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HORIZONTAL POLICIES
Sustainable finance

CONSULTATION DOCUMENT

CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY

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This document is a working document of
the Commission services for consultation

You are invited to reply **by 15 July 2020** at the latest to the **online questionnaire** available on the following webpage:

https://ec.europa.eu/info/publications/finance-consultations-2020-sustainable-finance-strategy_en

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

Responses authorised for publication will be published on the following webpage:

https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en#contributions

INTRODUCTION

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

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

The ongoing COVID-19 outbreak in particular shows the critical need to strengthen the sustainability and resilience of our societies and the ways in which our economies function. This is necessary to, above all, minimise the risk of similar health emergencies in the future, which are more likely to occur as climate and environmental impacts escalate. In parallel, it will be paramount to ensure the resilience and capacity of our societies and economies to resist and recover from such emergencies. The COVID-19 outbreak underscores some of the subtle links and risks associated with human activity and biodiversity loss. Many of the recent outbreaks (e.g. SARs, MERS, and avian flu) can be linked to the illegal trade in, and consumption of, often endangered wild animal species. Furthermore, experts suggest that degraded habitats coupled with a warming climate may encourage higher risks of disease transmission, as pathogens spread more easily to livestock and humans.¹ Therefore, it is important – now more than ever - to address the multiple and often interacting threats to ecosystems and wildlife to buffer against the risk of future pandemics, as well as preserve and enhance their role as carbon sinks and in climate adaptation.

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

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

¹ See for instance “UNEP Frontiers 2016 Report on Emerging Issues of Environment Concern”, UNEP, 2016.

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

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

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

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

- 1. Strengthening the foundations for sustainable investment by creating an enabling framework, with appropriate tools and structures.** Many financial and non-financial companies still focus excessively on short-term financial performance instead of their long-term development and sustainability-related challenges and opportunities.
- 2. Increased opportunities to have a positive impact on sustainability for citizens, financial institutions and corporates.** This second pillar aims at maximising the impact of the frameworks and tools in our arsenal in order to “finance green”.
- 3. Climate and environmental risks will need to be fully managed and integrated into financial institutions and the financial system as a whole,** while ensuring social risks are duly taken into account where relevant. Reducing the exposure to climate and environmental risks will further contribute to “greening finance”.

Objectives of this consultation and links with other consultation activities

The aim of this consultation, available for 14 weeks (until 15 July) is to collect the views and opinions of interested parties in order to inform the development of the

renewed strategy. All citizens, public authorities, including Member States, and private organisations are invited to contribute. Given the diversity of topics under consultation, stakeholders may choose to provide replies to some questions only. Section I (covering questions 1-5) is addressed to all stakeholders, including citizens, while Section II (covering questions 6-102) requires a certain degree of financial and sustainability-related knowledge and is primarily addressed at experts.

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

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

This consultation also makes references to past, ongoing and future consultations, such as the [public consultation](#) and [inception impact assessment](#) on the possible revision of the Non-Financial Reporting Directive (NFRD), the inception impact assessment on the review of the Solvency II Directive or the future consultation on investment protection.

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

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

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

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

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

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

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

- Yes/No/do not know

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;
- If no, what other steps should be taken instead to accelerate the adoption by corporates and financial sector firms of business targets, strategies and practices that aim to align their emissions and activities with the goals of the Paris Agreement? [BOX, 2000 characters]

Climate change and extreme weather phenomena have already led to the financial materialization of non-financial risks for many companies. Due to this fact, the goals of the Paris agreement are today largely implemented in business strategies. Moreover, both peer and public pressure have reinforced this development.

Moreover, the non-financial reporting directive obliges companies where applicable to

make reference to the Paris agreement. Besides, regulatory requirements already exist: non-financial reporting directive, non-binding guidelines making reference to the TCFD.

- Do not know.

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

- Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models: scale from 1 (strongly disagree) to 5 (strongly agree).

