragmented and the level of comparability of different methodologies is very low and does not allow for an easy use. 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.

The providers offer different sensitivities to different issues or combining 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, or low risk, at the same time, when rated by three different agencies and peer's comparison is also difficult. On top, data often seem to lack update promptness, indication of sources and quality assurance.

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. Agencies need to be accountable for keeping data up to date and applying consistent approaches to assessing similar companies

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.

Data providers are still focusing on exclusions and relative ESG performance while there is a need for increased focus and data on positive impact. However, the quality of data reporting by numerous agents has improved in the last few years and further improvement is expected with the implementation of the EU taxonomy. There are some positive trends 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. It is further necessary to **shift from backward-looking perspective and excessive focus on disclosure ESG compliance (tick the box) to ESG strategic considerat**ions. 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**.**

While the data quality has improved, data providers are still often focusing on large corporates. The lack of coverage for SMEs is one of the main challenges. Another point of possible concerns are the costs and access to ESG data.

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. The proposed EU centralized data register could substantially improve the data availability and analysis and increase understanding and management of the ESG risks.

Transition

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

Countries characterized by a higher concentration of SMEs face particularly difficult challenges in pursuing sustainable investments. While start-ups and SMEs have the potential to be a major driver of innovation for sustainable development, more attention should be paid to their financial needs.

Any measures to support the transition should be taking into account forward looking strategies when assessing climate-related risks and designed in a way that supports the transition of entire sectors and does not hinder their access to finance.

This implies defining an official transition path against which a company's transition strategy can be assessed. Finance is essential for those sectors to undertake the necessary transition and regulation should not result in penalization relating to the financing of such transitioning activities.

The Public Authorities and financial institutions should cooperate to identify mechanisms for complementing traditional sources of credit for companies including SMEs operating in the green economy with more sophisticated financial instruments that allow a longer-term view. Emerging solutions could include fintech, crowdfunding for sustainable projects and impact finance.

Banks will also play a key role in supporting companies of all sizes that do not operate in the green sectors in their transition to more sustainable business models. 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 transition paths based on scenarios** 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 making the right decisions towards a greener society under a certain and predictable environment.

Existing frameworks such as Basel III should be reviewed to ensure they do not 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.

If European banks were to be penalized for supporting companies in their transition, they would stop lending to these sectors, but this wouldn't stop other banks in other jurisdictions from stepping in; quite likely without demanding clear transition paths from the companies.

Focus on transition finance

It is important distinguish between project/asset financing and general lending. Specific project or asset level lending with a clear target in terms of the project/asset being financed represents only a smaller part of the overall loan financing. A larger share of lending is so called “general purpose lending”, where the financed target is not specified.

For general purpose lending, further guidance on how to apply ESG including climate related criteria is needed.

Sustainability-linked bonds and 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 able to do so in a classic Green Bond that complies with the EU Green Bond Standard. Linking loans and bonds interest rate level to certain sustainability targets and Key Performance Indicators (KPIs) , which is how the sustainability linked loans work, will certainly help the transition of the companies and the entire economy toward a more sustainable business models.

To increase investors participation to this market, it is fundamental to develop a standard in terms of transparency and 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 also by retail investors to provide them with the material indications of the contribution of the fund to sustainability.

Establishing clear standards and guidance for such products would help counter the risk of green washing allegations, help the set-up of respective facilities, and improve 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 investors, including retail investors. **While standardization of this fast-developed products is desirable, it is of course important to find a balance to consider that this market is still under development and standardization should not hinder the needed innovation.**

While a standard could 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 the negotiated rates for such products 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.

A coherent regulatory framework in the EU, based on the EU Taxonomy, could also be applied to labelled banking loans targeted to support green deal initiatives such as those

in relation to energy efficiency, enabling a better use of private finance and promoting a more efficient allocation of financial resources. However, there are currently large differences between the national mortgage markets that could be a barrier to development of such a common EU standard as the characteristics of mortgage markets vary considerably.

Just transition

The **sustainability agenda should have at its core the concept of just transition** and ensure that all the decisions and tools designed to achieve a carbon neutral economy by 2050 contribute to it. 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. 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 of revenues generated by Green policies such as a **carbon tax**, that, although politically difficult, may ensure the profitability of industries internalizing green standards and the investor returns.

Development of criteria for social impact

While the short-term focus of the EU should be on implementation, practical application, usability and enforcement of the recently developed tools and legislation, further progressive action may be needed in targeted areas. While the EU should not step back from its priorities to fight climate change, other environmental objectives essential to avoiding future pandemics, as well as focus on human rights, social aspects and upward social convergence should be accelerated.

Banks financing of the projects with specific social characteristics during the COVID 19 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 needed to prepare the workforce for the more sustainable sectors such as renewables that are expected to create new job opportunities or financing the digital transition of companies.

Addressing social concerns and ensuring fair and just recovery and transition will require acceleration of the development of social criteria in addition to the environmental taxonomy even if simplified, to start with. Consistency of definitions are not important only for transparency reasons and to avoid "socialwashing" but also for inclusion of social bonds into recovery programs and attracting funding.

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 developed. Starting point for evaluation of the social impact beyond human rights should be the European Social Charter, with human dignity at its core 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). For human rights we suggest using a relatively simple checklist under the UN Guiding Principles on Business and Human Rights.

