



EUROPEAN COMMISSION

Directorate-General for Financial Stability, Financial Services and Capital Markets Union

HORIZONTAL POLICIES  
Sustainable finance

## CONSULTATION DOCUMENT

### CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY

#### Disclaimer

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

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

You are invited to reply **by 15 July 2020** at the latest to the **online questionnaire** available on the following webpage:

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

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

Responses authorised for publication will be published on the following webpage:

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

Table des matières	
INTRODUCTION .....	3
SECTION I: QUESTIONS ADDRESSED TO ALL STAKEHOLDERS ON HOW THE FINANCIAL SECTOR AND THE ECONOMY CAN BECOME MORE SUSTAINABLE .....	6
SECTION II: QUESTIONS TARGETED AT EXPERTS.....	7
1. STRENGTHENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE.....	11
1.1 Company reporting and transparency .....	12
1.2 Accounting standards and rules .....	13
1.3 Sustainability research and ratings .....	14
1.4 Definitions, standards and labels for sustainable financial assets and financial products .....	16
EU Green Bond Standard.....	16
Prospectus and green bonds .....	18
Other standards and labels .....	18
1.5 Capital markets infrastructure .....	21
1.6 Corporate governance, long-termism and investor engagement.....	21
2. INCREASING OPPORTUNITIES FOR CITIZENS, FINANCIAL INSTITUTIONS AND CORPORATES TO ENHANCE SUSTAINABILITY .....	25
2.1 Mobilising retail investors and citizens .....	26
2.2 Better understanding the impact of sustainable finance on sustainability factors .....	27
2.3 Green securitisation .....	28
2.4 Digital sustainable finance.....	29
2.5 Project Pipeline.....	30
2.6 Incentives to scale up sustainable investments .....	32
2.7 The use of sustainable finance tools and frameworks by public authorities .....	35
2.8 Promoting intra-EU cross-border sustainable investments .....	37
2.9 EU Investment Protection Framework.....	38
2.10 Promoting sustainable finance globally .....	38
3. REDUCING AND MANAGING CLIMATE AND ENVIRONMENTAL RISKS.....	41
3.1 Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments .....	41
3.2 Financial stability risk .....	42
Insurance prudential framework.....	44
Banking prudential framework.....	45
Asset managers .....	46
Pension providers.....	47

3.3 Credit rating agencies.....	48
3.5 Improving resilience to adverse climate and environmental impacts .....	49
Climate-related loss and physical risk data .....	49
Financial management of physical risk .....	51
4. ADDITIONAL INFORMATION.....	54

## INTRODUCTION

**On 11 December 2019, the European Commission adopted its Communication on a European Green Deal**, which significantly increases the EU’s climate action and environmental policy ambitions.

**A number of levers will need to be pulled in order to build this growth strategy, starting with enshrining the climate-neutrality target in law.** On 4 March 2020, the European Commission proposed a European Climate Law to turn the political commitment of climate-neutrality by 2050 into a legal obligation. This follows the European Parliament’s declaration of a climate emergency on 28 November 2019 and the European Council conclusions of 12 December 2019, endorsing the objective of achieving a climate-neutral EU by 2050.

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

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

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

**Above all, the transition to a sustainable economy will entail significant investment efforts across all sectors, meaning that financing frameworks, both public and private, must support this overall policy direction:** reaching the current 2030 climate and energy targets alone would already require additional investments of approximately €260 billion a year by 2030. And as the EU raises its ambition to cut emissions, the need for investment will be even larger than the current estimate. In addition, significant investments in the upskilling and reskilling of the labour force will be necessary to enable a just transition for all. Hence, the scale of the investment needs goes well beyond the capacity of the public sector. Furthermore, if the climate and biodiversity crises are to be successfully addressed and reversed before

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

potentially dangerous tipping points are reached, much of the investment needs to happen in the next 5-10 years. In this context, a more sustainable financial system should also contribute to mitigate existing and future risks to wildlife habitats and biodiversity in general, as well as support the prevention of pandemics -such as the COVID-19 outbreak.

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

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

**For all of these reasons, the European Green Deal announced a Renewed Sustainable Finance Strategy.** The renewed strategy will build on the 10 actions put forward in the **European Commission’s initial 2018 Action Plan on Financing Sustainable Growth**, which laid down the foundations for channelling private capital towards sustainable investments.

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

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

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

**The aim of this consultation, available for 14 weeks (until 15 July) is to collect the views and opinions of interested parties in order to inform the development of the renewed strategy.** All citizens, public authorities, including Member States, and private organisations are invited to contribute. Given the diversity of topics under consultation, stakeholders may choose to provide replies to some questions only. Section I (covering questions 1-5) is addressed to all stakeholders, including citizens, while Section II (covering questions 6-102) requires a certain degree of financial and sustainability-related knowledge and is primarily addressed at experts.

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

- The [final report of the High-Level Expert Group on Sustainable Finance](#) (2018);
- The [EU Action Plan on Financing Sustainable Growth](#) (2018);
- The [communication of the Commission on 'The European Green Deal'](#) (2019);
- The [communication of the Commission on 'The European Green Deal Investment Plan'](#) (2020);
- The [reports published by the Technical Expert Group on sustainable finance \(TEG\)](#) with regard to an EU taxonomy of sustainable activities, an EU Green Bond Standard, methodologies for EU climate benchmarks and disclosures for benchmarks and guidance to improve corporate disclosure of climate-related information.

**This consultation also makes references to past, ongoing and future consultations,** such as the [public consultation and inception impact assessment on the possible revision of the Non-Financial Reporting Directive \(NFRD\)](#), the inception impact assessment on the review of the Solvency II Directive or the future consultation on investment protection.

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

More information:

- on this consultation
- on the protection of personal data regime for this 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.
- Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.
- No further policy action is needed for the time being.
- Don't know / no opinion / not relevant

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

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

**Question 2.1** If yes, do you consider that you have had sufficient access to information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets?

Please explain and specify whether you searched for the information yourself or whether the information was made available to you:

*[2000 character(s) maximum]*

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

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

**Question 4.** Would you consider it useful if corporates and financial institutions were required to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement?

- Yes, corporates
- Yes, financial institutions
- Yes, both
- No
- Don't know / no opinion / not relevant

**Question 4.1** If no, what other steps should be taken instead to accelerate the adoption by corporates and financial sector firms of business targets, strategies and practices that aim to align their emissions and activities with the goals of the Paris Agreement?

*[2000 character(s) maximum]*

**Question 5.** One of the objectives of the European Commission’s 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects. Do you believe the EU should also take further action to:

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

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

[2000 character(s) maximum]

SECTION II: QUESTIONS TARGETED AT EXPERTS

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

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

[2000 character(s) maximum]

Challenges :

- Lack of awareness on climate change issues, climate-related risks and low-carbon transition : at every level in the financial sector, there is a need to increase perceived credibility of climate-related risk, economic and societal signals, and the understanding of the various shapes of low-carbon transition.

As consequences, results are a lack of capacity in the financial sector and a lack of understanding of the complexity and interlinkages of low-carbon transition and sustainability issues.

