By e-mail
European Commission
Directorate General for Financial Stability, Financial Services and Capital Markets Union
Mr John Berrigan
Brussels
BELGIUM

Date	14 July 2020
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Subject	AFM response to the public consultation on a renewed sustainable finance strategy

Dear Sir,

The Dutch Authority for the Financial Markets (AFM) supports the European Commission's initiative to launch a renewed sustainable finance strategy. The AFM is grateful for the opportunity to contribute to the establishment of the new roadmap by responding to the public consultation of this renewed strategy. The AFM has responded through the online questionnaire on the website of the European Commission. In this letter, the AFM wishes to highlight the most important points made in the online questionnaire. For reasons of transparency, the AFM will publish this letter on its website.

The AFM is an independent market conduct authority that supervises the conduct of the entire financial market sector in the Netherlands: savings, investment, insurance, loans, pensions, capital markets, asset management, public accountants and (non-) financial reporting. The AFM is committed to promoting fair and transparent financial markets. The AFM is also a member of various European bodies and committees, amongst which the European Securities Markets Authority (ESMA). As a member of ESMA, the AFM wishes to reiterate its support for the ESMA response to the consultation on the renewed sustainable finance strategy.

The consultation covers a very broad range of subjects within the realm of sustainable finance and is directed at a wide variety of interested parties. In this letter, the AFM highlights specific points that are of particular importance to the AFM. Points that we believe are indispensable to the integration of sustainability factors in the financial markets, as well as necessary to enable the markets to contribute to the Commission's objectives as set out in its 2018 Action Plan and the European Green Deal.

Annex 1 to this letter contains all answers the AFM has provided in response to questions from the consultation document.

A. Lack of comparable, consistent, relevant and reliable ESG data[1]

One of the main challenges for mainstreaming sustainability in the financial sector is the lack of comparable, consistent, relevant, and reliable ESG data. In this respect, legislative proposals need to take into account the logical order of the sustainability reporting chain. Financial market participants are dependent on ESG data provided by companies (or third parties). The provision of ESG data through the disclosure of non-financial information (NFI) by companies, and the quality of that information, is therefore of utmost importance. We have expressed this view in our recent response[2] to the European Commission's consultation on the review of the NFRD. Non-financial information currently disclosed under the NFRD is not comparable, consistent, relevant, and reliable.

The AFM views the development of a common standard for NFI as a necessary step. The absence of a generally accepted global standard on non-financial reporting is one of the biggest barriers for investors to incorporate NFI in their decision-making process. The development of such a common standard is both a challenge and an opportunity. Now is the time to push the development of international reporting standards. We encourage the European Commission to take the lead in this.

B. A public structure for ESG data[3]

To promote the quality and availability of data, the AFM encourages the European Commission to take action in the development of a common, public and free environment for ESG data from companies, including non-financial information reported under the NFRD. Such a European Single Access Point (ESAP) should be a one-stop-shop for both financial and non-financial information. This would bring significant benefits to investors, for whom lack of access to ESG data is still an obstacle to sustainable investment.

C. Increasingly important role of Sustainability Rating Agencies (SRAs)[4]

The AFM is of the view that the level of concentration in the market for ESG ratings and data leads to dependency risks. SRAs will become essential to the financial infrastructure. Financial market participants are heavily dependent on providers of ESG data and ratings, which is at present a highly concentrated market dominated by a limited number of companies.

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[1] We also refer to our explanatory remarks in our answers to questions 6, 7 and 11 of the consultation document.
[2] https://www.afm.nl/~/profmedia/files/publicaties/2020/respons-afm-consultatie-review-nfrd.pdf
[3] We also refer to our explanatory remarks in our answers to questions 14, 17 of the consultation document.
[4] We also refer to our explanatory remarks in our answers to questions 6, 17, 18, 21 of the consultation document.

In the market for ESG ratings and data, issues with regard to consistency and transparency stand out. Firstly, there is a lack of comparability among providers, demonstrated by the large divergence of – and low correlation between – ratings from different SRAs. Given the lack of a legally binding definition of what an ESG rating is measuring, it is not possible to compare the ratings between SRAs. Secondly, there is lack of transparency and reliability. It is often not clear what methodology is used. Methodologies are proprietary and therefore lack of consistency is aggravated by lack of transparency.

In AFM's view, a regulatory framework establishing minimum standards for ESG ratings and data providers, ensuring European supervision of SRAs, would be an appropriate way to safeguard consistent and reliable standards of assessment in the ESG rating industry. The scope of these regulatory requirements and the level of supervision entailed should be proportionate to the role that ESG ratings are given within the broader regulatory framework. The AFM advocates a unified approach to the regulation of all rating providers and related sustainability assessments such as third party verification, in order to avoid a patchwork of regulatory or supervisory mandates.

D. Prospectus and green bonds[5]

The AFM strongly believes that requiring the disclosure of specific information on green bonds in the prospectus would improve the consistency and comparability of information for such instruments and limit greenwashing. The AFM has also expressed this opinion in April 2019 in its joint AMF/AFM position paper on green, social, and sustainable bonds.[6] If an issuer chooses to qualify its bond issuance as 'green', the prospectus should include additional information regarding the use of proceeds, the selection of funded projects and the management of proceeds. The issuer should also specify whether it intends:

(i) to comply with green bond voluntary standards (such as the ICMA's Green Bond Principles or the Climate Bond Initiative's Climate Bond Standards);
(ii) to publish a report on the use of the green bond proceeds; and
(iii) to mandate a third party verification.

