FESE response to the Commission consultation on the renewed sustainable finance strategy

Brussels, 15th July 2020

Section II - Questions targeted at experts

Q6 - 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?

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Main challenges:

- ESG data commonality, availability and usability
- Alignment of existing legal frameworks (e.g. Taxonomy, Climate Benchmarks, SFDR, etc.) and harmonisation of rules remain key in the development of sustainable finance. A proper monitoring of the expected objectives is crucial too.
- International coordination around common standards, frameworks and taxonomies. The EU should build on successful leadership around initiatives such as the Emissions trading scheme and the recently adopted Taxonomy.

Main opportunities:

- The EU sustainable finance Taxonomy
- Momentum in the financial sector and beyond - With the European Green deal comes an increasing momentum within public and private actors that supports a transition to more sustainable products and policies. This provides an opportunity for the industry but also policy makers to achieve the goals and objectives of the Paris Agreement on climate change and the UN 2030 Agenda for Sustainable Development. Markets will innovate towards this demand for sustainable alternatives with adapted risk-managing products. The financial policy framework should use this momentum to make ensure markets can adjust efficiently.
- Increased awareness resulting in sustainable business models in operational, financial and impact terms; better understanding and steering of own economic activities; better risk management.

Q7 - 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?

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FESE fully supports the Commission's Sustainable Finance agenda aimed at reorienting capital flows to sustainable investments and managing financial risk related to climate change, as well as fostering transparency and long-termism in financial and economic activity. FESE considers it important to ensure that all capital market raising activities adhere to sustainable financing so all companies can be part of the necessary transition towards a sustainable future for our planet.

As regards the legislative proposals presented and agreed thus far, we are concerned that there is a potential for overlapping but slightly different requirements as these negotiations have taken place in parallel. For instance, while the Taxonomy has been agreed but is not yet finalised and most details will be provided through Level 2, requirements have been agreed for the Climate Benchmarks Regulation which may not be fully aligned.

While FESE welcomes standards for climate benchmarks, we are concerned that separate standards could produce a disconnect between benchmarks and the underlying market. Such a development would be particularly unfortunate as the purpose of benchmarks is to measure developments in the markets and it is crucial that standards for classification of assets applying to the market as a whole can be reflected by benchmarks providers, rather than these being subject to a different set of standards.

In addition, the files proposed in the context of the sustainable finance agenda are to a large extent focussed on disclosures but without streamlining of requirements companies may need to comply with a series of slightly different disclosure requirements which may prove more difficult than having one golden source.

Q8 - 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?

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As a general comment, FESE believes it is important that the EU focuses on having an inclusive approach, targeting transition and not only steering investments to already green activities. Looking forward, following a proper impact assessment, the taxonomy could potentially also include social objectives.

Measures on sustainability should be adopted gradually. They should be reviewed regularly and their effects assessed in terms of efficiency, the competitiveness of Europe, market quality, depth of liquidity and participation of investors in the market.

Q9 - 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

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Q9.1 - 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

> FESE supports developing a long-term sustainable finance vision which ensures a level playing field between public and private markets, is built on a solid understanding of the role of financial markets and how these can facilitate the transition towards a low-carbon future and does not lead to unintended consequences for market players in terms of risk management. A transparent and consistent approach, in line with ESG aspects, by the real economy, financial industry and regulators holds great opportunities for international capital markets, both in the area of risk assessment and for the identification of new business areas. This requires a long-term vision that is proportional to company size and ensures a level playing field between public and private markets. The alignment of different pieces of legislation, e.g. reporting requirements with the taxonomy provisions and other regulations, is a prerequisite. A clearly defined taxonomy, whereby agreement on what constitutes environmentally sustainable assets is found, is a necessary starting point for other actions, such as standards and labels. This will also assist high quality and comparable financial disclosures.
>
> Moreover, it is important to keep in mind that financial markets reflect developments in other parts of the economy and the sustainable finance agenda cannot, by itself, realise the goals of the Paris Agreement. Real change can be achieved by adopting sector specific regulations and tax incentives to promote the fight against climate change. Ultimately, a shift in all economic agents' mind-set is the most crucial component of a successful transition to a low-carbon and resource-efficient economy that is geared towards inclusive growth and awareness of long-term risks.

Q10 - 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

Q11 - 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

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Q12. 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

By ensuring a dynamic, flexible and inclusive process when developing new initiatives. The Commission can provide support to stakeholders when applying the newly adopted frameworks, such as the taxonomy. There should be a dialogue with the actors directly or indirectly impacted by the new policies and market developments in order to keep track of the efficiency of new regulation. To clarify our response to Q11, as a first step, it would be sufficient to develop technical screening criteria on biodiversity and ecosystems in line with the objectives of the taxonomy.

Q13 - 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.

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At this moment we believe it is important to work on a global approach on the sustainable finance taxonomy, building on the EU framework and EU leadership within the field. We should also increase dialogue at the global level on non-financial reporting standards in order to ensure consistency and not risking putting European companies in a less favorable position competition wise. Moreover, the 2018 Action plan on financing Sustainable Growth should be completed. The Taxonomy, Sustainable Finance Disclosure Regulation and Climate Benchmarks files, all representing cornerstones of EU action, have recently been adopted and now is the time to see how these frameworks work in practice, where potential gaps are to be found and where synergies can be increased. The review of the NFRD will be key to ensure ESG data availability and enable a proper use of the taxonomy framework. In this regard, standardising financial and sustainability reporting to arrive at "integrated reporting" and expanding the scope of NFRD also to non-listed companies would be of significant importance. We support education and motivation of market participants in order to invest in green products.

