14 July, 2020

Subject: Consultation on the European Union's Renewed Sustainable Finance Strategy

Ladies and Gentlemen:

The International Chamber of Commerce's Banking Commission appreciates this opportunity to respond on behalf of its membership to the Consultation on the European Union's Renewed Sustainable Finance Strategy. Provided as a supplement to its online response, this document summarizes the ICC Banking Commission's views on key themes covered in the Consultation Request that are relevant to international trade and export finance products.

Sustainable finance is a critical element of ICC's work as the world's business organization. The ICC plays a central role in promoting responsible business conduct globally as well as green and inclusive economic growth. In response to the CoVid crisis, including as part of its "Save our SMES" campaign, the ICC has advocated for best business practices and public policy approaches that address climate and environmental challenges as well as financial inclusion to "Build Back Better".

Throughout its history, the ICC's Banking Commission has developed rules and best practice standards for trade finance products. It is currently engaged in developing a pathway for banks to identify and increase funding of sustainable trade and export finance transactions. Members from commercial banks, multilateral development institutions and export credit agencies and other trade and ESG experts aim to define "sustainable finance" in relation to these products with greater specificity and in line with regulatory and industry developments. By identifying key characteristics of sustainability, including by reference to ongoing taxonomy initiatives, the ICC Banking Commission seeks to promote financing which contributes to the achievement of the Sustainable Development Goals (SDGs) and the Paris Agreement. These efforts will also help to meet the growing investor demand for sustainable assets.

The ICC Banking Commission's sustainability initiatives touch on a number of the issues and themes highlighted in the Consultation Request, as outlined below:

1. Lack of common definition and standards for determining "sustainability": Trade and export finance transactions support exchanges of goods and services across and within jurisdictions. Without a consistent cross-border approach to defining what constitutes "green" in relation to those products, banks will be faced with a varying landscape of requirements and guidelines that subject parties to the transactions to different standards depending on their applicable regulatory regime. The absence of agreed benchmarks may penalize those financial institutions that are subject to more stringent criteria, and hamper banks' ability to influence their clients across the globe to achieve positive environmental and social impacts. The EU's International Platform on Sustainable Finance and role in the OECD, Berne Union and regulatory and accounting bodies should be leveraged to help promote a more coordinated approach across regions.

2. Insufficient and inconsistent disclosure of sustainability data by transaction parties: Banks must have access to adequate and verifiable corporate disclosures and other data sources to accurately assess the level of ESG risks in their clients' operations and supply chains. Currently, the scope and level of detail of such data varies, exacerbated by jurisdictional differences in disclosure requirements. Client disclosures should be mandated that will enable banks to identify and track whether trade and export finance transactions meet relevant ESG criteria. These disclosures should contain both quantitative and qualitative metrics on environmental and social impact, which may be tailored as appropriate for industry sectors, and should be aligned with "do no significant harm" (DNSH) and other relevant elements of the taxonomy. An open and neutral repository containing such data would also facilitate evaluation by a broad range of financing sources. To the extent that the necessary data is available to them, these enhanced disclosure requirements will in turn allow banks to provide more comprehensive reporting.

3. Baseline Due Diligence and Risk Management Standards are needed: Companies should be required to understand and mitigate the ESG risks associated with their operations and supply chains. Correspondingly, as part of their risk management processes, banks should establish adequate internal systems to understand and mitigate the ESG risks associated with, clients' operations and supply chains. Coordinated regulatory action setting baseline requirements for such due diligence based on industry input would create a level playing field that encourages adoption of prudent practices across geographies. It would also assist banks in preparing for prudential supervisory review of their processes to identify, manage and disclose such risks.

4. Need for assessment and disclosure of biodiversity and social Impacts: The ICC Banking Commission supports requiring more detailed disclosures by clients of the impact of their operations and supply chains on biodiversity, ecosystems, workers and local communities. Such disclosures are necessary to achieve greater transparency and should be aligned with the safeguards and "do no significant harm" (DNSH) criteria provided for in the EU Taxonomy to enable banks to apply these as part of their due diligence reviews. Development of methodologies to determine the financial materiality of biodiversity and ecosystem impacts and dependencies will assist banks in conducting portfolio assessments and provide an impetus to support transactions minimizing harm to these natural assets.

