Contribution ID: 6be873a7-a397-4676-8e61-e3ecdd03652d
Date: 15/07/2020 16:19:43

Consultation on the renewed sustainable finance strategy

Fields marked with * are mandatory.

Introduction

This consultation is also available in German and French.

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

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

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

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

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

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

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

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

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

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

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

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

Objectives of this consultation and links with other consultation activities

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

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

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

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

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

More information:

- on this consultation
- on the consultation document
- on sustainable finance
- on the protection of personal data regime for this consultation

About you

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* Language of my contribution

- Bulgarian
- Croatian
- Czech

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

* I am giving my contribution as

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

* First name

Lindsey

*

Surname

Keljo

* Email (this won't be published)

LKeljo@sifma.org

* Organisation name

255 character(s) maximum

SIFMA Asset Management Group

* Organisation size

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

Transparency register number

255 character(s) maximum

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

995801715250-37

* Country of origin

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

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

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

- Bosnia and Herzegovina
- Botswana
- Bouvet Island
- Brazil
- British Indian Ocean Territory
- British Virgin Islands
- Brunei
- Bulgaria
- Burkina Faso
- Burundi
- Cambodia
- Cameroon
- Canada
- Cape Verde
- Cayman Islands
- Central African Republic
- Chad
- Chile
- China
- Christmas Island
- Clipperton
- Guam
- Guatemala
- Guernsey
- Guinea
- Guinea-Bissau
- Guyana
- Haiti
- Heard Island and McDonald Islands
- Honduras
- Hong Kong
- Hungary
- Iceland
- India
- Indonesia
- Iran
- Iraq
- Ireland
- Isle of Man
- Israel
- Italy
- Jamaica
- Nepal
- Netherlands
- New Caledonia
- New Zealand
- Nicaragua
- Niger
- Nigeria
- Niue
- Norfolk Island
- Northern Mariana Islands
- North Korea
- North Macedonia
- Norway
- Oman
- Pakistan
- Palau
- Palestine
- Panama
- Papua New Guinea
- Paraguay
- Peru
- Syria
- Taiwan
- Tajikistan
- Tanzania
- Thailand
- The Gambia
- Timor-Leste
- Togo
- Tokelau
- Tonga
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
- Turks and Caicos Islands
- Tuvalu
- Uganda
- Ukraine
- United Arab Emirates
- United Kingdom
- United States

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

* Field of activity or sector (if applicable):

at least 1 choice(s)

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

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

* Publication privacy settings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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?

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

Please refer to the additional information that we have provided, which is attached to our response. Our additional comments discuss the following challenges :
1. The challenge for investors in obtaining access to robust, reliable and comparable ESG data
2. Ensuring that ESG compliance requirements are calibrated so as to be capable of driving meaningful change and not become merely a compliance burden for firms or lead to "information overload" for investors
3. The EC reforms are focussed mainly on the buy-side financial sector and ignore the broader picture.

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

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

SIFMA AMG would reiterate the points made in our responses to Question 6 (as described further in our additional responses).

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

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

2000 character(s) maximum

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

SIFMA AMG is naturally supportive of measures to support a transition towards a climate neutral economy. To mitigate potential adverse socio-economic impacts (particularly on workers), it will be important to ensure that the impact of increased regulation in this area does not lead to an immediate withdrawal of significant investment in industries perceived to be “brown”, but that the transition to “green” is sensibly paced and managed over time.

Policy makers should therefore ensure that any legislative or regulatory interventions are calibrated to ensure that disclosures by corporates (including those perceived to be “brown”) permit investors to understand and take into account planned transition strategies, not just current economic activity. Permitting investors to factor in planned transition strategies (which, in some cases, may take years or decades to come to fruition) would lead to constructive engagement with corporates regarding their transition strategies, and help to mitigate the socio-economic impacts associated with transition by ensuring that currently “brown” corporates are able to access the finance and capital needed to move towards business models with a greater focus on mitigating environmental harms. By contrast, tools which focus solely on current activity would risk starving corporates active in “brown” sectors of capital, frustrating their transition efforts and leading to negative socio-economic impacts for workers and societies.

