Response to EC Consultation on the Renewed Sustainable Finance Strategy (Czech National Bank)

In general, the CNB prefers an approach not to additionally stimulate the development of sustainable financing through the regulation of financial markets and gives priority to a market self-regulation and approaches based on a natural motivation of economic entities, which could lead to changes in relevant internal regulations or companies' codes of conduct.

The CNB is of the opinion that investment decisions should be left to a free informed decision of financial market participants reflecting whether and to what extent they want to participate in strengthening the sustainability of the economy (in the sense of considering ESG factors) and investing in sustainable assets.

Public regulation in this area should only be used in duly justified cases. Public regulation of the financial market should not be the preferred (main) tool for supporting or inhibiting selected sectors of the economy. If there is a political agreement on the need to implement sustainability objectives, primarily other political or economic instruments should be used (e.g. direct emission limits values, standards for production processes, etc.).

Financial market regulation should be oriented to ensuring a prudent behaviour of supervised entities and consumer protection, promote the natural market conduct of economic entities and be as much as possible predictable. Prudential financial market regulation should take into account sustainability risks, which are significant for financial institutions as well as risks arising from sustainable assets that may be associated with lower returns and longer maturity carrying higher (financial) risk.

Possible considerations of changes regarding accounting framework in order to promote sustainable investment are not desirable, as the primary objective of financial reporting is to provide information for users of financial statements for economic decisions enabling them to reliably predict companies' future cash flows as well as to provide accurate information about their financial conditions and performance, not to misrepresent reality according to preferred aims (for example in area of sustainability). The accounting framework must not provide an incentive to cover existing losses or to shift them to the future.

Due to the fact that it was not always possible to join the detailed explanations in certain cases directly in the consultation form, see our additional comments on selected questions below:

Question 10

Regarding the obligation for institutional investors and credit institutions to estimate and publish information on how their portfolios are linked to different global warming scenarios or the objectives of the Paris Agreement, the CNB is of the opinion that the approved new sustainability legislation already contains extensive transparency obligations and therefore does not see any reason to extend these requirements further given, inter alia, the considerable administrative burden and questionable added value.

For financial market participants, taking into account sustainability (especially environmental) objectives beyond existing regulation should be voluntary.

The CNB is aware of the global efforts to combat climate change, but is convinced that meeting the objectives of the Paris Climate Agreement should not be promoted by financial market regulation, but through other policy instruments.

Question 16

The CNB fundamentally rejects any amendments regarding accounting standards, which would undermine the fundamental function of accounting to provide a true and fair view of reality in a way that allows economic decisions to be made on its basis. Accounting should not be a tool for redirecting flows to sustainable assets or even meeting environmental policy objectives, but should be neutral in nature.

The CNB is of the opinion that proposals for changes in the accounting framework or rules taking into account sustainability criteria could lead to undesirable effects, such as mispricing (due to their long-term nature, sustainable assets are usually associated with a high degree of uncertainty).

Regarding long-term environmental and climate risks, there is no need to change accounting standards, as these risks can be captured (and assessed) by adequate risk management tools (particularly stress tests) and should already be reflected in market asset prices.

Question 35

At present, the CNB in this regard does not observe any major market infrastructure shortcomings. Recently, trading systems have been significantly developing the “sustainable securities segment” and this trend can be considered sufficient for the further development of these products.

Question 39

The CNB does not support further regulatory changes, as it considers the current regulation framework in other areas, such as the integration of sustainability into the governance of financial market participants or remuneration systems linked to non-financial performance (Question 40 and 41), as sufficient. On the contrary, some risk could be found in the forced restructuring of portfolios.

Moreover, requirements for disclosure of sustainability information put a lot of pressure on companies to achieve positive results in the area of sustainability. Therefore, it would be better to wait for the effects of the new regulation and not push on further legislative amendments that are targeted on fostering long-termism.

Question 50:

Sustainable investments should, in principle, only be offered to those clients, who show interest in them or if the suitability test identifies a client's ESG preferences, respectively if such an investment instrument with overall characteristics corresponds to the client's investment profile.