Such additional information, which also includes an indication on the publication of the issuer framework (if any), the selection of projects, and the management of proceeds, could feature in a new prospectus building block for green bonds in the level 2 of the Prospectus Regulation. We believe this approach would be manageable for issuers, whilst reinforcing transparency and investor confidence in the green bond markets. Mandating the disclosure of this type of information would ensure that investors have access to material information that is pertinent to determine if a bond is green.

[5] We also refer to our explanatory remarks in our answers to questions 25, 26, 30, 35 of the consultation document.
[6] https://www.afm.nl/~/profmedia/files/onderwerpen/duurzaamheid/position-paper-green-bonds-amf-afm.pdf?la=en

E. Ensuring consistency in new legislation on sustainability[7]

The AFM believes that consistency between various pieces of legislation concerning sustainable finance needs to be ensured. The importance of consistency would apply to any new legislation proposed by the European Commission. This includes the necessary alignment of definitions in the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation, such as the notion of Do No Significant Harm (DNSH). Equally, for the revision of the NFRD, due regard for consistency throughout the sustainability reporting chain needs to be applied.

In conclusion
The AFM would welcome the opportunity to discuss further the issues raised by our responses to the questions from the consultation document.

Yours sincerely,
The Dutch Authority for the Financial Markets

Laura van Geest
Chair of the Executive Board

Jos Heuvelman
Member of the Executive Board

[7] We also refer to our explanatory remarks in our answers to questions 6, 7, 82, of the consultation document.

Annex 1: AFM's responses to the questions in the consultation

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 and environmental-related challenges, do you think that (please select one of the following):

	Major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector
X	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 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
X	Yes, both
	No
	Don't know / no opinion / not relevant

Section II. **Questions targeted 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? [Box max. 2000 characters]

Challenges:

- ESG disclosures by companies in the applicable legislation, significant limitations to the ability of investors and the public at large to rely on ESG disclosure that is comparable, reliable and relevant. In particular, we concur with the challenges identified in the European Commission's consultation document on the review of the Non-Financial Reporting Directive (NFRD) and refer to our response to the this consultaion.

- ESG ratings: lack of a legally binding definition and comparability among providers, no legal requirements to ensure transparency of underlying methodologies.
- Ensuring proper implementation and application of new legislation given the intense legislative activity at EU level in the last few years.

Opportunities:

- Influencing the international agenda: Developing world-wide standards to improve cross-border business and provide investors with comparable information leveraging on the role of ESMA in the broader international community of regulators.
- Consistency across different areas of legislation: There is a need for building consistency with respect to what we could call the *sustainability reporting chain*, to ensure that the information that financial market participants are required to report on the ESG profile of their investments build on comparable, relevant and reliable information publicly reported at company level by investee companies. In this respect, there is room to ensure the alignment between the disclosures required by the Disclosure regulation and any future disclosure requirements that may be set out for corporate ESG disclosures under the revised NFRD.
- Supervision and enforcement: no longstanding supervisory practices exist, thus the opportunity to build a consistent supervisory framework through coordination among national supervisory authorities and through setting up EU level supervision for certain specific actors such as accredited verifiers for green bond standards or ESG rating providers.

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? Please provide a maximum of three examples. [Box max. 2000 characters]

- Lack of a standardised disclosure regime for issuers relating to sustainability reporting. This is an area where the ESAs can provide technical standards similar to other areas of disclosures linked to sustainable finance. The AFM has expressed its proposals on the improvement of the disclosure regime for companies in its response to the EC consultation on the revision of the NFRD.
- Lack of consistency of definitions relating to sustainable investments and sustainable activities across different areas of legislation, for the notion of Do No Significant Harm (DNSH) is inconsistent between Disclosure Regulation and Taxonomy Regulation.
- Supervision on ESG data and rating providers is not embedded into regulation. There is large and growing dependency on becoming client of their services. As a result market participants may face challenges to retrieve data (at reasonable terms) required to launch new sustainable investment initiatives.

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
X	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,[8] 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?

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

Question 11.1: If yes, please specify potential actions the EU could take. [Box max. 2000 characters]

The Nature of Risk report is part of a bigger trend. The Central Bank of the Netherlands and the Environmental Assessment Agency have pointly published a report on the physical, transitional, and reputational risks for the whole Dutch financial sector (Indebted to nature, June 2020). Additionally, a group of eight Dutch financial institutions published a paper the 5th of June about the risks and opportunities of biodiversity for the financial sector (Biodiversity Opportunities and Risks for the Financial Sector, June 2020)

Specific guidance should be provided to business and financial institutions as to how to adequately monitor, measure and mitigate those risks and what public disclosure of those risks should be provided. In this respect, as part of the revision of the NFRD, specific disclosure requirements should be provided to address also biodiversity while envisaging due diligence requirements when it comes to the identification, monitoring and mitigation of these risks.

