



HORIZONTAL POLICIES
Sustainable finance

EUROPEAN COMMISSION
Directorate-General for Financial Stability, Financial Services
and Capital Markets Union

CONSULTATION DOCUMENT

CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY

Disclaimer

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

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

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.

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

€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 longterm development and sustainability-related challenges and opportunities.
- 2. Increased opportunities to have a positive impact on sustainability for citizens, financial institutions and corporates.** This second pillar aims at maximising the impact of the frameworks and tools in our arsenal in order to “finance green”.
- 3. Climate and environmental risks will need to be fully managed and integrated into financial institutions and the financial system as a whole,** while ensuring social risks are duly taken into account where relevant. Reducing the exposure to climate and environmental risks will further contribute to “greening finance”.

Objectives of this consultation and links with other consultation activities

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

and is primarily addressed at experts.

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

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

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

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

More information:

- [on this consultation](#)
- [on the protection of personal data regime for this consultation](#)

TABLE OF CONTENTS

INTRODUCTION	3
<i>TABLE OF CONTENTS</i>	6
SECTION I: QUESTIONS ADDRESSED TO ALL STAKEHOLDERS ON HOW THE FINANCIAL SECTOR AND THE ECONOMY CAN BECOME MORE SUSTAINABLE	8
SECTION II: QUESTIONS TARGETED AT EXPERTS	9
1. STRENGTHENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE	10
1.1 Company reporting and transparency.....	11
1.2 Accounting standards and rules.....	12
1.3 Sustainability research and ratings	12
1.4 Definitions, standards and labels for sustainable financial assets and financial products.....	13
EU Green Bond Standard.....	14
Prospectus and green bonds	15
Other standards and labels	15
1.5 Capital markets infrastructure	17
1.6 Corporate governance, long-termism and investor engagement	17
2. INCREASING OPPORTUNITIES FOR CITIZENS, FINANCIAL INSTITUTIONS AND CORPORATES TO ENHANCE SUSTAINABILITY	20
2.1 Mobilising retail investors and citizens.....	20
2.2 Better understanding the impact of sustainable finance on sustainability factors	21
2.3 Green securitisation.....	22
2.4 Digital sustainable finance	22
1.1. Project Pipeline.....	23
2.5 Incentives to scale up sustainable investments.....	25
2.6 The use of sustainable finance tools and frameworks by public authorities.....	26
2.7 Promoting intra-EU cross-border sustainable investments	27
2.8 EU Investment Protection Framework	28
2.9 Promoting sustainable finance globally	28
3. REDUCING AND MANAGING CLIMATE AND ENVIRONMENTAL RISKS	30

3.1	Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments	30
3.2	Financial stability risk	31
	Insurance prudential framework	31
	Banking prudential framework	32
	Asset managers	33
	Pension providers.....	33
3.3	Credit rating agencies.....	35
3.4	Natural capital accounting or “environmental footprint”	35
3.5	Improving resilience to adverse climate and environmental impacts	36
	Climate-related loss and physical risk data	36
	Financial management of physical risk.....	36
4.	ADDITIONAL INFORMATION	38

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].

No. Even though the FMA as national supervisory authority disposes of very granular information on investments of insurance undertakings and IORPs, due to the lack of a legal definition of „sustainable financial assets“ there is no clear method which assets qualify for “sustainable financial assets”.

- 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]. See our answer above.

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]

Yes, both.

- 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). 4
- Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law: scale from 1 (strongly disagree) to 5 (strongly agree). 5
- 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]

first bulletpoint: 4; second bulletpoint: 5

- Financial support and tax reliefs for sustainable investments (e.g. renewable energy) could be meaningful depending on their design (but are outside of the FMA's/OeNB's mandate).

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].

Challenges:

- Lack of qualitative and available data --> common data definitions and data requirements would help to improve the availability and management of data that would be needed for assessment of ESG risks, scenario analyses, disclosures etc.
- Lack of taxonomies for social and governance aspects and lack of "brown" taxonomy of environmentally harmful activities
- Lack of internationally recognized taxonomies for ESG aspects and thus risk of an unlevel playing field

Opportunities:

- In providing know-how and contributing to the re-allocation of financial services a significant contribution could be made towards achieving the goals of the Paris Agreement
- Some of our stakeholders have mentioned repeatedly that publicly available data bases as

well as open source stress tests and scenario analyses would be beneficial. They would be in favour of a data base compiling all information disclosed due to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector and Regulation on the establishment of a framework to facilitate sustainable investment (not yet published in the OJ). Furthermore, our stakeholders would wish for publicly available, regional-specific climate data – ideally supported by internationally acclaimed research institutes.

