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Consultation on the renewed sustainable finance strategy

Fields marked with * are mandatory.

Introduction

This consultation is also available in German and French.

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

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

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

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

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

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

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

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

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

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

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

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

Objectives of this consultation and links with other consultation activities

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

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

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

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

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** 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 consultation document
- on sustainable finance
- on the protection of personal data regime for this consultation

About you

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* Language of my contribution

- Bulgarian
- Croatian
- Czech

- Danish
- Dutch
- (selected) English
- Estonian
- Finnish
- French
- Gaelic
- German
- Greek
- Hungarian
- Italian
- Latvian
- Lithuanian
- Maltese
- Polish
- Portuguese
- Romanian
- Slovak
- Slovenian
- Spanish
- Swedish

*I am giving my contribution as

- Academic/research institution
- (selected) Business association
- Company/business organisation
- Consumer organisation
- EU citizen
- Environmental organisation
- Non-EU citizen
- Non-governmental organisation (NGO)
- Public authority
- Trade union
- Other

*First name

Magdalena

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Surname

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magdalena.kuper@bvi.de

* Organisation name

255 character(s) maximum

BVI

* Organisation size

- ◯ Micro (1 to 9 employees)
- ◯ Small (10 to 49 employees)
- ◉ Medium (50 to 249 employees)
- ◯ Large (250 or more)

Transparency register number

255 character(s) maximum

Check if your organisation is on the transparency register. It's a voluntary database for organisations seeking to influence EU decision-making.

96816064173-47

* Country of origin

Please add your country of origin, or that of your organisation.

◯ Afghanistan	◯ Djibouti	◯ Libya	◯ Saint Martin
◯ Åland Islands	◯ Dominica	◯ Liechtenstein	◯ Saint Pierre and Miquelon
◯ Albania	◯ Dominican Republic	◯ Lithuania	◯ Saint Vincent and the Grenadines
◯ Algeria	◯ Ecuador	◯ Luxembourg	◯ Samoa
◯ American Samoa	◯ Egypt	◯ Macau	◯ San Marino

- Andorra
- Angola
- Anguilla
- Antarctica
- Antigua and Barbuda
- Argentina
- Armenia
- Aruba
- Australia
- Austria
- Azerbaijan
- Bahamas
- Bahrain
- Bangladesh
- Barbados
- Belarus
- Belgium
- Belize
- Benin
- Bermuda
- Bhutan
- Bolivia
- Bonaire Saint Eustatius and Saba
- El Salvador
- Equatorial Guinea
- Eritrea
- Estonia
- Eswatini
- Ethiopia
- Falkland Islands
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- Gabon
- Georgia
- Germany
- Ghana
- Gibraltar
- Greece
- Greenland
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- Malaysia
- Maldives
- Mali
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- Mongolia
- Montenegro
- Montserrat
- Morocco
- Mozambique
- Myanmar /Burma
- Namibia
- Nauru
- São Tomé and Príncipe
- Saudi Arabia
- Senegal
- Serbia
- Seychelles
- Sierra Leone
- Singapore
- Sint Maarten
- Slovakia
- Slovenia
- Solomon Islands
- Somalia
- South Africa
- South Georgia and the South Sandwich Islands
- South Korea
- South Sudan
- Spain
- Sri Lanka
- Sudan
- Suriname
- Svalbard and Jan Mayen
- Sweden
- Switzerland

- Bosnia and Herzegovina
- Botswana
- Bouvet Island
- Brazil
- British Indian Ocean Territory
- British Virgin Islands
- Brunei
- Bulgaria
- Burkina Faso
- Burundi
- Cambodia
- Cameroon
- Canada
- Cape Verde
- Cayman Islands
- Central African Republic
- Chad
- Chile
- China
- Christmas Island
- Clipperton

- Guam
- Guatemala
- Guernsey
- Guinea
- Guinea-Bissau
- Guyana
- Haiti
- Heard Island and McDonald Islands
- Honduras
- Hong Kong
- Hungary
- Iceland
- India
- Indonesia
- Iran
- Iraq
- Ireland
- Isle of Man
- Israel
- Italy
- Jamaica

- Nepal
- Netherlands
- New Caledonia
- New Zealand
- Nicaragua
- Niger
- Nigeria
- Niue
- Norfolk Island
- Northern Mariana Islands
- North Korea
- North Macedonia
- Norway
- Oman
- Pakistan
- Palau
- Palestine
- Panama
- Papua New Guinea
- Paraguay
- Peru

- Syria
- Taiwan
- Tajikistan
- Tanzania
- Thailand
- The Gambia
- Timor-Leste
- Togo
- Tokelau
- Tonga
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
- Turks and Caicos Islands
- Tuvalu
- Uganda
- Ukraine
- United Arab Emirates
- United Kingdom
- United States

- Cocos (Keeling) Islands
- Colombia
- Comoros
- Congo
- Cook Islands
- Costa Rica
- Côte d’Ivoire
- Croatia
- Cuba
- Curaçao
- Cyprus
- Czechia
- Democratic Republic of the Congo
- Denmark
- Japan
- Jersey
- Jordan
- Kazakhstan
- Kenya
- Kiribati
- Kosovo
- Kuwait
- Kyrgyzstan
- Laos
- Latvia
- Lebanon
- Lesotho
- Liberia
- Philippines
- Pitcairn Islands
- Poland
- Portugal
- Puerto Rico
- Qatar
- Réunion
- Romania
- Russia
- Rwanda
- Saint Barthélemy
- Saint Helena Ascension and Tristan da Cunha
- Saint Kitts and Nevis
- Saint Lucia
- United States Minor Outlying Islands
- Uruguay
- US Virgin Islands
- Uzbekistan
- Vanuatu
- Vatican City
- Venezuela
- Vietnam
- Wallis and Futuna
- Western Sahara
- Yemen
- Zambia
- Zimbabwe

* Field of activity or sector (if applicable):

at least 1 choice(s)

- [ ] Accounting
- [ ] Auditing
- [ ] Banking
- [ ] Credit rating agencies
- [ ] Insurance
- [ ] Pension provision
- [x] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)

- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Social entrepreneurship
- [ ] Other
- [ ] Not applicable

* Publication privacy settings

The Commission will publish the responses to this consultation. You can choose whether you would like your details to be made public or to remain anonymous.

- ( ) **Anonymous**
  Only your type of respondent, country of origin and contribution will be published. All other personal details (name, organisation name and size, transparency register number) will not be published.
- (•) **Public**
  Your personal details (name, organisation name and size, transparency register number, country of origin) will be published with your contribution.

- [x] I agree with the personal data protection provisions

Section I. Questions addressed to all stakeholders on how the financial sector and the economy can become more sustainable

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

- ( ) major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.
- (•) incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.
- ( ) no further policy action is needed for the time being.
- ( ) Don’t know / no opinion / not relevant

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

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

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

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

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

- ◉ Yes, corporates
- ○ Yes, financial institutions
- ○ Yes, both
- ○ No
- ○ Don’t know / no opinion / not relevant

Question 5. One of the objectives of the European Commission's 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects.

Do you believe the EU should also take further action to:

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

Question 5.1 In case you agree or strongly agree with one or both options, what should the EU do to reach this objective?

