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.

Commission européenne/Europese Commissie, 1049 Bruxelles/Brussel, BELGIQUE/BELGIË - Tel. +32 22991111
https://ec.europa.eu/info/business-economy-euro_en

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

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

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.[1] 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.

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 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.

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[1] See for instance "UNEP Frontiers 2016 Report on Emerging Issues of Environment Concern", UNEP, 2016.

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.

More information:

- on this consultation
- on the protection of personal data regime for this consultation

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SECTION I: QUESTIONS ADDRESSED TO ALL STAKEHOLDERS ON HOW THE FINANCIAL SECTOR AND THE ECONOMY CAN BECOME MORE SUSTAINABLE

Question 1: With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate 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.

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/Do not know.
- 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 [BOX 2000 characters].
- If no, would you like to be offered more information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets and divest from non-sustainable assets?
    - Yes/No/Do not know
    - If necessary, please explain your answer [BOX 2000 characters].

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/do not know

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;
- 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? [BOX, 2000 characters]
- Do not know.

Sustainable finance should be a key element in favoring business investment in sustainable goods.

However, due to the Covid-19 crisis, Commission should not pursue actions that oblige companies, already deeply damaged by Covid-19, to sustain large investments or make it more difficult for these companies to access bank finance.

It must be considered that financial regulation already provides that corporates, classified as sustainable, wishing to fund themselves on the market must provide the necessary information to the market related to their business strategies and practices.

The non-financial reporting directive already obliges companies in scope to provide information on the impact of their activities relating to environmental matters and this may include, where material for the company, their contribution to the Paris Agreement. The directive obliges companies in scope to describe the risks related to environmental matters, where its operations are likely to cause adverse impacts, as well as the policies pursued and the outcome of them. This is supplemented by the reporting requirements in the taxonomy regulation, the encouragement to companies to report on this matter through the recent commission guidelines on reporting climate-related information, which integrates the widely-accepted Task Force on Climate-related Financial Disclosures (TCFD) recommendations, as well as reporting by companies in line with other international/national frameworks and voluntarily. Having these broad requirements in place provides an important flexibility to companies to report on those aspects that are material to the company and its stakeholders. These frameworks leave adequate room for companies to report on their contribution to the Paris Agreement, where this is material, appropriate and necessary according to the specificities of the company and the users of the information. Also, the EFRAG report on climate related reporting recommends companies should avoid reporting generic information, without a prior materiality assessment. Companies also have to report in line with the disclosure regulation, which also creates significant new obligations on financial actors, with consequences for investee companies which are still not entirely understood or evaluated. Having more detailed reporting requirements on specific matters, would take away this flexibility, as well as adding to the existing sometimes divergent and overlapping requirements, causing extra burdens for companies and confusion also for stakeholders. This may effectively decreasing the value of the reporting contrary to the aim of the initiative. This would also be the case if the EU pursues its work to create an EU level standard for non-financial reporting, and if this were to include aspects related to climate change.

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:

- 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: scale from 1 (strongly disagree) to 5 (strongly agree). (1)
- 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: scale from 1 (strongly disagree) to 5 (strongly agree). (1)
- In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective? [BOX, 2000 characters]

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?

- [BOX, 2000 characters].

Main challenges:

1. Insufficient progress to develop the Banking Union and Capital Markets Union. This will build the financing conditions for the future, including the Green Deal. Access to finance is vital for companies and growth, and to fund the transition to a more sustainable economy. In 2015, when the Commission started to work on the Capital Markets Union, businesses' ability to access finance varied considerably across Europe. In some countries, for example, Greece Spain, Italy and Portugal, the supply of finance was a key barrier to growth. Following the measures from Central Banks, finding investors is no longer a real problem for larger companies in most of these countries, but with worsening economic conditions, it will be harder to find investors again. Capital markets are still fragmented and regulated differently across the EU. Also, we still see fragmentation regarding credit conditions. To meet companies' funding requirements on the desired scale, it will therefore be essential that more progress is made with respect to the creation of the Banking and Capital Markets Union as this will build the financing conditions for the future, including the Green Deal.
2. Insufficient capital to start-ups and scale-ups with a special focus on technology shifts. More focus on for instance growth-funding or similar tools should increase access to capital. Aggregating sustainable projects in order to scale them up to fulfil the needs of professional investors with adequate tools such as guarantees, de-risking and partnership with public funds.
3. Lack of global approach. While the EU´s ambition is welcome, climate change is a global challenge requiring a global response. Competitive implications for the EU Economy and possible frictions in international capital flows, in particular in the short term, are to be expected if the EU presses its ambitions unilaterally. The sustainable finance agenda must serve as the basis for a global language to help and ensure that investments are supporting and contributing to our environmental commitments, and EU initiatives would need to also be aligned with similar initiatives taking place in other international markets.

Main opportunities:

1. Improving innovation in greening the European economy, through the Green Deal and the European post crisis recovery plan;
2. Aggregating private and public funds to increase their leverage. For instance, significant public support is needed to help deploy key low-carbon technologies, changes in infrastructures. To this end, some aspects developed in the European Investment Fund could be usefully considered.

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

- Please provide a maximum of three examples [BOX max. 2000 characters].

Obstacles hindering the development of sustainable finance:

1. The adoption of excessively restrictive technical criteria for the taxonomy of sustainable activities and the Ecolabel, as they are tailored by the experts' reports would make them a niche funding tool. It would be far removed from the ambitious tool expected, and would fail to open up the possibility of massively redirecting capital flows towards the transition of the economy as a whole. If the European Union does not make profound modifications, this approach would lead to a plan that only focuses on the very small amount of activities that are already fully environmentally sustainable;
2. Excessive layers of administrative burdens for the sustainable finance tools: labels, green bonds, benchmarks, activities taxonomy, that are subject to very detailed rules which cumulatively, are detrimental to the successful development of a sustainable economy;
3. Lack of focus on the key intended user of non-financial information. A clearer prioritization of information and initiatives is needed, as well as acceptance of the fact, that there is a price to be paid (for example in terms of socio-economic impacts), when specific areas are prioritized. In certain areas, transitional measures are needed during the time new technologies are developed. These transitional measures still need capital and this has to be considered in the respective policies and tools.
4. Coherence and alignment between different EU legislations. We call for full alignment between the delegated acts on Taxonomy and the sustainability criteria established in RED II to grant eligibility and climate mitigation impact of sustainable biofuels, and for full alignment of transitional activity threshold with existing legislation. The delegated acts establishing the technical screening criteria of the Taxonomy regulation should introduce gradual technology-neutral thresholds not to de facto exclude relevant activities with a potential of contributing to climate goals and based on GHG emission reductions on life cycle analysis.

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?

- [BOX, 2000 characters]

It is important to take account of potential positive and negative socio=economic impacts of the transition to a climate neutral economy in a balanced way. The impact will differ from one sector to another, depending on the extent to which the transition leads to creation of new jobs and tasks, changes to existing ones, and disappearance of some. It will depend in particular on whether people have the right skills to grasp the new and changing employment opportunities and to adapt to the new types of jobs.

Impacts may also differ from one country or region to another, depending on the main engines of the economy, energy mix and different starting points in the transition. The EU Just transition fund is a valuable EU-wide initiative to support employers and employees in regions the most impacted by the transition to climate neutrality. The modalities of the mechanism must be well-designed to optimise its impact and it should reflect these different national starting points. However, given the scale of the challenges at stake with this transition, the Just Transition Fund alone will not be the silver bullet. A broader range of framework conditions needs to be put in place rapidly, to make this deeply transformative agenda a success and to avoid damaging growth and jobs.