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

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

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

2000 character(s) maximum

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

SIFMA AMG is supportive of the EU taking policy actions to meet the climate objectives set out in the European Green Deal, and would welcome greater clarity on the policy steps which the Commission envisages taking over time to meet the EU's climate objectives. It is vitally important, however, that any policy actions requiring action from the investment community should be clearly communicated, appropriately consulted on, and finalised (including any relevant Level 2 legislation) in good time before going into effect so that investors and asset managers have sufficient opportunity to build, test and implement any systems changes that might be necessary to accommodate changes to EU legislation/policy. Additionally, the consultation phase will be vital for the financial institution community to feedback on the practical challenges / adverse consequences of any proposed policy actions and to help ensure that the final reforms work effectively in practice for the financial sector as a whole.

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

- ◯ Yes, institutional investors
- ◯ Yes, credit institutions
- ◯ Yes, both
- ◉ No
- ◯ Don't know / no opinion / not relevant

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

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

- ◯ Yes
- ◯

No

Don’t know / no opinion / not relevant

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

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

Regardless of the specific governance arrangements adopted, the SIFMA AMG would stress that such arrangements should require that industry consultation is undertaken prior to the implementation of policy actions impacting on the investment community or broader financial services sector.

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

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

As detailed in our earlier answers, SIFMA AMG would stress the need for robust, reliable and comparable ESG data on the activities of corporates to be readily accessible to investors and asset managers. Policy initiatives aimed at encouraging investment into corporates whose activities are aligned with the EU’s climate and sustainability goals are inherently dependent on the ability of investors to obtain such data in easily comparable format. In terms of sequencing of further actions, SIFMA AMG would therefore encourage the EU to prioritise further measures related to the production of such data before moving to focus on the ways in which asset managers and investors might use such information to inform investment decisions. To ensure maximum harmonisation and limit the risk that national divergence would limit comparability, the SIFMA AMG believes that regulatory action to promote the availability of such data should be taken at EU (rather than Member State) level.

1. Strengthening the foundations for sustainable finance

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

1.1 Company reporting and transparency

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

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

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

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

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

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

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

SIFMA AMG believes that the review of NFRD will help put in place some common understanding on what is to be measured and therefore address some of the existing gaps in the availability of ESG data. SIFMA AMG would welcome further actions to develop a common, publicly accessible, free-of-cost environmental data space for companies' ESG information. Benefits would include helping to address the challenges that investors face in accessing corporate ESG data, and should also assist in facilitating comparability and

consistency. On the latter, it is necessary that the ESG information included in any data space developed by the EU is aligned to clear definitions as to the information that is covered, and the methodologies on which they are based. The SIFMA AMG would also suggest that the information captured should be sector-specific to maximise its relevance from an investment perspective.
For these data spaces access to be a valuable tool, reliability of the information offered is important. For that, it would be appropriate that the data spaces' management is entrusted to an EU authority. Lastly, such initiative cannot become a further burden for investee companies, rather empower them to focus on their own NFRD requirements and other ESG disclosures they wish to make – as opposed to them focusing on the diverse approaches by different data vendors, as is currently the case. This would mean that data collection should not go beyond the foreseen corporate reporting requirements.

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

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

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

1.2 Accounting standards and rules

Financial accounting standards and rules can have a direct impact on the way in which investment decisions are made since they form the basis of assessments that are carried out to evaluate the financial position and performance of real economy and financial sector companies. In this context, there is an ongoing debate around whether existing financial accounting standards might prove challenging for sustainable and long-term investments. In particular, some experts question whether existing impairment and depreciation rules fully price in the potential future loss in value of companies that today extract, distribute, or rely heavily on fossil fuels, due to a potential future stranding of their assets.

Recognising the importance of ensuring that accounting standards do not discourage sustainable and long-term investments, as part of the 2018 Action Plan on Financing Sustainable Growth, the Commission already requested the European Financial Reporting Advisory Group (EFRAG) to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. EFRAG issued its advice to the Commission on 30 January 2020. Following this advice, the Commission has requested the IASB to consider the re-introduction of re-cycling through the profit or loss statement of profits or losses realised upon the disposal of equity instruments measured at fair value through other comprehensive income (FVOCI).