- Lack of data and mature methodological approaches: better data is needed, but mostly knowing what is relevant. For this, we need to streamline data research and needs. Regarding scenarios, developments should be at global, regional and national scales to serve as a baseline. Regarding assessment methodologies, available tools are only in their infancy and often do not well assess the actual impact of financial decision making on economic behavior in the real economy.
- Short-termism, and financial profit first culture: mainstream financial culture and some of the regulatory underpinning tend to these two prevailing characteristics. Given that transition projects require more medium/long term financing and other impacts indicators than financial ones, these 2 issues restrain the integration of climate-related risks and the reallocation of financial flows.

Opportunities:

- Reconnect finance and real economy: Many argue that financial sector's goal should not be to ensure higher returns for investments, but to finance the real economy and support its transformations. Climate change is an opportunity for the financial system to be a key actor in this fight, instead of being one of its key drivers.
- Integrate citizens through sustainable savings: most citizens feel very distant from financial sphere and lack understanding of what is done with their savings. In turn, they may feel disconnected from the fight against climate change. There is an opportunity to involve and educate citizens on these topics through sustainable savings.
- Supporting the development of mitigation and adaptation financial businesses: the mainstreaming of sustainable finance should increase strategic opportunities for financial business around funding to mitigation and adaptation and around climate data and services.

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

*[2000 character(s) maximum]*

Our current research at I4CE highlight that the main obstacle in regulation to the financing of low-carbon transition is the penalization of long term investments, which are essential to succeed to decarbonize our economies. Even though this penalization comes from a relevant approach, a long term investments carry more risks than shorter ones, it hinder the capacity for banks and institutional investors such as insurance companies to find long term financial resources.

This applies to banking and insurance prudential framework, in solvency rules but also in liquidity rules.

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

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

[2000 character(s) maximum]

The transition will imply changes to the economy and society that will have short- to medium-term on certain groups and populations – particularly those that are already at risk to fuel and other forms of poverty. Nevertheless, the impacts of climate change themselves are expected to affect these same groups more adversely as well. Therefore, it is important that the European Union design a ‘just’ transition that will proactively identify and mitigate negative impacts.

However, it may not be feasible to seek to ensure that there are ‘no or limited negative socio-economic impacts’ instrument by instrument and policy by policy. Rather, policies should be designed in a coherent fashion to ensure that any potential negative impacts from one policy change (such as for example an increase in fuel price due to carbon pricing) be augmented and reduced to mitigate impacts on the most vulnerable (such as a payment to low-income households or programs specifically designed to support energy efficiency).

This same logic should be applied to the development of climate-consistent financial products and services to ensure that vulnerable populations are not cut off from financial markets and services due, in turn, to their potentially higher exposure to climate-related risks (whether transition or physical).

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

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

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

[2000 character(s) maximum]

**Question 10.** Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?

- Yes, institutional investors
- Yes, credit institutions
- Yes, both**
- No
- Don't know / no opinion / not relevant

A common EU-wide methodology could be useful to ensure consistency. However, I4CE would stress that this single metric or analytical approach is not sufficient to help these institutions ‘pilot’ the actions that

must be taken to ensure that portfolios are moving to improve their consistency with EU and international climate objectives, and thus supporting a reduction in 'temperature'. As such, complementary metrics and tools at both the asset and portfolio level are needed to assess the impact and contribution of investments to economy-wide transformations needed. As such, it is important that any such requirement is contextualised in a broader suite or dashboard of metrics. I4CE will be publishing a report later in 2020 further exploring this point.

**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<sup>2</sup>, as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?

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

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

*[2000 character(s) maximum]*

**Biodiversity and climate change are both part of the 2030 Agenda for Sustainable Development. In turn, the Paris Agreement set global objectives for climate action embedded in the broader 2030 Agenda for Sustainable Development.** As such, EU policy aiming to support activities aligned with the Paris Agreement should be embedded in broader alignment frameworks with the SDGs. In 2019, I4CE as part of a joint project with Climate Policy Initiative and supported by the IDFC and the European Climate Foundation produced a framework to align activities with the Paris Agreement.<sup>3</sup> The framework developed by I4CE looks at how the Paris Agreement's long-term goals for adaptation, mitigation and finance and the process laid out to achieve them shifts the framing of climate action. While focusing principally on climate-related aspects, the framework was developed to be compatible and potentially embedded in broader frameworks for aligning with sustainable development objectives, given that Article 2 of the Paris Agreement places climate action in the broader context of the Sustainable Development agenda.

From our perspective, climate action aligned with the Paris Agreement therefore need to be in-line with other sustainable development objectives to prioritize the deep transformation of systems and value chains in line with all SDGs whenever possible. While all of the SDGs need to be addressed altogether, it should however be noted that due to the scale of its possible impacts on economies and societies, the United Nations reminded in the 2019 Sustainable Development Goals Report that the most urgent area for action today is climate change (United Nations 2019).

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<sup>2</sup> See for instance "The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business," WWF, 2019

<sup>3</sup> Mandated by the International Development Finance Club (IDFC) and the European Climate Foundation (ECF), Climate Policy Initiative (CPI) and the Institute for Climate Economics (I4CE) have conducted a research project in two parts, resulting in: a Discussion Paper (Part 1) produced by I4CE that establishes a theoretical and conceptual basis for alignment; and an application to IDFC Members (Part 2) produced by CPI that identifies the changes the Paris Agreement implies for the role of development finance institutions. <https://www.i4ce.org/download/framework-alignment-with-paris-agreement-why-what-and-how-for-financial-institutions/>

**Question 12.** In your opinion, how can the Commission best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level in order to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan?

*[2000 character(s) maximum]*

To ensure this, the EU need a dashboard that looks at both EU and Member State level.

Official information on the ability and effectiveness of the EU's financial system to deliver sustainability objectives is currently incomplete and highly fragmented. This makes efforts to close investment gaps less precise and effective than they could be. It also hinders basic assessments of whether the financial system and the broader economy are aligned with the EU's agreed sustainability objectives and climate agenda.

Improved tracking of the EU's sustainable investment needs and capital formation to meet those needs is thus urgently required. Creating an EU Observatory on Sustainable Finance would help to track sustainable investment from public and private sources and inform evidence-based policy-making on sustainable finance. Given the urgency of addressing climate change, the initial focus of the Observatory should be on tracking investment and capital formation towards the EU's 2030 climate and energy targets and its commitments under the Paris Agreement. The focus could later be extended to include other sustainable development priorities and the tracking of sustainable and responsible investing trends in Europe, thus supporting other existing institutions working to assess how private flows actually contribute to sustainability.

The EU Observatory on Sustainable Finance could initially support and draw on a range of existing yet fragmented information sources and processes on a collaborative basis. The significant public value created by the EU Observatory will offset the costs of collecting and making the data publicly available in two important ways. First, the Observatory will 'connect the dots' between multiple aggregated and disaggregated public and private data sources, and publish it in one public repository. This, in turn, will generate system-wide cost savings for the public and private sector users of such data. It will also create a level-playing field in terms of access to data across all member states. Second, the governance of the Observatory will confer on the data an official status that enables member state governments and EU institutions to use it to inform public policy-making in relation to delivering climate change and, in due course, wider sustainability goals.