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

We support the underlying objective of the EU Action Plan to encourage and incentivise investments in sustainable activities that has mounted in the establishment of the “green” EU Taxonomy. However, it must remain the investor’s decision whether he or she wishes to finance sustainable projects or to account for the effects of its investments on sustainability factors when allocating capital. As regards the proposed actions, our views are as follows:
- Many fund managers already use their influence as shareholders in order to engage with companies on ESG issues, i.e. to encourage them to adopt sustainability strategies setting out their pathway towards more sustainable business activities. In order to facilitate these efforts, it would be helpful if the EU framework for ESG products recognised or at least not prevented ESG investment strategies based on engagement. For instance, there are innovative “best in progress” approaches being considered in the market whereby the fund manager invests by purpose in companies with low ESG scores and uses shareholder engagement in order to improve their sustainability profiles. Moreover, the “acting in concert” rules under the EU Takeover Bid and Transparency Directive should not have prohibitive effects on collective engagement on ESG matters.
- Regulatory measures that would discourage investments in companies that are not in breach of valid EU or national laws are in our view not the right way forward. If the EU legislators consider certain activities as critical, they should regulate them directly instead of effectively prohibiting the financial sector from financing of such activities. Direct rules for the real economy can better deal with the potential negative socio-economic impacts by creating pathways for either transitioning towards sustainable economy or suspending certain economic activities as compared to indirect discouraging of investments that bears incalculable risks for the financing sources of companies

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?

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Starting with the challenges, we deem it critical to establish a mature regulatory framework that will enable, not inhibit, the development of sustainable finance. There is a clear risk that the measures undertaken in response to the EU Action Plan will result in overlapping, inconsistent and fragmented rules that will need to be implemented in a hasty and uncoordinated manner. The recent examples are:
- Timing of application of SFDR that does not allow for proper implementation of the new challenging

requirements for ESG disclosures by financial products and, if not tackled, will very likely result in disruptions of the distribution process,
- The new definition of “sustainability preferences” of clients in the Delegated Acts under MiFID II and IDD that are set to introduce stricter criteria for ESG products at the point of sale. According to those criteria, products that can be offered as ESG/sustainable under SFDR would not necessarily qualify for meeting sustainability preferences of clients. This outcome will cause huge confusion and will likely have adverse effects on the goal of redirecting capital flows towards sustainable investments.

The market needs flexible, principle-based rules that will not stifle innovation and could easily accommodate new technical developments and market trends. We fear that too prescriptive rules will deter some market participants from engaging in sustainable finance instead of incentivising further growth of this currently prospering market sector.

In terms of opportunities, the growing awareness of all societal groups for sustainability issues can trigger stronger interest of retail investors in sustainable finance. However, this positive trend should be accompanied by investor education initiatives on benefits and limitations of ESG/sustainable products. The goal should be to enable investors to reach informed investment decisions that suit both their financial investment goals and suitability preferences alike.

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

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

The parallel EU initiatives in the area of sustainable finance entail a clear risk of inconsistent, overlapping and not fairly balanced requirements:
- Given the absence of disclosure templates and the announcement of the ESAs to submit final RTS drafts by end January 2021, i.e. only five weeks before the date of application, the practical implementation of SFDR needs to be extended until 1/1/2022 (in line with the practical application of first disclosure rules under the Taxonomy).
- The new definition of “sustainability preferences” of clients in the Delegated Acts under MiFID II and IDD are set to introduce stricter criteria for ESG products at the point of sale. According to those criteria, products that can be offered as ESG/sustainable under SFDR would not necessarily qualify for meeting sustainability preferences of clients.
- We fear that the criteria currently discussed for the Ecolabel for financial products are far too ambitious. This applies to the thresholds for green investments in line with the Taxonomy, but even more to the long lists of exclusions. In combination, these criteria will materially limit the eligible investment universe, thus making the construction of diversified portfolios suiting retail clients hardly possible.
- Application of the Taxonomy criteria for real estate will face several difficulties, including unrealistic requirements in terms of primary energy demand for the construction of new commercial buildings and the lack of data for comparing the energy performance of local building stocks in order to establish whether a building belongs to the best performing 15%. We recommend a central EU database for collecting and free-of-charge accessing of real estate performance data that would allow for calculations of energy performance for a relevant local peer group. Creation of such a database needs to be accompanied by regulatory requirements to report the relevant energy data by commercial and private property owners.

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

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

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

As explained in our answer to Q4 above, we deem it preferable to directly regulate sectors of the economy that are problematic from a sustainability perspective. Rules targeted at the real economy can better deal with the potential negative socio-economic impacts by creating pathways for either transitioning towards more sustainability or suspending certain economic activities. Discouraging of investments in certain activities, on the other hand, bears incalculable risks for the financing sources of companies. Also from the regulatory policy perspective, measures discouraging investments in companies that are not in breach of valid EU or national laws should not be considered the right way forward.

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

- [ ] 1 - Not important at all
- [ ] 2 - Rather not important
- [ ] 3 - Neutral
- [ ] 4 - Rather important
- [x] 5 - Very important
- [ ] Don’t know / no opinion / not relevant

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

From the viewpoint of investors, it is very important to have timely clarity about the pathways for achieving the EU sustainability objectives, e.g. as regards reduction of carbon emissions, protection of the ecosystems etc. and the corresponding requirements for specific industry sectors. In addition, companies should be obliged to report about their economic activities contributing to achieving those objectives, as well as associated performance prospects and risks in accordance with a common standard and in a machine-readable way.

As regards the market for sustainable products, it is also essential to clarify from the outset how to deal with investments that qualify as sustainable according to the Taxonomy criteria at a certain point of time, but fail to keep pace with the EU trajectory during their lifetime. This question is particularly relevant with regard to green bonds that generally comply with the terms of reference at the time of issuance, but will have difficulties to take into account potential enhancements e.g. of carbon emission reduction agreed thereafter. In addition, products wishing to qualify for the Ecolabel will also hardly be able to manage compliance with the envisaged high thresholds for Taxonomy-compliant investments throughout their lifetime if they will be impacted by future evolvements of the technical criteria to the Taxonomy. For both cases, practicable grandfathering (or at least transitional) rules would be highly welcomed in order to facilitate development of sustainable products based on the Taxonomy.

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

- ○ Yes, institutional investors
- ○ Yes, credit institutions
- ○ Yes, both
- ● No
- ○ Don’t know / no opinion / not relevant

Question 11 Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss in particular on corporates who are dependent on ecosystem services, such as in sectors like agriculture, extractives, fisheries, forestry and construction. The importance of biodiversity and ecosystem services is already acknowledged in the EU Taxonomy.

However, in light of the growing negative impact of biodiversity loss on companies' profitability and long-term prospects (see for instance [The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business](), WWF, 2019), as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?

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

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

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

An open public dialogue about the conception and the consequences of the EU sustainable finance agenda should be properly facilitated. In our view, such dialogue could be channelled on a regular basis via a dedicated body, such as the Platform on Sustainable Finance that is about to be established under the Taxonomy Regulation. Moreover, since the EU Action Plan is being put into action at an unprecedented high pace and thus, involves a high risk of unintended consequences, the corresponding EU measures should be subject to regular reviews and scrutiny in light of their objectives and factual implications with the involvement of all affected interest groups and the general public.

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

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

1. Alignment of reporting rules for issuers and investors: Fund and asset managers need comparable and reliable ESG information about companies in order to incorporate ESG factors in their investment decisions

and to properly evaluate sustainability risk and opportunities of their investments. In near future, they will be subject to SFDR and to Taxonomy Regulation, and in addition, will need to comply with the sustainability-related rules foreseen specifically as part of the UCITS and AIFM frameworks. Due to the latter, European fund managers will be required to integrate sustainability risk in their internal processes, including risk management and investment due diligence. Against this background, we request to
- Extend the scope of reported information in order to cover all ESG aspects relevant for investors,
- Introduce a mandatory ESG reporting standard,
- Align the concept of materiality under NFRD with the provisions incumbent upon investors.