1. Strengthening the foundations for sustainable finance

1.1 Company reporting and transparency

Q14 - 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

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Q14.1 - If yes, please explain how it should be structured and what type of ESG information should feature therein:

2000 character(s) maximum

FESE supports measures facilitating sharing of company information, provision of information to investors, and that give companies visibility on a European basis. By facilitating access to information about companies in other Member States or regions, more cross-border investments could potentially be encouraged. Ideally, an inventory of ongoing projects that focus on this should take place to get a better overview and merge projects that have similar objectives before pursuing a new project. Currently such a project is being discussed for provision and sharing of company information that stems from legal requirements, notably the Transparency Directive. Should such a project be extended to also include ESG disclosures, it is important that submitting this type of information be voluntary and proportionate for SME issuers. Should any requirements become legally binding, it is crucial that private companies be subject to the same requirements as listed companies, to not create a barrier to listing and an unlevel playing field. In relation to the question on providing a single access point, please note that as the scope of the NFRD is, and should be, for both listed and non-listed companies as regards the rules regarding disclosure, the reporting, storage and access to information. Therefore, if the National Competent Authorities' supervisory databases are leveraged for non-financial information, they will also need to be adapted accordingly to ensure the supervision of companies' compliance with the disclosure framework. There are certain structures already in place for listed companies which can be used as a model for the information provided by non-listed companies, such as the Officially Appointed Storage Mechanisms under the Transparency Directive, but these structures may not be suitable straight off for the broader scope of companies within the NFRD.

Q15 - 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?

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.

☐ Yes

☐ No

☒ Don't know/no opinion/not relevant

1.2 Accounting standards and rules

Q16 - 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

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1.3 Sustainability research and ratings

Q17 -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

☐ 3 - Neutral

☒ 4 – Rather concerned

☐ 5 - Very concerned

☐ Don't know/no opinion/not relevant

Q17.1 - If necessary, please explain your answer to question 17:
2000 character(s) maximum

First, this market is still developing and hence some time should be granted while monitoring the situation before taking any regulatory action. Companies have shared their concerns about the number of ESG rating agencies available for the disclosure of their non-financial information. Whilst we have witnessed the emergence of smaller EU based companies that focus on certain ESG niche markets, today the market consists primarily of a range of sophisticated large non-EU players specialised in a wide-range of diverse and various ESG related-activities. If, in the future, a regulatory framework is proposed, it will be important that the regulatory framework allows competition and allows service providers to develop. In relation to the previous section on accounting standards and rules, we would like to add the following input. Sustainability-related factors have so far played a subordinate role in financial reporting, with the result that sustainability as an additional source of risks and opportunities is not given adequate attention. Owing to the juxtaposition of financial reporting and "non-financial reporting" (i.e. sustainability reporting), which is still practiced by most and sanctioned by law, there is generally no meaningful relationship between sustainability indicators and the data included in balance sheets, income statements and cash flow statements.

Q18 - 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

☒ 3 - Neutral

☐ 4 – Good

☐ 5 - Very good

☐ Don't know/no opinion/not relevant

Q18.1 - If necessary, please explain your answer to question 18:
2000 character(s) maximum

The niche players in these markets have proven to add substantial value and their output is of high quality. Therefore, we encourage new market players to come in. However, the comparability is low, as the output is offered by a range of participants and there is no common standard. This lack of comparability should be addressed.

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Q19. - 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

Q19.1 If necessary, please explain your answer to question 19:
2000 character(s) maximum

N/A

Q20 - 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?

Please rate as follows: 1=very poor quality and relevance, 2=poor quality and relevance 3=neutral 4=good quality and relevance 5=very good quality and relevance

	1	2	3	4	5	Don't know/no opinion/not relevant
Individual						
Aggregated						

Q20.1 - If necessary, please explain your answer to question 20:
2000 character(s) maximum

N/A

Q21. In your opinion, should the EU take action in any of these areas?

☒ Yes

☐ No

☐ Don't know/no opinion/not relevant

Q21.1 - 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

For sustainability research and ratings, it is important that the EU takes action first by building non-financial reporting proportionate standards for both large companies and SMEs. This would improve comparability and transparency of sustainable related investments. No further EU action should be undertaken once these standards have been implemented. The impact of the Taxonomy and Disclosures Regulations would first need to be assessed.

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We would support putting in place a common – and proportional - ESG reporting framework. This would allow some comparability between different datasets (of similar nature). The framework should take into account multiple viewpoints from asset managers, asset owners, and index providers.

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

EU Green Bond Standard

Q22 - 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 national level

☐ No

☐ Don't know/no opinion/not relevant

Q22.1 - If necessary, please explain your answer to question 22:

2000 character(s) maximum

Yes, we agree that there should be an accreditation and supervision regime at EU level for verifiers of EU Green Bonds to ensure consistency of standards.

In terms of the proposed regime, we would urge that a balanced approach needs to be taken, with respect to reporting requirements and cost impact, so that it is not deemed too onerous for such entities or create a disincentive for them to register as such. We would want to avoid a situation where verifiers are effectively locked out because of an overly burdensome supervisory regime. In particular, this could impact non-EU entities that are not subject to such a strict regime in their own jurisdiction. In addition, it should be considered that a supervisory regime that is too onerous may risk excluding the small verifiers who operate on a national, domestic level and are important in the local ecosystem.

We also suggest that issuers compliant with the Green Bond Standards could be identified based on second party opinions and impact reports in accordance with the proposed EU Green Bond Standard.

