Consultation on the Renewed Sustainable Finance Strategy

Introduction

On 11 December 2019, the European Commission adopted its Communication on a European Green Deal, which significantly increases the EU's climate action and environmental policy ambitions. The European Green Deal puts forward a new European growth strategy, one which is fit for purpose in a time of rapid environmental degradation, biodiversity loss, rising climate and environmental risks and still increasing levels of greenhouse gases globally. The European Green Deal, above all, aims to decouple economic growth from natural resource use, in order to transform Europe's economy into a more modern, more resource-efficient, and more competitive one, while increasing fairness and prosperity across all levels of society, and not leaving anyone behind.

A number of levers will need to be pulled in order to build this growth strategy, starting with enshrining the climate-neutrality target in law. On 4 March 2020, the European Commission proposed a European Climate Law to turn the political commitment of climate-neutrality by 2050 into a legal obligation. This follows the European Parliament's declaration of a climate emergency on 28 November 2019 and the European Council conclusions of 12 December 2019, endorsing the objective of achieving a climate-neutral EU by 2050.

In order to be able to deliver on this objective, the European Commission committed to put in place a number of policies and enabling frameworks that can facilitate the transition, many of which should provide direct incentives for the redirection of investments. They include, amongst other measures, proposals for the revision of the Emissions Trading System Directive, the revision of the Energy Taxation Directive, a proposal for a carbon border adjustment mechanism, the revision of the related State Aid Guidelines, as well as a revision of CO_2 emissions performance standards for cars and vans.

The ongoing COVID-19 crisis in particular shows the critical need to strengthen the sustainability and resilience of our societies and the ways in which our economies function. This is necessary to, above all, minimise the risk of similar systemic crises in the future, which are more likely to occur as climate and environmental impacts escalate. In parallel, it will be paramount to ensure the resilience and capacity of our societies and economies to resist and recover from such systemic crises. The current COVID-19 outbreak underscores some of the subtle links and risks associated with human activity and biodiversity loss. Many of the recent outbreaks (e.g. SARs, MERS, and avian flu) can be linked to the illegal trade in, and consumption of, often endangered wild animal species. Furthermore, experts suggest that degraded habitats coupled with a warming climate may encourage higher risks of disease transmission, as pathogens spread more easily to livestock and humans.[1] Therefore, it is important – now more than ever - to address the multiple and often interacting threats to ecosystems and wildlife to buffer against the risk of future pandemics, as well as preserve and enhance their role as carbon sinks and in climate adaptation.

Financing the European Green Deal and increasing the financial resilience of the economy, companies and citizens

Above all, the transition to a sustainable economy will entail significant investment efforts across all sectors, meaning that financing frameworks, both public and private, must support this overall policy direction: reaching the current 2030 climate and energy targets alone would already require additional investments of approximately €260 billion a year by 2030. In addition, significant investments in the upskilling and reskilling of the labour force will be necessary to enable a just transition for all. Hence, the scale of the investment needs goes well beyond the capacity of the public sector. Furthermore, if the climate and biodiversity crises are to be successfully addressed and reversed before potentially dangerous tipping points are reached, much of the investment needs to happen in the next 5-10 years. In this context, a more sustainable financial system should also contribute to mitigate existing and future risks to wildlife habitats and biodiversity in general, as well as support the prevention of pandemics -such as the COVID-19 crisis.

in this context, the European Green Deal Investment Plan - the Sustainable Europe Investment Plan – announced on 14 January 2020 aims to mobilise public investment and help to unlock private funds through the EU budget and associated instruments, notably through the InvestEU programme. Combined, the objective is to mobilise at least €1 trillion of sustainability-related investments over the next decade. In addition, for the next financial cycle (2021-2027) the **External Investment Plan (EIP) and the European Fund for Sustainable Development Plus (EFSD+)** will be available for all partner countries with a new External Action Guarantee of up to €60 billion. It is expected to leverage half a trillion Euros worth of sustainable investments. Lastly, the **European Investment Bank (EIB)** published on 14 November 2019 its new climate strategy and Energy Lending Policy, which notably sets out that the EIB Group will align all their financing activities with the goals of the Paris Agreement from the end of 2020. This includes, among other measures, a stop to the financing of fossil fuel energy projects from the end of 2021.

However, the financial system as a whole is not yet transitioning fast enough, in order to reach the scale of sustainable investments that is required - with investment needs amounting to at least €2.6 trillion by 2030 - and to prevent the worst effects of climate change and environmental degradation. These effects are becoming more and more visible, while at the same time, society, including the financial sector, is increasingly aware of the need to scale up its role in addressing these challenges. But substantial progress still needs to be made to ensure that the financial sector genuinely supports businesses on their transition path towards sustainability, as well as further supporting businesses that are already sustainable. It will also mean putting in place the buffers that are necessary to support de- carbonisation pathways across all European Member States, industries that will need greater support, as well as SMEs.

For all of these reasons, the European Green Deal announced a Renewed Sustainable Finance Strategy. The renewed strategy will build on the 10 bold actions put forward in the European

[1] See for instance "UNEP Frontiers 2016 Report on Emerging Issues of Environment Concern,", UNEP, 2016.

Commission's initial **2018 Action Plan on Financing Sustainable Growth**, which laid down the foundations for channelling private capital towards sustainable investments.

Even though financial regulation will continue to play an indispensable role in embedding sustainability risks and opportunities in the financial system, it is a tool that cannot work in isolation nor substitute clear and ambitious climate, energy and environmental policies. One of the aims of the European Green Deal is precisely to create a conducive policy framework for corporate and financial institutions to transition to sustainability and reap the benefits of being among those who acted first and fastest. In this vein, in the ongoing public consultation on a proposed Climate Pact, the Commission invites stakeholders to submit views inter alia on whether the financial sector should pledge to transition their activities increasingly towards sustainability.

This increased ambition of the goals and targets under the EU Green Deal requires a much more fundamental transformation of how the financial and corporate sectors operate. The financial sector is making progress but its efforts should be assessed against this new policy framework and the pressing necessity to avoid climate and biodiversity crisis tipping points. After the Action Plan on Financing Sustainable Growth that started to address the most urgent issues, the current context requires a more comprehensive and fundamentally more ambitious strategy. It is now time to intensify efforts to reach the higher level of ambition set out in the European Green Deal. Against the backdrop of cross-cutting actions announced as part of the Green Deal, **the Renewed Sustainable Finance Strategy will predominantly focus on three areas**:

1. **Strengthening the foundations for sustainable investment by creating an enabling framework, with appropriate tools and structures.** Too many financial and non-financial companies still disproportionately focus on short-term financial performance compared to their long-term development and sustainability-related challenges and opportunities.
2. **Increased opportunities to have a positive impact on sustainability for citizens, financial institutions and corporates**. This second pillar aims at maximising the impact of the frameworks and tools in our arsenal in order to "finance green".
3. **Climate and environmental risks will need to be fully managed and integrated into financial institutions and the financial system as a whole**, while ensuring social risks are duly taken into account where relevant. Reducing the exposure to climate and environmental risks will further contribute to move from brown to green, thus "greening finance".

Objectives of this consultation and links with other consultation activities

The aim of this consultation is to collect the views and opinions of interested parties in order to inform the development of the renewed strategy. All citizens, public authorities, including Member States, and private organisations are invited to contribute. Given the diversity of topics under consultation, stakeholders may choose to provide replies to some questions only. Section I (covering questions 1-13) is addressed to all stakeholders, including citizens, while Section II (covering questions 14-102) requires a certain degree of financial and sustainability-related knowledge and is primarily addressed at experts.

This consultation builds on a number of previous initiatives and reports, as well as complementing other consultation activities of the Commission, in particular:

- The final report of the High-Level Expert Group on Sustainable Finance (2018);
- The EU Action Plan on Financing Sustainable Growth (2018);

- The communication of the Commission on 'The European Green Deal' (2019);
- The communication of the Commission on 'The European Green Deal Investment Plan' (2020);
- The reports published by the Technical Expert Group on sustainable finance (TEG) with regard to an EU taxonomy of sustainable activities, an EU Green Bond Standard, methodologies for EU climate benchmarks and disclosures for benchmarks and guidance to improve corporate disclosure of climate-related information.

This consultation also makes references to past, ongoing and future consultations, such as the public consultation and inception impact assessment on the possible revision of the Non-Financial Reporting Directive (NFRD), the inception impact assessment on the review of the Solvency II Directive or the future consultation on investment protection.

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire on time will be analysed and included in the report summarising the responses**. Should you have a problem completing this questionnaire or if you require particular assistance, please contact [fisma-sf-consultation@ec.europa.eu].

Stakeholder identification More information: • on this consultation • on the protection of personal data regime for this consultation

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▪ Section I: Questions addressed to all stakeholders on how the financial sector and the economy can become more sustainable

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):

- Major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.
- Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.
- No further policy action is needed for the time being.

Question 2: Do you know with sufficient confidence if some of your pension, life insurance premium or any other personal savings are invested in sustainable financial assets?

- Yes/No/Do not know.
- If yes, do you consider that you have had sufficient access to information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets? Please explain and specify whether you searched for the information yourself or whether the information was made available to you [BOX 2000 characters].

Only insufficient, non-comparable and standardised information is being made available as a regular service or standard; it is necessary to actively request or search for the information in most cases. Analysis reveals that it is more regularly the case that financial advisers are little trained to provide precise and accurate answers on sustainability issues.

Even in case of savings that were specifically put in a sustainable savings account, the bank often cannot provide details in what projects the money is concretely and eventually invested in at a particular moment.

Further, the actual sustainability related risk exposure of the portfolio is not structurally analysed nor communicated, as is the case with the sustainability related impact the portfolio has on the external environment, society or ecosystems.

- If no, would you like to be offered more information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets and divest from non-sustainable assets?
  - Yes/No/Do not know
  - If necessary, please explain your answer [BOX 2000 characters].

Question 3: When looking for investment opportunities, would you like to be systematically offered sustainable investment products as a default option by your financial adviser, provided the product suits your other needs?

- Yes/No/do not know

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

- Yes, corporates;
- Yes, financial institutions;
- Yes, both;
- If no, what other steps should be taken instead to accelerate the adoption by corporates and financial sector firms of business targets, strategies and practices that aim to align their emissions and activities with the goals of the Paris Agreement? [BOX, 2000 characters]
- Do not know.

Question 5: One of the objectives of the European Commission's 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects. Do you believe the EU should also take further action to:

- Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models: scale from 1 (strongly disagree) to 5 (strongly agree).
- Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law: scale from 1 (strongly disagree) to 5 (strongly agree).
- In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective?[BOX, 2000 characters]

1) To provide clear guidance and to discourage investors from investing in or financing environmentally harmful activities, it is necessary to extend the taxonomy regulation by defining clearly, potentially through a complementary taxonomy, what determines unsustainable economic activities in breach of the EU ambition and legal commitments. Social elements should also be strengthened, be it through tighter safeguards and/or a social taxonomy.

2) Such a 'full' taxonomy should then be linked to sectoral legislation (CRD, Solvency, …) ensuring that harmful activities are discouraged by correctly pricing the financial risks attached to them in an evidenced way. A complementary way to do it is to require as soon as possible, in the prudential rules, annual climate (and in a next step environmental) scenario testing for financial institutions and publication of the results.

3) The Commission should table a legislative proposal on sustainable corporate governance as soon as feasible (e.g. by 2021), requiring companies to set mandatory sustainability strategies and measurable, time-bound, science-based targets, and to mandatorily and substantially link the remuneration of executive staff to the achievement of such targets.

4) The Commission should prepare an ambitious environmental and human rights due diligence legislation for corporates for 2021.

5) The shareholder rights directive should be reviewed to strengthen shareholder engagement and stewardship when they ask for the alignment of business models of investee companies with agreed environmental and social public policy goals such as the Paris Agreement and SDGs.

- ## Section II: Questions targeted at experts

The following section asks further technical and strategic questions on the future of sustainable finance, for which a certain degree of financial or sustainability-related expertise may be useful. This section is therefore primarily addressed at experts.

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?

- [BOX, 2000 characters].

- Three main challenges:

  1) The risk that the COVID-19 crisis has some short-term oriented stakeholders side-lining sustainability issues to return to business as usual instead of accelerating the green transition;

  2) The lack of accepted and adequate measurement framework of the sustainability impacts of investment products and how the underlying the real economy transformation is developing;

  3) Insufficient and inappropriate development and implementation of the required infrastructure for a comprehensive supply and provision of relevant data (access, reliability, adequacy, availability, cost effectiveness, readiness to process).

- Three main opportunities:

  1) The European Green Deal together with the renewed sustainable finance strategy are a major opportunity to accelerate the transition to a sustainable financial system and enable essential and enabling and clarifying legislation, such as mandatory 'do no harm' environmental and human rights corporate due diligence for companies;

  2) the developing increasing willingness of retail investors to invest more in sustainability;

  3) The Commission's planned 2021 initiative on sustainable corporate governance is an unprecedented opportunity to require large companies to set and publish sustainability strategies and measurable, time-bound, science-based targets, and substantially link the remuneration of executive staff to the achievement of targets. This should be linked to new means for investors (e. g. accountability mechanism) to strengthen their shareholder engagement and stewardship on sustainability issues.

Question 7: Overall, can you identify specific obstacles in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making?

- Please provide a maximum of three examples [BOX max. 2000 characters].

1) The lack of a clear definition related to the transformation(s) in the real economy and a respective "fully developed" taxonomy that is applicable across the wider market; consequently there still is significant and counterproductive confusion on the definitions. After the Commission reviews the

taxonomy regulation by end 2021, a legislative proposal should be tabled in 2022 to develop the full taxonomy in an understanding of becoming an assessment framework more than a classification system.

2) The lack of standardisation of corporate sustainability reporting makes the comparability of the sustainability performance between comparable companies very difficult and often enough impossible. Mandatory sector specific KPIs on material strategic ESG issues are necessary in the NFRD review. Further to the deficits related to ESG reporting the missing integration with financial accounting is a substantial barrier for widespread adoption and scaled-up implementation.

3) The lack of clearly established and adequate sustainability requirements within investors' duties, investor due diligence and stewardship (including shareholder engagement): many pieces of legislation like AIFMD, IORP, UCITS, etc. need to be revised in order to integrate this aspect. The Disclosure Regulation will not be sufficient.

4) A fourth aspect relates to missing clarity on what constitutes material, systematic and science based "transformation-related effects" which need to be measured and managed. Materiality defined by stakeholder groups and not related to a science-based understanding of the requirements of a successful transformation hinder a scaling up as is needed. A clear materiality understanding refers also to an extension of timelines for forward looking estimates, accounting periods, etc. which in their current format do not extend beyond periods of a year or two.

Question 8: The transition towards a climate neutral economy might have socio-economic impacts, arising either from economic restructuring related to industrial decarbonisation, because of increased climate change-related effects, or a combination thereof. For instance, persons in vulnerable situations or at risk of social exclusion and in need of access to essential services including water, sanitation, energy or transport, may be particularly affected. How could the EU ensure that the financial tools developed to increase sustainable investment flows and manage climate and environmental risks have, to the extent possible, no or limited negative socio-economic impacts?

- [BOX, 2000 characters]

Several recommendations:

1) Minimum social safeguards should be developed or strengthened everywhere as a social 'do no harm' (like in the EU taxonomy that includes minimum social safeguards), and should be developed and operationalised in a delegated act to help their concrete implementation. Such safeguards should be mandatory across EU financial legislation and across EU budget funds, such as Cohesion Policy.
2) An ambitious EU legislative proposal on corporate human rights and environmental due diligence should be tabled in early 2021.
3) A social taxonomy should be developed to complement the environmental one and will enable the identification of activities that are positive for climate, environmental and social objectives.

4) The EU should play a positive role to negotiate a UN binding Treaty on business and human rights so that all companies globally have the obligation to respect human rights (including social rights and living incomes) and remedy social harm.

Question 9: As a corporate or a financial institution, how important is it for you that policy-makers create a predictable and well-communicated policy framework that provides a clear EU-wide trajectory on greenhouse gas emission reductions, based on the climate objectives set out in the European Green Deal, including policy signals on the appropriate pace of phasing out certain assets that are likely to be stranded in the future?