2 (x)

- Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law: scale from 1 (strongly disagree) to 5 (strongly agree). 2 (x)

- In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective?[BOX, 2000 characters]

Reason for our answer: Investors already are focussed on sustainable investments and are retreating increasingly from carbon-intensiv investments. A prominent example can be seen in European insurance companies and pension-funds that are terminating their investments in the fossil energy-sector/utilities. The market itself is rendering this development, therefore no regulatory action needed.

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?

- [BOX, 2000 characters]. The main challenge and main opportunity at the same time will be to build a lean framework that provides for flexible and market-based solutions in order to enable a smooth and efficient transition to a green economy across all industries. Access to finance is vital for companies and growth, and to fund the transition to a more sustainable economy. The development of the Capital Markets Union should be progressed. The objective of diversifying corporate finance should not be forgotten over the various sustainable finance initiatives.

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

- Please provide a maximum of three examples [BOX max. 2000 characters]. An obstacle can be seen in the variety of misaligned reporting obligations for companies.

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?

- [BOX, 2000 characters] It is inevitable that environmental goals, such as climate change mitigation, will sometimes collide with social goals/aims, such as new infrastructure-developments. Up to now no common agreement on assessment, measurement and impact of climate, environmental and social risks. Different methodologies are used up to now, no comparability for investors and companies as well; impacts as mentioned will differ from one sector to another; companies have to be supported during the transition period in order to minimize not only negative ecological but as well negative social impact. In our opinion, the taxonomy regulation provides for an appropriate framework to achieve a sufficient trade-off of interests here. The taxonomy should be given proper time to prove its practicability. The future Platform on sustainable finance should have a broad and comprehensive representation that includes industry/the 'real economy' representatives, as well as the financial sector, in order to ensure that all relevant expertise is available for the further development of the sustainable finance tools and that the practical implications for their development are thoroughly discussed.

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

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

- For scores of 4 to 5, 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? [BOX, 2000 characters]

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

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

Question 11: Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss in particular on corporates who are dependent on ecosystem services, such as in sectors like agriculture, extractives, fisheries, forestry and construction. The importance of biodiversity and ecosystem services is already acknowledged in the EU Taxonomy. However, in light of the growing negative impact of biodiversity loss on companies' profitability and long-term prospects,² as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?

- Yes/No/Do not know
- If yes, please specify potential actions the EU could take. [BOX max. 2000 characters] We believe the Taxonomy provides for an adequate framework to cater for biodiversity. The six environmental objectives contained in the taxonomy should all have the same ranking as all are equally important in a functioning ecosystem.

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

- [BOX, 2000 characters] The Commission should regard Sustainable Finance more from a market-perspective and less from an exclusive regulatory perspective. What is needed is a lean framework setting the right incentives for a green economy while providing for a sufficient level of flexibility for companies to achieve a smooth transition to become "green". (See also answer to question 6).
Commission should also be aware that sustainable finance is and will be a global issue, political frameworks and regulations have to be implemented on a global level to have the required impact; the Commission has to ensure the competitiveness of European companies and the European financial sector.

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

- [BOX, 2000 characters]

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-

² See for instance “The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business,” WWF, 2019

related and environmental data and information on social risks, in order to make sound business and investment decisions. Labelling tools, among other measures, can provide clarity and confidence to investors and issuers, which contributes to increasing sustainable investments. In this context, the full deployment of innovative digital solutions requires data to be available in open access and in standardised formats.

1.1 Company reporting and transparency

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

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

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

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

- Yes/No /Do not know.
- If yes, please explain how it should be structured and what type of ESG information should feature therein. [BOX, 2000 characters] **Databases, which provide for ESG-information already exist (e.g. Bloomberg). Moreover, we do not believe in a free-of-cost database, as the creation of such a database will inevitably involve expenses.**

Question 15: According to your own understanding and assessment, does your company currently carry out economic activities that could substantially contribute to the environmental objectives defined in the Taxonomy Regulation?³

- Yes/No/Do not know.
- If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation),⁴ how likely is it that you would use the taxonomy for your business decisions (such as adapting the scope and focus of your activities in order to be aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). If necessary, please specify [BOX, 2000 characters].