It is also important to ensure that investment is provided to enable rather than force the transition in a way which maximises the potential benefits and minimizes the negative economic and social impacts. This can be best supported by sustainable finance tools that focus on providing investments to EU companies, which are in transition, and avoid punitive approaches that unnecessarily increase bureaucratic burden and costs for companies or hamper companies access to finance. It is necessary to ensure a level playing field for European companies and avoiding investment leakage to countries with lower climate ambitions.

Last but not least, an inclusive approach is necessary for the success of the sustainable finance tools currently in development. The future Platform on sustainable finance should have a broad and comprehensive representation that includes industry/the 'real economy' representatives, as well as the financial sector, in order to ensure that all relevant expertise is available for the further development of the sustainable finance tools and that the practical implications for their development are thoroughly discussed.

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?

- Please express your view by using a scale from 1 (not important at all) to 5 (very important). **(4)**
- For scores of 4 to 5, 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? [BOX, 2000 characters]

Predictability is essential for businesses. Companies need to understand the objectives of regulators and markets to define their strategy in the long term. The objective of making Europe climate neutral by around mid-century is therefore key to have clarity on the long-term ambition.

Once the objective is set, it is important to leave sufficient flexibility and means on how to achieve it. For instance, it should also be taken into consideration that emission reduction on EU level is not likely to be linear all the way to 2050. Furthermore, that the road towards climate neutrality includes both incremental measures (e.g. energy efficiency) as well as technology break-throughs and leaps (e.g. new industrial processes) and measures for negative emissions. Investments in research and innovation is necessary to reach the technology breakthroughs that are needed. These aspects need to be taken into consideration when developing climate policy.

Furthermore, more than policy signals on assets that should be progressively phased out, it is crucial that policy-makers concentrate on providing supportive measures, including public and private investments, for the wide range of businesses that have to finance their transition towards climate neutrality.

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
- Do not know

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,[1] 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/Do not know
- If yes, please specify potential actions the EU could take. [BOX max. 2000 characters]

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

- [BOX, 2000 characters]

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

- [BOX, 2000 characters]

Significant public support is needed to help deploy key low-carbon technologies such as batteries, hydrogen, low carbon liquid fuels, off-shore wind and carbon capture and

[1] See for instance "The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business," WWF, 2019

storage, in order to reach the scale where they become increasingly competitive. In addition, state aid rules should act as an accelerator of transformation, supporting investments that drive the deployment of low-carbon and circular solutions, products and technologies, and thus aim for a sustainable recovery. Investments must strengthen European competitiveness and mitigate risks of carbon and investment leakage.

Most projects required for reaching the Commission's goals regarding climate change mitigation and adaptation require private-public-partnerships. Nevertheless, in most cases Public Administrations need to take the initiative. Therefore, contractual tools in public procurement like the services contract with investment and concession contract should be promoted among European Public Administrations at national, regional and local level.

Introduction of an adequate set of incentives for the different economic sectors, activities or projects. Well designed and targeted incentives could lead to a meaningful increase in sustainable activities and products both in the supply and demand side.

Appropriately targeted fiscal benefits applied within reason as well as an adequate carbon price and redirection of subsidies may play an important role in mobilising the switch towards more sustainable actions. Fiscal stimulus in particular are proven to be very effective in influencing the way companies behave.

A favorable prudential treatment for financial institutions in relation to green loans in consideration of the greater long-term sustainability of these assets can reduce the capital provision in relation to these assets and allow better credit access for green investments. Confindustria is favourable to the introduction of a Green Supporting Factor in the CRR.

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/Do not know.
- If yes, please explain how it should be structured and what type of ESG information should feature therein. [BOX, 2000 characters]

It could be useful to explore this idea, as a way of making companies' ESG information more visible and positively highlighting the actions that companies take to report ESG information. At the same time, there may certainly be other, better ways to highlight company actions on sustainability. In any case, more clarity on the objective and about the main target audience of such an ESG dataspace is needed. Further there are a number of caveats:

- The initiative should take account of different company's and sectors needs in terms of when and where it is relevant to publish the information, depending on their internal processes and the different users of the information;
- it must be voluntary and there should be no specific timing/deadlines for including the information;
- to avoid extra reporting requirements/administrative burden, companies would not need to make accessible specific data at a granular level, but could rather make accessible their non-financial statement or other relevant ESG report;
- it should not be used to encourage additional requests for information from stakeholders;
- overall there should be a balance between comparability of information, where appropriate and feasible, and consideration of the complexity of providing it , however, without leading to comparisons between data which are not comparable or are taken out of context, leading to a false representation of the information or making it less understandable;
- given that any reporting has a cost for the one's providing the data, it should be discussed whether all cost should be beared by beneficiaries of the data;
- it should be taken into account that any reporting has to include the basis for measurement (or allow a reference to relevant standards) and this also increases the cost for businesses;
- it could be useful the setting up of a Certification bodies' network that can certify ESG requirements for SMEs at low costs;
- data users should align their requests (and basis for measurement) instead of requesting data in different, individual formats.

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?[2]

- Yes/No/Do not know.
- If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation),[3] 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)? Please use a scale of 1 (not likely at all) to 5 (very likely). If necessary, please specify [BOX, 2000 characters].

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/do not know.
- If yes, what is in your view the most important area (please provide details, if necessary):
  - Impairment and depreciation rules. [BOX, 2000 characters]
  - Provision rules. [BOX, 2000 characters]
  - Contingent liabilities. [BOX, 2000 characters]
  - Other, please specify. [BOX, 2000 characters]

1.3 Sustainability research and ratings

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

[3] Assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU Taxonomy.

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?

- Please express your view by using a scale of 1 (not concerned at all) to 5 (very concerned). (4)
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

Ratings are vitally important in helping companies gain access to finance. They are also essential in helping investors assess the risks involved in purchasing securities.

Competitive markets for ratings/data are crucial, as increased competition will promote market-led improvements in quality. However, today's market is already very fragmented and the level of comparability of different methodologies is very low and does not allow for an easy use of ESG ratings. The quality and availability of data is limited, unregulated and not sufficient for the financial sector to comply with forthcoming legislative obligations, or to scale up sustainable finance. Therefore, increasing the number of ESG ratings and data providers would not help as it could further hinder comparability and data management for end users such as the financial sector or ESG investors because of the differences in methodology, timelessness and low level of correlations.

The basis for different ratings and the rating models should therefore be more transparent and standardized. This would also reduce the burdens linked to the global diversity in data requests, limiting the different ways companies have to present data to accommodate different providers.

In addition, in the last couple of years, we observed a high concentration of the market for ESG ratings and data in the United-States, the European union having now lost important and historic actors. This is a source of concern for companies as CSR approaches and regulations can vary across regions.

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

- Please express your view by using a scale of 1 (very poor) to 5 (very good). (3)
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

At present, comparability, quality and reliability of ESG data vary from provider to provider. In addition, providers offer different sensitivities to different issues, leading to lack of comparability and understanding as methodologies used by providers are considered proprietary information. Not only the rating comparison with peers is difficult but also the positioning of the same company in different rating scales by different providers is difficult to assess. Both investors and issuers are affected by undue price fluctuations in securities that arise if rating decisions cannot be justified by underlying fundamental company data. It is thus very important that providers provide accurate and fair ratings. Ratings must be objectively verifiable as regards the methodology and the procedure used. More standardization of the basis of ratings and rating models would help in this respect. To avoid conflicts of interest, the provider's business must reflect a clear separation in terms of organization and personnel of the rating business from other services.

