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Consultation on the renewed sustainable finance strategy

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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
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- ( ) 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

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Surname

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* Organisation name

255 character(s) maximum

Finance Watch

* Organisation size

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

Transparency register number

255 character(s) maximum

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

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* Country of origin

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

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

- Andorra
- Angola
- Anguilla
- Antarctica
- Antigua and Barbuda
- Argentina
- Armenia
- Aruba
- Australia
- Austria
- Azerbaijan
- Bahamas
- Bahrain
- Bangladesh
- Barbados
- Belarus
- Belgium
- Belize
- Benin
- Bermuda
- Bhutan
- Bolivia
- Bonaire Saint Eustatius and Saba

- El Salvador
- Equatorial Guinea
- Eritrea
- Estonia
- Eswatini
- Ethiopia
- Falkland Islands
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- Gabon
- Georgia
- Germany
- Ghana
- Gibraltar
- Greece
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- Mexico
- Micronesia
- Moldova
- Monaco
- Mongolia
- Montenegro
- Montserrat
- Morocco
- Mozambique
- Myanmar /Burma
- Namibia
- Nauru

- São Tomé and Príncipe
- Saudi Arabia
- Senegal
- Serbia
- Seychelles
- Sierra Leone
- Singapore
- Sint Maarten
- Slovakia
- Slovenia
- Solomon Islands
- Somalia
- South Africa
- South Georgia and the South Sandwich Islands
- South Korea
- South Sudan
- Spain
- Sri Lanka
- Sudan
- Suriname
- Svalbard and Jan Mayen
- Sweden
- Switzerland

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

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

* Field of activity or sector (if applicable):

at least 1 choice(s)

- Accounting
- Auditing
- Banking
- Credit rating agencies
- Insurance
- Pension provision
- 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
- [x] Other
- [ ] Not applicable

* Please specify your activity field(s) or sector(s):

Financial regulation non-profit advocacy

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

Question 2.1 If no, would you like to be offered more information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets and divest from non-sustainable assets?

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

Question 2.2 If necessary, please explain your answer to question 2.1:

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

Such information is indispensable if sustainability criteria are to become part of investment criteria.

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?

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

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

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

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

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

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

Whether for encouraging investors to engage with companies to entice them to adopt more sustainable business models, or for discouraging them from financing environmentally harmful activities, a regulation defining strict criteria for funds to label themselves as "green", "sustainable", 'socially responsible", "ESG" etc... should be developed and adopted. This new regulation should define very clearly, among others, the "must do" and the "must not do" of such funds, and the encouragements and discouragements referred to in question 5 should be part, respectively, of these "must do" and "must not do" lists. With sustainable investment becoming more and more main stream everyday, such a regulation would have a most significant impact on the ability of capital markets investments to make a difference on the sustainability of companies' business models and of our economy.

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.

Mainstreaming sustainability in the financial sector is a three step process:
1) Adoption of the narrative of sustainable finance by as broad a section as possible of the financial sector.
2) Aligning the marketing material produced by the financial sector in the field of sustainable finance with the reality of its practice ("do what you say you do").
3) Ensuring that what is being done (and described as per point above) has an impact on sustainability.

Sustainability is already on its way to becoming nominally mainstream in the financial sector as the general narrative of the financial sector has become in the course of a few years unambiguously "pro-sustainable finance" (step 1 well under way). The main question is now whether this is only nominal or whether it corresponds to reality, in other words whether sustainability has been really integrated in the reality of the practice of the financial sector, both from a factual standpoint (step 2) and from an impact standpoint (step 3).

The first challenge is to align the rhetoric as reflected in marketing material with the practice of the financial sector: this is an area where regulators and supervisors must intervene.

The second challenge is to evaluate the impact of sustainable finance on sustainability and come to a point where a sustainable finance product will have to have demonstrated its impact to call itself sustainable. We are still far from that situation, but if we do not get there the accusations of greenwashing and sustainability washing will flourish and they will end-up jeopardizing the entire sustainable finance effort.

The third challenge is to embed a financial product dimension on top of an activity dimension (as is today the case with the EU Taxonomy) in the sustainability evaluation of financial products (cf. questions 52 and 53).

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

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

The main obstacle relates to the integration and management of climate risks into financial decision-making in the Capital Requirements Regulation (CRR), and specifically to the fact that fossil fuel exposures of banks currently receive a risk weight of 100% under CRR, which clearly does not make for a coherent assessment of their risk.

It is to be noted that Article 128 of CRR imposes a 150% risk weight, among others, to credit extended to speculative immovable property financing and to investment in private equity. From a financial stability standpoint, it would be difficult to argue, in a context of looming stranded assets, that the fossil fuel industry is less risky than private equity in general or than immovable property. Regardless of the scenario contemplated, the cash flows of oil and gas companies will be negatively impacted and highly volatile and there can be no justification not to apply Article 128 of CRR and therefore not to impose a 150% risk weight to existing fossil fuel exposures.

Applying a 100% risk weight to fossil fuel exposures, as is the case today, can only be seen as an incentive for the financing of fossil fuel operations given that it does not reflect the level of risk incurred in a stranded asset context. The current 100% risk weight is effectively an incentive to use and replace existing fossil fuel reserves and a clear signal for the banking and the fossil fuel industry not to change the course of things. In a context where fossil finance is the enabler of climate change and where climate change threatens financial stability, the 100% risk weight applied to fossil fuel exposures by banking prudential regulation breaches the precautionary principle introduced by Article 191 TFEU.

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.

Financial tools are only tools and they will not be able to tackle this crucial issue on their own. There is no miracle to expect from a miracle financial product unfortunately. Such a financial product does not exist.

This question relates to a much wider economic and social policy question and is one of social justice and sharing of the wealth created in the economy. Elected officials, governments and senior policy-makers must not hope for financial tools to resolve the issue for them.

The covid-19 crisis has shown that public money is not scarce when it comes to saving lives and the fundamentals of our societies. The impact of sustainability problems, for instance biodiversity loss or climate change, will be a multiple of the impact of the covid-19 crisis. This showed, if needed be, that ensuring a just transition is a question of political will and determination to build a fair society, not a question of financial tool.

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.

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 11.1 If yes, please specify potential actions the EU could take:

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

As described in the recent Finance Watch's report Nature's return (https://www.finance-watch.org/publication/natures-return-biodiversity-greendeal/), two important measures should be taken by the EU to enhance the ability of the financial sector to make a difference on biodiversity:

- Develop a harmonised system of metrics and methodologies to assess the impacts, risks, and

dependencies of economic and financial activities on biodiversity and nature (p.42 of report).
- Assess the effectiveness and suitability of existing and new economic instruments against their environmental objectives (p.56 of report).