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

*[2000 character(s) maximum]*

Focus on impact assessments of sustainable finance, clearly missing to date

## **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?

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

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

*[2000 character(s) maximum]*

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

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

**Question 15.1** If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation),<sup>4</sup> how likely is it that you would use the taxonomy for your business decisions (such as adapting the scope and focus of your activities in order to be aligned with the EU Taxonomy)?

- 1 – Not likely at all
- 2 – Not likely
- 3 – Neutral
- 4 – Likely
- 5 – Very likely
- Don't know / no opinion / not relevant

**Question 15.2** If necessary, please explain your response to question 15.1:  
[2000 character(s) maximum]

## 1.2 Accounting standards and rules

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

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

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

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

**Question 16.1** If yes, what is in your view the most important area (please provide details, if necessary):

- Impairment and depreciation rules
- Provision rules
- Contingent liabilities
- Other, please specify

+ [2000 character(s) maximum]

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<sup>4</sup> Assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU Taxonomy

### 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**
- 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:  
[2000 character(s) maximum]**

Several companies have been bought by major financial companies recently (e.g. CO-Firm by PwC; Carbon Delta by MSCI; 427 by Moody's; Trucost by S&P; South Poly by ISS; Beyond Ratings by LSE).

While this can be the sign that climate issues raise higher concern in finance, and that there is a research dynamic, there is also several risks coming from this concentration :

- climate-related knowledge is being absorbed by a few companies in specific countries that are not necessarily EU-based, and not reflect EU vision of finance, disclosure and risk assessment.
- The tendency to put climate expertise into a blackbox is also a major concern about these absorbing companies and the broader range of ESG information providers. Indeed these work for profit and assume that their added-value relies on the secrecy about their analytical tools
- It's still unclear if these companies buyouts aim at increasing outreach on methodologies or rather controlling the development of the market.
- Concentration should serve to go further in terms of R&D, but the actual dynamic is rather to sell already developed products

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

- 1 – Very poor
- 2 – **Poor**
- 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.

[2000 character(s) maximum]

This appreciation may vary depending on the indicators, but outcomes from I4CE's researchs on physical climate risks information, alignment and risk assessment methodologies highlight several issues :

- Financial actors complain about the methodologies being blackboxes. This precludes comparability and assessment of the quality.
- Methodologies on risk assessments use different perimeters, and even when the perimeter is similar, the basic assumptions differ too much to allow comparability between results.
- Quality of data is often very poor but there are significant obstacles to overcome in terms of methodologies : defining the relevant scenarios, data availbilty for Scope 3, processing a great amount of data, etc.
- Reliability of data is also described as poor by financial actors

As a result, it is confusing for financial actors, and they do not rely on this information as a basis for mainstreaming climate issues in their portfolio management. This reduces the role of climate information to reporting compliance.

We are still at the beginning of the process, but with available technologies, it is possible to improve data availability, hence the comparability, the quality and the reliability. However, it is necessary for service providers to present their methodologies as incomplete and that need improvements, and for financial actors to keep financing methodologies developments.

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

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

**Question 19.1** If necessary, please explain the reasons for your answer.

[2000 character(s) maximum]

Data at the level of corporates is lacking to allow financial actors to realise proper climate risk assessment. But more generally, there is a lack from academic research to explore which data and indicators should the market be looking at, and in counterpoint, there is a general lack of data on what are the real impacts of finance. Hence what is currently available in terms of ESG research reflects these perspectives and is very poor.

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

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

**Question 20.1** If necessary, please explain the reasons for your answer to question 20:

*[2000 character(s) maximum]*

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

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

**Question 21.1** If yes, please explain why and what kind of action you consider would address the identified problems. In particular, do you think the EU should consider regulatory intervention?

*[2000 character(s) maximum]*

#### 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:

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

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

#### *EU Green Bond Standard*

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

The TEG recommends the creation of an official voluntary EU GBS building on the EU Taxonomy. Such an EU Green Bond Standard could finance both physical assets and financial assets (including through covered

bonds and asset-backed securities), capital expenditure and selected operating expenditure, as well as specific expenditure for sovereigns and sub-sovereigns. The standard should in the TEG's view exist alongside existing market standards.

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

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

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

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

**Question 22.1** If necessary, please explain the reasons for your answer to question 22

*[2000 character(s) maximum]*

I4CE has not looked at this issue in detail recently, however we would recommend exploring an European-wide accreditation system that sets a minimum standard. Above all, the methodological approaches applied by the different verifiers and second opinion providers should be made available in a transparent fashion with all hypotheses and thresholds / criteria clearly described and defined. This would allow at a minimum that it is possible to understand the differences between different evaluations.

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

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

**Question 23.1** If necessary, please specify the reasons for your answer to question 23:

*[2000 character(s) maximum]*

**Question 24.** The EU GBS as recommended by the TEG is intended for any type of issuer: listed or non-listed, public or private, European or international. Do you envisage any issues for non-European issuers to follow the proposed standard by the TEG?

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

**Question 24.1** If necessary, please specify the reasons for your answer to question 24  
[2000 character(s) maximum]

*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**
- 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:  
[2000 character(s) maximum]

This should be explored in a comprehensive and transparent fashion as it could be a pathway to both ensuring transparency and consistency – as well as evaluating if ex-ante commitments in terms of the 'greenness' of assets is met ex-post. However, there may be significant implications for market regulators that need to be taken into account at the national level to ensure any such control is implemented in a feasible fashion.

**Question 26:** In those cases where a prospectus has to be published, to what extent do you agree with the following statement:

*“Issuers that adopt the EU GBS should include a link to that standard in the prospectus instead of being subject to specific disclosure requirements on green bonds in the prospectus”*

- 1 – Strongly disagree
- 2 – Disagree
- 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:  
[2000 character(s) maximum]

*Other standards and labels*

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

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

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

**Question 27.1** If yes, once the EU Taxonomy is established,<sup>5</sup> how likely is it that you would use the EU Taxonomy in your investment decisions (i.e. invest more in underlying assets that are partially or fully aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). Please specify if necessary

*[2000 character(s) maximum]*

**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.
- 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
- No
- Don't know / no opinion / not relevant

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

*[2000 character(s) maximum]*

**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
- 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 29:

*[2000 character(s) maximum]*

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<sup>5</sup> Assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU taxonomy.

**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
- 4 – Agree
- 5 – Strongly agree
- Don't know / no opinion / not relevant

**Question 31.1** If necessary, please explain your answer to question 29:  
*[2000 character(s) maximum]*

**Question 32:** Several initiatives are currently ongoing in relation to energy-efficient mortgages<sup>6</sup> and green loans more broadly. Should the EU develop standards or labels for these types of products?

