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# BPCE/Natixis position paper –Renewed Sustainable Finance Strategy consultation

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BPCE/Natixis would like to take the opportunity to comment on the European Commission's consultation on the Renewed Sustainable Finance Strategy. Overall, if the 2018 Action Plan on Sustainable Finance developed useful tools for financial market participants to harmonize sustainable practices throughout the EU, we believe that the Renewed Sustainable Finance Strategy should focus on **helping the sustainable market to gain momentum**.

Several areas could be contemplated in that sense:

- ***First, financial market participants' main challenge as of today is the lack of data availability and homogenized methodologies*** that impede the market to gain momentum
- ***Then, the EU's sustainable finance agenda could better consider and encourage the transition of the European economy.*** It is key for the success of this task to go beyond a binary approach. The risk is to confine pure 'green' activities into a niche market, and to exclude some activities from European sources of financing, missing the mark on the social implications of such abrupt decision.
- ***Finally, the EU citizens should be put at the center of the initiatives, which will help the market develop***, through the encouragement of ESG-related investment/financing/savings offer.

## 1. Overcome the paralyzing issue of lack of data availability and homogenized methodologies

The question of data availability is essential. The EU sustainable finance agenda is strengthening financial institutions' disclosure requirements (Taxonomy Regulation, Sustainable Finance Disclosure Regulation, Climate-related benchmarks Regulation, CRR2/CRD5 package), which might sometimes overlap (the delegated acts proposed under the SFDR and the Climate-related benchmarks Regulation for example both set up a list of different ESG-related KPIs). However, because financial institutions are both users and preparers of non-financial information, they need to be able to rely on their clients' own disclosures in order to fulfill their own reporting requirements. ***Not taking into account the issue of data availability from non-financial corporates and also retail clients might lead to a situation where financial market participants, overburdened by reporting requirements with extensive ESG-related KPIs, might limit their ESG investment/financing/savings offer, hence impeding the development of the sustainable finance market***.

Furthermore, ***the EU should use the opportunity of the Renewed Sustainable Finance Strategy to mobilize stakeholders in order to further develop common methodological approaches***: for instance, to assess climate impact/temperature scenario of a portfolio, develop risk management tools/ common scenarios, etc. Indeed, question 10 of the questionnaire asks whether institutional investors and credit institutions should be mandated to 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. We believe that this information could be of great interest for the end-investors as well as any type of customers/stakeholders. But any regulatory intervention in that regards should occur only when reliable, non-misleading and widely accepted methodologies have emerged and stabilized on the market, which would allow for comparability and clarity to stakeholders.

## 2. Develop a common EU framework that encourages and rewards transitioning efforts from stakeholders

With the development of the EU taxonomy, the European Union has determined a set of useful climate and other environmental metrics, focused on positive environmental impact ("green"). **We believe that this approach needs to be extended to define an EU tool, that will provide a common classification of all carbon intensity levels for each economic activity covered by the taxonomy.**

Indeed, as already said in the introduction, the EU should strive to achieve a ***balance between the encouragement pure "green" activities that might create a niche, and the exclusion of environmentally harmful activities, that might lead to adverse social impacts***. The danger of a binary taxonomy (may it be determined for positive environmental impacts as it is today, or even negative environmental impacts as it seems to be proposed in Q82) is to lead to exclusion-based policies that would encourage the largest and most polluting companies to find new sources of financing outside the EU, while depriving smaller European businesses from the support they need along their decarbonization path and hence missing the very goal of transitioning our economy towards a more sustainable future. Middle-ground solutions where several classification systems would coexist (each with specific metrics and thresholds), would be suboptimal, as it would create unnecessary burden and complexity for stakeholders.

In order to properly implement the sustainable finance agenda and provide the market with adequate ***incentive tools***, the measurement of the transitioning efforts done by each stakeholder will be crucial in the achievement of the EU 2050 objective of climate neutrality. To do so, the ***European Commission can leverage on the incredible work already achieved by the TEG in order to adopt a more granular approach to the current taxonomy, with the establishment of a set of intermediate thresholds that will determine a relevant transition pathway for each economic activity (a "transition" taxonomy)***. Such a transition taxonomy is also a critical element for us to effectively accompany our clients into their transition: it will allow the markets to reward compagnies that engage on this pathway.