- Please express your view by using a scale from 1 (not important at all) to 5 (very important).
- For scores of 4 to 5, what are, in your view, the mechanisms necessary to be put in place by policy-makers to best give the right signals to you as a corporate or a financial institution? [BOX, 2000 characters]

1) ensure availability of scenario data with a sectoral and regional resolution for the most transition affected companies

2) ensure there is manuals and supporting material developed and provided especially to smaller and resource limited FIs and companies.

3) ensure a reliable and guaranteed updating process of such material as much as gathering and distribution of best practices and lessons learned.

4) provide science bases technology roadmaps to guide and support intense company engagement.

Question 10: Should 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, investors
- Yes, credit institutions
- Yes, both
- No
- Do not know

Question 11: Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss in particular on corporates who are dependent on ecosystem services, such as in sectors like agriculture, extractives, fisheries, forestry and construction. The importance of biodiversity and ecosystem services is already acknowledged in the EU Taxonomy. However, in light of the growing negative impact of biodiversity loss on companies' profitability and long-term prospects,[2] as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?

- Yes/No/Do not know
- If yes, please specify potential actions the EU could take. [BOX max. 2000 characters]

Several recommendations:

[2] See for instance "The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business," WWF, 2019

1) The biodiversity section of the EU Taxonomy needs to be prioritized and DNSH criteria established in every piece of EU Regulation with relation to sustainable finance.

2) As part of the NFRD review, an EU standardised reporting framework for corporate sustainability reporting should include mandatory sector-specific KPIs on material strategic ESG issues including biodiversity in all economic sectors or activities where it is a material issue - in particular agriculture and food, forestry, mining, energy, transport, tourism, fisheries, aquaculture and more. Such mandatory sector-specific KPIs would substantially facilitate the comparison of the sustainability performance of peer companies.

3) The EU should prepare an ambitious environmental and human rights due diligence legislation for all corporates for 2021, including specific biodiversity risks.

4) The EU should table a legislative proposal on sustainable corporate governance early 2021, requiring companies to set mandatory sustainability strategies and measurable science-based time-bound targets, and to mandatorily and substantially link the remuneration of executive staff with the achievement of such targets. This should include biodiversity targets in the economic sectors or activities where it is a material issue, building on the EU targets defined in the EU Biodiversity Strategy, and at the global level the current Aichi targets and the forthcoming targets in the Convention on Biological Diversity.

5) The Convention on Biological Diversity currently discussed should explicitly state that financial flows should be aligned with biodiversity goals - similarly to the Paris Agreement on climate change. Such a global alignment requirement in the CBD is critical.

6) Biodiversity offsets are controversial and only ever an option of last resort. It is much more important to ensure effective and ambitious implementation of sustainable strategies based on the requirements of environmental regulation.

Question 12: In your opinion, how can the Commission best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level in order to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan?

- [BOX, 2000 characters]

1) A key place to do so is the forthcoming EU Platform on Sustainable Finance that the Commission will set up later in 2020. It is meant to be a permanent platform, not only to develop the technical screening criteria of the four remaining environmental objectives of the EU Taxonomy Regulation, but also to tackle and discuss other sustainable finance issues, such as reporting, retail finance, etc. over the mid-long term. The Platform should be given a stronger and broader mandate and gradually become a sustainable finance observatory as recommended by the HLEG. As such and aside the establishment of the platform as an institution to define benchmarks, etc. It will be crucial to establish a reliable and accepted governance process of how review and adjustment of regulation will be conducted. The UK example of the Climate Change Committee overseeing the analysis and adjustment (ratcheting-up) of regulation (in the case of the UK the size of the available carbon budget, the

allocation to sectors and companies and the structure to do so for a total of 15years in three instalments).

2) The European Parliament should be more involved to increase parliamentary scrutiny.
3) In the European Semester, the Commission should put a much stronger emphasis on national environmentally harmful subsidies (such as fossil fuel subsidies), environmental taxation and the sustainability of national budgets, and issue Country Specific Recommendations for eliminating harmful subsidies immediately and increasing environmental taxation and taxonomy-aligned budget spending.

Question 13: In your opinion, which, if any, further actions would you like to see at international, EU, or Member State level to enable the financing of the sustainability transition? Please identify actions aside from the areas for future work identified in the targeted questions below (remainder of Section II), as well as the existing actions implemented as part of the European Commission's 2018 Action Plan on Financing Sustainable Growth.

- [BOX, 2000 characters]

- The International Platform on Sustainable Finance, the EU sustainability reporting standard are all part of the Sustainable Finance Action Plan or included in other questions below.
- The Commission should work even more closely with the NGFS to accelerate awareness raising and urge financial regulators to take rapid, bold, and decisive action.
- Member States, central bankers, national and EU supervisors (ESAs) where possible should be active in all international financial fora (BIS, BCBS, IOSCO, FSB, IMF, World Bank, SBN, regional development banks incl. IIAB, etc.) to promote stringent sustainable finance regulation while at the same time ensuring enough flexibility to allow adaptation to specific conditions in different countries.
- The Commission should identify where technical assistance would help to develop impact-oriented sustainable finance regulation in developing countries (e. g. for members of the NGFS and the Sustainable Banking Network). Promoting harmonisation while allowing flexibility would contain the ongoing proliferation of sustainable finance initiatives, voluntary standards and norms, policies, guidelines etc which increasingly create counter-productive confusion.
- The EU should re-orient its trade and investment policy and renegotiate its trade and investment agreements so that the EU and partner countries have the flexibility to introduce more stringent regulation aimed at environmental risks and negative impacts. In the short term do-not-sue clauses could be negotiated with the countries with which the EU has trade and investment agreements, including the Energy Charter.
- Support the integration of international reporting and accounting standards to incorporate sustainability considerations.

1. Strengthening the foundations for sustainable finance

In order to enable the scale-up of sustainable investments, it is crucial to have sufficient and reliable information from financial and non-financial companies on their climate, environmental and social risks and impacts. To this end, companies also need to adopt long-term horizons in order to be able to consider these sustainability issues in a more robust manner. Similarly, investors and companies need access to reliable climate-related and environmental data and information on social risks, in order to make sound business and investment decisions. Labelling tools, among other measures, can provide clarity and confidence to investors and issuers, which contributes to increasing sustainable investments. In this context, the full deployment of innovative digital solutions requires data to be available in open access and in standardised formats.

1.1 Company reporting and transparency

In its Communication on the European Green Deal, the Commission recognised the need to improve the disclosure of non-financial information by corporates and financial institutions. To that end, the Commission committed to reviewing the Non-Financial Reporting Directive (NFRD) in 2020, as part of its strategy to strengthen the foundations for sustainable investment. A public consultation is ongoing for that purpose.

The political agreement on the Regulation on establishing a framework to facilitate sustainable investment ('Taxonomy Regulation') places **complementary reporting requirements on the companies that fall under the scope of the NFRD**.

In addition to the production of relevant and comparable data, it may be useful to ensure open and centralised access not only to company reporting under the NFRD, but also to relevant company information on other available ESG metrics and data points (please also see the dedicated section on sustainability research and ratings 1.3). To this end, a **common database** would ease transparency and comparability, while avoiding duplication of data collection efforts. The Commission is developing a common European data space in order to create a single market for data by connecting existing databases through digital means. Since 2017, DG FISMA has been assessing the prospects of using Distributed Ledger Technologies (including blockchain) to federate and provide a single point of access to information relevant to investors in European listed companies (European Financial Transparency Gateway - EFTG).

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?

- Yes/No/Do not know.
- If yes, please explain how it should be structured and what type of ESG information should feature therein. [BOX, 2000 characters]

The centralization of reported corporate data in an open data format to enable direct and straightforward access to the information by all stakeholders is highly desirable. The Commission should ensure that:

- All material sustainability information is published in the mainstream financial report (integrate the extra-financial statement into the annual report);
- Tagging of the information is required and that the data is in a format that is machine-readable, so it can be used at lower cost;
- A clear structure for reporting of sustainability information is organised.
- The database is accessible for free, or at least for a modest fee: apart from large investors very few stakeholders do currently afford an annual access to a costly Reuters or Thomson financial terminal, which creates a quite problematic information asymmetry.

- Additionally, it should be considered:
  - The value of the information is dependent on its reliability; verification of sustainability information is an important issue.
  - The available information should also include social information, e. g. payment difference ratio, gender diversity at different layers of the company, jobs lost or added (taking into account effects of M&As), etc.
  - The available information on governance (G) should be expanded to cover tax strategies and tax planning, corporate structure

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?[3]

- Yes/No/Do not know.
- If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation),[4] how likely is it that you would use the taxonomy for your business decisions (such as adapting the scope and focus of your activities in order to be aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). If necessary, please specify [BOX, 2000 characters].

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1.2 Accounting standards and rules

Financial accounting standards and rules can have a direct impact on the way in which investment decisions are made since they form the basis of assessments that are carried out to evaluate the financial position and performance of real economy and financial sector companies. **In this context, there is an ongoing debate around whether existing financial accounting standards might prove challenging for sustainable and long-term investments**. In particular, some experts question whether existing impairment and depreciation rules fully price in the potential future loss in value of companies that today extract, distribute, or rely heavily on fossil fuels, due to a potential future stranding of their assets.

Recognising the importance of ensuring that accounting standards do not discourage sustainable and long-term investments, the Commission already requested, as part of the 2018 Action Plan on Financing Sustainable Growth, that EFRAG explored potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. EFRAG issued its advice to the Commission on 30 January 2020. Following this advice, the Commission has requested the IASB to consider the re-introduction of re-cycling through the profit or loss

[3] The six environmental objectives are climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems.

[4] Assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU Taxonomy.

statement of profits or losses realised upon the disposal of equity instruments measured at fair value through other comprehensive income (FVOCI).

Question 16: Do you see any further areas in existing financial accounting rules (based on the IFRS framework) which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks?

- Yes/no/do not know.
- If yes, what is in your view the most important area (please provide details, if necessary):
    - Impairment and depreciation rules. [BOX, 2000 characters]

So far, too little attention is dedicated to "inside-out" negative impacts (in the sense of the double materiality) in a forward looking way. Impairment and depreciation rules are looking at "outside-in" impacts and are for instance used by accountants to acknowledge "outside-in" claims, by reclaiming upon insurers, but they don't anticipate and file risks.

In order to strengthen the governance issues of ESG factors, there is a need for better transparency, valuation and depreciation rules of companies that have a high level of intangibles and that are shifting the income from intellectual property rights to low-tax jurisdictions such as the Netherlands. The rules on good will have been so much liberalised that they might be currently overvalued, leading to future stranded assets and companies not being able to adapt to CO2-neutral operations.

- Provision rules. [BOX, 2000 characters]

There should be more transparency in the balance sheets about the reserves of companies (cash, retained profits, etc.). For instance, companies should have to disclose how much and in which assets their reserves have been invested in (and whether they could lead to climate or socially stranded assets) and where these assets are being allocated (e.g. in tax havens or secrecy jurisdictions).

- Contingent liabilities. [BOX, 2000 characters]

Destructive impacts on the environment and contributions to climate change should be accounted under the provisions for repairing (e. g. environmental clean-up). see: https://www.iasplus.com/en/standards/ias/ias37

- Other, please specify. [BOX, 2000 characters]

Financial accounting rules are being increasingly challenged and modified to provide more transparency about whether or not a company is paying all taxes according to the text and the spirit of the law, and is not applying aggressive profit shifting and tax planning, and transfer pricing, to avoid paying taxes.

Climate and environmental risk is often still not well understood and therefore not sufficiently integrated in accounting. For instance, a comprehensive overview of the issues and related risks and impacts can be referred to the "9 planetary boundaries" framework https://www.stockholmresilience.org/research/research-news/2019-11-01-ten-years-of-nine-planetary-boundaries.html .

1.3 Sustainability research and ratings

A variety of sustainability-related assessment tools (ratings, research, scenario analysis, screening lists, carbon data, ESG benchmarks, etc.) are offered by specialised agencies that analyse individual risks and by traditional providers, such as rating agencies and data providers. In the autumn of 2019, the Commission launched a study on the market structure, providers and their role as intermediaries between companies and investors. The study will also explore possible measures to manage conflicts of interest and enhance transparency in the market for sustainability assessment tools. The results are due in the autumn of 2020. To complement this work, the Commission would like to gather further evidence through this consultation.

Question 17: Do you have concerns on the level of concentration in the market for ESG ratings and data?

- Please express your view by using a scale of 1 (not concerned at all) to 5 (very concerned). If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

- Standardised, freely accessible and comparable ESG data will bring more objectivity to the ESG ratings, and decrease the risk of ESG rating oligopoly as it will enable some investors to analyse corporate data on their own. Similarly, open and harmonised ESG data (Q14) could lead to the emergence of non-financial data aggregators which could challenge classical ESG and Credit Rating Agency business models and avoid excessive market concentration.
- The currently observed consolidation in the market for ESG ratings could have the potenitla upside for higher degree of solid and quality data, while the downside of potential cost effects exists. We would also like to point to the reduction of market players as a potential loss of creativity and variety of approaches, which could slow down the emergence of data and intelligence on the most urgently needed forward looking data and technology assessments, amongst other elements, to be able to understand and assess transformation performance.
- There is also a possible concern related to the fact that most of the firms emerging form the consolidation are non-EU ones. With the increasing importance associated with ESG data in the future and linked to the transformation in the real economy there is a robust likelihood of such data becoming an increasingly strategic issue for the future of finance. The EU should consider how to use competition policy and regulation, Credit Rating Agency Regulation and more to prevent and if need be, reverse concentration of the ESG data, research and rating market in order to guarantee the integrity of this industry in the EU.

Question 18: How would you rate the comparability, quality and reliability of ESG **data** from sustainability providers currently available in the market?

- Please express your view by using a scale of 1 (very poor) to 5 (very good). 2
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

Sustainability providers are usually using the information that is provided (e. g. through questionnaires) or disclosed by the companies themselves, which has been extensively demonstrated (including in the Alliance for Corporate Transparency 2019 Research[5]) too often not to properly fulfill the current NFRD requirements. The fact that corporates frequently complain about the large amount of diverse queries for ESG information from agencies and investors, indicates that there is a lack of harmonisation which should be solved by further standardizing ESG metrics and disclosure (e. g. through software interfaces with existing accounting software).

Furthermore, ESG scoring is often based on companies' policies and processes, but the focus is on their adoption, not their impacts, implementation or mitigation. Plus, ESG ratings rely heavily on backward-looking information, which is not a reliable proxy of future performance. The Commission needs to develop a common standard to measure and disclose materiality in both directions ('double materiality'), **and** standard methodology for assessing and rating companies on key ESG issues. ESG rating agencies should also reflect the NFRD in their own methodologies.

In addition, the Commission should consider to revise the Credit Rating Agency (CRA) Regulation in 2021 to:

- ensure that CRAs adequately disclose their methodologies and skills for discharging their duties;
- properly integrate ESG risks into their credit risk analysis and ratings, and provide information on the extent to which they integrate ESG risks and negative impacts and if the latter are mitigated by the company;
- as recommended by the HLEG, integrate mid-term analysis in separate 'rating outlooks' to provide longer-term forward looking analysis (5 years at least).

Question 19: How would you rate the quality and relevance of ESG **research** material currently available in the market?

- Please express your view by using a scale of 1 (very poor) to 5 (very good). 2
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

UNANSWERED.

Question 20: How would you assess the quality and relevance of ESG **ratings** for your investment decisions, both ratings of individual Environmental, Social or Governance factors and aggregated ones?

- Individual: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good). 2
- Aggregated: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good). 2
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

There are various concerns:

- The best-in-class approaches to ESG integration are commonly used for ESG ratings, but can be very problematic from a sustainability point of view as they still allow fundamentally unsustainable businesses, including tobacco, weapon companies and coal, to feature in ESG

[5] https://allianceforcorporatetransparency.org/

funds and indexes. Further, ESG based assessments do not necessarily reflect forward looking assessments, hence very limited value for a solid guidance on contributions to the transformations ahead. A sort of cognitive dissonance has arisen from the rapid growth of the ESG industry, which has not been accompanied by a science-based and meaningful critical assessment of the practices, methods, and data used.