[8] See for instance “The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business,” WWF, 2019

We support coherence, transparency, and reporting on biodiversity impact and risks in the financial sector. The initiative of Taskforce Nature related Financial Disclosure (TNFD), modelled after TCFD, can provide the standardization on biodiversity reporting that is needed and should be supported by the EU Sustainable Finance Strategy.

For biodiversity to be well integrated into sustainable finance policy, existing methodologies and metrics currently in development have to be taken into account. A prime example is the work of the Platform Biodiversity Accounting Financials (PBAF), set up after the PCAF.

Independent, public, and trustworthy data on biodiversity and the link to economic sectors and local economic activities has to be made available for companies to be able to report on biodiversity. Existing open source and publicly available data collected by member states and their environmental agencies should be used to its fullest.

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? [Box max. 2000 characters]

Stronger enforcement and supervision at the EU level could help monitor the implementation of policy actions over the long term. The ESAs and the National Competent Authorities should be entrusted with clear roles under the EU's Green Deal and Green Deal Investment Plan. Direct authorisation/supervision at EU level for certain specific actors such as ESG data and rating agencies, would contribute to build comprehensive supervision across the EU.

In addition, there are certain areas where it is important to create consistency with the other technical work that is being undertaken in the area of sustainable finance. For instance, in the context of the revision of the Non-Financial Reporting Directive, we see a role for ESAs to be responsible for the standardisation work for companies' disclosures.

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. [Box max. 2000 characters]

- International standardisation in the field of disclosures of corporates as well as other financial market participants is an objective that could facilitate cross-border investment in the area of sustainable finance, for instance through IOSCO's Sustainability Task-Force. Such international standardisation should address both environmental and social aspects.

• Access to data and sustainability ratings is a costly issue. There are a limited number of data providers which have a strong position in the market. Some of them require that market parties buy other services as well and won't provide data otherwise. Making data available at lower costs would lead to better chances for all parties and is therewith a method to contribute to the financing of the sustainability transition.

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, 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?

X	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. [Box max. 2000 characters]

> A European single access point (ESAP) for all companies’ information would bring significant benefits, as it would enable investors to invest their funds without hindrance across borders, compare and take into account without undue effort both financial and non-financial considerations, and businesses to raise funds from a diverse range of sources, irrespective of their location.
>
> The AFM believes that availability, usability, and reliability are essential to the functioning of the ESAP. ESAP should be a single platform at the European level, serving the needs of traditional and electronic data users, and a one-stop-shop for both financial and non-financial information.
>
> The ESAP should primarily focus on periodic and ongoing company-level information prepared by companies pursuant to securities markets legislation. As a first step, therefore, it should include all non-financial statements disclosed by companies listed on EU regulated markets pursuant to the the NFRD next to all issuers’ financial information (e.g. pursuant to the Transparency Directive, the Prospectus Regulation, Shareholders Rights Directive, etc). This would allow investors to access all financial and non-financial information of listed companies from one single database.
>
> At a later stage, the scope of the ESAP could be expanded on a voluntary basis to non-listed companies (especially for data reported under the NFRD), and potentially to a broader range of sustainability-related information disclosed pursuant to sustainable finance legislation.

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
X	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
	3 – Neutral
	4 – Rather concerned
X	5 – Very concerned
	Don’t know / no opinion / not relevant

Question 17.1: If necessary, please explain the reasons for your answer to question 17. [Box max. 2000 characters]

In the market for ESG data, there are indications that there is an increased risk of dependence and characteristics of dominant behavior. Examples are data points that are offered at unreasonable prices, data points that are only offered together with other (irrelevant) services, services that provide a minimum turnover for data providers that do not match the capacity of a market party, data that can only be accessible in a way that does not suit the business operations of a market party.

A recent wave of acquisitions is leading to concentration of the market within large sustainability rating agencies (SRAs). The risk is to recreate an oligopoly situation comparable to that of the credit rating industry. There is also a risk of overreliance on ratings.

Large data providers are active in purchasing smaller and specialized data providers that have a known trackrecord in datapoints of regulatory relevance. For instance, data providers specialized in qualifying stranded asset risk. These purchase activities show a strive for a certain strategic dominance. This may result in increased dependency risks.

A few SRAs clearly stand out as the main actors in the market. Reflecting the absence of a common definition of ESG ratings, there is no clear way to identify firms that “qualify” as SRAs. Therefore, it is a challenge to estimate the number of SRAs in the market for ESG ratings. There were more than 100 SRAs in 2016, but this number is likely to be outdated due to significant market consolidation since then.

SRAs can be broadly categorised as follows:
- Established CRAs
- Benchmark administrators
- Financial data vendors
- Consultancies
- Specialised firms

However, there is some overlap between these categories, with the recent market consolidation trend reflecting a broader strategy by large conglomerates to offer multiple types of ESG data-related initiatives.

