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European Commission
Directorate-General for Financial Stability, Financial Services and Capital Markets Union
Unit B2 - Sustainable finance
European Commission
1049 Bruxelles/Brussel
Belgium

Subject: EDW Response to European Commission Consultation on the Renewed Sustainable Finance Strategy

About the European DataWarehouse GmbH

Founded in 2012 as part of the implementation of the European Central Bank ABS Loan Level Initiative, the European DataWarehouse (EDW) is the first central data repository in Europe for collecting, validating and making available for download detailed, standardised and asset class specific loan-level data (LLD) for Asset-Backed Securities (ABS) transactions. Developed, owned and operated by the market, EDW helps to facilitate risk assessment and to improve transparency standards for European ABS deals.
EDW currently hosts loan-level data and relevant documentation for over 1,520 ABS transactions and private portfolios belonging to a wide variety of different originators across Europe. Originators, issuers, sponsors and servicers upload ABS exposure and relevant documentation to EDW, while data users including investors, data vendors, rating agencies and public institutions use EDW data for monitoring and risk assessment purposes.
EDW intends to register with ESMA to provide securitisation repository services under the Securitisation Regulation (EU) 2017/2402. In the meantime, EDW assists the originators, sponsors and Securitisation Special Purpose Entities (SSPE) to fulfil the regulatory reporting obligations by providing a website compliant with the requirements set out in Article 7(2) of this regulation.
Additionally, EDW participates at the Energy Efficient Mortgages Initiative (EEMI), a market-led initiative, funded via the European Commission's Horizon 2020 Programme. The aim of the EEMI is to deliver a standardised European framework and data collection architecture for energy efficient mortgages.

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EDW welcomes the EC consultation on the renewed sustainable finance strategy published on 8th April 2020. Given the diversity of topics under consultation, EDW has decided to provide feedback only to selected questions related to securitisation and ESG data topics based on its expertise.

This document contains EDW's responses to the specific 11 questions set out at the EC website

SECTION I: QUESTIONS ADDRESSED TO ALL STAKEHOLDERS ON HOW THE FINANCIAL SECTOR AND THE ECONOMY CAN BECOME MORE SUSTAINABLE

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?

According to EDW, the following challenges and opportunities have been identified.

Challenges

- **Data availability**. From EDW's experience working with many of the European financial institutions the lack of ESG data will remain a big challenge in the coming years. For example, the banks are preparing and starting to collect energy efficiency information
- **Lack of 'green/sustainable' assets.**
- **Lack of standardisation or a common definition for 'green' securitisations.** Even though there are several standards for identifying green bonds and other initiatives for defining green loans, the lack of a common and consistent definition of a green securitisation remains a challenge for the development of the green securitisation market. Currently, the term 'green securitisation' is used both for green collateral as well as green proceeds securitisation.

Opportunities

- **Harmonisation of the various policies and regulatory disclosure requirements on ESG.** There is an increased need for a convergence of the various policies and ESG disclosure requirements.
- **Development of ESG products and services and technical solutions to support the ESG disclosure requirements**. There are opportunities for financial companies to develop new ESG specific products and services. Also, market data providers and FinTech companies could support the financial institutions with new innovative technical solutions on ESG products and services.

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SECTION II: QUESTIONS TARGETED AT EXPERTS

1. STRENGTHENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE

1.1 Company reporting and transparency

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?

EDW is very supportive of the development of a common publicly accessible environmental data space for companies' ESG information, combining data reported under the NFRD and other ESG related reporting requirements. The ESG data register should be built on the following key principles.

- **Centralisation –** all ESG documentation (ESG ratings, EU taxonomy, financial information) should be collected into one European centralised database for all European companies;
- **Proportionality** – the information should be collected on a sector by sector basis, striking the right balance between simple structures, processes and methodologies over time to cope with time horizons associated with sustainability risks and in particular the risk management systems;
- **Comparability** – a centralised repository facilitates the comparison of ESG information across submissions and sectors;
- **Data harmonisation and standardisation** – the ESG documentation should be based on a reporting framework. Such framework should include minimum reporting templates with taxonomies and KPIs like in the EU taxonomy.
- **Data validation and integrity** - the information submitted should be subject to upfront checks to make sure that the information reported is complete, timely and correct.