Incentives for sustainable activities

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 as will adequate guidance tools such as National Plans for Energy and Climate and public financial supporting tools and incentives dedicated to all sustainability areas.

The effectiveness of banks' mobilisation is strictly linked to the strengthening of supporting programs i.e. risk sharing and economic supports, fiscal facilitations, and other incentives. Incentives could facilitate the ddevelopment 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 and loans, structured products and via green-linked opportunities outside the formal green markets.

Customers (households, SME's, corporates) need to be further incentivised through initiatives such as public funding, favourable tax treatment, grants. **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 stimulus in particular are proven to be very effective in influencing the way companies behave.

It would be useful if the European Commission assess the impact of any tools already used to incentivize sustainable investments and how these tools are used across jurisdictions to safeguard the competitiveness of the European economy and businesses of all sizes. 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 latter stages of the "financing chain", for financing entities and end clients, creating incentives for commercial leveraging and crowding in.

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. **With the correct support, the financial sector can play a key role in mainstreaming sustainability among its SME and personal customers.**

The EU and member States have several public policy tools available to drive sustainable investment, such as taxes, subsidies, state aid mechanisms, regulation, and others. **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. **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.

Green securitization and green covered bonds

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 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 bonds / green securitisation are powerful tools to facilitate transition and mitigating physical and transition risk. 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). The synergies between the public and the private sector are an important channel of funds towards the green sector.

However, the recently revised securitisation framework is not sufficiently attractive to issuers or investors and is unlikely to incentivise securitisation due to the complexity as well as large number of operational and regulatory constraints. It needs to be reviewed to encourage financing of sustainable assets and its subsequent refinancing through securitisation.

Green Covered Bonds issuance of which is collateralized by green assets are a major source of mortgage funding at EU level. While the Green Covered Bond market is currently less mature than the Green Bond market, it will certainly develop over time as the availability of green or sustainable collateral will also grow in banks' balance sheets.

So far, the issuances of Green Covered Bonds are limited, due for example to the complexity and difficulty of obtaining sufficient volume of assets to support issuances under the funding programs.

A clear definition of eligible assets is needed in order to ensure rising volumes that will constitute cover pools for green covered bonds. 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. We also support the recommendations of the TEG suggesting that the EBA, as part of its mandate, also assesses 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.

Risk management

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 I. 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 II 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 practises.

ESG factors are expected to be embedded and developed by the EBA as harmonized level 2 regulations. 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. **Regular workshops and a creation of a joint Working Group between regulators and industry would be welcome**.

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 current context stressed by impacts arising from health crisis, the introduction of prudential provisions, implying new capital requirements, if not assisted by supporting programs 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 bringing the banks to decrease their credit activities in support of the economy.

Therefore, to improve bank's funding capacities by aligning their investment decisions with the sustainable finance goals and develop attractive and competitive financial solutions for sustainable clients and projects, 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.** 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 in 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 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 (e.g. green or energy efficient mortgages, green covered bonds) that show a lower financial risk, and, specifically, a lower credit risk profile by virtue of their sustainability.

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 supporting factor would apply both to SA-CR and IRB/AIRB approaches but once banks applying IRB/AIRB approach will have embedded the sustainability profile in their validated internal rating model, it can no longer be used for IRB/A-IRB and will be embedded in changes to the STA.

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 broader range of incentives that can accelerate sustainable finance.

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

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 behavior of the market**.[1]

Finally, while the macroprudential framework has been indeed 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 nonbanks, so that authorities have the appropriate tools to fight the risks, including climate change.

Digitalization and sustainable finance

The EU policy actions can undoubtedly accelerate sustainability by further supporting digitization. An important role is played by new technologies such as AI and Blockchain / Decentralized Ledger Technology (DLT) which are rapidly expanding. For instance, the adoption of 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

[1] 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

reducing the cost of reporting. However, further investment in DLT from the industry and authorities is necessary, particularly from a scalability perspective. **This issue may require policy action from authorities.** To fully exploit their potential, it is necessary to create an open collaborative ecosystem focused on **data sharing in the Environmental Social Governance (ESG) across different sectors.**

In addition, 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. In this way, by 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 to overcome national barriers.

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 unnecessary burden on financial services providers vis- a vis other players such as platforms.

Finally, the 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. If Taxonomy alignment could be assessed in a digital way and automated, it would likely fasten the EU action plan objective 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.

We would therefore like the EU to include automatization and digitalisation into EFRAG's assignment in developing an EU Sustainable Reporting Standard.

Sustainability Literacy

To sustain the market developments and safeguard an inherent proper assimilation, it is important, from the outset, to promote Sustainability Literacy among all stakeholders.

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.
Special Literacy programs for groups such as owners of small and medium-sized enterprises (SMEs) and retail investors need to be developed. It is also important to integrate finance literacy in the training programmes for financial professionals and promoting EU certified courses of financial literacy (and sustainability) as part of training programs in firms.

New experiences and experimental projects may be created in cooperation with international networks of financial literacy stakeholders. Initiatives helping 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.

Sharing of specific know-how within the EU is considered fundamental; such process may be supported through dedicated EU funded training initiatives addressed to banking sector professionals.

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