POLISH BANK ASSOCIATION

Warsaw, July 15, 2020

Additional comments to several questions in the survey "Consultation on the renewed sustainable finance strategy"

<u>Additional comments to questions:</u>

Question 4:
In fact, there isn't any real difference between the banking sector and enterprises from other areas of the economy, and therefore the requirements on disclosure of their business strategies and targets contribute to reaching the goals of the Paris Agreement should be the same. Moreover, banks and their disclosures depend almost solely on data submitted by the clients and business partners. Therefore, from our point of view, a setting of common standards for to homogenous and comparable data from companies is a necessary condition for putting such obligations of financial institutions. Usually banks will publish such information in the last round – comparing to other industries.

Question 6:

<u>Challenges</u>

- Encouragement of investors to be more active by using their corporate voting rights.
- True, not shallow Implementation of ESG risk management in companies.
- Regulatory coherence - a uniform regulatory framework across market segments in different Member States.
- Reporting issues - uniform overloading especially for smaller projects calculating and reporting carbon footprint in the scope 3 by financial institutions (the biggest challenge is that the varied forms of activity of financial institutions may cause the problem with gathering all crucial information from the clients and with accounting for all types of value chain emissions).
- The complexity of the sustainable finance framework with partly overlapping initiatives and requirements is increasing with a significant obligation placed on the financial services sector. We need alignment between reporting requirements under the reviewed Non-Financial Reporting Directive (NFRD), the Sustainable Finance Disclosure Regulation (SFRD), the Capital

Requirements Regulation (CRR) Pillar II disclosures and the Taxonomy Regulation.

- Customers may not have sufficient knowledge about the sustainable development goals and the regulation in this area.
- Lack of proportionality mechanisms both for financial market participants and companies.
- Banking products for retail customers could also be popularized and encourages, while now being overwhelmed by big investments into sustainable projects. A universal understanding of what a green product for an individual bank client should be prepared, not to risk misguidance when preparing an offer (apart from investment products, which are already being regulated, by apply to the wealthier customers only).
- Additional social/economic costs related to the economy transformation having on-going impact on current business.

opportunities

- Greater comparability of market data.
- Finding a new group of investors, who will be interested in sustainable investments and finding new groups of clients who would be interested in changing their business model into more sustainable.
- Switching in to more digital channels of communication with clients.
- Appearance of new or improvement of existing technologies which improve profitability of the investments (Higher RoI, shorter PBP, ect) making green investment new “Eldorado” for investors.
- Opportunities to combat the Covid-19 crisis with the tools related to sustainability objectives.

Question 7:

Also, as one of main obstacles in this context, State aid law and rules might be identified. If there is a need to create an environment supporting the development of sustainable finance, a State aid legislation should be put in place that will create an incentive to invest not only in profit-driven projects but in projects with environmental objectives as well. It should be noted that currently, the State aid rules (especially in energy and environmental sector) are complicated and in many cases do not create enough incentives for potential investors to invest in environmentally friendly solutions and technologies.
Moreover, the ESG factors are hard to describe and generally have wide range. Due to this fact it is hard to create information or reports which will be comparable with the reports and information of other institutions.
Finally, there is lot of going on in sustainable finance topic and financial institutions need to put lot of effort to monitor and implement new regulations in their activities.
Many financial instruments (with EU or Member States support) seem to overlap each – other creating this way confusions among financial institutions and the market. The financial support system seems also complicated, regionalized – too dispersed (on Member States level) and in some cases difficult to access by financial institutions or investors.

Question 8:

Companies which are transitioning towards sustainable business on their own could also be granted part of the funds to be spent on social investment, meaning co-financing their employees in the pursuit of individual sustainability, such as co-financing of PV panels on employee's homes, financing public transport or electric cars etc. This way, apart from a big structural change the whole companies would be taking, there would also be a surrounding effect of supporting the society. For remaining people, the governmental and local-governmental funds shall be available on the similar terms. This way the public and private sector could contribute together, public sector could support those worse-off financially, while private would not neglect those who work, but otherwise could not afford or intent to take climate-aware action.

Question 10:

Please take into consideration that our positive answer depends on the assumption that clear and useful methodologies will really be available and the EU will provide the necessary tools, methodology & framework that the relevant counterparties (institutional investors and credit institutions) could use to disclose information about their portfolios otherwise, the costs involved and the complexity of this task will be disproportionately high in relation to the achieved goals.

Question 34:

We do not identify real practical benefits of new standards or labels. At present we would prefer to monitor and uptake by the market of the standards already developed or under development in the recent years.

Question 35:
The potential barriers are not necessarily related to the infrastructure.

Question 40 and Question 41:

Each company should make such decisions individually and adapt to its own internal policies and business model specifics.

Question 44:

We see no justification for further harmonization at EU level, the subsidiarity principle should be taken into account and Member States should be allowed to develop this area. Maximum harmonisation is not the right approach especially in this particular matter, based on rapidly changing circumstances and technical and market standards.

Question 46:

It seems to us a natural direction of development to take into account all aspects of ESG in decision-making processes in companies. It seems to us a natural direction of development to take into account all aspects of ESG in decision-making processes in companies. However, it takes time to evolve the approach and develop mechanisms, procedures and methodologies to integrate ESG factors into decision-making processes. In particular, a publicly available information would be useful for assessment of i.e. suppliers, such as IT systems or electronic appliances as computers, mobiles etc., which are primary tools used in the banks. We see no sense in the separate due diligence run by every bank when supplying itself with the tools which are used widely on the market. The green label for electronics should be introduced first and it would formulate a basis for purchases decisions on latter stages of the value chain from environmental perspective, while the human right and other social factors should be disclosed by the supplier publicly. At least some burden of analysis shall be distributed among market participants and not be focused entirely on the banks. Any additional surveys would remain in the banks' discretion.

Question 50:

An independent advice should be focused on client's needs and financial standing. Otherwise, retail investors could even lose the confidence the such an advice following abstract goal of ESG and not taking into consideration his best interest.

Question 83:

We believe that one should see how the current Taxonomy will be applied in practice. This will only be possible with all the level 2 legislation in place, which is currently prepared on the EC level. Next, assess the usefulness of the current Taxonomy and only then think about its revision and extension.

Question 86:

It is very important to introduce a clear methodology for establishing and applying macro-prudential instruments. The approach to the application of these instruments should be consistent in each country. Calibration of capital buffers in countries that have not experienced a banking crisis is difficult, because there is no benchmark when the buffer should be introduced and on the basis of which variables.

The EBA is currently working on the scope CRR mandate and is expected to issue consultation on incorporation of ESG into risk management frameworks and prudential regulation later this year.

Question 102:

UE may assist in the process of standardization of assessment methodology.

4. ADDITIONAL INFORMATION:

<u>Sustainable financing in agriculture</u>

After the announcement of the Farm2Fork Strategy, we have observed anxiety among farmers caused by the need for fundamental changes in the conduct of business in both crop and animal husbandry.

The basic assumptions of the strategy will require from farmers as well as from the local governments significant financial outlays, related to e.g.:

- investments in the transformation of farm infrastructure related to greenhouse gas emissions in animal production or waste management,
- Increased costs related to a complete change in the use of fertilizers, plant protection products and antimicrobials
- Support during the transition to organic production
- Investments in rural areas related to digitalisation

We see a huge role for financial institutions in financing these investments and working capitals. However, we would expect to have some form of support for our activities through financial instruments, e.g. in the form of guarantees from national banks.