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MANAGEMENT ASSOCIATION

ADDITIONAL COMMENTS: DUFAS (*the Dutch Fund and Asset Management Association*)[1] on the consultation on the "THE EUROPEAN COMMISSION'S CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY, as published by the European Commission on 8 April 2020.

DUFAS (*the Dutch Fund and Asset Management Association*)[2] welcomes the opportunity to respond to the consultation on the "THE EUROPEAN COMMISSION'S CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY, as published by the European Commission on 8 April 2020.

In this annex, we will provide additional comments to our responses on questions for which no space was available to add comments. Prior to this we would like to repeat our response to the question on challenges and opportunities which we foresee for the implementation of the EU sustainable finance strategy.

DUFAS sees the following issues as the main challenges and opportunities for the Dutch asset management industry:

- **Data:** the real challenge is on the data side. Implementation of the entire EU sustainable finance plan, including but not limited to the SFDR and the EU taxonomy will strongly depend on data. This relates to the (i) availability of data, particularly the availability of relevant data (ii) quality and reliability of data, (iii) comparability of data, and (iv) access to data via open source free of charge or against reasonable costs. At to the relevancy aspect of data, we strongly recommend focussing on material datapoints and to focus on proportionality. Pricing of such data will be important. The future of the implementation of sustainability legislation by asset managers depends therefore on the availability, reliability and comparability of data. If the data challenge is solved, e.g. by setting up an EU ESG data register, we truly believe that as asset management sector we will be able to perform a crucial role in the transition to a more sustainable society.

[1] *The Dutch Fund and Asset Management Association (DUFAS) promotes the collective interests of asset managers, investment firms and custodians, operating on and from the Dutch marketplace – both Dutch and foreign parties. DUFAS has a commercial focus, aimed at creating both institutional and retail business opportunities for its members. Central to this is the promotion of an optimal business climate for asset management in the Netherlands. A level playing field for free supply of investment products and asset management services within the European Union and a broadening of the market for investment products are key. DUFAS represents over 95% of the Dutch asset management market, both retail and institutional business. Next to independent asset management firms, self-managed (real estate) funds and custodians, DUFAS membership is comprised of asset management firms that are linked to banking, insurance and pension funds. For more information, see: www.dufas.nl*

As to the data challenge, one important step would be to establish an open-source European ESG data register. In addition, it would also create a big opportunity for more international cooperation when the EU can establish its global leadership on sustainable finance and ensuring data availability and quality.

- **Monitoring**: the main challenge related to the data issue, is monitoring. How do we monitor on a company level, sector level, country level etc. whether we reach the goals of the Paris Agreement. Monitoring will depend on reporting, standardization and harmonization, and on the reliability and comparability of such reporting. But here again if we solve the data challenge, monitoring will be readily feasible to achieve provided more standardization will evolve in the long run and more consensus will be reached on methodologies used in order to achieve more comparability.

- **(Retail) client information**: Another challenge is to be able to inform a retail client in an adequate and appropriate manner. The current framework may lead to an overload of information to the investor, the retail investor in particular. The level of detail as required by the SFDR, the draft RTS SFDR in particular, adds to this issue. An (eco)label could be a solution to this problem. However, the way we see the EU Ecolabel being developed does not provide for a proper and adequate information of the retail investor on ecologic sustainable product. Because of the rigid (i) pass or fail system, and (ii) the absence in differentiating in the shades of green once the ecolabel has been awarded. Having said this, client information and disclosures are depended on the first primary challenge, i.e. data! In that context, we welcome the development of an overall EU ESG label for the retail market, but at this stage, given the data challenge, and being mindful of the effects of an EU ecolabel, we believe that development of such ESG label should take place in a later stage. The main challenge, but also opportunity is to create a simple robust disclosure framework which really helps the (retail) in finding its way to sustainable finance and investing. It is key that such framework is simple and easy for a retail investor to understand without overloading the retail investor i.e. the average citizen with too much complex details.

DUFAS, July 2020

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ADDITIONAL COMMENTS: DUFAS RESPONSE TO EU CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY

Please find enclosed several explanatory notes on certain responses to the questions, which the online questionnaire did not provided the opportunity to insert comments:

Question 1: With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate-related and environmental challenges, do you think that:

We ticked the box "*incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.*"

At this stage, DUFAS finds it hard to assess whether further policy action is required. It seems fair to first await the implementation of the entire EU Sustainable Finance Action plan as launched in 2018 and monitor the effectiveness thereof. Based on that outcome, possible policy action may need to be (re)considered. However, also regarding the EU Sustainable Finance Action plan, we do recommend focussing more on what is really needed and including proportionality into the upcoming legislation which is essential for a swift and effective implementation of the Action Plan. In order to achieve this more (i) consistency and (ii) alignment between the various pieces of sustainable legislation is needed.