- The probably most important opportunity for mainstreaming sustainable finance is the introduction of an adequate price for GHG emissions, reflecting their social costs.

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].

Sustainability considerations could be further integrated in directives and regulations applicable to the banking sector (e.g. CRD and CRR). In this respect, the different mandates that have been extended to EBA - under the CRR (Article 434a, Article 449a and Article 501c) and the CRD (Article 98(8)) and the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector - will contribute to the incorporation of ESG risks by the banking sector.

In the area of insurance and pension supervision we do not see any obstacles in current EU policies and regulations that would hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making. Main obstacles in investing in sustainable investments are ‘market obstacles’, such as the lack of data and the practical effort linked with monitoring the climate change risks.

Question 8: The transition towards a climate neutral economy might have socioeconomic 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]

We believe that adequate stakeholder engagement and impact assessments are key. The financial sector cannot fulfil functions of fiscal, economic and social policies at national and Union level.

Question 9: As a corporate or a financial institution, how important is it for you that policy-makers create a predictable and well-communicated policy framework that provides a clear EU-wide trajectory on greenhouse gas emission reductions, based on the climate objectives

set out in the European Green Deal, including policy signals on the appropriate pace of phasing out certain assets that are likely to be stranded in the future?

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

5

- For scores of 4 to 5, what are, in your view, the mechanisms necessary to be put in place by policy-makers to best give the right signals to you as a corporate or a financial institution? [BOX, 2000 characters]

FMA: As a supervisory authority, we have repeatedly heard from some of our stakeholders that they wish for policy intervention which are consulted with stakeholders, predictable, communicated clearly and well in advance and are in place long enough to create a stable economic environment for business decisions and compliance organisation.

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 that adequate stakeholder engagement and impact assessments are key. The financial sector cannot substitute environmental policies at national and Union level. However, finance should not counteract environmental and climate policies' objectives either.

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?

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

■ [BOX, 2000 characters]

We believe that ownership of Member States and citizen support are crucial, thus we think close cooperation and coordination with the Council and European Parliament are important. Furthermore, the Commission's approaches and actions in different policy areas should be aligned which entails involvement of all Directorates General affected.

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]

Whilst the EU should remain the front-runner in many sustainability policies, international cooperation and coordination would be very desirable. On a Member State level it would be beneficial if the EU could facilitate the sharing of data, good practices, innovative tools and instruments and research as well as technical expertise.

1. STRENGTHENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE

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

1.1 Company reporting and transparency

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

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

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

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]

We would suggest to structure environmental, social and governance (ESG) information by the target group of information and type of ESG-risks.

A useful structure for a common database should be aligned with the NFRD, too. Hence the structure could also include the non-financial matters defined in the NFRD (at present: environment, social and employee issues, human rights, bribery and corruption) and the therein required disclosure requirements (information about the business model, policies, outcomes, risks and risk management, and key performance indicators relevant to the business). In the context of comparability and reliability of information, a higher degree of standardisation for company reporting is essential.

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].

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

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.

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 reintroduction 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]

Concerns have been raised by representatives from the industry as well as by policymakers in particular on the question whether long-term assets on investors' balance sheets should be valued based on the currently applied "mark-to-market" valuation or based on "fair value" accounting. But so far, no reliable evidence has been put forward on this topic. As highlighted by the European Supervisory Authorities (ESAs) in their report on "Undue short-term pressure from the financial sector on corporations" (2019) one should also take into account the importance of IFRS 9 for financial stability as it addresses the "too little, too late" issue. In this context we would therefore advocate a cautious approach when tackling this issue by carrying out a detailed analysis on the above mentioned concerns and putting forward proposals for adjustments of existing accounting rules only if these prove to be necessary.

- 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).

4

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

4 – Rather concerned

A recent wave of acquisitions of sustainability rating agencies and sustainability data providers may lead to concentration of the market within large sustainability rating agencies (SRAs). The risk is to recreate an oligopoly situation comparable to that of the credit rating industry. However, reflecting the absence of a common definition of ESG ratings, there is no clear way to identify firms that “qualify” as SRAs. Therefore, it is a challenge to estimate the number of SRAs in the market for ESG ratings.

In any case, the lack of transparency and competition requires more and better regulation.

