German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

Consultation on the renewed Sustainable Finance Strategy by European Commission

Register of Interest Representatives
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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

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Section I. Questions addressed to all stakeholders on how the financial sector and the economy can become more sustainable

Question 1. With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate-related and environmental challenges, do you think that:

- ○ -major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.
- ◉ -incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.
- ○ -no further policy action is needed for the time being.
- ○ -Don't know / no opinion / not relevant

Question 2. Do you know with sufficient confidence if some of your pension, life insurance premium or any other personal savings are invested in sustainable financial assets?

- ◯ Yes
- ◉ No
- ◯ Don’t know / no opinion / not relevant

Question 2.1 If no, would you like to be offered more information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets and divest from non-sustainable assets?

- ◯ Yes
- ◯ No
- ◯ Don’t know / no opinion / not relevant

Question 2.2 If necessary, please explain your answer to question 2.1:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our member institutions are actively distributing sustainable investment products (especially active managed funds), because the demand is growing rapidly. In general, clients have any possibilities to achieve information regarding the integration of sustainable criteria in the investment products. The regulatory actions, especially the disclosures regulation, will likely lead to more standardisation and therefore improve comparability of the products. However, we fear that the very high granularity of information to be delivered under disclosure Level II may lead to information overload.

Furthermore, institutions make significant efforts to transform the wealth management offer to include ESG considerations across product offer in private banking and asset management. In addition policy premiums are being invested under ESG criteria.

However, most pension systems in Europe are public, and it is therefore the states that should also be providing this kind of information on whether pensions are invested in sustainable financial assets. We welcome the European Association of Public Sector Pension Institutions (EAPSPI) 2019 commitment to adopt ESG principles, and look forward to seeing progress materialising.

Question 3. When looking for investment opportunities, would you like to be systematically offered sustainable investment products as a default option by your financial adviser, provided the product suits your other needs?

- ◯ Yes
- ◉ No
- ◯

Don’t know / no opinion / not relevant

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
- (selected) No
- Don’t know / no opinion / not relevant

Question 4.1 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?:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We believe alignment with the Non-financial Reporting Directive is a good idea.

Question 5. One of the objectives of the European Commission’s 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects.

Do you believe the EU should also take further action to:

	1 (strongly disagree)	2 (disagree)	3 (neutral)	4 (agree)	5 (strongly agree)	Don't know / No opinion
Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models	○	○	○	●	○	○
Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law	○	○	●	○	○	○

Question 5.1 In case you agree or strongly agree with one or both options, what should the EU do to reach this objective?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

First and foremost, we believe it is important to use the laws that are in place to manage the behaviour of the real economy. If sanctions result in the costs of companies' behaviour vis-à-vis the environment and society being internalised, investors are likely to automatically take account of sustainability matters in their analysis. With regard to coronavirus-related measures, it is also important that legislation is consistent. In the first instance, the task of banks is to fulfil their trustee and advisor role in the best economic interest and to help their customers with the formulation of strategies and the implementation of projects.

Section II. Questions targeted at experts

The following section asks further technical and strategic questions on the future of sustainable finance, for which a certain degree of financial or sustainability-related expertise may be useful. This section is therefore primarily addressed at experts.

Question 6. What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Three main challenges:

- Excessive regulation of the market

The sheer volume of regulation results in an administrative workload that makes it more difficult to offer sustainability-oriented products and does not really provide any customer benefit.

- Availability of data

The Sustainable Finance Regulation requires the financial sector to integrate non-financial KPIs that are often not even provided by the real economy. The availability of climate and energy relevant data is currently insufficient and has to be strengthened. Implementing the requirements, particularly the Disclosure Regulation, therefore faces practical obstacles. The deadlines must be changed as a matter of urgency.

- Uniform standards

So far, there has been a lack of uniform standards, making it more difficult to compare offerings. The taxonomy could help here if its complexity is reduced.

The three main opportunities are:

• Contribution to sustainable transformation

Financial markets can contribute to the economy’s sustainable transformation by creating transparency for customers and making it possible to invest in sustainable activities.

• Business opportunities

Sustainable investment products are already in high demand from customers because of the marked change in their awareness, e.g. in corporate banking (e.g. building finance or new business lines such as the hydrogen sector).

• Resilience

Incorporating sustainability aspects into risk management can make the market more resilient, provided that regulatory requirements are aimed at documenting genuinely material risks and do not simply trigger the channelling of capital expenditure into particular sectors. In the case of the latter, concentration risks may arise, which would actually have a detrimental effect on resilience.

Question 7. Overall, can you identify specific obstacles in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In our view, the greatest obstacle is that the procedures have not always been aligned with each other (e.g. Disclosure Regulation, Benchmark Regulation and Taxonomy Regulation). Financial services providers need a reliable basis for capital expenditure and planning. For example, the European Climate Law – with its target of achieving climate neutrality by 2050 (ideal target) – does not, in its current form, provide either the real economy or the financial sector with a reliable framework for funding and shaping the transformation.

A coherent overall regulatory framework is absolutely critical: Some of the current proposals on a EU green recovery plan don't seem to be taxonomy compliant (e. g. R.E.D.); all green recovery measurements should be cross-checked with current sustainable finance regulation. The foundation of EU-wide policies and regulations should consist in harmonised transformation of EU requirements into national regulation. A prominent example are the different EPC for buildings regimes across Europe, which lead to non-comparability of their content. For regulation to be accepted as an aid for transformation it has to help its users to identify eligible business. If it is not realistic it will potentially fail to do so, e.g. criteria on buildings and construction in the EU taxonomy asking for the top 15 per cent when there is no data available on how good the current building stock is, or DNSH criteria which are not deliverable by lenders and are partially not covered by existing EU regulation.

Complex and phased implementation processes are an obstacle. One example is the development of the EU taxonomy in phases, which means that only the ‘E’ of ESG has been defined for now and is resulting in confusion about consistent definitions. The taxonomy also needs to be fit for purpose.

Question 8. The transition towards a climate neutral economy might have socio-economic impacts, arising either from economic restructuring related to industrial decarbonisation, because of increased climate change-related effects, or a combination thereof. For instance, persons in vulnerable situations or at risk of social exclusion and in need of access to essential services including water, sanitation, energy or transport, may be particularly affected, as well as workers in sectors that are particularly affected by the decarbonisation agenda.

How could the EU ensure that the financial tools developed to increase sustainable investment flows and manage climate and environmental risks have, to the extent possible, no or limited negative socio-economic impacts?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Firstly, a stable and reliable political framework is required that is oriented to the 'leave no one behind' pledge in the UN's 2030 Agenda. The proposals for the Just Transition Fund are heading in the right direction. However, there must be greater consideration of small and medium-sized enterprises' need for rapid and unbureaucratic access to support.

It is not only financial support that will be required. There will also need to be further measures such as retraining for affected sectors, social compensation plans, structural projects and incentives for investing in affected regions. The required reskilling of affected workers will necessitate updates to training content and the restructuring and expansion of degree courses and training programmes. The EU should also encourage buy-in: A campaign is needed to show that companies can only remain intact in the long term if their ecosystem is intact.

Furthermore, policymakers should focus on the industries that are the biggest contributors to climate change.

When it comes to sustainable investment, the importance of relative investment approaches becomes apparent: Especially, we would like to advocate for best-in class approaches as opposed to rigid exclusion criteria when it comes to creating labels for such financial instruments. This allows for an incentivisation and a transition in and by industry that can be shaped in a more socio-economically acceptable way than a complete disruption of the real economy.

Question 9. As a corporate or a financial institution, how important is it for you that policy-makers create a predictable and well-communicated policy framework that provides a clear EU-wide trajectory on greenhouse gas emission reductions, based on the climate objectives set out in the European Green Deal, including policy signals on the appropriate pace of phasing out certain assets that are likely to be stranded in the future?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important
- 5 - Very important
- Don’t know / no opinion / not relevant

Question 9.1 What are, in your view, the mechanisms necessary to be put in place by policy-makers to best give the right signals to you as a corporate or a financial institution?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The transition should be achieved using incentives rather than by banning things. A binding and predictable CO_2 price that correctly takes account of externalities would be helpful. Transparency and easy access to data are crucial factors in this context. Rules need to be proportionate so that they are still feasible and practical for small institutions.

Furthermore, clear communicated binding timelines are necessary (for example regarding transition periods, time of exit from certain sectors etc.).

Tools (e.g. a databases) can help to create a) more transparency of corporate impacts on climate change & b) more transparency regarding the effects of climate change on the company's own business activities.

The real economy and financial institutions should be engaged in the discussion on stranded assets: so far, discussions just seem to take place in expert circles or scientific forums. Thus, politicians should focus on the integration of the affected sectors (e.g. the raw material sector and the financial sector) in this discussion as those are the ones who will suffer directly from keeping stranded assets in their portfolios/ business activities.

In addition, politicians must raise public awareness of the issue: There must be no black-and-white discussion, since the extraction of fossil raw materials is very sensitive and must be viewed differently from one extraction country to another with regard to the design of possible transition paths.

Predictability and communication of such policies are indeed key. They should therefore be well consulted on and aligned in their timing. This goes especially for Delegated/Implementing Acts as well as Regulatory Technical Standards that provide vital defining features for financial institutions to put those policies in action.

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
- Don't know / no opinion / not relevant

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 (see for instance The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business, WWF, 2019), 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
- Don't know / no opinion / not relevant

Question 11.1 If yes, please specify potential actions the EU could take:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The COVID-19 pandemic is a reminder of the close relationship between biodiversity loss (exacerbated by climate change) and human health. The EU should revisit its EU Biodiversity Strategy to better take into account this fact. The EU should propose a pragmatic step-by-step plan with number of clear priorities while taking into account constraints. This plan could start with the points that are easy to implement. Thus, as regards existing actions on biodiversity loss, they should be strengthened but above all shared in a simple and transparent way by raising awareness among the general public.

Question 12. In your opinion, how can the Commission best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level in order to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's

progress towards its commitments under the European Green Deal and Green Deal Investment Plan?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Sustainability and the economy should not be at odds with one another; a joined-up approach is required. The fast pace of the Green Deal and the Sustainable Finance action plan should be maintained, but there needs to be good coordination at the same time.

Further development of the planned international platform on sustainable finance, e.g. to expand tracking activities. However, this would require an expansion of the data base and transparency obligations (see also the discussion on the European ESG database).

Furthermore, we think that the setting of gradual targets with a realistic time horizon might be useful and that the appropriate measurement of public funding against those targets should be implemented by the Commission.

On the private side, harmonisation of definitions as well as addressing the lack of corporate data on ESG-factors needs to be addressed before appropriate measurement can be implemented and ultimately lead to policy changes.

Question 13. In your opinion, which, if any, further actions would you like to see at international, EU, or Member State level to enable the financing of the sustainability transition? Please identify actions aside from the areas for future work identified in the targeted questions below (remainder of Section II), as well as the existing actions implemented as part of the European Commission's 2018 Action Plan on Financing Sustainable Growth.

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The German Banking Industry Committee believes that no further legislative measures are necessary beyond the legal initiatives already planned. It is important to implement the planned laws cleanly and consistently and to help the market to implement them (e.g. with regard to procurement of data). The effects of regulation should be observed, and only then should decisions about any further steps be taken.