³ 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.

⁴ Assuming that for climate change mitigation and adaptation, it would be based on the [recommendations of the TEG](#) for the EU Taxonomy.

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 recycling through the profit or loss statement of profits or losses realised upon the disposal of equity instruments measured at fair value through other comprehensive income (FVOCI).

Question 16: Do you see any further areas in existing financial accounting rules (based on the IFRS framework) which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks?

- Yes/no/do not know.
- If yes, what is in your view the most important area (please provide details, if necessary):
 - Impairment and depreciation rules. [BOX, 2000 characters]
 - Provision rules. [BOX, 2000 characters]
 - Contingent liabilities. [BOX, 2000 characters]
 - Other, please specify. [BOX, 2000 characters]

1.3 Sustainability research and ratings

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

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

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

Note that our answer relates to ESG ratings only. Though the market for ESG ratings is still very fragmented with many different agencies who also apply different methodologies we observe an increasing concentration, more recently. This has both positive and negative aspects. On the one hand a higher level of concentration leads to more market power and thus higher influence of rating agencies on investors' decisions. Thus, the higher the concentration is the more important reliability, good business conduct and professional communication standards of ESG rating agencies are in order to avoid negative side effects. This is particularly relevant as ESG ratings are normally issued on an unsolicited basis so that there is no contractual relationship between the issuer and the ESG rating agency. The quality of the rating thus strongly depends on the willingness and openness of the rating provider to enter into a dialogue with issuers. Unfortunately, issuers have made the experience that ESG rating agencies are rather reluctant to an open dialogue which makes the issue of market power even more relevant. On the other hand, if there was a broader dialogue a lower number of rating agencies would decrease transaction costs for both issuers and likely also investors. In a similar vain a lower number of rating agencies might lead to more consistency in evaluation.

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

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

In general, for issuers it is not easy to comment on data quality as the data business is more or a less a black box. The experience of issuers is mixed with respect to data quality. Though some issuers report that data quality is by and large sufficient others observe outdated publicly available information, boiler plate approaches and sometimes misleading segment categorizations which still make company ESG assessments not fully reliable and comparable. In similar vain, improvements should be achieved regarding a timely tracking the progress of individual companies and sectors.

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

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

Note: We can only comment on the quality of research provided by rating agencies. As far as buy side research is concerned we are not able to comment as investors use own ESG research models that are part of their core investment model. The quality of that research might depend on the quality of input data and the checks to that data undertaken by the investor. As mentioned in our response to Q 17 the quality of ESG ratings strongly depends on the quality of the dialogue between the issuer and the respective rating agency. Our general observation here is that on average the quality is rather poor as some ESG rating agencies avoid dialogue with issuers and – in contrast to financial ratings - it is no common practice to share research reports / ratings before they are made public with the issuer in order to avoid factual errors. The problem here is similar to the problem issuers have with proxy advisors. However, regarding the latter openness to dialogue has improved over the years.

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

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

Though this question is rather to be answered by investors, issuers in general observe that there huge differences between the ESG rating agencies in terms of coverage (companies, sectors and countries), research focus (e.g. environmental, social, governance) and process (using public data only vs. open for dialogue with issuers.)

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

- Yes/No (x)/Do not know.
- If yes, please explain why and what kind of action you consider would address the identified problems. In particular, do you think the EU should consider regulatory intervention? [BOX, 2000 characters] Reason for our answer: The entry into force and

subsequent practical experience with the taxonomy should be awaited first before further action is taken.

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

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

As set out in the 2018 Action Plan on Financing Sustainable Growth, the Commission services started working on: (i) developing possible technical criteria for the [EU Ecolabel scheme for retail funds, savings and deposits](#), and (ii) establishing an EU Green Bond Standard (EU GBS). The Commission also committed to specifying the content of the prospectus for green bond issuances to provide potential investors with additional information, within the framework of the Prospectus Regulation.

