Brussels, 15th July 2020

EACB Additional Comments to the renewed Sustainable Finance Strategy Consultation

The **European Association of Co-operative Banks** (EACB) represents, promotes and defends the common interests of its 27 member institutions and of cooperative banks, with regard to banking as well as to co-operative legislation. Founded in 1970, today the EACB is a leading professional lobbying association in the European banking industry. Co-operative banks play a major role in the financial and economic system. They contribute widely to stability thanks to their anti-cyclical behaviour, they are driver of local and social growth with 2.800 locally operating banks and 51,500 outlets, they serve 209 million customers, mainly consumers, SMEs and com- munities. Europe's co-operative banks represent 84 million members and 713,000 employees and have an average market share in Europe of about 20%.

For further details, please visit www.eacb.coop

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop

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 big picture is that companies need to price in externalities. This does not happen at the moment and it affects the financial sector as well (certain companies seem more attractive than they should seem). We welcome measures that are compatible with a free market like tightening carbon trading schemes, pollution taxes etc. that allow for transition and continuing innovation.
Indeed, in the field of climate change, a key lever is the "price" to act as an incentive to reduce a negative externality such as GHGs. The price needs to reflect what we already know about the medium to long-term additional costs of climate change. In theory, such a "shadow price" incorporating the social cost of carbon (SCC) would be enough to reduce emissions and should be used in economic and financial calculations, in particular in the cost-benefit analysis of investment projects, to take into account these negative externalities (i.e. congestion, pollution, toxic emissions).
Finally we believe that more efforts and resources should be dedicated to social challenges, especially to contrast the socio-economic consequences of green transition and Covid-19 pandemic.

Question 4: Would you consider it useful if corporates and financial institutions were required to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement?

Yes, corporates - The EACB believes that it should be useful if corporates were required to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement. In fact, we believe that once the ongoing regulatory framework on sustainable finance will enter into application in its entirety, it would become increasingly necessary for corporates to assess their contribution to reach the goals of the Paris Agreement.

Moreover, as we suggested in the context of the answer to the NFRD review consultation, financial institutions in their role of intermediaries could only communicate such information on the basis of their clients' assessment. Without data from their clients', financial institutions will not be able to assess their portfolios with regards to ESG performance. For this reason, starting with largest companies would allow for a gradual phase in and slowly fill the gap to enable financial companies reporting in a second phase. Availability of corporates ESG data is also necessary to allow financial institutions and investors to steer their portfolios towards the objectives of the Paris Agreement and of the European Green Deal much more efficiently and on a much broader scale.

Finally, we believe that the requirement to communicate such information should reflect the methodology of the EU taxonomy and work on its building blocks. A proportionate approach on the basis of the non-financial reporting directive should be guaranteed taking into consideration not only the size of the corporation but also the industry it is operating in. Due regard has to be paid to the principle of proportionality. Especially for SMEs and smaller financial intuitions the burden of compliance and efforts to fulfil the additional reporting obligation would not be proportional. It would be inappropriate to demand the same report from a local company with simple business model and regional activities and a large group with multiple business lines and operating on a global level.

Question 10: Should institutional 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?

Yes, both - Scenario analysis following the TCFD recommendation would be very useful for large companies in sectors accounting for substantial carbon emissions. It would be useful to standardize the scenario analysis by e.g. recommending at least one 1,5 or 2 degree scenario and one business as usual scenario.

For small and medium-sized corporates (SMEs) and small and medium-sized financial institutions such an obligation to calculate and disclose which temperature scenario their portfolios are financing would be too burdensome and not proportionate, in particular because there are already numerous initiatives ongoing in the field of ESG disclosure such as the Pillar 3 disclosure of ESG-risks in Article 449a CRR II, the disclosure and taxonomy regulations with their supplementing Level II acts and certainly the ECB Guide on climate-related and environmental risks.

Question 28: In its final report, the High-Level Expert Group on Sustainable Finance recommended to establish a minimum standard for sustainably denominated investment funds (commonly referred to as ESG or SRI funds, despite having diverse methodologies), aimed at retail investors. What actions would you consider necessary to standardise investment funds that have broader sustainability denominations?

- The Commission or the ESAs should issue guidance on minimum standards.

We would aim at a "minimum standards" approach which, on top of explicitly recognising all EU GBS labelled bonds, would also recognise other existing market practices for the underlying investments (such as compliance with ICMA's GBP, SBP, SBG) and also existing sustainable portfolio management techniques such as "Best in class", "Exclusionary criteria", et cet.