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

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

2

The market for ESG data is plentiful regarding performance measures, products, rating scales etc., making it hard to compare the findings of the different providers. Some aim at measuring the credit risk stemming from ESG factors while others tend to rate ESG performance independently of any credit risk implications. Also the scope of the analysis – transition risks, physical risks or both – differs. The findings are sometimes considered as relative to industry peers, sometimes as absolute, enabling comparisons between companies of different sectors.

Academic research finds that ESG rating agencies of different agencies show only a low (positive) correlation in their assessments. The low correlation raises the question which indicators and definitions of sustainability are being used.

Hence it would need clear guidelines regarding indicators and methodologies of ESG ratings.

Sustainability providers consider the data secrecy as essential part of their business model. A minimum level of transparency, however, is essential for comparing their reliability and quality.

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).
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

3

Considering the variety of ESG material covering different aspects with different focus, the relevance and even more quality is hard to overview.

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]

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

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

Given the great variety of data, measurements, methodologies, interpretations and aims of ESG ratings, kind of standardisation of the ESG rating process would be very helpful. As for CRAs also specialised ESG rating agencies should be registered and should comply with defined standards as for example set out in the ESMA disclosure requirement applicable to credit ratings. Ideally, they would have to undergo a certification or accreditation process.

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

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

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

EU Green Bond Standard

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

The TEG recommends the creation of an official voluntary EU GBS building on the EU Taxonomy. Such an EU Green Bond Standard could finance both physical assets and

financial assets (including through covered bonds and asset-backed securities), capital expenditure and selected operating expenditure, as well as specific expenditure for sovereigns and sub-sovereigns. The standard should in the TEG's view exist alongside existing market standards.

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

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

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

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

Yes, at European level

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

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

Yes. It may be necessary for the Commission to take a holistic view to the regulation and supervision of third-party verifiers as well as ESG ratings and research providers, as increased levels of market concentration are likely to result in umbrella style rating providers who provide a suite of different rating and rating like services. A unified approach to the regulation of all rating providers (and related sustainability assessments such as third party verification) would help avoid creating a patchwork of regulatory or supervisory mandates for what are in essence consolidated rating providers.

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

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

The authorisation and supervision of non-European verifiers of EU Green Bonds (see Q22 above) might be difficult.

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) 5
- If necessary, please specify the reasons for your answer [BOX, 2000 characters]

5

We believe that detailed disclosure of specific information on green bonds in a public document as the prospectus used for the distribution of green bonds will certainly contribute to fight greenwashing since such practise could severely undermine issuers` credibility and reputation. Besides untrue declarations/classifications in a prospectus carry the risk of investors claiming damages.

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

1

We believe that including a mere link to the EU Green Bond Standard will not suffice. In addition to a link we prefer specific disclosure as to how the respective bonds meet the standard.

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

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

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]

It is expected that sustainable investments will increase their market share considerably in the next years. European policy explicitly states that the mobilization of private capital to foster a transition to a sustainable is a primary goal. In this context, creating harmonized European standards for sustainable investment funds would decrease market fragmentation and increase comparability of investment products for retail investors. Furthermore, common standards are an efficient way to combat greenwashing. Therefore, regulatory intervention might be used to standardise sustainable investment funds.

Austria has a long standing tradition of sustainable investment funds – the most prominent example is the Ecolabel “Umweltzeichen (UZ) 49” for Sustainable Financial Products which is awarded to products and services that represent the more environmentally compatible options within a range of comparable products offered. A comparable EU EcoLabel should exist complementary as a kind of minimal standard for labels.

The competent institution is the Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology - BMK. On behalf of the Federal Ministry the Austrian Consumer Association (VKI) is responsible for the development and the administration of the Ecolabel Guidelines, which constitute the basis for awarding the label. The Ecolabel for “Sustainable Financial Products” is, according to product group definition on the one hand awarded to investment products with portfolio character (investment funds, non-securities in the infrastructural sector), and on the other hand to Green Bonds and sustainable current account and savings products, which must not have portfolio character.

Financial products, which are awarded with the Ecolabel, must fully meet the respective relevant criteria of Ecolabel Guideline “UZ 49”. The Ecolabel can be applied for by providers (investment companies, banks, financial service providers, as well as by enterprises issuing Green Bonds and public issuers) from Austria and from abroad at the Federal Ministry for Sustainability and Tourism or at the Austrian Consumer Association. The product’s compliance with the requirements of the Guideline has to be confirmed by a qualified control body. For the audit all those documents have to be used and to be made available to the control body, which are required for a verification of compliance.