Question 21: In your opinion, should the EU take action in this area?

- Yes/No/Do not know.
- If yes, please explain why and what kind of action you consider would address the identified problems. In particular, do you think the EU should consider regulatory intervention? [BOX, 2000 characters]

Four recommendations:

1) Ensuring relevant, open and comparable ESG data from corporates is being made accessible and available is the priority issue in this area. The committed EU reporting standard is a welcome must for delivering on this issue; it should rely on few, mandatory sector-specific KPIs that are as strategic and material as possible for each sector or subsector ;
2) As mentioned in Question 18, based on evidence, the Commission should revise the CRA Regulation in 2021 to:

- ensure that CRAs adequately disclose their methodologies and skills for discharging their duties;
- properly integrate financially material ESG risks into their credit risk analysis and ratings.
- The HLEG recommended that CRAs set up 'credit rating outlooks', clearly differentiated from credit ratings, to take into account a longer-term perspective (5 years at least) during which ESG-related risks are more likely to materialize than in a short-term period. This should be assessed by the Commission and integrated in the CRA Regulation.

As the ECB[6] recommends in their response to this consultation, *'from the ECB's supervisory perspective, transparent and effective integration of ESG factors into credit ratings is needed, as they translate into the risk models of many institutions and the related risk weights'*.

3) There is also an urgent need to regulate on minimum standards regarding conflict of interest, integrity of the methodologies and business models, transparency and service to clients. Supervisors at national and EU levels should be provided sufficient means to properly enforce such EU regulation. Registration and licencing could be a first step in the short term, as recommended by the TEG. Special attention is needed to the regulation and supervision of third/external reviewers of green/social/environmental bonds.

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

The market for sustainable finance assets (loans, bonds, funds, etc.) is composed of a wide variety of products, offered under various denominations like 'green', 'SDG', 'transition', 'ESG', 'ethical', 'impact',

[6] European Central Bank: 'Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the NonFinancial Reporting Directive'

etc. While a variety of products allows for different approaches that can meet the specific needs and wishes of those investing or lending, it can be difficult for clients, in particular retail investors, to understand the different degrees of climate, environmental and social ambition and compare the specificities of each product. **Clarity on these definitions through standards and labels can help to protect the integrity of and trust in the market for sustainable financial products, enabling easier access for investors, companies, and savers.**

As set out in the 2018 Action Plan on Financing Sustainable Growth, the Commission services started working on: (i) developing possible technical criteria for the EU Ecolabel scheme for retail funds, savings and deposits, and (ii) establishing an EU Green Bond Standard (EU GBS). The Commission also committed to specifying the content of the prospectus for green bond issuances to provide potential investors with additional information, within the framework of the Prospectus Regulation.

EU Green Bond Standard

The Technical Expert Group on Sustainable Finance (TEG) put forward a report in June 2019 with 10 recommendations for how to create an EU Green Bond Standard (EU GBS). This was completed with a usability guide in March 2020, as well as with an updated proposal for the standard (see Annex 1).

The TEG recommends the creation of an official voluntary EU GBS building on the EU Taxonomy. Such an EU Green Bond Standard could finance both physical assets and financial assets (including covered bonds and asset-backed securities), capital expenditure and selected operating expenditure, as well as specific expenditure for sovereigns and sub-sovereigns. The standard should in the TEG's view exist alongside existing market standards.

The overall aim of the EU GBS is to address several barriers in the current market, including reducing uncertainty on what is green by linking it with the EU Taxonomy, standardising costly and complex verification and reporting processes, and having an official standard to which certain (financial) incentives may be attached. The TEG has recommended that oversight and regulatory supervision of external review providers eventually be conducted via a centralised system organised by ESMA. However, as such a potential ESMA-led supervision would require legislation and therefore take time, the TEG suggests the set-up of a market-based, voluntary interim registration process for verifiers (the Scheme) of EU Green Bonds for a transition period of up to three years.

Below you will find four questions in relation to the EU GBS. **A separate dedicated consultation with regards to a Commission initiative for an EU Green Bond Standard will be carried out in the first half of 2020**. Please note that questions relating to green bond issuances by public authorities are covered in section 2.7 and questions on additional incentives can be found in section 2.6.

Question 22: The TEG has analysed four different options for an accreditation or supervision regime of verifiers of EU Green Bonds (green bonds following the EU GBS). Do you agree that verifiers of EU Green Bonds should be registered/authorised or supervised?

- Yes, at European level
- Yes, at a national level
- No
- Do not know
- If necessary, please explain the reasons for your answer [BOX 2000 characters]

In our view, a key requirement for ensuring the effectiveness and credibility of the GBS is to create an ecosystem of external verifiers of green bonds, which are registered and supervised in a centralised way by ESMA. Such a scheme would enhance market confidence, streamline verification procedures, avoid duplication of effort and, ultimately, reduce the costs of external reviews (for the green bond market but also for other types of emerging debt instruments like sustainability-linked loans and bonds).

WWF fully supports the analysis done by the Technical Expert Group (TEG) in its report published in June 2019, which concluded that a centralised approach building on ESMA's core competences would be justified. The TEG's analysis clearly shows that national supervisors are not ideally suited for accrediting verifiers, because this market is already quite concentrated with very few national champions across Europe, of which the leading players are owned and controlled by professional services firms headquartered outside the EU. In the case they have only one institution to accreditate, national supervisors would also have no point of comparison, which is problematic. Supervision is therefore much more appropriate at European than national level.

We believe that only ESMA can provide a unified approach and ensure a level-playing field at EU level. It already plays a comparable role for the Credit Rating Agencies (CRAs) that could potentially yield synergies with existing processes and procedures (e.g., for the avoidance of market abuse), in particular given the fact that even under a scenario that assumes strong and continued growth in the green bond market the number of external reviewers to be accredited is expected to be relatively small.

Supervised CRAs have already started to offer these services and have acquired resources by taking over sustainability consultants. They are also increasingly integrating environmental aspect into their credit ratings. Moreover, ESMA envisages environmental issues as becoming part of its mandate going forward. For example, ESMA has been asked to build capacity on sustainability for other purposes (MiFID II; fiduciary duty). Additional green expertise and capacity within ESMA will be required, and needs should be carefully assessed and quantified.

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?

- Yes / No / Do not know
- If necessary, please specify the reasons for your answer [BOX 2000 characters]

Sustainability-related data, including data on taxonomy-alignment of companies (revenues, CapEx, OpEx) current is not sufficiently robust and third-party verification and/or related assurances services can play an essential role to enhance the quality, reliability and comparability of data available.

The entire data-value chain and spectrum of sustainability-data related services (advisory services, assurance and verification, research and data provision, data processing and analysis, non-financial ratings, etc.) should abide to the same consistent rules and requirements to ensure independence and consistent data quality that were outlines by the TEG for verifiers of green bonds.

This is becomes even more relevant in an industry that currently undergoes a strong tendency of consolidation and concentration.

Question 24: The EU GBS as recommended by the TEG is intended for any type of issuer: listed or non-listed, public or private, European or international. Do you envisage any issues for non-European issuers to follow the proposed standard by the TEG?

- Yes/ No/ Do not know
- If necessary, please specify the reasons for your answer [BOX 2000 characters]

The EU GBS is aimed at becoming the world's most robust standard for green bonds, to avoid greenwashing and bring confidence. Any issuer willing to reach this level of confidence need to fully align with the standard.

Prospectus and green bonds

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?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree) 5
- If necessary, please specify the reasons for your answer [BOX, 2000 characters]

WWF is convinced that a comprehensive and consistent disclosure regime is needed for ALL companies that seek to access European capital markets. Some may argue that setting additional requirements for green bonds in the Prospectus regulation will be burdensome and impede the developments of the green bond market. In our view, these additional requirements are inevitable to ensure strong confidence. A 'greenwashing' scandal related to the GBS could heavily harm this growing market, and must be avoided with robust safeguards. In addition, to avoid that green bonds are subject to an unfair disclosure burden compared to plain vanilla bonds, a critical complementary element is to introduce a new, ambitious disclosure regime for all bonds: disclose the proportion of their use of proceeds that is aligned with the EU taxonomy, in the same way the taxonomy regulation mandates disclosures for all financial products (including a disclaimer option).

To date this type of targeted disclosure of use-of-proceeds is not required, despite its importance. The recently adopted taxonomy regulation sets a new level-playing field for disclosure by large listed companies, which must report their annual taxonomy-related revenues and capex – hence disclosing the same type of information at bond level is feasible and proportionate for these corporates. However, other companies that issue bonds in the EU are not covered by the Non-financial Reporting Directive and are thus still free-riding this requirement. Building on the taxonomy regulation, the Commission should close this loophole to make the disclosure regime comprehensive and consistent for all companies issuing bonds.

As a result, we believe that it is critically important that the requirement to disclose sustainability-related information in the prospectus should be applicable to all financial instruments, including bonds.

Not requiring sustainability information for all bonds puts an additional, counter-productive burden on green bonds. Indeed, to avoid that green bonds specifically are subject to this kind of disclosure burden compared to plain vanilla bonds, a critical complementary element is to introduce a new, ambitious disclosure regime covering all bonds to disclose the proportion of their use of proceeds that is aligned with the EU taxonomy, in the same way the taxonomy regulation mandates disclosures for all financial products (including a disclaimer option for the time being).

The taxonomy regulation makes it technically feasible to disclose this type of information for all bonds including plain vanilla ones (annual taxonomy-eligible revenues, opex and capex).

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"

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree) 4
- If necessary, please specify the reasons for your answer [BOX]

WWF believes that additional disclosure requirements are needed for all bonds, not only green bonds (see response to question 25). Under such a disclosure regime whereby all bond issuers are requested to report on taxonomy-related information (Revenues, OpEx, CapEx, and alignment of use-of-proceeds) there would be no need to require specific additional disclosures requiremenst on green bonds in the prospectus. Provided that the EU GBS is clearly defined, tight and unambiguous, and that EU GBS compliance means that the full bond is subject to the standard and aligned with the EU taxonomy, we agree that reference to the EU GBS compliance could replace specific disclosure requirements.Moreover, issuers who (voluntarily) adopt the EU GBS should benefit from a simplified disclosure require and simply include a link to the EU GBS (which shows 100% taxonomy-alignment, verified by a registered/approved verifier) in the prospectus. An additional benefit from such a disclosures regime would be to provide a powerful incentive for issuers to adopt the EU-GBS. Last but not least, it would also simplify the design of the EU ecolabel for financial product that are based on fixed-income instruments.

Other standards and labels

Already now, the Disclosure Regulation defines two categories of sustainable investment products: those promoting environmental or social characteristics and those with environmental or social objectives, the latter being defined as 'sustainable investments'. Both types of products have to disclose their use of the EU Taxonomy, for the environmental portion of the product.

Question 27: Do you currently market financial products that promote environmental characteristics or have environmental objectives?

- Yes/No/Do not know.
- If yes, once the EU Taxonomy is established,[7] how likely is it that you would use the EU Taxonomy in your investment decisions (i.e. invest more in underlying assets that are partially or fully aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). Please specify if necessary [box, 2000 characters

[7] Assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU taxonomy.

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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?

- No regulatory intervention is needed.
- The Commission or the ESAs should issue guidance on minimum standards.
- Regulatory intervention is needed to enshrine minimum standards in law.
- Regulatory intervention is needed to create a label.

Question 29: Should the EU establish a label for investment funds (e.g. ESG funds or green funds) aimed at professional investors?

- Yes/No/Do not know.
    - If necessary, please explain your answer [BOX, 2000 characters]

There is clear financial industry demand to use the forthcoming EU Ecolabel for retail investors in a professional context, as demonstrated by industry consultation submissions and comments during the Ecolabel development process. However two elements should be taken into account:

- retail consumers have more ambitious expectations from a green retail label (e. g. on sensitive sectors such as fossil fuels or on the share of investments that are truly green)
- Professional investors claim that they are engaging in various ways with investee companies, in particular through stewardship and shareholder engagement, hence they have more options than retail investors.

- If yes, should this be in the context of the EU Ecolabel?
    - Yes/No/Do not know
    - If necessary, please explain your answer [BOX, 2000 characters]

As shown consistently by studies, consumers have different, to date more simplistic sustainability expectations than professional investors and the EU Ecolabel should aim to build a stricter set of criteria building on the EU taxonomy - if we stick to the conventional ESG understanding. Consumer expectations make it hard to justify investments in transforming/ controversial industries (nuclear, gas, weapons, alcohol, intensive agriculture, pesticides, mining, etc.) whereas these could be deemed acceptable to professional investors that can develop a more complex and sophisticated approach.

Likewise, consumers will very likely find it hard to understand that a fund which only invests 18% of its funds in taxonomy-compliant ('green') activities can be ecolabelled, whereas this could be deemed acceptable for professional investors as part of a broader strategy to help finance the transition of companies that want to *become* greener.

Finally, professional investors might accept a "do no harm" strategy as sufficient for a fund to be labelled, whereas retail investors in many cases would expect above-average performance from portfolio firms (e.g. paying a living wage, not just the legal minimum wage; or avoiding supply chains using child labour even in countries where this is still legally allowed).

Bringing in products aimed at professionals under the EU Ecolabel will put undue downwards pressure on such standards, which increases the risk of consumer deception and perceived greenwashing, potentially harming the credibility of the Ecolabel: this needs to be avoided.

Finally, the Commission should finalise the EU ecolabel for financial products in a way that matches the expectations of retail investors, i.e. with 51% at least of green investments in the funds and tight exclusion criteria for significantly harmful sectors. Given the lack of data on this market shown by JRC and if the minimum percentage mentioned before is not agreed, it is likely relevant to postpone the finalization of the ecolabel until taxonomy data become available.

Question 30: The market has recently seen the development of a sustainability-linked bond, whose return is dependent on the company meeting pre-determined sustainability targets. This approach is different from regular green bonds, which have a green use-of-proceeds approach. Should the EU develop standards for these types of sustainability-linked bonds?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree).
- If necessary, please explain. [BOX, 2000 characters]

Sustainability-linked bonds in the sense of explicitly addressing the transformation become extremely relevant and powerful if they are linked to *meaningful* pre-determined corporate sustainability targets, as they provide a direct and visible financial reward for the company to achieve this target. They can therefore accelerate the shift from brown to green of many companies.

However, WWF believes that the proliferation of sustainability-related KPI is adding more confusions than value and that standardisation of this type of instruments, beyond broad market guidance recently provided by ICMA, is needed to avoid market fragmentation and ensure alignment with the framework for sustainable investments created by the EU taxonomy regulation. This would mean for issuers of such debt-capital market instruments to use the word “sustainability-linked”, the link to the EU taxonomy should be demonstrated in the same way as required for financial products under the EU taxonomy regulation.

Moreover, there is a significant risk that the pre-determined sustainability target is incremental (hence largely business as usual) and inadequate to properly contribute to the achievement of EU sustainability goals (e. g. 2050 climate neutrality or EU Biodiversity Strategy targets).

To assist both issuers - to set meaningful pre-determined sustainability targets - and investors - to check their robustness and have confidence in these new types of bond instruments -, EU standards should be developed to ensure that the KPI clearly (and exclusively) refer to the mandatory reporting metrics under the taxonomy regulation (i.e., taxonomy-aligned revenues, OpEx, CapEx) and use the taxonomy in a forward-looking way: mandatory corporate taxonomy disclosure as of 2022 should be used to set a baseline, enabling the company to set taxonomy-related targets e. g. in years 2025 / 2027 for both its revenues and its capex. Alternatively, the EU standards can replicate the science-based approach of market initiatives. In the cases where a science-based target is not deemed achievable by the company (that lags too far behind), a two-step approach might be relevant to put the company back on track, provided it is still timely to align with EU sustainability goals. It would be very relevant in such a case to use the two indicators of taxonomy-related revenues and taxonomy-related capex (see below in Question 31).

Question 31: Should such a potential standard for target-setting sustainability-linked bonds make use of the EU Taxonomy as one of the key performance indicators?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree).
- If necessary, please explain. [BOX, 2000 characters]

The EU taxonomy is one of the most relevant tools that the EU standard for target-setting sustainability-linked bonds should use. Notwithstanding, the Taxonomy requires further development and adjustment (see previous response).