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.

1.1 Company reporting and transparency

In its Communication on the European Green Deal, 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 reporting directive (NFRD)** in 2020, as part of its strategy to strengthen the foundations for sustainable investment. A public consultation is ongoing for that purpose.

The political agreement 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 by connecting existing databases through digital means. Since 2017, Commission Directorate General for Financial Stability, Financial Services and Capital Markets Union (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 - 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
- ( ) Don't know / no opinion / not relevant

Question 14.1 If yes, please explain how it should be structured and what type of ESG information should feature therein:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

An open-source technology solution incorporating artificial intelligence should be found. It is important that data can be captured uniformly and transparently across all sectors and countries.

However, it is not clear what exactly is meant by a 'free-of-cost' environmental data space. Has it been ensured that the data space is free of charge both for the users and for the preparers of ESG data? Is the data space funded from taxes in this case? We would like further details of the 'free-of-cost' approach.

In addition, we would ask that, when developing an ESG data space, care is taken that there is no overlap with the ESEF register. We cannot help thinking that parallel structures need to be put in place for the ESG data, even though it is – or should be – part of the financial reporting.

In our opinion, the ESG data should either be part of the financial reporting – and then treated and disclosed in the same way as financial data – or be documented in a separate report and made available in a separate data space. The solution currently being suggested seems inconsistent to us.

Furthermore, quantitative information and indicators on the environmental performance of companies are needed (both with regard to operational ecology and business activities). As long as the database only obtains information from publicly available data sources such as the NFRD reports, there will only be limited comparability between the companies listed in the database.

In addition, maintenance and quality assurance of ESG data would have to be carried out by a superordinate, independent EU division: The database must be considered as a „Golden Source“.

Question 15. According to your own understanding and assessment, does your company currently carry out economic activities that could substantially contribute to the environmental objectives defined in the Taxonomy Regulation[1]?

[1] The six environmental objectives are climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems.

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Question 15.1 If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation – Assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU Taxonomy), how likely is it that you would use the taxonomy for your business decisions (such as adapting the scope and focus of your activities in order to be aligned with the EU Taxonomy)?

- ( ) 1 - Not likely at all
- ( ) 2 - Not likely
- ( ) 3 - Neutral
- ( ) 4 - Likely
- (x) 5 - Very likely
- ( ) Don’t know / no opinion / not relevant

Question 15.2 If necessary, please explain your response to question 15.1:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The German banks have launched large-scale projects to promote sustainable finance. We believe that the transition to a carbon-neutral world requires the help and support of all banks. However, it is important to remember that the banks currently need all their strength to overcome and cushion the impact of the economic collapse triggered by the ongoing COVID-19 pandemic.

It is very likely that the EU Taxonomy will be the relevant legal framework for the definition of sustainable activities and investments on the European level. However, the workload related to this should also be highlighted: Since the EU taxonomy is not a fixed construct and is being developed successively, companies need not only additional resources for the adaptation and integration process but also a corresponding implementation time.

1.2 Accounting standards and rules

Financial accounting standards and rules can have a direct impact on the way in which investment decisions are made since they form the basis of assessments that are carried out to evaluate the financial position and performance of real economy and financial sector companies. In this context, there is an ongoing debate around whether existing financial accounting standards might prove challenging for sustainable and long-term investments. In particular, some experts question whether existing impairment and depreciation rules fully price in the potential future loss in value of companies that today extract, distribute, or rely heavily on fossil fuels, due to a potential future stranding of their assets.

Recognising the importance of ensuring that accounting standards do not discourage sustainable and long-term investments, as part of the 2018 Action Plan on Financing Sustainable Growth, the Commission already requested the European Financial Reporting Advisory Group (EFRAG) to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. EFRAG issued its advice to the Commission on 30 January 2020. Following this advice, the Commission has requested the IASB to consider the re-introduction of re-cycling through the profit or loss statement of profits or losses realised upon the disposal of equity instruments measured at fair value through other comprehensive income (FVOCI).

Question 16. Do you see any further areas in existing financial accounting rules (based on the IFRS framework) which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks?

- ○ Yes
- ● No
- ○ Don’t know / no opinion / not relevant

1.3 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?

- 1 - Not concerned at all
- 2 - Rather not concerned
- (x) 3 - Neutral
- 4 - Rather concerned
- 5 - Very concerned
- Don’t know / no opinion / not relevant

Question 17.1 If necessary, please explain your answer to question 17:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Currently, only a few providers of ESG ratings exist. They have a high profile/strong market position but there are significant differences in the quality of their ratings. Ratings must be neutral, credible and realistic and competitive. The market power of a few agencies leads to high rating fees and could harm data quality, which is difficult to determine due to the lack of comparison.

There would be benefits of having a number of different ESG rating and data providers, such as showing different aspects and broadly speaking, the complexity of the topic. Therefore, it is important not to lose the breath of available knowledge through these concentration developments. At the same time however, the current ESG rating and data market mostly lacks transparency which is why concentration would be beneficial in setting industry-wide standards.

Question 18. How would you rate the comparability, quality and reliability of ESG *data* from sustainability providers currently available in the market?

- 1 - Very poor
- 2 - Poor
- (x) 3 - Neutral
- 4 - Good
- 5 - Very good
- Don’t know / no opinion / not relevant

Question 18.1 If necessary, please explain your answer to question 18:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The methodology and classification differ enormously amongst other sustainability providers. Therefore, comparability is essentially non-existent. Hence, there is an urgent need to define industry-wide standards in terms of methodology and classification in order to develop a common understanding of what we mean when we speak about E, S and G. However, it is often unclear how the data comes about, as well as the fact that different time frames are used. This makes it very difficult to compare ESG data. If one should rely on an external provider, there is a risk that this information will be made subjectively. The use of multiple sustainability providers seems more comprehensive and reliable, but requires this the development of a mechanism for the interpretation of the different data. There is still a lack of an easy-to-understand format and an indicator that can be applied to all areas in order to be able to compare the sustainability activities of the company, the plant etc.

Question 19. How would you rate the quality and relevance of ESG ***research*** material currently available in the market?

- ○ 1 - Very poor
- ○ 2 - Poor
- ● 3 - Neutral
- ○ 4 - Good
- ○ 5 - Very good
- ○ Don't know / no opinion / not relevant

Question 19.1 If necessary, please explain your answer to question 19:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Quality varies because of a lack of uniform standards. The methods have been developed by the market and there are significant discrepancies between them. Looking at the banking industry, it should be noted that ESG data is generally only collected by large listed companies. However, unlisted companies make up the biggest share of banks' portfolios and their ESG data is not publicly available. It is difficult to determine the data for many SME customers because few of them are able to collect and supply such data. Inhouse ESG ratings depending on relevance to the portfolio need to be developed along with the appropriate management approaches. ESG-data quality is signed as incomplete, based on qualitative statements and thus largely subjective. The power to interpret sustainability is being transferred to financial market players, which includes that banks, investors are increasingly judging themselves what is considered sustainable and what is not.

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?

	1 (very poor quality and relevance)	2 (poor quality and relevance)	3 (neutral)	4 (good quality) and relevance)	5 (very good) and relevance)	Don't know / No opinion
Individual	○	○	●	○	○	○
Aggregated	○	○	●	○	○	○

Question 20.1 If necessary, please explain your answer to question 20:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There is no uniform definition of what an ESG-rating signifies, and it cannot be compared with a credit rating where the ultimate aim is to provide opinion on the likelihood of timely payment within a range of definitions (regulatory intervention; first dollar default; ultimate loss for investor). It is difficult to understand the methodology behind a specific ESG rating as ESG rating providers consider the methodologies proprietary information. Investors have often been critical of the ability of agencies to identify and evaluate the risk. Specifically, in relation to banks, there is a knowledge shortfall also in relation to knowledge about law, regulation and basic banking principles. There is also lack of auditable information to analyse and compare. In practice, banks often have to evaluate each individual metric provided by ESG providers and test them for materiality and consistency and apply their own degree of confidence. Banks also often use internal ESG rating for investment decisions.

Question 21. In your opinion, should the EU take action in any of these areas?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Question 21.1 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?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In particular, do you think the EU should consider regulatory intervention?
Sustainability should become a mandatory integral part of the rating process. A quality check of ESG ratings would be useful (not necessarily governed by the EU). Secondly, we want to especially highlight that ESG data and indices providers won't be able to provide all the relevant data for a Taxonomy compliance as they only focus on publicly available data sources.

1.4 Definitions, standards and labels for sustainable financial assets and financial products

The market for sustainable financial assets (loans, bonds, funds, etc.) is composed of a wide variety of products, offered under various denominations like ‘green', ‘SDG’, 'transition', ‘ESG’, 'ethical', 'impact', ‘sustainability-linked’, etc. While a variety of products allows for different approaches that can meet the specific needs and wishes of those investing or lending, it can be difficult for clients, in particular retail investors, to understand the different degrees of climate, environmental and social ambition and compare the specificities of each product. Clarity on these definitions through standards and labels can help to protect the integrity of and trust in the market for sustainable financial products, enabling easier access for investors, **companies**, and savers.

As set out in the 2018 Action Plan on Financing Sustainable Growth, the Commission services started working on:

1. developing possible technical criteria for the EU Ecolabel scheme to retail funds, savings and deposits, and
2. establishing an EU Green Bond Standard (EU GBS).

The Commission also committed to specifying the content of the **prospectus** for green bond issuances to provide potential investors with additional information, within the framework of the Prospectus Regulation.

EU Green Bond Standard

The Technical Expert Group on Sustainable Finance (TEG) put forward a report in June 2019 with 10 recommendations for how to create an EU Green Bond Standard (EU GBS). This was completed with a usability guide in March 2020, as well as with an updated proposal for the standard (see Annex 1).

The TEG recommends the creation of an official voluntary EU GBS building on the EU Taxonomy. Such an EU Green Bond Standard could finance both physical assets and financial assets (including through covered bonds and asset-backed securities), capital expenditure and selected operating expenditure, as well as specific expenditure for sovereigns and sub-sovereigns. The standard should in the TEG's view exist alongside existing market standards.

The overall aim of the EU GBS is to address several barriers in the current market, including reducing uncertainty on what is green by linking it with the EU Taxonomy, standardising costly and complex verification and reporting processes, and having an official standard to which certain (financial) incentives may be attached. The TEG has recommended that oversight and regulatory supervision of external review providers eventually be conducted via a centralised system organised by ESMA. However, as such a potential ESMA-led supervision would require legislation and therefore take time, the TEG suggests the set-up of a market-based, voluntary interim registration process for verifiers (the Scheme) of EU Green Bonds for a transition period of up to three years.

Below you will find four questions in relation to the EU GBS. **A separate dedicated consultation with regards to a Commission initiative for an EU Green Bond Standard will be carried out in the future**. Please note that questions relating to green bond issuances by public authorities are covered in section 2.7 and questions on additional incentives can be found in section 2.6.

Question 22. The TEG has recommended that verifiers of EU Green Bonds (green bonds using the EU GBS) should be subject to an accreditation or authorisation and supervision regime. Do you agree that verifiers of EU Green Bonds should be subject to some form of accreditation or authorisation and supervision?

