**Renewed Sustainable Finance Strategy – Capital International Limited response to the European Commission’s consultation**

**Annex**

In addition to our responses to the questions of the consultation, we would like to share the following comments in relation to our response to questions 1, 5, 10, 40, 42, 43, 50, 52 and 91.

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

* *Incremental additional actions may be needed in targeted areas, but existing actions* *implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.*

The 2018 Sustainable Finance Action Plan and legislative package have taken some ambitious steps to integrate sustainability risks and considerations in the investment decisions and ensure agreement on what is meant as “sustainable economic activities”. While we agree it is important to set common rules on these elements - both for enhancing the objectives of the Green Deal and setting a level playing field for all market participants – it should also be acknowledged that an important amount of work and efforts are still necessary to make these rules and regulatory criteria operational.

There are important challenges in the current legislative framework, such as the lack of relevant, consistent and comparable data in relation to sustainable activities of companies and the need for technical clarifications related to the disclosure and other organisational requirements for financial institutions. We strongly believe that addressing these gaps and delivering clarifications should be the European Commission’s main priority for now. This will be critical for the success of the current EU regulatory framework.

Moving ahead with an additional agenda and goals prior to efficiently dealing with these challenges will place a significant burden on the EU financial industry with no safeguards that the new goals will be built on the successful operation of the current sustainable finance plan.

It is also crucial to consider the impact of the pandemic crisis and the needs that will emerge for the economy and the societies post-COVID-19. While not taking any measure to address the environmental crisis will be inappropriate, moving forward without reflecting the COVID-19 impact on financing existing needs will also be detrimental. For that, a balanced approach regarding the setting of goals and the financing of the transition is necessary.

We would therefore be in favour of option b, as we consider that the existing framework that still needs to be implemented is for now sufficient and if any additions are to be considered these should be targeted only to those areas that need further clarifications or technical improvements.

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

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

2 (disagree)

Capital Group’s understanding is built on proprietary and in-depth ESG research. This goes beyond analysis offered by external data providers and is based on enhanced engagement with issuers and companies bringing clear insight on the most impactful ESG priorities. Moreover, our vision on engagement is reflected in our internal proxy-voting process and guidance. In this way, we can positively shape and lead on industry standards.

We believe investors already have in place all the necessary tools allowing them to engage with companies on ESG considerations. In terms of regulatory tools, we note that the Shareholders Rights Directive, as recently revised, along with the existing industry and market standards and stewardship codes provide sufficient support to asset managers when assuming their engagement role. We, therefore, don’t see the need for further actions in this area.

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

2 (disagree)

As explained in our response to question 4, the investment strategy and choice over financing of activities and assets is a comprehensive process. While integrating sustainability risks and taking account of ESG considerations is a strategic priority, so is considering relevant risks and trade-offs in relation to long-term results.

As the current Sustainable Finance framework is still work in progress, there are many aspects that need to be further clarified. – We believe that the priority should be making this work in an efficient way and allowing a comprehensive approach about ESG integration and demonstration to investors. We see no need for further action and even more regulatory actions that would focus only on one component of the investment decision making – environmental harmful activities – with no consideration of other important factors.

Question 10: Should 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?

No.

A temperature scenario and mostly a 2°C scenario can provide a reference point that is generally aligned with the objectives of the Paris Agreement and thus support investors’ evaluation of the transition-related implications across different organizations and sectors. However, we don’t consider it useful to come up with a EU-wide based methodology regarding estimations and disclosures on temperature scenarios.

Given the global allocation of portfolios’ assets, any estimation on temperature scenarios needs to be globally consistent.

The FSB Task Force on Climate-related Financial Disclosures (TCFD) is a global standard that since 2017 focuses on the resilience of an organization’s strategy, taking into consideration different climate-related scenarios, including a 2° Celsius or lower scenario. TCFD standard disclosures refer to a 2°C scenario that is (1) used/referenced and issued by an independent body; (2) wherever possible, supported by publicly available datasets; (3) updated on a regular basis; and (4) linked to functional tools (e.g., visualizers, calculators, and mapping tools) that can be applied by organizations. There are several 2°C scenarios that presently meet these criteria, such as IEA 2DS, IEA 450, Deep Decarbonization Pathways Project, and International Renewable Energy Agency.