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

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

1.3 Sustainability research and ratings

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

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

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

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

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

Our members are not currently concerned about there being dominant / concentrated providers of ESG ratings and data. It would, however, be helpful if there were additional providers of reliable and comprehensive ESG data / ratings in the market.

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

- [x] 1 - Very poor
- [ ] 2 - Poor
- [ ] 3 - Neutral
- [ ] 4 - Good
- [ ]

5 - Very good

Don’t know / no opinion / not relevant

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

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

In our members’ experience, the data available today are often limited and highly inconsistent across providers. This is in part because of the absence of common approaches to disclosure of ESG information amongst corporates, who self-report only selected data, on which sustainability data providers rely. Moreover, data coming from ESG data vendors / ratings agencies displays significant variation as to scope of information provided, the objectives they are measuring and the significance attached to those metrics / objectives. These vendors / rating agents also take different approaches when it comes to producing scores / ratings – the same company could therefore be granted a higher / lower score by different providers and therefore the users of the data need to be well versed with the methodology and scoring approach of the data provider.

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

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

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

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

SIFMA AMG would reiterate its comments made in respect of Qu. 18, i.e. that materials available today vary widely in quality and comprehensiveness (likely due largely to the difficulty in obtaining reliable underlying data).

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

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

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

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

Please see our response to Question 17 above concerning the limitations of currently available ESG data. The limited comparability and quality of available ESG data makes it difficult to use ESG ratings as a reliable source during investment decision making at present.

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

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

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

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

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

For the reasons expressed in response to other questions, SIFMA AMG would be strongly supportive of EU actions to increase the reliability and comparability of ESG data produced and disclosed by corporates. SIFMA AMG would also welcome initiatives targeted at regulating and increasing the quality and consistency of ESG data made available via ESG data vendors / ratings agencies.

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

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

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

1. developing possible technical criteria for the EU Ecolabel scheme to retail funds, savings and deposits, and

2. establishing an EU Green Bond Standard (EU GBS).

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

EU Green Bond Standard

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Prospectus and green bonds

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

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

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

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

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

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

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

2000 character(s) maximum

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

Other standards and labels

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

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

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

Question 27.1 If yes, once the EU Taxonomy is established (assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU taxonomy), how likely is it that you would use the EU Taxonomy in your investment decisions (i.e. invest more in underlying assets that are partially or fully aligned with the EU Taxonomy)?

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

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

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

Members of SIFMA AMG market funds and separate accounts which promote environmental characteristics and/or have environmental objectives. Our members are currently assessing their product offerings and sustainability strategy against the upcoming Taxonomy standards and the Sustainable Finance Disclosure Regulation. However, the general sentiment among SIFMA AMG members is that the proposed standards are very "dark green" (i.e. set at a very high level), will be very difficult to achieve in practice and may well be aspirational standards for the longer term. In addition, as we have noted in response to previous questions, the underlying framework is not in place to help firms determine whether any investments or economic activities are substantially contributing to a particular environmental aim, cause significant harm to other environmental objectives or even that investee companies meet minimum social or governance safeguards.

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?

- (x) No regulatory intervention is needed
- ( ) The Commission or the ESAs should issue guidance on minimum standards
- ( ) Regulatory intervention is needed to enshrine minimum standards in law
- ( ) Regulatory intervention is needed to create a label
- ( ) Don't know / no opinion / not relevant

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

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

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

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

Please refer to the additional information that we have provided, which is attached to our response.

Question 30. The market has recently seen the development of sustainability-linked bonds and loans, whose interest rates or returns are dependent on the

company meeting pre-determined sustainability targets. This approach is different from regular green bonds, which have a green use-of-proceeds approach.

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

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

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

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

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

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

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

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

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

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

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

Should the EU take action to create an ESG benchmark?