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.

A most effective way to ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level on the public funding side would be to integrate it in the EU Semester under the leadership of a permanent body. The public sector should develop an approach to evaluate its sustainable as well as its unsustainable financial flows. This should be linked to the EU taxonomy of sustainable activities, and to a still to be developed brown taxonomy. In the case of nature, biodiversity and the environment, an essential dimension to gauge the EU's progress towards its commitments would be to reform the EU's system for tracking the impact of public budgets on nature, on biodiversity and on the environment.

As for the governance of private financial flows to sustainable investments, transparency will be key. This is why private actors, whether financial or non-financial, should have under the revised NFRD the obligation to report on the governance of their sustainability decisions.

Measuring private financial flows towards sustainable investments is not difficult once the definition of "sustainable investments" is clear. The issue, for the time being, is that there is no such definition available. "Sustainable finance" does not have the same meaning today in different EU member states. The Commission should work on defining precisely the notion of "sustainable finance". This will require crossing two different classifications (taxonomies) and finding the intersection between them: the first classification should be the taxonomy of green activities already developed by the EU, and the second classification should be a taxonomy of financial instruments and practices able to allocate capital to a sustainable economy (they are not all capable of doing that). A sustainable investment would then be defined as an investment compliant with the two taxonomies (activities and financial instruments).

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.

The current workstream aims at developing sustainable finance by improving the quantity and the quality of the extra-financial information provided to economic actors. This is positive and should be pursued, but it is not sufficient to lead the European economy on a sustainable path as it relies on an "outside-in" (financial) logic. Given the excellent EU approach of founding its sustainable finance work on double materiality, the "inside-out" (extra-financial) dimension of the equation must also be considered and tackled. As far as the financial system is concerned, this means concretely embedding this "inside-out" dimension in its risk framework, its prudential regulation and its non-financial reporting standards.

1. Strengthening the foundations for sustainable finance

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

1.1 Company reporting and transparency

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

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

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

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

- (x) Yes
- ( ) No

Don't know / no opinion / not relevant

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

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

Access to data of sufficient quantity and quality will be key for the development and the mainstreaming of sustainable finance, including data reported under the NFRD, among others.

Given the ambition of the EU on this subject, including the revision of NFRD and the development of European non-financial reporting standards under the auspices of EFRAG, it is essential that there should be a European data space reflecting European standards, escaping the oligopoly of the currently dominating financial data providers and, most probably, free-of-cost or at a very low cost.

This data space could be structured as a European organisation (AISBL under Belgian law?) with a governance bringing together issuers, asset owners, asset managers and public authorities. Its revenues would come from the fees paid by its members, but its use would be free-of-cost for its members and for some targeted and well-identified organisations (e.g. from civil society).

This data space would deal with the information that companies will be required to report by the revised NFRD or, alternatively, by the European non-financial reporting standards to be developed.

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
- (selected) 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?

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

Question 16.1 What is in your view the most important area(s)?

Please select as many options as you like.

- [ ] Impairment and depreciation rules
- [ ] Provision rules
- [ ] Contingent liabilities
- [x] Other

Please specify which other area(s):

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

Generally speaking IFRS standards do not allow for a proper reflection of sustainability risks, and in particular climate risk. Two main reasons can be identified for this situation: 1) IFRS standards are focused on the short term when sustainability issues are focused, by construction, on the medium to long term; 2) Fair value accounting is meant to serve investors and creditors but is not capable of reflecting adequately environmental and climate risks.

1.3 Sustainability research and ratings

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

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

- 1 - Not concerned at all
- 2 - Rather not concerned
- 3 - Neutral
- (x) 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.

So-called ESG rating is, to a large extent, more akin to research than to rating as such. If a comparaison is to be made with the financial world, ESG rating would be more comparable to equity research than to credit rating. This means that it is normal and to be expected that the opinions and analyses provided by various ESG rating agencies should be different and not necessarily aligned, very much like different equity research bureaux have different opinions on the same stock.

With that perspective in mind, it appears that it is essential for ESG investors to benefit from a variety of ESG opinions and analyses, like equity investors do with "buy", "hold" or "sell" recommendations. From a buy-side perspective, ESG investing is about fund managers making their own opinion, not about applying mechanically and converting into buy or sell orders a rating provided to them, as is more the case in the world of credit rating.

In that context, diversity of sources is essential, and too high a level of concentration of ESG ratings and data can become a major problem.

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

- 1 - Very poor
- 2 - Poor
- (x) 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.

Most sustainability data providers provide quality information but the data provided suffers from significant heterogeneity. This makes for a market where the opinions and ratings provided do not always compare like with like, which in turn creates heterogeneity and lack of comparability at the end of the chain, notably among ESG financial products. In that perspective, the revision and the evolution of non-financial reporting standards will be essential.

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

- ○ 1 - Very poor
- ○ 2 - Poor
- ○ 3 - Neutral
- ◉ 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.

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.

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

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

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

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

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

The EU must consider regulatory intervention regarding ESG rating agencies and data providers. If the EU want the ongoing mainstreaming of sustainable finance to be meaningful and to make a difference, it must ensure that ESG rating agencies and data providers, who are the main source of information of financial actors on extra-financial information, are regulated and supervised, in particular on the following topics:
1) Potential conflicts of interests and independence of data providers;
2) Reliability, consistency and quality of the data provided;
3) Relationship between ESG rating agencies / data providers and issuers;
4) Relationship between ESG rating agencies / data providers and investors;

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?

- (x) 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.

Trust is an indispensable ingredient for the development of the green bonds market.

This principle has, among others, the consequence that verifiers of EU Green Bonds should be subject to accreditation and supervision. This is indispensable to ensure the development of a large green bonds market of quality in the EU.

The accreditation of verifiers should be related to a common set of quality standards and should be subject to well defined minimum criteria of qualification, experience and professional obligations in a consistent manner throughout Europe. This is indispensable to ensure the development of a coherent green bonds market throughout the EU: there should be no such thing as a "better green bond because it was issued in a member state which happens to have more rigorous verifiers".

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.

The professions of green bond verifier and of sustainability data, ratings and research are not the same, and they need not necessarily be done by the same firms. They are of a different nature. There is therefore no reason to link the rules that will apply to both functions under the regulations to be developed.

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.