- (•) Yes, at European level
- ( ) Yes, at a national level
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 22.1 If necessary, please explain your answer to question 22:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

A common framework should ensure minimum standards. However, the goal should be not to overregulate and to still allow for enough flexibility and different methodologies in market-driven initiatives.
Generally, it should be noted that products which are issued under currently established Green Bond Standards (e.g. ICMA Green Bond Principles) should not lose their classification as "green" due to the introduction of EU GBS ("grandfathering"). The grandfathering of products issued under previously established Green Bond Standards is very important for both issuers and investors, as this has implications for legal certainty, confidence in the market and finally the ability to trade these products. This applies likewise to products issued under the future EU GBS, as these standards will also be subject to ongoing development.
In order to promote the integrity, credibility (i.e. preventing „greenwashing"), harmonisation and efficiency of the green bond market, as well as to increase investor confidence, it is essential for issuers to obtain a standardised external verification of EU Green Bonds against the EU GBS. However, the engagement of the verifier should not become mandatory. Please note at least that for a bank issuer, the accounting firm is able to reviewing the green bond documentation and the underlying portfolio in its auditing process.

Question 23. Should any action the Commission takes on verifiers of EU Green Bonds be linked to any potential future action to regulate the market for third-party service providers on sustainability data, ratings and research?

- ○ Yes
- ○ No
- ◉ Don't know / no opinion / not relevant

Question 23.1 If necessary, please explain your answer to question 23:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Green Bond verification (the focus is on the bond itself) and sustainability data / ratings (the issuer is the focus of the analysis) are two different things that should not be mixed up. The regulation of ESG data provider, sustainability rating agencies should therefore be an independent step.

However, the consistency of any regulatory action is most important. There should be a harmonisation of regulation for listed or non-listed, public or private, European or international investors in connection of green bonds in order increase transparency for investors and ensure equal competitive conditions for all market participants. Furthermore, compliance with the standard may prove to be an advantage for non-European issuers, as the majority of Green Bond investors come from Europe. Ideally, such regulation should be implemented jointly.

Regulation on CRAs could serve as a role method, e.g. consistency of methodology should be assessed.

Question 24. The EU GBS as recommended by the TEG is intended for any type of issuer: listed or non-listed, public or private, European or

international. Do you envisage any issues for non-European issuers to follow the proposed standard by the TEG?

- Yes
- No
- Don’t know / no opinion / not relevant

Question 24.1 If necessary, please explain your answer to question 24:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Many regions of Europe form the SRI core market (e.g. France, Benelux, Scandinavia). Therefore, European SRI investors want to apply the same transparency standards to non-European issuers.

Since the EU Taxonomy is focused on Europe and the thresholds are therefore designed for European purposes, international issuers might have some problems to apply those requirements to their own activities outside of Europe.

Prospectus and green bonds

Question 25. In those cases where a prospectus has to be published, do you believe that requiring the disclosure of specific information on green bonds in the prospectus, which is a single binding document, would improve the consistency and comparability of information for such instruments and help fight greenwashing?

- 1 - Strongly disagree
- 2 - Disagree
- (x) 3 - Neutral
- 4 - Agree
- 5 - Strongly agree
- Don’t know / no opinion / not relevant

Question 25.1 If necessary, please explain your answer to question 25:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Greenwashing should rather be avoided by a common standard on sustainability (Taxonomy). Issuers will strive to comply with such standard in order to avoid reputational risks related to any greenwashing. We think disclosure of this green bond information can take place in the framework and regular reporting while we think that inclusion of this information in the prospectus will only create limited additional integrity or consistency. In addition, inclusion in the prospectus could potentially impair the growth of the green bond market due to the related legal risks such an inclusion may cause. Issuers might want to avoid such risks by simply choosing other formats.

Please note, that issuers provide information in the prospectus/final terms on a voluntary basis in response to investors' information needs already. If specific requirements will be introduced in the prospectus regulation, these should be in line with already existing market practices and focus on the description of the use of proceeds.

Question 26. In those cases where a prospectus has to be published, to what extent do you agree with the following statement: "Issuers that adopt the EU GBS should include a link to that standard in the prospectus instead of being subject to specific disclosure requirements on green bonds in the prospectus"?

- [ ] 1 - Strongly disagree
- [ ] 2 - Disagree
- [x] 3 - Neutral
- [ ] 4 - Agree
- [ ] 5 - Strongly agree
- [ ] Don't know / no opinion / not relevant

Question 26.1 If necessary, please explain your answer to question 26:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

References in the prospectus are useful when providing investment advice. However, interfaces should be avoided. During the term of the bond, it would be necessary to constantly check that the link is up to date, which would involve significant administrative effort. This might be avoided by referencing to the EU GBS in the version of the EU GBS that is valid at the time of issuance of a green bond framework. Furthermore grandfathering should be possible.

Other standards and labels

Already now, the Disclosure Regulation defines two categories of sustainable investment products: those promoting environmental or social characteristics and those with environmental or social objectives, the latter being defined as 'sustainable investments'. Both types of products have to disclose their use of the EU Taxonomy, for the environmental portion of the product.

Question 27. Do you currently market financial products that promote environmental characteristics or have environmental objectives?

- [x] Yes
- [ ] No
- [ ] Don’t know / no opinion / not relevant

Question 27.1 If yes, once the EU Taxonomy is established (assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU taxonomy), how likely is it that you would use the EU Taxonomy in your investment decisions (i.e. invest more in underlying assets that are partially or fully aligned with the EU Taxonomy)?

- [ ] 1 - Not likely at all
- [ ] 2 - Not likely
- [ ] 3 - Neutral
- [ ] 4 - Likely
- [x] 5 - Very likely
- [ ] Don’t know / no opinion / not relevant

Question 27.1 If necessary, please explain your answer to question 27:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The most of our member institutions investing in green financial products, would consider the EU Taxonomy concerning their investment decisions.

Question 28. In its final report, the High-Level Expert Group on Sustainable Finance recommended to establish a minimum standard for sustainably denominated investment funds (commonly referred to as ESG or SRI funds, despite having diverse methodologies), aimed at retail investors.

What actions would you consider necessary to standardise investment funds that have broader sustainability denominations?

- [x] No regulatory intervention is needed
- [ ] The Commission or the ESAs should issue guidance on minimum standards
- [ ] Regulatory intervention is needed to enshrine minimum standards in law
- [ ] Regulatory intervention is needed to create a label

- Don’t know / no opinion / not relevant

Question 29. Should the EU establish a label for investment funds (e.g. ESG funds or green funds aimed at professional investors)?

- Yes
- (selected) No
- Don’t know / no opinion / not relevant

Question 29.1 If necessary, please explain your answer to question 29:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Labels and requirements limit flexibility and therefore potentially impair growth of the market. Professional investors should make their own educated investment decisions without unnecessary regulatory restrictions.

Question 30. The market has recently seen the development of sustainability-linked bonds and loans, whose interest rates or returns are dependent on the company meeting pre-determined sustainability targets. This approach is different from regular green bonds, which have a green use-of-proceeds approach.

Should the EU develop standards for these types of sustainability-linked bonds or loans?

- 1 - Strongly disagree
- 2 - Disagree
- (selected) 3 - Neutral
- 4 - Agree
- 5 - Strongly agree
- Don’t know / no opinion / not relevant

Question 30.1 If necessary, please explain your answer to question 30:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 31: Should such a potential standard for target-setting sustainability-linked bonds make use of the EU Taxonomy as one of the key performance indicators?

- 1 - Strongly disagree
- 2 - Disagree
- 3 - Neutral
- (x) 4 - Agree
- 5 - Strongly agree
- Don’t know / no opinion / not relevant

Question 31.1 If necessary, please explain your answer to question 31:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As a rule, uniform standards for the financial sector can prevent the fragmentation of the markets. However, standardisation is only a good idea in certain areas: The EU GBS cannot be applied in general, assuming the sustainability linked bond’s use-of-proceeds is for ‘general corporate purposes’. This is because the EU GBS requires a dedicated use-of-proceeds for purposes aligned with the EU Taxonomy. However, the EU Taxonomy is relevant for certain corporates and banks, which will be required in the future to disclose the share of their EU Taxonomy–aligned business activities. Consequently, one could imagine a use of the EU Taxonomy in sustainability-linked bonds, with KPIs for example linked to the improvement of the share of EU Taxonomy-aligned activities. In general, we advocate for market driven standards based on the Taxonomy.

Question 32. Several initiatives are currently ongoing in relation to energy-efficient mortgages (see for instance the work of the EEFIG (Energy Efficiency Financial Institutions Group set by the EC and the United Nations Environment Program Finance Initiative or UNEP FI) on the financial performance of energy efficiency loans or the energy efficient mortgages initiatives) and green loans more broadly. Should the EU develop standards or labels for these types of products?

- (x) Yes
- No
- Don’t know / no opinion / not relevant

Question 32.1 If yes, please select all that apply in the following list:

Please select as many options as you like.

- [x] a broad standard or label for sustainable mortgages and loans (including social and environmental considerations
- [ ] a standard or label for green (environmental and climate) mortgages and loans
- [ ] a narrow standard or label only for energy-efficient mortgages and loans for the renovation of a residential immovable property
- [ ] other

Question 33. The Climate Benchmarks Regulation creates two types of EU climate benchmarks - 'EU Climate Transition' and 'EU Paris-aligned' - aimed at investors with climate-conscious investment strategies. The regulation also requires the Commission to assess the feasibility of a broader 'ESG benchmark'.

Should the EU take action to create an ESG benchmark?

- ( ) Yes
- (•) No
- ( ) Don't know / no opinion / not relevant

Question 33.1 If no, please explain your answer to question 33:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

At the current stage, disclosure requirements to improve transparency and comparability of information across benchmarks not only regarding climate-related information but also on a variety of ESG indicators are sufficient. An expansion would require, for example, clarifying what social sustainable activities are.

Question 34. Beyond the possible standards and labels mentioned above (for bonds, retail investment products, investment funds for professional investors, loans and mortgages, benchmarks), do you see the need for any other kinds of standards or labels for sustainable finance?

- ( ) Yes
- ( )

No

Don’t know / no opinion / not relevant

1.5 Capital markets infrastructure

The recent growth in the market for sustainable financial instruments has raised questions as to whether the current capital markets infrastructure is fit for purpose. Having an infrastructure in place that caters to those types of financial instruments could support and further enhance sustainable finance in Europe.

Question 35. Do you think the existing capital market infrastructure sufficiently supports the issuance and liquidity of sustainable securities?

1 - Strongly disagree

2 - Disagree

3 - Neutral

4 - Agree

5 - Strongly agree

Don’t know / no opinion / not relevant

Question 36. In your opinion, should the EU foster the development of a sustainable finance-oriented exchange or trading segments that caters specifically to trading in sustainable finance securities and is better aligned with the needs of issuers?