For further information in English please see:

https://www.umweltzeichen.at/file/Guideline/UZ%2049/Long/UZ49_R5a_Sustainable%20Financial%20Products_2020_EN.pdf

A comparable European label would complement and not substitute for existing national labels (Umweltzeichen UZ49 in Austria). It could serve as a kind of minimal standard.

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

The EU Ecolabel does already cover a wide range of products and is used in various sectors. Utilizing well-functioning and already set up inter-institutional processes is likely to be more efficient than creating a new regulatory framework – therefore an implementation within the EU Ecolabel framework can be supported.

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

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

4 Introducing harmonized standards is generally welcome as an efficient tool to combat greenwashing. On the other hand if harmonized standards are introduced in the regulatory framework, appropriate and proportional supervision is needed.

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). **5**
- If necessary, please explain. [BOX, 2000 characters]

5 It is important for enabling comparability to use the EU Taxonomy consistently. Although such bonds would not be required to meet all sustainability standards, those which are met should be in accordance with the EU Taxonomy.

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

⁶ See for instance the work of the EFIG (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](#).

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]

Channelling private capital into energy efficient loans / mortgages will facilitate capitalisation of energy efficient buildings / renovation. Considering that e.g. the CO₂ equivalent needed for heating can be drastically lowered by thermal rehabilitation or that the renovation of existing buildings is regularly more sustainable than new construction, initiatives for harmonised standards / labels are welcome. Due to the fact that sustainability is a holistic concept, a limitation on specific ESG (sub-)factors or a narrow field of application seems counterproductive to reach national / European sustainability goals. Nevertheless, within broad categories some differentiation into sub-categories may be useful (e.g. energy-efficient mortgages). However, from a supervisory perspective, it is too early to provide a final answer to this question as several preliminary issues in this context have to be clarified first (i.e. work by the EU Commission regarding the development of technical screening criteria for the specification of the definition of environmentally sustainable activities based on the EU taxonomy).

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

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

The scope of the EU concept of sustainability is not limited to E-factors but encompasses E-, S-, and G-factors. Therefore, it would be consistent with EU policy to introduce a holistic ESG benchmark which in turn will further increase the public awareness beyond E-factors.

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]

At this point in time the implementation and industry adoption of the above proposed sustainable standards and labels should be the main priority. In a second step these actions should be evaluated and potentially revised to reflect the European practical experience. Based on these experiences it is likely that the need for further standard-setting will arise. Covered bonds had historically an important role in retail financing of public policies (social housing etc.). Learning from this experience, the potential of covered bonds as a tool for climate-related investment may be considered.

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). **2**
- For scores of 1 and 2, please list the main problems you see (maximum three). [BOX, 2000 characters].

Progress with the Capital Markets Union might improve the conditions supporting sustainable finance.

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

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

The EU could follow a double strategy fostering specific platforms with strict transparency requirements and mainstreaming sustainable finance elements in existing exchanges.

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]

Re. SMEs: To improve cost-efficiency in terms of one-off costs, a proportionally designed sustainable finance segment for EU growth prospectuses could be considered.
General: Detailed disclosure requirements on targets, strategies, governance, management and data

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 shortterm 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]

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]

⁷ The [European Central Bank also recommended on 27 March 2020](#) that significant credit institution refrain from distributing dividend so that “they can continue to fulfil their role to fund households, small and medium businesses and corporations” during the COVID-19 economic shock.

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

- Yes/No/Do not know.

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

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

- Yes/No/Do not know.
- If yes, what action should be taken? Please explain or provide appropriate examples. [BOX max. 2000 characters]

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

- Yes/No/Do not know

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

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

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.
- 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]

Due to a lack of empiric evidence we suggest a thorough impact assessment.

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.

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]

Yes, we believe a holistic approach is desirable, but proportionality is needed for SMEs.

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]

Guidance to financial advisors is indeed useful. Such guidance is already included in the ESMA MiFID II Guidelines on certain aspects of the MiFID II suitability requirements (ESMA35-43-869) which are currently in the process of being updated in order to take the changes introduced to the MiFID II Delegated Regulation 2017/565 regarding ESG-related aspects into account.

The above mentioned guidance is useful and sufficient to ensure that retail investors are asked about their sustainability preferences in a simple, adequate and sufficiently granular way. We are not in favour of providing firms with even more detailed indications on the questions to be asked to clients regarding their sustainability preferences, as the number/granularity and type of questions will necessarily depend on the firm's business model, the types of products it offers, the types of clients it serves, etc.

Yes

ESG investing is a fast-growing sector where still a lot of question marks and misunderstandings occur, and various labels are used to describe investments that consider ESG issues.