The best way forward would be for funds that want to be allowed to be defined as "ESG" or "SRI" to obtain an external verification of the investment procedure, that states that it aligns with best market practices regarding ESG/SRI investment. This will allow for a proportional application of the 'right' to use the ESG/SRI label, which can be adapted over time to more stringent market practices and/or new regulatory requirements once:

- the green taxonomy and the EU Green bond label are a market reality allowing funds to find enough assets to invest
- the social taxonomy is developed.

Further to the creation of "minimum standards" for "sustainability" we should learn in the EU (and World) to calculate the "distance" negative adverse impacts on the environment and society of our funds. None of the funds having adverse impacts should be qualified as "sustainable" or "green". Planetary Boundaries framework is the only known to the science reference framework for "neutral" environmental impact levels. So, we should be able to quantify the gap between what is completely neutral for the nature (= causing ZERO global warming) vs what causes 2C degrees warming and what causes >2C degrees warming. No investments should be qualified as "green" if they cause 2C degrees warming.

Investments that are considered as "green" or "sustainable" need to comply with these objectives. Still, from our experience it is more feasible to accept a limited exposure to adverse impacts on environmental issues if the corporation is on a clear and measurable path to limit such an exposure and adapt its way of conduct. Thereby the transformation path of businesses can be supported, and the risk can be limited that the brown economy is being outsourced into special non transparent vehicles. This is also true for social and governance issues.

Question 32: Several initiatives are currently ongoing in relation to energy-efficient mortgages[1] and green loans more broadly. Should the EU develop standards or labels for these types of products?

- Yes
    - a standard or label for green (environmental and climate) mortgages and loans;
    - a narrow standard or label only for energy-efficient mortgages and loans for the renovation of a residential immovable property;

So far there are only taxonomy specifications for the area of "Environment". In terms of financing for commercial buildings, it makes sense to use the criteria "Social" and "Governance" in the context of taxonomy enlargements.

In the area of residential mortgage credits for consumers, we consider an addition of the criteria "Social" und "Governance" to be questionable. In this context, it is not really clear how these should be designed. In our opinion, in the case of residential mortgage credits for consumers it can only be a matter of compliance with "energy criteria (Environment)" (for the house/real estate to be financed). Here it is important that the audit burden should be kept to a minimum; compliance with certain criteria is confirmed by independent experts (e. g. energy consultants or architects).

Question 35: Do you think the existing capital market infrastructure sufficiently supports the issuance and liquidity of sustainable securities?
3 - No hurdle to the issuance of Sustainable bonds. The constraint is on the supply side with the lack of sustainable underlying assets and green projects. Meaning the appetite for green investments is not being matched by the capacity of issuers to identify eligible green projects and assets for financing. Moreover the public market remains limited with a low compartment of ESG sovereign bonds and a large volume of few supranational issuers (EIB, World Bank...).

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

[1] See for instance the work of the EEFIG (Energy Efficiency Financial Institutions Group set by the EC and the United Nations Environment Program Finance Initiative or UNEP FI) on the financial performance of energy efficiency loans or the energy efficient mortgages initiatives.

No - It must remain the responsibility of the financial institution to decide what share of variable remuneration relates to non-financial performance.

A solid linkage between the non-financial performance and the remuneration does already exist in the current framework applicable to banks. CRD IV, the EBA GL on sound remuneration policies take a very holistic approach regarding remuneration. Attributing a mandatory share to non-financial remuneration would complicate matters and may turn against the spirit of this approach:

- CRD IV: banks' remuneration policies have to be aligned with the business strategy, objectives, values and long-term interests of the institution; the variable remuneration should take into account the financial and non-financial criteria.
- EBA GL on sound remuneration policies: the remuneration policy to be consistent with the objectives of the institution's business and risk strategy, corporate culture and values, long-term interests of the institution, and the measures used to avoid conflicts of interest, and should not encourage excessive risk taking, while changes of such objectives should be taken into account when updating the remuneration policy.
- EBA GL: deferral rules that align the remuneration with the bank's activities, business cycle and risk profile and the activities of the staff members, so that a sufficient part of the variable remuneration is adjusted for risk outcomes over time through ex post risk adjustments (in consequence, risk alignment effects in a remuneration package is ensured. Adding the requirement to respect the mandatory share of variable remuneration for non-financial performance will be burdensome and may result in additional difficulties on the side of banks to make those payments.
- Art.98 CRDV and the EBA's guidelines on loan origination: banks are required to reflect the ESG risk of their assets in their risk management, which would automatically impact on remuneration policies. Achieving ESG target would thus be directly reflected in the variable payment.
- Art.5 SFDR: banks which provide portfolio management and investment advice shall include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks, and make this info public.