Yes

No

Don’t know / no opinion / not relevant

Question 36.1 If necessary, please explain your answer to question 36:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The German Banking Industry Committee believes that sustainability-oriented financial products will gain ground in the regular financial markets. It is not necessary to have a separate market or exchange for them. In our opinion, government intervention in trading platforms does not have good prospects for success. These markets must be formed on the basis of supply and demand. If necessary, such platforms will be developed by the private sector (e.g. Lux. Green exchange).

Question 37. In your opinion, what core features should a sustainable finance–oriented exchange have in order to encourage capital flows to ESG projects and listing of companies with strong ESG characteristics, in particular SMEs?

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

1.6 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 (The European Central Bank also recommended on 27 March 2020 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). 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, the European Supervisory Authorities delivered reports in December 2019 (ESMA report, EBA report and EIOPA report) 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.

Question 38. In your view, which recommendation(s) made in the ESAs' reports have the highest potential to effectively tackle short-termism?

Please select among the following options:

- Adopt more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management
- Define clear objectives on portfolio turn-over ratios and holdings periods for institutional investors
- Require Member States to have an independent monitoring framework to ensure the quality of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs)
- Other

Question 39. Beyond the recommendations issued by the ESAs, do you see any barriers in the EU regulatory framework that prevent long-termism and/or do you see scope for further actions that could foster long-termism in financial markets and the way corporates operate?

- (x) Yes
- No
- Don't know / no opinion / not relevant

Question 39.1 If yes, please explain which barriers you see and / or what action(s) could help foster long-termism in financial markets and the way corporates operate.

Please list a maximum of 3 barrier(s) and / or a maximum of 3 action(s):

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There are currently no clear industry rules that apply to all countries. Furthermore, a coordination of national plans for industry, production and consumption, large-scale infrastructure, transport, food and agriculture, construction, taxation and social services is missing.

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
- [x] No
- Don't know / no opinion / not relevant

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
- [x] Don't know / no opinion / not relevant

The Shareholder Rights Directive II introduces transparency requirements to better align long-term interests between institutional investors and their asset managers.

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
- [x] Don't know / no opinion / not relevant

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
- [x] Don't know / no opinion / not relevant

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
- [x] No
- Don't know / no opinion / not relevant

Questions have been raised about whether passive index investing could lower the incentives to participate in corporate governance matters or engage with companies regarding their long term strategies.

Question 45: Do you think that passive index investing, if it does not take into account ESG factors, could have an impact on the interests of long-term shareholders?

- ○ Yes
- ○ No
- ◉ Don't know / no opinion / not relevant

To foster more sustainable corporate governance, as part of action 10 of the 2018 action plan Plan on Financing Sustainable Growth the Commission launched a study on due diligence (i.e. identification and mitigation of adverse social and environmental impact in a company's own operations and supply chain), which was published in February 2020. This study indicated the need for policy intervention, a conclusion which was supported by both multinational companies and NGOs. Another study on directors' duties and possible sustainability targets will be finalised in Q2 2020.

Question 46. Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change.

Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?

- ○ Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.
- ◉ Yes, as these issues are relevant to the financial performance of the company in the long term.
- ○ No, companies and their directors should not take account of these sorts of interests.
- ○ Don't know / no opinion / not relevant

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?

- [x] Yes
- [ ] No
- [ ] Don't know / no opinion / not relevant

Question 48. Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?

- [x] Yes
- [ ] No
- [ ] Don't know / no opinion / not relevant

Question 48.1 If yes, please select your preferred option:

- [ ] All companies, including SMEs
- [ ] All companies, but with lighter minimum requirements for SMEs
- [x] Only large companies in general, and SMEs in the most risky economic sectors sustainability-wise
- [ ] Only large companies

Question 48.2 If necessary, please explain your answer to question 48.1:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

2. Increasing opportunities for citizens, financial institutions and corporates to enhance sustainability

Increased opportunities need to be provided to citizens, financial institutions and corporates in order to enable them to have a positive impact on sustainability. Citizens can be mobilised by providing them with opportunities to invest their pensions and savings sustainably or by using digital tools to empower them to make their communities, their homes and their businesses more resilient. Financial institutions and corporates can increase their contribution to sustainability if the right policy signals and incentives are in place. Furthermore, international cooperation and the use of sustainable finance tools and frameworks in developing countries can help build a truly global response to the climate and environmental crisis.

As part of the European Green Deal, the Commission has launched a European Climate Pact to bring together regions, local communities, civil society, businesses and schools in the fight against climate change, incentivising behavioural change from the level of the individual to the largest multinational, and to launch a new wave of actions. A consultation on the European Climate Pact is open until 27 May 2020 in order to better identify the areas where the Commission could support and highlight pledges as well as set up fora to work together on climate action (including possibly on sustainable finance).

2.1 Mobilising retail investors and citizens

Although retail investors today are increasingly aware that their own investments and deposits can play a role in achieving Europe's climate and environmental targets, they are not always offered sustainable financial products that match their expectations. In order to ensure that the sustainability preferences of retail investors are truly integrated in the financial system, it is crucial to help them to better identify which financial products best correspond to these preferences, providing them with user-friendly information and metrics they can easily understand. To that end, the European Commission will soon publish the amended delegated acts of MIFID II and IDD, which will require investment advisors to ask retail investors about their sustainability preferences.

Question 49. In order to ensure that retail investors are asked about their sustainability preferences in a simple, adequate and sufficiently granular way, would detailed guidance for financial advisers be useful when they ask questions to retail investors seeking financial advice?

- ○ Yes
- ● No
- ○ Don't know / no opinion / not relevant

Question 49.1 If necessary, please explain your answer to question 49:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We do not see any merit in detailed guidance regarding the clients preference assessment.

The process for asking the sustainability preferences will be developed by the institutions themselves on the basis of the future legal requirements in Regulation (EU) 2017/565 in order to integrate the question(s) into the existing advisory processes and adapt it to the product strategy.

Predefined questions would prevent the financial adviser from dealing with the customer in an individual manner, as this would increase the risk of formal errors. Too much granularity will lead to complexity and a plethora of questions to clients risking misinformation.

Furthermore, the target market criterion of sustainability must be taken into account. There has to be an alignment between the customer's sustainability preferences and the target market characteristics. In any case, it should be avoided to introduce indirect product regulation by formulating detailed requirements for financial advisers, which then have an impact on the content of financial products beyond the existing provisions under Art. 8 and 9 SFDR.

Question 50. Do you think that retail investors should be systematically offered sustainable investment products as one of the default options, when the provider has them available, at a comparable cost and if those products meet the suitability test?

- ( ) Yes
- (x) No
- ( ) Don’t know / no opinion / not relevant

Question 51. Should the EU support the development of more structured actions in the area of financial literacy and sustainability, in order to raise awareness and knowledge of sustainable finance among citizens and finance professionals?

- ( ) 1 - Strongly disagree
- ( ) 2 - Disagree
- ( ) 3 - Neutral
- (x) 4 - Agree
- ( ) 5 - Strongly agree
- ( ) Don’t know / no opinion / not relevant

Question 51.1 If you agree, please choose what particular action should be prioritised:

	1 (strongly disagree)	2 (disagree)	3 (neutral)	4 (agree)	5 (strongly agree)	Don't know / No opinion
Integrate sustainable finance literacy in the training requirements of finance professionals.	○	○	●	○	○	○
Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens' education at school, possibly in the context of a wider effort to raise awareness about climate action and sustainability.[1-5]	○	○	○	●	○	○
Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions.	○	○	●	○	○	○
Directly, through targeted campaigns.	○	○	○	○	○	●
As part of a wider effort to raise the financial literacy of EU citizens.	○	○	○	○	○	●
As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities.	○	○	○	○	○	●
Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals.	○	○	○	○	○	●
Other	○	○	○	○	○	○

2.2 Better understanding the impact of sustainable finance on sustainability factors

While sustainable finance is growing, there are questions on how to measure and assess the positive impact of sustainable finance on the real economy. Recently, tools have been developed that can be used to approximate an understanding of the climate and environmental impact of economic activities that are being financed. Examples of such tools include the EU Taxonomy, which identifies under which conditions economic activities can be considered environmentally sustainable, use-of-proceeds reporting as part of green bond issuances, or the Disclosure Regulation, which requires the reporting of specific adverse impact indicators.

Yet, an improved understanding of how different sustainable financial products impact the economy may further increase their positive impact on sustainability factors and accelerate the transition.

Question 52. In your view, is it important to better measure the impact of financial products on sustainability factors?

- ( ) 1 - Not important at all
- ( ) 2 - Rather not important
- ( ) 3 - Neutral
- (x) 4 - Rather important
- ( ) 5 - Very important
- ( ) Don't know / no opinion / not relevant

Question 52.1 What actions should the EU take in your view?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Moreover, the discussion must be directed more towards the social and governance perspective and a limited set of widely accepted positive social criteria in the EU taxonomy framework in the future; due to the current focus of taxonomy on the ecological dimension, the discussion is very monotonous. Thus, there is a risk that other important ESG issues will not be addressed in a timely manner and that the financial industry will be put back under time pressure.

Furthermore, the target reporting formats should also be adapted accordingly: A statement about whether a financial product is taxonomically compliant or not will neither help retail customers nor the public to develop an understanding of the climate and environmental impact of economic activities. True Cost Accounting and data availability should be improved.

Question 53: Do you think that all financial products / instruments (e.g. shares, bonds, ETFs, money market funds) have the same ability to allocate capital to sustainable projects and activities?

- ( ) Yes
- (x)

No

Don’t know / no opinion / not relevant

Question 53.1 If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Financial products with a longer-term investment horizon, such as bonds or shares, or green loans have a greater potential to allocate capital to sustainable projects. Additionally, with respect to the issuance of ESG debt, the certification required for its issuance enables a greater dedication and control of the invested capital than in the case of investment in equities. Through equity investment, a relevant equity stake in a company is required to be able to influence management of the company in order to improve its ESG impact. Regarding these financial product, the effort should concentrate on expanding the clients base by offering customised investment and lending products to also to retail customers as this will contribute to better understanding of the measures taken for the transition to zero emissions economies.

2.3 Green securitisation

Securitisation is a technique that converts illiquid assets, such as bank loans or trade receivables, into tradeable securities. As a result, banks can raise fresh money as well as move credit risk out of their balance sheets, thereby freeing up capital for new lending. Securitisation also facilitates access to a greater range of investors, who can benefit from the banks’ expertise in loan origination and servicing, thereby diversifying risk exposure. Green securitisations and collaboration between banks and investors could play an important role in financing the transition as banks’ balance sheet space might be too limited to overcome the green finance gap. The EU’s new securitisation framework creates a specific framework for high-quality Simple, Transparent and Standardised (STS) securitisations, together with a more risk-sensitive prudential treatment for banks and insurers.

Question 54. Do you think that green securitisation has a role to play to increase the capital allocated to sustainable projects and activities?

- 1 - Not important at all
- 2 - Rather not important
- 3 - Neutral
- 4 - Rather important (selected)
- 5 - Very important
- Don’t know / no opinion / not relevant

Question 54.1 If necessary, please explain your answer to question 54:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

A European Green Loan Securitisation Framework as add-on to the existing securitisation framework could be a powerful tool and act as a multiplier to fund sustainable assets as well as the transition efforts to further increase sustainability. Green securitisation can play a significant role since it is by its nature very close to the assets of the entities. Therefore, the focus could not only be on the usage of the proceeds of funds but also the asset itself which in turn could increase the capital allocated to sustainable projects. Moreover, we see an increasing demand as some public investors might have internal requirements to allocate capital in green investments.