We support the development of concepts that increase and promote the distribution of sustainable financial products. However, we urge the Commission not to start substantial policy actions whilst the implementation and calibration of the current EU Sustainable Finance Action plan is still in progress in the next coming years. We support and acknowledge the urgency of promoting and ensuring the swift transition of the EU to sustainable society, but at the same as asset management sector, we do stress and recommend an orderly implementation and calibration of the current EU Sustainable Finance Action plan.

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

We ticked the box "yes both". For asset managers it is essential that corporates disclose in their business strategies and targets if and how they will contribute to reaching the goals of the Paris Agreement. Such disclosures are already reflected in the current EU Sustainable Finance Action Plan, including NFRD, SFDR and the Taxonomy in particular.

Question 10. Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?

We believe that over time it would be desirable that both institutional investors and credit institutions report disclose this kind of information. However, disclosure of temperature scenarios of portfolios is hampered in the near term by a lack of data to make such calculations. Data providers are not yet ready to supply this kind of data. A common methodology is a prerequisite to harmonize reporting on temperature scenarios.

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

We ticked the box "poor". DUFAS members experience that data providers tend to use different methodologies for assessing ESG ratings on corporate issuers, and the same may apply to the future integration of the ESG or taxonomy principles in their research. We believe that is a concern, as data from various data providers should be comparable. We refer also to the report of 15 August the MIT Sloan School of Management titled "Aggregate Confusion: The Divergence of ESG Ratings" by Florian Berg, Julian F. Koelbel, and Roberto Rigobon investigates the divergence of environmental, social, and governance (ESG) ratings. This paper investigates the divergence of environmental, social, and governance (ESG) ratings and documents the disagreement between the ESG ratings of five prominent raters, i.e. Vigeo, RobecoSam, Asset4, Sustainalytics, KLD (=MSCIStats database). The authors concluded that correlations of the ESG ratings are on average 0.61 and range from 0.42 to 0.73. Their further conclusions were as follows:

"ESG performance is unlikely to be properly reflected in corporate stock and bond prices, as investors face a challenge when trying to identify out-performers and laggards."

"Second, we find that 53 percent of the difference of the ratings stems from measurement divergence, while scope divergence explains 44 percent, and weight divergence another 3 percent. In other words, 53 percent of the discrepancy comes from the fact that the rating agencies are measuring the same categories differently, and 47 percent of the discrepancy stems from aggregating common data using different rules."

"Third, we find that a significant portion of the measurement divergence is rater-specific and not category-specific, suggesting the presence of a Rater Effect. In other words, a firm that performs well in one category for one rater, is more likely to perform well in all the other categories for that same rater. Inversely, if the same firm is evaluated poorly in one category by another rater, it is more likely to be evaluated poorly for all the other categories as well."

"Thus, an important part of the service that ESG rating agencies offer is an interpretation of what ESG performance means."

Given the results in this paper, it shows the need for consistency and comparability of ESG ratings. As to the data itself, one could argue that the data raters may use the same data, but the outcome may be different. However, it may not always be clear whether the ESG ratings are coming from the exact data set or appreciation of such data set.

Question 28. What actions would you consider necessary to standardise investment funds that have broader sustainability denominations?

We ticked the box "no regulatory intervention is needed", though we may also have ticked otherwise. We do have the following comments on labelling.

Future ESG Label: There are merits in a possible development of a wider EU ESG label, but given the data challenge, we believe that development should take place at a later stage, if at all. Members of DUFAS do see merit labelling of ESG products and the taxonomy aligned products but see less added value if these EU label do not replace the national labels. Not all ESG financial products can then be captured by any labelling scheme.

Experience with EU Ecolabel set-up: Furthermore, where the EC will consider a label for ESG or SRI funds, DUFAS urges that it should not be set up similar to the EU Ecolabel. The set-up of the EU Ecolabel is based a pass-or-fail system. We do emphasise that the aim of the EU sustainable finance package is to prevent greenwashing. The focus thereof should be that the retail investor is informed as accurately as possible about the sustainability, the ESG or ecological greenness of the investment product. For any labels developed in the future, we are supportive of any points scheme or system where there is more room for indicating the greenness of an investment product within the framework of such label. The current set-up chosen with the EU Ecolabel which is based upon a pass-or fail system and a low threshold of minimum sustainable investments, does not have our support as we do think that retail investors are not properly informed.

Await taxonomy implementation: availability of data is relevant in order to make the EU Renewed Sustainable Finance Plan successful. We believe that as to ESG data will be even more complex than the data requirement for taxonomy purposes. Although there is merit in having wider EU sustainability labels for financial products in place, we do at this stage advise to refrain from further development of labels and await how the taxonomy and the EU ecolabel will develop.

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

We ticked the box "no".