An overrepresentation of ESG targets should be avoided as it could have a destabilizing effect. The current framework ensures that sustainability targets will be reflected in the banks' objectives and business strategy. Those aspects would have to be considered as company values in variable remuneration while this in turn will encourage behaviours consistent with the ESG aligned approach of banks' staff and management.

Question 57: Do you think EU policy action is needed to maximise the potential of digital tools for integrating sustainability into the financial sector?
Do not know - It is not clear what is meant with digital tools: This can be anything from email to chat, to blockchain, central data platforms and APIs or Artificial Intelligence. Therefore, we want to distinguish between two major perspectives: (1) digital platforms for ESG data and information and (2) digital distribution channels for financial products.

1/ Concerning digital platforms for facilitating the ESG data space: This has been advocating by the EACB since long. In fact, together with five EU trade Associations. We have has launched a joint initiative calling for EU Action to create a centralized electronic register for Environmental, Social and Governance (ESG) data in the EU (further details are available at the following link http://www.eacb.coop/en/news/eacb-news/joint-industry-letter-call-for-eu-action-a-centralized-register-for-environmental-social-and-governance-esg-data-in-the-eu.html).

2/ Concerning digital distribution channels for financial products, this is a native feature of market development, and EU should not intervene with central initiatives in this development.

For example, co-operative banks are applying the opportunities offered by digitalization in many ways including:

- Better analysis of data (in line with GDPR) and the application of artificial intelligence
- Using blockchain or distributed ledger technology in areas of the banking business where they can offer increased efficiency and/or better access compared to other technologies
- Using apps and API technology to improve communication with customers and – more generally – the customer experience, either by developing in-house solutions or working with third parties
- Support of "green investment" opportunities for retail consumers especially on the basis of the locally active co-operative banks and vice versa funding especially local and/or SME in "green projects" such as e.g.: renewable energy (often performed by co-operatives), sustainable food (incl. supply chain), circular economy, and local social initiatives of citizens (e.g. co-operative for kindergarten or schools)

Question 58: Do you consider that public authorities, including the EU and Member States should support the development of digital finance solutions that can help consumers and retail investors to better channel their money to finance the transition?
No - The EACB would not consider "M-Akiba" as an example of a digital tool, but rather as a government bond that happens to be made available via the online brokerage / mobile brokerage, which may be new to the Kenyan society but building on local digital infrastructure such as M-Pesa (SMS mobile payments).

Europe's financial infrastructure however is quite different with (1) online brokerage / mobile brokerage being implemented since the 1995s, (2) investment into governmental bonds for retail investors is long established practice and (3) especially co-operative banks provide different channels for consumers from a large and very locally structured network to mobile brokerage.

This network offers consumers and retail investors to individual channels for their their money to finance green and sustainable projects and support the transition to a sustainable economy. Co-operative bank link especially consumers and retail investors to local SME and local investment projects, which offer opportunities for green and sustainable investments. Apart from the problem of standardization and norms regarding what is considered "green", "social" and "sustainable", the private sector drives innovation, whereas some governments are still preparing first issuance of "green bonds". However, this is no technical (or digital) problem, but a decision of those governments how to fund and whether to use sustainable finance products.

Having said that, legislation applicable to retail investments should not be formulated in such a way as to hamper communication of e.g. precontractual information via digital means.

Question 59: In your opinion, should the EU, Member States, or local authorities use digital tools to involve EU citizens in co-financing local sustainable projects?

No - Again, it is not clear what this question meant: It is neither defined what "to involve" means, nor what "digital tools" are (see also answer to Q57). Apart from the already discussed problems about standardization and norms regarding what is considered "green", "social" and "sustainable", and the missing ESG data space, EU, Member States, or local authorities can, of course, support financing local sustainable projects e.g. with tax exemptions et cetera. However, EU, Member States, or local authorities should not take an active part when it comes to distribution of financial products or offering opportunities for financing local sustainable projects.

