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|  | EUROPEAN COMMISSION  Directorate-General for Financial Stability, Financial Services and Capital Markets Union  HORIZONTAL POLICIES  **Sustainable finance** |

## CONSULTATION DOCUMENT

**CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY**

**Disclaimer**

This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The responses to this consultation paper will provide important guidance to the Commission when preparing, if considered appropriate, a formal Commission proposal.

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You are invited to reply **by 15 July 2020** at the latest to the **online questionnaire**

available on the following webpage:

[https://ec.europa.eu/info/publications/finance-consultations-2020-sustainable-finance-](https://ec.europa.eu/info/publications/finance-consultations-2020-sustainable-finance-strategy_en) [strategy\_en](https://ec.europa.eu/info/publications/finance-consultations-2020-sustainable-finance-strategy_en)

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses**.

Responses authorised for publication will be published on the following webpage: [https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-](https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en#contributions) [strategy\_en#contributions](https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en#contributions)

# INTRODUCTION

**On 11 December 2019, the European Commission adopted its** [**Communication on a**](https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1576150542719&amp;uri=COM%3A2019%3A640%3AFIN)[**European Green Deal**,](https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1576150542719&amp;uri=COM%3A2019%3A640%3AFIN) which significantly increases the EU’s climate action and environmental policy ambitions.

**A number of levers will need to be pulled in order to build this growth strategy, starting with enshrining the climate-neutrality target in law.** On 4 March 2020, the European Commission proposed a European [Climate Law](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_335) to turn the political commitment of climate-neutrality by 2050 into a legal obligation. This follows the European Parliament’s [declaration of a climate emergency](https://www.europarl.europa.eu/news/en/press-room/20191121IPR67110/the-european-parliament-declares-climate-emergency) on 28 November 2019 and the [European Council conclusions](https://data.consilium.europa.eu/doc/document/ST-29-2019-INIT/en/pdf) of 12 December 2019, endorsing the objective of achieving a climate-neutral EU by 2050.

**The ongoing COVID-19 outbreak in particular shows the critical need to strengthen the sustainability and resilience of our societies and the ways in which our economies function.** This is necessary to, above all, minimise the risk of similar health emergencies in the future, which are more likely to occur as climate and environmental impacts escalate. In parallel, it will be paramount to ensure the resilience and capacity of our societies and economies to resist and recover from such emergencies. The COVID-19 outbreak underscores some of the subtle links and risks associated with human activity and biodiversity loss. Many of the recent outbreaks (e.g. SARs, MERS, and avian flu) can be linked to the illegal trade in, and consumption of, often endangered wild animal species. Furthermore, experts suggest that degraded habitats coupled with a warming climate may encourage higher risks of disease transmission, as pathogens spread more easily to livestock and humans.1 Therefore, it is important – now more than ever - to address the multiple and often interacting threats to ecosystems and wildlife to buffer against the risk of future pandemics, as well as preserve and enhance their role as carbon sinks and in climate adaptation.

## Financing the European Green Deal and increasing the financial resilience of the economy, companies and citizens

**Above all, the transition to a sustainable economy will entail significant investment efforts across all sectors, meaning that financing frameworks, both public and private, must support this overall policy direction:** reaching the current 2030 climate and energy targets alone would already require additional investments of approximately

€260 billion a year by 2030. And as the EU raises its ambition to cut emissions, the need for investment will be even larger than the current estimate. In addition, significant investments in the upskilling and reskilling of the labour force will be necessary to enable a just transition for all. Hence, the scale of the investment needs goes well beyond the capacity of the public sector. Furthermore, if the climate and biodiversity crises are to be successfully addressed and reversed before potentially dangerous tipping points are reached, much of the investment needs to happen in the next 5-10 years. In this context, a more sustainable financial system should also contribute to mitigate existing and future risks to wildlife habitats and biodiversity in general, as well as support the prevention of pandemics -such as the COVID-19 outbreak.