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

- Please express your view by using a scale of 1 (very poor) to 5 (very good). 3
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

Both the private and public sectors have recently stepped up the quality and quantity of ESG research, especially regarding climate change but a lot of good research remains publicly unavailable. The available macro and micro level data analyses give insights of how authorities and peers are using ESG material. However, lack of data for large sectors of the economy, including SMEs, combined with a lack of data standardisation/comparability and ESG methodologies that are still at an infancy stage, hinders the usability of ESG research for decision-making processes.

The quality and relevance depend on the provider that carried out the research and ESG data quality. In general, it is informative although it seems too often to rely on media reports. The main tools used to make assessments are often those that can be easily retrieved and are publicly available. Information received very often refers to websites that report non-audited facts and partial judgements by the authorities. Often public statements are used that indicate great commitment to quality standards, integrity and high ethical standards; however, these are not clearly substantiated.

Such data is generally indicated in the reports under a specific heading. The usefulness of such information is questionable.

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?

- Individual: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good). No comments
- Aggregated: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good). No comments
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]
-

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

- Yes/No/Do not know.
- If yes, please explain why and what kind of action you consider would address the identified problems. In particular, do you think the EU should consider regulatory intervention? [BOX, 2000 characters]

Ratings must be objectively verifiable as regards the methodology and the procedure used. More standardization of the basis of ratings and rating models would help in this respect. Good and representative ratings need data of high quality and more standardisation and transparency as to the rating models.

It could be useful for the Commission to look into ways to improve the relations between non-financial rating agencies and companies. This could include assessing the usefulness of adopting codes of conduct for non-financial rating agencies to increase transparency methodologies, data sources, procedures, accountability.

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 European level
- Yes, at a national level
- No
- Do not know
- If necessary, please explain the reasons for your answer [BOX 2000 characters]

If verifiers of EU GBS would to be subject to accreditation in some way it should be at European level. Appropriate procedures should be set to ensure a fair assessment, also because setting the standards for such a regime would have an impact on third party providers.

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 / Do not know
- If necessary, please specify the reasons for your answer [BOX 2000 characters]

The measures taken by the Commission concerning verifiers of EU Green Bonds should not be linked to future action to regulate the market for third-party service providers. The two regimes should not be linked as ESG providers do not have the same approach as companies that can license Green Bonds. It is therefore appropriate to avoid any misunderstanding by distinguishing the two regimes, although potential alignment could be considered for issues such as independence, transparency of methodology or qualification

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/ Do not know
- If necessary, please specify the reasons for your answer [BOX 2000 characters]

Any European initiative needs to have a global perspective. If the EU becomes the de facto market leader, then we believe that other jurisdictions would follow. However, we do believe that the result would rather be an international agreement / standard coordinated through existing international organizations / global regulator.

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?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree) (1)
- If necessary, please specify the reasons for your answer [BOX, 2000 characters]

The costs/administrative burdens of providing a prospectus should be reduced to encourage issuance, especially in cases where the relevant information is made available by the issuer through other means.

A short summary in the Base Prospectus of Green Bonds would help investors to quickly assess how much the bond is green or not. At the same time the administrative burden should be rather limited (1-2 pages summary shall be sufficient) in order not to discourage the issuers from the issuance of Green Bonds.

Mandatory information should only be required if the green bonds are material/significant for the investor/the investment decision, and thus relevant for the prospectus. In this case, standardized requirements would prove helpful to increase the transparency. If the prospectus is about the issuance of green bonds themselves, then we do believe that there should be some standardized requirements.

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"

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree) (5)
- If necessary, please specify the reasons for your answer [BOX]

It would make sense to refer to the standard, if this is provided, and we would expect that the prospectus would provide information about why/how the product meets the criteria

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/Do not know.
- If yes, once the EU Taxonomy is established,[5] 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 [box, 2000 characters

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.

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

- Yes/No/Do not know.
    - If necessary, please explain your answer [BOX, 2000 characters]
- If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?

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[5] Assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU taxonomy.

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?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). (2)
- If necessary, please explain. [BOX, 2000 characters]

We question the need for a standard. Market initiatives for inventing sustainable financial products should be encouraged, not met by new requirements. Investors varying preferences should not be squeezed into one common standard and the market can develop such standards itself, especially as the markets are often specific “niche” markets so the cost-benefits of a standard are questionable.

Specifically on the sustainability-linked bonds approach, the ICMA has recently released the Sustainability-Linked Bonds Principles, a high-quality new paper, whose guidelines could be endorsed by the EU in order to complement use-of-proceeds kind of transactions (i.e. green bonds) with new general purpose KPI-Linked instruments. On the loans side, the LMA released the sustainability linked-loan principles, an other milestone in the sustainable finance space.

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?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). (3)
- If necessary, please explain. [BOX, 2000 characters]

As mentioned above we question the need for such a standard. However, in case, such a standard and the use of the taxonomy is considered, it has to take into account the limits of this framework.

A diligent and definite statement on use of the taxonomy depends on the final design of the framework and its criteria, which are not available yet.

However, the current design of the taxonomy as proposed by the Technical Experts Group (TEG) seems to be primarily developed as a standard to determine sustainability targets and performance indicators for financial products.

The performance indicators used as taxonomy screening criteria would allow to certain extent to assess if **specific projects or activities** (but not companies) meet pre-determined (green) sustainability objectives as defined by the taxonomy. It does not provide performance indicators for other important sustainability objectives (such as social, economic etc). The taxonomy as proposed by the TEG is currently also not sufficiently considering the crucial dimension of impact investment, meaning ("greening") activities needed to enable or contribute to reaching the transition goals (such as investments aiming at emission reductions, R&D in new green technologies etc.).

Moreover, concerning loans, taxonomy should be used by banks only on a voluntary basis, in relation to the opportunity to get a discount on capital provision for green exposures.

Comment linked to the previous introductory Question 30: The current taxonomy as developed by the TEG is designed to assess performance of specific activities. Due to limits of the scope of the framework and underlying criteria proposed, it would not be an appropriate tool to assess **companies'** performances against sustainability targets. In particular because the current taxonomy does not cover screening criteria for all economic activities that companies may conduct there is a high risk of having misleading signals and assumptions.

Furthermore, it is important to underline that sustainability-linked transactions (both at loans and bonds level) were born as "general-purpose" instruments, a feature that we recognise key and complementary in respect to green bonds and use-of-proceeds kind of transactions more in general, in order to scale sustainable finance and, therefore, sustainable investments.

Question 32: Several initiatives are currently ongoing in relation to energy-efficient mortgages[4] and green loans more broadly. Should the EU develop standards or labels for these types of products?

- Yes/No/Do not know.
- 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: please specify what type of standard or label on sustainability in the loan market you would like to see [BOX, 2000 characters]

The EU should provide guidance on best practices in order to support harmonization of the markets, but we believe it is too early to mandate specific standards or labels

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/Do not know.
- If no, please explain the reasons for your answer, if necessary. [BOX, 2000 characters]
- If yes, please explain what the key elements of such a benchmark should be. [BOX max. 2000 characters]

[4] 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.

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/Do not know.
- If yes, what should they cover thematically and for what types of financial products? [box max. 2000 characters]

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?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). 2
- For scores of 1 and 2, please list the main problems you see (maximum three). [BOX, 2000 characters].