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

**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)
- a standard or label for green (environmental and climate) mortgages and loans
- a narrow standard or label only for energy-efficient mortgages and loans for the renovation of a residential immovable property
- other

**Question 32.2** Please specify what type of standard or label on sustainability in the loan market you would like to see:

*[2000 character(s) maximum]*

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

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

**Question 33.1** If yes, please explain what the key elements of such a benchmark should be:  
*[2000 character(s) maximum]*

**Question 33.2** If no, please explain your answer to question 33:

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<sup>6</sup> 6 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.

[2000 character(s) maximum]

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

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

**Question 34.1** If yes, what should they cover thematically and for what types of financial products?

[2000 character(s) maximum]

### 1.5 Capital markets infrastructure

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

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

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

**Question 35.1** If you disagree, please list the main problems you see (maximum three):

[2000 character(s) maximum]

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

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

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

[2000 character(s) maximum]

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

[2000 character(s) maximum]

### 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.<sup>7</sup> 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)
- Other

**Question 38.1** Please specify what other recommendation(s) have the highest potential to effectively tackle short-termism:

*[2000 character(s) maximum]*

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

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

**Question 39.1** If yes, please explain which barriers you see and / what action(s) could help foster long-termism in financial markets and the way corporates operate. Please list a maximum of 3 barriers(s) and / or a maximum of 3 action(s)

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<sup>7</sup> 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.

[2000 character(s) maximum]

The Shareholder Rights Directive II states that **directors' variable remuneration** should be based on both financial and non-financial performance, where applicable. However, there is currently no requirement regarding what the fraction of variable remuneration should be linked to, when it comes to non-financial performance.

**Question 40:** In your view, should there be a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?

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

**Question 40.1** If yes, please indicate what share of variable remuneration should be linked to non-financial performance:

[2000 character(s) maximum]

We have not explored this aspect enough to respond with a relevant share, however remuneration based on financial performances appears to us as a key obstacle to mainstreaming sustainability. Linking variable remuneration with the contribution to climate change would be a useful step, however carbon emission reductions does not appear as the best metric. Its relevance is strongly connected to the scope encompassed in this reduction. Moreover, this single metric can lead to adverse effects, of greenwashing, deferral of carbon emissions on subcontractors, externalisations of activities, change or distortions of methodologies, etc... A broader dashboard of metrics may be needed to assess strategic commitments around climate change and progress to meeting them.

**Question 41.** Do you think that a defined set of EU companies should be required to include carbon emission reductions, where applicable, in their lists of ESG factors affecting directors' variable remuneration?

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

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

**Question 42.** Beyond the Shareholder Rights Directive II, do you think that EU action would be necessary to further enhance long-term engagement between investors and their investee companies?

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

**Question 42.1** If yes, what action should be taken? Please explain or provide appropriate examples:  
[2000 character(s) maximum]

One of the challenges of decarbonizing our economies is not so much the financing of green activities but the financing of the transition from brown activities to green. That is why regulations should help investors in maintaining a long-term relationship with their investee. Supporting companies in this transition is

essential, and there is a great need for patient investors who will support, push and verify the adoption of low-carbon strategies. Emphasis should be put on medium and long term gains instead of short term ones. I4CE is currently exploring this long term issue and will provide policy recommendations by the beginning of 2021.

**Question 43.** Do you think voting frameworks across the EU should be further harmonised at EU level to facilitate shareholder engagement and votes on ESG issues?

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

**Question 44.** Do you think that EU action is necessary to allow investors to vote on a company's environmental and social strategies or performance?

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

**Question 44.1** If yes, please explain your answer to question 44:

*[2000 character(s) maximum]*

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

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

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

**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?

*[2000 character(s) maximum]*

**Question 45.2** If no, please explain the reasons to question 45:

*[2000 character(s) maximum]*

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?

- 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
- I do not know

**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?

- 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?

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

**Question 48.1** If yes, please select your preferred option:

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

**Question 48.2** If necessary, please explain the reasons for your answer to question 48.1.

*[2000 character(s) maximum]*

## **2. INCREASING OPPORTUNITIES FOR CITIZENS, FINANCIAL INSTITUTIONS AND CORPORATES TO ENHANCE SUSTAINABILITY**

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

**As part of the European Green Deal, the Commission has launched a European Climate Pact** to bring together regions, local communities, civil society, businesses and schools in the fight against climate change, incentivising behavioural change from the level of the individual to the largest multinational, and to launch a new wave of actions. A consultation on the European Climate Pact is open until 27 May 2020

in order to better identify the areas where the Commission could support and highlight pledges as well as set up fora to work together on climate action (including possibly on sustainable finance).

## 2.1 Mobilising retail investors and citizens

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

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

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

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

*[2000 character(s) maximum]*

Detailed guidance is necessary. It is absolutely necessary to understand the sustainability preferences of retail investors in a sufficiently granular way in order to ensure that the individual preferences are being taken into account and retail investors are not sold “blackbox green” products that may not correspond to their individual appreciation of sustainability.

**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
- 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
- 4 – Agree
- 5 – Strongly agree
- Don’t know / no opinion / not relevant

**Question 51.1** If you agree (for scores of 4 to 5), please choose what particular action should be prioritised:

	<b>1</b>	<b>2</b> (disagree)	<b>3</b> (neutral)	<b>4</b> (agree)	<b>5</b>	Don’t know/ know/
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	(strongly disagree)				(strongly agree)	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.				x	i	
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.	i	i	i	x	i	i
Directly, through targeted campaigns.	i	i	x	i	i	i
As part of a wider effort to raise the financial literacy of EU citizens.	i	i	i	x	i	i
As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities.	i	i	i	x	i	i
Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals.	i	i	i	i	x	i
Other	i	i	i	i	i	i

**Question 51.2** Please explain what other action(s) should be prioritised:  
[2000 character(s) maximum]

## 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
- 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?

*[2000 character(s) maximum]*

It is important to make this distinction between an underlying asset's sustainability impact and the impact of a financial product (Kölbel et al, 2019: Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact). There are currently no ready to use tools available to measure the impact of financial products on sustainability factors. Yet, this is what should be at the heart of "sustainable finance" and any strategy related to it.

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

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

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

*[2000 character(s) maximum]*

### 2.3 Green securitisation

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

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

- 1 – Not important at all
- 2 – Rather not important
- 3 – Neutral
- 4 – Rather important
- 5 – Very important

- Don't know / no opinion / not relevant

**Question 54.1** If necessary, please explain your answer to question 54:  
*[2000 character(s) maximum]*

**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?

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

**Question 55.1** If yes, please list the barriers you see (maximum 3):  
*[2000 character(s) maximum]*

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

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

**Question 56.1** If yes, what regulatory and/or prudential measures should the dedicated framework contain and how would they interact with the existing general rules for all securitisations and specific rule for STS securitisations?  
*[2000 character(s) maximum]*

## 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?

- 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:

*[2000 character(s) maximum]*

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

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

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

**Question 58.1** If yes, please explain what actions would be relevant from your perspective and which public authority would be best-positioned to deliver it. Please list a maximum of three actions *[2000 character(s) maximum]*

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

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

**Question 59.1** If yes, please detail, in particular if you see a role for EU intervention, including financial support:

*[2000 character(s) maximum]*

## 2.5 Project Pipeline

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

**Question 60.** What do you consider to be the key market and key regulatory obstacles that prevent an increase in the pipeline of sustainable projects? Please list a maximum three for each.