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

Question 33.1 If yes, please explain what the key elements of such a benchmark should be:

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

While not opposed to further EU action in relation to ESG benchmarks, SIFMA AMG would stress that the use of any such benchmarks should not be made mandatory. SIFMA AMG would see value in the creation of EU approved ESG benchmarks, since certain investors may take confidence from a fund targeting an EU-approved ESG benchmark and/or tracking its returns by reference to such a benchmark. However, SIFMA AMG would oppose the mandatory use of such benchmarks (e.g. any requirement that all passive ESG funds /products need to reference these EU-approved benchmarks), as such a requirement would likely have the effect of stifling innovation and limiting firms to ESG objectives covered by the Taxonomy (whereas, as noted by the Commission as well, ESG is much broader in scope and the market should be able to divert investment into E factors not covered by the Taxonomy). Managers should instead be free to choose to use alternative benchmarks if they consider that appropriate in light of the details of specific products.

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
- ○ Don't know / no opinion / not relevant

1.5 Capital markets infrastructure

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

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

- ○ 1 - Strongly disagree
- ○ 2 - Disagree
- ○ 3 - Neutral
- ○ 4 - Agree
- ○ 5 - Strongly agree
- ● Don't know / no opinion / not relevant

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

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

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

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

SIFMA AMG's position is that such exchange or trading segments will be of limited usefulness until robust, reliable and comparable data is available regarding corporates / securities that is of sufficient granularity to meaningfully identify issuers whose securities should benefit from inclusion on a sustainable finance-oriented exchange or trading segment.

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

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

As expressed in our responses to earlier questions, SIFMA AMG perceives the main limitation to ESG investing today to be the difficulty for investors in obtaining robust, reliable and comparable ESG data in relation to investee companies / securities. If the development of sustainable finance-orientated exchanges is pursued, SIFMA AMG would recommend that a precondition of listing on such exchanges is that the relevant companies make prescribed ESG data freely available to investors in easily accessible format.

1.6 Corporate governance, long-termism and investor engagement

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

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

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

Please select among the following options:

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

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

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

> SIFMA AMG would like to take this opportunity to advocate against introducing regulation governing portfolio turn-over ratios or holding periods for institutional investors. We would note that rules on minimum holding periods might inhibit liquidity (since institutional investors would be prohibited from selling out of holdings, e.g. as might be required to meet redemption requests from underlying beneficiaries) and/or make investors more wary of investing in companies (since they might then be bound my minimum holding periods). SIFMA AMG would note that SRD II already requires institutional investors and asset managers to provide transparency to investors on portfolio turnover as well as their engagement efforts / steps to encourage the medium to long term growth of investee companies.

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
- ○ Don't know / no opinion / not relevant

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

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

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

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
- ○ Don't know / no opinion / not relevant

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

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

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

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

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

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

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

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

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

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

Question 45.1 If no, please explain your answer to question 45, if necessary:

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

A passive index strategy is inherently different to an actively managed strategy and the differences between the two should be clear to investors. Additionally, outside of bespoke indices, the fund / asset manager will in practice have limited input in the methodology / criteria adopted by the benchmark administrator.
We think the underlying policy aims this question is concerned with will be met by the Sustainable Finance Benchmark Regulation (which requires clear disclosures on whether benchmarks take ESG considerations into account) and the Sustainable Finance Disclosure Regulation (which would require passive funds with ESG objectives or features to disclose how the relevant ESG objectives are met).

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

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

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

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

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

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

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

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

Question 48.1 If yes, please select your preferred option:

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

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

2000 character(s) maximum

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

SIFMA AMG would be in favour of encouraging such a requirement for large companies. Any such requirement should be principles-based and outcomes-focussed (rather than highly prescriptive) to ensure it achieves its aim of encouraging corporates to adopt risk management measures in this area which are appropriate to their business.

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
- ○ Don't know / no opinion / not relevant

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

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

Our members think that it would be preferable for the industry to come together to determine appropriate guidelines / templates on this point, in the same way as the industry came together to prepare the MiFID II EMT / Solvency II templates which are now very widely used in the market.
An industry-driven approach is likely to result in standards / templates that are more meaningful in practice and will better facilitate co-ordination between manufacturers and distributors of retail products.

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

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

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

2.2 Better understanding the impact of sustainable finance on sustainability factors

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

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

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

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

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

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

SIFMA AMG would like to stress that any further reform regarding specific financial products should only be introduced following a detailed assessment of the financial product and how it would / would not impact on sustainability factors, to help ensure that any such reforms are targeted, effective and proportionate.