ESG investments are getting more and more important for retail investors. A recent study "Earning Investors' Trust" (2020) by the CFA Institute (another reference is the guide by the CFA Institute on "Environmental, social and governance issues in Investing" from October 2015) shows, that 69% of retail investors have interest in ESG, though their motivations differ. 67% of those retail investors would also be willing to give up some return in exchange for meeting their values objective. The study also finds, that just 10% of retail

investors currently invest in products that incorporate ESG factors. The ability to invest in line with one's values is of large interest, positioning ESG investing as a promising growth area.

For financial advisers one main principle should be to put the client's interest first and to educate the clients regarding their investment decisions. Due to the fact, that there is still some lack of consistency in the use of different labels regarding ESG investments it would be very helpful for financial advisors to get detailed guidance how to handle this issue with their clients.

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

- Yes/No/Do not know.

According to the rules included in the expected revision of the MIFID II Delegated Regulation, already in the course of the mandatory assessment of equivalent products advisors need to consider ESG-Aspects.

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) 5

- 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. [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.[4]
 - Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions. [4]
 - Directly, through targeted campaigns. [2]
 - As part of a wider effort to raise the financial literacy of EU citizens. [5]
 - As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. [5]
 - Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. [5]
 - Other, please explain.[box max. 2000 characters]

Score: 5, 1st, 3rd, 5th and 7th option.

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).
- 5
- For scores of 4 to 5, what actions should the EU take in your view? [BOX max. 2000 characters]

Better measurement of the impact of financial products on sustainability factors could contribute to the following:

- Assessment of ESG risks
- Improve Transparency (which could also contribute to an increased awareness)

Investors are increasingly integrating ESG assets into their portfolios and are considering ESG factors alongside traditional financial factors in their investment decision-making processes. The drivers of demand for ESG investment are varied. Some investors seek to maximise a social outcome while others focus on identifying ESG issues to reduce risks (for example excluding companies or sectors with low ESG ratings from portfolios) or to detect undervalued opportunities. While financial performance remains the main driver for most investments, willingness to invest sustainably increasingly drives investors' considerations. If investment products (e.g. funds, structured products, etc.) are not to be assessed only based on their costs and performance anymore, it is essential to have reliable impact metrics to assess their sustainability credentials which could then feed also more reliable ESG ratings which are currently unsatisfactory. Such metrics should build on data collected at investee company level, hence the importance of the review of the NFRD requirements.

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]

Seen from a more academic perspective, even though nearly all types of instruments can be used to somehow allocate capital in favor of sustainability, some do better. E.g. 'labelled' (green, social, and/or sustainable) bonds claim to provide a direct link between the financing side and the investment side, ideally in form of asset-backed securities, so that returns and risks are tied to specific underlying projects. Thus, they might have the highest 'impact ratio' of the invested capital in a single product.

However, considering adoption and popularity of ETFs in general and trusting latest research (S. M. Hartzmark & A. B. Sussman, 'Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows', Journal of Finance, Volume 74, Issue 6, 2789-2837, 2019) that investors indeed value sustainability especially indicated by high sustainability ratings, ESG/thematic funds could in total be responsible for the most impact. However, seen from a purely supervisory perspective financial instruments (e.g. regarding credit institutions: shares and bonds that qualify as eligible liabilities and own funds) are used for the purpose of contributing to financial stability and investor protection and therefore cannot be used to allocate capital to sustainable projects.

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).

3

- 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]

Market limitations apply: Green assets are still difficult to define and identify. As green products are relatively new, full knowledge and understanding of the risk/ return characteristics of these products is lacking. Risks and opportunities of green investments are more difficult to assess due to the lack of historical evidence on the performance.

Regulatory limitations

- legal uncertainties with regard to the full implementation of the level 2 measures.
- lack of supervisory convergence, in particular in the supervisory assessments of significant risk transfer (SRT)
- disadvantage of regulatory treatment of senior STS securitisation bonds compared to other funding products such as covered bonds.

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]

If a need for a dedicated regulatory and prudential framework for “green securitisation” is considered, a thorough impact assessment of all positive and negative impacts and risks thereof is needed to be done beforehand. At no point this should be subject to any preferential capital treatment.

New dedicated regulatory and prudential frameworks are only needed if existing financial market legislation is insufficient to address the specific needs of green securitisation.

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]

The application of digital technologies in the area of sustainable finance has been limited so far with some notable exceptions, e.g., ESG plus or PACTA. However, as of now, there is not yet a broad interconnection between the fields of Fintech and of Sustainable

Finance.