1 See for instance “UNEP Frontiers 2016 Report on Emerging Issues of Environment Concern”, UNEP, 2016.

**In this context, the European Green Deal Investment Plan - the Sustainable Europe Investment Plan – announced on 14 January 2020 aims to mobilise public investment and help to unlock private funds through the EU budget** and associated instruments, notably through the InvestEU programme. Combined, the objective is to mobilise at least €1 trillion of sustainability-related investments over the next decade. In addition, for the next financial cycle (2021-2027) the **External Investment Plan (EIP) and the European Fund for Sustainable Development Plus (EFSD+)** will be available for all partner countries with a new External Action Guarantee of up to €60 billion. It is expected to leverage half a trillion Euros worth of sustainable investments. Lastly, the **European Investment Bank (EIB)** published on 14 November 2019 its [new climate](https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy) [strategy and Energy Lending Policy,](https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy) which notably sets out that the EIB Group will align all their financing activities with the goals of the Paris Agreement from the end of 2020. This includes, among other measures, a stop to the financing of fossil fuel energy projects from the end of 2021.

**However, the financial system as a whole is not yet transitioning fast enough.** Substantial progress still needs to be made to ensure that the financial sector genuinely supports businesses on their transition path towards sustainability, as well as further supporting businesses that are already sustainable. It will also mean putting in place the buffers that are necessary to support de- carbonisation pathways across all European Member States, industries that will need greater support, as well as SMEs.

**For all of these reasons, the European Green Deal announced a Renewed Sustainable Finance Strategy.** The renewed strategy will build on the 10 actions put forward in the European Commission’s initial [**2018 Action Plan on Financing**](https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en)[**Sustainable Growth**](https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en), which laid down the foundations for channelling private capital towards sustainable investments.

**As the EU moves towards climate-neutrality and steps up the fight against environmental degradation, the financial and industrial sectors will have to undergo a large-scale transformation, requiring massive investment**. Progress has already been made, but efforts need to be stepped up. Building on the achievements of the Action Plan on Financing Sustainable Growth, the current context requires a more comprehensive and ambitious strategy. **The Renewed Sustainable Finance Strategy will predominantly focus on three areas**:

1. **Strengthening the foundations for sustainable investment by creating an enabling framework, with appropriate tools and structures.** Many financial and non-financial companies still focus excessively on short-term financial performance instead of their long- term development and sustainability-related challenges and opportunities.
2. **Increased opportunities to have a positive impact on sustainability for citizens, financial institutions and corporates**. This second pillar aims at maximising the impact of the frameworks and tools in our arsenal in order to “finance green”.
3. **Climate and environmental risks will need to be fully managed and integrated into financial institutions and the financial system as a whole**, while ensuring social risks are duly taken into account where relevant. Reducing the exposure to climate and environmental risks will further contribute to “greening finance”.

## Objectives of this consultation and links with other consultation activities

**The aim of this consultation, available for 14 weeks (until 15 July) is to collect the views and opinions of interested parties in order to inform the development of the**

**renewed strategy.** All citizens, public authorities, including Member States, and private organisations are invited to contribute. Given the diversity of topics under consultation, stakeholders may choose to provide replies to some questions only. Section I (covering questions 1-5) is addressed to all stakeholders, including citizens, while Section II (covering questions 6-102) requires a certain degree of financial and sustainability- related knowledge and is primarily addressed at experts.

**This consultation builds on a number of previous initiatives and reports**, as well as complementing other consultation activities of the Commission, in particular:

* + The final report of the [High-Level Expert Group on Sustainable Finance](https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en) (2018);
  + The [EU Action Plan on Financing Sustainable Growth](https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en) (2018);
  + The communication of the Commission on ‘[The European Green Deal’](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en) (2019);
  + The communication of the Commission on ‘ [The European Green Deal Investment Plan’](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en) (2020);
  + The [reports](https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en) published by the Technical Expert Group on sustainable finance (TEG) with regard to an EU taxonomy of sustainable activities, an EU Green Bond Standard, methodologies for EU climate benchmarks and disclosures for benchmarks and guidance to improve corporate disclosure of climate-related information.

**This consultation also makes references to past, ongoing and future consultations**, such as the [public consultation](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive/public-consultation) and [inception impact assessment](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive) on the possible revision of the Non-Financial Reporting Directive (NFRD), the inception impact assessment on the review of the Solvency II Directive or the future consultation on investment protection.