5. Absence of policy incentives to allocate financing towards "green" transactions: The ICC Banking Commission is examining what current barriers exist in the context of short-term trade finance as well as longer-term export finance transactions, and what policy measures could encourage a shift in funding priorities. For example, banks are likely to incur additional costs of conducting due diligence to identify which transactions meet sustainability criteria. We should promote collection of data which might confirm that banking instruments used for "green" projects and products are less risky than others and hence deserve lower risk-weights. Without downward adjustments to capital costs or other cost savings, they may be discouraged from differentiating among otherwise comparable transactions based on such criteria. Further, there is an enhanced need for credit risk mitigation or risk sharing measures to increase banks' capacity for exposure to "green" infrastructure projects in emerging markets while providing adequate returns. Other incentives for financial institutions to undertake such exposure could be provided by export credit or development agencies in the form of reduced premiums or increased coverage. Existing national

or multilateral policies, programs or subsidies that fail to take DNSH criteria into account should be reexamined, including those affecting international trade.

6. Minimize regulatory burden through industry participation: There is a risk of regulatory overload from the increased volume and variety of new standards and requirements relating to climate change and other ESG impacts. To lessen this burden and minimize costs of compliance, overlapping requirements such as data collection and reporting should be consolidated. Transition periods and specific guidelines will be needed so that banks and their customers can implement operational changes including automation of processes, and enhance internal expertise. To maximize their suitability for trade and export finance products, regulatory measures should be developed through collaboration with affected stakeholders, with input from industry bodies such as the ICC Banking Commission on the scope and timing of new requirements. Building in opportunities to pilot approaches to implementation of principles-based standards will encourage innovation and allow regulated entities to benefit from evolving sustainability assessment tools and initiatives.

7. Address the special needs of SMEs: Sustainability-related requirements should be tailored to maximize financial inclusion of and support for SMEs. Less burdensome due diligence or disclosure requirements or longer phase-in periods may be appropriate. Especially in emerging markets, capacity building and additional funding availability are needed to enable SME adoption of practices that mitigate climate and other environmental and social impacts. The costs of these improvements often cannot be passed on by small and medium-sized producers through price increases. Targeted policy interventions that incentivize downstream buyers in the supply chain or local financial institutions to provide financial or technical support to SMEs may be needed to ensure these entities can benefit from the growing demand for sustainable products.

8. Develop a Brown/Transitional Taxonomy: In order for banks to properly assess and manage the impact of climate-related and other environmental and social risks on their portfolio, they will need to identify client activities that pose a high degree of risk. Clarifying the characteristics of those high-risk activities, including by reference to the DNSH requirements of the EU Taxonomy, would facilitate this review. In addition, based on their internal policies and risk tolerance parameters, banks will need to consider how and under what conditions to support clients' reduction of such impacts over time. Creation of benchmarks for transitional activities through the Taxonomy process could help banks to evaluate the adequacy of clients' action plans to mitigate these risks and to delineate eligibility requirements under sustainable financing facilities.

9. Expand capital markets funding opportunities through securitization: The ICC Banking Commission supports measures that open up new sources of capital for sustainable trade and export credit finance. Changes to the EU's regulatory scheme for securitizations are advisable for these products, including permitting synthetic securitizations to be eligible for regulatory capital relief under the Simple, Transparent and Standardised (STS) framework.

10. Education and training on standards and tools; feedback mechanisms: Roll-out of new regulatory and industry standards should be accompanied by widely available training and online resources. To combat information asymmetry, particularly in emerging markets, industry associations such as the ICC Banking Commission can play a valuable role by informing constituencies about new requirements and best practice standards. They can also serve as a channel for receiving and communicating ongoing member input on implementation mechanisms and challenges. EU partnerships with development authorities or other public sector entities could be established to help enhance the capacity or technological resources of local government and private actors to promote and monitor compliance with agreed sustainability criteria.

The ICC Banking Commission welcomes any questions on this document or its online submission to the Consultation Request. We hope this input has been valuable, and look forward to further opportunities for constructive dialogue regarding the development of the Renewed Sustainable Finance Strategy. Please feel free to contact any of the individuals listed below.

Sincerely,

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