Q23 - 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

Q23.1 - If necessary, please explain your answer to question 23:

2000 character(s) maximum

These are two related topics but the approach to take regarding verifiers should not necessarily be the same as the one for other providers. The best course of action should be determined based on an impact assessment including an analysis of competition in the market.

Q24. - 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

Q24.1 - If necessary, please explain your answer to question 24:
2000 character(s) maximum

We fully support the voluntary aspect of the EU Green Bond Standard as it should not be a mandatory standard. We agree with the approach that it can be used by both EU and non-EU issuers as it is important it should apply equally to third country issuers that wish to use it in order to ensure a level playing field. There may be one barrier for non-EU issuers that should be considered further, as currently the recommendation is for the verifier to have a branch in the EU. Some non-EU domiciled verifiers may see this as an issue and an unnecessary cost that would discourage them from providing a service in the EU. Having analysed the Climate Bond Initiative's current list of approved verifiers, over half of the 'approved verifiers' are based in non-EU/EEA jurisdictions (mainly the US and China) so we would not want there to be disincentives for these to provide services in the EU.

Prospectus and green bonds

Q25 - 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

☐ 3 - Neutral

☐ 4 – Agree

☐ 5 – Strongly agree

☐ Don't know/no opinion/not relevant

Q25.1 - If necessary, please explain your answer to question 25:
2000 character(s) maximum

There should not be additional disclosure in the prospectus required for the EU Green Bond Standard (GBS). For issuers, adding a firm green commitment into the prospectus, would introduce another risk factor, which to the issuer limits the attractiveness of issuing green bonds since this means: a) additional costs in legal fees; b) if the 'greenness' of the bond would change, this could trigger a default in the bond which would trigger the generally included cross-default provision. In a changing field where activities considered green today may be considered less green five years from now, due to scientific and political developments, this represent a considerable risk for any issuer. To minimise such default risk, the issuer would most likely value the impact of the green bond at a lower level. However, issuers setting less ambitious goals could mean a slower, less effective transition towards a sustainable economy. Moreover, while a lot of attention is dedicated to greenwashing, it is important to also consider the reputational risk any issuer overstating the greenness of their bonds would face.

Nevertheless, for KPI linked bonds, firm and precise commitments will anyway have to be part of the terms and conditions, which are part of the prospectus.

Many green bond issuances are issued by states or their local authorities, which are exempt from the Prospectus Regulation in any case.

The creation of the EU GBS means the issuer can demonstrate it meets the relevant criteria to be deemed an EU GBS and avoids the necessity of including it as a specific disclosure requirement in the prospectus given the additional issues this creates.

If the Prospectus Regulation is modified to impose additional requirements on green bond issuers, ways of incentivising green bond issuance should be considered. Further consideration should be given to whether the EU GBS should only then apply to listed issuers given the enhanced disclosure they would be obliged to comply with.

Q26 - 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

☐ 3 - Neutral

☒ 4 – Agree

☐ 5 – Strongly agree

☐ Don't know/no opinion/not relevant

Q26.1 - If necessary, please explain your answer to question 26:
2000 character(s) maximum

A link would help, as it would reduce the operational burden for the issuers who wish to use it, and it already represents a common level of information.

Other standards and labels

Q27 - Do you currently market financial products that promote environmental characteristics or have environmental objectives?

☐ Yes

☐ No

☒ Don't know/no opinion/not relevant

Q28. - 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?

☐ 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

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☐ Regulatory intervention is needed to create a label

☐ Don't know/no opinion/not relevant

Q29. - Should the EU establish a label for investment funds (e.g. ESG funds or green funds aimed at professional investors)?

☒ Yes

☐ No

☐ Don't know/no opinion/not relevant

Q29.1 - If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?

☐ Yes

☐ No

☒ Don't know/no opinion/not relevant

Q29.2 - If necessary, please explain your answer to question 29.1:

2000 character(s) maximum

FESE considers that defining standards, labels and classifications is critical as it would bring about three pivotal changes:

- to encourage more rigorous disclosure/reporting to meet clearly defined expectations;
- to improve readability and comparability of performance;
- to reward high performers and thereby incentivising change.

These high performers could be identified based on planned and executed activities, in accordance with the taxonomy.

Minimum standards might support future comparability and transparency. We would support that harmonised standards consideration needs to be given to existing standards for (other) products: these standards would need to be aligned with other products or national standards. Investment funds may track products that also use a standard which may conflict with the "labelling" of the product, which could cause confusion for investors. This initiative should reflect on the broader investment universe in order not to conflict with or complicate the chain of offering of products to investors across the board.

Q30 - 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

☒ 3 - Neutral

☐ 4 – Agree

☐ 5 – Strongly agree

☐ Don't know/no opinion/not relevant

Q30.1 - If necessary, please explain your answer to question 30:
2000 character(s) maximum

We believe that developing additional EU standards for these types of instruments is premature. ICMA has recently published specific Principles on Sustainability-Linked Bonds. Before moving forward with further standards and legal frameworks, it would be important to assess how the market receives this new framework and whether this new instrument gains appetite from the market that may/or may not require additional measures. We would suggest for the Platform for Sustainable Finance to monitor the market and work with industry-based associations to assess any additional EU standards.

Q31 - 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

☐ 4 – Agree

☐ 5 – Strongly agree

☐ Don't know/no opinion/not relevant

Q31.1 - If necessary, please explain your answer to question 31:
2000 character(s) maximum

The United Nations Sustainable Development Goals already have well defined and categorised sustainable activities.

Q32 - 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?