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
X	2 – Poor
	3 – Neutral
	4 – Good
	5 – Very good
	Don’t know / no opinion / not relevant

Question 18.1: If necessary, please explain the reasons for your answer to question 18. [Box max. 2000 characters]

The comparability and reliability of ESG ratings data is low. Given the lack of a legally binding definition of what an ESG rating is, measuring it is not possible to compare the ratings between sustainability rating agencies (SRAs). There are no legal requirements to ensure robustness and transparency of the methodologies underlying ESG ratings. As a result the ability of investors to conduct due diligence and to understand what is being assessed is severely limited by several problems: • Consistency: There is evidence of large divergence between ratings from five prominent SRAs, which finds that ESG ratings are 60% correlated compared with 99% for credit ratings from the top 3 CRAs. These issues are explained by differences in measurement (measuring the same object in different ways) and aggregation rules. • Transparency: It is often not clear what methodology is used. Methodologies are proprietary and therefore lack of consistency is aggravated by lack of transparency. Owing to uneven ESG disclosures, ESG ratings can often be forced to rely on inconsistent or non-comparable data. ,. There is lack of information regarding the assumptions made where data are incomplete, insufficiently granular, or unavailable. • Clarity: SRAs often assess business models rather than the nature of products or services offered. While some SRAs assign absolute scores, others produce a grade distributed amongst issuers within the same sector. This helps investors to identify which companies have stronger credentials and allow comparison of companies with similar business models. However, it leads to companies in controversial sectors obtaining high ESG ratings.

Question 19: How would you rate the quality and relevance of ESG **research** material 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 21: In your opinion, should the EU take action in this area?

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? [Box max. 2000 characters]

Regulatory action at the EU level would be welcome. Given the increase in importance of green investing, these companies will become essential to the financial infrastructure. The inconsistency and inaccuracy of ratings leads to issues down the ESG investment value chain. Capital misallocation is, either unintentionally through the composition of ESG-rating based indices, or from greenwashing and product mis-selling. A regulatory framework establishing minimum standards for ESG ratings and ensuring supervision of ESG rating providers would be an appropriate way to ensure consistent and reliable standards of assessment in the ESG rating industry. The scope of these regulatory requirements and the level of supervision entailed should be proportionate to the role that ESG ratings are given within the broader regulatory framework. A disclosure regime of the methodology could be introduced to prevent greenwashing.

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:

- developing possible technical criteria for the EU Ecolabel scheme for retail funds, savings and deposits, and
- 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?

X	Yes, at European level
	Yes, at national level
	No
	Don't know / no opinion / not relevant

Question 22.1: If necessary, please explain the reasons for your answer to question 22. [Box max. 2000 characters]

Third-party verifiers of Green Bond Standards will be required to conduct rigorous and reliable assessments of issuer's green bond frameworks. Building supervisory capacities at a central European level would ensure economies of scale and the development of the required specific supervisory expertise. In terms of European supervision, we are of the view that ESMA could leverage on its experience in supervising CRAs given the similarities of activities and actors. In some cases it can even be expected that third party verifiers will be part of wider CRA groups.

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?

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

Question 23.1: If necessary, please specify the reasons for your answer to question 23. [Box max. 2000 characters]

A unified approach to the regulation of all rating providers (and related sustainability assessments such as third party verification) would help avoid creating a patchwork of regulatory or supervisory mandates for what are in essence consolidated rating providers.

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?

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

Question 24.1: If necessary, please specify the reasons for your answer to question 24. [Box max. 2000 characters]

Difficulties may arise for green bond issuances whose proceeds are invested outside the EU in non-EU projects. Given that the Green Bond Standard requires alignment with the EU Taxonomy it will be difficult to demonstrate that the Green Bond Standard was being adhered to if the proceeds are invested in countries that have not replicated EU standards. A level playing field has to be ensured.

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
	3 – Neutral
	4 – Agree

X	5 – Strongly agree
	Don’t know / no opinion / not relevant

Question 25.1: If necessary, please specify the reasons for your answer to question 25. [Box max. 2000 characters]

Under PR Article 6(1) the prospectus should include all the necessary information for an investor to assess the ‘green’ characteristics of a bond. However, this minimum information is not specified in Level 1 or Level 2 text.

In this respect, we also refer to our position paper, which advocates that if an issuer chooses to qualify its bond issuance as ‘green’, the prospectus should include additional information regarding the use of proceeds, the selection of funded projects and the management of proceeds. The issuer should also specify whether it intends:

(i) to comply with green bond voluntary standards (such as the ICMA’s Green Bond Principles or the Climate Bond Initiative’s Climate Bond Standards);
(ii) to publish a reporting on the use of the green bond proceeds; and
(iii) to mandate a third party verification.

Such additional information, which also includes indication on the publication of the issuer framework (if any), the selection of projects and the management of proceeds, could feature in a new prospectus building block for green bonds in the level 2 of the Prospectus Regulation. We believe this approach would be manageable for issuers, while reinforcing transparency and investor confidence in the green bond markets. Mandating the disclosure of this type of information would ensure that investors have access to material information that is pertinent to determine if a bond is green.

Standardisation would additionally make it easier for investors to compare different bond issuances in order to assess the green elements of the offers. Consistency of information disclosed in different parts of the prospectus would also be enhanced as green bond issuers would have to provide coherent disclosure about the greenness of the projects financed by the offer in one single document. Moreover, investors would be able to monitor compliance of green bond issuers with the information disclosed in the prospectus, resulting in limiting ‘greenwashing’.

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”

X	1 – Strongly disagree
	2 – Disagree

	3 – Neutral
	4 – Agree
	5 – Strongly agree
	Don’t know / no opinion / not relevant

Question 26.1: If necessary, please specify the reasons for your answer to question 26. [Box max. 2000 characters]

The AFM does not consider including a link to the standard in the prospectus to be sufficient. We disagree with the wording "instead of". The information that is material for investors to enable them to make an informed investment decision, should be included in the prospectus itself. In addition to that, a link to the EU GBS can be included in the prospectus.

