



Microsoft's Response to the Renewed Sustainable Finance Strategy Consultation

Introductory Comments

Today, there is a scientific consensus that excessive carbon emissions¹ to the atmosphere lie at the core of climate change, posing an existential threat to our Planet and future generations. There is no doubt that this challenge calls for urgent action and humanity must start to remove as much carbon as it emits each year. The "net zero" future will require aggressive new approaches including the development of new carbon removal technology that does not exist today, as well as innovative public policy particularly to provide the right incentives for financial investing to reflect all relevant environmental risks, including climate change, fresh water shortages and loss of biodiversity.

Microsoft's Commitment to Sustainability

While the world collectively moves towards the "net zero" emissions, at Microsoft, we believe that those who can do more, should do more, which is why in January 2020 we announced that from 2030 onwards we will be removing more carbon from the atmosphere than we emit. By 2050 we plan to remove all our historical carbon emissions, dating back from 1975 when Microsoft was founded. We plan to work towards this ambitious goal through several internal and external initiatives, including a new \$1 billion climate innovation fund aimed at accelerating the development of carbon reduction, capture, and removal technologies.²

Our objective is also to support our suppliers and customers in their sustainability journeys, which is why we will develop and deploy digital technologies that help them reduce their carbon footprint. We believe that real progress will require meaningful environmental transparency. We will hold ourselves accountable by publishing an annual Environmental Sustainability Report, based on internationally recognized reporting standards and further work with global stakeholders towards more coherent reporting frameworks.³

Public-Private Partnerships

Although we are enthusiastic about our commitment and hopeful about the future, we fully understand that the enormous challenge of climate change can only be tackled by a concerted effort, including a close cooperation between private and public actors. Therefore, we welcome the European Union's ambition for Europe to become climate-neutral by 2050 and we support the goals outlined in the European Green Deal, including enshrining in law the climate-neutrality objective. A clear roadmap for a green transition has never been more important than now, when the world and the EU are grappling with a global pandemic. We are encouraged to see that the Commission sees the green and digital pillars as foundational for its innovative Next Generation EU Instrument, outlining the pathway out of the Covid-19 crisis and towards economic recovery⁴.

Setting the European economy's recovery on a green path will require considerable sustainable investments, including from the private sector, and new ways of financing. The Sustainable Europe Investment Plan (SEIP), accompanying the European Green Deal, importantly identifies sustainable

¹ Throughout this paper, "carbon" and "emissions" refer to all greenhouse gas (GHG) emissions.

² Microsoft will be carbon negative by 2030, Brad Smith, Jan 2020

<https://blogs.microsoft.com/blog/2020/01/16/microsoft-will-be-carbon-negative-by-2030/>

³ Reports hub, Microsoft, Jul 2020 <https://www.microsoft.com/en-us/corporate-responsibility/reports-hub>

⁴ Recovery plan for Europe, European Commission, May 2020

https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe_en#documents

finance as a key enabler of the green transition and envisions at least €1 trillion of sustainable investments over the next decade. The funds will be accompanied by a range of tools that will support financial institutions and private investors in identifying opportunities for sustainable investments. We are encouraged to see that the plan also recognizes the importance of digital tools in the overall economic transition and foresees wide deployment of top digital technologies.⁵ We hope that the Renewed Sustainable Finance Strategy will reinforce that commitment.

The Importance of Non-Financial Data

Digital solutions and their capacity to process and analyze large amounts of data carry an enormous promise for the transformation of the financial sector towards sustainable future. We are at the beginning of what could be a massive reallocation of capital based on a complete recalibration of risk. Today, we struggle to distinguish between green and brown investments but cloud-enabled solutions have an ability to radically accelerate risk modeling and analysis related to non-financial key performance indicators (KPIs) and produce accurate insights around companies' climate mitigation strategies. Relevant analysis can include integration of datasets based on observable as well as reported data; digital platforms processing open datasets combined with machine learning tools are expanding the capabilities to model and manage risks. These tools, however, are fully dependent on the availability of quality data, which has been a challenge due to varying reporting practices across the industry.

To date, the lack of reliable environmental, social and governance (ESG) information constitutes one of the biggest roadblocks to the reallocation of billions of funds towards sustainable projects.⁶ Companies are being increasingly burdened to respond to questionnaires on their sustainability initiatives from multiple ESG data providers, ratings providers and aggregators which are duplicative, do not have a standard template and are therefore interpreted differently leading to data and insights that are not accurate. We see a potential for the EU to provide a consistent framework ensuring transparent disclosure of non-financial information. We are in favor of an EU-wide standard that will leverage existing international frameworks and improve comparability of non-financial data. We are also supportive of data spaces and data sharing⁷, including on ESG metrics. We look forward to discussion with the EC about the parameters of such data spaces to achieve maximum collective benefit of open data while defining what sensitive/confidential data is not openly distributed. With proper data and digital tools, companies can complete their ESG reporting more accurately, which in turn provides more clarity and confidence to investors and issuers and drives capital towards sustainable investments.

Benefits of Digitalization

The full potential of integrated reporting will not be realized if the financial sector is not able to undergo digital transformation. A key roadblock to technology adoption in the financial services industry (FSI) is the plethora of older legacy technologies and manual processes that make it difficult to be agile and create new offerings in response to customer needs. The interest in green and socially responsible investing is on the rise. Digital technologies such as cloud, analytics and AI leveraging tools that are low- and no-code offer FSI an opportunity to accelerate adoption and respond to the industry needs as well as contribute to sustainable future. A digital marketplace approach can be an

⁵ Commission Communication on the European Green Deal Investment Plan, European Commission, Jan 2020
https://ec.europa.eu/commission/presscorner/detail/en/fs_20_48

⁶ Data Mining for Sustainability, Richard Peers, FS Focus 2018
<https://secure.viewer.zmags.com/publication/4ed3b22c#/4ed3b22c/32>

⁷ Closing the data divide: the need for open data, Jennifer Yokoyama, Apr 2020

enabler to adoption and support dealing with the complexities of sustainability data, reporting and risk management requirements.

The deployment of digital solutions in the financial sector has several added benefits. For example, digital tools can broaden access to sustainable financing for SMEs as using technology enables them to significantly reduce the cost of reporting on their ESG performance. Additionally, cloud technologies are increasingly powered with renewable energy. Microsoft data centers are currently run in 60% on renewables and will be powered 100% with renewable energy by 2025. Moving workloads to a cloud powered by renewable energy contributes to the lowering of the carbon footprint of the financial sector. Although FSI has a limited direct environmental impact, on a global level cloud-enabled insights on how to operate systems more efficiently or detect problems that are wasting resources can significantly contribute to lowering industry's overall environmental footprint. Lastly, digital technologies have the added benefit of being a powerful driver and enabler for more sustainability on company and country level.

Although the public consultation questionnaire on the Renewed Sustainable Finance Strategy has a brief section on Digital sustainable finance (section 2.4), we believe the role of technology in the future of sustainable finance should be more extensively discussed as it lies at the core of both collection and analysis of data for sustainable finance. We believe there is significant potential in the combination of the two trends, i.e. Green Digital Finance/Fintech, and we hope that this consultation can be a catalyst for further discussions exploring ways to govern and to scale green digital finance.