2. Global promotion of EU regulatory standards: The main problem from the perspective of European investors is the lack of common standards, especially for corporate reporting on ESG matters. Approximately 30% of European ESG funds accounting for approximately 40% of AuM are investing globally. Non-European countries, such as the United States, Japan and Canada, represent more than 70% weight of the MSCI World Index.

In order to comply with the new EU regulatory standards for sustainable finance, especially under SFDR and the EU Taxonomy, EU fund managers need standardised ESG disclosures from all target companies, including those located outside the EU. Promotion of (1) globally recognised common reporting standards on non-financial information and (2) a common understanding of sustainable economic activities in line with the EU Taxonomy would be very helpful to facilitate mainstreaming of sustainable finance and thus achieving the effect of redirecting capital flows to sustainable economy.

1. Strengthening the foundations for sustainable finance

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

1.1 Company reporting and transparency

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

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

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

Distributed Ledger Technologies (including blockchain) to federate and provide a single point of access to information relevant to investors in European listed companies (European Financial Transparency Gateway - EFTG).

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

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

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

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

In order to be fully utilisable for fund and asset managers, an ESG database for corporate information should:
- provide "raw" ESG data as reported by the companies,
- work as one single access point providing access to reports published due to legal obligation, but also on a voluntary basis, for instance by issuers not covered by the scope of NFRD,
- operate on the basis of standards that allow the information to be machine-readable and downloadable via efficient and secure interfaces in order to enable easy, reliable and accurate processing of huge amounts of data by investors and other users of non-financial information.

A central repository is also badly needed for data relating to energy and carbon emissions of properties. An EU database for collecting such data would provide enormous benefits for both market participants in need of comparing their portfolio holdings with the local energy performance and EU bodies in charge of developing further criteria to the Taxonomy:
- The database should allow for tracking of emission data of single properties as well as for calculation of averages based on certain parameters per country, region or city (presuming that market participants were obliged to establish the energy demand of the relevant reference peer group.
- Creation of a database needs to be accompanied by regulatory requirements to report the relevant energy data by commercial and private property owners. Moreover, property owners must be entitled to collect energy consumption data from tenants. In many EU countries, including Germany, tenants are currently not obliged to respond to data requests by property owners.

Question 15. According to your own understanding and assessment, does your company currently carry out economic activities that could substantially contribute to the environmental objectives defined in the Taxonomy Regulation[1]?

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

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

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

1.3 Sustainability research and ratings

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

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

- 1 - Not concerned at all
- 2 - Rather not concerned
- 3 - Neutral
- (selected) 4 - Rather concerned
- 5 - Very concerned
- Don’t know / no opinion / not relevant

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

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

In view of the growing importance of ESG data, research and rating services, market concentration in this area has significantly increased over the last years, in particular due to strategic acquisitions. All leading ESG data and research providers (MSCI, Morningstar (which acquired Sustainalytics earlier this year), ISS-ESG and Vigeo-Eiris, the biggest according to market share) are now either headquartered in the US or owned by US company groups. This situation has implications for the quality and reliability of data, since EU investors and financial market participants need to rely on ESG research and qualitative assessments of ESG aspects as basis for ESG ratings that might not fully incorporate and take into account the development of the EU sustainable finance regulations. This is particularly relevant in relation to investments outside the EU, where EU investors will most probably not be able to rely on corporate disclosures, since such disclosures will not meet the EU requirements. This outcome cannot be deemed satisfactory from the EU policy perspective.

Going forward, we are also concerned about the pricing power of ESG data providers. In the last years, data providers have overloaded the market with their products. The pricing frameworks remain opaque, depending largely on the combination of data modules and the size of (ESG) assets under management of the client. A mid-sized to large fund manager will spend between EUR 200,000 and 400,000 per year for a comprehensive set of ESG data. Given that the amount of required data will grow in view of the pending implementation of ESG disclosure duties, we expect this cost to rise in the future. Additional cost for acquisition of Taxonomy-relevant data can be estimated with EUR 50,000. These expenses represent a significant burden especially for SMEs. More competition in the market should raise efficiency, product quality and lower costs.

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

- 1 - Very poor
- (selected) 2 - Poor
- 3 - Neutral
- 4 - Good

- 5 - Very good
- Don’t know / no opinion / not relevant

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

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

There has been some improvement regarding availability of ESG data overall in the last years. Nonetheless, the persisting lack of comparability and reliability has fundamental implications for investors, companies and researchers. Introduction of a mandatory reporting standard for ESG information for companies will certainly help to improve the overall data quality and is therefore of crucial importance from investors’ perspective.

Regarding carbon emission data, the quality has risen in the last years, even though challenges with regard to data coverage still remain. Low coverage can be observed especially with regard to scope 3 carbon emissions.

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

- 1 - Very poor
- 2 - Poor
- 3 - Neutral (selected)
- 4 - Good
- 5 - Very good
- Don’t know / no opinion / not relevant

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

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

ESG research as such is rarely used by asset managers. The most popular approach is the use of ESG scores. For our respective assessment, please refer to Q 20.1.

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

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

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

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

The most popular approaches used by asset managers are ESG scores. ESG ratings are the result of a mapping from the score to a letter rating. The ESG methodology is the same for both scores and ratings.

According to academic studies, the main issues with ESG scores seem to be systematic differences between methodologies of data providers regarding the indicators they use to measure ESG factors as well as their weights and scope (see for example, „Aggregate Confusion: The Divergence of ESG Ratings“, MIT Sloan School of Management, August 2019). This implies that the investment decisions made upon these scores might be biased. We therefore request full transparency about the rating/scoring methodologies used by data providers. Changes to the methodologies should also be made transparent and consulted beforehand with clients.

Another drawback of ESG scores though less relevant than reliability, is that, alike credit ratings, the information that ESG-scores provide is backwards oriented and does not allow for a forward-looking assessment of ESG risks and opportunities.

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

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

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

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

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

The EU should urgently take action in order to introduce a mandatory standard for ESG reporting by companies. Such standard will significantly improve quality and availability of ESG data and consequently, will help to overcome the current dependency of data users on commercial data vendors. A common reporting standard should reflect to the greatest possible extent the prevailing international standards for reporting of non-financial information. It should pertain to all ESG data requested by investors, including data on sustainability risk and opportunities, adverse impact of a company’s business activities and the Taxonomy. The scope of mandatory reporting should also be extended to cover all large companies seeking to raise capital via capital markets as well as non-EU issuers that are listed on a regulated market within the EU.

Regarding the operating conditions of ESG data vendors, the EU should closely monitor the increasing market concentration. Action should be taken to improve transparency of pricing frameworks and assessment methodologies that should adequately reflect the future EU regulatory environment for sustainable finance. Such action could be initiated by way of an open dialogue with the major data providers and must not necessary entail regulatory intervention.

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

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

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

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

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

EU Green Bond Standard

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

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

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

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

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

Green Bonds should be subject to some form of accreditation or authorisation and supervision?

- ○ Yes, at European level
- ○ Yes, at a national level
- ● No
- ○ Don’t know / no opinion / not relevant

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

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

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

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

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

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

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

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

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

Prospectus and green bonds

Question 25. In those cases where a prospectus has to be published, do you believe that requiring the disclosure of specific information on green bonds in the prospectus, which is a single binding document, would improve the consistency and comparability of information for such instruments and help fight greenwashing?

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

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

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

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

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

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

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

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?