☐ Yes

☐ No

☒ Don't know/no opinion/not relevant

Q33. - 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

Q33.1 - If yes, please explain what the key elements of such a benchmark should be:
2000 character(s) maximum

The impact and development of existing benchmarks and disclosure requirements should be monitored and assessed before making additional policy decisions of this kind. However, we fully acknowledge the EU climate benchmarks (CTB and PAB) which are regulatory driven are not the only ESG benchmarks in the market. Currently, a multitude of ESG benchmarks with different objectives are also being offered which are only subject to ESG transparency obligations. With a high degree of subjectivity in ESG labels, it might not always be possible to compare such benchmarks for the end investor due to the different ESG data which might be used by benchmark administrators. Before defining the elements of one "ESG benchmark", an assessment of markets' demand is a pre-requisite and the EU will then first have to develop two standards in respect to i) social and ii) governance factors. In could be beneficial to make those benchmarks broadly comparable by for example setting a range of objectives for ESG benchmarks with minimum standards. Such objectives should be able to encompass a range of ESG benchmarks without reducing the scope of potential future innovations. Potentially, these objectives could be also be defined with reference to the EU Taxonomy, which is currently lacking in the other two types of EU climate benchmarks. The development of ESG Benchmarks should encourage issuers from the EU27 to complement companies which conduct environmentally friendly activities and meet a set of social and governance criteria based on specific objectives which can be embedded in the EU Taxonomy.

Q34 - 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

Q34.1 - If yes, what should they cover thematically and for what types of financial products?
2000 character(s) maximum

We suggest that a label for Transition Bonds would be a welcome development in the market. For that, we welcome the work conducted by ICMA in this respect.

1.5 Capital markets infrastructure

Q35 - 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

Q36 - 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

Q36.1 - If necessary, please explain your answer to question 36:
2000 character(s) maximum

We believe that there is no need for the EU to foster the development of a sustainable finance-oriented Exchange or trading segments. FESE members organise markets dedicated to sustainable finance and offer products that contribute to sustainable development, facilitate management of climate risk and incorporate carbon reduction in investment strategies, as well as allow the tracking of sustainable companies' performance. FESE members actively engage in the UN Sustainable Stock Exchanges initiative (SSE) to promote sustainable capital markets, through which companies are encouraged to perform greater disclosures of relevant ESG issues. Within the context of the SSE initiative, more information about actions taken by individual member exchanges is available in a database that covers its members and/or members of WFE, available here.

FESE members are running a number of initiatives to promote sustainability and ESG reporting. In addition, FESE is currently working on a project to streamline ESG reporting guidelines for issuers on a European level.

FESE members are thus already running sustainable finance-oriented exchanges.

Rather than having a specific trading segment dedicated to sustainable finance securities, an important measure would be to promote listing and make it an attractive option for innovative companies pursuing sustainable business objectives.

Furthermore, it is important to always keep in mind that financial markets reflect developments in other parts of the economy. As such, the sustainable finance agenda cannot, by itself, realise the goals of the Paris Agreement. Real change can be achieved by adopting sector specific regulations and tax incentives to promote the fight against climate change. Such policies would have an impact on the companies' business models and either lead to a decline of certain businesses or a change of business strategy.

Q37 - 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

In addition to our answer under Q36, we would also like to highlight that a working paper published by the ECB in 2019 shows that for given levels of economic and financial development and environmental regulation, CO_2 emissions per capita are lower in economies that are relatively more equity-funded. This is due to the role stock markets play in reallocating investment towards less polluting sectors and push carbon-intensive sectors to develop and implement greener technologies. Equity financing thus plays a crucial role in promoting sustainability.

Exchanges encourage capital flows to ESG projects and to the listing of companies, notably SMEs, with strong ESG characteristics. This approach can also be supported by strong educational programmes to incentivise these companies' access to capital markets. Exchanges' launch of labels and new initiatives facilitate the capital raising process by providing visibility to sustainable equity issuers and their respective projects.

1.6 Corporate governance, long-termism and investor engagement

Q38 - 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 holding 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

Q38.1 - Please specify what other recommendation(s) have the highest potential to effectively tackle short-termism:

2000 character(s) maximum

FESE believes several measures could be taken to incentivise market agents towards longer-term orientation, including ensuring that accounting standards do not overly incentivise short-term behaviour and accommodate longer-term perspectives, which are important in respect of sustainable financing. Furthermore, it is important to always keep in mind that financial markets reflect developments in other parts of the economy. As such, the sustainable finance agenda cannot, by itself, realise the goals of the Paris Agreement. Real change can be achieved by adopting sector specific regulations and tax incentives to promote the fight against climate change. Such policies would have an impact on the companies' business models and either lead to a decline of certain businesses or a change of business strategy.

Q39 - 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?

☐ Yes

☐ No

☒ Don't know/no opinion/not relevant

Q40 - In your view, should there be a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?

☐ Yes

☐ No

☒ Don't know/no opinion/not relevant

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Q41 - 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

☒ Don't know/no opinion/not relevant

Q42 - 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

☐ Don't know/no opinion/not relevant

Q42.1 - If yes, what action should be taken? Please explain or provide appropriate examples:

2000 character(s) maximum

We would welcome further EU action to enhance long-term engagement between investors and their investee companies. The EU could take actions to allow for Member States to provide for tax incentives (with a lock-up clause for example) which would attract long-term investments for companies undertaking ESG activities.

Q43 - 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

☒ Don't know/no opinion/not relevant

Q44 - Do you think that EU action is necessary to allow investors to vote on a company's environmental and social strategies or performance?

☐ Yes

☐ No

☒ Don't know/no opinion/not relevant

Q45 - 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

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Q45.1 - If no, please explain your answer to question 45, if necessary:

2000 character(s) maximum

Passive index investing can rely on innovative practices (ESG indices, ESG ETFs, etc.) to ensure that capital is allocated while incorporating ESG considerations.