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire on time will be analysed and included in the report summarising the responses**. Should you have a problem completing this questionnaire or if you require particular assistance, please contact [fisma-sf-consultation@ec.europa.eu.](mailto:fisma-sf-consultation@ec.europa.eu)

[on the protection of personal data regime for this consultation](https://ec.europa.eu/info/files/2020-sustainable-finance-strategy-specific-privacy-statement_en)

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**SECTION I: QUESTIONS ADDRESSED TO ALL STAKEHOLDERS ON HOW THE FINANCIAL SECTOR AND THE ECONOMY CAN BECOME MORE SUSTAINABLE**

[…]

**SECTION II: QUESTIONS TARGETED AT EXPERTS**

[…]

1. **STRENGTHENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE**

In order to enable the scale-up of sustainable investments, it is crucial to have sufficient and reliable information from financial and non-financial companies on their climate, environmental and social risks and impacts. To this end, companies also need to consider long-term horizons. Similarly, investors and companies need access to reliable climate-related and environmental data and information on social risks, in order to make sound business and investment decisions. Labelling tools, among other measures, can provide clarity and confidence to investors and issuers, which contributes to increasing sustainable investments. In this context, the full deployment of innovative digital solutions requires data to be available in open access and in standardised formats.

## Company reporting and transparency

In its Communication on the [European Green Deal](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2019%3A640%3AFIN), the Commission recognised the need to improve the disclosure of non-financial information by corporates and financial institutions. To that end, the Commission committed to reviewing the [Non-Financial](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095) [Reporting Directive](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095) (NFRD) in 2020, as part of its strategy to strengthen the foundations for sustainable investment. A [public consultation](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive/public-consultation) is ongoing for that purpose.

The [political agreement](https://data.consilium.europa.eu/doc/document/ST-14970-2019-ADD-1/en/pdf) on the Regulation on establishing a framework to facilitate sustainable investment (‘Taxonomy Regulation’) places **complementary reporting requirements on the companies that fall under the scope of the NFRD**.

In addition to the production of relevant and comparable data, it may be useful to ensure open and centralised access not only to company reporting under the NFRD, but also to relevant company information on other available ESG metrics and data points (please also see the dedicated section on sustainability research and ratings 1.3). To this end, a **common database** would ease transparency and comparability, while avoiding duplication of data collection efforts. The Commission is developing a common European data space in order to create a [single market for data](https://ec.europa.eu/digital-single-market/en/policies/building-european-data-economy) by connecting existing databases through digital means. Since 2017, DG FISMA has been assessing the prospects of using Distributed Ledger Technologies (including blockchain) to federate and provide a single point of access to information relevant to investors in European listed companies ([European Financial Transparency Gateway](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/transparency-requirements-listed-companies_en#eftg) - EFTG).

**Question 14:** In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies’ ESG information, including data reported under the NFRD and other relevant ESG data?

* Yes/No/Do not know.
* If yes, please explain how it should be structured and what type of ESG information should feature therein. [BOX, 2000 characters]

FERMA supports the digitalisation of non-financial information in a centralised European repository to facilitate its availability and comparability. To be actionable, this data should be delivered in an accessible and interactive format. The database should therefore be arranged by industry with the possibility to sort companies on different dimensions, such as by country or other indicators.

Data should be collected, reported and classified in three main ESG sections (corresponding to the three topic areas, namely Environmental, Social and Governance). An additional section titled “Other” will give companies the opportunity to provide any further non-financial information they consider relevant.

Each section should be structured following the requirements of the Non-Financial Reporting Directive (NFRD). Companies should indicate the applicability of each requirement based on the “*comply or explain*” principle. This principle permits companies to either comply with the NFRD provisions or explain why they have not complied, that is, why they have deviated from the provisions of the directive. Applicability should be determined through a risk and opportunity materiality assessment, following the process described by FERMA in its response to the recent public consultation on the review of the NFRD (see link below). This process involves the construction of a risk and opportunity-based Materiality Matrix, focused on a few clear priorities that may distinguish information that is important and necessary to disclose from that which could be considered secondary and optional. This Matrix uses Enterprise Risk Management (ERM) to assess the relevance of each risk and opportunity in order to select key sustainability topics. It will increase the quality of non-financial information for both companies and stakeholders, while ensuring the scope remains limited to only the most relevant aspects. For more information about this process, and to read FERMA’s overall position on the NFRD, please visit <https://www.ferma.eu/advocacy/ferma-calls-for-a-clarified-and-targeted-non-financial-reporting-standard-based-on-erm/>.

