

By e-mail
European Commission
Directorate General for Financial Stability, Financial
Services and Capital Markets Union
Mr John Berrigan
Brussels
BELGIUM

Date 14 July 2020
Our reference RIKr-20071987
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Subject AFM response to the public consultation
on a renewed sustainable finance
strategy

Dear Mr Berrigan,

The Dutch Authority for the Financial Markets (AFM) supports the European Commission's initiative to launch a renewed sustainable finance strategy. The AFM is grateful for the opportunity to contribute to the establishment of the new roadmap by responding to the public consultation of this renewed strategy. The AFM has responded through the online questionnaire on the website of the European Commission. In this letter, the AFM wishes to highlight the most important points made in the online questionnaire. For reasons of transparency, the AFM will publish this letter on its website.

The AFM is an independent market conduct authority that supervises the conduct of the entire financial market sector in the Netherlands: savings, investment, insurance, loans, pensions, capital markets, asset management, public accountants and (non-) financial reporting. The AFM is committed to promoting fair and transparent financial markets. The AFM is also a member of various European bodies and committees, amongst which the European Securities Markets Authority (ESMA). As a member of ESMA, the AFM wishes to reiterate its support for the ESMA response to the consultation on the renewed sustainable finance strategy.

The consultation covers a very broad range of subjects within the realm of sustainable finance and is directed at a wide variety of interested parties. In this letter, the AFM highlights specific points that are of particular importance to the AFM. Points that we believe are indispensable to the integration of sustainability factors in the financial markets, as well as necessary to enable the markets to contribute to the Commission's objectives as set out in its 2018 Action Plan and the European Green Deal.

A. Lack of comparable, consistent, relevant and reliable ESG data¹

¹ We also refer to our explanatory remarks in our answers to questions 6, 7 and 11 of the consultation document.

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One of the main challenges for mainstreaming sustainability in the financial sector is the lack of comparable, consistent, relevant, and reliable ESG data. In this respect, legislative proposals need to take into account the logical order of the sustainability reporting chain. Financial market participants are dependent on ESG data provided by companies (or third parties). The provision of ESG data through the disclosure of non-financial information (NFI) by companies, and the quality of that information, is therefore of utmost importance. We have expressed this view in our recent response² to the European Commission's consultation on the review of the NFRD. Non-financial information currently disclosed under the NFRD is not comparable, consistent, relevant, and reliable.

The AFM views the development of a common standard for NFI as a necessary step. The absence of a generally accepted global standard on non-financial reporting is one of the biggest barriers for investors to incorporate NFI in their decision-making process. The development of such a common standard is both a challenge and an opportunity. Now is the time to push the development of international reporting standards. We encourage the European Commission to take the lead in this.

B. A public structure for ESG data³

To promote the quality and availability of data, the AFM encourages the European Commission to take action in the development of a common, public and free environment for ESG data from companies, including non-financial information reported under the NFRD. Such a European Single Access Point (ESAP) should be a one-stop-shop for both financial and non-financial information. This would bring significant benefits to investors, for whom lack of access to ESG data is still an obstacle to sustainable investment.

C. Increasingly important role of Sustainability Rating Agencies (SRAs)⁴

The AFM is of the view that the level of concentration in the market for ESG ratings and data leads to dependency risks. SRAs will become essential to the financial infrastructure. Financial market participants are heavily dependent on providers of ESG data and ratings, which is at present a highly concentrated market dominated by a limited number of companies.

In the market for ESG ratings and data, issues with regard to consistency and transparency stand out. Firstly, there is a lack of comparability among providers, demonstrated by the large divergence of – and low correlation between – ratings from different SRAs. Given the lack of a legally binding definition of what an ESG rating is measuring, it is not possible to compare the ratings between SRAs. Secondly, there is lack of

² <https://www.afm.nl/~/profmedia/files/publicaties/2020/respons-afm-consultatie-review-nfrd.pdf>

³ We also refer to our explanatory remarks in our answers to questions 14, 17 of the consultation document.

⁴ We also refer to our explanatory remarks in our answers to questions 6, 17, 18, 21 of the consultation document.

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transparency and reliability. It is often not clear what methodology is used. Methodologies are proprietary and therefore lack of consistency is aggravated by lack of transparency.

In AFM's view, a regulatory framework establishing minimum standards for ESG ratings and data providers, ensuring European supervision of SRAs, would be an appropriate way to safeguard consistent and reliable standards of assessment in the ESG rating industry. The scope of these regulatory requirements and the level of supervision entailed should be proportionate to the role that ESG ratings are given within the broader regulatory framework. The AFM advocates a unified approach to the regulation of all rating providers and related sustainability assessments such as third party verification, in order to avoid a patchwork of regulatory or supervisory mandates.

D. Prospectus and green bonds⁵

The AFM strongly believes that requiring the disclosure of specific information on green bonds in the prospectus would improve the consistency and comparability of information for such instruments and limit greenwashing. The AFM has also expressed this opinion in April 2019 in its joint AMF/AFM position paper on green, social, and sustainable bonds.⁶ If an issuer chooses to qualify its bond issuance as 'green', the prospectus should include additional information regarding the use of proceeds, the selection of funded projects and the management of proceeds. The issuer should also specify whether it intends:

- (i) to comply with green bond voluntary standards (such as the ICMA's Green Bond Principles or the Climate Bond Initiative's Climate Bond Standards);
- (ii) to publish a report on the use of the green bond proceeds; and
- (iii) to mandate a third party verification.

Such additional information, which also includes an indication on the publication of the issuer framework (if any), the selection of projects, and the management of proceeds, could feature in a new prospectus building block for green bonds in the level 2 of the Prospectus Regulation. We believe this approach would be manageable for issuers, whilst reinforcing transparency and investor confidence in the green bond markets. Mandating the disclosure of this type of information would ensure that investors have access to material information that is pertinent to determine if a bond is green.

E. Ensuring consistency in new legislation on sustainability⁷

⁵ We also refer to our explanatory remarks in our answers to questions 25, 26, 30, 35 of the consultation document.

⁶ <https://www.afm.nl/~/profmedia/files/onderwerpen/duurzaamheid/position-paper-green-bonds-amf-afm.pdf?la=en>

⁷ We also refer to our explanatory remarks in our answers to questions 6, 7, 82, of the consultation document.

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The AFM believes that consistency between various pieces of legislation concerning sustainable finance needs to be ensured. The importance of consistency would apply to any new legislation proposed by the European Commission. This includes the necessary alignment of definitions in the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation, such as the notion of Do No Significant Harm (DNSH). Equally, for the revision of the NFRD, due regard for consistency throughout the sustainability reporting chain needs to be applied.

In conclusion

The AFM would welcome the opportunity to discuss further the issues raised by our responses to the questions from the consultation document.

Yours sincerely,
The Dutch Authority for the Financial Markets

Laura van Geest
Chair of the Executive Board

Jos Heuvelman
Member of the Executive Board