Non-European issuers tapping the EU financial market should be subject to EU rules. This principle should also apply to green bonds. Therefore, there should be no latitude for non-European issuers not to follow EU GBS.

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.

There can be two reasons to consider that green bonds are useful instruments: economic reasons or governance reasons. If none of those two reasons are met, then green bonds do not make a difference and can be dubbed as greenwashing.

Academic research has shown very few economic differences between green bonds and non-green bonds expressed in terms of yield or price. This leaves for governance, defined as the ability for green bonds holders to exert influence on the issuer to make green investments, as the only possible rationale to justify green bonds. This, in turn, requires the green commitments of green bonds to be obligations, not options.

The prospectus being a legally binding document, disclosing green bonds information in the prospectus creates, along with existence of the verifier, the heart of the raison d'être of green bonds and the best possible defense against greenwashing accusations. As stated for question 22.1, trust is of the essence. One of the most common, and justified, criticisms regarding green bonds comes from their non-inclusion in the prospectus. It is therefore essential to include this information in the prospectus if the ambition is to develop an ambitious green bond market. Incidentally, giving a legally binding dimension to the green bond information should not constitute a problem for sincere issuers having gone through a thorough verification process conducted by accredited verifiers.

The arguments against the inclusion of green bonds information in the prospectus usually evolve around the cost and the "stifling of innovation" that this would supposedly create. This usual business lobbying argument is not receivable: why should the case of green bonds be different from other securities? Why should a legal obligation to state the truth be detrimental to the development of a market? If green bond information is not included in the prospectus, the green bond market will die under the criticism of its ennemies.

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”?

- [x] 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.

The idea of creating such a link introduced, to our knowledge, by two NCAs in 2019 is misguided as all half-baked solutions are. As in the famous Augustinian approach to chastity, it comes down to saying "let us make green bond information binding, but not too binding". Introducing such a link would clearly be a way of escaping responsibility for the issuer, and it would be incomprehensible for the market. We need simple coherent rules, not convoluted and incomprehensible ones.

If we want sustainable finance to become mainstream, we need to apply mainstream rules (in this instance inclusion of the bonds' characteristics in the prospectus) to sustainable finance instruments. There is no possible escaping of responsibility if we want to see develop a green bond market that will make a difference.

Other standards and labels

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

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

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

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

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

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

Question 29.1 If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?

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

Question 29.2 If necessary, please explain your answer to question 29.1:

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

The need for the EU to establish a label for ESG investment funds has two main rationales: 1) Financial institutions selling investment products in different EU countries must be able to sell the same product with the same label in different EU countries; 2) National supervisory authorities must be able to link their supervision of financial institutions' ESG self-labeling and communication to a common set of standards in a consistent way throughout the EU (cf. action undertaken by French AMF). There is a strong convergence of supervision dimension to establishing an EU ESG label for investment funds as the criteria of supervision of ESG and SRI funds exercised by NCAs has to be consistent with existing ESG or SRI investment funds labels. If we want supervision of ESG funds to follow common practices throughout the EU, we need an EU wide label for ESG and SRI funds.

This workstream would probably need to relate to the forthcoming EU Ecolabel for financial products, possibly with a technical evolution of the Ecolabel if need be, as not doing so could create a risk of confusion with investors. This, notwithstanding the debate about the level of inclusiveness of the Ecolabel regarding existing funds.

This, incidentally, does not preclude the interest of minimum standards, which also have to be consistent throughout the EU. This is particularly critical in the case of the SRI market which is characterised by a wide dispersion of meanings, definitions and standards in different European markets. This dispersion of definitions has the consequence that the statistics of SRI and ESG assets under management in the EU that have circulated up to this day are unreliable as they add non comparable items, strategies and way of managing the assets in a "responsible" way ("adding apples and oranges" argument).

All in all, there is a crying need for consistency in ESG / SRI label and standards at EU level.

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
- ○ 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.

Prevention of greenwashing is essential in sustainability matters, and any sustainability-oriented financial products has to be subject to minimum standards defined by public authorities to ensure that they achieve the objective they are supposed to achieve. Standards must therefore be developed for sustainability-linked bonds and loans, and they must be consistent with the standards developed and applied to investment funds claiming to be sustainable. In the absence of this last condition, we could see odd situations where sustainable funds would not be in a position to buy sustainable bonds, something that should obviously not happen. Lastly, for the sake of consistency of the EU framework, this has to be related with the EU Taxonomy of sustainable activities.

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
- (x) 5 - Strongly agree
- Don’t know / no opinion / not relevant

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

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

The EU taxonomy is the cornerstone of the EU sustainable finance agenda, and it is essential to assure consistency of approach throughout products and financial services.

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

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

Should the EU take action to create an ESG benchmark?

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

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

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

Developing an ESG benchmark would face two major technical difficulties and could have a negative consequence:
- The first difficulty would be to overcome the contradiction that benchmarks and indices are by nature backward looking and that, in a non-sustainable world, an ESG benchmark would need to be forward looking in order not to replicate the world as it is. This difficulty can be overcome to some extent, as shown by the climate benchmarks developed by the EU, but calibrating such forward looking ESG benchmarks would be a challenging exercise.
- The second difficulty would be linked to the lack of consistent definitions of ESG criteria and the absence of a common vision, even among asset managers not to mention other stake-holders, of what an ESG investment is or is supposed to represent. By construction, agreeing on such definitions would be a prerequisite to defining an ESG benchmarks.
- The negative consequence would be that such a benchmark, if successful, could have the consequence of creating an asset bubble and decorelate the price of its components from their economic value. As well known, bubbles always end-up bursting and such a decorelation of ESG stocks from their fundamental value followed, potentially, by an "ESG crash", if and when the bubble created bursts, would be disastrous both from a financial standpoint and for the general sustainability agenda.

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
- [x] 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
- [x] 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.

We need to make sustainability become mainstream, and developing sustainable finance-oriented exchanges or trading segments goes in the opposite direction. If the EU fosters the development of sustainable finance-oriented exchanges or trading segments, it will contribute to making sustainable finance remain a niche market targeted at specialised niche investors and companies, whereas we need sustainable investing to become the normal way of investing.

This would also not be coherent with the Accounting Directive and with the direction currently taken by the NFRD which could, hopefully, see their scopes aligned after the NFRD has been revised. If accounting standards and non-financial reporting standards apply to all companies (in all likelihood from a threshold of 250 employees), what would be the coherence of establishing specific exchanges or trading segments for sustainable finance securities?