[…]

## Sustainability research and ratings

A variety of sustainability-related assessment tools (ratings, research, scenario analysis, screening lists, carbon data, ESG benchmarks, etc.) are offered by specialised agencies that analyse individual risks and by traditional providers, such as rating agencies and data providers. In the autumn of 2019, the Commission launched a study on the market structure, providers and their role as intermediaries between companies and investors. The study will also explore possible measures to manage conflicts of interest and enhance transparency in the market for sustainability assessment tools. The results are due in the autumn of 2020. To complement this work, the Commission would like to gather further evidence through this consultation.

**Question 17:** Do you have concerns on the level of concentration in the market for ESG ratings and data?

* Please express your view by using a scale of 1 (not concerned at all) to 5 (very concerned). **4**
* If necessary, please explain the reasons for your answer. [BOX, 2000 characters] Although there are many ESG assessment tools available to help gauge a company’s sustainability level, few of them are well-recognised internationally. This leads to a concentration in the market for those few that are well-recognised, namely the Dow Jones Sustainability Index, Carbon Disclosure Project (CDP) and Ecovadis (particularly for the automotive industry). Companies are subsequently more interested in obtaining a high score/rating from one of the above than from other providers. Therefore, in addition to the Commission study that will explore possible measures to manage conflicts of interest and enhance transparency in the market for sustainability tools, there may be a further need to define the minimum requirements (i.e. standards) with which any tool should comply to ensure comparability of information independently of the tool used. Such criteria will help to avoid the market concentration described above and the unfair focus on a few well-recognised providers to the detriment of others.

**Question 18:** How would you rate the comparability, quality and reliability of ESG **data**

from sustainability providers currently available in the market?

* Please express your view by using a scale of 1 (very poor) to 5 (very good). **4**
* If necessary, please explain the reasons for your answer. [BOX, 2000 characters] Sustainability providers request that respondents complete a standard questionnaire, with the option to provide supporting documentation if desired. This standardisation greatly improves the quality and reliability of ESG data as it makes it possible to compare results across the EU.

**Question 20:** How would you assess the quality and relevance of ESG **ratings** for your investment decisions, both ratings of individual Environmental, Social or Governance factors and aggregated ones?

* Individual: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good). **4**
* Aggregated: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good). **3**
* If necessary, please explain the reasons for your answer. [BOX, 2000 characters] – The individual rating is particularly well-suited to address concrete investment decisions on each ESG factor as it is designed to indicate best performance. The aggregated rating is slightly less relevant as it is, by nature, less targeted. However, since the aggregated rating is used to compare ESG factors across companies, it is more strategic for a company to obtain a high aggregated than individual rating as it will have more effect on a company’s image and reputation.

**Question 21:** In your opinion, should the EU take action in this area?

* Yes/No/Do not know.
* If yes, please explain why and what kind of action you consider would address the identified problems. In particular, do you think the EU should consider regulatory intervention? [BOX, 2000 characters]

In order to incentivise companies’ investment decisions in ESG factors, the European Commission should define the acceptable rate/thresholds for ESG, similar to an EU-level Sustainability Risk Appetite. This means that for each ESG factor, the Commission should define the minimum acceptable rating that companies need to achieve (based on one or a combination of ratings provided in the market, for example). Any result that is below the acceptable rating, meaning that the company risks non-alignment with the EU’s sustainability strategies (such as carbon neutrality), will incentivise a company to define clear action plans to achieve the target.

Although no penalties or fines should be levied, it is important that each judgment is well justified by the European Commission, taking into account particular interdependencies within certain industries that may mean compliance with one ESG factor necessitates non-compliance with another.

[…]

## Corporate governance, long-termism and investor engagement

To reflect long-term opportunities and risks, such as those connected to climate change and environmental degradation, **companies and investors need to integrate long-term horizons and sustainability in their decision-making processes**. However, this is often difficult in a context where market pressure and prevailing corporate culture prompt corporate managers and financial market participants to focus on near-term financial performance at the expense of mid- to long-term objectives. Focusing on short-term returns without accounting for long-term implications may lead to underperformance of the corporation and investors in the long-term, and, by extension, of the economy as a whole. In this context, investors should be driving long-termism, where this is relevant, and not pressure companies to deliver short-term returns by default.

