**Explanations Q.40, 86, 88, 91, 102**

**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**]

In our view there should be no mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions.

It should be up to the corporation or financial institution to decide, which amount of variable remuneration should be linked to non-financial performance, since this is primarily an individual strategic decision by each corporation/financial institution.

Hence, this flexibility regarding remuneration policies should be maintained.

Moreover, on the basis of CRD IV the remuneration policy for financial institutions has to be aligned with the values and long-term interests of the institution. Variable remuneration should take into account all the current and future risks for an institution. Therefore, a certain linkage between the financial and non-financial performance does already exist.

**Question 86:** Following the financial crisis, the EU has developed several macro- prudential instruments, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system. Do you consider the current macro- prudential policy toolbox for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change?

 Please express your view by using a scale of 1 (highly inadequate) to 5 (fully sufficient).

 For scores of 1-2, what solution would you propose? Please list a maximum of three. [**BOX max 2000 characters**]

We consider the current macro-prudential policy toolbox for the EU financial sector (systemic risk buffer, countercyclical capital buffer, O-SII buffer etc.) fully sufficient to identify and address potential systemic financial stability risks related to climate change.

Since financial stability risks related to climate change don’t constitute a specific risk category (indeed they are assigned to the already existing risk categories), they can be addressed within the frame of the current macro-prudential policy toolbox. Hence, there is no need for specific (new) macro-prudential tools to address these kinds of risks that are already covered by the existing regulatory framework.

Moreover, according to Article 98(8)(b) CRD V EBA shall already assess the development of appropriate qualitative and quantitative criteria for the assessment of the impact of ESG risks on the financial stability of institutions in the short, medium and long term until June 2021. Such criteria shall include stress testing processes and scenario analyses to assess the impact of ESG risks under scenarios with different severities.

For all of these reasons there’s at really no need for further regulatory action to expand the current macro- prudential policy toolbox for the EU financial sector in this area.

**Question 88**: Do you consider that there is a need to incorporate ESG risks into prudential regulation in a more effective and faster manner, while ensuring a level- playing field?

 Yes/No/Do not know.

 If yes, is there any category of assets that could warrant a more risk-sensitive treatment?

Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy? [**BOX max. 2000 characters**]

We don’t think that there is a need to incorporate ESG risks into prudential regulation in a more effective or faster manner. We are of the view that the legislator should follow a gradual approach (as it was initially planned), when tackling ESG-risks. The reasons for this are clear:

A precondition for tackling ESG-risks (physical risks/ transitional risks) is first and foremost a clear definition of those risks. Such a definition still needs to be elaborated at European level.

Furthermore, the tackling of ESG-risks requires sufficient data in order to identify and measure those risks. Hence, the establishment of an ESG-risk-database would be another precondition for the incorporation of ESG-risks into prudential regulation.

Thirdly and although competent financial market authorities in some Member States (e.g. Austria, Germany and the Netherlands) already provided guidance to the banking industry on how to deal with sustainability risks a clear and uniform guidance on how to measure ESG-risks in practice is not available. Though, the measurement of ESG-risks requires clear and practicable measurement tools.

**Question 91**: Do you see merits in adapting rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability (negative externalities)?

 Yes/No/Do not know.

 If yes, what solution would you propose? [**BOX max. 2000 characters**]

According to the Disclosure Regulation (Art 4) financial market participants and financial advisers are obligated to disclose if and how they consider principal adverse impacts of investment decisions on sustainability factors. In case they don’t consider adverse impacts, they have to provide clear reasons for not doing so.

The Disclosure Regulation will enter into force at the beginning of 2021. It remains to be seen what kind of impact this disclosure obligation will have (from an 'inside-out' or 'environmental/social materiality' perspective) on sustainability factors.

Until then we don’t see merits in adapting rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability.

**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**]

To oblige investors and credit institutions to perform such an assessment (of the potential long-term environmental and climate risks) when financing projects, economic activities or other assets, would further bureaucratize the financing processes and thereby make the access to financing more difficult. Especially in light of the current COVID-19 pandemic the proper access to financing and liquidity shouldn’t be complicated. The ability to provide liquidity shouldn’t be restricted beyond already existing regulatory barriers. Hence, we disagree with the implementation of such a mandatory assessment.