The CNB does not support the obligation for financial advisers to systematically (i.e. always as one of the default options) offer sustainable investments to retail clients, especially in a situation where available ESG investment instruments will not meet other parameters required by the client

Question 52
The CNB thinks that assessment of financial products' impact on sustainability can be considered premature in this phase, because the key legislation (in particular the Disclosure Regulation) has not come into force yet. Compliance with the new disclosure requirements should subsequently provide the Commission more information for more robust analysis and thus a better and broader basis for deciding on possible further measures in the area of estimating investment impacts on sustainability.

Question 55
The CNB does not see any obstacles to the securitization of "green assets”. It does not consider as appropriate that securitization would be used for support a selected market segment, in this case products labelled as sustainable. Sustainable products can be considered as standard financial products that contain only certain other attributes. The conditions for the securitization of green assets should thus be analogous to the approach to the securitization of other assets, with the prudent aspects being respected in the first instance. Therefore, the possible relaxation of prudential rules for the securitization of green assets should not be supported.

Question 57:
The CNB regards the stability and predictability of the regulatory environment as the basic precondition for the development of digitalization and automation. Room for use of digitalization in the future can be seen mainly in the effective ESG data and information processing, such as monitoring of use-of-proceeds of green bonds and many other aspects. The EU should prefer indirect actions over direct interventions and regulation.

Question 69:
The CNB expects that additional costs associated with compliance with new sustainable finance regulations will have relatively stronger impacts on the smaller companies. While the CNB does not support direct incentives based on preferential treatment of sustainable assets set by regulation of the SMEs segment, a relatively stable regulatory environment with appropriate use of the principle of proportionality could help foster the greater involvement of SMEs in sustainability finance.

Question 83
The CNB is of the opinion that a potential extension of (or addition to) the taxonomy should be preceded by a thorough cost-benefit analysis. The CNB considers the creation of a comprehensive taxonomy covering all economic activities (i.e. the possibility to label every economic activity with a different shade of green or brown) as premature and unjustified.

Question 86:
The CNB notes the efforts of the EU to transform economies, but does not agree with the use of financial sector regulation as a tool to meet objectives in the area of sustainability for which alternative instruments should be used. On the other hand, the CNB supports those activities and tools that will contribute to improvement of the methodology for capturing and mitigating environmental and climate risks as specific categories of financial risk including transition risk.

With respect to prudential regulation, the CNB consistently follows a risk-based approach. It considers a key aspect to be the most accurate assessment of all real risks, i.e. including sustainability risks, or more specifically, climate-related risks. The CNB repeatedly points out that prudential regulation should correspondingly take into account sustainability risks, which are significant for financial entities, but also risks arising from sustainable investments, which may be associated with lower returns and longer life, and thus carry higher (financial) risk.

Therefore, the CNB is very cautious when it comes to preferential treatment of sustainable assets, which could lead to a real risk profile bias, a tendency to overshadow existing (traditional) financial risks or the distortion of asset valuation, which could contribute to financial market distortions and increase risks to financial stability. Therefore, the CNB rejects undesirable loosening of the prudential requirements applied to assets of this type (e.g. in the form of green-supporting factors) which would not be in accordance with a prudent risk management approach.

Question 91

The CNB is of the view that respecting all client preferences should always be in the highest interest of the entity offering the investment product. If the client prefers to invest in sustainable assets, it is fully in line with interest of financial advisor to offer the client a suitable product. Highlighting opportunities to invest in sustainable assets should always arise from identified client preferences. In any case, market distortion due to favouring products identified as sustainable should not occur, as this could lead to realization of investments, which do not reflect the natural preferences of financial market participants. Moreover, if the environmental costs within individual business sectors are properly taken into account, including the assessment of possible negative externalities, the current regulation framework should automatically lead to the sustainability risks being taken into account for individual investments.

Question 102:

The CNB does not support the consideration of climate and environmental risks by investors and banks beyond the current legislation. The impacts of projects on the environment should always be the responsibility of an entity implementing the project, not an entity financing the project. CNB perceives shifting the focus of these obligations, respectively partial delegation of them as unjustified and ineffective.