Different objectives are pursued with investing and shareholders should have the flexibility to choose their investments. Passive investment products are, in general, simpler, cheaper and more transparent when compared with active management products. There should be a space for non-ESG investments in the future, not only as regards active investments but also in terms of passive investments, catering to the different types of investment needs.

We do not concur with the notion that passive investment products by definition would have a negative impact on long-term interests of shareholders in the sustainable development of investee companies included in an index-related investment product. Passive investment products are used by investors to hedge risks from long-term investments in sustainable business models, to participate in the wealth accumulation of companies from different industrial sectors, and to save for retirements which are by nature long-term investment objectives. For example, ETFs are becoming increasingly attractive as a passive investment strategy for traditional savers as they allow for regular saving in and/or holding of ETFs on major market indices, thereby providing long-term price increases at comparatively low costs and risks. ETF issuers actively promote the integration of long-term ESG investment objectives into the strategic outlook and the overall risk assessment of the investee companies without implicit conflicts of interests that other types of investors will face if long-term oriented sustainable activities of a company may interfere with the short-term development of stock prices and funding costs.

Shareholders following sustainability have the choice to steer their funds to ESG investments in different forms. No EU action is needed at this stage.

Q46 - 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

Q47 - Do you think that an EU framework for supply chain due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?

☐ Yes

☒ No

☐ Don't know/no opinion/not relevant

Q48 - Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?

☐ Yes

☒ No

☐ Don't know/no opinion/not relevant

Q48.1 - If necessary, please explain your answer to question 48:

2000 character(s) maximum

FESE believes that the scope of due diligence requirements should be aligned to the scope of the new disclosures requirements after the review of the Non-Financial Requirements Directive (NFRD).

In line with the Commission's objectives to have all companies provide further transparency on their ESG activities, FESE believes that the scope of the NFRD should be extended to require non-listed companies with more than 500 employees to disclose non-financial information. This requirement should not be limited to public-interest entities (i.e. listed companies, banks and insurance companies with more than 500 employees) as provided by the current regulatory framework.

This implies that the level of ESG disclosure obligations for companies will be harmonised at EU level with the creation of a European standard, while the current scope of the NFRD and companies' reporting standards differ in each respective EU Member State. Requiring all companies established in the EU with more than 500 employees to report would ensure an equal level playing field in the companies' disclosure obligations related to non-financial information on companies' activities regarding environmental, social or governance topics.

Therefore, in line with the new proposed scope for the NFRD, SMEs (companies that employ less than 500 employees) should not be burdened with due diligence requirements which would be too costly for them to comply with. However, SMEs should be allowed to voluntary disclose due diligence practices based on the EU framework that may be provided.

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

2.1 Mobilising retail investors and citizens

Q49 - 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

Q49.1 If necessary, please explain your answer to question 49:

2000 character(s) maximum

The new rules introduced in sectorial legislation (such as MiFID) on the incorporation of sustainability when providing financial advice and clarifying the integration of sustainability fiduciary duties should be sufficient at this stage. After the provisions have been in place for some time, the question on whether more guidance for financial advisors would be needed could however be reconsidered.

Q50 - 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

☐ No

☐ Don't know/no opinion/not relevant

Q51 - 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

☐ 4 – Agree

☒ 5 – Strongly agree

☐ Don't know/no opinion/not relevant

Q51.1 If you agree, please choose what particular action should be prioritised:

Please rate as follows: 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree

	1	2	3	4	5	Don't know/no opinion/not relevant
Integrate sustainable finance literacy in the training requirements of finance professionals.					X	
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]					X	
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.					X	
Directly, through targeted campaigns.					X	
As part of a wider effort to raise the financial literacy of EU citizens					X	
As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities.					X	
Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals.					X	
Other						

2.2 Better understanding the impact of sustainable finance on sustainability factors

Q52 - 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

☐ 4 – Rather important

☒ 5 - Very important

☐ Don't know/no opinion/not relevant

Q52.1 - What actions should the EU take in your view?

2000 character(s) maximum

Measuring the impact of investments and funding is a challenge, given the complexity and scope of the process and hence the difficulty of standardising. In many cases financial market players' lack of knowledge and awareness of the relevance of sustainability data still impedes its inclusion in investment and funding decisions. For instance, so far financial market players do not systematically collect sustainability data as part of their lending to companies and individuals, although doing so would make it easier to understand risks and opportunities. However, this means that additional expenses for analyses are incurred and adjustments of IT systems are required. In the future, financial market players will increasingly have to rely on various sustainability-related scenarios as well as conduct stress tests in order to better assess the ramifications of sustainability risks. To date, scenarios adjusted to the needs of financial market players, which take into account a range of different sector-specific development approaches, are not yet available. Sustainability goals may contradict each other. Here, both the taxonomy developed by the EU and solutions developed by sustainability rating agencies offer options for pinpointing potential negative effects on particular target areas. Careful assessment of the impact of adopted measures on sustainability and efficiency shall provide needed feedback and can serve as necessary guidelines for further measures and their amendments.

Q53 - 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

☒ No

☐ Don't know/no opinion/not relevant

Q53.1 - 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

ESG starts to become integrated across all assets and within core business strategies. Mainstreaming ESG is key, this includes also more complex financial products (such as liquid ESG benchmarks derivatives), which helps to encourage the change towards ESG and contribute to new investment behaviour.

The ability to allocate capital to sustainable projects and activities does not depend on the asset class in which an investor invests but on the nature of the asset.