EU Green Bond Standard

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

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

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

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

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

- Yes, at European level
- Yes, at a national level
- No
- Do not know (x)
- If necessary, please explain the reasons for your answer [BOX 2000 characters]

First of all, the need to engage verifiers' is interlinked to the fact the GBS are sometimes vague so that some external 2nd opinion is necessary to signal investors that issuers comply with the standard. The clearer the GBS are that easier it would be for investors to check compliance without any 2nd opinion.

However, in the current environment of a developing market a light touch regulation (i.e. accreditation) could help to consolidate the market and improve business conduct of verifiers in particular with respect to transparency and reliability of the verification methods applied. However, regulation should not be too strict in order not to interfere with market developments.

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

- Yes / No / Do not know (x)

- If necessary, please specify the reasons for your answer [BOX 2000 characters]

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

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

Prospectus and green bonds

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

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

We strongly disagree. Any incorporation in the prospectus would create information redundancies, increase liability risks for issuers and make the issuance of green bond more complex and more expensive. This would clearly reduce the attractiveness of the European Green Bond Standard for issuers. Green washing can be better avoided to clarify the role of verifiers or to design the standard in a way that is easy to check for investors and to comply with for issuers without the assistance of verifiers.

Question 26: In those cases where a prospectus has to be published, to what extent do you agree with the following statement:

“Issuers that adopt the EU GBS should include a link to that standard in the prospectus instead of being subject to specific disclosure requirements on green bonds in the prospectus”

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

See our response to question 25.

Other standards and labels

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

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

- Yes/No/Do not know.
- If yes, once the EU Taxonomy is established,⁵ how likely is it that you would use the EU Taxonomy in your investment decisions (i.e. invest more in underlying assets that are partially or fully aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). Please specify if necessary [box, 2000 characters]

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

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

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

- Yes/No/Do not know.

- If necessary, please explain your answer [BOX, 2000 characters]
- If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?

⁵ Assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU taxonomy.

- Yes/No/Do not know
- If necessary, please explain your answer [BOX, 2000 characters]

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

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

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

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

Question 32: Several initiatives are currently ongoing in relation to energy-efficient mortgages⁶ and green loans more broadly. Should the EU develop standards or labels for these types of products?

- Yes/No/Do not know.
- If yes, please select all that apply:
 - a broad standard or label for sustainable mortgages and loans (including social and environmental considerations);
 - a standard or label for green (environmental and climate) mortgages and loans;
 - a narrow standard or label only for energy-efficient mortgages and loans for the renovation of a residential immovable property;
 - other: please specify what type of standard or label on sustainability in the loan market you would like to see [BOX, 2000 characters]

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

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

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

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

⁶See 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](#).

1.5 Capital markets infrastructure

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

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

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

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

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

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?

- [BOX max. 2000 characters]

1.6 Corporate governance, long-termism and investor engagement

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

The ongoing COVID-19 outbreak in particular underscores that companies should prioritise the long term interests of their stakeholders. Many companies in the EU have decided to prioritise the interests of key stakeholders, in particular employees, customers and suppliers, over short-term shareholder interest.⁷ These factors contribute to driving long-term returns as they are crucial in order to maintain companies' ability to operate. Therefore, institutional investors have an important role to play in this context. As part of action 10 of the Action Plan on Financing Sustainable Growth, in December 2019 the **European Supervisory Authorities delivered reports ([ESMA report](#), [EBA report](#), [EIOPA report](#)) that had the objective of assessing evidence of undue short-**

⁷The [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.

term pressure from the financial sector on corporations. They identified areas within their remit where they found some degree of short-termism and issued policy recommendations accordingly. For instance, they advise the adoption of longer-term perspectives among financial institutions through more explicit legal provisions on sustainability.