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 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?

	No regulatory intervention is needed
X	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
X	No
	Don’t know / no opinion / not relevant

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
X	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. [Box max. 2000 characters]

The market for sustainability-linked bonds, which includes financial instruments where the coupon rate or payment depends on the achievement of sustainability objectives, is still nascent. Sustainability-linked bonds are useful to incentivise sustainable investments, also reflecting a low burden from reporting on and disclosure of the proceeds allocation. This also implies that the potential risk of “impact washing” is high, which warrants close monitoring of market developments and risks.

Before EU-wide standards are developed, we recommend that an assessment of the benefits and the costs associated with the development of a regulatory framework be carried out. Market growth has led to the recent launch of industry principles in Europe, and it is worth monitoring how far these will help in reducing “impact washing” risk and improving reporting standards.

Question 31: Should such a potential standard for target-setting sustainability-linked bonds or loans 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. [Box max. 2000 characters]

Standards for sustainability-linked securities would obviously require reference to a taxonomy. However, the EU Taxonomy only covers environmental aspects, implying that it would only be adapted to securities that are linked to environmental objectives. Other sustainability-linked assets (e.g. bonds linked to social objectives) would require the development of a different taxonomy (e.g. a social taxonomy). However, we recognise the significant challenges associated with the development of such frameworks.

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:

	a broad standard or label for sustainable mortgages and loans (including social and environmental considerations)
X	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
X	Other

If other, please specify what type of standard or label on sustainability in the loan market you would like to see. [Box max. 2000 characters]

The AFM believes that an EU standard for green mortgages or loans may have added value IF it not only comprises environmental standards, but also standards that help limit financial risks for consumers. Potential risks for households may include increased debt levels, high LTI-ratio's, negative return on investment, higher LTV-ratio's. Green mortgages, therefore should at a minimum be fully compliant with the MCD.

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?

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

Question 33.1:

If yes, please explain what the key elements of such a benchmark should be. [Box max. 2000 characters]

We are in favour of such quality label which would be attractive for users of benchmarks (i.e. investors) as they can trust that the ESG benchmark is supervised as to its ESG compliance. This could help prevent greenwashing in the (passive) investment market. The two newly created types of benchmarks focusing on climate investment strategies "Paris-aligned benchmark" and "Climate Transition Benchmark" address the Environment factor, but they do not include investment strategies related to the Social or Governance factors. The AFM considers that setting out requirements for a broader ESG benchmark would help take into account the Social and Governance considerations in the market and to achieve sustainability goals to reorient efficiently capital flows towards sustainable investment not only on the climate front but also on both social (such as investment in controversies) and governance considerations (such as management structures or remunerations). Further, the ESG benchmarks would also help the market in managing financial risks stemming not only from environmental degradation but also social and governance issues. For the AFM it is vital that the rules for the use of this broader ESG Benchmark label should be sufficiently detailed and quantifiable in order to ensure correct implementation and consistent supervision of the correct use of this broader ESG Benchmark label. This would also limit the possibility of greenwashing.

AFM is further of the view that the Benchmarks Regulation and its delegated acts already includes extensive disclosure for all benchmark administrators that pursue ESG objectives and therefore that this new legislative proposal should avoid adding additional disclosure requirements for administrators where possible, except for the disclosures linked to the methodology of the ESG benchmarks.

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

Question 36.1: If necessary, please explain the reasons for your answer to question 36. [Box max. 2000 characters]

In our opinion, the development of the secondary market in sustainable finance securities should be primarily market driven. Public regulation may incentivize the trading of sustainable finance securities, but we do not think special trading segments of special exchanges should be set up by EU regulation.

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? [Box max. 2000 characters]

Such an exchange should comply with the MiFID II requirements for trading venues. Exchanges could create special segments for the trading of sustainable finance securities for commercial reasons. We do not think the requirements (including the safeguards for investors) should be lowered to foster the trading of sustainable finance securities.

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 (ESMA report, EBA report, 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)
X	Other

Question 38.1: If other, please specify what other recommendation(s) have the highest potential to effectively tackle short-termism. [Box max. 2000 characters]

Reference is made to ESMA's advice on undue short-term pressures (Ref.: ESMA30-22-762, 18 December 2019). In our view, each of the proposals in the report should be implemented to maximise effectiveness, and these proposals should as such be seen as a single package.

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?

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

Question 40.1: If yes, please indicate what share of the variable remuneration should be linked to non-financial performance. [Box max. 2000 characters]

The law in the Netherlands stipulates that at least 50% of the variable remuneration of financial institutions has to be based on non-financial performance criteria. The law does not stipulate conclusively what these non-financial performance criteria should entail, but the AFM has published some examples on its website (strategic goals, customer satisfaction, compliance with risk management policies, compliance with internal and external rules, leadership, management skills, cooperation with persons within business units, creativity, motivation and social awareness and responsibility). The desired share (within the 50% variable

remuneration based on non-financial performance criteria) of the different non-financial performance criteria in relation to each other, and in particular climate- and environmental criteria, deserves further consideration and analysis.