Lastly, creating such exchanges or segments would run the risk of developing agressive greenwashing marketing and communication on the relevant securities, which would run the risk of creating a detrimental asset bubble on sustainable economic assets (cf. arguments of question 33.1 on why an ESG benchmark should not be developed).

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.

The case for sustainable finance–oriented exchanges is weak in the first place as they go against the very purpose of mainstreaming sustainable investment (see question 36.1).

There is no lack of capital flows for ESG projects, quite the contrary. There is consequently no rationale for creating sustainable finance–oriented exchanges.

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 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

Question 39.1 If yes, please explain which barriers you see and / or what action(s) could help foster long-termism in financial markets and the way corporates operate.

Please list a maximum of 3 barrier(s) and / or a maximum of 3 action(s):

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

Short-termism in financial markets has a number of causes that interact. This interaction of different causes is a source of difficulty when it comes to tackling the problem. The main causes of short-termism are: 1) the systematic development of liquid funds; 2) the pressure in the investment management industry to "beat the market" with, as most asset managers are assessed on short-term objectives in comparison with other players (benchmarking), the consequence of imposing in turn short-term objectives on the companies in which they invest; 3) the inability of existing accounting rules, including IFRS, to take into account medium to long term sustainability-related factors.

With a view of tacking these issues, the following actions could be considered:

- Considering to define rules for a diminished liquidity for funds claiming to be sustainable, ESG, ISR etc... The rationale for such a change would be very strong, and the client base interested in such funds could understand easily that allocating capital to a sustainable economy has to be done with a medium to long term time horizon and cannot be compatible with complete fund liquidity at all times;
- Prohibiting sustainable, ESG or ISR funds to be benchmarked to broad market indices;
- Reforming IFRS to allow for taking into account of medium to long term sustainability risk in companies' accounts.

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

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

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

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

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

50% of the variable remuneration should be linked to non-financial performance, with a view of affirming that non-financial performance is as important than financial performance.

This would be coherent with other parts of the EU sustainable finance agenda, e.g.:
- Double materiality, with "inside-out" (extra-financial) and "outside-in" (financial) on an equal footing;
- Objective, in the reporting landscape, of having the Accounting Directive and the NFRD have an equal status;
- Having both financial and non-financial information in a single document (management report).

Coherence throughout the agenda is essential.

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

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

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

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

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

2000 character(s) maximum

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

The impact of passive index investing is without doubt negative.

By construction, passively managed portfolios replicate indices mimicking today's unsustainable economic world. This means that, by essence, they cannot allocate capital to a sustainable world that will require an economic model entirely different from today's economic world. To take only the issue of climate change, among many many others, portfolios invested in a world economy on a global warming path at + 4°C by 2100 cannot call themselves sustainable.

Another important dimension of passive index investing is the fact that it is structurally short-term biased, having developed hyper liquid instruments such as futures, total return swaps and ETFs as its favorite trading vehicles (liquidity is the "enemy" of sustainability as it gives the possibility to ride the profits that can be derived in the short term from an unsustainable world with the possibility (or the hope) of exiting the market before it is negatively impacted because the world has gone beyond its unsustainability tipping point. Liquid passive index investing products are the free-riders of sustainable investing.

The EU could start addressing the issue by:

1) Encouraging member states regulators (NCAs) to stop requiring from funds seeking authorization to benchmark themselves;
2) Prohibiting passive investment funds and funds benchmarked to broad market indices with a low tracking error from claiming they are sustainable, climate friendly, SRI, or Paris aligned, etc.
3) Prohibiting passive investment financial products providing hyper liquidity (e.g. ETFs) from marketing themselves as sustainable, climate friendly, SRI, or Paris aligned, etc.

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?

- (x) 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?

- (x) 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?

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

Question 48.1 If yes, please select your preferred option:

- ( ) All companies, including SMEs
- (x) 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.

It is essential that the obligation apply also to SMEs for the underlying issues to be tackled effectively. But this does not mean that the specificities of SMEs, namely their lesser ability to manage administrative reporting, should not be taken into account. Hence the possibility of lighter minimum requirements.

This question should also be considered carefully to be aligned with the thresholds that will be decided for the revised NFRD. There would be a great gain in terms of coherence and administrative burden to align the thresholds and the requirements throughout the different EU pieces of regulation. For instance, if NFRD were to decide for compulsory but lighter reporting obligations for companies between 250 and 500 employees, the same principle should apply for supply chain due diligence requirements.

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?

- (x) 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.

Most public-facing financial advisers have relatively limited knowledge of sustainable finance matters and technicalities. Absent any guidance, we can rest assured that retail investors' sustainability preferences will not be taken into account in a consistent manner by different advisers, if understood at all in many cases.

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?

- [x] 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
- [x] 5 - Strongly agree
- [ ] Don’t know / no opinion / not relevant

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

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

2.2 Better understanding the impact of sustainable finance on sustainability factors

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

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

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

- ( ) 1 - Not important at all
- ( ) 2 - Rather not important
- ( ) 3 - Neutral
- ( ) 4 - Rather important
- (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.

A sustainable financial product should be a product with an impact on sustainability factors and related to a sustainable economic activity as classified by the EU Taxonomy. In turn, the impact on sustainability factors should be defined as one of the two following possibilities:
1) Allocation of capital to a sustainable activity (as defined by the Taxonomy), or
2) Establishment of a governance relationship creating a pressure on the underlying company or activity to move in a sustainable direction (i.e. already sustainable, enabling or in transition).

The measure of the impact of financial products on sustainability factors is a multi-faceted question that has already attracted significant attention from academic research and will continue to do so in the future. Academic research is essential to foster and found future good practices, but academic research and debates can (and will) go on for years in a situation where we need to take action now.

In this context, the EU should mandate the Platform on sustainable finance to develop a taxonomy of financial products and financial practices (e.g. active vs. passive asset management) according to their ability to have an impact on sustainability factors. We would propose that the criteria for judging of this ability be based on the two possibilities listed above (allocation of capital to a sustainable activity, and / or establishment of a governance relationship creating a pressure on the underlying company or activity to move in a sustainable direction).

But, beyond the debate of the criteria upon which a financial product will be judged as having the ability to impact sustainability, the ultimate goal is to develop standards for financial products to call themselves sustainable as being products compliant with BOTH the existing taxonomy of sustainable activities and a future taxonomy of financial products having the potential to have an impact on sustainability factors.

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.