2.3 Green securitisation

Q54 - 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

☐ 5 - Very important

☐ Don't know/no opinion/not relevant

Q54.1 - If necessary, please explain your answer to question 54:

2000 character(s) maximum

Securitisation is an important tool for banks (in the context of Basel III), which enables them to sell off existing financial assets (mostly loans) to free up capacity for more business. This concept can also be applied to green securitisation, given the increased appetite for green loans and other green assets.

Q55 - 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?

☒ Yes

☐ No

☐ Don't know/no opinion/not relevant

Q55.1 - If yes, please list the barriers you see (maximum 3):

2000 character(s) maximum

Introducing preferential regulatory capital treatment for green securitisations is one way to incentivise activity. An alternative idea could be to attach an implicit government guarantee to green finance structures - potentially making green securitisations more attractive to investors by lowering the possibility of default. Other initiatives could include offering tax relief on the income from green bonds.

Q56 - Do you see the need for a dedicated regulatory and prudential framework for 'green securitisation'?

☐ Yes

☒ No

☐ Don't know/no opinion/not relevant

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2.4 Digital sustainable finance

Q57 - Do you think EU policy action is needed to help maximise the potential of digital tools for integrating sustainability into the financial sector?

☐ Yes

☐ No

☒ Don't know/no opinion/not relevant

Q58 - 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

Q59 - 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

Q60. 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

N/A

Q61 - Do you see a role for Member States to address these obstacles through their NECPs (National Energy and Climate Plans)?

☐ Yes

☒ No

☐ Don't know/no opinion/not relevant

Q61.1 - If necessary, please explain your answer to question 60 and provide details:

2000 character(s) maximum

N/A

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Q62 - 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

N/A

Q63 - 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

Sustainable investment based on R&I should be supported by education and efficient incentives.

Q64 - In particular, would you consider it useful to have a category for R&I in the EU Taxonomy?

☐ Yes

☐ No

☒ Don't know/no opinion/not relevant

Q65 - In your view, do you consider that the EU should take further action in:

	Yes	No	Don't know/no opinion/not relevant
Bringing more financial engineering to sustainable R&I projects?			x
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)?	x		
Better identifying areas in R&I where public intervention is critical to crowd in private funding?	x		
Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds?	x		
Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)?			x
Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication?	x		
Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions?	x		
Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks?	x		

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Q65.1 – If necessary, please explain your answers to question 65:

2000 character(s) maximum

FESE believes that promoting public equity capital markets goes hand-in-hand with promoting additional investments in environmental, social and governance (ESG) initiatives, as public markets provide transparency and accountability to all involved financial market participants. Stock-market based financial systems are tightly associated with better environmental quality.

The European Central Bank published a Working Paper to understand how financial market activity contributes to climate change through its impact on the real economy (ECB Working Paper Series No 2318/September 2019). The results of this study show that carbon emissions per capita are significantly lower in economies where equity financing is more important to bank lending and confirm that:

a. Stock markets tend to reallocate investment towards more carbon-efficient sectors
b. Stock markets facilitate the adoption of cleaner technologies in polluting industries and tend to punish firms that perform badly in environmental terms
c. Deeper stock markets are associated with more green innovation and patenting in traditionally carbon-intensive industries

Public capital markets could therefore play an important role in making future growth greener, in particular by stimulating innovation which leads to cleaner production processes within industries.

The Commission's proposed initiatives to meet its Capital Markets Union objectives may provide opportunities for the EU to develop public incentives for issuers to boost the market for sustainable investments.

2.6 Incentives to scale up sustainable investments

Q66 - 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

Q66.1 - If necessary, please explain your answers to question 66:

2000 character(s) maximum

We believe that there is certainly room to improve and implement incentives to scale up sustainable investments. In its report on a *Proposal for an EU Green Bond Standards* (June 2019), the TEG put forward a set of potential incentives to support the EU Green Bond market, including A) incentives that could be implemented in the short term, such as i) encourage investors to increase their holdings in EU Green Bonds; ii) disclosure of EU Green Bond holdings by European institutional investors; iii) measures to encourage Central Banks / Supervisors to lead by example to scale up green finance; iv) encourage banks to find ways to enhance pricing of green assets; v) provide financial incentives to support the EU Green Bond Market; vi) encourage EU public and private sector bond issuers to adopt the EU-GBS; vii) use the requirements of the EU-GBS as technical criteria for the future EU ecolabel for

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financial products; as well as B) incentives that could be more complex to implement, such as tax incentives. Please refer to Section 5 of the Report. Companies that wish to disclose ESG standards may be faced with high compliance costs for their issuance of equity or bonds. These costs are higher than 'standard' issuances due to the additional disclosures related to these activities. As SMEs should be subject to a proportional and voluntary non-financial information standard for the disclosure of their ESG activities, we see a role for the Commission to provide support in SMEs' ESG disclosures. More specifically, there may be merit in the Commission partially funding the advisory or compliance services SMEs' need for the issuance of their assets, either as a loan or via a rebate mechanism. The SME would then be able to pay back its ESG related upfront costs following the issuance of its assets and the amount it was able to raise from public capital markets.