Another important point for consideration is the supervision of the ESG register. In EDW's view the register should be a supervised entity potentially from one of the European Supervisory Authorities. For example, under the Securitisation Regulation (EU) 2017/2402, the originators, sponsors and Securitisation Special Purpose Entities (SSPE) are currently subject to reporting obligations that require among others the disclosure of environmental data through a securitisation repository. The securitisation repositories are entities that need to be registered with and are subject to the supervision of the European Securities and Markets Authority (ESMA). This could be replicated for the ESG register.

In terms of the access to the ESG information, in EDW's view this should be free or at a reasonable cost regulated by a specific contractual framework with the register. This agreement should regulate the use of the ESG data and ensure compliance with the existing regulations and in particular the General Data Protection Regulation (GDPR).

With regard to the business model of the ESG register, EDW believes that this should be based on a non-discriminatory pricing model in line with existing data repositories. The registration process should include some basic information plus a know your customer (KYC) process based on the legal entity identifier (LEI) code (20-digit long). Finally, in EDW's view the fees should be based on a cost-plus approach to create incentives for the disclosure of the ESG information.

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?

European DataWarehouse participates at the Energy Efficient Mortgages Initiative (EEMI). EEMI is a market-led initiative, funded via the European Commission's Horizon 2020 Programme, which aims to deliver a standardised European framework and data collection architecture for energy efficient mortgages.
Under the umbrella of the EEMI there are two projects: the energy efficient mortgage action plan (EeMAP) and the energy efficient data protocol and portal (EeDaPP). The EeDaPP project aims to design and deliver a market-led protocol for the collection of energy efficient mortgage data through a standardised template which will be made accessible via the design of a common data portal. EDW, as a core member of the EeDaPP Consortium, has leveraged its expertise on data templates as well as data storage and technology and contributed to the development of the EeDaPP reporting template as well as the design of the common centralised portal.
In parallel, the technical and financial datasets gathered under the EeDaPP project are intended to link energy efficient features of a building, its value, and the loan performance, thereby creating a better understanding of the impact of energy efficiency on borrowers' probability of default (PD) and on loss given default (LGD). The aim is to identify and demonstrate that energy efficient mortgage assets can be identified for preferential capital treatment based on large-scale standardised data and correlation analysis. The results of this analysis are one of the main deliverables of the project.

In the end of 2019, EDW became a climate protection partner and announced its commitment to the environment and corporate climate responsibility. As part of this initiative EDW has planted a new tree for every new deal created on our platform as well as all active outstanding deals at that time. In total more than 2,000 trees have been planted offsetting more than 50 metric tons of CO_2 annually contributing to the climate change mitigation.

To further demonstrate its commitment to the environment, EDW has expanded its green practices to include, among others, a company e-bike leasing scheme, public transport tickets and travel policies that support use of train over plane where possible and, of course, green printing practices.

1.4 Definitions, standards and labels for sustainable financial assets and financial products

EU Green Bond Standard

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?

EDW generally agrees with the proposed accreditation or authorisation and supervision of the verifiers of EU Green Bonds. In EDW's view the key principles for the authorisation and supervision could follow either the Credit Rating Agency model or could be similar to the model adopted for Third-Party Verifiers for STS compliance (please refer to the Securitisation Regulation (EU) 2017/2402). An important aspect to be considered by the authorities is the transparency of the various methodologies of the verifiers of EU Green Bonds. The regulatory framework should also take into consideration the continuously evolving nature of the ESG market.

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?

EDW in principle agrees with the Commission to regulate the market for third-party service providers on sustainability data, ratings and research. This would ensure a level playing across all third-party service providers

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?

In EDW's opinion, the requirement of a minimum set of common standards for disclosure in the prospectus would improve the consistency and comparability of information for such instruments. The development of this common standard would also address the issue of greenwashing. Additionally, it would allow investors to get a better understanding of the 'greenness' of these financial products leading to well informed and sound investment decisions.