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

Question 53.1 If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way:

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

Most financial products and instruments are capable of allocating capital towards sustainable finance projects and activities to some degree. However, the nature of products which do not relate to a specific issuer or project would generally mean that their ability to target sustainable activities specifically is limited, unless that is a specific feature of their design. An ETF, for example, may have a diverse range of underlying issuers with varying sustainability goals. By contrast, instruments targeted at specific issuers (e.g. shares) or projects (e.g. “green” bonds) can give investors a greater degree of control or influence. Shareholders, for example, can exercise voting rights in a way which encourages investee companies to pursue sustainable activities.

2.3 Green securitisation

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

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

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

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

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

SIFMA AMG members are generally supportive of a potential green securitisation framework that would facilitate the introduction and growth of green securitisations to the market.

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

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

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

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

2.4 Digital sustainable finance

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

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

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

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

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

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

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

- Yes
-

No

Don’t know / no opinion / not relevant

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

Don’t know / no opinion / not relevant

2.5. Project Pipeline

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

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

Please list a maximum of 3 for each:

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

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

Yes

No

Don’t know / no opinion / not relevant

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.6 Incentives to scale up sustainable investments

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

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

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

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

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

As expressed in previous responses, SIFMA AMG perceives the difficulties faced by investors in accessing robust, reliable and comparable ESG data from corporates and data providers as being a significant barrier to the wider uptake of sustainable investments.

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

- ○ 1 - Not effective at all

- 2 - Rather not effective
- 3 - Neutral
- 4 - Rather effective
- 5 - Very effective
- (selected) Don't know / no opinion / not relevant

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

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

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

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

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

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

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
- ○ Yes, but only partially
- ○ No
- ◉ Don't know / no opinion / not relevant

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
- ◉ Don't know / no opinion / not relevant

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

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

- ○ Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation
- ○

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

Question 72.1 If necessary, please explain your answers to question 72:

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

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

2.8 Promoting intra-EU cross-border sustainable investments

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

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

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

2.9 EU Investment Protection Framework

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

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

Please choose one of the following:

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

2.10 Promoting sustainable finance globally

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

Question 76. Do you think the current level of global coordination between public actors for sustainable finance is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to

deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?

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

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

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

SIFMA AMG's members operate and invest in companies across the globe and where possible try and take a consistent approach in their investment operations globally. However, the EU sustainable finance agenda is accelerating at a pace that the rest of the world (including developed countries) has yet to match. In the absence of a consistent global framework or even common understanding of sustainability, EU financial institutions will struggle to comply with the European rules outside of the EU-27 jurisdictions. The main missing factors at a global level therefore are (i) a common understanding of ESG standards; (ii) different ESG disclosure and compliance standards (with there being limited standards outside of the EU); and (iii) a lack of regulatory convergence / consistency.

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

Please list a maximum of 3 proposals:

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

Please see our responses to question 76 above – in addition to facilitating global coordination, in our view the Commission should ensure that the EU-27 framework is flexible enough to permit investments / operations in non-EU companies that are not accelerating at the same pace as the EU when it comes to sustainable finance.

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

developing economies?

Please select all that apply:

Please select as many options as you like.

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

Question 78.1 Please specify what other main barrier(s) private investors face when financing sustainable projects and activities in emerging markets and developing economies:

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

SIFMA AMG would reiterate the points made in response to other questions in this section, which highlight the difficulties which could arise if EU firms were required to assess projects and activities in emerging markets and/or developing economies against EU-27 ESG compliance and disclosure standards. Instead, SIFMA AMG would reiterate that any measures aimed at investment in emerging markets and/or developing economies should be sufficiently flexible to recognise different paces and stages of economic development, ESG reforms and carbon transition across different markets. The imposition of inflexible international frameworks could risk creating an effective boycott of investment into markets which need it most, but which are at a different developmental stage to the EU-27. There is a risk this would ultimately prove counterproductive in terms of encouraging decarbonisation efforts and sustainable development in those markets.

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

Please provide a maximum of 3 proposals:

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

In our view the Commission should ensure that the EU-27 framework is flexible enough to permit investments / operations in non-EU companies that do not have the same standards / are not accelerating at the same pace as the EU when it comes to sustainable finance. Otherwise EU-27 investors and asset managers will struggle to invest in emerging markets and developing countries – when in fact a better approach would be to encourage investment in such countries and through longer term engagement (at an international / public level and through stewardship efforts by European financial institutions) support the sustainable finance transition in such countries.