**The ongoing COVID-19 outbreak in particular underscores that companies should prioritise the long term interests of their stakeholders**. Many companies in the EU have decided to prioritise the interests of key stakeholders, in particular employees, customers and suppliers, over short-term shareholder interest.[[1]](#footnote-1) These factors contribute to driving long-term returns as they are crucial in order to maintain companies’ ability to operate. Therefore, institutional investors have an important role to play in this context. As part of action 10 of the Action Plan on Financing Sustainable Growth, in December 2019 the **European Supervisory Authorities delivered reports (**[**ESMA report,**](https://www.esma.europa.eu/press-news/esma-news/esma-proposes-strengthened-rules-address-undue-short-termism-in-securities) [**EBA**](https://eba.europa.eu/eba-calls-banks-consider-long-term-horizons-their-strategies-and-business-activities)[**report,**](https://eba.europa.eu/eba-calls-banks-consider-long-term-horizons-their-strategies-and-business-activities) [**EIOPA report**](https://www.eiopa.europa.eu/content/potential-undue-short-term-pressure-financial-markets)**) that had the objective of assessing evidence of undue short-term pressure from the financial sector on corporations**. They identified areas within their remit where they found some degree of short-termism and issued policy recommendations accordingly. For instance, they advise the adoption of longer-term perspectives among financial institutions through more explicit legal provisions on sustainability.

The Shareholder Rights Directive II 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 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.
* If yes, please indicate what share. [box 2000 characters] – A mandatory share should ensure that non-financial performance is included in directors’ variable remuneration. It is important that the European Commission defines clear guidelines or instructions to help companies select the specific non-financial performance to be taken into account. To be compliant with the Shareholder Rights Directive (SRD II), it is most important that these targets are easily monitored and verified. With regard to the following question, FERMA believes that a defined set of EU companies should be required to include carbon emission reductions in their lists of ESG factors affecting directors’ variable remuneration providing that a carbon emission strategy is clearly defined at company level, implying a commitment to specific investments and actions. Thorough non-financial performance reporting can be achieved only if there is commitment from the company on each specific topic.

**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.

[…]

**3. REDUCING AND MANAGING CLIMATE AND ENVIRONMENTAL RISKS**

Climate and environmental risks, including relevant transition risks, and their possible negative social impacts, can have a disruptive impact on our economies and financial system, if not managed appropriately. Against this background, the three European supervisory authorities (ESAs) have each developed work plans on sustainable finance.[[2]](#footnote-2) Building, among others, on the ESAs’ activities further actions are envisaged to improve the management of climate and environmental risks by all actors in the financial system. In particular, the political agreement on the Taxonomy Regulation tasks the Commission with publishing a report on the provisions required for extending its requirements to activities that do significantly harm environmental sustainability (the so-called “brown taxonomy”).

## Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments

**Question 82**: In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called “brown taxonomy”) at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?

* Yes/No/Do not know.
* If no, please explain why you disagree [BOX max. 2000 characters]
* If yes, what would be the purpose of such a brown taxonomy? (select all that apply)
  + Help supervisors to identify and manage climate and environmental risks.
  + Create new prudential tools, such as for exposures to carbon-intensive industries.
  + Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities.
  + Identify and stop environmentally harmful subsidies.
  + Other, please specify. [box max. 2000 characters]

**Question 83**: Beyond a sustainable and a brown taxonomy, do you see the need for a taxonomy which would cover all other economic activities that lie in between the two ends of the spectrum, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?

* Yes/No/Do not know.
* If yes, what should be the purpose of such a taxonomy? Please specify. [BOX max. 2000 characters]

[…]

*Insurance prudential framework*

Insurers manage large volumes of assets on behalf of policyholders and they can therefore play an important role in the transition to a sustainable economy. At the same time, insurance companies have underwriting liabilities exposed to sustainability risks. In addition, the (re)insurance sector plays a key role in managing risks arising from natural catastrophes though risk-pooling and influencing risk mitigating behaviour. The [Solvency II Directive](https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32009L0138)[[3]](#footnote-3) sets out the prudential framework for insurance companies. The Commission requested [technical advice](https://www.eiopa.europa.eu/content/technical-advice-integration-sustainability-risks-and-factors-solvency-ii-and-insurance) from the European Insurance and Occupation Pensions Authority (EIOPA) on the integration of sustainability risks and sustainability factors in Solvency II. The Commission also [mandated EIOPA](https://ec.europa.eu/info/files/190211-request-eiopa-technical-advice-review-solvency-2_en) to investigate whether there is undue volatility of their solvency position that may impede long-term investments, as part of the 2020 Review of Solvency II. EIOPA is expected to submit its final advice in June 2020.