In order to be able to allocate capital to sustainable projects and activities, a financial product must meet a number of criteria:

1) Be able to allocate capital to the economy in the first place;
2) Create a relationship between the financial product holder and the underlying activity that entices the activity to be sustainable (money is allocated provided the activity is sustainable / money remains allocated provided the activity financed keeps on being sustainable or is transitioning in the direction of sustainability);
3) Be able to distance itself from today's economy which, by and large, is not sustainable (for instance, IPCC tels us that the world is on its way to a global warming comprised between 3.7° C and 4.8° C by the end of the century, which means that a fund invested in a diversified manner in the global economy is, by construction, not sustainable).

Actively managed shares and bonds meet the criteria given above to allocate capital to a sustainable economy. In contrast, it is highly debatable that ETFs, passively managed funds, money market funds, structured products or derivatives in general have such an ability. For instance, we would argue that an ETF on the « MSCI ESG Universal Select » index that shows a selectivity rate of 3.5% compared with the MSCI World index has, by construction, very little, if any, ability to have an impact on sustainability factors.

The EU should therefore take action to classify financial products according to their ability to allocate capital to a sustainable economy and develop a taxonomy of financial products according to their impact potential on sustainability factors. This is fundamental to develop a sustainable finance that makes a difference, conversely, to fight greenwashing / sustainability washing (in a context where greenwashing / sustainability washing is the biggest threat for the sustainable finance momentum) and to keep the trust of citizens in sustainable finance.

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?

- (x) 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.

As explained in question 53, in order to allocate capital to a sustainable economy, a financial product must meet 3 criteria (see above), and those criteria are not met in the case of securitisation. As importantly, saying that securitisation has a role to play to increase the capital allocated to sustainable projects and activities is a fallacy, as it is a fallacy to say that securitisation increases the capital allocated to the economy in general.

It is often heard that securitisation has the potential to free up originators' balance sheets and thereby allows further lending to the economy. But this argument is doubly flawed as the notion of "freeing balance sheets" refers to arbitraging capital requirement regulation coming from the Basel III framework, the introduction of the output floor, IFRS 9 and the fundamental review of the trading book, and the "further lending to the economy" is unfounded as there is no lack of lending capacity to the economy in the European Union. If anything, the European Union economy is characterised by too large a volume of banking assets, not too little. These points are true for securitisation in general and even more true for green securitisation: given the demand for green assets by financiers, there is no lack of capital ready to be allocated to sustainable or green projects in the EU.

In that context, question 55 is not relevant and question 56 deserves a clear negative answer.

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
- (selected) 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
- (selected) 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
- (selected) 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.

Key market obstacles:
1) Excessive risk perception - While some sustainable projects are unduly perceived as too risky, blended finance mechanisms can be useful to overcome such fear. This agenda of derisking necessary sustainable investments is already well advanced through InvestEU, but questions remain on the amount available. While the EC/EIB should assess the needs, Policymakers should ensure the amount available matches the needs.

2) Lack of appropriate technical assistance - Technical assistance (TA) help project holders to adequately design innovative sustainable projects. Meanwhile, the European Investment Advisory Hub has shown that TA is not a silver magic bullet to improve the supply of sound projects (cf. European Court of Auditors, special report 12/2020). Its successor, the InvestEU Advisory Hub, will have to learn from this limited success to maximize its impact.

Key regulatory obstacles:
1) Lack of appropriate long-term incentives - In a world where overexploiting nature is done at low/zero cost, unsustainable activities will remain more profitable than sustainable ones. Policymakers must shift profitability away from unsustainable activities by internalising negative environmental externalities. This can be achieved through economic instruments (e.g. environmental taxes, carbon pricing) which should whenever possible be built on the EU taxonomy (e.g. tax deduction for taxonomy-compliant activities).
2) Lack of public funding - Some necessary sustainable projects just do not have sufficient revenue streams (e.g. conservation and restoration projects). This can't be solved by fixing economic incentives or the flow of ESG information. Policymakers must create a policy framework that ensures sufficient public funding for these projects.
3) Lack of transparency and appropriate disclosure framework - The ongoing construction of a credible chain of ESG information (e.g. the EU taxonomy, the NFRD review) must be finished and be made consistent.

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.

The apparent paradox with SMEs is that as citizens, their managers are usually interested in sustainability matters, but as executives of the companies they find the sustainability and sustainable finance workstream too cumbersome. The solution to this situation is to keep the tools and the frameworks simple, not too cumbersome to manage for SMEs and adapted to the size of enterprises, notably as far as reporting requirements are concerned.

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.

We need to make a clear distinction between projects and the financial tools relating to those projects. A financial tool can be more or less well designed, but it will never change the investable / non-investable (bankable / non-bankable) nature of a project, whether R&I related or not. In passing the notion of R&I would need to be defined precisely and, if a sentence like "to enable rapid commercialisation of promising and transformational R&I solutions, including possible disruptive and breakthrough inventions or business models" sounds like a nice objective to set, it would need to be specified to make it practical.

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

- (x) 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?	( )	(x)	( )

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
- (x) 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.

First of all, the "not functioning so well" answer given to question 66 is not specific to the EU financial system: it could apply to most, if not all, financial systems to be found on the planet. As a matter of fact, the situation is not better in non-EU jurisdictions. The issue here is that the global financial system is founded on a number of paradigms that are not compatible with the significant uptake of impactful sustainable investments. Those paradigms are, in order of importance, benchmarking (or its big brother, passive investing), short-termism (fed, among others, by benchmarking) and the cult of liquidity.

By definition, sustainable investments cannot be benchmarked to indices reflecting today's unsustainable economy (or, worse, replicate them), they must have a long-term horizon and they are not liquid (the liquidity of an asset depends on the "depth" of its market, i.e. how much is available to buy or sell at each price, and the standardisation of the asset itself). These conditions are not met for most sustainable investments or projects and this makes them structurally illiquid assets.

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
- (x) 3 - Neutral
- 4 - Rather effective
- 5 - Very effective
- Don’t know / no opinion / not relevant

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

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

Question 68.1 Since you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments?

Please select as many options as you like.

- Revenue-neutral public sector incentives
- Adjusted prudential treatment
- Public guarantee or co-financing
- Other

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

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

Public guarantee and / or co-financing can be a very strong tool to attract private investment into projects that would, otherwise, be considered as non-investable given their risk-reward profile. This is, for instance, the case for many biodiversity-related conservation or restoration projects, and is what blended finance does (see our answer to question 60).
In contrast, adjusted prudential treatment is not an avenue to be considered when it comes to giving incentives: prudential regulation should remain risk-based and should not be used as a policy tool.