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

Question 27.1 If yes, once the EU Taxonomy is established (assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU taxonomy), 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)?

- 1 - Not likely at all
- 2 - Not likely
- 3 - Neutral
- 4 - Likely
- 5 - Very likely
- (selected) Don’t know / no opinion / not relevant

Question 27.1 If necessary, please explain your answer to question 27:

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

Use of the Taxonomy as a basis for investment strategies and other investment management tools will be very challenging for the following reasons:
- The limited number of activities eligible for classification as environmentally sustainable does not allow for construction of diversified investment portfolios. The number of relevant activities may grow with the progressing evolution of the Taxonomy, but it is doubtful whether major industry sectors assessed by market capitalisation will be sufficiently covered.
- By assessing individual economic activities, the Taxonomy significantly increases the operational burden of ESG portfolio management. Investment strategies based on the Taxonomy will need to apply sustainability criteria and “do not significant harm” safeguards both at the economic activity and the company level.
- Application of the Taxonomy entails huge amounts of data processing. Given that the relevant data are not yet available from issuers, that it may still take several years to obtain standardised and reliable corporate reports on the extent of Taxonomy-compliant activities and that the scope of application of the reporting obligations is not fully clear, it is very difficult to commit to investing in line with the Taxonomy at the current stage

Question 28. In its final report, the High-Level Expert Group on Sustainable Finance recommended to establish a minimum standard for sustainably denominated investment funds (commonly referred to as ESG or SRI funds, despite having diverse methodologies), aimed at retail investors.

What actions would you consider necessary to standardise investment funds that have broader sustainability denominations?

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

Don’t know / no opinion / not relevant

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

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

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

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

Re Q28: We urge the EU Commission to abstain from introducing additional minimum standards for ESG products at the current stage. Fund managers and other providers of ESG products are currently occupied with SFDR implementation and in this course, are already adapting the product frameworks in order to align them with the future regulatory requirements. Any new requirements for minimum ESG standards would disturb this process and further inhibit the offerings of ESG products. The EU should first allow for proper SFDR implementation and gaining market experience with the new rules before initiating further discussions.

In any case, potential future standards for ESG products must be discussed and stipulated in the context of SFDR in order to ensure a level playing field among different product categories and consistence with other pieces of EU law. In this context, we are critical of the proposed amendments to MiFID II and IDD Delegated Regulations that introduce a new definition of sustainability preferences of clients and thus, effectively provide for new stricter requirements for ESG products. This approach is not acceptable from the proper regulation perspective, both in terms of timing and content. A situation where products can be marketed as ESG in accordance with SFDR requirements, but cannot be offered to clients with sustainability preferences at the point of sale, must be avoided by any means.

Re Q29: There is no market demand for an ESG or “green” product label for institutional investors. Institutional investors have very different preferences as regards the sustainability issues they deem relevant, and are able to discuss them directly with asset managers in order to either set up tailored investment solutions or to select products most suiting their sustainability profile. They do not need to rely on a standardised label that would anyway not be capable of reflecting their individual needs.

Question 30. The market has recently seen the development of sustainability-linked bonds and loans, whose interest rates or returns are dependent on the company meeting pre-determined sustainability targets. This approach is different from regular green bonds, which have a green use-of-proceeds approach.

Should the EU develop standards for these types of sustainability-linked bonds or loans?

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

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

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

> The market for sustainability-linked bonds is in an early stage of development and involves rather small number of issuances. It should not be stifled by regulation. Moreover, sustainability targets as reference points for sustainability-linked bonds should remain company-specific and linked to the corporate strategy. Further standardisation of sustainability targets is therefore not desirable.

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

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

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

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

> The market for sustainability-linked bonds is in an early stage of development and involves rather small number of issuances. It should not be stifled by regulation. Moreover, sustainability targets as reference points for sustainability-linked bonds should remain company-specific and linked to the corporate strategy. Further standardisation of sustainability targets is therefore not desirable. Especially, a mandatory use of the Taxonomy as a reference point for sustainability KPIs makes no sense given the limited coverage in terms of technical criteria for eligible economic activities.

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

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

Question 33. The Climate Benchmarks Regulation creates two types of EU climate benchmarks - ‘EU Climate Transition’ and ‘EU Paris-aligned’ - aimed at investors with climate-conscious investment strategies. The regulation also requires the Commission to assess the feasibility of a broader ‘ESG benchmark’.

Should the EU take action to create an ESG benchmark?

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

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

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

> Regulatory standards for ESG benchmarks would likely constrain innovation and limit the choice of available benchmark offerings. This is not desirable from the investors’ perspective. According to the new rules on ESG disclosures, benchmark providers must provide transparency about the ESG factors, data and methodologies underlying the construction of ESG benchmarks. Such approach based on transparency is preferable to further standardisation.

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

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

1.5 Capital markets infrastructure

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

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

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

Question 35.1 If you disagree, please list the main problems you see (maximum 3):

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

The EU capital market infrastructure is well developed for the issuance of securities (equity as well as fixed income) regardless of whether the securities serve a sustainable cause. A fragmentation of market liquidity by segregating sustainable securities would be detrimental.

Nonetheless, the development of some market segments for sustainable products is capable of further improvement. The issuance of green, social or sustainability bonds remains low and concentrated by governments and government-related institutions (in Germany for example, the portion of Green Bond open-end Funds in terms of AuM to the whole volume of open-end funds is just 1.3% as of 31/3/2020 which corresponds to 41 available fund share classes in a total universe of 10,532).

Some factors might be dragging down the marketability of sustainable products:

1. Information asymmetries due to lack of data: The ability to assess the materiality of environmental risks involved in investment projects is nascent and prevents the development of investments in long-term projects.
2. Lack of capacity-building: Higher supply of sustainable products that can be traded in the market requires capacity-building in sustainability risks and rewards so that originators, sales, investors and other stakeholders are able to assess risks and opportunities.
3. Lack of technological tools targeted towards sustainable finance like block chain, artificial intelligence, cloud computing and advanced algorithms, among others: These instruments could help to overcome barriers dealing with issues like lack of data, classifications or organising standards. Many of these

technologies, and their possible applications, are currently nascent and need to mature in order to scale up sustainable finance.

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

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

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

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

Sustainable products need to be fully integrated in the financial system and use the same market mechanisms and frameworks as conventional products. Any other approach may create the perception that sustainable products do not offer financial rewards at the cost of higher risk. Experience during the Corona crisis shows that sustainable products can achieve at least the same financial rewards as conventional financial products at even lower risk.

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

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

Sustainable products need to be fully integrated in the financial system and use the same market mechanisms and frameworks as conventional products. Any other approach may create the perception that sustainable products do not offer financial rewards at the cost of higher risk. Experience during the Corona crisis shows that sustainable products can achieve at least the same financial rewards that conventional financial products with even lower risk.

1.6 Corporate governance, long-termism and investor engagement

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

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

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

Please select among the following options:

- ◯ 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

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The ESA reports on short termism from December 2019 have not identified any material deficiencies with regard to the EU fund frameworks. Therefore, we are quite surprised to see options for potential actions targeted at the asset management sector in the consultation paper. In particular, the idea of defining objectives for portfolio turnover ratios and holding periods for institutional investors must be rejected as a serious constraint to the freedom of investment. It should be clear that the choice of investment horizon depends on a multitude of different factors, including monetary policy and other macroeconomic factors, performance expectations but also the liability side of investors and expectations of their clients. The turnover ratio, on the other hand, is impacted by the details of an investment strategy, in particular whether it focuses on specific markets and involves also other assets beyond equities. Constraining either element would inevitably result in a limited choice of profitable investment strategies available to institutional investors. This outcome should be avoided by any means, especially in the current interest rate environment. Moreover, ESMA has explicitly not recommended any immediate action with regard to fund manager remuneration, but has put forward the idea of an independent monitoring framework only in relation to remuneration reports published by companies. For reasons of proportionality, we request the Commission to follow ESMA's advice.