*[2000 character(s) maximum]*

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

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

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

*[2000 character(s) maximum]*

**Question 62.** In your view, how can the EU facilitate the uptake of sustainable finance tools and frameworks by SMEs and smaller professional investors? Please list a maximum of three actions you would like to see at EU-level

*[2000 character(s) maximum]*

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

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

*[2000 character(s) maximum]*

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

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

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

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

**Question 65.1** If necessary, please explain your answer to question 65: *[2000 character(s) maximum]*

## 2.6 Incentives to scale up sustainable investments

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

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

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

**Question 66.1 If necessary, please specify your answer to question 66.**

*[2000 character(s) maximum]*

Beyond classic market failures widely described among climate economics literature (externalities, common pool and free-rider issues, time inconsistency, etc), lies the issue of lack of financing for the low carbon transition. Financing low carbon transition has three main aspects : financing green projects, cutting the financing of the brown ones, and most of all, financing the transition of brown to green activities.

Regarding the financing of green and transition activities, the EU financial system face several barriers and inefficiencies : project leaders experience difficulties to finding fundings, and financiers claim there is a lack of green projects. For each size of enterprises and projects, there are some market segments that struggle to find fundings : large companies with long term and high risk transition projects, SMEs with industrial projects, infrastructure with high capital expenditures at the beginning of the process, small projects to small to interest equity investors, etc.

Regarding the brown activities, the fact that these types of financing are still highly attractive for investors is an inefficiency of the market, that does not price properly the climate-related risks associated with these assets.

Finally the short-termism and maximisation of profits practices of finance are two key barriers to financing low carbon transition. Currently, mainstream financial culture as well as some of the regulatory underpinning tend to support short-termism and the maximization of financial returns. Given that climate change and other sustainability challenges often require that economic and financial actors focus more on medium-term returns, and risks these two prevailing characteristics of financial actors can limit the integration of climate-related risks, the allocation of finance to support the transition and green projects that requires more long term financing, and the development and integration of other impacts indicators than financial ones.

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

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

**Question 67.1** Since you see a strong need for public incentives (scores of 4 to 5), which specific incentive(s) would support the issuance of which sustainable financial assets, in your view? Please rank their effectiveness of each type of incentive:

**a) Revenu-neutral subsidies for issuers:**

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

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

*[2000 character(s) maximum]*

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

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

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

*[2000 character(s) maximum]*

**c) Technical assistance**

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

Other	i	i	i	i	i	i
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Please specify the reasons for your answer 65.1 c) (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider:  
*[2000 character(s) maximum]*

**d) And other public sector incentives**

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

Please specify the reasons for your answer 65.1 d) (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider:  
*[2000 character(s) maximum]*

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

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

Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other).  
*[2000 character(s) maximum]*

**Question 68.1** For scores of 4 to 5, since you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments?

- Revenue-neutral public sector incentives
- Adjusted prudential treatment
- Public guarantee or co-financing
- Other

**Question 68.2** Please specify what other specific incentive(s) would support best increasing sustainable investments:  
*[2000 character(s) maximum]*

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

Yes

No  
Don't know / no opinion / not relevant

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

[2000 character(s) maximum]

Supporting the first phases of the project, when they are still in structuration, mainly through subsidies is key for this long term SMEs projects. SMEs often do not have long term resources, or the ability to find some.

Beyond subsidies, other tools should be developed to tackle the specific access to finance for SMEs carrying sustainable activities. Subsidies address the low or lack of profitability issues, but there are other issues as :

- Training of bank advisors for SMEs : banks remain the privileged financial interlocutor for SMEs, if not their only one. Training bank advisors could have a significant impact on stimulating sustainable projects for SMEs and avoid lock in.
- Adapting the sustainable finance tools (disclosure, taxonomy, label) to SMEs by simplifying them for this specific actors

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

**Even though the potential scope of sustainable finance is broad, it is often viewed as being only confined to the ambit of private financial flows within capital markets.**

Nevertheless, the boundary between public and private finance is not always strict and some concepts that are generally applied to private finance could also be considered for the public sector, such as the EU Taxonomy. This is recognised in [the European Green Deal Investment Plan](#) and the [Climate Law](#), where the Commission committed to exploring how the EU Taxonomy can be used in the context of the European Green Deal by the public sector, beyond InvestEU. The InvestEU programme, proposed as part of the EU's Multiannual Financial Framework 2021 – 2027, combines public and private funding and once the taxonomy is in place (from end-2020 onwards) will serve as a test case for its application in public sector-related spending.

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

Yes  
**Yes, but only partially**  
No  
Don't know / no opinion / not relevant

**Question 70.1**

If yes, please explain which public authority could use it, how and for what purposes:

If yes, but only partially, please explain which public authority could use it, how and for what purposes, as well as the changes that would required to make it fit for purpose:

If no, please explain why you consider that it is not suitable for use by public authorities, and how those reasons could be best addressed in your view:

[2000 character(s) maximum]

Climate investments made by the public sector (the State, local authorities, state agencies, ...) are classified by the taxonomy. For those investments, the public sector could use the taxonomy and "label"

them. Thus, it could be a way to finance them with green bonds. However, most expenditures for the public sector are operating expenditures (e.g. electricity bill, wages, travel expenses, ...) whereas the taxonomy classifies capital expenditures.

How can green operating expenditures be classified ? What kind of operating expenditures are green ?

To address this, the taxonomy could include some qualitative criteria to include green operating expenditures.

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

Yes

**Yes, but only partially**

No

Don't know / no opinion / not relevant

**Question 71.1** If no or yes, but only partially, please explain why and how those reasons could be best addressed in your view:  
[2000 character(s) maximum]

The taxonomy gives some guidelines on green public procurement (e.g. management of the vehicle fleet) but most of the green public expenditures are not in the taxonomy (e.g. which building material has to be bought? Which label is encouraged for computers? What type of public transport? Etc.) . The taxonomy must be completed to include at least the principal areas of public procurement

**Question 72.** In particular, should the EU Taxonomy<sup>8</sup> play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.

Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation

Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation

No

Do not know / no opinion / not relevant

**Question 72.1** If yes, what role should it play and is the taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for the following purposes?

In the context of some EU spending programmes

In the context of EU state aid rules

Other

**In the context of some EU spending programmes:** please explain if the EU Taxonomy is suitable for the purpose of EU spending programmes and what role it should play in this context:

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<sup>8</sup> 8 The six environmental objectives set out in the Taxonomy Regulation are the following: (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control, (6) protection and restoration of biodiversity and ecosystems.