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

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

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

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

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

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

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

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

Using the EU Taxonomy to classify and report on green expenditures and investments will be essential for structuring post covid-19 recovery packages supporting sustainable activities. The support of sustainable activities ("green recovery" logic) will be essential if the EU wants to avoid feeding the risk of disruption of the EU economy that will come inevitably if it does not transition towards a coherent and sustainable way of operating. From a practical standpoint, the EU will need to distinguish between sustainable and unsustainable activities and the Taxonomy will be essential to achieve that objective.

In order to facilitate the necessary shift of profitability away from unsustainable towards sustainable activities, the EU taxonomy could also be used to design and/or calibrate specific public support mechanisms (e.g. tax deduction for companies with a certain threshold of taxonomy-compliant activities).

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

Question 71.1 If "no" or "yes, but only partially", please explain why and how those reasons could be best addressed in your view:

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

Ensuring public procurement is at least partially directed towards taxonomy-compliant activities (i.e. minimum mandatory green criteria) would send a positive signal to the economy and could help increase the pipeline of sustainable projects by increasing demand.

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?

[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.

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

Question 72.1 If yes, what role should it play and is the taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for the following purposes?

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

Please explain if the EU Taxonomy is suitable for the purpose of EU spending programmes and what role it should play in this context:

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

> In order to transition towards a sustainable and low-carbon economy, EU spending programmes and budgets (in particular a recovery instrument like Next Generation EU...) will have to be screened using the EU Taxonomy with the objective of achieving the highest possible level of « taxonomy compliance ». Incidentally, the EU taxonomy can be used both for building better ex-ante sustainability tracking methodologies and to improve the ex-post impact measurement for sustainability of EU spending.

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

2.8 Promoting intra-EU cross-border sustainable investments

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

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

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

2.9 EU Investment Protection Framework

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

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

Please choose one of the following:

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

2.10 Promoting sustainable finance globally

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

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

- [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.

The EU has taken an obvious leadership in driving an ambitious agenda on sustainable finance. However, as is well known, if the agenda remains only European, it will not be sufficient given the global nature of the issues at stake. This is the objective of the International Platform on Sustainable Finance that has been put in place, but is is to be feared that, despite the good intentions, the effectiveness of the Platform's actions will not be sufficient to make a difference in the near future.

Two dimensions should be pushed at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions:

1) On the issue of the link between sustainability and financial stability, engage the Basel Committee on Banking Supervision (BCBS) with its role as the primary global standard setter for the prudential regulation of banks, and the Financial Stability Board (FSB) with its role of promoting international financial stability (cf. Finance Watch's report "Breaking the climate-finance doom loop" - June 2020);

2) On the issue of developing a coherent approach for sustainable investment at a global level, engage more systematically with IOSCO, given its role as a global standard setter and on the back of its April 2020 report on "Sustainable Finance and the Role of Securities Regulators and IOSCO", to push in the direction of a global sustainable investment agenda comparable to the EU's.

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.

Delivering on the goals of the Paris Agreement and/or SDGs will be a case of developing a two-pronged approach combining technical expertise (the issues to tackle behind those two seemingly short concepts are highly technical and not simple), and a vigilance vis a vis potential "Paris Agreement washing" or "SDGs washing" (which both exist today). What does being "Paris aligned" or "SDG aligned" mean? What are the criteria? How is it measured?

The Commission should therefore take the initiative of supporting organisations or structures able to do such technical and vigilance work, both to promote and make possible the Paris Agreement and the SDGs goals and to create a framework under which abusing those goals for marketing purposes ("washing syndrome") will no longer be feasible.

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.

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

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

Please provide a maximum of 3 proposals:

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

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

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

Please select among the following options:

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

Question 80.1 If necessary, please explain you answer to question 80:

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

Taxonomy: yes
Benchmark: not relevant
Disclosure: needs to be adapted

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?

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

Question 82.1 If yes, what would be the purpose of such a brown taxonomy?

Please (select all that apply):

Please select as many options as you like.

- [x] Help supervisors to identify and manage climate and environmental risks
- [ ] Create new prudential tools, such as for exposures to carbon-intensive industries
- [x] Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities
- [x] Identify and stop environmentally harmful subsidies
- [x] Other

Question 82.2 Please specify what would be the other purpose(s) of such a brown taxonomy:

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

Mainstreaming sustainable finance will require both investing in green (sustainable) activities and diverting investment flows away from brown (unsustainable) activities.

In order to achieve that result, it will be essential for investors in the future to know to what extent a financial product is green taxonomy compliant, but also to what extent it is brown taxonomy compliant. For instance, some products with a higher percentage of green taxonomy compliance could also have a greater percentage of brown taxonomy compliance than other products with a lower level of green taxonomy compliance, and be considered as less sustainable in the end despite their higher percentage of green taxonomy compliance.

Importantly, a brown taxonomy should have an environmental objective but, conversely, should not have a risk-based objective.

A brown taxonomy will be the reverse of the green taxonomy, i.e. a classification of economic activities considered as unsustainable, exactly like the green taxonomy is a classification of economic activities considered as sustainable. Those taxonomies have / will have an environmental performance objective but not a financial risk classification objective as they do not have the objective of assessing the risks linked to sustainable, or unsustainable, activities. In other words, as important as they are, the current EU green taxonomy and tomorrow's brown taxonomy can be of no help to assess the risk or the impact of sustainable / unsustainable investment on financial stability.

Assessing sustainability with an environmental objective is altogether different from assessing risk with a financial stability objective.

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

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

3.2 Financial stability risk

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

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

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

Please select all that apply:

Please select as many options as you like.

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

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

Please provide links to quantitative analysis when available:

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

As an NGO, Finance Watch is not targeted by question 84. However, it wants to highlight the fact that the classification of climate-related risks around physical risk, transition risk and second-order effects, however relevant, misses on the most important risk of all, which is disruption risk.

We define disruption risk as the fact that, in the light of the environmental and geostrategic upheavals that climate change will bring, there is no plausible scenario under which the world economy as we know it will continue to function. In all likelihood, the economy will endure, at best, a considerable slowdown and, most probably, a prolonged depression because of climate change, its structures will be redesigned, and the financial system will be shaken to its roots, if not destroyed. In a nutshell, disruption risk is the fact that climate change will disrupt human societies, which will disrupt the world economy, which will disrupt the financial system. The occurrence of this risk is as certain as its quantification is impossible to realise. When the CEO of Axa said in 2015 that a world at +4°C could not be insured, he described disruption risk, i.e. not only a world where insurance companies will be out of business, but a world where economic activity as we know it today will have stopped functioning, as none of us knows how to run an economy without property and casualty insurance. As a reminder, the IPCC leaves little doubt that the world is on a +4°C global warming path before the end of the century.