One of the main reasons for the lack of interaction between these two areas is an insufficient understanding of the potential of digitization to mobilize sustainable finance. This could be overcome by improving the exchange between digitization and sustainable finance experts. To this purpose the sustainable finance platform could be extended to allow for the involvement of a representative number of experts on the topic of digitization as well as stakeholders from the fintech community. Also vice versa, the efforts of EU institutions on raising and nurturing the Fintech industry could benefit from an early-on inclusion of experts on sustainable finance experts. A stronger integration between these two strategic initiatives could give the EU also internationally a unique spike that differentiates it, e.g., from the US or Asia.

Apart from lack of communication/understanding of the respective other area, another barrier for the use of digital technologies in the area of sustainable finance is the lack of sufficient clarity on definitions as well as a lack of availability of reliable sustainability related data. This is in particular detrimental for the use of big data/ machine learning/ artificial intelligence. With the establishment of a green taxonomy and the introduction of the respective disclosure requirements steps in the right direction have been taken. But more needs to be done such as e.g. the establishment of a brown taxonomy that provides clarity on the definition of what is considered to be a “brown” economic activity. Besides another essential element to tackle the issue of limited availability of data would be to set up a centralized, public, free of charge, easy-accessible and machine-readable EU database on environmental data including ESG information (please see also our answer to Q14).

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]

In general, we believe, that the development of digital finance solutions to support retail investments is best left to market participants. The role of EU institutions should focus on facilitating such business models by providing the right environment and increasing their visibility. Examples could be the standardization of ESG data, a better harmonization of sandbox schemes throughout the member states/establishment of a *European Facilitator* (e.g. *Single Point of Entry*) or the establishment of certificates for solutions centered around ESG.

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

Lack of transparency; small size of projects; lack of awareness

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]

From our perspective it is essential to provide clarity on common definitions used in the sustainability context. While a green taxonomy has been agreed upon, there is no definition for “brown” activities. Against this background a brown taxonomy should be introduced as well. Apart from that another essential measure would be to tackle the issue of the limited availability of data by setting up centralized, public, free of charge, easy-accessible and machine-readable EU database on environmental data including ESG information (please see also our answer to Q14). Focusing on SMEs, proportionality in disclosure regulation, subsidies to prospectuses and emission costs and technical assistance through specialized agencies could be helpful.

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]

Emerging disruptive R&I solutions face similar issues as FinTech in general, legal uncertainty. To facilitate investments in R&I solutions legal certainty and guidance how businesses are expected to comply with applicable legislation will be key.

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).

3

- Please specify your answer. [BOX max. 2000 characters]

The lack of knowledge on the economy's long-term development and thus value of sustainable investments may prevent the uptake of sustainable investments. In addition, more standardised and publicly available non-financial information are considered to be an important element in contributing to sustainable investments.

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

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

Types of incentives	Bonds	Loans	Equity	Other
Revenue-neutral subsidies for issuers				
De-risking mechanisms such as guarantees and blended financing instruments at EU-level				
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]

Financial and logistical support in connection with drawing up a prospectus and use-of-(green)funds assurances.

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

⁸ The six environmental objectives set out in the Taxonomy Regulation are the following: (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control, (6) protection and restoration of biodiversity and ecosystems.

- 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

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 lifecycle 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]
- 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

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/librarv/esma22-105-1052_sustainable_finance_strategy.pdf), EBA Action Plan (, and EIOPA's dedicated webpage (https://www.eiopa.europa.eu/browse/sustainable-finance_en)

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]

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 11} 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]

Before we can manage any risks, we must identify the relevant sources of risk correctly and apply practical metrics to measure our exposure to these risks. The TCFD has already compiled numerous methods to measure the exposure of financial intermediaries to climate-

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

related risks, market participants could study these methods and apply those most suitable to their business models.

As the financial risks of climate change are surrounded by a high degree of uncertainty, it is important to develop plausible scenarios for climate-related risks. These risks can affect economic activities and financial assets in very different ways; therefore, it is paramount to strengthen the general resilience of companies and markets.