[2000 character(s) maximum]

**In the context of EU state aid rules:** please explain if the EU Taxonomy is suitable for the purpose of EU State aid rules and what role it should play in this context:

[2000 character(s) maximum]

**Other:** please explain for what other purpose is the EU Taxonomy suitable and what role it should play in that context:

[2000 character(s) maximum]

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

Yes

No

Don't know / no opinion / not relevant

**Question 73.1** If no, are there specificities of public issuers and funded projects or assets that the existing guidance on green bonds, developed by the TEG, does not account for?

[2000 character(s) maximum]

## 2.8 Promoting intra-EU cross-border sustainable investments

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

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

Yes

No

Don't know / no opinion / not relevant

**Question 74.1** If yes, please specify what type of services would be useful for this purpose:

- Information on legal frameworks
- Individualised advice (e.g. on financing)
- Partner and location search
- Support in completing authorisations
- Problem-solving mechanisms
- Other, please specify

**Question 74.2** Please specify what other type(s) of services would be useful for this purpose:

[2000 character(s) maximum]

## 2.9 EU Investment Protection Framework

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

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

- Investment protection has **no impact**
- Investment protection has a **small impact** (one of many factors to consider)
- Investment protection has **medium impact** (e.g. it can lead to an increase in costs)
- Investment protection has a **significant impact** (e.g. influence on scale or type of investment)
- Investment protection is a factor that can have a **decisive impact** on cross-border investments decisions and can result in cancellation of planned or withdrawal of existing investments
- Do not know

## 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**
- 3 – Neutral
- 4 – Rather sufficient
- 5 – Fully sufficient
- Don't know / no opinion / not relevant

**Question 76.1** For scores of 1-2, what are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions?

[2000 character(s) maximum]

There is a need for greater coordination between the the different groups such as the MDBs, IDFC, NGFS, and the Coalition of Finance Ministires – in addition to the IPSF – working on this topic today. In 2019 and 2020 different groups have been moving forward discussions on how to deliver on the Paris Agreement and the SDGs. Not only is it important to find ways to ensure that the development of these approaches are supported and prioritized through the mandates of these institutions, but it is also important that these exchanges engage with the mainstream private financial sector actors given that the public actors are increasingly delivering finance through onlending and intermediated channels. This could help both in the development and the dissemination of these frameworks and approaches across the entire system.

More broadly, there is often a disconnect today between the discussions on ‘sustainable finance’ that often seek to address issues of climate risk management and labelling of transactions – and the mandated impact-oriented approaches that public financial institutions are developing. It is important to recognize the differences – both in terms of objectives and methodological approaches – when attempting to link the convesrations.

Nevertheless, both streams are running into similar challenges in attempting to identify the consensual, robust and credible scenarios and baselines to use as references for their decision making. As such some type of internationally-accepted repository or quality control may be needed (such as the role the IMF plays through Article IV country surveuillance).

**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:

[2000 character(s) maximum]

- Provide guidance on the general principles that should guide the development of alignment strategies and support the collaboration on the development of these approaches to have them progressively converge. The approach developed and piloted by the EIB could be a point of departure.
- Develop taxonomies of activities doing significant harm for climate and the SDGs that need to be phased out
- Encourage countries to develop clear national pathways to achieve climate and sustainable development objectives that can be translated into pipelines of projects and capital raising plans. This would be the basis for active and concrete collaboration.

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

Please select all that apply.

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

- Lack of clearly identifiable sustainable projects on the ground
- Excessive (perceived or real) investment risk
- Difficulties to measure sustainable project achievements over time
- Other

**Question 78.1** If other, please specify what other main barrier(s) private investors face when financing sustainable projects and activities in emerging markets and developing economies:

*[2000 character(s) maximum]*

- They do not have the internal and external incentives to finance sustainable projects yet as they do not integrate climate risk for example.
- Private sector investments often perceive high levels of risk around climate-related projects. This risk may be due to policy uncertainty or be related to the relatively untested technical and economic models of the investments and activities.
- Furthermore, often investment and finance risks completely unconnected to climate-related goals such as political risks and uncertainty limit their willingness to invest and finance at feasible rates in general.

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

Please provide a maximum of three proposals.

*[2000 character(s) maximum]*

Engage with countries in the development of national pathways to achieve climate and SDGs objectives and work with them to translate them into investment plans. This could be combined with the financing of pilot projects to demonstrate the feasibility of investments – and in some cases with guarantee mechanisms to help reduce perceived levels of risk.

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

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

Please select among the following options.

- A - All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change
- B - Some tools can be applied, but not all of them. If necessary, please explain
- C - **These tools need to be adapted to local specificities in emerging markets and/or developing economies. Please explain how you think they could be adapted**
- D- Do not know

**Question 80.1**

If answer B, please explain your answer to question 80:

If answer C, please explain how you think these tools could be adapted:

*[2000 character(s) maximum]*

There is a need to adapt taxonomies and tools to take into consideration the national context and specific needs of emerging countries. Encouraging the development of national pathways to achieve climate and SDGs objectives is thus important moving forward. However, careful attention needs to be paid to ensure

that divergencies are clearly identified and transparently communicated to investors as some parts of national strategies and pathways might be contested.

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

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

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

**[2000 character(s) maximum]**

The taxonomy can serve as a good basis for identifying what types of projects and activities are 'compatible' with EU climate and sustainability goals. However, the use of public resources channeled through development banks should target those technologies, subsectors and in some cases sectors where intervention is needed to help overcome and resolve market barriers and challenges. As such, the taxonomy cannot be applied in a blanket fashion as many of the activities listed may already be part of mature markets in some contexts. Furthermore, in some specific cases, the EU taxonomy may not be sufficiently precise to prioritize the investments prioritized as 'transition activities' part of the given country's national pathway towards achieving climate and SDGs objectives.

### 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.<sup>9</sup> 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?

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

#### Question 82.1

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<sup>9</sup> More information on the ESAs' activities on sustainable finance is available on the authorities' websites. See in particular ESMA's strategy ([https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052\\_sustainable\\_finance\\_strategy.pdf](https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052_sustainable_finance_strategy.pdf)), EBA Action Plan (, and EIOPA's dedicated webpage ([https://www.eiopa.europa.eu/browse/sustainable-finance\\_en](https://www.eiopa.europa.eu/browse/sustainable-finance_en))

If no, please explain why you disagree:

[2000 character(s) maximum]

If yes, what would be the purpose of such a brown taxonomy? (select all that apply)

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

**Question 82.2** Please specify what would be the other purpose(s) if such brown taxonomy:

[2000 character(s) maximum]

Help public sectors to lower their carbon footprint.

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

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

**Question 83.1** If yes, what should be the purpose of such a taxonomy?

[2000 character(s) maximum]

This "intermediate" taxonomy would be necessary, for various reasons. First, because believing that the low-carbon transition only concerns some specific sectors and that certain activities are not affected by the transition is a myth. The whole economy must transform itself, and summarizing the transition to a green taxonomy on one side and a brown one on the other part contributes to this vision. Moreover, this taxonomy could be very useful tool, in particular for the banking sector, that needs to support companies within their transition but who still lack tools to understand sustainability issues linked with these rather more "grey" sectors, whose challenges appear less clearly.