Such support of "green investment" opportunities for retail consumers is provided by market economy. Especially, the locally active co-operative banks serve local retail consumers to save and invest and vice versa manage funding especially to local and/or SME in "green projects" such as e.g.: renewable energy (often performed by co-operatives), sustainable food (incl. supply chain), circular economy, and local social initiatives of citizens (e.g. co-operative for kindergarten or schools). Additionally, co-operative banks in Europe have been starting since many year to offer crowd-funding opportunities to local sustainable projects and also offer sustainable investment funds (according to UCITS-V), which leverage the long-term engagement of co-operative banks in sustainable finance.

Having said that, the public authorities could usefully set up an ESG data space and support consumer education regarding sustainable finance and using digital tools to help citizens to find sustainable projects to invest in.

Question 76: Do you think the current level of global coordination between public actors for sustainable finance is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?

3 - This global coordination between public actors should ultimately lead to the creation of an overarching international Taxonomy, in order to establish a unified understanding of sustainable economic activities globally (in particular for investors in the US and in Asia in the same way).

The global nature of these issues as well as the global nature of financial markets justify a global response and global public-private partnership. We support EU coordination efforts at global level and encourage expanding the use of the EU taxonomy as a common language outside the EU once enough progress at the EU level has been made. The global use of taxonomy is important to remove uncertainty, ensure comparability and allow competitive solutions on a level playing field. The success of the taxonomy will however mainly depend on its usability and its potential to be applied in an automated way into IT systems and processes

We would like to highlight that important barriers to global coordination remain, which will be challenging to address:

- lack of shared diagnostic on the climate emergency (US, Brasil, China…)

- Competing economic and environmental interests: for instance the US are net exporters of oil and gas

- issues of economic competitiveness

Question 83: Beyond a sustainable and a brown taxonomy, do you see the need for a taxonomy which would cover all other economic activities that lie in between the two ends of the spectrum, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?

No - Please refer to our answer to Q82 as well.

The EU should avoid multiplying initiatives and rather focus on finalizing the sustainable taxonomy and getting it operational, which is a real challenge in itself, and on accompanying the transition.

The establishment of heat maps, or a system of shades for different activities, is something on which work is being carried out at supervisory level. The different shades of green will appear as companies' progress on their transition path. It would be premature and counterproductive to establish a sweeping taxonomy of the entire spectrum of economic activities. It is also unclear what the aim of such an additional exercise would be.

We furthermore believe that effects of the current "shades of green" taxonomy in practice should be carefully assessed before a further differentiation is developed. We expect a strong development toward these shades of green, so that a differentiated treatment in other areas might become less relevant.

It should rather be noted that technologies that have the potential to support the transition e.g. contributing to reduce the risks of assets should be promoted. These have the greater positive impact on the global sustainability agenda.

Question 86: Following the financial crisis, the EU has developed several macro- prudential instruments, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system. Do you consider the current macro- prudential policy toolbox for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change?

5 - The current macro-prudential policy toolbox for the EU banking sector (systemic risk buffer, countercyclical capital buffer, O-SII buffer etc.) is fully sufficient to address and absorb potential systemic financial stability risks related to climate change.

Since financial stability risks stemming from climate change do not constitute a specific risk category (they rather reveal their effects via existing risk categories, like credit or operational risk), they can be addressed within the frame of the current macro-prudential policy toolbox. Hence, there is no need for specific (new) macro-prudential tools.

Moreover, according to Article 98(8)(b) CRD V, EBA shall already assess the development of appropriate qualitative and quantitative criteria for the assessment of the impact of ESG risks on the financial stability of institutions in the short, medium and long term. This is expected by June 2021. Such criteria shall include stress testing processes and scenario analyses to assess the impact of ESG risks under scenarios with different severities. As already indicated above, the inclusion in the SREP cycle and the focus of the supervisor on this is sufficient to ensure that institutions adequately address climate related risks.

For all of these reasons there's at really no need for further regulatory action to expand the current macro- prudential policy toolbox for the EU financial sector in this area.

At this stage the impacts of climate change are probably more imminent for insurers and transmission to financial stability should possibly be considered first in this area in the near-term.

Question 88: Do you consider that there is a need to incorporate ESG risks into prudential regulation in a more effective and faster manner, while ensuring a level- playing field?

No - The current regulatory framework for banks allows to reflect ESG risk rather extensively. The ECB "Guide on climate-related and environmental risk", which will boost the incorporation of ESG-risk into banks' prudential framework, is an evident proof.

