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DG Financial Stability, Financial Services and Capital Markets Union
European Commission
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(submitted via the EC online portal)

RE: European Commission Consultation on the renewed sustainable finance strategy

Introductory Comments

BNY Mellon welcomes the opportunity to respond to this Consultation Paper on the renewed sustainable finance strategy.

BNY Mellon has been fully supportive of the initiatives of the European Commission's Action Plan on Financing Sustainable Growth ('2018 Action Plan') and welcomes continued advancement of the sustainable finance agenda, including to further increase private investment in sustainable projects and activities, and to better manage and integrate environmental, social, and governance ('ESG') risks into our financial system.

Given the broad-ranging nature of the topics for discussion in this Consultation Paper, we have taken the approach of responding to the specific questions where we feel we can add value.

BNY Mellon – Key Messages

Part 1.1 Company Reporting & Transparency and Part 2.4: Digital Sustainable Finance

BNY Mellon Message 1: Digital Tools and the policy case for a common, publicly accessible, free-of-cost environmental data space for companies ESG information, including data reported under the Non-Financial Reporting Directive (NFRD) and other relevant ESG data

BNY Mellon's Data and Analytics Solutions

BNY Mellon believes that digital tools are a crucial mean to simplify and optimise the analysis of ESG data, and to address existing information asymmetries with respect to the consideration of ESG factors in investment decision making process.

As part of BNY Mellon, Data and Analytics Solutions is building applications that address the unmet needs of institutional investment front offices. To that end, Data and Analytics Solutions is committed to using our reach, market influence, and resources to address the growing need for both greater consistency in and increased access to the best practices of environmental, social, and governance (ESG) investment.

In June 2020, we launched ESG Analytics, our cloud-based application, which will help to address the need for specific ESG factors in investment portfolios to match investors' own preferences and values, and will enable firms to leverage data strategically as an asset across data sources. This latter point is important as it has been widely reported that individual data sources, including from ESG data vendors rarely agree with each other.

The application is designed for a broad range of stakeholders in the market, including ESG investment portfolio managers, research analysts, financial advisors, client reporting teams, securities borrowers and lenders. Built on the public cloud as a part of an open ecosystem of complementary solutions, ESG Data Analytics will address the three core challenges to scaling sustainable investment:

(1) The need for customization to reflect individual ESG preferences
(2) The absence of globally accepted sustainable investing standards
(3) Concerns around green washing or social washing in the absence of demonstrability tools

Because there is no consistent standard by which to measure ESG investments and investors have their own preferences, the application introduces crowd-sourcing to inform emerging standards through investors' actions. The taxonomies that Data and Analytics Solutions developed a dynamic meta data table in ESG Data Analytics to facilitate the mapping of any commonly accepted taxonomy into any ESG data source. This approach was, validated by both institutional investors and asset managers located across EMEA, North America, and APAC. Additionally, we solicited input from the Global Research Alliance for Sustainable Financing (GRAFSI).

Among various taxonomies that focus on the breadth of the ESG factors, the tool currently already maps the recommendations set out by the Technical Expert Group on Sustainable Finance in their final report on the EU Taxonomy, released in March 2020. As the EU Taxonomy continues to evolve by virtue of the efforts of the new Platform on Sustainable Finance that will be established, the tool will continue map its various iterations.

<u>The case for a policy intervention for the creation of a data space' for companies ESG information ('ESG corporate data space')</u>

Nevertheless, we recognise that there is a key way in which EU policymakers could further support the delivery of digital solutions in the ESG space: namely by facilitating the development of a common, publicly accessible, free-of-cost environmental data space for companies ESG information, including data reported under the Non-Financial Reporting Directive (NFRD) and other relevant ESG data.

This is because the unavailability of comparable ESG corporate data continues to be a significant obstacle to the enhancement of transparency with respect to companies' consideration of ESG factors, and to support better informed investment decisions.
In addition, financial market participants impacted by the new sustainability-related disclosures[1], would need to obtain ESG information from investee companies' to comply with these new requirements. As a result, investee companies would have to deal with multiple requests for information at the same time, whether from financial participants or their investors.