### 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,<sup>10</sup> 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

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<sup>10</sup> See for instance the [Network of Central Banks and Supervisors for Greening the Financial System \(NGFS\)](#).

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 provide links to quantitative analysis when available.

- Physical risks, please specify if necessary [2000 character(s) maximum] [To be completed]
- Transition risks, please specify if necessary [2000 character(s) maximum] [To be completed]
- Second-order effects, please specify if necessary [2000 character(s) maximum] [To be completed]
- Other, please specify [2000 character(s) maximum] [To be completed]

**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

[2000 character(s) maximum]

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

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

**Question 86.1** If you think the current macro-prudential policy toolbox for the EU financial sector is not sufficient to identify and address potential systemic stability risks related to climate change, what solution would you propose?

Please list a maximum of three solutions.

[2000 character(s) maximum]

- Capital buffers : two different types of capital buffers could be used, to answer two different problems.  
Firstly, exposures to new fossil fuel reserves should be addressed, as they could lead to the constitution of a potential growing carbon-bubble resulting from a programmed-decline of fossil fuels with potential stranded assets. This specific risk could be tackled with a countercyclical capital buffer  
Secondly, there is a more structural issue coming from all the actual exposures to carbon-intensive assets. Here, to prepare banks from potential brutal transitions, a structural capital buffer could be an interesting instrument.
- Macro stress-tests : An effective surveillance framework of systemic risks is critical for public authorities in charge of macro prudential policy. Among a large array of risk indicators, macro stress testing plays a critical role. For years, national supervisors and the IMF have run stress-tests at the level of the whole financial sector (or banking sector) of a given country in order to measure the systemic impact of deteriorated macroeconomic

conditions. In order to better monitor the climate-related systemic risk, it is necessary to integrate the impact of climate change into these macro stress tests

- Rules of sectoral credit distribution : addressing climate systemic risk could be done through the introduction of ceilings on credit extension to certain carbon-intensive or polluting activities. If regulators follow a risk-based approach, then the maximum credit ceiling instrument could be used: banks cannot distribute loan to one or several specific sectors beyond a certain amount or percentage of their credit.

If they follow a more economic policy approach, then this maximum ceiling should be complemented with a minimum credit floor: banks are obliged to distribute a minimum amount or percentage of credit to one or several specific economic sectors, as green and transition activities.

### *Insurance prudential framework*

Insurers manage large volumes of assets on behalf of policyholders and they can therefore play an important role in the transition to a sustainable economy. At the same time, insurance companies have underwriting liabilities exposed to sustainability risks. In addition, the (re)insurance sector plays a key role in managing risks arising from natural catastrophes through risk-pooling and influencing risk mitigating behaviour. The Solvency II Directive sets out the prudential framework for insurance companies. The Commission requested technical advice from the European Insurance and Occupation Pensions Authority (EIOPA) on the integration of sustainability risks and sustainability factors in Solvency II. The Commission also mandated EIOPA to investigate whether there is undue volatility of their solvency position that may impede long-term investments, as part of the 2020 Review of Solvency II. EIOPA is expected to submit its final advice in June 2020.

In September 2019, EIOPA already provided an opinion on sustainability within Solvency II. EIOPA identified additional practices that should be adopted by insurance companies to ensure that sustainability risks are duly taken into account in companies' risk management.

On that basis, the Commission could consider clarifications of insurers' obligations as part of the review of the Solvency II Directive. Stakeholders will soon be invited to comment on the Commission's inception impact assessment as regards the review. The Commission will also launch a public consultation as part of the review<sup>11</sup>.

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

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

**Question 87.1** If yes, please specify which actions would be relevant:  
[2000 character(s) maximum]

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<sup>11</sup> 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).

## Banking prudential framework

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

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

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

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

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

**Question 88.1** If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy?

[2000 character(s) maximum]

Regarding assets that could warrant a more risk-sensitive treatment, it appears that the exposures to new fossil fuel reserves should deserved a specific treatment.

Regarding other prudential measure, I4CE 's work on capital requirements has shown that integrating climate-related risks within prudential regulations requires conditions that are not necessarily met yet. However, using capital requirements to influence sectoral allocation is still possible, but what is interesting is not just incentivize green activities and penalize the brown ones. Banks need a broader and more refined system that most of all incentivize the transition from brown to green activities. Having an incentivizing system, not only a penalizing one is very important, as it will push banks to set up internal systems, leads them to acquire better comprehension, avoids compliance, and is adapted to their business.

The solution probably lies in a decentralised system that leaves it up to each bank to set up an instrument adapted to its loan portfolio and the nature of its activity, with supervisors simply providing a general framework to be respected, setting a course and monitoring the banks' progress.

A decentralised system that would be similar, for example, to that set up by the European Commission for the automobile industry: the Commission sets a target for the gradual reduction of average CO2 emissions from cars sold during the year, monitors whether or not the various manufacturers meet this target, but leaves them free to choose how to achieve it.

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

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

2. manage climate-related and environmental risks?

- Yes , option 1. Or option 2. Or both options
- No.
- Do not know / non opinion / not relevant

**Question 89.1** If yes, please specify which action(s) would be relevant:

[2000 character(s) maximum]

- Integrating stranded assets in the Long term liquidity ratio : exposure to stranded assets are long-term, and a good part will be transformed into losses. The part of potential stranded assets exposures that are not backed with capital requirements could be backed through the long term liquidity ratio.

- Adapt financial training to increase the global awareness regarding climate change, climate-related risk and the low-carbon transition

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

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

**Question 90.1** If yes, please specify which measures would be relevant:

[2000 character(s) maximum]

#### *Asset managers*

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

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

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

**Question 91.1** If yes, what solution would you propose?  
[2000 character(s) maximum]

This subject has so far only been addressed from the perspective of integrating ESG risks into fiduciary responsibility. But the ESG prism remains very vague, and often fails to take into account the specificity of climate-related issues. I4CE will be digging into this subject in the coming months, but our intuition is that rules on fiduciary duties should be adapted to reveal the real objectives of investors, in terms of impact and contribution, not just in terms of risk/return ratio.

*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.<sup>12</sup> Lastly, the study provided a preliminary quantitative analysis of the investment portfolio<sup>13</sup> 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?

- Yes
- No

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<sup>12</sup> 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).

<sup>13</sup> 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.

- Don't know / no opinion / not relevant

**Question 92.1** If yes, please specify what actions would be relevant in your view:

*[2000 character(s) maximum]*

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

*[2000 character(s) maximum]*

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

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

**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]

*[2000 character(s) maximum]*

### 3.3 Credit rating agencies

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

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

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

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

**Question 95.1** If necessary, please explain the reasons for your answer to question 95:

*[2000 character(s) maximum]*

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

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

**Question 96.1** If necessary, please explain the reasons for your answer to question 96:  
[2000 character(s) maximum]

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

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

**Question 97.1** If yes, please specify what kind of action you consider would address the identified problems. In particular should the EU consider regulatory intervention?  
[2000 character(s) maximum]

**Question 98.** Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing standardised natural capital accounting/environmental footprinting practices within the EU and internationally?