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?

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

Question 45.1:

If yes, in your view, what do you think this impact is, do you think that the EU should address it and how? [Box max. 2000 characters]

As regards the potential impact of passive index investing on the interests of long-term shareholders, the relationship is complex and would depend significantly on the extent to which indices that the products track take into account ESG factors. While some research has been conducted in this area, findings on the existence of a correlation / causal effect are quite diverse and no clear consensus exists among academics. Before drawing any conclusion further research is needed in order to make a robust assessment of which impact it might have on the interests of long-term shareholders if passive index investing does not take into account ESG factors. As regards whether and how to address the relationship between passive index investing and long-term shareholders' interest, the EU has already addressed this to a significant degree. The Disclosure Regulation will impose significant transparency requirements on index funds and index fund providers. As UCITS management companies, European index fund providers will have to show the manner in which sustainability risks are integrated into investment decisions and the impacts of those assessments. Also, from 2023, where the management company takes into account principal adverse impacts of investment decisions at entity level, its index funds will have to explain whether the product takes into account principal adverse impacts on sustainability factors and show these impacts in periodic reporting. These disclosures should have the effect of giving some visibility to investors about the impact of passive index funds that do not take into account ESG factors. The EU should wait to assess the impact of these rules before contemplating further measures.

To foster more sustainable corporate governance, as part of action 10 of the 2018 Action 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?

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

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
X	Don’t know / no opinion / not relevant

Question 49.1: If necessary, please provide an explanation of your answer to question 49. [Box max. 2000 characters]

In its guidelines on the MiFID II suitability assessment (Ref: ESMA35-43-748) ESMA has already provided guidance on a number of aspects to be considered by firms to enhance clarity and comprehensibility of these tools and questionnaires and ensure an appropriate degree of reliability to the information collected.

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
	No
X	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

If you agree (scores 4-5), 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				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						
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				X		
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: For scores of 4 to 5, what actions should the EU take in your view? [Box max. 2000 characters]

Investors are increasingly integrating ESG assets into their portfolios and are considering ESG factors alongside traditional financial factors in their investment decision-making processes. The drivers of demand for ESG investment are varied. Some investors seek to maximise a social outcome while others focus on identifying ESG issues to reduce risks (for example excluding companies or sectors with low ESG ratings from portfolios) or to detect undervalued opportunities.

While financial performance remains the main driver for most investments, willingness to invest sustainably increasingly drives investors' considerations. If investment products are not to be assessed only based on their costs and performance anymore, it is essential to have reliable impact metrics to assess their sustainability credentials which could then feed also more reliable ESG ratings which are currently unsatisfactory.

The draft Regulatory Technical Standard that the ESAs are developing under the Disclosure Regulation provides metrics for principal <u>adverse</u> impacts of investments at entity level, which may be used from 2023 also for products under Article 7 of the Disclosure Regulation. These metrics help assess the negative impact of products on sustainability factors. It is important that such metrics are built as far as possible on data collected at investee company level, hence the importance of the consistent review of the NFRD requirements.

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
X	4 – Rather important
	5 – Very important
	Don't know / no opinion / not relevant

Question 54.1: If necessary, please explain your answer to question 54. [Box max. 2000 characters]

In a situation where reliable standards can be created for what constitutes, for example, a “green” auto loan, “green” mortgage or “green” home loan (see also the response to question 55), the securitisation of these loans could play a valuable role in (i) allowing lenders to free up additional lending capacity; and (ii) providing investors with a pool of investable “green” securities. In this regard, securitisation is ‘special’ insofar as it allows investors to obtain exposure to (and thus allocate capital to) sectors of the economy to which they would normally have difficulty accessing otherwise. In addition, compared to green bonds, green securitisation provides through the tranching mechanism a broader investment opportunities thereby expanding the universe of potential investors. Tthe maturity of securitisation instruments is also longer than the maturity of many other financial products openavailable to investors.This These factors makes themsecuritisation instruments attractive products from the perspective of financing a transition that must happen soon, and yet in a stable manner over the long-term.

In addition, this approach could build upon the existing STS label, whereby it could be foreseen that a securitisation composed of these green components could also conform to the STS requirements. This could conceivably open the way for a double label approach of Green STS securitisations, with the potential for proportionate incentives for investors.

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 three). [Box max. 2000 characters]

From the regulatory perspective, we note that, aside from a few basic fields where a securitisation meets the Simple, Transparent, and Standardised (STS) requirements, the securitisation disclosure requirements associated with the Securitisation Regulation do not contain substantial information on the ‘greenness’ of underlying exposures. To the extent that investors seek to adapt and obey investment guidelines that include investment in ‘green’ financial products, it will be difficult for securitisations to be considered as ‘eligible’ by these investors, until there is sufficient transparency to allow an informed opinion on the ‘greenness’ of the product to be formed. Additional transparency does not necessarily have to constitute extra burdens, but instead could take the form of efforts made to ‘connect’ information available elsewhere — using other disclosure requirements under consideration (e.g. the taxonomy, with due regard for minimising reporting burdens) — and make this easily retrievable for each securitisation underlying exposure (or potentially aggregated, depending on the type of securitisation). However, we also note that

some degree of standardisation may become necessary to set a 'green-securitisation label'. Such a label could facilitate the inclusion of securitisations in investment portfolios that pursue sustainability objectives (in line with the Taxonomy Regulation), thus helping to attract new investors to this asset class. Such a label could also potentially enable investors to more easily differentiate securitised products based on their relative greenness.