We have just witnessed a situation where a pandemic-induced health crisis provoked a worldwide economic depression, which in turn brought chaos to financial markets, had a huge impact on financial asset prices, public budgets and the general level of indebtedness and, at the end of the chain, had the consequence of weakening the entire financial system. The risk brought by the Covid-19 crisis was disruption risk and it clearly had an impact on financial stability.

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.

Not relevant to NGO ("in your industry")

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?

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

Question 87.1 If yes, please specify which actions would be relevant:

2000 character(s) maximum

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

Given the disruption risk described above, prudential regulation will be the main element for addressing the impact of environmental risk, and in particular of climate change, on the insurance industry. This issue has to be looked at both from a micro-prudential and from a macro-prudential standpoint in the light of the climate-finance doom loop, in which fossil fuel finance enables climate change, and climate change threatens financial stability.

But other dimensions will also be indispensable, in particular the governance of sustainability matters. In a context where, insurance companies will be facing life-threatening circumstances because of sustainability issues (cf. CEO of Axa saying that a world at + 4°C could not be insured), preparing and adapting insurance companies for tomorrow's world becomes an issue not only for the companies themselves but for society in general. This is why making sure that insurance companies are properly governing their transition and their adaptation to the world of tomorrow that will be severely impacted by sustainability issues is essential, and why regulators have to ensure the proper sustainability-related governance structures are in place and operate within insurance companies today.

As is the case for banking institutions, insurance companies' general strategy should integrate sustainability risks, and in particular climate change-related risk; 2) their internal organisation should reflect both vertically (all the way up to Board level) and horizontally (across business lines) the urgency of taking into account sustainability risk; 3) insurance companies should develop a risk-based approach to sustainability issues, with the obligation to develop a risk assessment in coordination with supervisors; 4) insurance companies should disclose their organisation, their strategy and their risk management mechanisms on sustainability issues in a transparent manner to outside stakeholders on top of supervisors.

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?

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

Question 88.1 If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy?

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

Without doubt, one category of assets should warrant a more risk-sensitive treatment in banking prudential regulation. This category is fossil fuel, defined as coal, oil, natural gas, bituminous sand and shale gas.

The reason for this is that fossil fuel is the source of CO2 emissions and, as such, both the source of a macro-prudential risk (the building up of CO2 levels in the atmosphere will exhaust the planet's carbon budget within 10-15 years and will trigger financial instability), and of a micro-prudential risk (stranded assets).

The provision of finance to the fossil fuel industry is therefore the de facto enabler of global warming and bank lending is the most important tool through which finance is provided to the fossil fuel industry (for instance, between 2016 and 2019 $ 2.7 trillion of funding was provided to the fossil fuel industry by banks). Given the destabilising effect that climate change will have on the financial system, the situation is one of a doom-loop where finance, through its allocation of capital to the fossil fuel industry, is the enabler of a phenomenon that will end-up destroying it.

Prudential regulation has to be adapted to reflect the fact that banking institutions' exposures to the fossil fuel industry (coal, oil and gas) enable climate change, and climate change threatens financial stability.

As described in a report published by Finance Watch in June 2020, "Breaking the climate-finance doom loop", applying a risk weighting of 150% to existing fossil fuel exposures in coherence with article 128 of CRR dealing with exposures "associated with particularly high risks", and of 1250% to new fossil fuel exposures to ensure equity financing (reflecting both the macro-prudential risk induced by the production of new reserves and the certainty that these reserves will end up stranded) would go a long way towards resolving the micro-prudential and macro-prudential risks related to climate change.

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?**

- (x) Yes, option 1. or option 2. or both options
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Question 89.1 If yes, please specify which action(s) would be relevant:

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

Financing the transition is obviously important, but banks will do it naturally as it is in their interest to do so in a context where the potential return on green assets should be attractive in the coming years given the demand for them and given their potential for development. In other words, there is no necessity to take further action to mobilise banks to finance the transition when the projects financed are bankable and, when they are not, the issue should be addressed through blended finance or direct public intervention (see questions 60 and 68.1). In particular, there is no need to introduce a so-called "green supporting factor" or "sustainability supporting factor" as the objective of prudential regulation is to foster financial stability / tackle financial instability, not to be an economic-policy tool. The idea of introducing a "sustainability supporting factor" based on the EU Taxonomy would be particularly harmful as the Taxonomy is not a risk classification of assets but a sustainability classification of economic activities. The implementation of such an idea would therefore be based on an intellectual confusion and could lead to disastrous consequences both for the sustainability of our economies and for financial stability.

In contrast, their is an absolute necessity to tackle the link between climate change and financial instability.

The most urgent action in that respect, is both to recognise the issue in banking prudential regulation (see question 88.1) and reform the governance of banks on the topic (see question 90.1).

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?

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

Question 90.1 If yes, please specify which measures would be relevant:

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

Banking regulators should edict rules for banking institutions to do the following:

1) The institutions' general strategy should integrate sustainability risks, and in particular climate change-related risk; 2) internal organisation of banking institutions should reflect both vertically (all the way up to Board level) and horizontally (across business lines) the urgency of taking into account sustainability risk; 3) develop a risk-based approach to sustainability issues, with the obligation to develop a risk assessment in coordination with supervisors; 4) disclose their organisation, their strategy and their risk management mechanisms on sustainability issues in a transparent manner to outside stakeholders on top of supervisors.

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)?

- (x) Yes
- ( ) No

Don’t know / no opinion / not relevant

Question 91.1 If yes, what solution would you propose?

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

The prudent person rule should integrate well-targeted sustainability issues and be made compulsory to follow for investors.

For instance, it should apply to all fossil fuel-related investments given the indisputability of the stranded-assets argument: when financial institutions provide capital to fossil fuel facilities, exploration and production, they incur the risk linked to the unavoidable decline of the value of fossil fuel enterprises, either because fossil fuel reserves will stop being exploited in an attempt not to exhaust the planet’s carbon budget, or because their continued exploitation will take the planet beyond the global warming tipping point and thus trigger a global economic and financial meltdown. In both scenarios, the financial value of fossil fuel reserves and companies will collapse and the implications for banks, insurance companies, pension funds and investors exposed to those assets will be considerable. The direction of travel is known and it is certain.

Concretely, investors should, under the prudent person principle, stop investing in fossil fuel assets, whether coal, oil or gas.