The objective of setting up a common classification system, granular and covering all levels of carbon intensity for each economic activity, is to ***create a transition pathway with intermediate bearings. They would be used as a reference for companies in their transitioning strategies but also financial institutions in their risk assessments***.

We are fully committed to engage on a dialogue with the Commission on how to determine the characteristics of a granular taxonomy taking into account all levels of carbon intensity: ***with this approach, the EU taxonomy will* de facto *take into account economic activities which may have a more limited negative or positive impact ("neutral") since all impacts can be assessed and all efforts towards a low-carbon economy can be rewarded:*** it would hence not be necessary to develop an additional classification system (see answer Q83).

However, ***the purpose of such a transition taxonomy needs to be made clear from the beginning by the Commission***. Indeed, the current taxonomy might be challenging to implement by financial institutions given the lack of data availability from counterparties (for example, the DNSH criteria might prove very challenging to assess). Furthermore, a particularly careful attention needs to be paid to the use of such taxonomy when it comes to retail banking portfolios : it is important to keep in mind the difficulty to figure out the way to adapt the EU taxonomy to retail banks customers, due to the large number (thousands or even millions) of individual customers financed in the retail industry. In addition, focusing on incentivizing the transition instead of penalizing assets with a low environmental performance is even more crucial in the banking sector, given the social impacts and the economic cost it might entail.

In order to introduce more granularity in the EU Taxonomy, **parallelism with the green EU taxonomy in terms of metrics and thresholds should be pursued whenever possible**:

- Such parallelism is possible when: TSC are expressed in terms of intensity per unit of output. The subsequent question is the calibration threshold, on what climate temperature scenario should it be based on (e.g. +3°C, +4°C) or using the EU-ETS values as a reference, e.g. 10% worst installations to mirror the 10% best installations in the EU used for manufacturing activities).
- Parallelism is challenging when:
  - TSC are expressed in improvement against baseline / own performances. For example, in building renovations, is there a level of improvement that is considered brown?
  - TSC are good practices or technologies (there is no list of worst available technologies)
- It seems unrealistic to use TSC when: TSC are a standard (e.g. Sustainable Forest Management (SFM) requirements). Not having a standard cannot be considered as brown, even for standards with different levels. (Standard levels are likely to only be useful for shades of green).

### 3. Encourage the development of ESG-related investment/financing/savings offer

**The last axis of the Renewed Sustainable Finance Strategy of the EU should focus on putting the EU citizens at the center of the market development**.

First, there is a clear need to better classify investments marketed as "ESG/SRI/sustainable" etc., although the upcoming regulations such as the SFDR will promote more transparency for those products. Indeed, a large part of so called sustainable/ESG products favor approaches that focus on the way current economy (as identified by market index/benchmarks) can improve, rather than setting clear cut sustainability thresholds. As this has been done already with the taxonomy and the GBS, a clear framework of sustainable finance products should be promoted by the European Commission. ***We suggest finalizing the EU ecolabel on the one hand, for the most demanding investment products from an environmental point of view. In addition, we support the HLEG recommendation to develop EU ESG minimum standards for all other products that claim to be responsible, sustainable or any of these denominations***. Such a standard should be based on a simple definition of ESG that would be easy to understand by end investors. The experience furthermore suggests that end investors might not necessarily need a full list of KPIs that would tackle E, S and G issues all together: on the contrary, they might be more sensitive to 1 or 2 relevant, well calibrated and easy-to-understand KPIs.

Furthermore, ***we would advise the Commission to consider including structured and derivatives products in sustainable finance***. the development of the derivatives market contributes to the development of the markets of those derivatives' underlying assets, and specifically the securities market. Indeed, the negotiation of securities derivatives (for ex: equity) creates rising interests among buyers/sellers on the market. This in turn allows for increased liquidity and enhanced efficiency of the said market. A secondary market is necessary to strengthen primary market. In the context of sustainable finance, the use of derivatives and structured products is hence not to be neglected. Furthermore, those products respond to specific demand from investors that are also willing to contribute to sustainability efforts.

We are nonetheless aware that such approach might be questioned by some stakeholders who are eager to control that the use of those derivative instruments is aligned with ESG objectives/principles. In that perspective, the French industry is currently thinking of high-level principles that would oversee the marketing of such products: BPCE/Natixis are hence willing to engage in further discussions with the Commission on that topic.