Further comments

The following are additional comments associated with questions on the online consultation response portal that provide no text boxes. In addition, there are two continuation answers for responses already provided. These are for questions 66 and 67.

Q.4 - We made a strategic commitment in 2018 to "measure, manage and ultimately reduce the emissions related to our activities and those related to the financing of our clients" (https://www.sc.com/en/media/press-release/weve-announced-further-steps-to-support-the-paris-agreement-on-climate-change/) in alignment with the Paris Agreement. We have been working since this time on methodologies for our client financing, and in February 2020 committed to becoming net zero in our own operations by 2030.

We believe it is critical that companies set such strategies and targets, and that all companies articulate how they are aligning to the goals of the Paris Agreement. This will further support the alignment of financial flows toward those goals.

Q.10 - We believe this is a necessary extension of Question 4; financial (and indeed non-financial) sector firms should have common metrics with which to demonstrate their strategic alignment to the Paris Agreement.

The industry will significantly benefit from a common EU wide methodology given the exploratory nature of the tools currently available to measure temperature alignment. Most of these metrics are nascent, require validation and significant engagement with the clients to test their accuracy. In our limited experience of engaging and testing, metrics also have a medium-to-large margin of error.

We also note that temperature metrics have specific use cases but can be complemented by activity / technology metrics and emissions metrics which may have greater utility in some decision-making.

Q.15 - Financial services is not included in the EU Taxonomy. We provide a response on implementing the Taxonomy in Q27.

Q.32 - We are not active in the EU mortgage market, though we support development of standards which can support the growth of this market and be of global relevance. In this, we would acknowledge the lack of information residential energy efficiency in many of our markets, and the need to resolve this to be able to achieve scale in green mortgages.

We would support wider standards or labels for loan products, to support consistency and thus liquidity.

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Q.40 - Following pressure from stakeholders there has been some change in market practice and an increase in the use of non-financial measures within performance-based remuneration and we expect this pressure to continue and to further influence practice. Within the UK, both regulators and investors are asking companies and remuneration committees to consider, where applicable, strategic or non-financial performance criteria in variable remuneration, specifically citing environmental, social and governance objectives and stressing that, if used, these measures should be material to the business and quantifiable.

We believe this pressure is having an impact on practice and have ourselves increased the focus on sustainability metrics in both our Group annual incentive balanced scorecard (impacting all employees) and our long-term incentive plan. Both incentive plans now include metrics that embed sustainable and responsible practices into our business operations in relation to; climate, infrastructure, environment and community engagement. The use of a Group balanced scorecard manages risk and drives a balanced approach to how we do business in line with the UN Principles for Responsible Banking, which we are a signatory to.

Measures of performance vary vastly by organisation and sector. The setting of a mandatory share of variable remuneration linked to non-financial performance could be inappropriate and/or difficult to achieve across all organisations. It could also lead to ESG measures being inappropriately 'bolted on' rather than being embedded across the whole performance strategy to influence both financial and non-financial outcomes. What might be more effective is a requirement for companies to explain why the balance they have chosen is appropriate.

Q.41 - We agree that organisations should be encouraged to include appropriate and meaningful reduction targets which could form part of ESG factors affecting variable remuneration. A requirement for companies to be transparent on how they are achieving the reduction rather than simply being required to report on a target reduction could be a more effective way to influence change. This would aim to make sure reductions are being done in a way that helps achieve the Sustainable Development Goals.

We are committed to supporting our clients through the low-carbon transition in line with the Paris Agreement and supporting adaptation and resilience to tackle physical risks. In 2018, we made a public commitment to develop a methodology to "measure, manage and ultimately reduce the emissions related to our own activities and those related to the financing of clients" and in 2019 we committed to reduce our annual GHG emissions by 36% by 2025. We also published a white paper on emissions https://av.sc.com/corp-en/content/docs/emissions-whitepaper.pdf in May 2019.

Q.46 - There are statutory duties under the UK Companies Act that require directors of UK companies to act in good faith to promote the success of the company for the benefit of its members as a whole, having regard to a number of factors such as the community and the environment. We would support an EU equivalent approach.

Q.50 - We support investors being offered sustainable products.

If the sustainable product is in all other ways (price and suitability for the client) comparable with other traditional products, it should be offered as an option on the basis that it is a legitimate product for consideration, not just due to its sustainability.

If the sustainable product is less suitable than other broadly similar products (it costs more or does not deliver a suitable return) then it may be more appropriate to ensure this is offered by default. For instance, it might be considered on a short list if it is close enough to other products, but if there are other products that offer better price and/or return, and where the client has expressed no interest in sustainability as a factor, then there is less of an incentive for the client to take it. The Commission should avoid the risk that market participants become compelled to recommend, or include for consideration, less suitable products.

Q.55 - Further details on the AFME response can be found here.

Q.66 – [*continued]*…. As an example, beyond China only a very small percentage of green and social bonds have been issued to finance emerging markets. It is these countries' pathway to a low carbon future that will have a major impact on the world's ability to meet the Paris Agreement. We see growing investor appetite to finance sustainable development in Asia and Africa, but this is often hampered by elevated risk perception and a lack of investable opportunities.

Q.67 – [*continued*]… Such incentives should apply to exposures from outside the EU, to increase sustainable financing activity globally. Capital relief needs to be internationally adopted and aligned to provide a global incentive for international investors. For securitisation, to increase the industry's financing ability, we support the development of a synthetic securitisation framework and believe that global sustainable assets should be available for inclusion in the asset pool, as single jurisdiction pools will likely not be big enough.