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? [Box max. 2000 characters]

Without a framework, a market already exists for green securitisations. We consider that an integration of STS and GREEN (e.g. STS+) would be a logical choice.

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 maximise the potential of digital tools for integrating sustainability into the financial sector?

X	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 three actions and a maximum of three existing initiatives. [Box max. 2000 characters]

Digitalisation provides important opportunities with regard to facilitating the availability of ESG data. In this regard, we refer to our answer to question 14 on the desirability to facilitate the creation of the ESAP. Efforts in digital sustainable finance should focus on expanding available ESG data, including the incorporation of (to be) standardized NFRD data. Such data needs to be widely available, reliable and comparable.

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 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?

X	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.

2.10 Promoting sustainable finance globally

The global financial challenge posed by climate change and environmental degradation requires an **internationally coordinated** response. 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
X	3 – Neutral
	4 – Rather sufficient
	5 – Fully sufficient
	Don’t know / no opinion / not relevant

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 three proposals. [Box max. 2000 characters]

Promote global standardisation for disclosures in relation to ESG by companies as well as market participants.

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.[9] 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").

3.1 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?

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

Question 82.1:

If your answer to question 82 is yes, what would be the purpose of such a brown taxonomy?

Please select all that apply.

[9] 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.

X	Help supervisors to identify and manage climate and environmental risks
	Create new prudential tools, such as for exposures to carbon-intensive industries
X	Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities
	Identify and stop environmentally harmful subsidies
X	Other

If other, please specify what would be the other purpose(s) of such a brown taxonomy. [Box max. 2000 characters]

The green taxonomy is still being created and it would be important that taxonomies are developed incrementally in order to ensure proper alignment and correct application. In the longer term, however, a brown taxonomy can play a role in helping supervisors to identify and monitor risks, as well as in increasing transparency, making it easier for investors to decrease their exposures.

In addition, a brown taxonomy could help increase the alignment between the indicators for principal adverse impact of investment decisions on sustainability factors, being developed by the ESAs under Article 4(6)-(7) of the Disclosure Regulation, and the taxonomy framework. Once financial market participants start to publicly report on the principal adverse impacts of their investment decisions, and from 2023 on the impacts of the investments of products under Article 7 of the Disclosure Regulation, they will be more transparent about the negative effects of their investment decisions. A brown taxonomy could complement this, and eventually the environmental indicators in the RTS provided for by Article 4(6) of the Disclosure Regulation could be updated by the ESAs to reflect the brown taxonomy, which would ensure a common understanding of negative environmental impacts of investments and so enhance the channeling of financing to environmentally sustainable activities.

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
X	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,[10] 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.

X	Physical risks, please specify if necessary
X	Transition risks
X	Second-order effects
	Other

If physical risks, please specify, if necessary, what are these physical risks. Please provide links to quantitative analysis when available. [Box max. 2000 characters]

Physical risk may impact EU securities markets through multiple channels. First and foremost, the recent market turmoil during the COVID-19 crisis illustrated the impact that physical disasters can have on securities markets. The pandemic triggered a massive sell-off in equity and bond markets, large redemptions from fixed-income collective investment vehicles, and a sharp decline in market liquidity materially affecting trading conditions. The resilience of EU market infrastructures is paramount to the orderly functioning of EU financial markets. In particular, the ability of EU trading venues, central counterparties and central securities depositories to provide financial services on a continuous basis must be ensured so as to reduce the risk of severe market disruption and ensure the stability of EU financial system. When it comes to climate-related risk, the focus has been so far mainly on the banking and insurance sectors. However, climate hazards such as extreme weather events may impact critical infrastructure regardless of the sector. This implies that the operations of financial service providers might be severely impared, which could lead to financial stability issues.

[10] See for instance the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).

If transition risks, please specify, if necessary, what are these transition risks. Please provide links to quantitative analysis when available. [Box max. 2000 characters]

Due to an uneven understanding, measurement and management of climate-related risk, transition risk could create significant turmoil in EU securities markets. Many large EU-based issuers of securities remain unprepared for potential climate-related issues, while climate risk does not appear to be priced into equity markets yet (see IMF Global Financial Stability Report, April 2020). This leaves EU equity and bond markets vulnerable to future climate-related shocks.

Directly related to this, while physical risk could impact investment funds over-exposed to climate-sensitive sectors, financial stability issues may materialise in the asset management sector from transition risk. In the Euro Area, the investment fund sector had the largest financial exposure to assets from climate sensitive sectors, with EUR 400bn in holdings, including fossil-fuels, in the form of securities (shares and debt securities). These assets are the most likely to become stranded in the event of an abrupt transition, with large imbalances in the demand and supply for securities leading to large price movements.

This could trigger a run by investors on some investment funds, which would force fund managers to liquidate their holdings of illiquid securities at fire-sale prices to build a cash buffer and meet redemptions, reinforcing the sell-off of these securities and broader market volatility.