EU capital markets are still fragmented and regulated differently. European businesses, and especially SMEs, continue to depend highly on bank lending so the trading of sustainable securities is limited. Cross-border capital flows need to be strengthened, following thorough, objective (unbiased) and well tested impact assessments, in order to increase liquidity and encourage issuance of sustainable securities.

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/Do not know.
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

For large issuers, we believe the normal capital market regulations should continue to apply and we believe that the financial markets will establish the platforms / marketplaces needed. There are already about 20 platforms on sustainable finance in Europe which is deemed sufficient. We do not consider that developing such trading venues will foster the mobilization of capital flows towards ESG projects. Bonds are important instruments that are not liquid, so it is not the re-creation of the existing market infrastructure that will increase liquidity given the nature of this instrument.

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

- [BOX max. 2000 characters]

We would need an efficient marketplace with low/competitive financing costs generated by high transparency and fueled by investments/funds directed to the market place. A sustainable finance marketplace has to be competitive to the standard marketplace – without undermining investors rights as this would create uncertainty (and in the end increase cost of capital). Separate listing requirements or trading rules for sustainable securities is not the right way forward to encourage investment in sustainable securities. On the contrary, reduced requirements may attract issuers that for other reasons are unable to list their securities on a regular exchange. This in turn may hamper the quality of and confidence in such green exchanges. However, nothing prevents that regulated markets create separate lists for sustainable financial products under the same rules that apply to all exchanges and all listed securities.

1.6 Corporate governance, long-termism and investor engagement

To reflect long-term opportunities and risks, such as those connected to climate change and environmental degradation, **companies and investors need to integrate long-term horizons and sustainability in their decision-making processes**. However, this is often difficult in a context where market pressure and prevailing corporate culture prompt corporate managers and financial market participants to focus on near-term financial performance at the expense of mid- to long-term objectives. Focusing on short-term returns without accounting for long-term implications may lead to underperformance of the corporation and investors in the long-term, and, by extension, of the economy as a whole. In this context, investors should be driving long-termism, where this is relevant, and not pressure companies to deliver short-term returns by default.

The ongoing COVID-19 outbreak in particular underscores that companies should prioritise the long term interests of their stakeholders. Many companies in the EU have decided to prioritise the interests of key stakeholders, in particular employees, customers and suppliers, over short-term shareholder interest.[5] 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

[5] 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.

of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs);

- Other, please specify. [box max. 2000 characters]

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/Do not know.
- If yes, please explain what action(s). [BOX max. 2000 characters]

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/Do not know.
- If yes, please indicate what share. [box 2000 characters]

Clear, understandable and comprehensive information on remuneration of board directors and its alignment with the company's long-term strategy helps boosting confidence in companies and ultimately in the markets. But a balance needs to be reached in terms of the level of prescription of the rules regarding remuneration policies to avoid triggering negative side effects.

This balance was negotiated for more than three years in the recently transposed Shareholder Rights Directive 2. The fully intended outcome of those negotiations was that disclosure requirements and shareholder say-on-pay were substantially increased, thus focusing on increased transparency but leaving the substance of the executive pay to the companies and their shareholders. It seems very ill-advised to reopen this discussion again so soon after, especially when this part of the directive has not yet come into effect in practice. It would be very premature and in clear breach of EU better regulation principles.

Although the directive has no legal requirement to include non-financial KPI's in its remuneration criteria, a recital encourages listed companies to assess directors' performance using both financial and non-financial KPI's. Whatever KPI's a company chooses to use, there must be transparency in both the remuneration policy and report. Moreover, the relevant rules of the directive clearly states that remuneration policy must contribute to the company's business strategy and long-term interests and sustainability and shall explain how it does so. This is a good balance which is even being strengthened by national corporate governance codes

Regulation on the substance of executive remuneration (e.g. defining percentages of variable remuneration, determining in detail which ESG components should go into variable remuneration) is too far-reaching and intrusive on the fundamental rights of private companies and where applicable the autonomy of collective bargaining. This was specifically excluded from the shareholders rights directive II and for very good reasons. It should remain for each individual company to decide how best to align executive remuneration with its business model, the strategy and goals (also long term) of the given company.

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/Do not know.

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/Do not know.
- If yes, what action should be taken? Please explain or provide appropriate examples. [BOX max. 2000 characters]

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/Do not know

The recently implemented shareholders rights directive II put into hard law a number of measures aimed at encouraging shareholder engagement complemented by measures strengthening shareholders' say also in an attempt to gear companies and their investors towards long term objectives (including ESG). Not only is it too early to measure the results of these rules (implementing regulation is still to come into force) but going beyond could risk negatively impacting the way companies function and interact with their shareholders. Furthermore, companies need flexibility to define which ESG factors are relevant/material to them and their stakeholders, rather than prescribing this. Regulating even further voting frameworks in companies would trigger a further transferring of the responsibilities of the board to shareholders which would negatively disrupt well-functioning corporate governance structures. The primary purpose of boards is to develop the strategy, control management (including risk management processes) and take corrective action on strategies and in relation to the management. These competences should not be watered down and placed in the hands of shareholders/investors who would likely not have the expertise nor the means to have an informed vote. This could also give way to an added dependence of the latter on the services of proxy advisors. Ultimately shareholders continue to have a say and if disappointed with the company's direction in relation to ESG and performance they can take corrective action by removing/changing the board.

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/Do not know.

- If yes, please explain. [BOX max. 2000 characters]

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/Do not know.
- If no, please explain the reasons for your answer if necessary. [BOX max. 2000 characters]
- If yes, in your view, what do you think this impact is, do you think that the EU should address it and how? [box max. 2000 characters]

The requirement to consider criteria outside the index composition (such as ESG criteria) would make simple index-based investing impossible, which should be avoided. However, investors pursuing a passive strategy are of course free to consider ESG factors as well.

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.

Since many years, companies have taken account of diverse stakeholders' interests alongside the financial interests of shareholders, not only because this is an expectation placed on them, but because they see the value also for the financial position of the company, in doing so.

Therefore, taking account of all relevant stakeholders' interests, as determined by the company is directly linked to the performance and interest of the company. It is wrong assumption that companies exclusively prioritise shareholder value or that shareholder value creation is necessarily contrary to a stakeholder-oriented approach. This is often part of companies' CSR/sustainability practices, which by their voluntary nature go beyond what is required by law. Corporate governance codes in many member states (e.g. France, Germany, Netherlands, Belgium, Italy) have already introduced recommendations nudging companies around stakeholder value. No new EU legal requirements are necessary in order for companies and their directors to take diverse stakeholder interests into account in corporate decisions, Legal requirements would rather negatively disrupt a long-standing and fine-tuned balance in the governance structures of structures, i.e. the balance between general meeting (shareholders), boards and the management.

More prescriptive requirements beyond this would not allow transparency actions and reporting tailored to the specific way companies function. For example, it should be noted that in certain cases not all the interests of stakeholders of companies are fully compatible with each other, sometimes they are even contradictory (e.g. workers, shareholders, investors, creditors, consumers) depending on the situation (e.g. restructuring, recovery, insolvency, merger or division). The company needs flexibility to balance those individual stakeholders' interests as, depending on the situation, they can often not be put on the same level, otherwise it would lead to contradictory approaches.

This would likely have a negative impact on several fundamental principles of our market economy model which is the freedom of enterprise and property (ownership) rights.

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/Do not know.