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

- Adopt more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management;
- Define clear objectives on portfolio turn-over ratios and holdings periods for institutional investors;
- Require Member States to have an independent monitoring framework to ensure the quality of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs);
- Other, please specify. [box max. 2000 characters] In our opinion, the Commission still too often follows the prejudice of existing short-termism without naming examples or references. The perception of an excessive short-term orientation of companies does not match with the existing reality. The vast majority of German listed companies is committed to a sustainable – meaning long term among others – value creation, which is defined as the enterprises' best interest in the German Corporate Governance Code. In addition, large institutional investors such as pension-funds hold a significant volume of the share capital of the German DAX-companies and influence them in their long-term orientation.

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

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

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

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

- Yes/No /Do not know.
- If yes, please indicate what share. [box 2000 characters]

Reason for "No": First of all, we assume that any such provision will be applicable only if variable remuneration is granted. The EU Commission should be aware that there are voices that doubt the effect of incentivising management via variable remuneration. So before forcing companies to pay variable remuneration further research should be conducted and evaluated.

The revised German Corporate Governance Code takes an alternative approach: The Code recommends that the share of variable remuneration achieved as a result of reaching long-term targets shall exceed the share from short-term targets and performance criteria shall be aligned mainly to strategic goals. The notion behind is that you do not have to (or even should not) separate a sustainability strategy from a

business strategy. So, instead of mentioning additional ESG-criteria, the Code Commission expects that these issues are part of the strategy.

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

- Yes/No/Do not know.

If the company discloses the objective of carbon emission reductions to the market, the market will expect that this objective is being followed like any other business objective or else it will assume green washing. The market will as part of this expect that efforts to achieve the objective will be incentivised. If a company does not follow such objective, the provision would indirectly force them to do so. The mechanism contained in the action plan will already make use of market forces to make companies install respective objectives. Why leave this road at this point of time?

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

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

- Yes/No /Do not know.

- If yes, what action should be taken? Please explain or provide appropriate examples. [BOX max. 2000 characters]

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

- Yes/No /Do not know
If the EU Commission sees ESG issues as part of a (sustainability) strategy it would be unusual to have a shareholder vote on a company strategy. If the EU Commission finally sees ESG issues not as part of a company strategy, additional work should be done to explain and differentiate. Anyway: if shareholders see that a disclosed strategy is not incentivised, they can vote against the remuneration system.
The SRD II should be allowed time to work and prove its practicability.

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

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

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/Do not know .
- There is a strong shift of capital into index investing. Such ETFs etc. start taking an active approach exercising voting rights because they do not have the exit option. Why should these new "active" investors that by definition are long-term investors be treated as any other investor?
- If no, please explain the reasons for your answer if necessary. [BOX max. 2000 characters]
- If yes, in your view, what do you think this impact is, do you think that the EU should address it and how? [box max. 2000 characters]

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

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

- Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.
- Yes, as these issues are relevant to the financial performance of the company in the long

term.

- No, companies and their directors should not take account of these sorts of interests.
- I do not know.(x)

The choices appear to be biased as the question cannot be simply answered with yes or no.

We believe that answer 1 could lead to a change in the statutes to which shareholders would have to agree. Please be aware that shareholders initially have invested in a for-profit company. So, it depends how EU law would read exactly (“maximization”) and how it would differentiate for-profit companies from benefit corporations. Also, for-profit companies in Germany do not have to “maximise” profit by law, at all.

The pre-set explanation to answer 2 comes as a surprise. It means that finally companies would have to justify their decisions financially. Between the two yes-answers there is a huge difference.

Since many years, companies have taken account of diverse stakeholders’ interests alongside the financial interests of shareholders, not only because this is an expectation placed on them, but because they see the value also for the financial position of the company, in doing so.

Therefore, taking account of all relevant stakeholders’ interests, as determined by the company is directly linked to the performance and interest of the company. It is therefore a totally wrong assumption that companies exclusively prioritise shareholder value or that shareholder value creation is necessarily contrary to a stakeholder-oriented approach. Corporate governance codes in many member states (e.g. France, Germany, Netherlands, Belgium, Italy) have already introduced recommendations nudging companies around stakeholder value.