Question 32: Several initiatives are currently ongoing in relation to energy-efficient mortgages[8] and green loans more broadly. Should the EU develop standards or labels for these types of products?

- Yes/No/Do not know.
- If yes, please select all that apply:
  - a broad standard or label for sustainable mortgages and loans (including social and environmental considerations);
  - 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;
  - other: please specify what type of standard or label on sustainability in the loan market you would like to see [BOX, 2000 characters]

On the one hand, energy efficiency is a key sector for the ecological transformation of the European Union. On the other hand, sustainable housing is an important issue of social well-being. Therefore, energy-efficient mortgages and loans for the renovation of a residential property are a necessity that could be upgraded by a label. This label must cover the environmental and social aspects of this economic sector, which is a key component of the "Just Transition". Other types of products that could benefit from such a distinction in the loans market could be low-carbon cars or even education and training in sustainability areas.

Question 33: The Climate Benchmarks Regulation creates two types of EU climate benchmarks - 'EU Climate Transition' and 'EU Paris-aligned' - aimed at investors with climate-conscious investment strategies. The regulation also requires the Commission to assess the feasibility of a broader 'ESG benchmark'. Should the EU take action to create an ESG benchmark?

- Yes/No/Do not know.
- If no, please explain the reasons for your answer, if necessary. [BOX, 2000 characters]
- If yes, please explain what the key elements of such a benchmark should be. [BOX max. 2000 characters]

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[8] 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.

The creation of an ESG benchmark is consistent with the recommendation of the High-Level Expert Group, in its final report, 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.

It remains very relevant to ensure that sustainably-denominated benchmarks reach a minimum level of ambition, in order to avoid greenwashing in the ESG benchmark market, which is a problematic issue. importantly, such an ESG benchmark should focus on corporate impacts on the ground, not only corporate policies and processes.

As is the case for climate benchmarks, ESG benchmarks should reward underlying companies which are frontrunners in their industry (analogous to the Paris-aligned benchmarks) by giving them a way to differentiate themselves and attract a funding premium, while also creating incentives for less advanced companies to make their business more sustainable (in line with the Climate Transition benchmarks). This could be done using sector-specific metrics in the E (outside climate), S and G domains.

Furthermore, caution should be paid not to create benchmarks that stimulate one type of positive sustainable impacts to the detriment of others; granular 'do no harm' requirements are a proper way to fix this, provided that "doing good" and "doing harm" cannot be traded off against each other (e. g. if a company produces cobalt for electric vehicle batteries might do good on climate mitigation objectives at the cost of human rights, the 'do no harm' requirement should disqualify the company from being part of an ESG benchmark).

Question 34: Beyond the possible standards and labels mentioned above (for bonds, retail investment products, investment funds for professional investors, loans and mortgages, benchmarks), do you see the need for any other kinds of standards or labels for sustainable finance?

- Yes/No/Do not know.
- If yes, what should they cover thematically and for what types of financial products? [box max. 2000 characters]

1.5 Capital markets infrastructure

The recent growth in the market for sustainable financial instruments has raised questions as to whether the current capital markets infrastructure is fit for purpose. Having an infrastructure in place that caters to those types of financial instruments could support and further enhance sustainable finance in Europe.

Question 35: Do you think the existing capital market infrastructure sufficiently supports the issuance and liquidity of sustainable securities?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree).
- For scores of 1 and 2, please list the main problems you see (maximum three). [BOX, 2000 characters].

UNANSWERED

Question 36: In your opinion, should the EU foster the development of a sustainable finance-oriented exchange or trading segments that caters specifically to trading in sustainable finance securities and is better aligned with the needs of issuers?

- Yes/No/Do not know.
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

The objective at hand is to integrate sustainability considerations across the existing financial markets, hence a dedicated sustainability segment will be counter to such a full integration.

Question 37: In your opinion, what core features should a sustainable finance–oriented exchange have in order to encourage capital flows to ESG projects and listing of companies with strong ESG characteristics, in particular SMEs?

- [BOX max. 2000 characters]

1.6 Corporate governance, long-termism and investor engagement

To reflect long-term opportunities and risks, such as those connected to climate change and environmental degradation, **companies and investors need to integrate long-term horizons and sustainability in their decision-making processes**. However, this is often difficult in a context where market pressure and prevailing corporate culture prompt corporate managers and financial market participants to focus on near-term financial performance at the expense of mid- to long-term objectives. Focusing on short-term returns without accounting for long-term implications may lead to underperformance of the corporation and investors in the long-term, and, by extension, of the economy as a whole. In this context, investors should be driving long-termism, where this is relevant, and not pressure companies to deliver short-term returns by default.

As part of action 10 of the Action Plan on Financing Sustainable Growth, in December 2019 the **European Supervisory Authorities delivered reports (ESMA report, EBA report, EIOPA report) that had the objective of assessing evidence of undue short-term pressure from the financial sector on corporations**. They identified areas within their remit where they found some degree of short-termism and issued policy recommendations accordingly. For instance, they advise the adoption of longer-term perspectives among financial institutions through more explicit legal provisions on sustainability.

Question 38: In your view, which recommendation(s) made in the ESAs' reports have the highest potential to effectively tackle short-termism? Please select among the following options.

- Adopt more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management;
- Define clear objectives on portfolio turn-over ratios and holdings periods for institutional investors;
- Require Member States to have an independent monitoring framework to ensure the quality of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs);
- Other, please specify. [box max. 2000 characters]

The undue short-term pressure can't be entirely eliminated. Therefore, such pressure should be mitigated and balanced by providing protection and incentives to long-term interests in corporate governance.

This can be achieved primarily by clearer integration of sustainability in board obligations and remuneration schemes and by fostering 'patient capital' that works with corporations to create sustainable wealth. In order to achieve the latter, the European Commission should adopt

a) more explicit legal provisions on sustainability for investors and credit institutions, as suggested in the ESA's reports, and
b) measures incentivising long-term shareholding
c) reforms of corporate reporting to enable corporate governance accountability mechanisms, as recommended by the ESMA report, and addressed in other parts of this document.

Question 39: Beyond the recommendations issued by the ESAs, do you see any barriers in the EU regulatory framework that prevent long-termism and/or do you see scope for further actions that could foster long-termism in financial markets and the way corporates operate?

- Yes/No/Do not know.
- If yes, please explain what action(s). [BOX max. 2000 characters]

UNANSWERED

The Shareholder Rights Directive II states that **directors' variable remuneration** should be based on both financial and non-financial performance, where applicable. However, there is currently no requirement regarding what the fraction of variable remuneration should be linked to, when it comes to non-financial performance.

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

- Yes/No/Do not know.
- If yes, please indicate what share. [box 2000 characters]

To provide a reasonable incentive and to support the importance we would suggest to link 50% of the variable remuneration to a solidly and scientifically backed sustainability or non-financial performance.

Question 41: Do you think that a defined set of EU companies should be required to include carbon emission reductions, where applicable, in their lists of ESG factors affecting directors' variable remuneration?

- Yes/No/Do not know.

The Shareholder Rights Directive II introduces **transparency requirements** to better align long-term interests between institutional investors and their asset managers. When requiring emission reductions as factors affecting variable remuneration if is essential to find the right metric and indicator such that these become decision relevant (I.e. regionalised, sectorally relevant, forward looking, aligned with science-based requirements). Further, it would be too narrow to only link to carbon emissions, as the climate transformation is only one dimension to reflect, and this needs to be broadened.

Question 42: Beyond the Shareholder Rights Directive II, do you think that EU action would be necessary to further enhance long-term engagement between investors and their investee companies?

- Yes/No/Do not know.
- If yes, what action should be taken? Please explain or provide appropriate examples. [BOX max. 2000 characters]

Long-term engagement between investors and their investee companies is highly likely to need additional elements beyond the concept of stewardship which is a valuable component that requires further extension in the regulatory framework. The length of shareholding, especially for institutional investors is based on strategies to maximise return on investment, which need to take into account market conditions and dynamics. It is relevant to consider also rewarding and strengthening the influence of the patient investors. This can be achieved for instance by setting voting rights in proportion to the time of presence in a firm's capital, providing the rewards of shares, e. g. dividends, on the basis of the time that the shares have been held, and decreasing or exempting capital gains tax on the basis of long-term shareholdings.

As regards engagement in terms of active interventions in corporate governance, rather than merely share holding, the EU should adopt a taxonomy of unsustainable activities, that would help large institutional investors with extensive portfolios to identify and prioritise cases for their active engagement. Such taxonomy should address both environmental sustainability as well as protection of human rights. Even more important than a "unsustainable taxonomy" would be to fully flesh out the transition segments in the existing taxonomy such that capital can be allocated to the transition activities with ease and confidence, while causing little confusion.

While market-led initiatives are accelerating, they are still way too slow for the climate emergency we face. The Commission should therefore call for the obligation to formulate climate strategies and targets for companies (e. g. proportional to company size). It may be relevant to start targeting high-carbon sectors - and encourage other sectors to follow but not make it mandatory for them initially. Such sustainability strategies should include a measurable and timebound science-based targets, an asset-level transition plan to clarify its implementation.

Question 43: Do you think voting frameworks across the EU should be further harmonised at EU level to facilitate shareholder engagement and votes on ESG issues?

- Yes/No/Do not know

Question 44: Do you think that EU action is necessary to allow investors to vote on a company's environmental and social strategies or performance?

- Yes/No/Do not know.
- If yes, please explain. [BOX max. 2000 characters]

Sole reliance on investors to drive high ambition in corporate environmental and social strategies is at odds with the conclusion that capital markets' (and thus investors' at large) time horizons are too short to be able to recognize and address sustainability risks. This conclusion - sometimes called 'tragedy of horizons' - has been the cornerstone of the final report of the European Commission High

Level Expert Group on Sustainable Finance and the subsequent European Commission Action Plan on Sustainable Growth.

If this conclusion is still valid, then a policy intervention that would increase investors' influence over companies' sustainability strategies, that wouldn't distinguish between rights of long-term and short-term oriented investors, is likely to have little effect and even create a risk of further worsening the problem that the EU sustainable finance strategy is trying to address. In parallel, the notion of increased investor involvement through engagement with the company is a very welcomed focus by investors.

Question 45: Do you think that passive index investing, if it does not take into account ESG factors, could have an impact on the interests of long-term shareholders?

- Yes/No/Do not know.
- If no, please explain the reasons for your answer, if necessary. [BOX max. 2000 characters]
- If yes, in your view, what do you think this impact is, do you think that the EU should address it and how? [box max. 2000 characters]

Also passive and index based investing is a means of linking the capital market with the real economy, hence the same requirements apply, in the sense that underlying indices need to meet the very same sustainability performance understanding and criteria as for active investing. The Commission already engaged in this field with the benchmark regulation, the underlying logic and methodology here should be consistent, for instance with the taxonomy. Further, it is essential for such adjusted or compliant indices are gaining in market relevance, I.e. as benchmarks, and substitute today's benchmarks rather than being only an alternative.

Question 46: Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change. Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?

- Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.
- Yes, as these issues are relevant to the financial performance of the company in the long term.
- No, companies and their directors should not take account of these sorts of interests.
- I do not know.

Question 47: Do you think that an EU framework for supply chain due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?

- Yes/No/Do not know.

Question 48: Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?

- Yes/No/Do not know.
- If yes, please select your preferred option:
  - All companies, including SMEs.
  - All companies, but with lighter minimum requirements for SMEs.
  - Only large companies in general, and SMEs in the most risky economic sectors sustainability-wise.
  - Only large companies.
- If necessary, please explain the reasons for your answer. [box max. 2000 characters]

The Commission should consider legislative proposals related to corporate governance:

1. On director's duties and incentives on sustainability, including a requirement for large European corporates to set up a corporate sustainability strategy and measurable targets, and link the remuneration policy to their achievement.

2. On human rights and environmental due diligence for large European corporates (including throughout their value chain) as well as SMEs in high-risk sectors. It should build on the UN Guiding Principles on Business and Human Rights, the OECD's Guidelines on Responsible Business Conduct and existing legislative precedents such as France's duty of vigilance law. It should include civil liability and remediation in case of significant harm.

3. More specifically, on due diligence related to soft commodity products (agriculture) that are imported into or produced within the EU, building on EU trade-related regulatory precedents to ensure the sustainability of such products and complementary to the EU legislation on deforestation both existing and being developed.

Even the Investor Alliance for Human Rights[9] published in April 2020 a statement calling on governments to institute mandatory human rights due diligence measures for companies not only as part of the COVID-19 crisis but further.

Due diligence requirements placed on companies are connected with clarification of board obligations (Q 46). Directors should give parity to all material stakeholders and issues and should not prioritize shareholder value over such considerations.

2. Increasing opportunities for citizens, financial institutions and corporates to enhance sustainability

Increased opportunities need to be provided to citizens, financial institutions and corporates in order to enable them to have a positive impact on sustainability. Citizens can be mobilised by providing them with opportunities to invest their pensions and savings sustainably or by using digital tools to empower them to make their communities, their homes and their businesses more resilient. Financial institutions and corporates can increase their contribution to sustainability if the right policy signals and incentives are in place. Furthermore, international cooperation and the use of sustainable

[9] Investor Alliance for Human Rights (April 2020), 'Investors with US$5 trillion call on governments to institute mandatory human rights due diligence measures for companies'

finance tools and frameworks in developing countries can help build a truly global response to the climate and environmental crisis.

As part of the European Green Deal, the Commission has launched a European Climate Pact to bring together regions, local communities, civil society, businesses and schools in the fight against climate change, incentivising behavioural change from the level of the individual to the largest multinational, and to launch a new wave of actions. A consultation on the European Climate Pact is open until 27 May 2020 in order to better identify the areas where the Commission could support and highlight pledges as well as set up fora to work together on climate action (including possibly on sustainable finance).

2.1 Mobilising retail investors and citizens

Although retail investors today are increasingly aware that their own investments and deposits can play a role in achieving Europe's climate and environmental targets, they are not always offered sustainable financial products that match their expectations. In order to ensure that the sustainability preferences of retail investors are truly integrated in the financial system, it is crucial to help them to better identify which financial products best correspond to these preferences, providing them with user-friendly information and metrics they can easily understand. To that end, the European Commission will soon publish the amended delegated acts of MIFID II and IDD, which will require investment advisors to ask retail investors about their sustainability preferences.

Question 49: In order to ensure that retail investors are asked about their sustainability preferences in a simple, adequate and sufficiently granular way, would detailed guidance for financial advisers be useful when they ask questions to retail investors seeking financial advice?

- Yes/No/Do not know.
- If necessary, please provide an explanation of your answer. [box max. 2000 characters]

Reopening and adjusting several product regulations as from 2021-2022 (e.g. PRIIPs, UCITS or others, at level 1 or 2) is necessary to ensure a consistent EU approach and to develop a robust framework. Four complementary issues need to be addressed:

- Monitor whether financial advisers properly ask retail **clients** about their sustainability preferences, on the basis of the new MiFID II and IDD Delegated Acts. We believe that the ESAs should produce a template questionnaire to provide more granular guidance to financial advisers, in order to improve compliance and reduce risks of liabilities.
- Disclose sustainability information in a clear, standardised and accessible manner to non-expert retail investors, in the Key Information Document. For example, the climate temperature score of a given fund (showing whether the fund is aligned with a Paris-compliant 1,5°C or well below 2°C pathway, or is heading towards climate chaos above +4°C), with a thermometer-shaped indicator, should be systematically presented to retail investors. There are now tools in the market enabling such analysis.
- Avoid greenwashing and risks of market abuse by establishing minimum standards for sustainably denominated funds, as recommended by the HLEG its in priority recommendation on retail investment.
- Require that ambitious ESG and transition funds (ESG integration, sustainability themed, or impact investing) are systematically proposed as a default retail option, given the

overwhelming majority of 70% or more of retail investors who want their money to be invested in a sustainable way, as found by many studies very consistently over the last years[10].

Question 50: Do you think that retail investors should be systematically offered sustainable investment products as a default option, when the provider has them available, at a comparable cost and if those products meet the suitability test?

