Annex to AFEP's Contribution

to the Consultation on the renewed sustainable finance strategy

NB: As responders were not given the opportunity to substantiate their answers when they were not ticking certain answers in the multiple choice questions, we would like to do it in this annex. We would like to remind the Commission of our preference for a neutral system which would allow responders to justify their answer, whatever the answer they tick in the multiple choice questions.

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?

- ❑ 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.

- The legislative measures adopted under the EU Action Plan on Sustainable Finance and the revision of the Non-financial Reporting Directive (NFRD) will strengthen disclosure requirements for both investors and issuers. We consider that these measures should be first fully implemented, and their relevance/effectiveness assessed before considering new measures.
- In particular, recommendations of TCFD and future impacts of the Disclosure Regulation should be assessed to determine whether this is a first step (or not) in right direction.
- One should also bear in mind that additional reporting requirements for investors will be passed on to companies who will have to provide data. It is therefore of utmost importance to align NFRD, Disclosure and Taxonomy Regulations, as well as their delegated acts in order to avoid incoherence, diverging interpretations or duplication of disclosures for companies.

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?

- ❑ Yes, institutional investors
- ❑ Yes, credit institutions
- ❑ Yes, both
- ❑ No
- ☑ Do not know

An in-depth assessment of the implementation of Annex I to the June 2019 Commission Guidelines on reporting climate-related information, dedicated to banks and insurance companies, should be

made in order to define how far climate information can be produced with a sufficient level of reliably. At present, there are no reliable and internationally recognised methodologies to assess which temperature scenario of portfolios investors and credit institutions are financing. Experiments could be encouraged to assess the credibility of various methodologies, taking into account the level of assurance on the data.
Any initiative at EU level on this issue should apply to non-EU asset managers, in order to avoid competition distortions.

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, 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

Protection and restoration of biodiversity and ecosystems are objectives of the Taxonomy Regulation. As mentioned in our answer to question 9, no additional objectives or amendments to existing objectives should be adopted before full implementation of Taxonomy Regulation.

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

The Shareholder Rights Directive already requires that listed companies include in the remuneration policy the financial and non-financial performance criteria for the award of the variable remuneration, including where appropriate criteria relating to corporate social responsibility. In practice, listed companies disclose a large range of non-financial performance criteria such as gender diversity and equality, prevention of work-related accidents, reduction of greenhouse gas emissions, preservation of natural resources… This being said, it should be up to the company to decide which performance qualitative or quantitative criteria is best suited to achieve its sustainable strategy and for which proportion it should weight in the variable remuneration according to the said strategy. Relevant information is disclosed in the remuneration policy and the remuneration report gives explanation on how these criteria have been applied and whether the individual targets have been met.

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

We agree with question 41 provided it will exclude all other indirect emissions occurring from sources that companies do not own or control (scope 3).

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

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

For questions 42 to 44: In market such as France where listed companies are best in class regarding reporting obligations on ESG issues, we already notice an increase of shareholder engagement to improve ESG company's profiles. Climate Action 100 + is an example of investor-led initiative to drive corporate action on climate change. Generally speaking, numerous questions raised at the time of the AGMs are related to climate change, carbon intensity, human rights, health, and safety especially in the context of the pandemic crisis. At some AGMs, shareholders table resolutions on environmental issues. Therefore, we do not see a need for an EU framework on ESG issues as they are already viewed as an opportunity both for companies and investors to create value over the long term.

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.

The management of supply chains has become highly complex, involving a broad range of suppliers and sub-contractors, comprising multiple tiers with hundreds or thousands of locations and individuals. No single company can resolve all the human rights and environmental concerns along its supply chain alone. Implementing due diligence requires the collaboration of many stakeholders within, but also outside, the company. According to UN and OECD Guiding Principles the responsibility for damages to the environment or violations against human rights lies with those who actually cause them. Due diligence does not shift responsibilities, neither from governments to enterprises, nor from suppliers or subcontractors to the companies placing the order. Therefore, the EU framework should not create legal uncertainty for EU companies. Otherwise, third countries will be disincentivised to improve human rights and social standards on their territory. The goal of the EU framework should be the creation of a fair international level playing field.