We would therefore support further adoption of the TCFD recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change, including via a 2°C scenario.

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

No.

We believe the main goal of the remuneration policy, including of the variable remuneration part, is to balance incentives for high performance with a commitment to superior results, which are tied to long-term value creation for all shareholders.

In this context, we support variable pay being linked to achievement of long-term goals for corporates and financial institutions and this can include long-term non-financial goals that are part of a company’s strategy. When it comes to asset management companies, the existing remuneration rules under ESMA’s Guidelines for UCITS asset managers require multi-year arrangements, including for variable remunerations, that are appropriately tailored to both the company’s performance and investors’ interests. In this context, asset managers can apply all relevant performance criteria and ensure alignment to long-term value while being able to adapt them based on different activities, risks and investment strategies.

This is consistent with Capital Group’s own remuneration policy that is aligned to investment returns and shareholders’ long-term interests.

Moving towards a mandatory application of non-financial performance indicators for every remuneration structure would disrupt such adaptability, which is key for investors’ long-term interests.

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?

No

We consider that the current framework enables a consistent and systematic long-term engagement between investors and their investee companies. As active manager, Capital Group has an advanced and long-term engagement with corporate and sovereign security issuers around the world, which allows us to bring clear insight on the most impactful ESG priorities and positively shape industry standards. Our engagement consists in thousands of meetings a year that ensures in-depth understanding, builds trust with management teams and the necessary infrastructure to support proprietary ESG research and data.

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?

No

We consider that strong corporate governance is necessary for a systematic long-term engagement with investee companies. At the same time, it is important this is calibrated to the principles and structure of each investor. We would, therefore, prefer some adaptability when identifying ESG aspects and elements for investee companies’ long-term growth and see no merits in applying harmonized standards on engagements and votes for ESG issues.

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

No

We see merits in making available to retail investors a wide range of products, including products that promote ESG characteristics or have ESG objectives in their investment strategy. Access to a wider range of such products and relevant information will allow investors to reach their own informed decisions.

At the same time, we consider there is an important balance to strike between ESG characteristic of a product and the long-term interests of investors. Offering any product as a default option should mean that this has the best results for the client. As this can’t be ensured in every case for sustainable investment products, we believe such a default option would be against investors’ interests. The suitability test and comparable costs are certainly useful benchmarks, however, on top of that, different options should remain available and based on the client’s choice.

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

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

2 not important

We believe that the action already undertaken via the SFDR and the Taxonomy Regulation that required information regarding the entity’s and product’s adverse impact and level of alignment to sustainable economic activities (against a standard set of indicators and criteria) already applies measurements for financial products and the product providers. As these requirements are still work in progress, we would recommend focusing on this work in a way that is comprehensive and consistent with investors’ interests.

Question 92: 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)?

No.

ESG risks are already integrated in organisational, risk management and operational requirements, in the same way as all risks and considerations that are material for an investment. Moreover, there are already sectoral requirements currently under discussions – such as the ones concerning the UCITS Directive and AIFMD.

Also importantly, when integrating relevant risks and factors, asset managers need to take into consideration the investment strategy and nature of the underlying assets of each investment product. This is directly linked to asset managers’ fiduciary duty to consider and integrate all relevant factors and align with investors’ interests.

As investors’ objectives and underlying strategies present important variations, the integration process cannot be a one-size-fits-all approach with identical factors for every investment.

We therefore cannot agree in adjusting the fiduciary duty in a way that requires same considerations to be taken for every investor regardless investor’s interests and objectives and the investment strategy. This would end up in direct contradiction to asset mangers’ duty to act in the best interest of their clients.

There are already requirements for asset managers to disclose how principal adverse impact and sustainability risks are integrated in the investment decision process and there is on-going work to further reflect how ESG factors are integrated in structures, process and internal organisation of asset management processes (changes in Level 2 UCITS and AIFM Directives). We consider the on-going work should reflect the need for such integration to remain proportionate to different investment strategies and we see no reason for further work on asset managers’ fiduciary duty.