Question 55: Do the existing EU securitisation market and regulatory frameworks, including prudential treatment, create any barriers for securitising 'green assets' and increasing growth in their secondary market?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 55.1 If yes, please list the barriers you see (maximum 3):

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The current recommendations regarding securitisation included in the High Level Forum final report address already 7 general areas of amendments in need for a reduction of barriers to progress securitisation markets. We support these recommendations and share the believes of the High Level Forum that securitisation is a major element of the CMU and has an important role to play in the financing of the European Economy, especially in the current stressed environment, including solution for financing green assets.

Question 56. Do you see the need for a dedicated regulatory and prudential framework for 'green securitisation'?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 56.1 If yes, what regulatory and/or prudential measures should the dedicated framework contain and how would they interact with the existing general rules for all securitisations and specific rule for STS securitisations?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

A dedicated framework that would introduce an incentive for the sponsors as well as the investors (e.g. reduced capital requirements for green securitisations, no haircuts concerning the lcr) could be implemented in the existing regulatory framework. Furthermore, a way for green securitisations to qualify for the STS status could also be such an incentive.

2.4 Digital sustainable finance

The ongoing COVID-19 outbreak is highlighting the key role of digitalisation for the daily personal and professional lives of many Europeans. However, it has also revealed how digital exclusion can exacerbate financial exclusion – a risk that needs to be mitigated.

Digitalisation is transforming the provision of financial services to Europe's businesses and citizens As shown in the Progress Report of the UN Secretary-General's Task Force on Digital Financing of the Sustainable Development Goals (SDGs), digital finance brings a wide array of opportunities for citizens worldwide by making it easier to make payments, save money, invest, or get insured. However, digital finance also brings new risks, such as deepening the digital divide. It is therefore paramount to ensure that the potential of digitalisation for sustainable finance is fully reaped, while mitigating associated challenges appropriately. In this context, the Commission has launched a consultation dedicated to digital finance.

In the area of sustainable finance, technological innovation such as Artificial intelligence (AI) and machine learning can help to better identify and assess to what extent a company's activities, a large equity portfolio, or a bank's assets are sustainable. The application of Blockchain and the Internet of Things (IoT) may allow for increased transparency and accountability in sustainable finance, for instance with automated reporting and traceability of use of proceeds for green bonds.

Question 57. Do you think EU policy action is needed to help maximise the potential of digital tools for integrating sustainability into the financial sector?

- (selected) Yes
- No
- Don't know / no opinion / not relevant

Question 57.1 If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider?

Please list a maximum of 3 actions and a maximum of three existing initiatives:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

EU policy actions can undoubtedly accelerate the adoption of more sustainable services and processes thanks to digitisation within Financial Institutions. An important role is played by new technologies such as AI and Blockchain / DLT which are rapidly expanding. In order to fully exploit their potential, it is necessary to create an open collaborative ecosystem in particular focused on data sharing in the ESG criteria system across different sectors.

The technologies at stake (with particular reference to Blockchain / DLT and IoT) are however still at an early stage of adoption, with few (large) financial institutions leading the pack on top of significant investments in ICT and R&D that the vast majority of players simply could not afford. Direct support of the EU and Member States to the development of digital finance solutions should be available in the areas of digital green finance where there is an apparent lack.

Larger, publicly accessible databases are required in order to create greater transparency in the market, reduce transaction costs and disclose success factors. They should be accessible for startups to create new data-driven digital services in the green finance space.

In particular, digitalisation has the potential to empower citizens and retail investors to participate in local efforts to build climate resilience. For instance, M-Akiba is a Government of Kenya-issued retail bond that seeks to enhance financial inclusion for economic development. Money raised from issuance of M-Akiba is dedicated to infrastructural development projects, both new and ongoing.

Question 58. Do you consider that public authorities, including the EU and Member States should support the development of digital finance solutions that can help consumers and retail investors to better channel their money to finance the transition?

- ○ Yes
- ● No
- ○ Don't know / no opinion / not relevant

Question 59. In your opinion, should the EU, Member States, or local authorities use digital tools to involve EU citizens in co-financing local sustainable projects?

- ○ Yes
- ○ No
- ● Don't know / no opinion / not relevant

2.5. Project Pipeline

The existing project pipeline (availability of bankable and investable sustainable projects) is generally considered to be insufficient to meet current investor demand for sustainable projects. Profitability of existing business models plays a role, with some projects (e.g. renewable energy), being more bankable than others (e.g. residential energy efficiency). Identifying the key regulatory and market obstacles that exist at European and national level will be key in order to fix the pipeline problem. Please note that questions relating to incentives are covered in section 2.6.

Question 60. What do you consider to be the key market and key regulatory obstacles that prevent an increase in the pipeline of sustainable projects?

Please list a maximum of 3 for each:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

A defined, appropriately high CO2 price is needed.

All industrial policy measures need to tie in with financial policy measures.

A common EU policy and EU strategy for dealing with non-EU countries is required (supply chains, fair market access, technology transfer, IP protection, etc.).

Question 61. Do you see a role for Member States to address these obstacles through their NECPs (National Energy and Climate Plans)?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 61.1 If necessary, please explain your answer to question 60 and provide details:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Building consensus for the implementation of national energy and climate policy in politics, business and society

In the 2018 regulation on the governance of the energy union, the national energy and climate plans (NECPs) have an important part to play in achieving the EU's 2030 climate and energy targets. A ranking of the NECPs by Ecologic shows that there is still a lot of headroom, so their potential has not yet been exhausted. The most important areas of potential to be unlocked would be:
- Stricter targets to ensure that the climate targets are actually achieved on schedule
- Appropriateness of the national targets for contributing a fair share compared with other EU member states
- More detailed presentation of the national capital expenditure that would be needed to effect the transformation
- More detailed descriptions of the processes for abandoning coal and phasing out fossil fuel subsidies
- Better involvement of stakeholders in the formulation of the NECP

initiate public subsidy financing programs (e.g. via promotional banks), i.e. derive best practice approach for application of EU taxonomy tailormade for national transition path/ obstacles.

Question 62. In your view, how can the EU facilitate the uptake of sustainable finance tools and frameworks by SMEs and smaller professional investors?

Please list a maximum of 3 actions you would like to see at EU-level:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

• Additional programmes from European and national development banks could provide incentives. Greater sharing of information and closer collaboration with the development banks (e.g. KfW in Germany) are needed in order to align the development programmes with EU targets.

• Commercial banks could be encouraged to develop green and sustainable finance strategies for SMEs; 2) New options for tapping debt and equity markets for SMEs (e.g. Sustainable Mini Bonds); 3) Exploring the potential for common standards for sustainable credit and loans to SMEs.

• Emissions trading should be extended to cover further sectors of the economy.

Question 63. The transition towards a sustainable economy will require significant investment in research and innovation (R&I) to enable rapid commercialisation of promising and transformational R&I solutions, including possible disruptive and breakthrough inventions or business models.

How could the EU ensure that the financial tools developed to increase sustainable investment flows turn R&I into investable (bankable) opportunities?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

This could be ensured by promoting disruptive innovation through funding for start-ups and SMEs, national and pan-European state-supported funding programmes and credit protection.

Question 64. In particular, would you consider it useful to have a category for R&I in the EU Taxonomy?

- (selected) Yes
- No
- Don’t know / no opinion / not relevant

Question 65. In your view, do you consider that the EU should take further action in:

			Don't know /

	Yes	No	No opinion
Bringing more financial engineering to sustainable R&I projects?	◉	○	○
Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)?	◉	○	○
Better identifying areas in R&I where public intervention is critical to crowd in private funding?	◉	○	○
Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds?	◉	○	○
Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)?	◉	○	○
Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication?	◉	○	○
Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions?	◉	○	○
Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks?	◉	○	○

Question 65.1 If necessary, please explain your answers to question 65:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Coordination effort is required to avoid duplication and to bundle (European) research efforts, but ensure technology-neutral research funding.

2.6 Incentives to scale up sustainable investments

While markets for sustainable financial assets and green lending practices are growing steadily, they remain insufficient to finance the scale of additional investments needed to reach the EU's environmental and climate action objectives, including climate-neutrality by 2050. For instance, companies' issuances of sustainable financial assets (bonds, equity) and sustainable loans currently do not meet investors' increasing interest. The objective of the European Green Deal Investment Plan, published on 14 January 2020, is to mobilise through the EU budget and the associated instruments at least EUR 1 trillion of private and public sustainable investments over the coming decade. The purpose of this section is to identify whether there are market failures or barriers that would prevent the scaling up of sustainable finance, and if yes what kinds of public financial incentives could help rectify this.

Question 66. In your view, does the EU financial system face market barriers and inefficiencies that prevent the uptake of sustainable investments?

- ○ 1 - Not functioning well at all
- ○ 2 - Not functioning so well
- ● 3 - Neutral
- ○ 4 - Functioning rather well
- ○ 5 - Functioning very well
- ○ Don't know / no opinion / not relevant

Question 66.1 If necessary, please explain your answers to question 66:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> Because there is already a variety of financial products demonstrating that market barriers are not too high. Anyway, green and social bonds only make up for approx. 2% of the overall capital market, indicating that incentivisation is not taking place at the moment.
> Countries characterised by a higher concentration of SMEs face particularly difficult challenges in pursuing sustainable investments. Verifying taxonomy compliance of activities and/or investment often involves burdensome processes for SMEs and Start-up. In this context, regulation should well balance the data requested from different companies. While start-ups and SMEs have the potential to be a major driver of innovation for sustainable development, further attention should be given to their financial needs to support the "brown" companies in their transition to more sustainable business models. The Public Authorities and financial institutions should cooperate to identify mechanisms for complementing traditional sources of credit for SMEs operating in the green economy with more sophisticated financial instruments that allow a longer-term view.

Question 67. In your view, to what extent would potential public incentives for issuers and lenders boost the market for sustainable investments?

- ○ 1 - Not effective at all
- ○ 2 - Rather not effective
- ○ 3 - Neutral
- ● 4 - Rather effective
- ○ 5 - Very effective
- ○ Don't know / no opinion / not relevant

Question 67.1 Since you see a strong need for public incentives, which specific incentive(s) would support the issuance of which sustainable financial assets, in your view?