- Yes/No/Do not know.

It should indeed be required that ESG or transition funds are systematically proposed as a default retail option, given the overwhelming majority of 70% or more of retail investors who want their money to be invested in a sustainable way, as found by many studies very consistently over the last years[11].

However, this measure alone will not be enough: it needs to be ensured in parallel that ESG funds are transformed to ensure that they truly bring positive sustainable impacts in the real economy in an evidenced way.

Question 51: Should the EU support the development of more structured actions in the area of financial literacy and sustainability, in order to raise awareness and knowledge of sustainable finance among citizens and finance professionals? Please reply using a scale of 1 (completely disagree) to 5 (fully agree) 3

- If you agree (for scores of 4 to 5), please choose what particular action should be prioritised:
  - Integrate sustainable finance literacy in the training requirements of finance professionals. [1-5] 5
  - Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens' education at school, possibly in the context of a wider effort to raise awareness about climate action and sustainability.[1-5] 1
  - Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions. [1-5] 3
  - Directly, through targeted campaigns. [1-5] 1
  - As part of a wider effort to raise the financial literacy of EU citizens. [1-5] 2
  - As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. [1-5] 5
  - Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. [1-5] 4
  - Other, please explain.[box max. 2000 characters]

Finance professionals still in significant degrees are missing sustainability expertise and should be regularly trained in order to understand it better and provide decent advice.

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[10] For example Natixis (2016), Mind shift: getting past the screens of responsible investing; Schroeders (2017), Global Perspectives on sustainable investing; Maastricht University (2019), "Get Real, Individuals Prefer More Sustainable Investments; University of Cambridge (2019), "Walking the talk: Understanding consumer demand for sustainable investing".

[11] For example Natixis (2016), Mind shift: getting past the screens of responsible investing; Schroeders (2017), Global Perspectives on sustainable investing; Maastricht University (2019), "Get Real, Individuals Prefer More Sustainable Investments; University of Cambridge (2019), "Walking the talk: Understanding consumer demand for sustainable investing".

2.2 Better understanding the impact of sustainable finance on sustainability factors

While sustainable finance is growing, there are questions on how to measure and assess the positive impact of sustainable finance on the real economy. Recently, tools have been developed that can be used to approximate an understanding of the climate and environmental impact of economic activities that are being financed. Examples of such tools include the EU Taxonomy, which identifies under which conditions economic activities can be considered environmentally sustainable, use-of-proceeds reporting as part of green bond issuances, or the Disclosure Regulation, which requires the reporting of specific adverse impact indicators.

Yet, an improved understanding of how different sustainable financial products impact the economy may further increase their positive impact on sustainability factors and accelerate the transition.

Question 52: In your view, is it important to better measure the impact of financial products on sustainability factors?

- Please express your view by using a scale of 1 (not important at all) to 5 (very important).
- For scores of 4 to 5, what actions should the EU take in your view? [BOX max. 2000 characters]

Various experts increasingly argue that financial products and services marketed as sustainable must make a clear and measurable difference to the transition to environmental sustainability. For example, Ben Caldecott, founding director of the Oxford Sustainable Finance Programme, states: "*You can have lots of green in a portfolio and have little or even no impact*"[12].

He considers that 3 conditions need to hold for a green financial service or product to make a difference to the real economy transition to environmental sustainability:

1. the activity the financial product or service is encouraging should be green and/or the activity it is discouraging should be brown;
2. the activity must also make a clear and measurable difference in one or more of the following ways:
    A. reduce or increase the cost of capital for green or brown
    B. reduce or increase liquidity for green or brown
    C. provide or enable risk management of environmental-related physical and transition risks
    D. encourage or enable company adoption of sustainable practices
    E. support systemic change through spill-over effects.

It is undeniable that there has been little interest and urgency in clarifying these impact pathways. With the rapid development of sustainability-denominated financial products, it is becoming increasingly important to assess the impact they have on greening the real economy.

[12] https://www.ipe.com/viewpoint-investing-in-green-doesnt-equal-greening-the-world/10043518.article.

The Commission should ensure that sustainability impacts of sustainable-denominated financial products on the real economy are evidenced. This probably calls for an EU impact measurement framework for financial products to be developed, to ensure robustness and consistency.

Question 53: Do you think that all financial products / instruments (e.g. shares, bonds, ETFs, money market funds) have the same ability to allocate capital to sustainable projects and activities?

- Yes/No/Do not know.
- If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way.[box max. 2000 characters]

The financial instruments listed here have very different characteristics in terms of target audience (retail/professional), holding period, and risk appetite. Sustainable projects and activities (in the common sense of the word, not "financially sustainable") might be sustainable because of their long-term focus or only in the long term, when ESG risks and impacts become financially material. Therefore, financial instruments aimed at longer holding periods such as bonds and to a lesser extent ordinary equity (given today's heavily reduced average holding periods for equity), might be better aligned with "sustainable projects and activities". That being said, flexible redemption instruments such as ETFs or MMFs could still, through sustainability-themed filters and exclusions, and their increasing scale, provide meaningful financial incentives to improve sustainability. Aside considerations of holding periods the impact will also result from how capital provision links to enabling the transition and transformation in the real economy, which also is more relevant for some financial instruments rather than others, i.e. instruments linked to direct capital transfer and availability to enable actual investments.

2.3 Green securitisation

Securitisation is a technique that converts illiquid assets, such as bank loans or trade receivables, into tradeable securities. As a result, banks can raise fresh cash as well as move credit risk out of their balance sheets, thereby freeing up capital for new lending. Securitisation also facilitates access to a greater range of investors, who can benefit from the banks' expertise in loan origination and servicing, thereby diversifying risk exposure. Green securitisations and collaboration between banks and investors could play an important role in financing the transition as banks' balance sheet space might be too limited to overcome the green finance gap. The EU's new securitisation framework creates a specific framework for high-quality Simple, Transparent and Standardised (STS) securitisations, together with a more risk-sensitive prudential treatment for banks and insurers.

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

- Please express your view by using a scale of 1 (not important at all) to 5 (very important).
- If necessary, please explain your answer. [box, max. 2000 characters]

UNANSWERED

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?

- Yes/No/Do not know.
- If yes, please list the barriers you see (maximum three). [BOX max. 2000 characters]

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

- Yes/No/Do not know.
- If yes, what regulatory and/or prudential measures should the dedicated framework contain and how would they interact with the existing general rules for all securitisations and specific rule for STS securitisations? [box max. 2000 characters]

UNANSWERED

2.4 Digital sustainable finance

The ongoing COVID-19 crisis highlighting how digitalisation can be a life-saving commodity for many Europeans. However, it has also revealed how digital exclusion can exacerbate financial exclusion – a risk that needs to be mitigated.

Digitalisation is transforming the provision of financial services to Europe’s businesses and citizens: Europeans can now bank, invest, lend and borrow, as well as subscribe to insurances, directly from their smartphone. In this context, the Commission will soon launch a consultation dedicated to digital finance.

Digital finance can also help channel Europeans consumers’ and investors’ money towards financing the climate transition, as well other UN Sustainable Development Goals. Digital finance makes it easier to save, pay, or invest in line with sustainability preferences, aggregating micro-savings and small investments, and enabling citizens to co-finance for instance the renovation of a community building or raise funds for a local hospital. In this regard, the many forms of financial intermediation – through capital markets, the banking system, or public finance and tax incentives, can be repurposed further to serve Europeans citizens’ needs, health, and well-being.

Additionally, technological innovation such as Artificial intelligence (AI) and machine learning can help to better identify and assess to what extent a company’s activities, a large equity portfolio, or a bank’s assets are sustainable. The application of Blockchain and the Internet of Things (IoT) may allow for increased transparency and accountability in sustainable finance, for instance with automated reporting and traceability of use of proceeds for green bonds.

Question 57: Do you think EU policy action is needed to maximise the potential of digital tools for integrating sustainability into the financial sector?

- Yes/No/Do not know

- If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider? Please list a maximum of three actions and a maximum of three existing initiatives. [BOX max. 2000 characters]

As data is key for decision making the much improved data access, quality, accuracy, availability etc. it would be key to make use of the enabling potential and power of information technology. There are various legal references to data laws, accounting and infrastructure aspects where the EU needs to take an indepth perspective to identify concrete actions.

Question 58: In particular, 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?

- Yes/No/Do not know.
- If yes, please explain what actions would be relevant from your perspective and which public authority would be best-positioned to deliver it. Please list a maximum of three actions [BOX max. 2000 characters]

At the European level, the Commission or the ESA Joint Committee should develop a template for online assessment of retail investor sustainability preferences.

The Commission could develop standards for investment decision-making for online robo-advisors and apps.

National supervisors, who know their consumers and national preferences best, and are well-placed to help, advice and nudge consumers to more sustainable investment options[13], and could develop methodologies to streamline disclosure of where consumers' money goes[14].

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?

- Yes/No/Do not know.
- If yes, please detail, in particular if you see a role for EU intervention, including financial support. [BOX max. 2000 characters]

UNANSWERED

2.5. Project Pipeline

The existing project pipeline (availability of bankable and investable sustainable projects) is generally considered to be insufficient to meet current investor demand for sustainable projects. Profitability of existing business models plays a role, with some projects (e.g. renewable energy), being more bankable than others (e.g. residential energy efficiency). Identifying the key regulatory and market

[13] https://www.bunq.com/en/features/investments

[14] https://www.triodos.nl/mijn-geld-gaat-goed

obstacles that exist at European and national level will be key in order to fix the pipeline problem. Please note that questions relating to incentives are covered in section 2.6.

Question 60: What do you consider to be the key market and key regulatory obstacles that prevent an increase in the pipeline of sustainable projects? Please list a maximum three for each.

- BOX max. 2000 characters

Key market obstacles:

1. Lack of comparable data

Key regulatory obstacles:

1. Lack of long-term, consistent policy and planning by Member States that frightens and/or demotivates project promoters.
2. Lack of EU sustainability reporting standard, harmonised metrics (the EU Taxonomy should help) and a missing legal definition of materiality related to sustainability.
3. Lack of EU impact measurement framework for financial products

Question 61: Do you see a role for Member States to address these obstacles through their NECPs (National Energy and Climate Plans)?

- Yes/No/Do not know
- [BOX max. 2000 characters]

Unanswered

Question 62: In your view, how can the EU facilitate the uptake of sustainable finance tools and frameworks by SMEs and smaller professional investors? Please list a maximum of three actions you would like to see at EU-level

- [BOX max. 2000 characters]

Unanswered

Question 63: The transition towards a sustainable economy will require significant investment in research and innovation (R&I) to enable rapid commercialisation of promising and transformational R&I solutions, including possible disruptive and breakthrough inventions or business models. How could the EU ensure that the financial tools developed to increase sustainable investment flows turn R&I into investable (bankable) opportunities?

- [Box max. 2000 characters]

Unanswered

Question 64: In particular, would you consider it useful to have a category for R&I in the EU Taxonomy?

- Yes/No/Do not know

Question 65: In your view, do you consider that the EU should take further action in:

- Bringing more financial engineering to sustainable R&I projects? Yes/No

- Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)? Yes/No
- Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes/No
- Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes/No
- Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes/No
- Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes/No
- Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions? Yes/No
- Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? Yes/No
- If necessary, please explain your answer. [Box max. 2000 characters]

2.6 Incentives to scale up sustainable investments

While markets for sustainable financial assets and green lending practices are growing steadily, they remain insufficient to finance the scale of additional investments needed to reach the EU's environmental and climate action objectives, including climate-neutrality by 2050. For instance, companies' issuances of sustainable financial assets (bonds, equity) and sustainable loans currently do not meet investors' increasing interest. The objective of the European Green Deal Investment Plan, published on 14 January 2020, is to mobilise through the EU budget and the associated instruments at least EUR 1 trillion of private and public sustainable investments over the coming decade. The purpose of this section is to identify whether there are market failures or barriers that would prevent the scaling up of sustainable finance, and if yes what kinds of public financial incentives could help rectify this.

Question 66: In your view, does the EU financial system face market barriers and inefficiencies that prevent the uptake of sustainable investments?

- Please express your view on the current market functioning by using a scale of 1 (not well functioning at all) to 5 (functioning very well). 2
- Please specify your answer. [BOX max. 2000 characters]

Concern because of lack of environmental and social impact linked to those investments; still a green niche as there are many regulatory obstacles for sustainability mainstreaming; etc.

Question 67: In your view, to what extent would potential public incentives for issuers and lenders boost the market for sustainable investments?

- Please express your view on the importance of financial incentives by using a scale of 1 (not effective at all) to 5 (very effective).
- In case you see a strong need for public incentives (scores of 4 to 5), which specific incentive(s) would support the issuance of which sustainable financial assets, in your view? Please rank their effectiveness using a scale of 1 (not effective at all) to 5 (very effective).

Types of incentives	Bonds	Loans	Equity	Other
Subsidies for issuers				
De-risking mechanisms such as guarantees and blended financing instruments at EU-level				
Technical Assistance				
Any other public sector incentives - Please specify in the box below.				

- Please specify the reasons for your answer (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider. [BOX max. 2000 characters]

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Question 68: In your view, to what extent would potential incentives for investors (including retail investors) help create an attractive market for sustainable investments?

- Please express your view by using a scale of 1 (not effective at all) to 5 (very effective). 1
- For scores of 4 to 5, in case you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments? [drop down menu]
  - Revenue-neutral Public sector incentives
  - Adjusted prudential treatment
  - Public guarantee or co-financing
  - Other
- Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other). [BOX max. 2000 characters]

Question 69: In your view, should the EU consider putting in place specific incentives that are aimed at facilitating access to finance for SMEs carrying out sustainable activities or those SMEs that wish to transition?

- Yes/No/Do not know.
- If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue? [box max. 2000 characters]

Unanswered

2.7 The use of sustainable finance tools and frameworks by public authorities

Even though the potential scope of sustainable finance is broad, it is often viewed as being only confined to the ambit of private financial flows within capital markets. Nevertheless, the boundary between public and private finance is not always strict and some concepts that are generally applied to private finance could also be considered for the public sector, such as the EU Taxonomy. This is recognised in the European Green Deal Investment Plan and the Climate Law, where the Commission committed to exploring how the EU Taxonomy can be used in the context of the European Green Deal by the public sector, beyond InvestEU. The InvestEU programme, proposed as part of the EU's Multiannual Financial Framework 2021 – 2027, combines public and private funding and once the taxonomy is in place (from end-2020 onwards) will serve as a test case for its application in public sector-related spending.

Question 70: In your view, is the EU Taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector, for example in order to classify and report on green expenditures?

- Yes - please explain which public authority could use it, how and for what purposes. [Box max. 2000 characters]

General comment, the ambition level in the EU Taxonomy is not fully aligned with scientifically required ambitions level.

By aligning all public policies and investments to it:

- In industrial policy, Member States and local/regional governments should commit to prefer investments helping taxonomy-compliant companies and industries
- When attracting foreign investments, the public sector should prioritize Taxonomy-compliant sectors
- Public authorities should use the Taxonomy to inform their housing policies, including in social housing
- In terms of government real estate, public authorities should use the Taxonomy to green their investment and building decisions, in particular in the context of public procurement; and when renting properties, public authorities should demand minimum performance against Taxonomy indicators (eg on energy efficiency)
- Transport policy and transport taxation should favour industries and companies compliant with the Taxonomy; in particular public transport investments should be compatible with the Taxonomy
- Corporate taxation can be used as a tool by member states to reward taxonomy compliance
- Public procurement: Public authorities should make it a requirement or a quality criterion that/ if suppliers comply with the Taxonomy

- Yes, but only partially - please explain which public authority could use it, how and for what purposes, as well as the changes what would be required to make it fit for purpose. [Box max. 2000 characters]
- No - please explain why you consider that it is not suitable for use by public authorities, and how those reasons could be best addressed in your view. [Box max. 2000 characters]
- Do not know.

Question 71: In particular, is the EU Taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector in the area of green public procurement?