Question 86: Following the financial crisis, the EU has developed several macroprudential instruments, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system. Do you consider the current macroprudential 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]

2 (inadequate)

- Define the issue: A “brown taxonomy” is required that defines activities with higher ESG risks, which may cause credit, market, liquidity, operational or reputational risks for lenders (including banks). The difficulty will be to identify truly brown activities (e.g. a previously polluting company may now invest in becoming greener) and to avoid “green-washing”.
- Identifying exposures: Standardized “brown markers” should then be used in supervisory reporting data to identify the financing of “brown activities” by lenders and investors (e.g. loans, bonds, equity), in order assess risks for financial intermediaries’ portfolios and, ultimately, financial stability.
- Addressing risks: Finally, after carrying out a comprehensive analysis (please also see our answer to Q88), higher risk-weights for assets linked to these activities (a “brown penalizing factor”) could be considered to mitigate risks from these activities with higher capital and to incentivize economic actors by risk-sensitive pricing of brown activities (i.e. to internalize the costs of externalities).

Insurance prudential framework

Insurers manage large volumes of assets on behalf of policyholders and they can therefore play an important role in the transition to a sustainable economy. At the same time, insurance companies have underwriting liabilities exposed to sustainability risks. In addition, the (re)insurance sector plays a key role in managing risks arising from natural catastrophes through risk-pooling and influencing risk mitigating behaviour. The Solvency II Directive¹¹ sets out the prudential framework for insurance companies. The Commission requested technical advice from the European Insurance and Occupational 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]

No. This issue is beyond the mandate of the FMA. From the prudential perspective it is important that the design of regulatory capital requirements does not provide any incentives with regard to sustainable investments which would not reflect their risk profile properly.

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 sustainability¹² 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 levelplaying field?

- Yes No/Do not know.
- If yes, is there any category of assets that could warrant a more risk-sensitive treatment?

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).

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]

Please also refer to answers to Question 86.

Banks are key players in the European financial system as European companies, in particular SMEs, rely heavily on bank lending to finance investment and working capital. Thus, in order to be able to achieve sustainability goals these objectives must be reflected in the banking prudential framework. While it is important to succeed in the transition to a sustainable economy, this objective must not be achieved to the detriment of financial stability. When adapting the prudential framework, a cautious approach is therefore warranted taking into account the lessons learned from the financial crisis of 2008.

In the review of the CRR and the CRD the EBA has been given several mandates in the context of sustainable finance, among these in Art. 501c CRR to analyse whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified or in Art. 98(8) CRD to assess how to best incorporate ESG risks into the business strategy, the processes and the risk management frameworks. Changes to the prudential framework should only be proposed after carrying out a comprehensive analysis by the EBA on the impact, benefits as well as drawbacks of such measures.

As elaborated in the NGFS Guide for Supervisors (May 2020) it should also be taken into account that given that different risk profiles of individual assets should already be fully reflected through already existing mechanisms of Pillar 1, green or brown adjustment factors might potentially lead to double-counting of climate-related risks and opportunities and consequently distort capital requirements. Also, against this background a careful and evidence-based approach is deemed necessary.

Additionally, on a more general note, the principle of proportionality needs to be taken into account when introducing changes in the prudential regulation to ensure a level-playing field between large and small banks.

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]

Yes to one, namely to mobilise banks to manage climate-related and environmental risks. Given that there are climate-related and environmental risks that are currently not sufficiently considered in banks' (e.g. credit) risk management, they need to be proactively identified, monitored, managed and addressed by the financial sector. In case further action to mobilise banks to finance the transition should be taken, this should not over-burden the financial sector for political purposes and duly take account of potential risks. Please also refer to our answer to Q86.

Building on existing market practices, we would see merits in the introduction of a binding EU Green Bonds standard that would ensure alignment with the EU taxonomy and contribute to achieving sustainability objectives.

- 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]

Since the consideration of sustainability risks is becoming ever more relevant, they need to be considered throughout the banks' "overall governance". Members of the management body and of the supervisory body therefore need to have the relevant skills, experience and knowledge in this area that also have to be assessed in the course of the fit and proper assessments. Furthermore, the business and risk strategy as well as the internal control framework of an institution have to incorporate the issue of sustainable risks accordingly. We want to point out that sustainable risks have to be considered in accordance with the relevant size, complexity, business model and risk profile of the institutions. The principle of proportionality therefore also has to be considered.

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]

There is merit in adapting rules on fiduciary duties, best interests of investors and prudent person rules, but before any new solutions are provided, the EU should first ensure that the initiatives undertaken as part of Action 7 on clarifying institutional investors' and asset managers' duties under the Action Plan: Financing Sustainable Growth are implemented and their effects are observed and understood.

In this context, ESMA published technical advice in April 2019 on the integration of sustainability risks and factors, relating to environmental, social and good governance considerations with regards to investment firms and investment funds, into MiFID II, AIFMD and the UCITS Directive. Combined with EIOPA's technical advice on the integration of sustainability in the prudent person principle for investments under Solvency II, the ESAs have provided the blueprint for legislative amendments to integrate sustainability factors in portfolios. Once the Commission's legislative proposals have been issued and implemented, their effect should be observed and enforced before further changes are made.