Please rate the effectiveness of each type of asset for each type of incentive:

a) Revenue-neutral subsidies for issuers:

	1 (not effective at all)	2 (not effective)	3 (neutral)	4 (effective)	5 (very effective)	Don't know / No opinion
Bonds				X		
Loans					X	
Equity			X			
Other						

Please specify the reasons for your answers to question 65.1 a) (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

b) De-risking mechanisms such as guarantees and blended financing instruments at EU-level:

	1 (not effective at all)	2 (not effective)	3 (neutral)	4 (effective)	5 (very effective)	Don't know / No opinion
Bonds		X				

Loans				X		
Equity		X				
Other						

Please specify the reasons for your answers to question 65.1 b) (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

c) Technical assistance:

	1 (not effective at all)	2 (not effective)	3 (neutral)	4 (effective)	5 (very effective)	Don't know / No opinion
Bonds				X		
Loans				X		
Equity		X				
Other						

Please specify the reasons for your answers to question 65.1 c) (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

d) Any other public sector incentives:

	1 (not effective at all)	2 (not effective)	3 (neutral)	4 (effective)	5 (very effective)	Don't know / No opinion
Bonds	○	○	○	○	○	○
Loans	○	○	○	○	○	○
Equity	○	○	○	○	○	○
Other	○	○	○	○	○	○

Please specify the reasons for your answers (provide if possible quantitative evidence) and other incentives you would like the Commission to consider:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 68. In your view, for *investors* (including retail investors), to what extent would potential financial incentives help to create a viable market for sustainable investments?

- ○ 1 - Not effective at all
- ○ 2 - Rather not effective
- ● 3 - Neutral
- ○ 4 - Rather effective
- ○ 5 - Very effective
- ○ Don't know / no opinion / not relevant

Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other):

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Ensure "fair" price for incorporation of physical and transition risks (this will implicitly boost demand for sustainable assets). Regarding retail investors, a preferred tax treatment would be helpful.

Question 69. In your view, should the EU consider putting in place specific incentives that are aimed at facilitating access to finance for SMEs carrying out sustainable activities or those SMEs that wish to transition?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Question 69.1 If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Additional bureaucracy should be avoided. Any new requirements imposed on banks and Savings Banks, customers – in particular SMEs – and green investors should be minimised by reducing burdens elsewhere. The implementation and monitoring of sustainability criteria in companies, for instance, always need to be justified in relation to their tangible benefits. However, the competitiveness of sustainable financing can be increased by (i) reducing additional effort for financing for "green" assets, (ii) public subsidy financing, (iii) compensation of SPO costs, (iv) discounted finance rates or (v) simplified reporting duties.

2.7 The use of sustainable finance tools and frameworks by public authorities

Even though the potential scope of sustainable finance is broad, it is often viewed as being only confined to the ambit of private financial flows within capital markets. Nevertheless, the boundary between public and private finance is not always strict and some concepts that are generally applied to private finance could also be considered for the public sector, such as the EU Taxonomy. This is recognised in the European Green Deal Investment Plan and the Climate Law, where the Commission committed to exploring how the EU Taxonomy can be used in the context of the European Green Deal by the public sector, beyond InvestEU. The InvestEU programme, proposed as part of the EU’s Multiannual Financial Framework 2021 – 2027, combines public and private funding and once the taxonomy is in place (from end-2020 onwards) will serve as a test case for its application in public sector-related spending.

Question 70. In your view, is the EU Taxonomy, as currently set out in the [report of the Technical Expert Group on Sustainable Finance], suitable for use by the public sector, for example in order to classify and report on green expenditures?

- Yes
- Yes, but only partially
- No
- Don’t know / no opinion / not relevant

Question 71. In particular, is the EU Taxonomy, as currently set out in the [report of the Technical Expert Group on Sustainable Finance], suitable for use by the public sector in the area of green public procurement?

- Yes
- Yes, but only partially
- No
- Don’t know / no opinion / not relevant

Question 72. In particular, should the EU Taxonomy[2] play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate?

[2] The six environmental objectives set out in the Taxonomy Regulation are the following: (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control, (6) protection and restoration of biodiversity and ecosystems.

- Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation
- Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation
- No
- Don’t know / no opinion / not relevant

Question 73. Should public issuers, including Member States, be expected to make use of a future EU Green Bond Standard for their green bond issuances, including the issuance of sovereign green bonds in case they decide to issue this kind of debt?

- Yes
- No
- Don't know / no opinion / not relevant

2.8 Promoting intra-EU cross-border sustainable investments

In order to attract and encourage cross-border investments, a range of investment promotion services have been put in place by public authorities. Investment promotion services include for instance information on the legal framework, advice on the project, such as on financing, partner and location search, support in completing authorisations and problem-solving mechanisms relating to issues of individual or general relevance. In some cases specific support is provided for strategic projects or priority sectors.

Question 74. Do you consider that targeted investment promotion services could support the scaling up of cross-border sustainable investments?

- Yes
- No
- Don't know / no opinion / not relevant

2.9 EU Investment Protection Framework

To encourage long-term sustainable investments in the EU, it is essential that investors are confident that their investments will be effectively protected throughout their life-cycle in relation to the state where they are located. The EU investment protection framework includes the single market fundamental freedoms, property protection from expropriation, the principles of legal certainty, legitimate expectations and good administration which ensure a stable and predictable environment, including remedies and enforcement in national courts. These elements can have an impact on cross-border investment decisions, especially for long-term investments. While a separate consultation on investment protection will take place soon, the purpose of this section is to investigate whether the above-mentioned factors have an impact on sustainable projects in particular, such as for instance for long-term infrastructure and innovation projects necessary for the EU's industrial transition towards a sustainable economy.

Question 75. Do you consider that the investment protection framework has an impact on decisions to engage in cross-border sustainable investment?

Please choose one of the following:

- Investment protection has **no impact**
- Investment protection has **a small impact** (one of many factors to consider)
-

- Investment protection has **medium impact** (e.g. it can lead to an increase in costs)
- Investment protection has **a significant impact** (e.g. influence on scale or type of investment)
- Investment protection is a factor that can have **a decisive impact** on cross-border investments decisions and can result in cancellation of planned or withdrawal of existing investments
- Don't know / no opinion / not relevant

2.10 Promoting sustainable finance globally

The global financial challenge posed by climate change and environmental degradation requires an **internationally coordinated**. To complement the work done by the Network of Central Banks and Supervisors for Greening the Financial system (NGFS) on climate-related risks and the Coalition of Finance Ministers for Climate Action mainly on public budgetary matters and fiscal policies, **the EU has launched together with the relevant public authorities from like-minded countries the International Platform on Sustainable Finance (IPSF)**. The purpose of the IPSF is to promote integrated markets for environmentally sustainable investment at a global level. It will deepen international coordination on approaches and initiatives that are fundamental for private investors to identify and seize environmentally sustainable investment opportunities globally, in particular in the areas of taxonomy, disclosures, standards and labels.

Question 76. Do you think the current level of global coordination between public actors for sustainable finance is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?

- 1 - Highly insufficient
- 2 - Rather insufficient
- 3 - Neutral
- 4 - Rather sufficient
- 5 - Fully sufficient
- Don't know / no opinion / not relevant

Question 76.1 What are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions?

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The global nature of these issues as well as the global nature of financial markets justify a global response and global public-private partnership. However, the liberal, multilateral world order is under serious threat with competition rather than co-operation increasingly being the order of the day which makes global coordination far more challenging. Within the framework of international law norms and obligations a way to accelerate on the delivery of Paris Agreement and/or the UN Sustainable Development Goals (SDGs) could be through the application of sanctions (punitive approach) or trade incentives (positive approach).

Furthermore, we would recommend the integration of bottom-up initiatives and public work to increase public information on acitivities and considerations taken.

Question 77. What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs?

Please list a maximum of 3 proposals:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Firstly, this can be done by systematically involving practitioners in the relevant processes. Furthermore, the Commission should strengthen the cooperation with international actors (e.g. United Nations Department of Economic and Social Affairs, The United Nations Framework Convention on Climate Change) as they are the initiators of globally recognised standards and frameworks. In perspective, it will not be sufficient to conduct the sustainability discourse only at a national or EU level. On a global level, it should be ensured that EU legislation takes into account the widely accepted global standards and frameworks to the maximum possible and appropriate extent in the EU context to ensure global recognition.

Question 78. In your view, what are the main barriers private investors face when financing sustainable projects and activities in emerging markets and developing economies?

Please select all that apply:

Please select as many options as you like.

- [x] Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.)
- [ ] Lack of clearly identifiable sustainable projects on the ground
- [x] Excessive (perceived or real) investment risk
- [x] Difficulties to measure sustainable project achievements over time
- [ ] Other

Question 79. In your opinion, in the context of European international cooperation and development policy, how can the EU best support the mobilisation of international and domestic private investors to finance sustainable projects and activities in emerging markets and developing countries, whilst avoiding market distortions?

Please provide a maximum of 3 proposals:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

For developing countries there is a need for more coordinated policies in terms of subsidies granted by EIB and IBRD. Long term plans could include ECAs revised strategies; for instance ECAs should take into account the sustainability of importing Countries in a long term client relationship view. It would be important to dedicate part of the EU budget to sustain financial programmes able to de-risking investments in emerging economies. To increase the level of investment funds directed to sectors and projects related to sustainability in emerging markets, partnerships between different external and internal sources of development finance can be beneficial to synergise their unique attributes. EU could promote and offer such partnerships which are not only about financing but also related to technological assets, managerial and professional skills or knowledge/know-how.

There are several measures that the EU can take, that however require some important adjustments.
1- recognition that EU cooperation and development policy has to be considered within and integrated into the EU's geopolitical interests and policies. The EU consequently needs to assess its competitive advantage in the face of such competition and develop its policy framework accordingly.
2- greater policy coordination between the EC Directorates spearheading mobilisation and those responsible for financial supervision/regulation.
3- the scale of the investment needs goes well beyond the capacity of the public sector. The needs are so great that the public sector alone cannot provide the magnitude of financing required.
4- Private investment facilitation requires changes and improvements on both the Provider's and the Recipient's end.

Question 80. How can EU sustainable finance tools (e.g. taxonomy, benchmarks, disclosure requirements) be used to help scale up the financing of sustainable projects and activities in emerging markets and/or developing economies?

Which tools are best-suited to help increase financial flows towards and within these countries and what challenges can you identify when implementing them?

Please select among the following options:

- All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change
- Some tools can be applied, but not all of them
- (selected) These tools need to be adapted to local specificities in emerging markets and /or developing economies
- Don't know / no opinion / not relevant

Question 80.1 Please explain how you think these tools could be adapted:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Once the Taxonomy is finalised and widely adopted by EU companies, it has a potential to become a reference worldwide. Many emerging markets/ developing countries are unlikely to have the same strong base/foundations, which will make adopting them significantly harder.

Imposing such requirements en masse, which are presumably primarily designed for EU countries, without any adaptation, could create disinterest at best and resentment at worst, especially in former colonies of European countries. They could be misconstrued as a means of establishing superiority as against fostering the spirit of partnership that is the EU's objective.

Ensuring simplification and clarity of these tools and ensuring their associated costs are not onerous are likely to be key to their adoption in recipient countries.

It may be useful to consider through discussions in the EU International Platform on Sustainable Finance how the EU Taxonomy might be adapted as a template for other markets including how ESG benchmarks could also play a role in better understanding and integration of ESG activities both at the EU and global level.

Question 81. In particular, do you think that the EU Taxonomy is suitable for use by development banks, when crowding in private finance, either through guarantees or blended finance for sustainable projects and activities in emerging markets and/or developing economies?

- Yes
- (selected) Yes, but only partially
- No
- Don't know / no opinion / not relevant

Question 81.1 If "no" or "yes, but only partially", please explain why and how the obstacles you identify could be best addressed:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Because it depends on the target country and other specific factors.