- Yes/Yes, but only partially/No /Do not know
- If no or yes, but only partially, please explain why and how those reasons could be best addressed. [BOX max. 2000 characters]

This is an essential issue. Public procurement is both a large part of spending on any given market and a major visibility/reputational risk for local/national/regional governments. All procurement should be required to include sustainability criteria. To be suitable, it might need a translation layer (guidance) taking into account EU State Aid and competition rules. Too often governments are claiming that certain sustainability demands are not possible in procurement processes for fear of non-compliance with EU competition rules. Guidance/coaching on how requirements can be designed in compliance with the applicable rules will help.

Question 72: In particular, should the EU Taxonomy play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.

- Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation;
- Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation.
- No;
- Do not know.

Follow-up question: If yes, what role should it play and is the taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for the following purposes? Select all that apply:

- In the context of some EU spending programmes: BOX [max 2000 characters]
- In the context of EU state aid rules: BOX [max 2000 characters]

Regarding COVID-19 economic crisis, at least 50% of recovery packages should benefit our climate and environment, using the EU Taxonomy, for example.

Following the HLEG's recommendations on 'sustainability test' for legislation, it should be the same for EU spending programmes and state aid rules in terms of having a green/sustainability conditionality (linked to the Taxonomy) linked to the criteria.

- Other, please specify. BOX [max. 2000 characters]

If yes, but only if social objectives are included; what role do you see for a social, climate and environmental taxonomy? Select all that apply.

- In the context of some EU spending programmes: BOX [max 2000 characters]
- In the context of EU state aid rules: BOX [max 2000 characters]
- Other, please specify. BOX [max. 2000 characters]

UNANSWERED

Question 73: Should public issuers, including Member States, be expected to make use of a future EU Green Bond Standard for their green bond issuances, including the issuance of sovereign green bonds in case they decide to issue this kind of debt?

- Yes/No/Do not know.
- If no, are there specificities of public issuers and funded projects or assets that the existing guidance on green bonds, developed by the TEG, does not account for? [BOX max. 2000 characters]

[BOX max. 2000 characters]

The Technical Expert Group (TEG)'s June 2019 report clearly encourages ALL types of issuers to consider using the EU Green Bond Standard and the standard was designed as a flexible tool that can be used by all types of issuers, including public sovereign and sub-sovereign issuers. EU Member States (including governments that have already issued sovereign green bonds or have announced future issuances), have been consulted on a quarterly bases during the design of the EU Green Bond Standard through the Member States Expert Group (MSEG) set up by the European Commission in parallel to the TEG.
As a result, the EU-GBS provides an opportunities for governments to demonstrate alignment of their public investments with the EU taxonomy and the EU Green Deal. Moreover, the European Commission, when considering debt capital market instruments, in particular under the EU-wide recovery plan currently being discussed, should also apply the EU-GBS where practically feasible.

2.8 Promoting intra-EU cross-border sustainable investments

In order to attract and encourage cross-border investments, a range of investment promotion services have been put in place by public authorities. Investment promotion services include for instance information on the legal framework, advice on the project, such as on financing, partner and location search, support in completing authorisations and problem-solving mechanisms relating to issues of individual or general relevance. In some cases specific support is provided for strategic projects or priority sectors.

Question 74: Do you consider that targeted investment promotion services could support the scaling up of cross-border sustainable investments?

- Yes/No/Do not know.
- If yes, please specify what type of services would be useful for this purpose:
  - Information on legal frameworks
  - Individualised advice (e.g. on financing)
  - Partner and location search
  - Support in completing authorisations
  - Problem-solving mechanisms
  - Other, please specify [box max. 2000 characters]

2.9 EU Investment Protection Framework

To encourage long-term sustainable investments in the EU, it is essential that investors are confident that their investments will be effectively protected throughout their life-cycle in relation to the state where they are located. The EU investment protection framework includes the single market fundamental freedoms, property protection from expropriation, the principles of legal certainty, legitimate expectations and good administration which ensure a stable and predictable environment, including remedies and enforcement in national courts. These elements can have an impact on cross-border investment decisions, especially for long-term investments. While a separate consultation on investment protection will take place soon, **the purpose of this section is to investigate whether the above-mentioned factors have an impact on sustainable projects in particular**, such as for instance for long-term infrastructure and innovation projects necessary for the EU's industrial transition towards a sustainable economy.

Question 75: Do you consider that the investment protection framework has an impact on decisions to engage in cross-border sustainable investment? Please choose one of the following:

- Investment protection has **no impact.**
- Investment protection has **a small impact** (one of many factors to consider).
- Investment protection has **medium impact** (e.g. it can lead to an increase in costs).
- Investment protection has a **significant impact** (e.g. influence on scale or type of investment).
- Investment protection is a factor that can have a **decisive impact** on cross-border investments decisions and can result in cancellation of planned or withdrawal of existing investments.
- Do not know.

2.10 Promoting sustainable finance globally

The global financial challenge posed by climate change and environmental degradation requires an **internationally coordinated** response. To complement the work done by the Network of Central Banks and Supervisors for Greening the Financial system (NGFS) on climate-related risks and the Coalition of Finance Ministers for Climate Action mainly on public budgetary matters and fiscal policies, **the EU has launched together with the relevant public authorities from like-minded countries the International Platform on Sustainable Finance (IPSF)**. The purpose of the IPSF is to promote integrated markets for environmentally sustainable investment at a global level. It will deepen international coordination on approaches and initiatives that are fundamental for private investors to identify and seize environmentally sustainable investment opportunities globally, in particular in the areas of taxonomy, disclosures, standards and labels.

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)?

- Please express your view by using a scale of 1 (highly insufficient) to 5 (fully sufficient). 2
- For scores of 1-2, what are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions? [BOX max. 2000 characters]

Even though the EU is leading on sustainable finance and that the measures taken (especially the legislative ones) are the most ambitious world-wide, there is still quite a big effort necessary of mainstreaming globally. However, the Commission's launch of the International Platform on Sustainable Finance (IPSF) is to be welcomed, as this is the right place to do so, coordinating with other initiatives such as the Network for Greening the Financial System (NGFS) and the Coalition of Finance Ministers on Climate Action (although only focused on climate change), to avoid duplication. We believe that the IPSF has great potential, once more countries join, so even if it's early in the process this is the right way forward. There should be concrete recommendations coming out of it (as opposed to it being only a discussion forum), such as the NGFS has done – this sends an important signal globally.

The recent initiative taken by IOSCO to identify sustainable finance issues inside its constituency and create a Sustainable Task Force could be replicated by other international supervisors such as the BCBS and the IAIS, especially if over time the Taxonomy is meant to influence financial supervision, capital requirements and financial stability.

Question 77: What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs? Please list a maximum of three proposals.

- [BOX max. 2000 characters]

1. The Commission could create a similar type of body like the EU Platform on Sustainable Finance, but globally (as an arm of the IPSF perhaps).
2. The Commission should ensure that there is some harmonisation at global level, building on the EU sustainable finance measures, taking into account the national context (meaning if certain Regulations at EU level are mandatory (like disclosure for example), they should try to harmonise it at global level to achieve an impact). This should not result in weakening the EU standards (about which the ECB also warns in its response to this consultation) due to pressure from global actors.

Question 78: In your view, what are the main barriers private investors face when financing sustainable projects and activities in emerging markets and/or developing economies? Please select all that apply.

- Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.);
- Lack of clearly identifiable sustainable projects on the ground;
- Excessive (perceived or real) investment risk;
- Difficulties to measure sustainable project achievements over time;
- Other, please specify [BOX max. 2000 characters].

Quite some developing countries will be affected by climate change such as droughts and extreme weather events, which can result in damage and reduced profitability. By focusing on assessing ESG risks in EU laws rather than focusing on positive (long term) ESG impacts (as opportunities), less investments might be made in climate-vulnerable countries that need it most.

Some EM countries need to restructure away from heavy economic (and foreign exchange) dependence on non-sustainable resource extraction (e. g. palm oil, fossil fuels, minerals). This will require long term investments into economic transition, which volatile high return seeking investors might be unwilling to do.

Question 79: In your opinion, in the context of European international cooperation and development policy, how can the EU best support the mobilisation of international and domestic private investors to finance sustainable projects and activities in emerging markets and developing countries, whilst avoiding market distortions?

- Please provide a maximum of three proposals. [BOX max. 2000 characters]

The Commission should:

- Coordinate with DG DEVCO in order to discuss how best to use their money to attract private investors (international and domestic) to use the recently approved EU tools on sustainable finance, such as for example the EU Taxonomy, in potential sustainable projects in emerging markets.
- In coordination with DG DEVCO, and other DGs, conduct a mapping exercise of existing best practices, to move forward in that direction.
- In coordination with DG DEVCO, and other DGs and bodies, support on the creation of a pipeline of sustainable projects for international and domestic private investors in emerging markets and developing countries.

The EU's actions in the form of grants, blending, guarantees, budget support or other global initiatives should be aligned with ambitions on climate change, biodiversity and wider environmental protection and be screened for unintended negative environmental impacts.

The use of blended finance, public private partnership and other donor guarantees or subsidies should not be re-assessed since its cost cutting and effectiveness have not been proven nor its ESG positive impacts, but often benefited private financiers. Consideration of replacing such financing by grants and direct loans or grants with strict sustainability requirements.

Question 80: How can EU sustainable finance tools (e.g. taxonomy, benchmarks, disclosure requirements) be used to help scale up the financing of sustainable projects and activities in emerging markets and/or developing economies? Which tools are best-suited to help increase financial flows towards and within these countries and what challenges can you identify when implementing them? Please select among the following options.

- All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change.
- Some tools can be applied, but not all of them. If necessary, please explain [box max. 2000 characters].
- These tools need to be adapted to local specificities in emerging markets and/or developing economies. Please explain how you think they could be adapted [box max. 2000 characters].

Depending on the country and its local specificities, perhaps the scope for Disclosure Regulation applied at EU level doesn't apply there, so this should be adapted accordingly. Also, regarding the EU Taxonomy, maybe the sectors selected for the two climate objectives at EU level, are not entirely covering the national context, so these sectors can be added and/or modified from their taxonomy. In addition, a brown taxonomy will be very useful globally in our view, no matter the national context.

It is important to better reflect human rights and biodiversity challenges linked to the development in the less developed countries. A key element of this is the intended human rights and environmental due diligence legislation. The EC should present a proposal which is sufficiently broad to cover all human rights and environmental challenges and industry sectors, and ensure that it includes effective accountability mechanisms. The EC should also consider developing specification of due diligence with regard to the particularly problematic environmental and social issues linked to European investments, such as deforestation and land grabbing.

In the context presented in this question, the due diligence legislation should then be applicable alongside other sustainable finance tools.

- Do not know.

Question 81: In particular, do you think that the EU Taxonomy is suitable for use by development banks, when crowding in private finance, either through guarantees or blended finance for sustainable projects and activities in emerging markets and/or developing economies?

- Yes / Yes, but only partially / no / do not know.
- If no or yes, but only partially, please explain why and how the obstacles you identify could be best addressed [box max. 2000 characters].

3. Reducing and managing climate and environmental risks

Climate and environmental risks, including relevant transition risks, and their possible negative social impacts, can have a disruptive impact on our economies and financial system, if not managed appropriately. Against this background, the three European supervisory authorities (ESAs) have each developed work plans on sustainable finance. Building, among others, on the ESAs' activities further actions are envisaged to improve the management of climate and environmental risks by all actors in the financial system. In particular, the political agreement on the Taxonomy Regulation tasks the Commission with publishing a report on the provisions required for extending its requirements to activities that do significantly harm environmental sustainability (the so-called "brown taxonomy").

3.1 Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments

Question 82: In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called "brown taxonomy") at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?

- Yes/No/Do not know.

- If no, please explain why you disagree [BOX max. 2000 characters]
- If yes, what would be the purpose of such a brown taxonomy? (select all that apply)
  - Help supervisors to identify and manage climate and environmental risks.
  - Create new prudential tools, such as for exposures to carbon-intensive industries.
  - Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities.
  - Identify and stop environmentally harmful subsidies.
  - Other, please specify. [box max. 2000 characters]

Given the slow pace of financial flows diverting from activities that are changing climate and are environmentally and socially non-sustainable and the green bonds still being a niche market, a so-called "brown taxonomy" of unsustainable activities will be useful in coming years to identify what activities' access to financing will need to be substantially disincentivised. To start with, a "brown taxonomy" needs to be developed to facilitate investors, lenders and borrowers, policy makers and supervisors to identify potential stranded assets and financial transactions that are countering efforts to achieve the Paris climate goals.

In addition, social and environmental issues are too interlinked to neglect in the development of such an 'unsustainable taxonomy' the integration of environmental, climate and social factors.

In a phased-in manner, this "unsustainable taxonomy" should be used to exclude from benchmarks and eventually to exclude activities from further financing.

The EU is already developing various approaches in four policy areas that can represent the foundations for an "unsustainable taxonomy":

- The Do No Significant Harm technical screening criteria of the EU sustainable taxonomy;
- The exclusion criteria for the Paris-aligned benchmark and Climate transition benchmark categories, currently being developed in a Delegated Act;
- The exclusion criteria for the EU Ecolabel for financial products;
- Potentially, a category of 'high risk' sectors as discussed under the NFRD review

An "unsustainable taxonomy" will provide a robust basis to ensure consistency for these various EU policy approaches and would notably contribute to: facilitate identification of assets associated with activities exposed to transition risks; assist the supervisors in their assessment of institutions' unsustainable exposures; harmonise the selection process of economic sectors and institutions' exposures for scenario analysis and stress testing exercises; ensure that disclosures and reporting by financial institutions are consistent.

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?

- Yes/No/Do not know.
- If yes, what should be the purpose of such a taxonomy? Please specify. [BOX max. 2000 characters]

Such an additional level of granularity in the EU taxonomy can be supportive for the acceleration of the transition. For example for the huge building stock the EU energy efficiency label is structured in seven categories (A to G). The green and brown taxonomies will tag the best (15%) and worst (say 30%-50%) segments of the building market. This still leaves a big third of the market, that lies between the best and the worst segments, with no further granularity and indication for investors. It is problematic as we need to significantly accelerate the energy refurbishment of the whole market to reach the Paris Agreement, not only the worst part of it. More granularity (in that case, closely aligned with the existing EU energy efficiency label) would give signals to investors: the 'second worst' segment of the market needs to be urgently energy retrofitted too. Also a more granular taxonomy can act as an incentive for companies (and an argument for improvement for investors) to reach the next better category where the "green" category could in one step be realistically unachievable.

This additional level of granularity should also be added for social and human rights issues and should also include activities such as social housing, health care, educational institutions, etc. (beyond purely economical activities).

3.2 Financial stability risk

The analysis and understanding of the impact of climate-related and environmental risks on financial stability is improving, thanks in particular to the work done by supervisors and central banks,[15] regulators and research centres. However, significant progress still needs to be made in order to properly understand and manage the impact of these risks.

Question 84: Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system. What are in your view the most important channels through which climate change will affect your industry? Please provide links to quantitative analysis when available.

- Physical risks, please specify if necessary [BOX max. 2000 characters]
- Transition risks, please specify if necessary [BOX max. 2000 characters]
- Second-order effects, please specify if necessary [BOX max. 2000 characters]
- Other, please specify [BOX max. 2000 characters]

Unanswered

Question 85: What key actions taken in your industry do you consider to be relevant and impactful to enhance the management of climate and environment related risks?

- Please identify a maximum of three actions taken in your industry [BOX max. 2000 characters]

Unanswered

[15] See for instance the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).

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?