In September 2019, EIOPA already provided an [opinion](https://www.eiopa.europa.eu/Publications/Opinions/2019-09-30%20OpinionSustainabilityWithinSolvencyII.pdf) on sustainability within Solvency II. EIOPA identified additional practices that should be adopted by insurance companies to ensure that sustainability risks are duly taken into account in companies’ risk management.

On that basis, the Commission could consider clarifications of insurers’ obligations as part of the review of the Solvency II Directive. Stakeholders will soon be invited to comment on the Commission’s inception impact assessment as regards the review. The Commission will also launch a public consultation as part of the review.

**Question 87:** Beyond prudential regulation, do you consider that the EU should take further action to mobilise insurance companies to finance the transition and manage climate and environmental risks?

* Yes/No/Do not know.
* If yes, please specify which actions would be relevant. [BOX max. 2000 characters] – The EU should help the insurance market clarify, by industry, the perimeter of climate and environmental risks, and their related effects; the current scope is too broad for the insurance market to manage without additional support. Additionally, the EU should consider new cooperative partnerships with insurance companies and other industry representatives in order to incentivise the accumulation of reserves needed to response effectively to a range of systemic risks, including climate change and environmental degradation. To that end, FERMA is currently working to develop a Resilience Framework for Catastrophic Risks (RFCR) that will create a multi-layered and graduated public-private partnership to encourage the prudential assessment and identification of risks needed to access public funds, while enhancing coordination across the EU. Should the Commission wish to learn more about this initiative, please refer to the position paper included with this consultation, or contact FERMA CEO, Typhaine Beaupérin, directly at typhaine.beauperin[at]ferma.eu.

[…]

## Improving resilience to adverse climate and environmental impacts[[4]](#footnote-4)

*Climate-related loss and physical risk data*

Investors and asset owners, be they businesses, citizens or public authorities, can better navigate and manage the increased adverse impacts of a changing climate when given access to decision- relevant data. Although many non-life insurance undertakings have built up significant knowledge, most other financial institutions and economic actors have a limited understanding of (increasing) climate-related physical risks.

A wider-spread and more precise understanding of current losses arising from climate- and weather-related events is hence crucial to assess macro-economic impacts, which determine investment environments. It could also be helpful to better calibrate and customise climate- related physical risk models needed to inform investment decisions going forward, to unlock public and private adaptation and resilience investments and to enhance the resilience of the EU’s economy and society to the unavoidable impacts of climate change.

**Question 99**: In your opinion, should the European Commission take action to enhance the availability, usability and comparability of climate-related loss and physical risk data across the EU?

* Yes/No/Do not know.
* If yes, please select all that apply:
* Loss data, please explain why [BOX max. 2000 characters]
* Physical risk data, please explain why [BOX max. 2000 characters]

More reliable and accessible risk data will place public and private decision makers in a better position to apply risk management practices that will help them make more informed decisions. If applied correctly, these practices should increase the resilience of public infrastructures, services and commerce, and reduce the financial impact of climate-related risks on the economy at large.

Ensuring wider access to climate-related data also reduces the risk of asymmetric information between insureds and insurers, in which there is a significant risk of adverse selection. This creates, in turn, a solid foundation for fairer dialogue between corporate insurance buyers and the insurance market.

Ultimately, enhancing the availability, usability and comparability of climate-related loss and physical risk data across the EU would support economic growth, as it would reduce the financial impact of climate-related risks on businesses in terms of physical damage and business interruption, while keeping insurance costs at a sustainable level.

To be actionable, data from both public and private sources should be delivered in an accessible and interactive format. This is already the case in some countries, such as France (French Géorisques portal), Slovenia (Geoportal ARSO), the United Kingdom (UK Flood map), as well as in the Global Wind Atlas (used for the energy sector) and the European Climate Database (ECAD). To allow all economic actors to develop adaptation strategies, climate-related risk data should ideally be aggregated on joint platforms and kept up to date by their operators.