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

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

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

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

Question 40.1 If yes, please indicate what share of the variable remuneration should be linked to non-financial performance:

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

While we support the idea of linking a certain share of variable remuneration to non-financial performance, we are reluctant to further specifying the relevant share by means of regulation. It is important that both the share of variable remuneration and the choice of relevant non-financial KPIs are consistent with the business activities of companies. We recommend that companies be required to integrate company or sector-specific ESG indicators in the short-term and long-term variable remuneration and reflect the approach in the remuneration policy to be submitted for a vote by the general meeting.

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?

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

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

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

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

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

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

We see the need for the following actions:
- Reporting of non-financial information by companies must be expanded to cover all essential information and subject to regulatory standards. This would enable investors to adequately assess and compare the reported data and consequently, to effectively engage with investee companies that are lagging behind their peers concerning their sustainability strategies.
- Collaborative investor engagement should be clearly differentiated from "acting in concert". The provisions under the EU Takeover Bid Directive relating to "acting in concert" have been implemented and interpreted differently at the national level. The German implementation, for instance, is very strict and encompasses any kind of interaction with a view of influencing the entrepreneurial direction of a company. Given that incorrect notifications of significant voting rights (based on an erroneous understanding of "acting in concert") can lead to the loss of not only voting rights, but also entitlements to dividends and subscriptions, investors need to be very cautious when coordinating their actions on ESG matters concerning German portfolio companies. Similar uncertainties, albeit to a lesser extent, exist also in other Member States.
- Shareholders' right to vote on the remuneration policy should be binding in order to warrant effective control and correction of excessive pays by shareholders. Such additional control mechanism is particularly

indicated in case of weak governance structures, e.g. involving close links between supervisory and management board in a two-tier board.

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

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

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

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

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

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

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

Question 45.1 If yes, in your view, what do you think this impact is, do you think that the EU should address it and how?

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

First of all, it needs to be clarified that also passive index investing, i.e. index replicating funds that invest in ESG indices, provides a fully adequate solution for taking into account ESG factors and offering investment propositions that match sustainability preferences of clients.

Moreover, there is an important role for stewardship to play in meeting the expectation of clients investing in index strategies. Since index replicating funds have no option to sell a security if they are dissatisfied with a company’s management or strategy, they need to engage with the relevant companies in order to encourage sound corporate governance practices as well as proper management of environmental and social aspects. In order to further strengthen the incentives for corporate engagement, index replicating funds could be required to reclaim any shares subject to securities lending in due time for the execution of their voting rights as shareholders or to obtain a proxy for voting at the general meeting. Such requirement is in place in Germany since several years under § 201 No. 2 of the German Investment Code. However, given that most passive ETFs available for sale in Europe are launched in other jurisdictions, it might make sense to introduce it at the European level as a general requirement in case of securities lending by investment funds.

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

Question 46. Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change.

Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?

- ○ Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.
- ◉ Yes, as these issues are relevant to the financial performance of the company in the long term.
- ○ No, companies and their directors should not take account of these sorts of interests.
- ○ Don't know / no opinion / not relevant

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

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

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

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

Question 48.1 If yes, please select your preferred option:

- All companies, including SMEs
- All companies, but with lighter minimum requirements for SMEs
- (selected) Only large companies in general, and SMEs in the most risky economic sectors sustainability-wise
- Only large companies

Question 48.2 If necessary, please explain your answer to question 48.1:

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

There are already important initiatives at the international level that should be reflected when developing EU requirements for supply chain due diligence related to human rights and environmental issues. We refer specifically to the OECD Guidelines for Multinational Enterprises that lay the foundation for responsible business conduct in a global context and are supplemented by specific due diligence guidelines by sectors. In our view, an EU framework should be directly linked to the OECD Guidelines in order to warrant consistency for globally operating undertakings.

In the interest of proportionality, we deem it appropriate to focus supply chain due diligence requirements on large undertakings and SMEs that operate in sectors most exposed to potential risk of environmental issues or human rights violations.

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

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

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

2.1 Mobilising retail investors and citizens

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

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

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

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

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

Guidance on performing suitability testing when providing investment advice or portfolio management services to clients is already provided by ESMA in the Level 3 Guidelines on MiFID II suitability requirements. We expect these guidelines to be supplemented by specifications concerning exploration of sustainability preferences following the publication of the amended delegated acts under MiFID II. This expected supplement to the ESMA guidelines is reasonable and sufficient as regards the regulatory guidance for financial advisers. We do not see the need for further, more detailed specifications, especially if such specifications would attach more importance to sustainability preferences in comparison to financial investment objectives and needs of clients.

However, in this context, it should be noted that suitability test by insurance advisers under IDD is not subject to further specifications at Level 3. It would be helpful to align the level of general regulatory guidance for the investment advice process under IDD with MiFID II standards in order to create equal regulatory environment for exploring sustainability preferences of clients.

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

Question 51. Should the EU support the development of more structured actions in the area of financial literacy and sustainability, in order to raise awareness and knowledge of sustainable finance among citizens and finance professionals?

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

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

	1 (strongly disagree)	2 (disagree)	3 (neutral)	4 (agree)	5 (strongly agree)	Don't know / No opinion
Integrate sustainable finance literacy in the training requirements of finance professionals.	○	●	○	○	○	○
Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens' education at school, possibly in the context of a wider effort to raise awareness about climate action and sustainability.[1-5]	○	○	●	○	○	○
Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions.	○	○	●	○	○	○
Directly, through targeted campaigns.	○	○	●	○	○	○
As part of a wider effort to raise the financial literacy of EU citizens.	○	○	○	○	●	○
As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities.	○	○	○	○	●	○
Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals.	○	○	○	○	●	○
Other	○	○	○	○	○	○

2.2 Better understanding the impact of sustainable finance on sustainability factors

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

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

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

- ○ 1 - Not important at all
- ○ 2 - Rather not important
- ○ 3 - Neutral
- ● 4 - Rather important
- ○ 5 - Very important
- ○ Don’t know / no opinion / not relevant

Question 52.1 What actions should the EU take in your view?

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

Measurement of impact investment decisions or financial products may have on sustainability factors is a rather new, but very important element of sustainable finance. With the “Operating Principles for Impact Management” launched by IMF and the World Bank Group in April 2019, there is already a principle-based international framework in place that can be applied to all types of investments and has been acknowledged by many globally operating firms, including a considerable number of European asset managers. On the other hand, the regulatory environment for impact investing in Europe will be determined by SFDR, specifically by the requirements for financial products having as their objective sustainable investment. As we understand, SFDR will prescribe no specific approach to measuring impact, but will require transparency about the used indicators and methodologies.

Against this background, the EU should
- promote exchange of best practices with regard to practical implementation of impact strategies and measurement of sustained impact among market participants, standard-setters and regulators (at both EU and global level) with reference to the Operating Principles,
- abstain from further regulatory action going beyond the Operating Principles that might stifle innovation and restrict the choice of available approaches for impact measurement.

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?