- Please express your view by using a scale of 1 (highly inadequate) to 5 (fully sufficient). 2
- For scores of 1-2, what solution would you propose? Please list a maximum of three. [BOX max 2000 characters]

The Commission should assess how to integrate sustainability-related financial risks (starting with climate-related ones) in the prudential rules, especially the first pillar. It should be noted that the EBA report planned for 28 June 2025 on Pillar I, as per Article 501c CRR ('Prudential treatment of exposures related to environmental and/or social objectives') is significantly too late: the climate emergency we face cannot wait for another half a decade. The Commission should therefore explore choices how to produce financial evidence more rapidly (speed up timeline / different approach with EBA). The CRR should require banks to collect specific sustainability data that are available in the market but are not systematically collected by banks, which severely impedes their utilization for greening finance. This lack of data collection is also severely impeding the development of sustainable. Climate adaptation should be integrated in the CRR review. The dramatic increase in the occurrence of physical climate-related and extreme weather events is substantially creating more risks for many physical assets in various economic sectors (agriculture, power, tourism, forestry, mining, real estate, energy and transport infrastructure, etc.) – which translate into financial risks. In addition to climate stress testing at bank's portfolio level (including both climate transition and physical risks), stress-testing the climate resilience of most-exposed physical assets should be mandatory, to create a comprehensive and consistent understanding where these risks lie and to mitigate them in a more informed way. Stress-testing the climate resilience of most-exposed physical assets should become mandatory when banks are issuing loans at least for new real estate, new large-scale infrastructure (esp. transport and energy infrastructure) and significant refurbishment of existing real estate and large-scale infrastructure. [16], supports the idea of a climate stress test for banks.

Insurance prudential framework

Insurers manage large volumes of assets on behalf of policyholders and they can therefore play an important role in the transition to a sustainable economy. At the same time, insurance companies have underwriting liabilities exposed to sustainability risks. In addition, the (re)insurance sector plays a key role in managing risks arising from natural catastrophes though risk-pooling and influencing risk mitigating behaviour. The Solvency II Directive[17] sets out the prudential framework for insurance companies. The Commission requested technical advice from the European Insurance and Occupation Pensions Authority (EIOPA) on the integration of sustainability risks and sustainability factors in Solvency II. The Commission also mandated EIOPA to investigate whether there is undue volatility of

[16] IFR article, June 2020, 'Deutsche Bank zeroes in on sustainable finance'

[17]

liabilities in the balance sheet or undue impediments to long-term investments, as part of the 2020 Review of Solvency II. EIOPA is expected to submit its final advice in June 2020.

In September 2019, EIOPA already provided an opinion on sustainability within Solvency II. EIOPA identified additional practices that should be adopted by insurance companies to ensure that sustainability risks are duly taken into account in companies' risk management.

On that basis, the Commission could consider clarifications of insurers' obligations as part of the review of the Solvency II Directive. Stakeholders will soon be invited to comment on the Commission's inception impact assessment as regards the review. The Commission will also launch a public consultation on the initiative in the spring of 2020.

Question 87: Beyond prudential regulation, do you consider that the EU should take further action to mobilise insurance companies to finance the transition and manage climate and environmental risks?

- Yes/No/Do not know.
- If yes, please specify which actions would be relevant. [BOX max. 2000 characters]

The Commission is required to publish a report with analysis and potential Solvency II legislative changes by the end of 2020, building on an EIOPA opinion due next 30 June 2020.

It is an opportunity for improving Solvency II in at least two areas:

- At least mirror or improve in Solvency II the sustainability requirements of the prudential rules for banks, notably the disclosure requirement of ESG-related risks under Art 449a of the Capital Requirement Regulation
- Re-examine some decades-old exemptions in the Solvency II scope, that have become problematic under the European Green Deal, notably the exclusion of export credit insurance operations for the account of or guaranteed by States (Art 5.4), which creates problematic opacity and confusion.
- Solvency II should be amended as well to better integrate the growing risks of physical climate impacts and the lack of resilience of certain physical assets to climate disruption.

Banking prudential framework

In the context of the last CRR/D review, co-legislators agreed on three actions aiming at integrating ESG considerations into EU banking regulation:

- a mandate for the EBA to assess and possibly issue guidelines regarding the inclusion of ESG risks in the supervisory review and evaluation process (SREP) (Article 98(8) CRD);
- a requirement for large, listed institutions to disclose ESG risks (Article 449a CRR) (note that some banks are also in the scope of the NFRD);
- a mandate for the EBA to assess whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with sustainability objectives would be justified (Article 501c CRR).

Because the work on ESG risks was at its initial stages, co-legislators agreed on a gradual approach to tackling those risks. However, given the new objectives under the European Green Deal, it can be argued that the efforts in this area need to be scaled up in order to support a faster transition to a sustainable economy and increase the resilience of physical assets to climate and environmental risks.

Integrating sustainability considerations in banks' business models requires a change in culture which their governance structure needs to effectively reflect and support.

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?

- Yes/No/Do not know.
- If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy? [box max. 2000 characters]

Analogous to Question 86, the Commission should assess how to integrate sustainability-related financial risks (starting with climate-related ones) in the prudential rules, especially the first pillar. It should be noted that the EBA report planned for 28 June 2025 on Pillar I, as per Article 501c CRR ('Prudential treatment of exposures related to environmental and/or social objectives') is significantly too late: the climate emergency we face cannot wait for another half a decade. The Commission should therefore explore choices how to produce financial evidence more rapidly (speed up timeline / different approach with EBA). In addition, stress-testing the climate resilience of most-exposed physical assets should become mandatory, to create a comprehensive and consistent understanding where these risks lie and to mitigate them in a more informed way.

Our preference would be to accelerate the EBA report process and use forthcoming implementation of Basel III, slightly delayed, to advance ESG integration in all three pillars of bank supervision.

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?

- Yes one or both, please specify which action would be relevant [BOX max. 2000 characters]

All sectors should contribute to financing the transition, including insurers and pension funds, not only banks and retail investors; the transition cannot afford not to mobilize these long-term resources.

Considering this, however, banks should be included in the scope of sustainable corporate governance reform and required to develop sustainability strategies reflecting planetary boundaries and supported by measurable targets.

- No.
- Do not know.

Question 90: Beyond the possible general measures referred to in section 1.6, would more specific actions related to banks' governance foster the integration, the measurement and mitigation of sustainability risks and impacts into banks' activities?

- Yes/No/Do not know.
- If yes, please specify which measures would be relevant. [BOX max. 2000 characters]

- Remuneration and promotion linked to sustainability objectives reached (but avoid bonuses and shareholdings as remuneration).

- All top management has to be scrutinised by supervisors for their "fitness" to promote sustainable lending, underwriting and investment banking services

- Prohibition to provide credit or services in brown and "red" taxonomy activities

Asset managers

Traditionally, the integration of material sustainability factors in portfolios, with respect to both their selection and management, has considered only their impact on the financial position and future earning capacity of a portfolio's holdings (i.e., the 'outside-in' or 'financial materiality' perspective). However, asset managers should take into account also the impact of a portfolio on society and the environment (i.e., the 'inside-out' or 'environmental/social materiality' perspective). This so-called "double materiality" perspective lies at the heart of the Disclosure Regulation, which makes it clear that a significant part of the financial services market must consider also their adverse impacts on sustainability (i.e. negative externalities).

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)?

- Yes/No/Do not know.
- If yes, what solution would you propose? [BOX max. 2000 characters]

Based on the initial work on investor duties, the Commission should further clarify investor duties and due diligence by revising existing legislation (notably AIFMD, IORP, MiFIR, Solvency II and Shareholder Rights Directive) in 2020 and beyond to ensure consistency and stringency.

Content-wise, investor duties, investor due diligence and stewardship (including shareholder engagement) need to be further clarified and tightened in terms of sustainability-related risks, opportunities and impacts. More concretely:

- Mandate that end-investors, including occupational pension beneficiaries, policyholders and retail investors, are consulted about their sustainability-related preferences;
- Clarify the conditions under which the non-financial sustainability preferences of end-investors can be taken into account in mainstream investment decision-making;
- Promote the alignment of investment time-horizons with the liabilities of end-investors and ensure an appropriate consideration of sustainability risks within that timeframe, particularly as those relate to future pension beneficiaries and insurance policyholders with long-term liabilities;
- Ensure the transmission of the financial and non-financial interests of end-investors throughout the investment chain by guiding the extension of mandates reflecting those interests from asset owners to asset managers, as well as other intermediaries;
- Encourage the development of tools and methodologies to assess the impact of investments on communities and the environment, independently of whether these impacts are reflected in the value of a portfolio.

Pension providers

Pension providers' long-term liabilities make them an important source of sustainable finance. They have an inherently long-term approach, as the beneficiaries of retirement schemes expect income streams over several decades. Compared with other institutions, pension providers' long-term investment policies also make their assets potentially more exposed to long-term risks. Thus far, the issues of sustainability reporting and ESG integration by EU pension providers have been taken up in the areas of institutions for occupational retirement provision (IORPs) ("Pillar II" - covered at EU level by the IORP II Directive) and private voluntary plans for personal pensions ("Pillar III" – covered at EU level by the PEPP Regulation) already in 2016 and 2017, respectively. The Commission will review the IORP II Directive by January 2023 and report on its implementation and effectiveness.

However, according to a stress test on IORPs run by EIOPA in 2019 and assessing for the first time the integration of ESG factors in IORPs' risk management and investment allocation, only about 30% of IORPs in the EU have a strategy in place to manage ESG-related risks to their investments. Moreover, while most IORPs claimed to have taken appropriate steps to identify ESG risks to their investments, only 19% assess the impact of ESG factors on investments' risks and returns.[18] Lastly, the study provided a preliminary quantitative analysis of the investment portfolio[19] which would indicate significant exposures of the IORPs in the sample to business sectors prone to high greenhouse gas emissions.

In 2017, the Commission established a High-level group of experts on pensions to provide policy advice on matters related to supplementary pensions. In its report, the group recommended that the EU, its Member States and the social partners further clarify how pension providers can take into account the impact of ESG factors on investment decisions and develop cost-effective tools and methodologies to assess the vulnerability of EU pension providers to long-term environmental and social sustainability risks. The group also pointed out that, in the case of IORPs which are collective schemes, it might be challenging to make investment decisions reconciling possibly diverging views of individual members and beneficiaries on ESG investment. Moreover, in 2019, EIOPA issued an opinion on the supervision of the management of ESG risks faced by IORPs.

Question 92: Should the EU explore options to improve ESG integration and reporting beyond what is currently required by the regulatory framework for pension providers?

- Yes/No/Do not know.
- If yes, please specify what actions would be relevant in your view. [BOX max. 2000 characters]

As mentioned in Question 91, based on the initial work on investor duties, the Commission should further clarify investor duties and due diligence by revising existing legislation (notably AIFMD, IORP, MiFIR, Solvency II and Shareholder Rights Directive) in 2020 and beyond to ensure consistency and stringency.

Content-wise, investor duties, investor due diligence and stewardship (including shareholder engagement) need to be further clarified and tightened in terms of sustainability-related risks, opportunities and impacts.

[18]The analysis shows that the preparedness of pension schemes to integrate sustainability factors is widely dispersed and seems correlated to how advanced national frameworks were. IORP II directive sets minimum harmonisation and was expected to be transposed in national law by January 2019 (and hence could not necessarily be expected to be implemented by end-2018 for the EIOPA survey for the 2019 stress test).

[19] With almost 4 trillion Euros of assets under management, the EEA's Institutions for Occupational Retirement Provision (IORPs) sector is an important actor on financial markets.

The IORP II Directive was a step forward, but has many flaws compared to the sustainable finance agenda today, many of the integration and disclosure requirements are not mandatory, they have a 'comply or explain' clause. These should be revised and tightened as mentioned in the first paragraph.

Question 93: More generally, how can pension providers contribute to the achievement of the EU's climate and environmental goals in a more proactive way, also in the interest of their own sustained long-term performance? How can the EU facilitate the participation of pension providers to such transition?

- [BOX max. 2000 characters]

As mentioned in Question 91:

- End-investors, including occupational pension beneficiaries, policyholders and retail investors, should be consulted about their sustainability-related preferences;
- Clarify the conditions under which the non-financial sustainability preferences of end-investors can be taken into account in mainstream investment decision-making;
- Promote the alignment of investment time-horizons with the liabilities of end-investors and ensure an appropriate consideration of sustainability risks within that timeframe, particularly as those relate to future pension beneficiaries and insurance policyholders with long-term liabilities;
- Ensure the transmission of the financial and non-financial interests of end-investors throughout the investment chain by guiding the extension of mandates reflecting those interests from asset owners to asset managers, as well as other intermediaries;
- Encourage the development of tools and methodologies to assess the impact of investments on communities and the environment, independently of whether these impacts are reflected in the value of a portfolio.

Question 94: In view of the planned review of the IORP II Directive in 2023, should the EU further improve the integration of members' and beneficiaries' ESG preferences in the investment strategies and the management and governance of IORPs?

- Yes/No/Do not know.
- If yes, how could this be achieved, taking into account that IORPs are collective schemes whose members may have different views on ESG integration? [BOX max. 2000 characters]

Asset owners should be actively consulting with retail clients, policyholders and beneficiaries in ascertaining sustainability preferences, while implementing institutional arrangements to ensure these end-investors are able to influence investment decision-making, such as through board representation on pension funds.

Sustainability preferences should not be limited to those that are financially material, but include non-financial considerations, such as those related to quality-of-life or ethical concerns. The circumstances under which the latter category can or should be incorporated in mainstream investment decision-making, beyond designated "impact" or "ethical" products and services, must be better defined.

The integration of both risks and preferences should be aligned with the time horizon reflecting the liabilities of the end-investor, requiring renewed emphasis on issues of intergenerational equity when referring to classes of current and future beneficiaries are pooled together.
In order to account for the non-financial sustainability preferences of their clients, as well as to respond to the systemic, non-linear nature of some sustainability risks, investors should assess the impact of their investments on communities and the environment.

3.3 Credit rating agencies

Regulation 1060/2009 requires credit rating agencies (CRAs) to take into account all factors that are 'material' for the probability of default of the issuer or financial instrument when issuing or changing a credit rating or rating outlook. This covers also ESG factors. According to ESMA's advice on credit rating sustainability issues and disclosure requirements, the extent to which ESG factors are being considered can vary significantly across asset classes, based on each CRA's methodology.

Following the 2018 Action Plan on Financing Sustainable Growth, and in response to concerns about the extent to which ESG factors were considered by CRAs, ESMA adopted guidelines on disclosure requirements for credit ratings and rating outlooks. ESMA's Guidelines on these disclosure requirements will become applicable as of April 2020. Pursuant to the guidelines, CRAs should report in which cases ESG factors are key drivers behind the change to the credit rating or rating outlook. Consequently, the current landscape will change in the coming months. The Commission services intend to report on the progress regarding disclosure of ESG considerations by CRAs in 2021.

Question 95: How would you assess the transparency of the integration of ESG factors into credit ratings by CRAs?

- Please express your view by using a scale of 1 (not transparent at all) to 5 (very transparent).
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

Research done by ESMA and reflected in ESMA's advice on credit rating sustainability issues and disclosure requirements and related ESMA's Guidelines on disclosure requirements indicate that there is not sufficient transparency and no consistency or standards in how far ESG risks and ESG factors have played a role in changing credit ratings. (The question is also in how far the new ESMA Guidelines are being applied as of April 2020, even for non ESG factors, as some random examples of press releases of credit rating changes do not show the ESMA Guidelines are being followed as of then.)

A regulatory and supervisory framework that ensures credit rating agencies incorporate sustainability risks in mainstream ratings must:

- Specify sustainability-related disclosure requirements for credit rating agencies, in terms of their ratings and methodologies used in their creation;
- Notably, ensure that credit rating agencies disclose whether the issuer's reporting is aligned with the TCFD Recommendations, and own climate, environmental and social forward-looking strategies in line with SDGs and UN Guiding Principles on business and Human Rights.

Question 96: How would you assess the effectiveness of the integration of ESG factors into credit ratings by CRAs?

- Please express your view by using a scale of 1 (very ineffective) to 5 (very effective). 2
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

A regulatory and supervisory framework that ensures credit rating agencies incorporate sustainability risks in mainstream ratings must:

- properly integrate ESG risks into their credit risk analysis and ratings. This should be done in 2021.

Regarding ESG rating agencies, the Commission should clarify the sustainability-related obligations of ESG rating agencies and ESG data providers in new or existing legislation (e.g. MiFID II, CRA, and EMIR, and NFRD). The ECB[20] response to this consultation states *'the metrics developed by market data providers seek to consolidate the (limited) quantitative and qualitative environmental information provided by companies. But the correlation between scores from different providers is low, reflecting significant discretion in the construction of such indicators'.* It should notably ensure adequate transparency on data sources, methodologies, updates, ensure that conflicts of interest are properly identified and avoided, and double-check that sustainability issues are taken into account in a meaningful way. In addition competition policy should be considered to prevent and reverse concentration and consolidation in the CRA industry where it is an issue.