A public ESG corporate data space, where companies could input their ESG information would be an efficient solution, benefitting the market as a whole and reducing the current significant focus and efforts around data gathering. In turn, this would allow enhanced focus on ESG driven innovation (with respect to both activities – including transition activities - and investments).

[1] For example, the Sustainability-related Disclosure Regulation (EU 2019/2088)

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SECTION I, PART 1: STRENGHTENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE

Part 1.5: Capital Markets Infrastructure

BNY Mellon Message 2: The case for a Capital Markets Union to enable access to a diverse range of new participants and the case for long-term investment funds

As mentioned in particular in our answers to Questions 6 and 7, we believe that to achieve the objective of mainstreaming sustainable finance it is necessary to build in each member state a rich capital market eco-system, with a diversity of capital market participants.

Our answers suggested that building such a rich eco-system in each member state would require the development of connections between member state capital markets, and this in turn would require a very high degree of harmonisation at the level of core financial market infrastructure.

Here are some additional explanations for these answers.
The biggest single problem of EU capital markets is the great difference in capital markets participation across member states, and the fact that participation in some member states is very low.
Capital market participation depends heavily on the existence of capital market institutions, and of a strong capital markets eco-system, at the member state level.
Such eco-systems depend on sufficient volumes of activity, and on a sufficient diversity of market participants.

Eco-systems that have a greater diversity of market participant are more resilient to external shocks, offer companies a greater variety in financing options, and deliver better quality outcomes.
Capital markets are heavily embedded in national economic, legal, and institutional structures, so that it is inevitable, and indeed desirable, that the different national eco-systems across the European Union be diverse.
But this raises two important questions: whether the existence of different national eco-systems creates obstacles for the single market and for the development of pan-European capital markets; and whether pan-European single market initiatives are a threat to national eco-systems.
There is the risk that the answer to both these questions is yes.

It is well known, since at least the Giovannini reports, that national specificities can be an obstacle to market access, and to the creation of a single market.
For a weak, relatively undiverse eco-system, EU single market measures, such as MiFID and MiFID 2, can represent an external shock that weakens the eco-system.
Yet market-opening measures can also deliver increased volumes, and increased diversity, through the presence and activity of new market actors.
With respect to trade policy, it is a well-established proposition that a tax on imports also has the effect of being a tax on exports. The same reasoning applies to market access. Obstacles to access to an eco-system weakens that eco-system, and as a result makes it more difficult for actors in that eco-system to access other eco-systems.

A major challenge is to build and strengthen national securities eco-systems, so that these eco-systems are not harmed by, but rather benefit from, pan-European market opening measures.
A very high degree of harmonisation at the level of core financial market infrastructure facilitates connections between national capital markets, while allowing for national eco-systems to develop.

For this reason, we believe that Recommendations 8, 9 and 15 from the Final Report of the Capital Markets Union High Level Forum are critical in order both to achieve this high level of harmonization, and to create pre-conditions for the successful development of sustainable finance eco-systems across all member states of the European Union.

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Concluding Remarks

BNY Mellon is invested in creating new opportunities for economic growth and progress, with particular focus on long-termism. BNY Mellon is determined to provide thought leadership in the capital markets space, and the focus on growing in a sustainable manner must be chief amongst the objectives in that regards.

We are available to meet with members and employees of the European Commission and the other European Union institutions and agencies, should you wish to discuss with us our response to this Consultation Paper.

About BNY Mellon

BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. We provide services to issuers and investors that allow them to access financial markets and financial market infrastructure across the world.

Our various business activities enable us to look at ESG holistically and offer ESG solutions alongside the value chain, from the creation of the financial instrument, to the execution and servicing of a portfolio. In addition, our investment management boutiques manage a range of ESG and sustainable investments across major asset classes.