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

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

Please select among the following options:

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

Question 80.1 Please explain how you think these tools could be adapted:

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

In our view these tools need to be adapted to local specificities in emerging markets and/or developing countries. For example, it will be very difficult to obtain sustainability data from investee companies that is sufficient for the purposes of the Taxonomy Regulation or Disclosure Regulation – in particular with respect to the do no significant harm standard and the minimum social and governance safeguards imposed by those rules. In the absence of relaxations or proportionality applied towards investments in such countries, the EU sustainable finance tools are likely to hinder and restrict investments in developing countries and emerging markets rather than encouraging it.
We would suggest that a best efforts / reasonable steps standard is applied in relation to such countries.

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
- ● Don’t know / no opinion / not relevant

3. Reducing and managing climate and environmental risks

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

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

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

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

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

Question 82.1 If no, please explain why you disagree:

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

SIFMA AMG sees a “brown taxonomy” as significantly increasing the risk of stranded assets / companies and further increasing the compliance burden on European financial market participants (who as noted above will struggle to get sufficient and reliable data to be able to comply with the green taxonomy in the first instance). Labelling certain economic activities as unequivocally “brown” (and thus potentially “off limits” to certain investors) would materially increase the risk of standard assets, starve such industry sectors of the capital needed to finance transition efforts, and inhibit the ability of investors to use equity holdings in such corporates to promote change “from the inside” by leverage their positions as shareholders.

SIFMA AMG would also suggest that before further consideration is given to the introduction of a “brown” taxonomy it would be prudent for both the European authorities and industry participants if some time were taken to observe the uses and effects of the creation of the EU’s green taxonomy and its impacts on investment flows.

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

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

3.2 Financial stability risk

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

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

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

Please select all that apply:

Please select as many options as you like.

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

Please specify, if necessary, what are these transition risks:

Please provide links to quantitative analysis when available:

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

The transition from “brown” to “green” may lead to “stranded assets” in certain industry sectors, which may impact negatively on the value of investor portfolios and therefore represents a risk which requires consideration (in dialogue with investors) from the asset management industry.

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

Please identify a maximum of 3 actions taken in your industry

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

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

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

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

Insurance prudential framework

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

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

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

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

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

Banking prudential framework

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

- a mandate for the EBA to assess and possibly issue guidelines regarding the inclusion of ESG risks in the supervisory review and evaluation process (SREP) (Article 98(8) CRD);
- a requirement for large, listed institutions to disclose ESG risks (Article 449a CRR) (note that some banks are also in the scope of the NFRD;

- a mandate for the EBA to assess whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with sustainability objectives would be justified (Article 501c CRR).

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

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

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

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

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

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

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

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

Asset managers

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

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

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

Pension providers

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

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

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

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

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

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

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

2000 character(s) maximum

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

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

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

3.3 Credit rating agencies

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

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

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

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

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

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

As noted in previous responses, in our members’ experience, the quality and consistency of ESG data is variable across different providers including credit rating agencies.

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

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

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

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

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

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

3.4. Natural capital accounting or "environmental footprint"

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

Question 100. Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing standardised natural capital accounting/environmental footprinting practices within the EU and internationally?

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

3.5. Improving resilience to adverse climate and environmental impacts

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

Climate-related loss and physical risk data

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

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

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

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

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

Please select as many options as you like.

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

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

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

SIFMA AMG is strongly supportive of legislative or regulatory initiatives aimed at increasing the availability and supply of ESG related data, since better data will inevitably make it easier for asset managers and investors to integrate ESG considerations into decision making.

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

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

Financial management of physical risk

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

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

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

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

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

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

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

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

- ○ Yes
- ◉ No

Don’t know / no opinion / not relevant

Additional information

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

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

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

1be9d551-af02-4dc5-8a8d-50b44c4a0ab5/SIFMA_AMG_SustainableFinance_CP_Response_Additional_Comments.pdf

Useful links

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

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

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

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

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

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