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

2.3 Green securitisation

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

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

- ( ) 1 - Not important at all
- ( ) 2 - Rather not important
- ( ) 3 - Neutral
- ( ) 4 - Rather important
- ( ) 5 - Very important
- ( ) Don’t know / no opinion / not relevant

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

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

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

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

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

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

2.4 Digital sustainable finance

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

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

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

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

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

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

Question 58. Do you consider that public authorities, including the EU and Member States should support the development of digital finance solutions

that can help consumers and retail investors to better channel their money to finance the transition?

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

Question 58.1 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 3 actions:

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

We generally support economic policies that foster SME, with regard to digital solutions likely Fintech /Regtech. However, this should not lead to a level of market intervention where public authorities sponsor offering platforms for certain (sustainable) financial products.

Government support could help to overcome the following inefficiencies:
1. Lack of information and information asymmetries: Lack of information exists for example when considering the environmental impact of investments or when dealing with investments in small enterprises or non–listed companies. Information asymmetries arise because sustainable related information is not disclosed due to the difficulty of accounting for externalities.
2. Maturity mismatch: Sustainable projects might have a longer maturity and higher upfront costs than the investment horizon of retail investors. The government could provide with the instruments or market infrastructure that make sustainable investments available for retail Investors.

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?

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

Question 59.1 If yes, please detail, in particular if you see a role for EU intervention, including financial support:

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

Digital tools in this context can lower cost and increase the scalability and inclusion of investments in sustainable projects. However, we do not support the promotion of financial products via government bodies as those entities need to remain neutral in order not do distort competition. Further, in terms of a level-playing-field between private sector offerings and actions by government entities, rules for the marketing of financial products need to apply unconditionally.

2.5. Project Pipeline

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

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

Please list a maximum of 3 for each:

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

Public infrastructure projects would – in many cases – qualify as sustainable. Development of EU infrastructure is also a policy objective of the European Commission. However, investors hardly have the opportunity to invest in such projects, neither as equity participations nor project-bonds. For the benefit of the CMU, along with the aim to include the private funding to reach ESG goals, private sector investments in public infrastructure projects should be promoted. Public infrastructure projects would sensibly broaden the range of sustainable investment opportunities.

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

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

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

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

Instead of government funded (via tax money or sovereign bonds) infrastructure projects, private (co-) funding of projects, e.g., by dedicated sustainable infrastructure project bonds, should be incentivised.

Question 62. In your view, how can the EU facilitate the uptake of sustainable finance tools and frameworks by SMEs and smaller professional investors?

Please list a maximum of 3 actions you would like to see at EU-level:

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

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

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

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

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

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

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

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

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

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

2.6 Incentives to scale up sustainable investments

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

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

- ○ 1 - Not functioning well at all
- ○ 2 - Not functioning so well
- ● 3 - Neutral
- ○ 4 - Functioning rather well
- ○ 5 - Functioning very well
- ○ Don't know / no opinion / not relevant

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

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

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

- ○ 1 - Not effective at all
- ○ 2 - Rather not effective
- ○ 3 - Neutral
- ○ 4 - Rather effective
- ○ 5 - Very effective
- ○ Don't know / no opinion / not relevant

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

- 1 - Not effective at all
- 2 - Rather not effective
- 3 - Neutral (selected)
- 4 - Rather effective
- 5 - Very effective
- Don’t know / no opinion / not relevant

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

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

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

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

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

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

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

- (x) Yes
- ( ) Yes, but only partially
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 70.1 Please explain which public authority could use it, how and for what purposes:

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

> The objective of the EU Green Deal to achieve carbon neutrality of the EU economy by 2050 can only be achieved if all sectors, public and private ones, are covered by the same comprehensive set of rules regarding sustainable finance. In our view, public authorities should be fully transparent about the extent of sustainable economic activities financed by public money. Hence, the EU Taxonomy should be relevant for all public authorities that effectuate, process, evaluate and report on investments and expenditures out of tax resources.

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?

- (x) Yes
- ( ) Yes, but only partially
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 72. In particular, should the EU Taxonomy[2] play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate?

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

- [ ] Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation
- [x] Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation
- [ ] No
- [ ] Don’t know / no opinion / not relevant

Question 72.1 If yes, but only if social objectives are included; what role do you see for a social, climate and environmental taxonomy?

- [x] In the context of some EU spending programmes
- [x] In the context of EU state aid rules
- [ ] Other

Please explain what role you see for a social, climate and environmental taxonomy in the context of some EU spending programmes:

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

Please explain what role you see for a social, climate and environmental taxonomy in the context of EU state aid rules:

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

The taxonomy should be used as the reference for those economic activities analysed. The taxonomy is a sort of “procurement list” or “shopping list” to build a sustainable economy. Therefore, it is particularly fit to inform public procurement and public spending programmes. In particular It will make sense to use the “do no significant harm” criteria and minimum safeguards as a filter (mandatory criteria), and the substantial contribution criteria to grant extended access to public spending or state allowances.

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?

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

2.8 Promoting intra-EU cross-border sustainable investments

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

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

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

2.9 EU Investment Protection Framework

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

Question 75. Do you consider that the investment protection framework has an impact on decisions to engage in cross-border sustainable investment?

Please choose one of the following:

- ( ) Investment protection has **no impact**
- ( ) Investment protection has **a small impact** (one of many factors to consider)
- ( )

Investment protection has **medium impact** (e.g. it can lead to an increase in costs)
- Investment protection has **a significant impact** (e.g. influence on scale or type of investment)
- Investment protection is a factor that can have **a decisive impact** on cross-border investments decisions and can result in cancellation of planned or withdrawal of existing investments
- Don't know / no opinion / not relevant

2.10 Promoting sustainable finance globally

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

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

- 1 - Highly insufficient
- 2 - Rather insufficient (selected)
- 3 - Neutral
- 4 - Rather sufficient
- 5 - Fully sufficient
- Don't know / no opinion / not relevant

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The main problem from the perspective of European investors is the lack of common standards, especially for corporate reporting on ESG matters. EU fund managers invest globally on behalf of European investors. Approximately 30% of European ESG funds accounting for approximately 40% of AuM are investing globally. Non-European countries, such as the United States, Japan and Canada, represent more than 70% weight of the MSCI World Index.
In order to comply with the new EU regulatory standards for sustainable finance, especially under SFDR and the EU Taxonomy, EU fund managers need standardised ESG disclosures from all target companies, including those located outside the EU. Promotion of (1) globally recognised common reporting standards on non-financial information and (2) a common understanding of sustainable economic activities in line with the EU Taxonomy would be very helpful to facilitate mainstreaming of sustainable finance and thus achieving the effect of redirecting capital flows to sustainable economy.

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

Please list a maximum of 3 proposals:

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

We suggest to:
- establish an institutionalised dialogue at the global level among the relevant standard-setters in order to work towards common standards for non-financial reporting, including (1) reporting on sustainability risks and opportunities and (2) disclosure of adverse impacts of a company’s activities on the environment, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
- promote the EU Taxonomy as a global gold standard for distinguishing sustainable activities that make substantial contributions to the goals of the Paris Agreements and the SDGs.

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

Please select all that apply:

Please select as many options as you like.

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

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

Please provide a maximum of 3 proposals:

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

Question 80. How can EU sustainable finance tools (e.g. taxonomy, benchmarks, disclosure requirements) be used to help scale up the financing of sustainable projects and activities in emerging markets and/or developing economies?

Which tools are best-suited to help increase financial flows towards and within these countries and what challenges can you identify when implementing them?