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. Lastly, the study provided a preliminary quantitative analysis of the investment portfolio^{13 14} 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]

¹³The 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).

¹⁴ With almost 4 trillion Euros of assets under management, the EEA's Institutions for Occupational Retirement Provision (IORPs) sector is an important actor on financial markets.

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]

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).
3
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

Depending on which CRA you look, the transparency levels differ from no transparency at all to very transparent. Some seem to hardly include ESG issues into their analysis at all according to their published information, some mention different ESG issues if they are essential in their opinion, but hardly give any details. Only one CRA provides detailed information regarding ESG topics and the degree how they are influencing the overall rating.

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). 3
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

The effectiveness is very hard to evaluate and seem to vary among different CRAs. Every CRA already has incorporated the sustainability of a business model and governance issues to a certain degree as part of their analysis. However, differences exist in the considerations of CRAs of the exposure of issuers to specific ESG issues, obstacles of definition and scarcity of resources (e.g. data availability). In the past it was not done explicitly under an ESG perspective. As other ESG factors are becoming more important (the “S” but also certain “E” and “G” aspects), CRAs will have to (if they do not already have done so) change the way how their analyses are conducted and communicated to investors. At least one CRA seems to do this very effectively, they list top ESG drivers and the extend how they are influencing the rating.

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]

A regulatory intervention could go beyond the guidelines i.e. to mandate CRAs to include ESG factors in their credit rating methodologies and to give explicit information on how these factors are measured and integrated. In this regard, standardization to a certain degree (e.g. requirement of a clear distinction between E, S and G) could be a helpful measure to increase clarity and comparability.

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 impacts¹⁵

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 decisionrelevant 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]

Yes, more comprehensive data could help to improve methodologies in order to assess the impact of climate change more accurately. A joint effort with the NGFS, IMF, ECB and other international players would be welcomed.

- Physical risk data, please explain why [BOX max. 2000 characters]

Yes, more comprehensive data could help to improve methodologies in order to assess the impact of climate change more accurately. A joint effort with the NGFS, IMF, ECB and other international players would be welcomed.

Financial management of physical risk

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

¹⁵ Please note that the Commission is also preparing an upgraded EU Adaptation Strategy. A dedicated public consultation will be launched soon.

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]

4

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

5

- 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].

3

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

3

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

no opinion

- 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]

5

- Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks. [BOX max. 2000 characters].

no opinion

- Regulate by setting minimum performance features for national climate-related disaster financial management schemes. [BOX max. 2000 characters].

4

- Create a European climate-related disaster risk transfer mechanism. [BOX max. 2000 characters].

no opinion

- 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? ¹⁶
 - Yes/No/**Do not know**.
 - If yes, please explain which actions and the expected impact (high, medium, low). [BOX max. 2000 characters]

This question is beyond the mandate of the FMA. However, from supervisory perspective it is important to avoid that potential public schemes would distort risk perception or even artificially lower commercial prices. The availability of insurance without the “real” price might lead, for example, to continued building in areas with high risks for flooding or investments in more resilient/energy efficient housing might be postponed.

- If no, please explain. [BOX max. 2000 characters]

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

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

Yes. In insurance and pension area this requirement is already included in the current legislation.

A further integration of ESG issues and risks in the prudential framework is essential. The already existing provisions in level 1 (CRR and CRD) and level 2 (EBA’s Guidelines on loan origination and monitoring) should be extended by requirements on the implementation of long-term sustainable business strategies and on the integration of ESG risks in the provisions on risk management based on the work conducted by the EBA in line with its mandate in Art.98(8) CRD.

Investors/credit institutions should be required to carry out an assessment of the potential long-term environmental and climate risks on the project, economic activity, or other assets

¹⁶ For 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”.

when they provide financing – these factors should actually be part of any borrower’s business plan – if this assessment is a) necessary to assess potential risks to the investor/credit institution’s portfolio (e.g. credit or reputational risk) and b) if they intend to sell these exposures as “green investments” to third parties (e.g. an investment fund, a securitized asset). In this regard, we would like to highlight the importance of taking into account the principle of proportionality when introducing changes in the prudential regulation to ensure a level-playing field between large and small banks. At EU level further guidance needs to be provided on how such an assessment should be carried out to ensure a uniform approach among investors and banks.

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.