Given the importance that passive investment and benchmarking have taken in the world of investment, an alternative to forbidding fossil fuel investment through the prudent person rule would be to exclude fossil fuel companies from market indices. Oil and gas companies are major components of broad market indices, and this is a key reason why investors, insurance companies and pension funds are massively invested in those companies all over the world. Most institutional investors have a strict tracking error constraint vis a vis broad market indices, and they keep investing in fossil fuel companies despite the compelling strength of the stranded assets narrative, as not investing in those companies would create an unbearable tracking error vis a vis their benchmark. The obvious solution is to exclude oil, gas and coal companies from market indices.

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 92.1 If yes, please specify what actions would be relevant, in your view:

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

The fact that only about 30% of IORPs in the EU have a strategy in place to manage ESG-related risks to their investments is not surprising. The reason for this situation is the extreme difficulty for IORPs to include sustainability factors into account in their investment decisions given the fact that they must also manage short term financial constraints imposed to them through the practices of benchmarking and of marking their portfolios to market. The paradox here is one of long-term investors who know, for the vast majority of them, that their long term performance will be linked to sustainability factors but who are effectively obliged to behave like short-term investors given the constraints they have, in particular because of benchmarking.

The most effective option that the EU could take to improve the integration of sustainability factors by IORPs in their investment decisions would be to prohibit to practice of benchmarking and, more generally, the practice of asset owners of giving mandates with benchmarks to asset managers. This would mechanically make it possible for them to integrate those factors and would naturally lead them to do it.

For the same technical reason, and as described in the answer to question 91.1, excluding oil, gas and coal companies from market indices would have a major effect on the specific issue of the enabling function finance plays vis a vis climate change.

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.

A most important role that pension providers can play to contribute to the achievement of the EU's climate and environmental goals in a proactive way and also in the interest of their own sustained long-term performance is to engage on sustainability matters with the companies they invest in.

In that context, a most efficient way for the EU to facilitate the participation of pension providers to this transition would be to include sustainability in the fiduciary duty of asset owners in general and of pension providers in particular. With sustainability included in their fiduciary duty, engagement by pension providers with the companies they invest in would be mechanically enhanced. This would also be coherent with the recently adopted (EU) No 2019/2088 ("Disclosure") regulation, which applies also to IORPs and PEPP providers.

Beyond the important impact on engagement, including sustainability in the fiduciary duty of pension providers would also have the positive consequence of giving a clear direction towards sustainability to their investment practices regardless of specific circumstances, beyond members' and beneficiaries' ESG preferences (see question 94 below).

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
- (x) 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.

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
- (x) 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
- (selected) 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?

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

Question 98.1 If yes, please list a maximum of 3 initiatives:

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

Natural accounting model CARE-TDL is without doubt worth considering. This model rethinks the way accounting should look at natural capital accounting, in particular by describing companies' revenues as deriving from all forms of capital (natural and human as well as financial) and in seeing those different forms of capital (including natural capital) as liabilities generating costs. This model is not without its difficulties when it comes to implementation as its logic is dissociated from cash accounting which dominates the logic of internationally accepted accounting standards today, but it is certainly one of the most promising approaches to reflect the cost of "borrowing from nature" to run businesses. CARE-TDL could be a major contribution to recognizing the liability of businesses towards nature and towards the world in general. It could also contribute to recognize that companies' earnings as derived from current accounting standards are, to a large extent, an illusion given the cost of natural and human capital that they do not take into account. CARE-TDL helps to understand how companies' earnings do not reflect sustainability today, and thereby how companies' activity is conducted at the expense of their future ability to conduct business activities successfully.

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?

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

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?

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

Question 100.1 If yes, please indicate the degree to which you believe the following actions could be helpful:

	1 (not at all helpful)	2 (rather not helpful)	3 (neutral)	4 (rather helpful)	5 (very helpful)	N. A.
Financial support to the development of more accurate climate physical risk models			X			
Raise awareness about climate physical risk.					X	
Promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or /sectors after a natural catastrophe.					X	
Facilitate public-private partnerships to expand affordable and comprehensive related insurance coverage.					X	
Reform EU post disaster financial support.						X
Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events.		X				
Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks.						X

Regulate by setting minimum performance features for national climate-related disaster financial management schemes.	◯	◯	◯	◯	◯	◉
Create a European climate-related disaster risk transfer mechanism.	◯	◯	◯	◯	◯	◉
Other	◯	◯	◯	◯	◯	◯

Please explain why you think it would be useful for the EU to raise awareness about climate physical risk:

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

Please explain why you think it would be useful for the EU to promote ex-ante "build back better" requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe:

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

Please explain why you think it would be useful for the EU to facilitate public-private partnerships to expand affordable and comprehensive related insurance coverage:

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

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

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

Question 101.1 If yes, which actions you would consider to be useful?

In particular, is there scope for EU action to improve the offer of products and services for climate-related disaster risk reduction, enhance insurers' potential to promote increased resilience of their policyholders beyond a mere compensatory role?

For instance, EIOPA in its opinion on sustainability on Solvency II talks about "impact underwriting which includes the development of new insurance products, adjustments in the design and pricing of the products and the engagement with public authorities without disregard for actuarial risk-based principles of risk selection and pricing".

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

Question 101.2 If yes, please explain which actions and the expected impact (high, medium, low):

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

The issue of the insurability of the economy in general regarding climate risk is one of the most difficult and most important ones. Once the planet has reached a certain point in global warming (often dubbed "tipping pont"), insurance companies will cease providing a large proportion of the property and casualty insurance they provide today, which will have a major disruptive impact on economic activity, if anything because capital is provided to economic activities, projects and companies by banks and investors today on the basis that they are insured.

At this point, the intervention of public authorities will be indispensable (high impact), but there will not be any miracle as public authorities will not be in a better position to assess risks from an actuarial / insurability standpoint and will have to provide guarantees from public budgets as a question of principle, at the risk of seeing economic activity cease altogether. The impact on public budgets and on all currently known fiscal rules will be extremely significant.

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?

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

Question 102.1 what action should the EU take?

Please list a maximum of 3 actions:

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

Following the double materiality logic developed in the EC 2019 (non-binding) Guidelines on reporting climate-related information, the inside-out environmental impact and the outside-in financial impact of projects, activities and assets should be assessed and disclosed by investors and credit institutions when they provide financing.

In other words, the EC 2019 (non-binding) Guidelines on reporting climate-related information should be converted into a binding regulation applying to investors and credit institutions and extended, beyond climate-related issues, to all environmental dimensions of the projects being financed.

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

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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