If second-order effects, please specify, if necessary, what are these second-order effects. Please provide links to quantitative analysis when available. [Box max. 2000 characters]

Market risk may arise from valuation issues and asset mispricing. Strong investor appetite for sustainable securities could lead to excessively high valuations, making them vulnerable to a change in sentiment. Poor or inadequate ESG-related information and data contribute to pricing inefficiencies which may lead to undervaluation. Abrupt changes in valuation would likely be accompanied by changes in correlations leading to undersirable outcomes for trading and hedging strategies.

Credit risk could result from a large number of negative rating actions in the corporate sector or the downgrades (i.e. several notches) of systemically relevant entities such as sovereigns or banks. A deterioration in the perceived creditworthiness of certain issuers could hamper their ability to borrow or trade in certain markets, or significantly increase costs and hit their profit margins.

Downgrades have a particularly strong impact on securities used as collateral in derivatives and securities financing transactions, but also operations involving central banks and CCPs, leading to increases in margins and haircuts. Higher margins and haircuts mean that lenders need to post additional securities or cash to be able to roll over their positions, thereby forcing market participants to reduce their leverage, leading in addition to liquidity risk.

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 three actions taken in your industry [Box max. 2000 characters]

Data-related issues are plaguing the identification, measurement, and therefore management of environment-related risks. This includes the availability, quality, transparency and usability of data. The development of harmonised metrics as proposed by the ESAs on the proposed ESG disclosures of financial market participants would go a long way in improving the consistency and availability of data. However, data-related issues are not limited to the sole financial sector, while the ability of financial market participants to measure and manage the climate-related risk of their loan or securities portfolio also depends on the availability and reliability of this information in other sectors. Similarly ambitious goals in terms of disclosure and metrics should thus be introduced for the non-financial sector, including for issuers that are subject to the NFRD.

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)?

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

Question 91.1: If yes, what solution would you propose? [Box max. 2000 characters]

We are of the view that this is already done by means of the technical advice on the integration of sustainability risks and factors in the AIFMD/UCITS/MiFID II as proposed by ESMA.

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.[11] 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.

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

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

Question 92.1: If yes, please specify what actions would be relevant, in your view. [Box max. 2000 characters]

[11] 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).

Considering the size and importance of IORPs as financial market participants and providers of social security, we consider it important to consider how they can contribute to sustainable finance goals and can minimise long-term ESG risks. Managing ESG risks is closely linked to how IORPs are governed, their investment policies and how they inform beneficiaries and other external stakeholders. IORPs operate with long-term horizons, which means that prudent risk management requires taking into account and reducing ESG risks. In addition IORPs should pay due regard to the preferences of their members and participants and attempt to incorporate their ESG preferences.

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? [Box max. 2000 characters]

We note that in the Netherlands pension funds have committed themselves to the Dutch Climate Agreement. In this Agreement, the financial sector (banks, pension funds, insurers and asset managers) commits to contributing to the implementation of the Paris Agreement. The objective is to reduce greenhouse gas emissions by 49% compared to 1990 in a cost-effective way by 2030. In addition, Dutch pension funds, the Federation of the Dutch Pension Funds, non-governmental organisations (NGOs), trade unions and the Dutch government have signed a Responsible Business Conduct Agreement on responsible investment by pension funds as well as the UN Guiding Principles on Business and Human Rights. The aims of these voluntary agreements is to enhance ESG due diligence by pension funds, with a clear picture of the international investment chain, in order to prevent or tackle issues such as human rights violations and environmental damage. The EU could further facilitate voluntary initiatives by improving data availability and standardisation, e.g. by further developing the EU Taxonomy, and by making more explicit what is expected from investors such as IORPs concerning investments and social goals.

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?

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

Question 94.1: If yes, how could this be achieved, taking into account that IORPs are collective schemes whose members may have different views on ESG integration? [Box max. 2000 characters]

IORPs need to justify how membership preferences have been considered with respect to ESG factors, but IORPs should retain flexibility on how to do this. Good practices should be developed on how to gauge the ESG preferences of their members and beneficiaries. Additionally, IORPs need to demonstrate how their sustainable investment policies enhance the interests of their members and beneficiaries.

3.5 Improving resilience to adverse climate and environmental impacts

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

If loss 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? [Box max. 2000 characters]

Climate-related loss and physical risk data are for the most part not readily available to supervisory authorities, and, where available, lack comparability across sectors and entities. The revised Commission

strategy is a good opportunity to improve the availability and quality of these data and add climate-related information to existing data reporting under the relevant regulations, which would contribute to increasing transparency and availability of metrics on climate-related risks and losses.

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 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?

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

Question 102.1: If yes, what action should the EU take?

Please list a maximum of three actions. [Box max. 2000 characters]

We refer to the technical advice ESMA published in April 2019 on the integration of sustainability risks and factors, relating to environmental, social and good governance considerations with regards to investment firms and investment funds, into MiFID II, AIFMD and the UCITS Directive. In particular, ESMA highlighted that taking sustainability risks into account will make UCITS management companies and AIFMs more resilient to adverse scenarios that might impact sectors vulnerable to e.g. climate change or leave these companies with stranded assets. The European Commission is preparing to adopt the Level 2 measures, having published drafts for comment on 8 June 2020. Once the Commission's legislative proposals have been applied, their effect should be observed and enforced before further changes are made.