Private organisations and Member States should also be encouraged to share data publicly at EU level for all types of climate-related risks (storms, floods, droughts, wildfires, etc.). Risk Managers and Insurers should be closely involved and incentivised by public authorities to actively provide and update EU-wide weather-related risk data.

*Financial management of physical risk*

According to a [report](https://www.eea.europa.eu/data-and-maps/indicators/direct-losses-from-weather-disasters-3/assessment-2) by the European Environmental Agency, during the period of 1980-2017, 65% of direct economic losses from climate disasters were not covered by insurance in EU and EFTA countries, with wide discrepancies between Member States, hazards and types of policyholders. The availability and affordability of natural catastrophe financial risk management tools differs widely across the EU, also due to different choices and cultural preferences with regards to ex-ante and ex-post financial management in case of disasters. While the financial industry (and in particular the insurance sector) can play a leading role in managing the financial risk arising from adverse climate impacts by absorbing losses and promoting resilience, EIOPA has [warned](https://www.eiopa.europa.eu/content/discussion-paper-protection-gap-natural-catastrophes) that insurability is likely to become an increasing concern. Measures to maintain and broaden risk transfer mechanisms might hence require (potentially temporary) public policy solutions.

Furthermore, the ongoing COVID-19 outbreak is highlighting the growing risk arising from pandemics in particular, which will become more frequent with the reduction of biodiversity and wildlife habitat. [UNEP’s Frontiers 2016 Report on Emerging Issues of](http://wedocs.unep.org/handle/20.500.11822/7664) [Environment Concern](http://wedocs.unep.org/handle/20.500.11822/7664) shows that such diseases can threaten economic development.

In this context, social and catastrophe bonds could play a crucial role: the former to orient use of proceeds towards the health system (e.g. IFFIM first vaccine bond issued in 2006), and the latter to broaden the financing options that are available to insurers when it comes to catastrophe reinsurance. Such instruments would help mobilise the broadest possible range of private finance alongside public budgets to contribute to the resilience of the EU’s health and economic systems, via prevention and reinsurance.

**Question 100:** Is there a role for the EU to promote more equal access to climate-related financial risk management mechanisms for businesses and citizens across the EU?

* Yes/No/Do not know.
* If yes, please indicate the degree to which you believe the following actions could be helpful, using a scale of 1 (not helpful at all) to 5 (very helpful) and substantiate your reasoning:
* Financial support to the development of more accurate climate physical risk models. [BOX max. 2000 characters] **4 –** to facilitate the estimate of financial impacts expected from climate physical risks
* Raise awareness about climate physical risk. [BOX max. 2000 characters]. **5** – the potential effects of climate physical risk are not yet well understood and known by companies who focus more on near-term profits than strategic fundamentals. Following the recommendations of the High-Level Expert Group (HLEG) on sustainable finance, greater awareness of long-term systemic threats, including ESG risks, would be very helpful to discourage short-termism.
* Promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe. [BOX max. 2000 characters].
* Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage. [BOX max. 2000 characters]. **5 –** In some cases, it is beyond the capital of the private insurance market to provide material capacity for the transfer of systemic risks, such as climate change, due to their large-scale effects. Public-private partnerships, such as the RFCR described in response to question 87, may help to address this issue, leading to a favourable common insurance approach while also helping to incentivise the accumulation of reserves needed to respond effectively to a range of systemic risks that are currently addressed on an ad hoc basis.
* Reform EU post-disaster financial support. [BOX max. 2000 characters].
* Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events. [BOX max. 2000 characters] **4** – Such financial products could help substitute or compensate existing insurance coverage
* Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks. [BOX max. 2000 characters].
* Regulate by setting minimum performance features for national climate-related disaster financial management schemes. [BOX max. 2000 characters].
* Create a European climate-related disaster risk transfer mechanism. [BOX max. 2000 characters]. **5** – As mentioned previously, FERMA is currently working to develop the RFCR with the aim to help governments and Member States respond better to systemic risks and their associated market failures. Specifically, FERMA envisages a multi-layered approach that starts with the identification of risks through enterprise-level risk management (ERM). These risks are then transferred to the private insurance and reinsurance markets, supported by national Member State pool guarantees, and coordinated by the European Union. The promotion of this mechanism at EU level will facilitate its adoption across Member States, increasing the capacity of European insurance markets and enhancing the resilience of EU businesses overall.
* Other, please specify. [BOX max. 2000 characters].