Q67 - 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

Q67.1 - 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:**

Please rate as follows: 1= not effective at all, 2= not effective, 3= neutral, 4= effective, 5= very effective

	1	2	3	4	5	Don't know/no opinion/not relevant
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

N/A

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

Please rate as follows: 1= not effective at all, 2= not effective, 3= neutral, 4= effective, 5= very effective

	1	2	3	4	5	Don't know/no opinion/not relevant
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

N/A

c) **Technical assistance:**

Please rate as follows: 1= not effective at all, 2= not effective, 3= neutral, 4= effective, 5= very effective

	1	2	3	4	5	Don't know/no opinion/not relevant
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

N/A

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d) **Any other public sector incentives:**

Please rate as follows: 1= not effective at all, 2= not effective, 3= neutral, 4= effective, 5= very effective

	1	2	3	4	5	Don't know/no opinion/not relevant
Bonds				X		
Loans						
Equity					X	
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

N/A

Q68 - 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

Q68.1 - Since you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments?

Please select as many options as you like.

☒ Revenue-neutral public sector incentives

☒ Adjusted prudential treatment

☒ Public guarantee or co-financing

☐ Other

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

Please note prudential regulation should not be used to stimulate certain market behaviour. Instead, FESE believes prudential regulation should be risk-based. We argue for an evidence-

based measure to align a risk-based prudential regulatory framework to the market changes and for example risks of stranded assets.

Q69 - 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?

☒ Yes

☐ No

☐ Don't know/no opinion/not relevant

Q69.1 - If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue?

2000 character(s) maximum

FESE believes that the EU should consider putting in place specific incentives that are aimed at facilitating access to finance for SMEs carrying out sustainable activities, or for those SMEs that wish to transition.

The EU can first provide for a voluntary ESG non-financial disclosure standard for SMEs, that would not impose additional administrative burdens or costs but incentivise SMEs to disclose their ESG-related activities.

In addition, the EU could facilitate the ESG disclosure of SMEs, notably their assets' issuances on public markets.

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

Q70 - In your view, is the EU Taxonomy, as currently set out in the rep ort 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

Q 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

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Q72 - In particular, should the EU Taxonomy2 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?

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

Q73 - 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

Q73.1 - If no, are there specificities of public issuers and funded projects or assets that the existing guidance on green bonds, developed by the TEG, does not account for?

2000 character(s) maximum

It would be beneficial for these issuers to be encouraged to use the EU GBS to promote it and lead the way for other issuers.

2.8 Promoting intra-EU cross-border sustainable investments

Q74 - 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

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Q74.1 - If yes, please specify what type of services would be useful for this purpose:

Please select as many options as you like.

☒ Information on legal frameworks

☒ Individualised advice (e.g. on financing)

☒ Partner and location search

☒ Support in completing authorisations

☐ Problem-solving mechanisms

☐ Other

2.9 EU Investment Protection Framework

Q75 - 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 **a medium impact** (e.g. it can lead to an increase in costs)

☒ Investment protection has **a significant impact**

☐ 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

Q76 - 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

Q76.1 - 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

There is a need for an EU wide harmonised standard of non-financial information to enhance transparency and promote investments in ESG activities. FESE supports the Commission's review of the NFRD framework with a view to facilitate investors' access to such information.

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This would also allow companies to avoid duplicative disclosure requirements and any additional administrative costs and burdens.

An EU harmonised standard of non-financial information would attract funding to EU companies undertaking sustainable activities. This would ultimately benefit listed companies, by increasing the visibility of their respective ESG initiatives, the capital markets would benefit from increased investments and provide additional liquidity.

Q77 - 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

Soft law instruments can be useful to raise awareness, test and encourage the market to adopt certain practices. There are examples of specific platforms on sustainable finance which set the criteria extremely high to list green bonds (where third-party opinions are mandatory, as well as additional reporting criteria). These practices were implemented and are still applied by and well accepted by the market without the need to have any specific legal or regulatory framework. The adoption by the European Commission of the EU GBS by means of an endorsement (non-binding) instrument, as proposed by the TEG, can be a useful soft law instrument to boost the market.

In addition, the EU Commission should promote the use of references to the Paris agreement's objectives in legislation about other ESG-oriented products and to frame any future reporting obligations. Today, there is only the Climate Benchmarks Regulation which refer to such objectives by providing an EU Paris-aligned Benchmark. This should equally apply for SDGs' which are not so well known by financial market participants.

Q78 - 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.

☒ Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.)

☒ Lack of clearly identifiable sustainable projects on the ground

☒ Excessive (perceived or real) investment risk

☒ Difficulties to measure sustainable project achievements over time

☒ Other

Q78.1 - Please specify what other main barrier(s) private investors face when financing sustainable projects and activities in emerging markets and developing economies:

2000 character(s) maximum

A main barrier is certainly the lack of internationally comparable sustainable finance frameworks. FESE notes the European Union's initiative, together with relevant authorities from Argentina, Canada, Chile, China, India, Kenya and Morocco, on the launch of the International platform on sustainable finance (IPSF) which was launched on 18th October 2019 and where results are expected from financial market participants.

Q79 - 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

The International Platform on Sustainable Finance can be a powerful instrument to promote international cooperation and development policy. However, it would be important to understand what initiatives that are in its pipeline and what its goals are.

Q80 - 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

☒ These tools need to be adapted to local specificities in emerging markets and/or developing economies

☐ Don't know/no opinion/not relevant

Q80.1 - Please explain how you think these tools could be adapted:

2000 character(s) maximum

To be in line with the CMU objective to increase financing of companies through capital markets, it is crucial that the EU sustainable finance tools are adapted to emerging markets within the EU27. We should have an inclusive criterion that encourages investments into companies of the EU27, which should be compliant with the specific ESG criteria. We encourage EU policy makers to further reflect on that.