Although we see merit in linking non-financial performance to a share of variable remuneration, we do not believe that it is necessary to make this mandatory. We do believe that this should be encouraged by stewardships teams from asset managers via their engagement tools. We believe that this is the responsibility of the company. The board of directors of companies are in the best position to make compensation decisions given their knowledge of the strategic plans for the company, the industry in which the company operates, the appropriate performance measures for the company. We advise that remuneration committees of such companies should therefore maintain significant flexibility in administering compensation programs. Eventually, the proxy disclosures should be the prime mechanism for such companies to explain their executive compensation practices.

Furthermore, the Shareholder Rights Directive II already 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 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?

We ticked the box "no". As indicated in our response to Q40 - although we see merit in linking non-financial performance to a share of variable remuneration - we do not believe that it is necessary to make this mandatory. We do believe that this should be encouraged by stewardships teams from asset managers via their engagement tools. We believe that this is the responsibility of the company. Moreover, for some category of companies this may not be relevant at all. Furthermore, it should be noted that the Shareholder Rights Directive II already introduces transparency requirements to better align long-term interests between institutional investors and their asset managers.

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?

We ticked the box “no”. DUFAS supports the idea that financial market participants such as asset managers should engage with companies *inter alia* to encourage such companies to become more sustainable. Having engagement policies in place is already prescribed by SRD II, and at this stage we do not believe or have not identified issues yet which requires more EU action to further enhance long-term engagement between investors and their investee companies. Particularly, as the effects of implementation of SRD II are not visible yet. Given the on-going implementation of SRD II in many Member States, investors and companies are still at an early stage of understanding how it can best support long-term engagement. We would recommend monitoring its application to assess its perceived effects before taking any further actions. We would therefore be cautious in introducing additional rules which may be too prescriptive and too resource intensive.

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?

We ticked the box “no”. We are unsure what voting framework the EC has in mind. In general, we do not think there is further need for harmonizing voting frameworks, particularly as SRD II is not fully implemented yet and the results and effects of SRD II are not visible yet. The only thing we can think of is possible harmonization of voting templates, i.e. industry templates which discloses voting results in a standardized manner.

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?

DUFAS believes that the focus of EU action should currently be on improving the consistency and comparability of the data disclosed by companies, including ESG data. Consistent and comparable disclosures by companies on e.g. climate risks and opportunities is crucial for allowing investors to vote on a company’s environmental and social strategies or performance.

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

We ticked the box “yes”. Here again we could have ticked either YES or NO depending how you would approach the question. As a result of the proposals by the EC in the MiFID II delegated act incorporation sustainability preferences into the investment process when rendering investment advisory and portfolio management services this has already been secured for a major part. If an investment advisor is required to obtain sustainability preferences, and the client answers that he or she wishes to invest in sustainable products *by default* sustainable financial products will be offered, provided available. If the client does not have any preferences, a sustainable financial product may be offered as default or as a good alternative.

However, clients should always be given the option to acquire an investment product which is or is not classified as a sustainable financial product. Secondly, it is essential to note that it will not always be easy to compare products in terms of costs and expected return. Hence, by offering per default a sustainable alternative financial product for a given financial instrument and arguing that these products are in terms of costs and return comparable would be difficult to guarantee towards the client. Finally, one must keep in mind that on the short term there may not be enough sustainable financial products available. A good sustainable alternative for a given financial instrument may therefore not be available, while investments in companies which are in transition to a more sustainable business model, is still a positive way forward to creating a sustainable society. Hence, if only current sustainable financial products are being offered by default, this may be detrimental for companies that are in transition.

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?

As an outcome, we do believe that awareness and knowledge of sustainable finance among citizens and finance professionals is certainly crucial for moving towards a more sustainable society. However, the question is whether the EU should be the party to encourage this, and by which means. Would financial intermediaries also not play an important role in this? We would welcome support from the EU in this respect but are also curious how the EU would support this. Would it be by funding? Would it be by creating awareness based on initiatives we already see in Europe when it comes to combatting financing literacy, such as the initiative from the Belgian regulator, the FSMA, who created a website for this purpose. In any event, we believe that initiatives for creating awareness and knowledge of sustainable finance among citizens and finance professionals should be non-political and should be focus on creating more transparency.

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)?

We ticked the box “No”. DUFAS believes that the consideration and integration of adverse impacts of investment decisions on sustainability (negative externalities) are already captured by existing initiatives in SFDR, targeted amendments of UCITS, AIFMD and MiFID. As such adaption of rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes are not necessary. Furthermore, fiduciary duties should be the seen as the duty to act in the best interest of the client. Where clients may not wish to look or consider principal adverse impact, this may be conflicting, unless it is defined that the best interest of the client should be defined as the interest of the client with a longer-term sustainable consideration.

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