Confindustria has strong concerns regarding the possible introduction of an EU mandatory framework for supply chain due diligence. Confindustria acknowledges the risks of a fragmented and diverging legislative approach by individual members states on supply chain due diligence for multinational companies operating in different countries. While the development of national initiatives on mandatory due diligence calls for levelling the playing field to safeguard competitiveness of European companies, it is crucial to base any action on international standards and guidelines, as many European companies are part of global supply chains and must be able to maintain global competitiveness and reflect meaningful requirements on their international supplies.

Adopting a new legislative framework raises many questions – scope, adequate level of accountability, how to ensure that the responsibilities of states and companies are not inverted - and could have negative and unwanted impacts (e.g. on competitiveness of European companies, jeopardising meaningful and successful company-best practices, and possibly dampening investment in third countries. In addition, at a time where value chains are heavily disrupted due to the COVID19 crisis, introducing a new layer of legislation in the near future could make it harder for companies to effectively secure, redesign or be able to rebuild essential supply chains in the upcoming exit and recovery phases. Potential legislation would need to take this into account and also consider long-term structural changes to global value chains induced by COVID-19.

While offering expanded sourcing and other business opportunities, by operating in the framework of global value chains, companies face a number of challenges: they have to manage complex production processes, scattered around different locations, in many cases using inputs that come from many different suppliers, and often the environments in which they operate are challenging, both from a human rights and environmental point of view, for example because of conflict, rule of law gaps or weak local governance. Whilst many companies have devised approaches to verify and control their suppliers, it is extremely complex for large multinationals to ensure full control at all levels of their supply chain, in particular those beyond tier one. Companies also face challenges downstream in the value chains as their goods and services could be used both for military and civilian purposes. Sometimes it is difficult for a company to control the final application of the product or service and therefore even more challenging to ensure that it is not used by a given public or private entity in a way that could constitute a human rights violation for instance.

If the EU does decide to go ahead with a legislative measure, the following fundamental considerations need to be taken into account:

- Any new initiatives by the European Commission should be backed up by a **strong impact assessment** that clearly identifies the potential failures of the market, existing soft law approaches including by international organisations (e.g. OECD, UN) and voluntary approaches by companies, when it comes to address due diligence and how to limit them without taking disproportionate measures.
- When devising any EU measure, the **flexibility needed** by companies and the potential of soft law should not be forgotten – a **mixed approach is key**. Whether in complying with mandatory requirements or in their own actions, companies should be able to devise solutions which fit their size, sector, operating markets and business model and allow them to identify where the material risk of adverse impacts, e.g. on human rights or environment is highest and to focus their efforts and resources there.
- Any framework should be based on an **obligation of means rather than obligation of results**.
- The precise content of a mandatory due diligence should carefully consider the variations across different actors, contexts, sectors or nature of the supply chain. For example, companies may enter in business with suppliers from countries that do not share and recognise the same standards as the EU (e.g. on freedom of association, equality between men and women, or freedom of speech). This means legal uncertainty related to the consequences in terms of due diligence and accountability. Consideration should be made on the impact on **EU companies' overall competitiveness** vis-à-vis companies from other parts of the world. **Third country private or publicly held companies** could, under certain conditions (e.g. turnover-based threshold in the EU) also be covered by the measures.
- **Role of governments and companies should not be mixed**. Companies do not have the mandate nor the capability to solve all the problems arising from failing states or weakly governed states causing e.g. human rights breaches in domestic supply chains.
- **Any EU framework should not exclusively focus on the company and its direct stakeholders alone**. In order to effectively reduce or mitigate risks, due diligence has to be taken in an holistic way by involving many actors of the ecosystem of supply chains, from companies (multinational and local) to states, NGOs to consumers.
- If reporting requirements are **devised overlap must be avoided with regard to the Non-Financial Reporting Directive, the taxonomy regulation**, and any future revision or new standards developed in this area.
- Consideration needs to be given to **practical challenges companies could face to comply with legislation** :
    - If there are large and diverse value chains.
    - If suppliers reject to comply (e.g. in a dependence relationship), in particular if there are no alternative suppliers or they are scarce and it is difficult to engage with a new supplier and build a new business relationship to avoid business disruption.
    - How to handle subcontractors with which the company does not have a direct relationship.

- Cooperation with business associations and companies is essential in the development of any European measures - voluntary or mandatory – because they better understand these practical challenges of supply chains downstream or upstream.
- When it comes to **accountability** it would be inappropriate to hold only European companies accountable for damages occurring through global supply chains when it is impossible to control all the components of the chain and the many other actors involved. Regulatory requirements must not lead inadvertently to situations where companies are held liable precisely because they took due diligence measures.

Imposing too many far-reaching obligations on the board, making them liable for what happens several layers down in a complex supply chain in a territory outside of the EU where the state structures should be taking the responsibility to ensure protection of human rights and environment, leads to a disproportionate liability for individual company directors. As a consequence, this will hamper companies´ ability to attract highly skilled board members.

- Any new framework should be **fully in line with internationally recognised standards** such as the UN Guiding Principles on Business and Human Rights (UNGP) and the OECD due diligence guidance for responsible business conduct. European companies operating worldwide already refer to these standards to conduct business in a responsible way. The UNGPs in particular clearly delineate between the state responsibility to protect and the business responsibility to respect. This division of responsibilities should be embedded in any legislative initiative.
- **Regulatory requirements need to be sufficiently clear so that business** can implement with confidence of compliance. The level of detail should be proportionate to provide clarity for business, but without being prescriptive to a point that encourage a **tick-box approach** rather than the more holistic materiality-based and impact-oriented approach and which takes away necessary flexibility for companies to adapt to their specificities.

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/Do not know.
- 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.oOnly large companies.
- If necessary, please explain the reasons for your answer. [box max. 2000 characters]

SMEs face distinct challenges in meeting due diligence responsibilities, not at least because of their limited resources. A possible mandatory approach will impose bigger burdens on them. Besides that, even if SMEs are out of the scope of an EU initiative, the obligations will be imposed to them downstream, as part of the supply chain of companies that are within the scope, so any EU measure needs to take this into account.

Besides that, if a European supply chain due diligence requirement will be applied to small and medium companies too, it would be useful to introduce soft requirements for them. For example, different levels of depth of application of due diligence in the supply chain could be defined according to company size, therefore the implementation of due diligence requirement only at the first levels upstream or downstream of the supply chain for SMEs.

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/Do not know.
- If necessary, please provide an explanation of your answer. [box max. 2000 characters]

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/Do not know.

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? Please reply using a scale of 1 (completely disagree) to 5 (fully agree)

- If you agree (for scores of 4 to 5), please choose what particular action should be prioritised:
  - Integrate sustainable finance literacy in the training requirements of finance professionals. [1-5] (5)
  - Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens' education at school, possibly in the context of a wider effort to raise awareness about climate action and sustainability.[1-5] (2)
  - 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. [1-5] (4)
  - Directly, through targeted campaigns. [1-5] (4)
  - As part of a wider effort to raise the financial literacy of EU citizens. [1-5] (5)
  - As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. [1-5] (3)
  - Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. [1-5] (5)
  - Other, please explain.[box max. 2000 characters]

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?