In addition, due to the Non-Financial Reporting Directive, certain companies are also obliged to be transparent in the way they take stakeholders interests into account on issues that are material to the company. More prescriptive requirements beyond this would not allow transparency actions and reporting tailored to the specific way companies function.

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

- Yes/No/Do not know.

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

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

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

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

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

2.1 Mobilising retail investors and citizens

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

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

- Yes/No/Do not know.
- If necessary, please provide an explanation of your answer. [box max. 2000 characters]

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

- Yes/No/Do not know.

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

- If you agree (for scores of 4 to 5), please choose what particular action should be prioritised:
 - Integrate sustainable finance literacy in the training requirements of finance professionals. [1-5]
 - 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. [1-5]
 - Directly, through targeted campaigns. [1-5]
 - As part of a wider effort to raise the financial literacy of EU citizens. [1-5]
 - As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. [1-5]
 - Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. [1-5]
 - Other, please explain.[box max. 2000 characters]

2.2 Better understanding the impact of sustainable finance on sustainability factors

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

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

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

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

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

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

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?

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

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

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

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

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

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

- Yes/No/Do not know
- If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider? Please list a maximum of three actions and a maximum of three existing initiatives. [BOX max. 2000 characters]

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

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

- Yes/No/Do not know.
- If yes, please explain what actions would be relevant from your perspective and which public authority would be best-positioned to deliver it. Please list a maximum of three actions [BOX max. 2000 characters]

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

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

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 three for each.

- BOX max. 2000 characters

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

- Yes/No/Do not know
If necessary, please provide details. [box. Max. 2000 characters]

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

- [BOX max. 2000 characters]

Question 63: The transition towards a sustainable economy will require significant investment in research and innovation (R&I) to enable rapid commercialisation of promising and transformational R&I solutions, including possible disruptive and breakthrough inventions or business models. How could the EU ensure that the financial tools developed to increase sustainable investment flows turn R&I into investable (bankable) opportunities?

- [Box max. 2000 characters]

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

- Yes/No/Do not know

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

- Bringing more financial engineering to sustainable R&I projects? Yes/No
- Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)? Yes/No
- Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes/No
- Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes/No
- Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes/No
- Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes/No
- Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions? Yes/No
- Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? Yes/No

- If necessary, please explain your answer. [Box max. 2000 characters]

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?

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

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

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

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

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

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

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

- For scores of 4 to 5, in case you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments? [drop down menu]
 - Revenue-neutral public sector incentives
 - Adjusted prudential treatment
 - Public guarantee or co-financing
 - Other
- Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other). [BOX max. 2000 characters]

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

- Yes/No/Do not know.
- If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue? [box max. 2000 characters]

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

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

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

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

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

- Yes/Yes, but only partially/No /Do not know
- If no or yes, but only partially, please explain why and how those reasons could be best addressed. [BOX max. 2000 characters]

Question 72: In particular, should the EU Taxonomy⁸ play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.

- Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation;
- Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation.
- No;
- Do not know.

Follow-up questions:

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

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

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

2.8 Promoting intra-EU cross-border sustainable investments

⁸The 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.

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

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

- Yes/No/Do not know.
- If yes, please specify what type of services would be useful for this purpose:
 - Information on legal frameworks
 - Individualised advice (e.g. on financing)
 - Partner and location search
 - Support in completing authorisations
 - Problem-solving mechanisms
 - Other, please specify [box max. 2000 characters]

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.
- Do not know.

2.10 Promoting sustainable finance globally

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

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

- Please express your view by using a scale of 1 (highly insufficient) to 5 (fully sufficient).
- For scores of 1-2, what are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions? [BOX max. 2000 characters]

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

- [BOX max. 2000 characters]

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

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

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

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

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

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

- Some tools can be applied, but not all of them. If necessary, please explain [box max. 2000 characters].
- These tools need to be adapted to local specificities in emerging markets and/or developing economies. Please explain how you think they could be adapted [box max. 2000 characters].
- Do not know.