Q81 - 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

☐ Yes, but only partially

☐ No

☐ Don't know/no opinion/not relevant

3. Reducing and managing climate and environmental risks

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

Q82 - 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

Q82.1 - If no, please explain why you disagree:

2000 character(s) maximum

Currently, focus should be on facilitating and encouraging green investments and redirecting capital flows towards environmentally sustainable activities. A brown taxonomy would be premature at this stage, rather we would see the need for a sufficient time and experience of using the taxonomy before such a development. Already implementing the green taxonomy and keeping it sufficiently up to date (as the technical screening criteria are to be reviewed every 3-5 years) is a big task for Platform on Sustainable Finance.

FESE believes the approach taken, focusing on activities on the basis of GHG emissions and the size of the potential reductions in emissions is reasonable at this stage. We support the agreement reached by co-legislators including also transitional and enabling activities and see merit in increasing the granularity of these activities. It is helpful to be able to identify the sectors that are carbon-intensive but also needed for production, e.g. steel to produce wind turbines. This will incentivise investing in CO2 reduction within such sectors and help investors decide on how to invest within these sectors. We also support the possibility to propose inclusion of further economic activities and services in the taxonomy to the Platform.

FESE believes that an EU "brown taxonomy" should not have the purpose of incentivising investors or financial institution to divest in carbon-intensive industries. If created, the taxonomy's main purpose should be to provide raw non-financial data of non-sustainable activities for rating agencies, investment researchers and other financial market participants that will provide investment products or services.

In turn, this would incentivise companies to move from "brown" to "green" activities to the best of their ability and be evaluated objectively by all financial markets' stakeholders.

Q83 - 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

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3.2 Financial stability risk

Q84 - 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.

☐ Physical risks

☐ Transition risks

☐ Second-order effects

☒ Other

Please explain through what other channel(s) climate change will affect your industry

Please provide links to quantitative analysis when available:

2000 character(s) maximum

Sustainability risks are one aspect of the known financial types of risk (credit risk, counterparty default risk, market price risk, liquidity risk, operational risk, reputational risk) because they affect all risk types. It is almost impossible therefore to delineate sustainability risks, neither would it be helpful to do so. The customary quantitative risk management procedures used by the financial industry to manage, for instance market and counterparty risks, currently do not adequately plot relevant and forward-looking sustainability parameters (e.g. climate-induced risks). Appropriate risk management systems are necessary in order to identify, measure, verify and manage all material risks affecting institutional investors and credit institutions, taking the principle of proportionality into account. The systems of institutional investors as well as of credit institutions and insurance companies must be refined and/or supplemented so that the potential materiality of sustainability risks can be determined and, if necessary, addressed adequately and systematically in existing processes. Specifically, this must be based on science-based forward-looking scenario analyses and/or stress tests. Among other things this includes assessments of the way given business activities are associated with negative climate impacts and the transition to a CO_2 neutral economy, assessments of the extent to which liability risks related to human rights violations may be present in the supply chain but also other ecological and social factors which affect material financial risks. The materiality of sustainability risks must be assessed with reference to the SDGs and the Paris climate goals. Uniform standards are needed for collecting the data required for such measurements.

Q85. 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

FESE members organise markets dedicated to sustainable finance and offer products that contribute to sustainable development, facilitate management of climate risk and incorporate carbon reduction in investment strategies, as well as allow the tracking of sustainable companies' performance. Moreover, FESE members actively engage in the UN Sustainable Stock Exchanges initiative (SSE) to promote sustainable capital markets, through which companies are encouraged to perform greater disclosures of relevant ESG issues.

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FESE members are running a number of initiatives to promote sustainability and ESG reporting. In addition, FESE is currently working on a project to streamline ESG reporting guidelines for issuers on a European level.

Q86. 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

Q87 - 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

Q88 - Do you consider that there is a need to incorporate ESG risks into prudential regulation in a more effective and faster manner, while ensuring a level-playing field?

☐ Yes

☒ No

☐ Don't know/no opinion/not relevant

Q89 - 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

Q90 - 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

Q91 - 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

Q92 - 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

Q93 - 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

N/A

Q94 - 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

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3.3 Credit rating agencies

Q95 - 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

☐ 3 - Neutral

☐ 4 – Rather transparent

☐ 5 – Very transparent

☐ Don't know/no opinion/not relevant

Q95.1 - 1 If necessary, please explain your answer to question 95:

2000 character(s) maximum

Despite CRA's efforts to improve transparency and effectiveness, for example through newly developed ESG risk heatmaps, the integration of ESG factors into credit ratings by CRAs is currently still facing drawbacks of lack of comparability and standardisation between the CRAs' integration of ESG factors and ESG ratings as well as focusing particularly on larger companies.

Q96 - 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

☐ 3 - Neutral

☐ 4 – Rather effective

☐ 5 – Very effective

☐ Don't know/no opinion/not relevant

Q96.1 - If necessary, please explain your answer to question 96:

2000 character(s) maximum

See above comment.

Q97 - Beyond the guidelines, in your opinion, should the EU take further actions in this area?

☐ Yes

☒ No

☐ Don't know/no opinion/not relevant

3.4 Natural capital accounting or "environmental footprint"

Q100 - 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?

☐ Yes

☐ No

☐ Don't know/no opinion/not relevant

3.5 Improving resilience to adverse climate and environmental impacts

Climate-related loss and physical risk data

Q99 - In your opinion, should the European Commission take action to enhance the availability, usability and comparability of climate-related loss and physical risk data across the EU?

☐ Yes

☐ No

☐ Don't know/no opinion/not relevant

Financial management of physical risk

Q100 - Is there a role for the EU to promote more equal access to climate-related financial risk management mechanisms for businesses and citizens across the EU?

☐ Yes

☐ No

☐ Don't know/no opinion/not relevant

Q101 - 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

Q102 - 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

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:

None.