- Please express your view by using a scale of 1 (not important at all) to 5 (very important). (2)
- For scores of 4 to 5, what actions should the EU take in your view? [BOX max. 2000 characters]

Financial products per se do not create a sustainable impact, they finance activities that create the impact. Therefore, the success of sustainable finance depends on the effectiveness of financial products in identifying and funding activities which have a positive impact on sustainability factors and the transition. In this context it is important to flag up that the current design of the taxonomy, as developed by the Technical Expert Group, provides an framework that identifies under which conditions economic activities are considered to be environmentally sustainable ("green"), but it does not sufficiently help to identify crucial impact investment, for example ("greening") activities, that enable or contribute to reaching the transition goals (such as activities e.g. aiming at emissions reduction or R&D for new green technologies etc.). Therefore, adapting tools like the taxonomy in a way that includes these "greening" efforts would be key to maximise the positive effective impact of sustainable finance on sustainability factors and to accelerate the transition.

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/Do not know.
- If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way.[box max. 2000 characters]

In the fixed income space, though, we believe that use-of-proceeds bonds, such as green bonds (as mentioned previously) that allows investment in specific green eligible projects or activities, could be complemented with general purpose type of bonds that specifically and transparently identify sustainability targets, within the overall strategy of a certain company. This way investors would have a further instrument to push companies to implement strategies towards sustainability, as a green bond may be well directed to a sustainable activity though leaving unaffected the overall strategy of the issuer, and therefore the achievement of sustainability goals.

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?

- Please express your view by using a scale of 1 (not important at all) to 5 (very important).
  5
- If necessary, please explain your answer. [box, max. 2000 characters]

A European Green Loan Securitisation Framework as add-on to the existing securitisation framework could be a powerful tool and act as a multiplier to fund sustainable assets as well as the transition efforts to further increase sustainability. Securitisation can aggregate individual green assets. The size of individual transactions is often too small to make sustainable finance through Green Bonds, Green Loans or Positive Impact loans instruments viable. Therefore, these instruments might exclude a significant proportion of smaller investments that, taken in aggregate, are needed to fund global sustainability goals. Green securitisations could be one of the most effective potential means to harness small scale developments like green mortgages, residential rooftop solar energy and small SME loans for energy storage projects. And green securitisation is really the only avenue for investor exposure that has direct attribution to the identified assets. We also deem that the public sector has an important role as an enabler, both from a policy point of view (i.e. introduction of tax incentives) and as an issuer of green debt (i.e. basket of mini-bonds). In this respect we value the synergies between the public and the private sector as another important tool to channel more funds towards the green sector. Additionally, securitisation opening up Green bonds / Green securitisation to retail investor would help expand investments and would enhance the provision of incentives such as tax breaks.

It could be provided that the European Investment Bank Group gives its guarantee, also within the InvestEU framework, on junior securitization tranches in order to favour private investments on green ABS.

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/Do not know.
- If yes, please list the barriers you see (maximum three). [BOX max. 2000 characters]

The recently revised securitisation framework is not sufficiently attractive to issuers or investors and is unlikely to incentivise securitisation. It needs to be reviewed to encourage financing of sustainable assets and its subsequent refinancing through securitization. In order for a securitisation to be accepted, it must meet a lengthy series of criteria, which are difficult to fulfil.

There is a need to reform the actual securitization framework (including STS) given its current dysfunctionality. The development of sustainable finance could be facilitated by the setting up of a European Securitisation Mechanism for Green Loans with an additional Green European modified STS label, in a similar way to the Green Bond label, and a possible guarantee of a recognised public body, for example the European Investment Bank.

The great advantage of such an initiative would be to allow both the development of a market financing solution targeted by the Capital Market Union, and the support of sustainable finance. The additional green STS-improved securitisation label would attract investment funds targeting green investments. The public organisation guaranteeing the securitisation could also play a role in certifying that the green securitisation criteria are met. Alternatively, an accreditation regime for external reviewers could be envisaged.

The prudential treatment under CRR, Solvency II and the LCR requires improvement in order to develop the STS securitisation market in general and the Green STS securitisation market in particular. Currently, capital costs and benefits are not commensurate with the risks of safe STS securitisations and distort the market to a point where it is not attractive for many players.

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

- Yes/No/Do not know.
- If yes, what regulatory and/or prudential measures should the dedicated framework contain and how would they interact with the existing general rules for all securitisations and specific rule for STS securitisations? [box max. 2000 characters]

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/Do not know
- If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider? Please list a maximum of three actions and a maximum of three existing initiatives. [BOX max. 2000 characters]

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/Do not know.
- 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 [BOX max. 2000 characters]

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/Do not know.
- If yes, please detail, in particular if you see a role for EU intervention, including financial support. [BOX max. 2000 characters]

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.

The following can prevent an increase in the pipeline of sustainable projects:

Lengthy planning and environmental approval procedures: large industrial projects are often confronted with very lengthy planning and environmental approval procedures, which can hamper the attractiveness for investors. For example, for new electricity projects a period of 8-10 years until formal approval is not unusual.

Lack of carbon leakage measures: A key obstacle preventing an increase in the pipeline of sustainable projects is the lack of carbon leakage measures that could protect the global competitiveness of EU companies while they face the additional costs that sustainable investments tend to entail.

Risk of a very restrictive taxonomy: moving forwards, the pipeline of sustainable projects will also be negatively affected if the taxonomy's criteria are too stringent. As the focus of the taxonomy seems to be to identify and steer investments to the "greenest of the green" activities only. Many of the investments needed to transform will not fit in to this model. Therefore, while the proposed taxonomy may help to identify a limited number of more environmentally sustainable activities, it will face limitations in terms of providing a complete solution. As a result, many companies will be unable to proceed with 'taxonomy-compliant' investments, even if they want to.

The fact that some transitional activities have effectively been excluded from the scope of the taxonomy is also highly problematic. Such projects can have huge potential for CO2 emission reductions, but are less likely to be implemented if they are not considered 'taxonomy compliant'.

In addition, the implementation of the taxonomy will be a challenge for the business sector. Gathering, evaluating and presenting the necessary data and information to demonstrate compliance with the different criteria of the taxonomy will pose practical challenges and be burdensome for companies, and SMEs in particular. There is a risk that the increased administrative burden will constrain the competitiveness of European business if the taxonomy becomes very complex.

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

- Yes/No/Do not know
  If necessary, please provide details. [box. Max. 2000 characters]

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

- [BOX max. 2000 characters]

Frameworks and tools should be designed in a way that they are practical, fit for purpose, and avoid additional and duplicative bureaucratic burden or costs for corporates and SMEs in particular.

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?

- [Box max. 2000 characters]

Overall the objective is to increase market uptake of European research, development and innovation (RDI). There is a general need for investment in projects with low technology readiness level (TRL). This is particularly the case for medium innovation cycle (MIC) and long innovation cycle (LIC) activities, as they are even more risky and therefore not yet bankable. The models of EIC Pilot and EIB's InnovFin are taking this into account by providing grants/loans/blended support to companies. To make sure this public support is used, it's important to ensure that it is easy to use and does accompany companies until the moment their project becomes less risky and therefore bankable.

On Question 64:

Investment in RDI is key to reach sustainability objectives and the consideration of RDI in the taxonomy is of utmost importance to encourage investors to further fund RDI projects. However, it is not entirely clear how such a dedicated category for RDI would fit in to the taxonomy approach developed by the Technical Expert Group. Such a category would require a massive adaptation of the current framework. This would be necessary as the current taxonomy approach is designed to categorize economic activities as environmentally sustainable ("green") based on actual performance, which could exclude relevant innovation projects from eligibility based on: a) non-contribution to the "green" taxonomy objectives (e.g.: health or digital related innovation); b) not considering the future potential impact or target performance of "enabling" activities (such as for example the development of Carbon Capture and Storage (CCS) technology); c) not covering the economic activity, because of the non-existence of thresholds and screening criteria.