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

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

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.⁹ Building, among others, on the ESAs’ activities further actions are envisaged to improve the management of climate and environmental risks by all actors in the financial system. In particular, the political agreement on the Taxonomy Regulation tasks the Commission with publishing a report on the provisions required for extending its requirements to activities that do significantly harm environmental sustainability (the so-called “brown taxonomy”).

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

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

- Yes/No /Do not know.
- If no, please explain why you disagree [BOX max. 2000 characters] We believe that a sufficient level of practical experience with the sustainable finance taxonomy regulation should be gained before further deliberations are made. The taxonomy should be given time to work and to prove its practicability ahead of any new regulatory initiatives.

The purpose and added value of such a brown taxonomy is not clear. Introducing a “brown taxonomy” is likely end up in a punitive approach which will not necessarily help closing the financial gap, but on the opposite risks to significantly add complexity to the system, to unnecessarily delay the implementation process and to lead to in-proportionate reporting burden for companies.

- If yes, what would be the purpose of such a brown taxonomy? (select all that apply)
 - Help supervisors to identify and manage climate and environmental risks.

- Create new prudential tools, such as for exposures to carbon-intensive industries.
- Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities.
- Identify and stop environmentally harmful subsidies.
- Other, please specify. [box max. 2000 characters]

⁹ More information on the ESAs' activities on sustainable finance is available on the authorities' websites. See in particular ESMA's strategy (https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052_sustainable_finance_strategy.pdf), EBA Action Plan (, and EIOPA's dedicated webpage (https://www.eiopa.europa.eu/browse/sustainable-finance_en)

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

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

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,¹⁰ regulators and research centres. However, significant progress still needs to be made in order to properly understand and manage the impact of these risks.

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

- Physical risks, please specify if necessary [BOX max. 2000 characters]
- Transition risks, please specify if necessary [BOX max. 2000 characters]
- Second-order effects, please specify if necessary [BOX max. 2000 characters]
- Other, please specify [BOX max. 2000 characters]

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

- Please identify a maximum of three actions taken in your industry [BOX max. 2000 characters]

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

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

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

¹⁰ See for instance the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).

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 through risk-pooling and influencing risk mitigating behaviour. The [Solvency II Directive](#)¹¹ sets out the prudential framework for insurance companies. The Commission requested [technical advice](#) from the European Insurance and Occupation Pensions Authority (EIOPA) on the integration of sustainability risks and sustainability factors in Solvency II. The Commission also [mandated EIOPA](#) to investigate whether there is undue volatility of their solvency position that may impede long-term investments, as part of the 2020 Review of Solvency II. EIOPA is expected to submit its final advice in June 2020.

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

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

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

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

Banking prudential framework

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

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

Because the work on ESG risks was at its initial stages, co-legislators agreed on a gradual approach to tackling those risks. However, given the new objectives under the European Green Deal, it can be argued that the efforts in this area need to be scaled up in order to support a faster transition to a sustainable economy and increase the resilience of physical assets to climate and environmental risks. Integrating sustainability

¹²The 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).

considerations in banks' business models requires a change in culture which their governance structure needs to effectively reflect and support.

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

- Yes/No/Do not know.
- If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy? [box max. 2000 characters]

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

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

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

- Yes/No/Do not know.
- If yes, please specify which measures would be relevant. [BOX max. 2000 characters]

Asset managers

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

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

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

Pension providers

Pension providers' long-term liabilities make them an important source of sustainable finance. They have an inherently long-term approach, as the beneficiaries of retirement

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

However, according to a [stress test](#) on IORPs run by EIOPA in 2019 and assessing for the first time the integration of ESG factors in IORPs' risk management and investment allocation, only about 30% of IORPs in the EU have a strategy in place to manage ESG-related risks to their investments. Moreover, while most IORPs claimed to have taken appropriate steps to identify ESG risks to their investments, only 19% assess the impact of ESG factors on investments' risks and returns.¹² Lastly, the study provided a preliminary quantitative analysis of the investment portfolio¹³ which would indicate significant exposures of the IORPs in the sample to business sectors prone to high greenhouse gas emissions.