It is to be noticed that the EU legislation often makes a difference between ESG risks (material) and ESG factors or impacts that also affect society, the environment and climate beyond the period of the financial product. ESMA's advice on credit rating sustainability issues and disclosure requirements related particularly about ESG factors to be included by CRAs: its research concluded that ESG risks and factors were hardly included in credit ratings, amongst other things because of lack of standardised methodologies and ESG information. ESMA concluded that ESG factors should be included in ESG ratings when affecting the creditworthiness, which is obvious. Given that IORP II, climate related stress and forward looking scenarios are being developed by supervisors and central banks, and the Directive on sustainability disclosures (DSR) are requiring investment institutions to assess the ESG risks, CRAs are not effective enough to develop and integrate those risks in their credit ratings. ESG risks will have a material impact from physical, regulatory and socially related issues much faster and stronger than current CRAs are taking into account. These ESG risks have not yet been sufficiently taken into account if one investigates the credit ratings of fossil fuel companies.

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

- Yes/No/Do not know.
- If yes, please specify what kind of action you consider would address the identified problems. In particular should the EU consider regulatory intervention? [BOX max. 2000 characters]

Further actions:

- Mandate appropriate training and competence of all relevant staff employed by credit rating agencies;
- The HLEG recommended that CRAs set up 'credit rating outlooks', clearly differentiated from credit ratings, to take into account a longer-term perspective during which ESG-related risks are more likely to materialize than in a short-term period. This should be assessed by the Commission and integrated in the CRA Regulation if deemed relevant (3-5 years at least, better 10 years)

[20] European Central Bank: 'Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the NonFinancial Reporting Directive'

- The Commission should revise the CRA Regulation in 2021 to:
    - ensure that CRAs adequately disclose their methodologies and skills for discharging their duties;
    - properly integrate financially material ESG risks into their credit risk analysis and ratings.
- The CRA guidelines by ESMA should be reviewed and be expanded, the best being through regulatory intervention for a sped-up process, through delegated acts or review of CRAR, to ensure that all CRAs operating in the EU:
    - Have a methodology to integrate all ESG risks to rate creditworthiness of companies;
    - Include in their assessment methodology (a) whether a company or financial institution is reporting according to the TCFD and in alignment with its own forward looking strategy and scenario, and (b) whether the CRA is using the EU taxonomy and which ESG data or ratings. (Low ESG ratings could be included in reputational risks that might have financial consequences for the rated company. This should be transparent even if it the CRA estimate these ESG issues do not affect the credit rating.)
    - As non-application of ESG factors might lead to reputational, regulatory and financial risks, the CRAs should disclose whether a company takes ESG factors into account (i.e. impact on climate, environment and society) and has an active policy to uncover ESG impacts.
    - The CRAs should assess how far in the future a company's ESG risks could turn into credit risks (e.g. restricted access to financing).

3.4. Natural capital accounting or "environmental footprint"

Internal tools, such as the practice of natural capital accounting, can help inform companies' decision-making based on the impact of their activities on sustainability factors. **Natural capital accounting or "environmental footprinting"** has the potential to feed into business performance management and decision-making by explicitly mapping out impacts (i.e. the company's environmental footprint across its value chain) and dependencies on natural capital resources and by placing a monetary value on them. In order to ensure appropriate management of environmental risks and mitigation opportunities, and reduce related transaction costs, the Commission will support businesses and other stakeholders in developing standardised **natural capital accounting** practices within the EU and internationally.

Question 98: Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing standardised natural capital accounting/environmental footprinting practices within the EU and internationally?

- Yes/No/Do not know.
- If yes, please list a maximum of three relevant initiatives. [BOX max. 2000 characters].

WWF COMMENT:

1. The EU Business@Biodiversity Platform gathered by the Commission enables members to develop common analysis and guidance for assessing biodiversity risks, impacts and dependencies and integrating such issues into corporate or financial decision making processes.

2. EFRAG's European Corporate Reporting Lab, of which WWF is a member of the Steering Committee. It would be positive if the Lab runs a project on natural capital accounting, to assess the practices of companies and financial institutions.
3. WWF France is leading a Natural Capital programme. The goal of this programme is to identify the concepts and instruments that have the capacity to reshape the human development with regards to nature, in order to make sure that our development fits into the capacity of the biosphere. The Natural Capital Programme aims at gathering and producing the economic evidence related to integration of science-based targets into economic systems. The Programme has three main activities: analysing the natural capital tools; accelerating the development and operationalisation of these tools; working with public and private actors who wish to engage in the implementation of these tools (building Champions for Nature Coalition).
4. The Natural Capital Coalition is an international collaboration that unites the global natural capital community.[21] Arup and the Rockefeller Foundation are examples of organisations which have done significant work on natural capital and ecosystem services.
5. Enabling a Natural Capital Approach (ENCA) resources are data, guidance and tools developed by the UK Government to help policy and decision makers understand natural capital and know how to take it into account.[22]
6. In March 2019, a new independent global review was announced by HM Treasury to assess the economic value of biodiversity and to identify actions that will simultaneously enhance biodiversity and deliver economic prosperity. This independent review on the economics of biodiversity is led by Professor Sir Partha Dasgupta. The Review will report ahead of October 2020.[23]

3.5. Improving resilience to adverse climate and environmental impacts[24]

Climate-related loss and physical risk data

Investors and asset owners, be they businesses, citizens or public authorities, can better navigate and manage the increased adverse impacts of a changing climate when given access to decision-relevant data. Although many non-life insurance undertakings have built up significant knowledge, most other financial institutions and economic actors have a limited understanding of (increasing) climate-related physical risks.

A wider-spread and more precise understanding of current losses arising from climate- and weather-related events is hence crucial to assess macro-economic impacts, which determine investment environments. It could also be helpful to better calibrate and customise climate-related physical risk models needed to inform investment decisions going forward, to unlock public and private adaptation and resilience investments and to enhance the resilience of the EU's economy and society to the unavoidable impacts of climate change.

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[21] https://naturalcapitalcoalition.org/

[22] https://www.gov.uk/guidance/enabling-a-natural-capital-approach-enca

[23] https://www.gov.uk/government/publications/the-economics-of-biodiversity-call-for-evidence

[24] Please note that the Commission is also preparing an upgraded EU Adaptation Strategy. A dedicated public consultation will be launched soon.

Question 99: In your opinion, should the European Commission take action to enhance the availability, usability and comparability of climate-related loss and physical risk data across the EU?

- Yes/No/Do not know.
- If yes, please select all that apply:
  - Loss data, please explain why [BOX max. 2000 characters]
  - Physical risk data, please explain why [BOX max. 2000 characters]

A forward-looking, standardised, comparable framework, that is aligned with the TCFD recommendations and consistent with the EU taxonomy and the various disclosure obligations of financial institutions is needed. Building on the laudable commitment from Vice-President Dombrovskis on 28 January 2020 to *'support a process to **develop European non-financial reporting standards'*** and invite EFRAG to *'begin preparatory work for these standards as quickly as possible'*, we would welcome the rapid launch of a multistakeholder process including a public consultation to provide inputs to the EFRAG and the Commission.

There is a huge amount of data out there but some of the most valuable is proprietary e.g. Bloomberg, insurance companies etc. An even bigger problem is inconsistencies or usability of data which would benefit from public sector coordination effort.[25]

The EU should establish an independent Climate Risk Observatory responsible for monitoring systemic risks and identifying resilience priorities through evidence-based analysis. The Observatory should conduct comprehensive monitoring and assessment on climate vulnerabilities and risks across EU sectors and supply chains to identify resilience priorities and appropriate policy responses. Sectoral roadmaps should be created for the EU long-term strategy defining material risk profiles and second and third order impacts and used to inform national adaptation and resilience action plans.

Member States should be encouraged to develop action plans that stress test how their key economic sector, infrastructure and critical systems will withstand different global warming scenarios and identify short-to-medium term actions to reduce vulnerabilities through the support of the Climate Risk Observatory. The EU should unlock public and private capital by comprehensive engagement with Member States, regional and local authorities and public finance institutions on the formulation of investment plans for their adaptation and resilience action plans. These should make linkages with national budgets and capital-raising plans. Investment plans will be needed to raise the necessary capital at adequate scope or scale.

[25] https://www.bis.org/fsi/publ/insights20.pdf

Financial management of physical risk

According to a report by the European Environmental Agency, during the period of 1980-2017, 65% of direct economic losses from climate disasters were not covered by insurance in EU and EFTA countries, with wide discrepancies between Member States, hazards and types of policyholders. The availability and affordability of natural catastrophe financial risk management tools differs widely across the EU, also due to different choices and cultural preferences with regards to ex-ante and ex-post financial management in case of disasters. While the financial industry (and in particular the insurance sector) can play a leading role in managing the financial risk arising from adverse climate impacts by absorbing losses and promoting resilience, EIOPA has warned that insurability is likely to become an increasing concern. Measures to maintain and broaden risk transfer mechanisms might hence require (potentially temporary) public policy solutions.

Furthermore, the ongoing COVID-19 outbreak is highlighting the growing risk arising from pandemics in particular, which will become more frequent with the reduction of biodiversity and wildlife habitat. UNEP's Frontiers 2016 Report on Emerging Issues of Environment Concern shows that such diseases can threaten economic development.

In this context, social and catastrophe bonds could play a crucial role: the former to orient use of proceeds towards the health system (e.g. IFFIM first vaccine bond issued in 2006), and the latter to broaden the financing options that are available to insurers when it comes to catastrophe reinsurance. Such instruments would help mobilise the broadest possible range of private finance alongside public budgets to contribute to the resilience of the EU's health and economic systems, via prevention and reinsurance.

Question 100: Is there a role for the EU to promote more equal access to climate-related financial risk management mechanisms for businesses and citizens across the EU?

- Yes/No/Do not know.
- If yes, please indicate the degree to which you believe the following actions could be helpful, using a scale of 1 (not helpful at all) to 5 (very helpful) and substantiate your reasoning:
  - Financial support to the development of more accurate climate physical risk models. [BOX max. 2000 characters] 4
  - Raise awareness about climate physical risk. [BOX max. 2000 characters]. 4
  - Promote ex-ante "build back better" requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe. [BOX max. 2000 characters]. 3
  - Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage. [BOX max. 2000 characters]. 1
  - Reform EU post-disaster financial support. [BOX max. 2000 characters]. 1
  - Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events. [BOX max. 2000 characters] 1
  - Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks. [BOX max. 2000 characters]. 1

- Regulate by setting minimum performance features for national climate-related disaster financial management schemes. [BOX max. 2000 characters]. 1
- Create a European climate-related disaster risk transfer mechanism. [BOX max. 2000 characters]. 1
- Other, please specify. [BOX max. 2000 characters].

WWF comment:

There are concerns that focusing on catastrophe bonds, re-insurance etc. means that the risk is passed on/mitigated/spread, which could remove incentives to reduce the risk overall. For example, if a company buys a hedge it becomes insured for the financial risk, but the societal risk doesn't go away. There is therefore a significant moral hazard risk that should be dealt with very carefully by the Commission.

The Climate Risk Observatory mentioned above could be key in assessing the social and economic impacts of insurance coverage gaps and withdrawal of credit from vulnerable sectors and communities. With climate disclosure on the rise, there is a need to prevent capital flight from the most vulnerable regions, especially in those Member States which are not ready to cope with the effects of climate change. This requires coordination between public institutions, civil society and the insurance sector to identify projects with the greatest potential for improving access to climate risk insurance and for leveraging private investments.

The EU should develop a European climate-related disaster risk pool to improve access to climate risk insurance. Developing a disaster risk transfer mechanism can provide a rapid and cost-effective protection against catastrophic events such as floods or fires, share the burden for disaster loss across European regions and transfer excessive risk to the reinsurance and capital markets. The EU should develop a climate-related disaster risk pool by pooling risks and funds from private and public actors and insurance companies. The EU budget and recovery fund should support such projects that aim to close the protection gap of vulnerable sectors and communities.

The EU should expand technical assistance to support project development capacity at regional and local level through network of public finance institutions. The InvestEU Advisory Hub could act as an intermediary to identify viable business cases and build on direct cooperation with public finance institutions and municipalities to ensure local presence, particularly in Southern European countries. Green infrastructure must play a more central role, including landscape conversation, afforestation, and wetland restoration to tackle flooding, nature-based designs to mitigate the urban heat island effect, and managed retreat in coastal areas to adapt to rising sea levels.

The EU should encourage public finance institutions to issue resilience bonds. De-risking investments in adaptation and resilience finance – notably through credit enhancement of resilience bonds – can enable public finance institutions to leverage increased amounts of private. The EU should encourage public finance institutions to set specific targets for higher levels of adaptation and resilience finance and back the issuance of resilience bonds. By prioritising resilience with their financial intermediaries such as banks, public finance institutions can also promote adaptation and resilience interventions throughout the economy.

Question 101: Specifically, with regards to the insurability of climate-related risks, do you see a role for the EU in this area?

- Yes/No/Do not know.

- If yes, which actions you would consider to be useful? In particular, is there scope for EU action to improve the offer of products and services for climate-related disaster risk reduction, enhance insurers' potential to promote increased resilience of their policyholders beyond a mere compensatory role? [26]
    - Yes/No/Do not know.
    - If yes, please explain which actions and the expected impact (high, medium, low). [BOX max. 2000 characters]
    - If no, please explain. [BOX max. 2000 characters]

Insurers are great at risk assessment but not all of them work with clients to take a more preventive and resilient approach to their investment strategies, despite the fact that climate will hit them both in terms of their asset base and liabilities. A number of measures have been proposed by the Financial Stability Institute:[27]

- The EU can help standardise that approach across the industry and ensure that better climate risk assessment provided by the insurance industry translates into better climate risk management by policyholders.
- As climate risk quantification techniques mature and insurers' risk assessments become more accurate, the EU could consider certain policy measures. This could include consequences if insurers no longer provide insurance coverage or at very high prices.
- Internationally the EU should promote the consistent use of accurate climate risk scenarios and improve climate risk assessment and insurance capabilities.

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?

- Yes / No / Do not know.
- If yes, what action should the EU take? Please list a maximum of three actions. [BOX max. 2000 characters]

Three actions are suggested:

1. Application of the double materiality approach is crucial in this assessment.
2. Integration of sustainability risks should be aligned to the time horizons of such factors (so avoiding only the short-term).

[26] For instance, EIOPA in its opinion on sustainability on Solvency II talks about "impact underwriting which includes the development of new insurance products, adjustments in the design and pricing of the products and the engagement with public authorities without disregard for actuarial risk-based principles of risk selection and pricing".

[27] https://www.bis.org/fsi/publ/insights20.pdf

3. Encourage the development of tools and methodologies to assess the impact of investments on communities and the environment, including a mandatory EU investment due diligence framework

4. The EU should ensure that the categorisation of climate and environmental objectives in the context of the EU taxonomy does not distract from the wider need to make all financial investment resilient to climate and environmental risks.

5. The EU should mandate all public and private investments to be resilient to climate and environmental risks. This could be achieved using a 'resilience test' to make climate and environmental resilience a baseline requirement for investments. This should complement the sustainability proofing guidelines currently being developed to ensure that investments are not only sustainable but also resilient.

6. The EU should provide technical support so that investors have the rights tools and methodologies to conduct assessments of climate and environmental resilience.

7. This should be extended to infrastructure planning which still lacks a holistic approach in terms of the integration of climate resilience and ecosystem services.[28]

4. Additional information

Should you wish to provide additional information (e.g. a position paper, report, further quantitative evidence, other) or raise specific points not covered by the questionnaire, you can upload your additional document(s). Please be aware that such additional information will not be considered if the questionnaire is left completely empty.

On directors' duties and corporate sustainability strategies, refer to the following statement:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3502101
On reporting: Alliance for Corporate Transparency research: allianceforcorporatetransparency.org/

[28] https://www.worldwildlife.org/publications/case-studies-on-integrating-ecosystem-services-and-climate-resilience-in-infrastructure-development-lessons-for-advocacy