In this context we see a high risk that a separate category under the taxonomy regulation could lead to misleading categorization of RDI projects as "sustainable"/"not sustainable" or which could eventually lead to allocation of investments away from activities not covered in the taxonomy or to niches like green innovation or specific sectors only, which cannot be considered as useful with regard to the overarching objectives.

A probably more promising approach would be to consider RDI efforts as "enabling" towards the objectives of the taxonomy and adapt screening criteria accordingly to ensure that RDI linked to the transition is eligible under the EU taxonomy framework.

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

- Yes/No/Do not know

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

- Bringing more financial engineering to sustainable R&I projects? Yes/No
- 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)? Yes/No
- Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes/No
- Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes/No
- Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes/No
- Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes/No
- Facilitating sharing of information and experience regarding successful low-carbon

business models, research gaps and innovative solutions? Yes/No

- Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? Yes/No
- If necessary, please explain your answer. [Box max. 2000 characters]

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?

- Please express your view on the current market functioning by using a scale of 1 (not well functioning at all) to 5 (functioning very well). 3
- Please specify your answer. [BOX max. 2000 characters]

The most important novelty to be pursued is to follow a sustainability value framework. This would generate value by means of superior financial performance though higher cash generation, more predictable results and lower risk. Such a framework is the strategy that every company should follow to address the challenges we face and generate more value. At the same time, investors should weigh ESG factors in their investment decisions, while Credit Rating Agencies need to incorporate sustainability in a transparent way when assessing the credit profile of companies, resulting in a lower cost of debt for the best performing ones.

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

- Please express your view on the importance of financial incentives by using a scale of 1 (not effective at all) to 5 (very effective). (4)
- In case 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 using a scale of 1 (not effective at all) to 5 (very effective).

Types of incentives	Bonds	Loans	Equity	Other
Revenue-neutral subsidies for issuers	3			
De-risking mechanisms such as guarantees and blended financing instruments at EU-level		5		
Technical Assistance				

Any other public sector incentives - Please specify in the box below. Tax incentives for issuers	5			

- Please specify the reasons for your answer (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider. [BOX max. 2000 characters]

Loans to companies that are in transition towards sustainability can be incentivized by public guarantees that allow to reduce risks for banks and capital provision. This has been demonstrated to be true with the introduction of the PMI Supporting Factor, that has been recently strengthened in the CRR.

As regards the issue of securities, tax incentives are necessary to guide market choices towards sustainable bonds.Moreover, there are key issues to be followed:

- Embrace SDG-linked bonds to be issued by the private and public sectors (in complement to existing use of proceeds instruments such as green bonds).

Historically most green/sustainable bonds have been "use of proceeds" bonds, linking the funds to specific uses/projects; the same approach has been recently taken by the EU with the recent legislation on sustainable finance.

Introducing Sustainability Linked Bonds (i.e. not linked to specific projects) as an alternative approach to the use of proceeds bonds would accommodate a far more diverse and large range sustainable investments, expanding exponentially the mobilisation of sustainable finance to the service of both the recovery and the energy transition.

- An innovative combined loans and grants approach

The recovery fund could trigger the scale up of sustainable investments through: (i) interest subsidies to reduce cost of debt, (ii) regulation and standardisation to improve corporate's access to sustainable debt, and (iii) temporary equity partnership to reduce corporate's needed capital. Improved Corporates' capital returns pave the way to boost sustainable investments in Europe.

- Renew EIB's role providing both short- and long-run financing.

We suggest that EIB should also support supply-chain finance with a focus on working capital (short-term financing). Furthermore, for both short- or in long-term financing we deem essential a shift from Use of Proceeds to General Purpose instruments as explained above.

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

- Please express your view by using a scale of 1 (not effective at all) to 5 (very effective).
- For scores of 4 to 5, in case you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments? [drop down menu]
  - Revenue-neutral public sector incentives
  - Adjusted prudential treatment
  - Public guarantee or co-financing
  - Other
- Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other). [BOX max. 2000 characters]

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/Do not know.
- If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue? [box max. 2000 characters]

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 - please explain which public authority could use it, how and for what purposes. [Box max. 2000 characters]
- Yes, but only partially - please explain which public authority could use it, how and for what purposes, as well as the changes what would be required to make it fit for purpose. [Box max. 2000 characters]
- 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. [Box max. 2000 characters]
- Do not know.

As a matter of principle, it is hard to assess the usability of the taxonomy for the public sector given that the effectiveness and impact of the instrument on the financial markets (its primary objective) has not been tested yet. The practical implementation of the regulation is expected to start by 2022.

However, based on the current design developed by the Technical Expert Group, the taxonomy could be used by public authorities as classification system providing a common basis for green labels for financial products that invest in green activities. Some of the specific screening criteria could probably be used as target indicators for green projects.

However, green expenditures as defined by EUROSTAT aim to provide information about expenditures following a green purpose, such as: prevention, reduction and elimination of pollution, environmental protection services, protection of biodiversity, as well as protection of soil, research and development, education and training.

The current approach of the taxonomy provides a classification system which provides thresholds and performance indicators for some but not all economic activities, it does not include impact indicators (such as e.g. energy consumption reduction or efficiency gains) nor does it consider the purpose or future contribution of an investment. Therefore, the current taxonomy approach would not allow accounting expenditures aiming at a specific future impact, which means that compliance with the taxonomy would not provide an appropriate basis to classify or report on green expenditures.

In order to make it fit for purpose, the screening criteria need to be adapted in a way that they consider activities that are enabling (also indirectly) or contributing based on their purpose and not based on actual performance only.

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 /Do not know
- If no or yes, but only partially, please explain why and how those reasons could be best addressed. [BOX max. 2000 characters]

In general, a diligent and definite statement on use of the taxonomy depends on the final design of the framework and its criteria, which are not available yet. The current approach of the taxonomy as proposed by the Technical Experts Group (TEG) provides a classification system which provides environmentally sustainable thresholds and performance indicators for some economic activities. By default the taxonomy is not a tool to assess products and services or suppliers.

However, the performance indicators used as taxonomy screening criteria may allow to assess if specific projects or activities could potentially meet pre-determined (green) sustainability objectives as defined by the taxonomy. In that context, they could probably provide a useful information basis for the preparation of Green Public Procurement orders. Requirements that are defined should always be directly associated with the product or the production line.

Question 72: In particular, should the EU Taxonomy[8] 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.

In general, a diligent and definite statement on the use of the taxonomy depends on the final design of the framework and its criteria, which are not available, since the regulation and its respective delegated acts have not entered into force yet. As of today the added value of using the taxonomy for spending frameworks is highly questionable.

EU public spending frameworks, recovery plans etc need to have broader scope and could also support investments in for instance actions to support implementation of the SDG's.

Once the framework and the criteria are finalized, we believe it is relevant to consider whether there is a role for the taxonomy to play as an element.

For funds/initiatives/spending programs specifically targeting areas directly linked to the objectives set out in the taxonomy, it could be considered whether the Taxonomy is relevant. However, as we have already indicated in other answers, the current approach of the taxonomy provides a classification system which provides thresholds and performance indicators for some but not all economic activities. It does not include impact indicators (such as e.g. energy consumption reduction or efficiency gains) nor does it consider the purpose or future contribution of an investment. Therefore, the relevance depends on the types of projects being funded as all projects may not be covered – especially since most of the spending programmes should have the intention to focus more on (long term) impact or future contribution.