**Question 101:** Specifically with regards to the insurability of climate-related risks, do you see a role for the EU in this area?

* Yes/No/Do not know.
* If yes, which actions you would consider to be useful? In particular, is there scope for EU action to improve the offer of products and services for climate-related disaster risk reduction, enhance insurers’ potential to promote increased resilience of their policyholders beyond a mere compensatory role?[[5]](#footnote-5)
* Yes/No/Do not know.
* If yes, please explain which actions and the expected impact (high, medium, low). [BOX max. 2000 characters] The EU should be part of a risk transfer solution for systemic risks, including *inter alia* climate-related disaster risk, because the currently existing national insurance pools are:
  + Only available in a minority of Member States
  + Even if available, triggers, coverage and funding are not consistent.
  + As they are national, these pools do not cover pan-European losses. Given the interdependency of European economies, this makes national pools an insufficient solution, particularly for losses caused by Business Interruption.

The uneven landscape across Member States with regards to the current availability of insurance pools points to a weakness in insurance markets that must be addressed if the EU is to increase the resilience of the Internal Market. Therefore, any EU action in this area will likely result in a high expected impact.

If no, please explain. [BOX max. 2000 characters]

**Question 102:** In your view, should investors and / or credit institutions, when they provide financing, be required to carry out an assessment of the potential long-term environmental and climate risks on the project, economic activity, or other assets?

* Yes / No / Do not know.
* If yes, what action should the EU take? Please list a maximum of three actions. [BOX max. 2000 characters] – As mentioned in the previous sections, the EU should help companies clarify the perimeter of climate and environmental risks and related impacts on business, facilitating the internal assessment and consequent dialogue with investors and credit institutions.

1. **ADDITIONAL INFORMATION**

Should you wish to provide additional information (e.g. a position paper, report, further quantitative evidence, other) or raise specific points not covered by the questionnaire, you can upload your additional document(s). Please be aware that such additional information will not be considered if the questionnaire is left completely empty.

1. The [European Central Bank also recommended on 27 March 2020](https://www.ecb.europa.eu/ecb/legal/pdf/ecb_2020_19_f_sign.pdf) that significant credit institution refrain from distributing dividend so that “they can continue to fulfil their role to fund households, small and medium businesses and corporations” during the COVID-19 economic shock. [↑](#footnote-ref-1)
2. More information on the ESAs’ activities on sustainable finance is available on the authorities’ websites. See in particular ESMA’s strategy ([https://www.esma.europa.eu/sites/default/files/library/esma22-105-](https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052_sustainable_finance_strategy.pdf) [1052\_sustainable\_finance\_strategy.pdf](https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052_sustainable_finance_strategy.pdf)), EBA Action Plan (, and EIOPA’s dedicated webpage (https://[www.eiopa.europa.eu/browse/sustainable-finance\_en)](http://www.eiopa.europa.eu/browse/sustainable-finance_en)) [↑](#footnote-ref-2)
3. The analysis shows that the preparedness of pension schemes to integrate sustainability factors is widely dispersed and seems correlated to how advanced national frameworks were. IORP II directive sets minimum harmonisation and was expected to be transposed in national law by January 2019 (and hence could not necessarily be expected to be implemented by end-2018 for the EIOPA survey for the 2019 stress test). [↑](#footnote-ref-3)
4. Please note that the Commission is also preparing an upgraded EU Adaptation Strategy. A dedicated public consultation will be launched soon. [↑](#footnote-ref-4)
5. For instance, EIOPA in its [opinion on sustainability on Solvency II](https://eiopa.europa.eu/Publications/Opinions/2019-09-30%20OpinionSustainabilityWithinSolvencyII.pdf) talks about “impact underwriting which includes the development of new insurance products, adjustments in the design and pricing of the products and the engagement with public authorities without disregard for actuarial risk-based principles of risk selection and pricing”. [↑](#footnote-ref-5)