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

**Question 98.1** If yes, please list a maximum of 3 initiatives:  
[2000 character(s) maximum]

### 3.5 Improving resilience to adverse climate and environmental impacts<sup>14</sup>

#### *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

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<sup>14</sup> Please note that the Commission is also preparing an upgraded EU Adaptation Strategy. A dedicated public consultation will be launched soon.

environments. It could also be helpful to better calibrate and customise climate-related physical risk models needed to inform investment decisions going forward, to unlock public and private adaptation and resilience investments and to enhance the resilience of the EU's economy and society to the unavoidable impacts of climate change.

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

- Yes
- No
- 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?**

- **Loss data, please explain why [2000 character(s) maximum]** [To be completed]

In the frame of physical climate risk analysis in finance and non-financial reporting, service providers and financial actors are looking for asset-specific information on damage and financial losses: typically loss in revenues, in asset values, increase in operational or financial cost of companies arising from specific acute or chronic climate hazards (findings of the ClimINVEST European project). Financial loss information at the asset level is necessary to understand the current materiality of physical climate risks in specific geographies and sectors. It is also useful to calibrate models that estimate financial losses from climate hazards and that are commonly used for risk management at financial institutions. This is part of the data issue commonly raised by major initiatives such as the NGFS.

This information is available on patchy perimeters and there is limited incentive to develop it. For instance, interviews for the ClimINVEST European project revealed that while some insurance companies have some data on physical damage to an economic agent they do not know how it impacts the financial health of the agent for example through loss of exploitation. Another case study on the French railway system SNCF shows that it does not track such loss either.

- **Physical risk data, please explain why [2000 character(s) maximum]** [To be completed]

Physical risk data (defined here as the combination of a climate hazard data with exposure and vulnerability of an economic agent) should be formatted in order to help stakeholders understand concretely what builds the vulnerability of an economic agent in front of specific climate hazards, where the economic agent stands in terms of implementing adaptation measures, and what drives the adaptive capacity of the economic agent. In context of the ClimINVEST European project, financial actors report that this level of detail is missing in the outputs from external service providers analysis and it would be needed to take risk management decisions based on this, including engaging dialogue with economic agents on their capacity to adapt and financial needs to enhance it. Current non-financial reporting incentives do not clarify this point and financial actors may still use black box metrics for reporting purposes only.

As climate-related risks are already materializing and may become more intense in the future, and given the large amount of data ideally needed at different scales for physical climate risk analysis in finance, there is a need to provide incentive for streamlining the data process so that financial actors can start taking risk management decisions at the required pace. For example, a financial actor needs information on key contributors to a company's revenues along its value chain instead of a complete mapping. At the activity level, some efforts could be made to explain how to identify major vulnerabilities.

Some economic agents are also taking decisions based on economic projections that arise from public bodies (e.g. projections of travel demands). They need clarifications about how these projections may change depending on future climate conditions.

#### *Financial management of physical risk*

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

Furthermore, the ongoing COVID-19 outbreak is highlighting the growing risk arising from pandemics in particular, which will become more frequent with the reduction of biodiversity and wildlife habitat. UNEP's Frontiers 2016 Report on Emerging Issues of Environment Concern shows that such diseases can threaten economic development.

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

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

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

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

	1 (not at all helpful)	2 (rather not helpful)	3 (neutral)	4 (rather helpful)	5 (very helpful)	N.A.
A- Financial support to the development of more accurate climate physical risk models	i	i	i	i	i	i
B- Raise awareness about climate physical risk	i	i	i	i	i	i
C- Promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe	i	i	i	i	i	i
D- Facilitate public-private partnerships to expand affordable and comprehensive related insurance coverage	i	i	i	i	i	i
E- Reform EU post disaster financial support	i	i	i	i	i	i
F- Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events	i	i	i	i	i	i
G- Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks	i	i	i	i	i	i
H- Regulate by setting minimum performance features for national climate-related disaster financial management schemes	i	i	i	i	i	i
I- Create a European climate-related disaster risk transfer mechanism	i	i	i	i	i	i
J- Other	i	i	i	i	i	i

(QA – Answer 4 or 5) Please explain why you think it would be useful for the EU to provide financial support to the development of mre accurate climate physical risk models:

[2000 character(s) maximum]

(QB – Answer 4 or 5) Please explain why you think it would be useful for the EU to raise awareness about climate physical risk:

[2000 character(s) maximum]

It could be rather helpful, especially if the Commission manage to promote devices to foster the emergence of economic signal for resilience (for instance though tools such as “resilience/vulnerability label” on buildings

(QC – Answer 4 or 5) Please explain why you think it would be useful for the EU to promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe:

*[2000 character(s) maximum]*

In the French case very few incentives at the moment for building back better after catastrophes especially in insurance mechanisms (cf. result of the RAITAP research project). Introducing BBB requirements in building insurance and the Cat’Nat’ system would have a strong positive effect also in terms of awareness raising and signal sent to the infra and building sectors to promote resilient techniques.

(QD – Answer 4 or 5) Please explain why you think it would be useful for the EU to facilitate public-private partnerships to expand affordable and comprehensive related insurance coverage:

*[2000 character(s) maximum]*

(QE – Answer 4 or 5) Please explain why you think it would be useful for the EU to reform EU post disaster financial support:

*[2000 character(s) maximum]*

(QF – Answer 4 or 5) Please explain why you think it would be useful for the EU to support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate – or environment- related events:

*[2000 character(s) maximum]*

(QG – Answer 4 or 5) Please explain why you think it would be useful for the EU to advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks:

*[2000 character(s) maximum]*

(QH – Answer 4 or 5) Please explain why you think it would be useful for the EU to regulate by setting minimum performance features for national climate-related disaster financial management schemes:

*[2000 character(s) maximum]*

(QI – Answer 4 or 5) Please explain why you think it would be useful for the EU to create a European climate-related disaster risk transfer mechanism:

*[2000 character(s) maximum]*

(QJ – Answer 4 or 5) Please explain what other action(s) the EU should take in this regard:

*[2000 character(s) maximum]*

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

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

**Question 101.1** If yes, which actions you would consider to be useful?

In particular, is there scope for EU action to improve the offer of products and services for climate-related disaster risk reduction, enhance insurers' potential to promote increased resilience of their policyholders beyond a mere compensatory role?

For instance, EIOPA in its opinion on sustainability on Solvency II talks about "impact underwriting which includes the development of new insurance products, adjustments in the design and pricing of the products and the engagement with public authorities without disregard for actuarial risk-based principles of risk selection and pricing".

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

**Question 101.2**

If yes, please explain which actions and the expected impact (high, medium, low):

*[2000 character(s) maximum]*

If no, please explain your answer to question 101 and 101.1:

*[2000 character(s) maximum]*

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

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

**Question 102.1** What action should the EU take? Please list a maximum of three actions.

*[2000 character(s) maximum]*

#### 4. ADDITIONAL INFORMATION

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

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

[The maximum file size is 1 MB]