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

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

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

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

- [BOX max. 2000 characters]

¹²The 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).

¹³With 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.

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

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

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, and in response to concerns about the extent to which ESG factors were considered by CRAs, ESMA adopted guidelines on disclosure requirements for credit ratings and rating outlooks.

[ESMA's Guidelines](#) on these disclosure requirements will become applicable as of April 2020. Pursuant to the guidelines, CRAs should report in which cases ESG factors are key drivers behind the change to the credit rating or rating outlook. Consequently, the current landscape will change in the coming months. The Commission services intend to report on the progress regarding disclosure of ESG considerations by CRAs in 2021.

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

- Please express your view by using a scale of 1 (not transparent at all) to 5 (very transparent).
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]
To our observation financial rating agencies (such as Standard & Poor's and Moody's) have done a lot to improve transparency on how ESG factors are incorporated. Usually, they include a dedicated section on key ESG factors that influence the credit rating in their reports. This process is still ongoing, so that further improvement can be expected.

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

- Please express your view by using a scale of 1 (very ineffective) to 5 (very effective).
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]
See our response to Q 95.

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

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

characters]

Reason for our answer: Market developments are promising and should not be inferred with by additional regulatory intervention.

3.4 Natural capital accounting or “environmental footprint”

Internal tools, such as the practice of natural capital accounting, can help inform companies’ decision-making based on the impact of their activities on sustainability

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

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

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

3.5 Improving resilience to adverse climate and environmental impacts¹⁴

Climate-related loss and physical risk data

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

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

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

- Yes/No /Do not know.
- If yes, please select all that apply:
 - Loss data, please explain why [BOX max. 2000 characters]
 - Physical risk data, please explain why [BOX max. 2000 characters]

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

¹⁴ Please note that the Commission is also preparing an upgraded EU Adaptation Strategy. A dedicated public consultation will be launched soon.

catastrophe financial risk management tools differs widely across the EU, also due to different choices and cultural preferences with regards to ex-ante and ex-post financial management in case of disasters. While the financial industry (and in particular the insurance sector) can play a leading role in managing the financial risk arising from adverse climate impacts by absorbing losses and promoting resilience, EIOPA has [warned](#) that insurability is likely to become an increasing concern. Measures to maintain and broaden risk transfer mechanisms might hence require (potentially temporary) public policy solutions.

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

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

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

- Yes/No/Do not know.
- If yes, please indicate the degree to which you believe the following actions could be helpful, using a scale of 1 (not helpful at all) to 5 (very helpful) and substantiate your reasoning:
 - Financial support to the development of more accurate climate physical risk models. [BOX max. 2000 characters]
 - Raise awareness about climate physical risk. [BOX max. 2000 characters].
 - Promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe. [BOX max. 2000 characters].
 - Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage. [BOX max. 2000 characters].
 - Reform EU post-disaster financial support. [BOX max. 2000 characters].
 - Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events. [BOX max. 2000 characters]
 - Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks. [BOX max. 2000 characters].
 - Regulate by setting minimum performance features for national climate-related disaster financial management schemes. [BOX max. 2000 characters].
 - Create a European climate-related disaster risk transfer mechanism. [BOX max. 2000 characters].
 - Other, please specify. [BOX max. 2000 characters].

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

- Yes/No /Do not know.

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

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

- Yes / No / Do not know.
- If yes, what action should the EU take? Please list a maximum of three actions. [BOX max. 2000 characters] **From the increasing importance of ESG-aspects, our perception is that credit institutions and investors already carry out such assessments as a prerequisite for their investment or the review of it.**

4. ADDITIONAL INFORMATION

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

¹⁵For instance, EIOPA in its [opinion on sustainability on Solvency II](#) talks about “impact underwriting which includes the development of new insurance products, adjustments in the design and pricing of the products and the engagement with public authorities without disregard for actuarial risk-based principles

of risk selection and pricing”.