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[3]. 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").

[3] More information on the ESAs' activities on sustainable finance is available on the authorities' websites. See in particular ESMA's strategy, EBA Action Plan, and EIOPA's dedicated webpage.

3.1 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
- ○ Don't know / no opinion / not relevant

Question 82.1 If no, please explain why you disagree:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The German Banking Industry Committee is against a 'brown taxonomy' because it potentially stigmatises sectors that are currently still playing an important part in supplying people with goods and services. We believe that the existing taxonomy will drive the transformation more effectively because it constitutes a 'positive' definition (which capital expenditure should be given preference). In our view, the discussions about the EU green taxonomy clearly show, how difficult it is, to define assets that fulfil certain criteria. A brown-taxonomy would increase complexity of the regulatory framework. We would also see the danger, that a brown taxonomy could be used to draw a general, not specific project-based link between the classification and a higher risk. This could end up in asking for a brown penalising factor.

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
- ( ) Don't know / no opinion / not relevant

3.2 Financial stability risk

The analysis and understanding of the impact of climate-related and environmental risks on financial stability is improving, thanks in particular to the work done by supervisors and central banks (see for instance the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)), regulators and research centres. However, significant progress still needs to be made in order to properly understand and manage the impact of these risks.

Question 84. Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system.

What are in your view the most important channels through which climate change will affect your industry?

Please select all that apply:

Please select as many options as you like.

- [x] Physical risks
- [x] Transition risks
- [x] Second-order effects
- [ ] Other

Please specify, if necessary, what are these physical risks:

Please provide links to quantitative analysis when available:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Depending on the business model of a financial institution, the vulnerabilities in terms of physical risk and transition risk differ. In our understanding, transition risk gains in importance the longer the "holding period" of the assets. We therefore believe that transition risks typically dominate medium to long-term corporate customer financings in Germany. Physical risks can play a role in building financing, but also in the insurance business.

Please specify, if necessary, what are these transition risks:

Please provide links to quantitative analysis when available:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The assessment of transition risks for the short- to medium-term time horizon is currently very important. Policymakers are particularly focusing on sectors with high emissions (energy, transport/automotive, real estate, industry) in order to achieve the Paris climate targets.

Banks are primarily indirectly affected by climate change, i.e. by the impact of climate change on the Bank's clients. The development towards a low-emission society and economy will call into question business models of entire industries. Brown products will no longer be in demand and the profitability of companies will suffer. The effects in the real economy will be reflected in bank balance sheets.

Please specify, if necessary, what are these second-order effects:

Please provide links to quantitative analysis when available:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The economy's shift from sectors with high emissions to carbon-neutral sectors may potentially require other dependent sectors (automotive component suppliers, filling stations, etc.) to adapt or even discontinue their business models.

Question 85. What key actions taken in your industry do you consider to be relevant and impactful to enhance the management of climate and

environment related risks?

Please identify a maximum of 3 actions taken in your industry

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The institutions are implementing various measures to tackle the issue:

1. Firstly, they are working on projects to implement the regulatory requirements. The information published, or being developed, by the supervisory authorities (BaFin guidance notice, ECB guidelines) is therefore relevant.
2. Secondly, data is collected and structured that is important for the integration of sustainability factors. Adaptation of the IT infrastructure is therefore a major challenge as well.
3. Thirdly, the institutions are working on improving collaboration with customers and raising their awareness, for example by creating incentives such as loans for green buildings.

Question 86. Following the financial crisis, the EU has developed several new 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?

- ○ 1 - Highly insufficient
- ○ 2 - Rather insufficient
- ○ 3 - Neutral
- ● 4 - Rather sufficient
- ○ 5 - Fully sufficient
- ○ Don't know / no opinion / not relevant

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 sets out the prudential framework for insurance companies. The Commission requested technical advice 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 to investigate whether there is undue volatility of liabilities in the balance sheet or undue impediments to long-term investments, as part of the 2020 Review of Solvency II. The Commission also mandated EIOPA to investigate whether there is undue volatility of their solvency position that may impede to 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 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
- [ ] Don't know / no opinion / not relevant

Banking prudential framework

In the context of the last CRR/D review, co-legislators agreed on three actions aiming at integrating ESG considerations into EU banking regulation:

- a mandate for the EBA to assess and possibly issue guidelines regarding the inclusion of ESG risks in the supervisory review and evaluation process (SREP) (Article 98(8) CRD);
- a requirement for large, listed institutions to disclose ESG risks (Article 449a CRR) (note that some banks are also in the scope of the NFRD;
- a mandate for the EBA to assess whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with sustainability objectives would be justified (Article 501c CRR).

Because the work on ESG risks was at its initial stages, co-legislators agreed on a gradual approach to tackling those risks. However, given the new objectives under the European Green Deal, it can be argued that the efforts in this area need to be scaled up in order to support a faster transition to a sustainable economy and increase the resilience of physical assets to climate and environmental risks. Integrating sustainability considerations in banks' business models requires a change in culture which their governance structure needs to effectively reflect and support.

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
- [x] No
- [ ] Don't know / no opinion / not relevant

Question 89. Beyond prudential regulation, do you consider that the EU should:

1. **take further action to mobilise banks to finance the transition?**

2. **manage climate-related and environmental risks?**

- ○ Yes, option 1. or option 2. or both options
- ○ No
- ○ Don’t know / no opinion / not relevant

Question 90. Beyond the possible general measures referred to in section 1.6, would more specific actions related to banks’ governance foster the integration, the measurement and mitigation of sustainability risks and impacts into banks’ activities?

- ○ Yes
- ● No
- ○ Don’t know / no opinion / not relevant

Asset managers

Traditionally, the integration of material sustainability factors in portfolios, with respect to both their selection and management, has considered only their impact on the financial position and future earning capacity of a portfolio's holdings (i.e., the 'outside-in' or 'financial materiality' perspective). However, asset managers should take into account also the impact of a portfolio on society and the environment (i.e., the 'inside-out' or 'environmental/social materiality' perspective). This so-called “double materiality” perspective lies at the heart of the Disclosure Regulation, which makes it clear that a significant part of the financial services market must consider also their adverse impacts on sustainability (i.e. negative externalities).

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
- ○ Don’t know / no opinion / not relevant

Pension providers

Pension providers' long-term liabilities make them an important source of sustainable finance. They have an inherently long-term approach, as the beneficiaries of retirement schemes expect income streams over several decades. Compared with other institutions, pension providers' long-term investment policies also make their assets potentially more exposed to long-term risks. Thus far, the issues of sustainability reporting and ESG integration by EU pension providers have been taken up in the areas of institutions for occupational retirement provision (IORPs) ("Pillar II" - covered at EU level by the IORP II Directive) and private voluntary plans for personal pensions ("Pillar III" – covered at EU level by the PEPP Regulation) already in 2016 and 2017 respectively. The Commission will review the IORP II Directive by January 2023 and report on its implementation and effectiveness.

However, according to a stress test on IORPs run by EIOPA in 2019 and assessing for the first time the integration of ESG factors in IORPs' risk management and investment allocation, only about 30% of IORPs in the EU have a strategy in place to manage ESG-related risks to their investments. Moreover, while most IORPs claimed to have taken appropriate steps to identify ESG risks to their investments, only 19% assess the impact of ESG factors on investments' risks and returns[3]. Lastly, the study provided a preliminary quantitative analysis of the investment portfolio (with almost 4 trillion Euros of assets under management, the EEA's Institutions for Occupational Retirement Provision (IORPs) sector is an important actor on financial markets.) which would indicate significant exposures of the IORPs in the sample to business sectors prone to high greenhouse gas emissions.

In 2017, the Commission established a High level group of experts on pensions to provide policy advice on matters related to supplementary pensions. In its report, the group recommended that the EU, its Member States and the social partners further clarify how pension providers can take into account the impact of ESG factors on investment decisions and develop cost-effective tools and methodologies to assess the vulnerability of EU pension providers to long-term environmental and social sustainability risks. The group also pointed out that, in the case of IORPs which are collective schemes, it might be challenging to make investment decisions reconciling possibly diverging views of individual members and beneficiaries on ESG investment. Moreover, in 2019, EIOPA issued an opinion on the supervision of the management of ESG risks faced by IORPs.

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[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).

Question 92. Should the EU explore options to improve ESG integration and reporting above and beyond what is currently required by the regulatory framework for pension providers?

- Yes
- No
- Don't know / no opinion / not relevant

Question 93. More generally, how can pension providers contribute to the achievement of the EU's climate and environmental goals in a more proactive way, also in the interest of their own sustained long-term performance? How can the EU facilitate the participation of pension providers to such transition?

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 94. In view of the planned review of the IORP II Directive in 2023, should the EU further improve the integration of members' and beneficiaries' ESG preferences in the investment strategies and the management and governance of IORPs?

- Yes
- No
- Don't know / no opinion / not relevant

3.3 Credit rating agencies

Regulation 1060/2009 requires credit rating agencies (CRAs) to take into account all factors that are 'material' for the probability of default of the issuer or financial instrument when issuing or changing a credit rating or rating outlook. This covers also ESG factors. According to ESMA's advice on credit rating sustainability issues and disclosure requirements, the extent to which ESG factors are being considered can vary significantly across asset classes, based on each CRA's methodology.

Following the 2018 Action Plan on Financing Sustainable Growth, in response to concerns about the extent to which ESG factors were considered by CRAs, ESMA adopted guidelines on disclosure requirements for credit ratings and rating outlooks. ESMA's Guidelines on these disclosure requirements will become applicable as of April 2020. Pursuant to the guidelines, CRAs should report in which cases ESG factors are key drivers behind the change to the credit rating or rating outlook. Consequently, the current landscape will change in the coming months. The Commission services intend to report on the progress regarding disclosure of ESG considerations by CRAs in 2021.

Question 95. How would you assess the transparency of the integration of ESG factors into credit ratings by CRAs?

- 1 - Not transparent at all
- 2 - Rather not transparent (selected)
- 3 - Neutral
- 4 - Rather transparent
- 5 - Very transparent
- Don't know / no opinion / not relevant

Question 95.1 If necessary, please explain your answer to question 95:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Better data enables better indexes - companies are making more information available about their ESG practices. However, there is little standardisation. As a result, there is a lack of transparency that allows for a more comprehensive inventory by ESG rating agencies, data collection points and processing by specialised data providers. This has a negative impact on the quality of sustainable indices.

In anticipation of ESMA's Guidelines becoming effective as of April 2020, CRAs took measures to improve transparency in integrating ESG factors into their credit rating methodology. To recognise the needs of shareholders for greater clarity on how ESG factors are integrated in credit analysis, CRAs committed themselves into providing more specific ESG frameworks. Even though considerable efforts have been made insofar, there are still improvements to be made in terms of homogeneity of frameworks across different CRAs.

Question 96. How would you assess the effectiveness of the integration of ESG factors into credit ratings by CRAs?

