15 July 2020

FIA EPTA reaction to the European Commission consultation on the renewed sustainable finance strategy

Additional information

Introduction FIA EPTA:

The FIA European Principal Traders Association (FIA EPTA) represents 29 independent European Principal Trading Firms (PTFs) that deal on own account, using their own money for their own risk, to provide liquidity and immediate risk-transfer in exchange-traded and centrally-cleared markets for a wide range of instruments, including shares, options, futures, bonds and ETFs.

As market makers and liquidity providers, our members contribute to efficient, resilient, and high-quality secondary markets that serve the investment and risk management needs of end-investors and corporates throughout the EU. Our members are active participants on almost all European exchanges and platforms. Moreover, our members are important sources of liquidity for institutional investors accessing liquidity pools across Europe. FIA EPTA supports transparent, robust and safe markets with a level playing field and appropriate regulation for market participants.

In 2019 FIA EPTA established a Sustainable Finance Committee for its member firms to explore how liquidity providers can contribute to the green transition. It is FIA EPTA's view that sustainable finance offers a great promise in unlocking investment capital that is essential for fighting climate change and mitigating its impact for citizens. To be widely accepted by investors, sustainable finance products need to be embedded in a healthy secondary market environment which ensures liquidity and enables investors to risk-manage their exposures. While welcoming the sustainable finance initiatives by the European Commission, challenges which FIA EPTA members encounter relate to uncertainty around available ESG indices and the current limited product scope which lacks a fully developed product ecosystem (consisting of underlying instruments and related futures, options and ETFs).

FIA EPTA conducted a survey amongst its membership in May/June 2020. on the engagement of principal trading firms with Sustainable Finance and ESG initiatives. The FIA EPTA survey found that 76% of responding FIA EPTA members consider it important to provide liquidity in ESG related products. 46% of the respondents are already providing liquidity in ESG products and 81% are expecting to expand or to start with liquidity providing in such products.

FIA EPTA is committed to supporting policymakers in ensuring the success of the sustainable finance project at all levels of the capital market ecosystem. We would welcome the opportunity to provide further background information to the European Commission on these and the other issues raised in our response.

Additional information question 35:

Issuance process of ESG:
The Index issuance process of ESG products is similar to other index issuance and thereby sufficiently supported, which is visible from the many ESG products launched. However, FIA EPTA members consider that the design of products requires more thought on the criteria used for the E, S, and G aspects. S and G seem more aligned, but E can be incorporated in many various ways targeting different environmental norms.

Liquidity of ESG products:
Again, in FIA EPTA members opinion the existing capital market infrastructure sufficiently facilitates the liquidity of sustainable securities. That said, the liquidity and market making support for these products is not yet at the same maturity level as for established non-ESG products. Until sufficient natural demand is built for a product, it is challenging for investment firms to provide liquidity in the product as s market makers.

Given the current investor focus on ESG products, FIA EPTA members would expect there will be natural growth over time. However, to address the current "Catch-22" for many ESG products (i.e., the combination of insufficient demand and lack of a liquid market) additional steps could be considered, such as requirements on trading venues to offer more favourable pricing and market making incentives on ESG vs non-ESG products; providing incentives the buy-side allocate a certain percentage of AUM toward ESG products or otherwise encourage the promotion of these products to end- investors and those who allocate capital (including via favourable tax treatment for retail investors); and allowing more favourable capital and/or margin treatment for ESG products to further develop and support sell-side adoption.

Finally, the entire ESG products suite needs improvement notably with improved ability for hedging ESG products in other markets via exchange traded derivatives.

Additional information question 53:

Yes, FIA EPTA members believe that all financial instruments have the same ability to allocate capital to sustainable projects, and activities, and would caution again a regulatory approach favouring one financial instrument type over another. We believe that ESG factors can be incorporated in all financial instruments (cash/derivative / equity-based / debt-based etc.) and do not believe that the baseline characteristics of an instrument would in any way hinder its ability to successfully allocate capital sustainably.