We therefore do not believe that there is a need to incorporate ESG risks into prudential regulation in a more effective or faster manner at this moment in time. In fact, we see that the legislator should follow the sensible gradual approach already laid out in CRDV CRR II to tackle ESG-risks. The reasons for this are clear:

A precondition for tackling ESG-risks (physical risks/transitional risks) is first and foremost a clear definition of those risks and the development of adequate risk management and supervisory tools to monitor the transmission channels and assess the impacts. Definitions, framework concepts and methodologies are in the making, with supervisors currently driving the process. An adjustment of the CRR/CRD at this stage, where no generally accepted framework concepts and methodologies exist, could turn out to be counterproductive.

Furthermore, tackling ESG-risks requires sufficient and reliable data in order to identify and measure those risks, as recognized by all actors. Hence, the establishment of appropriate databases would be another precondition for the incorporation of ESG-risks into prudential regulation.

Also, the inclusion of ESG risks into prudential regulation is not the only way to accelerate the transition. Anyhow, certain sustainable assets, where a lower prospect of financial risk related to the ESG factors can be demonstrated on a forward-looking basis, should benefit from a preferential prudential treatment. The evidence-based approach is important to avoid creating risks in banks' balance sheets in the push to shift loan books towards greener lending. The EBA, as part of its CRR2 mandate, could explore the possibility of introducing a supporting factor for certain assets that are classified as sustainable under the EU taxonomy and at the same time, meet certain additional eligibility criteria. The RWAs of eligible asset classes could benefit of a "Sustainable Finance Supporting Factor".

Third, while competent authorities in some Member States (e.g. Austria, Germany and the Netherlands) already provided guidance to the banking industry on how to deal with sustainability risks, clear and uniform guidance on how to measure ESG-risks in practice is not available. The measurement of ESG-risks requires clear and practicable measurement tools and this can only be achieved via a coordinated gradual effort of market participants and supervisors.

The SSM Guide on climate related and environmental risks, which was published for consultation on the 20th of May 2020, provides a thorough tool to manage climate-related financial risks within the current prudential framework. It shows that progress towards the management of this risk can be dealt with within the current framework.

Finally, looking at the draft SSM Guide to integrate climate risk into different risk types for supervisory expectations, it can be noted that when looking at Pillar 1 requirements, there would be a need to change mechanics moving towards forward looking models to account for climate risks as they aren't captured in historical models (this would require work also at Basel level). This is one further reason not to overstep the existing mandates and work streams.

Question 89: Beyond prudential regulation, do you consider that the EU should take further action to mobilise banks to finance the transition and manage climate-related and environmental risks?

No - Progress is needed towards creating at EU level a common data platform that can be used consistently by all market participants. For example having a common platform for collecting CO2 data (not only from the large companies but as well from the small and medium sized ones); creating a solution for how to collect CO2 data even from micro companies without overloading the companies themselves; creating a common whether heat map including modelling /scenario analysis.

Banks will tend to finance the transition to a larger extent if access to digital, standardised and reliable environmental and sustainability data is improved.

A common approach for measuring carbon emissions is important to ensure comparable and transparent communication about the carbon footprint of the economic activities that are financed or invested in. We suggest that the Commission sets up a Task Force to develop a common model. Creating a voluntary EU model for measuring the carbon footprint would be useful for setting reduction targets by the sector

Furthermore, the creation of a central 'EU sustainability data register' would facilitate the building of sustainability disclosures and ensuring access to relevant and reliable data at the EU level. Such a database as well as the collection of existing sustainability data, including information related to physical risk, could be administered by the Commission.

In addition, finance activities related to the transition will accelerate if they are bankable, which means that they are economically viable and technologically mature. Hence, the EU should target to ensure that the economic incentive structures in the relevant sectors in the real economy are supportive of the transition. If they are, economic activity and finance and investment will follow.

The issue we are faced with is not the mobilization of banks. Banks are present and have shown they are involved in supporting the sustainability transition and provide the adequate financing tools. The problem is rather the lack of clarity on bankability of projects and proper incentives. Possible actions at EU level could revolve around financial incentives (through taxes, grants…) and non-financial incentives (regulation) in a progressive manner to encourage the emergence of sustainable projects while ensuring an international level playing field and social acceptability.