Please select among the following options:

- ( ) All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change
- ( ) Some tools can be applied, but not all of them
- ( ) These tools need to be adapted to local specificities in emerging markets and /or developing economies
- (x) Don’t know / no opinion / not relevant

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

- [x] Yes
- [ ] Yes, but only partially
- [ ] No
- [ ] Don’t know / no opinion / not relevant

3. Reducing and managing climate and environmental risks

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

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

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

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

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

Question 82.1 If no, please explain why you disagree:

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

We support the underlying objective of the EU Action Plan to encourage and incentivise investments in sustainable activities that has mounted in the establishment of the “green” EU Taxonomy. The concept of the Taxonomy is to positively distinguish economic activities that qualify as sustainable due to their level of progress in, or general importance for, carbon emission savings or other environmental goals, while not making a judgement about the remaining parts of the market. A brown economy, on the other hand, would have the following severe downsides:

- It would stigmatise certain economic activities as having adverse impact and being undesirable from sustainability perspective. As a result, economic activities classified as brown would be effectively deprived of financing opportunities via capital markets, most probably also via bank lending, and hence turned into stranded assets even though the activity as such would remain legal. This way of regulating is not acceptable. If the EU legislators consider certain activities as critical, they should regulate them directly instead of effectively prohibiting the financial sector from financing of such activities.
- It would prevent companies whose business model is based on "brown activities" from entering the path for transitioning towards a more sustainable economy. For such companies, classification as "brown" would be disruptive in socio-economic terms. Alternatively, those companies might turn to non-European financial market participants in search for financing sources. This would then result in competitive disequilibrium and might prompt evasive behaviour in the market.

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

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

3.2 Financial stability risk

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

Question 84. Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system.

What are in your view the most important channels through which climate change will affect your industry?

Please select all that apply:

Please select as many options as you like.

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

Please explain through what other channel(s) climate change will affect your industry?

Please provide links to quantitative analysis when available:

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

We welcome the work done by the Network for Greening the Financial System (NGFS) regarding to the analysis and understanding of the impact of climate related and environmental risks on financial stability. However, the NGFS is a group of central banks and supervisory authorities within the banking area without considering the special business models and issues of other supervised entities such as asset managers. We therefore request that the outcome of recommendations of the NGFS is considered as a mere guidance for all supervised entities within the EU.

Moreover, the impact of sustainability risks on the financial stability should be carefully assessed (for instance by impact assessments made by the ESRB). Sustainability should not be restricted to climate and environmental issues; social trends may also present serious financial risks for the financial industry. In any case, there is a need for a common understanding that a sustainability risk is not a separate risks category. Sustainability may have a significant impact on all relevant existing financial risk types such as credit risk, market risk, liquidity risk, operational risk and be a factor that contributes to their materiality.

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

Please identify a maximum of 3 actions taken in your industry

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

Asset managers assess, select and decide on investments in individual companies and other assets. They direct capital flows and can exert a lasting influence on companies through their investment decisions and their commitment to exercising their shareholder and creditor rights. For example, with 24 billion euros, funds hold the largest share of the green bonds held in custody in Europe, with a total portfolio of 73 billion euros (Monthly Report October 2019, Deutsche Bundesbank).

Despite the absence of relevant regulations to date, dealing with the issue of sustainability is not new in the

German fund industry. The BVI members had already voluntarily agreed on "Guidelines for Responsible Investing" in 2012, which are now part of the BVI Code of Conduct. In these guidelines, they commit themselves to the principle of "comply or explain" and, among other things, to act in the interests of investors and to rely on free competition when dealing with ecological and social issues and issues of good corporate governance. It is therefore part of their voluntary commitment to take appropriate account of ESG criteria when assessing investment risks in the investment process for the entire range of funds.

BVI has also developed specialised "Guidelines for Sustainable Real Estate Portfolio Management " (available only in German), which place particular emphasis on the sustainable use of the environment in the construction, management and development of real estate.

BVI actively participates as an observer in the sustainable finance committee of the German government. We also organise annual meetings on sustainability in the asset management area with experts from the industry, regulators and supervisors since 2016.

Question 86. Following the financial crisis, the EU has developed several new macro-prudential instruments, in particular for the banking sector (CRR /CRDIV), which aim to address systemic risk in the financial system.

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

- ○ 1 - Highly insufficient
- ◉ 2 - Rather insufficient
- ○ 3 - Neutral
- ○ 4 - Rather sufficient
- ○ 5 - Fully sufficient
- ○ Don’t know / no opinion / not relevant

Question 86.1 If you think the current macro-prudential policy toolbox for the EU financial sector is not sufficient to identify and address potential systemic financial stability risks related to climate change, what solution would you propose?

Please list a maximum of 3 solutions:

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

Any macro toolbox for identifying and addressing potential systemic financial stability risks must be based on an appropriate data and scoring system. However, sustainability and climate-related data and scores suffer from a lack of standardisation and comparability. In particular, this applies for the unavailability of granular information at the corporate level. Improving the quality and availability of sustainability and climate-related information would be the first preferred solution for enhancing the macro toolbox.

Insurance prudential framework

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

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

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

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

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

Banking prudential framework

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

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

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

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

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

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

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

- Yes, option 1. or option 2. or both options
- No
- Don't know / no opinion / not relevant

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

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

Asset managers

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

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

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

Pension providers

Pension providers’ long-term liabilities make them an important source of sustainable finance. They have an inherently long-term approach, as the beneficiaries of retirement schemes expect income streams over several decades. Compared with other institutions, pension providers’ long-term investment policies also make their assets potentially more exposed to long-term risks. Thus far, the issues of sustainability reporting and ESG integration by EU pension providers have been taken up in the areas of institutions for occupational retirement provision (IORPs) (“Pillar II” - covered at EU level by the IORP II Directive) and private voluntary plans for personal pensions (“Pillar III” – covered at EU level by the PEPP Regulation) already in 2016 and 2017 respectively. The Commission will review the IORP II Directive by January 2023 and report on its implementation and effectiveness.

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

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

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

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

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

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

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

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

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

3.3 Credit rating agencies

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

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

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

- [x] 1 - Not transparent at all
- [ ] 2 - Rather not transparent
- [ ] 3 - Neutral
- [ ] 4 - Rather transparent
- [ ] 5 - Very transparent
- [ ] Don’t know / no opinion / not relevant

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

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

Sustainability and climate-related data and scores suffer from a lack of standardisation and comparability. This also applies for the integration of ESG factors into credit ratings by CRAs. However, ESMA’s Guidelines on the disclosure could be helpful to improve the transparency of such ratings if fees charged by CRAs to its clients for the provision of credit rating and ancillary services are not discriminatory and are based on actual costs. Therefore, it is of utmost importance that ESMA has an overview of the costs and revenues charged to identify possible risks and violations. Our members continuously complain about excessive fees charged and not transparent licensing models offered by CRA group entities for the provision of ratings data.

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

- [x] 1 - Not effective at all
- [ ] 2 - Rather not effective
- [ ] 3 - Neutral
- [ ] 4 - Rather effective
- [ ] 5 - Very effective
- [ ] Don’t know / no opinion / not relevant

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

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

Sustainability and climate-related data and scores suffer from a lack of standardisation and comparability. This also applies for the integration of ESG factors into credit ratings by CRAs. However, ESMA’s Guidelines on the disclosure could be helpful to improve the transparency of such ratings if fees charged by CRAs to its clients for the provision of credit rating and ancillary services are not discriminatory and are based on actual costs. Therefore, it is of utmost importance that ESMA has an overview of the costs and revenues charged to identify possible risks and violations. Our members continuously complain about excessive fees charged and not transparent licensing models offered by CRA group entities for the provision of ratings data.

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

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

Question 97.1 If yes, please specify what kind of action you consider would address the identified problems. In particular should the EU consider regulatory intervention?