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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."

Given the evolving nature of the EU GBS, in EDW's view, a link to that standard in the prospectus would not be sufficient. It would be more beneficial for the investors if the issuers disclose a more detailed description demonstrating the transaction 's compliance with the EU Green Bond standard at issuance at a minimum.

Other standards and labels

Question 32: Several initiatives are currently ongoing in relation to energy-efficient mortgages and green loans more broadly. Should the EU develop standards or labels for these types of products?

EDW strongly supports the development of standards or labels for energy-efficient mortgages and green loans. As mentioned previously (please refer to EDW's response to question 15), EDW participates at the Energy Efficient Mortgages Initiative (EEMI). This initiative is designed on the premise that the banking industry could play a game changing role in supporting the EU in meeting its EU energy savings targets and delivering on its COP21 commitments. The aim of the Energy efficient Mortgage Action Plan was to create a framework for "energy efficient mortgages". One of the main objectives of the EeMAP was the standardised definition of the "Energy Efficient Mortgage (EEM)" [1]. The success of this initiative is based on the fact that the improvement of the energy efficiency of a property not only has a positive impact on the value of the asset, lowering the bank's asset risk, but It has also an impact on borrowers' affordability due to savings from energy bills reducing the bank's credit risk. This has been the focus of many years of academic research and is expected to be further supported by the EeMAP and EeDaPP projects. One of the objectives of the EeDaPP initiative is to establish a correlation between energy efficiency and the probability of default (PD) and loss given default (LGD) based on the data collected during the EeDaPP project. This should eventually be recognised in the regulatory framework in the form of creation of incentives. These incentives could come in the form of realignment of the capital requirements taking into consideration the lower risk of this type of exposures. Creating incentives at an EU level for the banks and investors is an important part for the growth of the market which is also consistent with the High Level Forum on Capital Markets Union proposals to the Commission in the Final Report published in June 2020.

[1] https://eemap.energyefficientmortgages.eu/eem-definition/

Green securitisation

Question 54: Do you think that green securitisation has a role to play to increase the capital allocated to sustainable projects and activities?

In EDW's view and as highlighted also in AFME's Green Securitisation Position Paper published in September 2019, green securitisation can play a major role in increasing capital allocated to sustainable projects and activities, helping the EU to meet the climate and energy targets. In this context, the response to question 32 is also relevant as it shows that the EEMI initiative is aligned with the EC's framework for climate and energy policies aiming at encouraging investments and consequently stimulating private finance for energy efficient investments supporting the growth of SMEs which are the backbone of Europe's economy.
As also stated in the Final report of the High Level Forum on the Capital Markets Union[2] published in June 2020, securitisation is an important tool which among others allows banks to free up capital increasing their capacity to extend new funding to SMEs, the backbone of EU's real economy, eventually supporting the transition to a more sustainable economy.

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?

The current regulatory framework and the implementation of the new Securitisation Regulation (EU) 2017/2402 aims to create the necessary conditions for the revival of the securitisation market. More specifically, the framework for Simple Transparent and Standardised securitisation requires the disclosure of the environmental information for securitisations where the underlying exposures are residential loans and auto loans or leases (Article 22 paragraph 4).
In this context, EDW understands that the regulatory capital treatment of securitisation transactions remains a concern for the market. Based on the Final Report of the High Level Forum on the Capital Markets Union, EDW understands that there is a proposal for the Commission to put forward a series of targeted, prudentially sound adjustments to improve the EU securitisation framework. Therefore, a number of legislative reforms are necessary to further improve the EU securitisation market.

Question 56: Do you see the need for a dedicated regulatory and prudential framework for 'green securitisation'?

[2] The report is available at the following link: https://ec.europa.eu/info/sites/info/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf

Given the important role that securitisation can play in increasing capital allocated to sustainable projects and activities, as mentioned also in our response to questions 54 there is an increased need for regulatory incentives to further support and strengthen the growth of the 'green securitisation' market. These incentives could come in the form of preferential capital treatment or national tax incentives as proposed also by the industry through AFME's position paper on the principles for developing a green securitisation market in Europe published in September 2019.

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