Question 91: 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 - Currently, Article 4 SFDR already obliges financial market participants and financial advisers to disclose if and how they consider principal adverse impacts (PAIs) of investment decisions on sustainability factors. In case they don't consider adverse impacts, they have to provide clear reasons for not doing so. Furthermore, the SFDR already makes explicit references to the fact that sectoral rules should be taken into account when complying with the text. The SFDR also mandates the ESAs to advise how the content, structure and methodology of these PAIs should be carried out. The only issue in this regard is that this mandate is obliged at an entity level – the asset/portfolio manager or financial adviser – whereas most sectoral legislation is at a product level. Indeed, one of the main issues with this approach is that Article 7 SFDR which actually deals with PAIs at product level does not oblige the ESAs to propose similar advice.

Therefore at first glance, it is not that we do not see merits in such initiative at sectoral legislative level. However, it is important to clarify what pertains to the responsibilities of the asset owner, on the one hand, and what relates to the responsibility of the asset manager, on the other. Ultimately it is the word of the end-investor that counts, and any adaptation of the current rules on fiduciary duty should be done carefully, keeping in mind this important question of who – in the end – is responsible for what. On top of that, direct consideration and integration of adverse impacts of investment decisions on sustainability should only reflect those investment strategies where asset managers have a clear duty and mandate from investors to reflect ESG considerations. Where this mandate doesn't exist, it would contradict the manager's fiduciary duty and disregards that the final decision as to the design of the investment strategy. And overall, any such proposals made should only be introduced after proper consumer testing of which the same applies for the current SFDR Draft RTS proposal.

The SFDR will enter into force at the beginning of 2021, and the ESAs have confirmed that the draft RTS with respect to adverse sustainability impacts shall not be undergoing consumer testing. Therefore, we still have to see even at this stage what kind of impact these current obligations will have (from an 'inside-out' or 'environmental/social materiality' perspective) on sustainability factors – let alone if changes across all the sectoral legislation takes place. We thus opt for a 'No' answer for the time being. In the meantime, we would like to remind that ESG factors should also be considered to be included into fiduciary duty practice in line with the PRI recommendation as of 2018: https://www.unpri.org/asset-owners/investment-strategy.

Question 97: Beyond the guidelines, in your opinion, should the EU take further actions in this area?

No - It is important to increase transparency and harmonization with regard to how ESG is integrated in credit ratings and from the "Ratee" perspective to assess what ESG factors affect credit ratings. This is exactly what the guidelines set out to do. However, it is too early to say whether the guidelines have yet fulfilled their purpose as they came into "force" in April 2020.

This is a thorny domain. CRAs are currently developing methodologies to provide an ESG rating independently from their credit rating (S&P with Robecco Sam; Moody's with Vigeo). That rating, that would need to be requested, will be a paid service in addition to the issuer's rating.

The priority should be on regulating ESG rating agencies as their methodologies lack transparency and the sharing of different views with the issuers is almost non-existent.

Question 102: In your view, should investors and / or credit institutions, when they provide financing, be required to carry out an assessment of the potential long-term environmental and climate risks on the project, economic activity, or other assets?

No - oblige investors and credit institutions to perform such an assessment (of the potential long-term environmental and climate risks) across the board when financing projects, economic activities or other assets, would further bureaucratize the financing processes and thereby make the access to financing more difficult.

Particularly in the context of the COVID-19 pandemic and the need to ignite economic recovery, access to financing and liquidity should not be unduly complicated by adding a layer of administrative burden on the loan origination process.

Such assessment would also be very difficult to decline given the variety of asset classes and borrowers. For instance, what kind of requirements such an assessment could reasonably foresee for mortgage loans, would this raise barriers to access to finance?

If at all, such an assessment should rather be provided by the project or company simply due to informational asymmetries. Investments follow a business strategy and, depending on their volume and risk, require an analysis of the business models of the financed companies anyway. An separate additional ESG risk assessment must remain at discretion of the institutions.

A public and comparable database in Europe for climate-related loss and physical risks could instead be a good starting point. Once established, investors could use the database to take into consideration the long-term environmental and climate risks for invested projects.

We believe that this will be done gradually by the development of stress tests and extension of credit risk models for large institutions including ESG risks. This will affect credit policy. Moreover, action is already being taken by the EBA from mandates in the CRR/CRD and the effects should be evaluated before further measures are taken. But it will likely be warranted with Guidelines to clearly define how the assessment should be carried out.

Contact:

The EACB trusts that its comments will be taken into account. For further information or questions on this paper, please contact:

- Ms. Elisa Bevilacqua, Head of Department Sustainable Finance (elisa.bevilacqua@eacb.coop)
- Mr. Giovanni Betti, Adviser Sustainable Finance (giovanni.betti@eacb.coop)