- 1 - Not effective at all
- 2 - Rather not effective
- (selected) 3 - Neutral
- 4 - Rather effective
- 5 - Very effective
- Don't know / no opinion / not relevant

Question 96.1 If necessary, please explain your answer to question 96:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

For all but especially institutional investors, ratings increasingly serve as an absolute measure of internal investment rules. For state supervisory institutions in the banking, stock exchange and insurance sectors, ratings serve as a supporting instrument for the performance of their tasks. For issuers, the rating opens up a wider circle of investors, as it makes information about their creditworthiness public. This can lead to a reduction in the cost of capital and a stabilisation of financing conditions.

It is a common understanding that Environmental, Social, and Governance risks and opportunities have the potential to affect creditworthiness. The consideration of ESG factors in the credit rating procedure is strongly recommended. Despite the efforts undertaken to evaluate the extent to which ESG factors are relevant and the way in which these factors are considered in credit ratings, their overall impact and materiality relies upon the decision of each CRA. In most cases it is considered quite ineffective because the ESG factors do not really represent a key driver of the credit ratings and as such credit ratings should not be understood as providing an opinion on sustainability characteristics of an issuer or entity.

Question 97. Beyond the guidelines, in your opinion, should the EU take further actions in this area?

- (selected) Yes

- No
- Don’t know / no opinion / not relevant

Question 97.1 If yes, please specify what kind of action you consider would address the identified problems. In particular should the EU consider regulatory intervention?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Further measures with regard to genuine credit ratings do not seem necessary. However, this is not the case for sustainability ratings: As the specialised ESG rating agencies (like Sustainalytics, ISS oekom...) are not regulated and there is no "standard" yet, the used methodologies (definition / weighting of ESF criteria, assessment, results) are massively varying. Especially, there is no "master scale" which allows the comparison / mapping of different ESG-ratings. Such a "master scale" would foster comperabilty and therefore usability of different ESG-ratings.

3.4. Natural capital accounting or “environmental footprint”

Internal tools, such as the practice of natural capital accounting, can help inform companies’ decision-making based on the impact of their activities on sustainability factors. **Natural capital accounting or “environmental footprinting”** has the potential to feed into business performance management and decision-making by explicitly mapping out impacts (i.e. the company’s environmental footprint across its value chain) and dependencies on natural capital resources and by placing a monetary value on them. In order to ensure appropriate management of environmental risks and mitigation opportunities, and reduce related transaction costs, the Commission will support businesses and other stakeholders in developing standardised **natural capital accounting** practices within the EU and internationally.

Question 100. Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing standardised natural capital accounting/environmental footprinting practices within the EU and internationally?

- (selected) Yes
- No
- Don’t know / no opinion / not relevant

Question 98.1 If yes, please list a maximum of 3 initiatives:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

When looking only at enterprises listed at stock exchanges the European Commission could take into account the work of the Task Force on Climate-related Financial Disclosures (TCFD).

3.5. Improving resilience to adverse climate and environmental impacts

(Please note that the Commission is also preparing an upgraded EU Adaptation Strategy. A dedicated public consultation will be launched soon).

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?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 99.1 If yes, for which of the following type of data should the European Commission take action to enhance its availability, usability and comparability across the EU?

Please select as many options as you like.

- [x] Loss data
- [x] Physical risk data

Please specify why you think the European Commission should take action to enhance the availability, usability and comparability of climate-related loss data across the EU?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Today, many institutions (groups of institutions, resp.) have high-quality collections of loss data both in operational risk and other risk types such as credit risk. The main drawback, though, is that they cannot be correlated or linked in other, more specific ways to climate change (all the events in question would also occur, albeit with different probability and severity, in the absence of climate change). Data bases which link these events in a statistically significant way to climate change are a prerequisite for a detailed understanding (as opposed to speculating) of the impact of climate change on financial variables. Furthermore, the disclosure of ESG-relevant data of the financed companies ideally would follow uniform guidelines, so that the physical risk could in principle also be assessed along loss and physical risk data in a uniform logic. A standardisation of disclosure requirements for corporates - at least capital market-oriented ones - would also be useful, although it would be particularly useful for bank financed SMEs, for whom additional disclosure requirements would be a major challenge. A common understanding or regulatory requirements to consider SMEs along simple criteria such as sector/region would therefore basically be sufficient. For project finance, one should also keep in mind that in any case, the credit analysis must include the necessary individual examinations to assess ESG risks. Alternatively, the collection of climate-related loss data could also be carried out by a consortium of banks.

Please specify why you think the European Commission should take action to enhance the availability, usability and comparability of climate-related physical risk data across the EU?

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It would be useful to analyse the extent to which the likelihood of extreme weather events and climate change at international, national and regional level over the long term have an impact on the default probability of sectors/customers.

Financial management of physical risk

According to a report 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 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 Environment Concern 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?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 100.1 If yes, please indicate the degree to which you believe the following actions could be helpful:

	1 (not at all helpful)	2 (rather not helpful)	3 (neutral)	4 (rather helpful)	5 (very helpful)	N. A.
Financial support to the development of more accurate climate physical risk models	( )	( )	( )	(x)	( )	( )
Raise awareness about climate physical risk.	( )	( )	( )	(x)	( )	( )
Promote ex-ante "build back better" requirements to improve future resilience of the affected regions and or /sectors after a natural catastrophe.	( )	( )	( )	(x)	( )	( )
Facilitate public-private partnerships to expand affordable and comprehensive related insurance coverage.	( )	( )	(x)	( )	( )	( )
Reform EU post disaster financial support.	( )	( )	( )	(x)	( )	( )
Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events.	( )	( )	(x)	( )	( )	( )
Advise Member States on their national natural disaster insurance and						

post disaster compensation and reconstruction frameworks.	○	○	●	○	○	○
Regulate by setting minimum performance features for national climate-related disaster financial management schemes.	○	○	●	○	○	○
Create a European climate-related disaster risk transfer mechanism.	○	●	○	○	○	○
Other	○	○	○	○	○	○

Please explain why you think it would be useful for the EU to provide financial support to the development of more accurate climate physical risk models:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please explain why you think it would be useful for the EU to raise awareness about climate physical risk:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please explain why you think it would be useful for the EU to promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please explain why you think it would be useful for the EU to reform EU post disaster financial support:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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
- Don't know / no opinion / not relevant

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
- Don't know / no opinion / not relevant

Question 102.1 what action should the EU take?

Please list a maximum of 3 actions:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The institutions do already take into account the long term risks to a certain extent, e.g. by carrying out long-term related mortgage lending value assessments. The EU should provide more relevant data in order to facilitate climate risk assessments. Moreover, the control effect for avoiding large-scale projects that are damaging to the environment and climate should be seen more at the political level. If such projects are 'prohibited', funding will not be provided. If funding is within what is permitted by law, and possibly in the national interest too, then funding is fundamentally conceivable. Other regulatory measures are therefore not necessary.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here.

Please be aware that such additional information will not be considered if the questionnaire is left completely empty.

The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

Additional Information to

Question 1

The institutions do already take into account the long term risks to a certain extent, e.g. by carrying out long-term related mortgage lending value assessments. The EU should provide more relevant data in order to facilitate climate risk assessments. Moreover, the control effect for avoiding large-scale projects that are damaging to the environment and climate should be seen more at the political level. If such projects are 'prohibited', funding will not be provided. If funding is within what is permitted by law, and possibly in the national interest too, then funding is fundamentally conceivable. Other regulatory measures are therefore not necessary.

Question 3

We believe that the demand for sustainable investment products will increase steadily under the regime which will come into force in the near future (MiFID II, IDD, SFDR). We would advise against in being overly prescriptive and leaving clients no choice at all with regard to their sustainability preferences. In our understanding, the MIFID rules do not (and should not) allow for a preference regarding specific financial products.

Question 32

A standard or label for energy-efficient mortgages and loans for all kinds of properties (residential and commercial) and for all kind of businesses related to these properties (construction, renovation, acquisition).

Question 34

Instead of thinking about additional labels, it should be examined whether the areas of application of the already planned labels could be broadened. Social standards should also be considered in the future in addition to climate related requirements (see the Social Bond Principles of ICMA).
In general, we advocate for market driven standards with transparent levels of ambition based on existing regulation (e.g. Taxonomy).

Question 38

One of the most important recommendations expressed by the ESAs is "the adoption of more explicit legal provisions on sustainability for credit institutions, in particular relating to governance and risk management". These provisions should envisage disclosure of arrangements, processes, products and strategies the credit institutions intend to implement to monitor and manage ESG risks and to finance sustainable growth.

Question 40

The provisions of CRD V/the EBA on the design of remuneration systems are rightly based on the principle that the remuneration systems should be oriented to the individual institution's business strategy and risk strategy. When risks are adjusted ex post, instruments need to be used that consistently reflect the company's value, which is also influenced by non-financial performance aspects. We do not believe that there is a need for further regulation.

Question 44

This is already possible under the company-law provisions that set out shareholders' voting rights.

Question 46
Consideration of stakeholder interests is already an important and typical part of corporate governance. Separate regulation is therefore not required.

Question 52

Zusatz: The development of the EU taxonomy is a good approach for measuring the ESG impact of financial products. However, it is only of limited use if the European countries develop their own standards and approaches in addition.

Question 67

As a matter of principle, government regulation should always follow market economy principles, i.e. steering effects should be achieved through prices because detailed rules on the way in which products can be produced in a given sector lead to sluggish and cumbersome processes. This also applies to the financial sector, which must first develop its own sustainable production methods. In these efforts, the sector can also be incentivised and supported by government regulation.

Revenue-neutral subsidies for issuers Bonds/Loans: this mainly refers to costs related to external reviews, e.g. Second Party Opinions (SPO) and/ or ratings. Due to the SPO the external costs for a sustainable bond are typically higher compared to plain vanilla bonds - therefore such kind of subsidy is expected to reduce the entry barrier as external costs would be similar. In particular relevant as long as there is no clear price advantage for sustainable bonds vs. plain vanilla bond transactions.

Question 78

First of all, there is still a lack of common understanding about the definitions and taxonomies internationally. So investors face legal uncertainty when investing in emerging markets or developing economies, especially about the true cost. Among emerging and developing economies, there are many which are commodity producers and rely on revenues from this sector. That might prove incompatible with sustainable finance objectives and conditions and result in lower financial resources for this country. There is the need to achieve a multifaceted equilibrium, taking into account climate, social as well as political interests.

Question 88
Sustainability risks are already sufficiently taken into account in the supervisory guidelines for lending.
It would not be sufficient to duplicate rules for climate-related risks. But it could be, of course, meaningful if supervisors and the EBA express high level expectations via guidelines in order to reach a level playing field and to sensibilise institutions for this risk driver. In any case the principles of proportionality, freedom of methods and materiality should be applied.

Question 89
Overall, there are still a lot of open questions regarding the precise effects of climate change and the impact of ESG risk factors. Take, for example, the keen debate surrounding the proposal to grant regulatory capital relief for “green” investments. The findings of the EBA reports and the collection of sufficient additional data, which should, however, be based on clear definitions of sustainable finance, could serve as the starting point for further discussion of possible forms of capital relief.

Question 90

In order to integrate, measure and reduce sustainability risks and their impact, the Commission should permit a low data and method level in the first instance, especially in the case of banks that are less affected by sustainability risks and concentrate on qualitative control measures and long-term development of the risk management methods.

Question 101

The market will provide for it as a result of supply and demand.