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

We propose to amend the CRA Regulation in such a way that users of credit ratings can reuse the ratings available on ESMA rating platform (ERP) without paying license fees to credit rating agencies.

3.4. Natural capital accounting or “environmental footprint”

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

Question 100. 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
- (selected) Don’t know / no opinion / not relevant

3.5. Improving resilience to adverse climate and environmental impacts

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

Climate-related loss and physical risk data

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

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

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

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

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

Please select as many options as you like.

- [x] Loss data
- [x] Physical risk data

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

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

Fund and asset managers need comparable and reliable ESG information about companies in order to incorporate ESG factors in their investment decisions and to properly evaluate sustainability risk and opportunities of their investments. In near future, they will be subject to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) and to Taxonomy Regulation, and in addition, will need to comply with the sustainability-related rules foreseen specifically as part of the UCITS and AIFM legal frameworks. Due to the latter, European fund managers will be required to integrate sustainability risk in their internal processes, including risk management and investment due diligence.

Against this background, we request to
(1) extend the scope of reported information in order to cover all ESG aspects relevant for investors: In combination, the new EU rules for investors will lead to three sets of data on sustainability-relevant issues that fund managers will need from companies:
- Data on sustainability risks and opportunities,
- Data on adverse impact of a company's activities on sustainability factors,
- Data on revenues from and CapEx/OpEx in relation to economic activities qualifying as environmentally sustainable in accordance with the Taxonomy.
(2) introduce a mandatory ESG reporting standard,
(3) align the concept of materiality under NFRD with the provisions incumbent upon investors

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

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

Financial management of physical risk

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

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

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

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

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

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

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

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

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

Additional information

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

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

The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

**0ddd78fd-1f0e-440d-b0fb-b95d990fc163
/200715_Renewed_Sustainable_Finance_Strategy_consultation_BVI_fin_annex.pdf**

Useful links

More on this consultation (https://ec.europa.eu/info/publications/finance-consultations-2020-sustainable-finance-strategy_en)

Consultation document (https://ec.europa.eu/info/files/2020-sustainable-finance-strategy-consultation-document_

More on sustainable finance (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en)

Specific privacy statement (https://ec.europa.eu/info/files/2020-sustainable-finance-strategy-specific-privacy-statement_en)

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

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Frankfurt am Main,
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EU Consultation on the Renewed Sustainable Finance Strategy: additional comments by BVI[1]

We gladly take the opportunity to participate in the public consultation on the renewed sustainable finance strategy. In this context, we would like to provide further explanations with regard to our response to the online questionnaire:

Q4 and 10 (communication of how business strategies are aligned with the goals of the Paris Agreement and which temperature scenarios investors are financing): At the current stage, we are reluctant to the idea of introducing specific requirements for estimating and disclosing quantitative environmental impact of investments. The reasons for our concerns are as follows:

- The SFDR regime to come into effect by 10 March 2021 will set entirely new standards for ESG disclosures. Financial market participants will be required among others to report about principal adverse impact of their investments at the entity level, i.e. across all portfolios. According to the Level 2 standards currently under consultation, such reports shall encompass disclosures of a long list of quantitative indicators, including first and foremost indicators on GHG emissions, carbon footprint, weighted average carbon intensity and exposure to the solid fossil fuel sector. Therefore, **information about the environmental impact of investments over all managed portfolios will be anyway available to the market** in the near future.
- Calculation of the principal adverse impact KPIs will entail significant challenges for most financial market participants. The relevant data points for calculating the indicators are largely not available from companies. Some of the data, albeit of insufficient quality and with significant gaps, can be purchased from commercial data vendors that are gaining market power and start flooding the market with overpriced services. In its reply to the current consultation, the ECB acknowledges that available sustainability and **climate-related data and scores suffer from a lack of standardisation and comparability that must be seen as an impediment to the consistent use of ESG data by financial institutions and market participants**. These challenges should not be further exacerbated by introducing yet another disclosure requirement prompting the need to collect further ESG data in the near term.
- The situation with regard to ESG data will hopefully improve following the NFRD review. It should indeed be considered a regulatory prerogative for the NFRD review to provide for standardised reporting of all ESG information to be taken into account by investors. If considered desirable in policy terms, the **NFRD review could encompass further work on a common EU-wide methodology for measuring the temperature scenarios** of business activities that could then form the basis for respective reporting by companies and subsequently by investors. In view of the recent experiences with the legislative process in relation to SFDR and especially the Taxonomy, we urge the Commission to stick to this course of action and in any case, **not to introduce new ESG disclosure duties for financial market participants if not accompanied by corresponding requirements in terms of corporate disclosures**.

[1] BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset Managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 114 members manage assets more than 3 trillion euros for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 22%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

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Q50 (systematic offering of sustainable investment products as one of the default options for retail investors): We are not entirely sure which scenario the Commission has in mind when raising this question. The terms "systematic offering" and "default option" are so far not being used in the distribution context under MiFID II. Moreover, it is unclear whether the condition "when the provider has them available" refers to the product provider or distributor, and how the term "comparable cost" shall be understood.

In any event, **we do not agree that retail investors without sustainability preferences should be systematically being offered sustainable investment products**. First of all, such requirement would be incompatible with one of the main pillars of the EU Action Plan that is encouraging and incentivising voluntary investments in sustainable activities. It must remain the investor's decision whether he or she wishes to finance sustainable projects or to account for the effects of its investments on sustainability factors when allocating capital. This means that investors that are either indifferent to sustainability issues or even expressly declare that they do not care about sustainability and are only interested in achieving financial returns must not be offered sustainable investment product. Secondly, application of ESG filters in the investment process generally leads to a different, more limited investment universe that is available for sustainable products. For instance, funds with dedicated ESG strategies may offer less diversification and not allow for participation in the investment opportunities in certain sectors. Investors without explicit sustainability preferences cannot be deprived of those participation chances without their specific request.

Q91 (requirements for integration of adverse sustainability impacts of investment decisions): Discussion on consideration of principal adverse impact in the investment process by asset managers is already being led in the context of SFDR and the Level 2 measures for integration of sustainability risks under UCITS Directive and AIFMD. The standards discussed so far imply the duty to take into account principal adverse impact in the investment process if a fund manager either commits to such consideration on a voluntary basis or is legally required due to its size under Article 4 SFDR.

In our view, consideration of the results of principal adverse impact assessment in the investment process is dependent upon the investment strategy and the terms and conditions of a specific product. While such consideration should be appropriate for funds with specific ESG strategies, it is much more difficult to apply in the investment process of traditional non-ESG funds that do not commit to investing in line with dedicated ESG standards. In case of the latter, fund managers are obliged by the investment contract to pursue specific objectives in terms of financial yields and to base investment decisions on relevant economic considerations in the first place. Therefore, it is important that the asset manager retains the discretion on the prioritisation of factors when taking investment decisions.

Against this backdrop, we urge the Commission to **exercise due caution when considering further duties with regard to integration of principal adverse impact** of investment decisions. In particular, a respective adaptation of the asset managers' fiduciary duties or a redefinition of the best interests of investors would **inevitably change the very nature of asset management**. In consequence, investors would have to avoid polluting sectors or other investments deemed as problematic from ESG perspective and thus, would be indirectly forced to use their capital in a manner prescribed by the legislator. Such regulatory outcome is certainly not covered by the current EU Action Plan that works upon encouraging voluntary investments in sustainable activities. It would not only contradict the principles of the free market economy, but also run counter to investor protection and the goal of wealth accumulation.