Follow-up questions:

- 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? Select all that apply:
  - In the context of some EU spending programmes: BOX [max 2000 characters]
  - In the context of EU state aid rules: BOX [max 2000 characters]
  - Other, please specify. BOX [max. 2000 characters]
- If yes, but only if social objectives are included; what role do you see for a social, climate and environmental taxonomy? Select all that apply.
  - In the context of some EU spending programmes: BOX [max 2000 characters]
  - In the context of EU state aid rules: BOX [max 2000 characters]
  - Other, please specify. BOX [max. 2000 characters]

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/Do not know.
- 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? [BOX max. 2000 characters]

[BOX max. 2000 characters]

2.8 Promoting intra-EU cross-border sustainable investments

[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.

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/Do not know.
- 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 [box max. 2000 characters]

Targeted investment promotion services for companies bring down costs associated with analysing market conditions and the regulatory framework as well as looking for financing sources and possible business partners, etc. in the country where they would like to invest. This reduces market entry barriers and frees up resources, enabling more companies, and especially SMEs, to make sustainable investments across EU borders.

2.9 EU Investment Protection Framework

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

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

- Investment protection has **no impact.**
- Investment protection has **a small impact** (one of many factors to consider).
- Investment protection has **medium impact** (e.g. it can lead to an increase in costs).
- Investment protection has a **significant impact** (e.g. influence on scale or type of investment).
- Investment protection is a factor that can have a **decisive impact** on cross-border investments decisions and can result in cancellation of planned or withdrawal of existing investments.
- 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)?

- Please express your view by using a scale of 1 (highly insufficient) to 5 (fully sufficient). 2
- 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? [BOX max. 2000 characters]

A strategic focus on sustainability should be implemented across all of the EU's external policies. However, meeting the Sustainable Development Goals (SDGs) at global level by 2030 will require additional investments of USD 2.5 trillion per year on average[6]. Thus, increased international cooperation on efforts to scale up environmentally sustainable finance and promote the integration of markets for green financial products at international scale is thus essential. While the EU has been leading on sustainable finance, sustainable finance reforms are increasingly implemented across the globe. This provides the EU with an opportunity to bring together other countries and establish best practices on a global level.

This should be done both within existing fora — such as the G20, the G7, the UN, the OECD, the International Organization of Securities Commissions, the International Association of Insurance Supervisors and the International Organisation of Pensions Supervisors — as well as bilaterally and plurilateral. In this regard, the European business community welcomes the creation of the International Platform on Sustainable Finance. Many important actors in the field, such as China, are already members. To increase the momentum of this initiative, the EU should keep encouraging more countries to join the platform. The EU should also provide expertise and political support for the work of the UN Inter-Agency Taskforce to implement the Addis Ababa Action Agenda to scale up global private finance for the SDGs and the Financing for Development Forum.

Global cooperation is especially important in terms of project development and to ensure more bankable projects. At the same time, it is important that public initiatives do not crowd-out the private sector – but rather increase the cooperation with business. It should for instance be left to the private sector to (co)finance the commercially most profitable projects, leaving more room for the public to (partly) finance projects with higher risks (for instance due to new technology being used in large scale for the first time). Special considerations should be given to ensure that smaller players get access to finance.

[6] Investing in the SDGs: An action plan, UNCTAD, 2014.

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

- [BOX max. 2000 characters]

The EU could provide technical assistance and capacity building on the private sector's role in delivering the goals of the Paris Agreement and the SDGs as well as the risk of climate change and business opportunities associated with climate adaptation to business organisations in developing countries.

The EU could work with partner countries and EU and non-EU private sector stakeholders to create a voluntary "joint language and tool-kit" for financing sustainable projects, which can be used also outside the EU. The aim should be to facilitate better investment decisions and to support the development of sustainable projects.

On average, the private sector accounts for 60% of GDP, 80% of capital flows and 90% of jobs in developing countries[7]. However, a large part of the workforce in developing countries is employed in the informal economy – in many countries the share of workers in the informal sector is more than 90%. Helping developing countries to formalise their economies will also contribute to a better coordination of the private sector.

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, please specify [BOX max. 2000 characters].

Investments must be economically viable in the medium and long-term. Thus, it is difficult for businesses to scale up investment in sustainable projects if the right policy environment is not in place. A good overall business environment and a favourable investment climate are key to attract and retain more private investment, create more and better jobs and improve peoples' lives. Besides access to sufficiently large markets, it involves factors such as macroeconomic stability, good governance and the rule of law, an adequate physical and digital infrastructure, a skilled population, an accountable public sector, a country's policy framework, etc. For example, a key issue in many developing countries is the lack of transparency and lack of clarity regarding the rules and procedures private investors need to comply with for their business projects, as well as the difficulty to effectively enforce them in case of infringements.

Recent EU development policy initiatives have taken this into account: On the one hand, the investment climate has become an important topic in the EU's official dialogues with partner countries. On the other hand, the investment climate is one of the three pillars on which the External Investment Plan, the EU's flagship initiative aiming to leverage sustainable private investment in Africa and the European neighbourhood. Besides technical assistance, the

[7] The Private Sector: The Missing Piece of the SDG Puzzle, OECD.

instruments promote public private dialogue in partner countries as means to identify areas in need of reform to enable companies to invest more in sectors conducive to sustainable development.

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. [BOX max. 2000 characters]

1. The development of sustainable projects themselves is a key issue, and general development policies should provide tools, guidance and other support functions in order to help generate such projects. Moreover, the EU should provide more specific support to projects, that are not able to attract (sufficient) private funding and thus need to be financed through grants, guarantees or innovative financing instruments.
2. Development finance institutions need to make more extensive use of innovative financing instruments to mitigate risks associated with investing in sustainable projects in developing countries, thus leveraging additional private investment. The additionally of the investments leveraged in this way needs to be ensured to avoid market distortions and unfair competition. The EU External Investment Plan (EIP) is a first welcome step in this regard. The external financing instruments in the new Multiannual Financial Framework (MFF) need to build on the lessons learnt from it.
3. The business environment and the investment climate in a country strongly affect the ability of companies to invest in sustainable projects. Businesses active on the ground are best suited to identify factors that negatively impact the investment climate in a country. Business organisations act as mediators between individual companies and policy-makers and thus play a crucial role in aggregating business priorities and concerns and feeding them into the policy making process. EU development policy should therefore promote public-private dialogue in partner countries. This should be accompanied by efforts to build the capacity of business organisations in partner countries and ensure their representativeness.
4. European companies lead in providing sustainable long-term solutions, but worldwide they face increasing pressure from companies from emerging countries, particularly China, many of them state owned. This is especially the case in the field of public and private infrastructure and connectivity. Although the price of their competitors' projects may be lower in the short term, they often prove more costly and less sustainable in the long run. Therefore, development finance institutions should consider the life-cycle costs of projects. This would ensure a contribution towards the SDGs and give EU companies an edge over their competitors.

Question 80: How can EU sustainable finance tools (e.g. taxonomy, benchmarks, disclosure requirements) be used to help scale up the financing of sustainable projects and activities in emerging markets and/or developing economies? Which tools are best- suited to help increase financial flows towards and within these countries and what challenges can you identify when implementing them? Please select among the following options.

- All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change.
- Some tools can be applied, but not all of them. If necessary, please explain [box max. 2000

characters].

- 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 [box max. 2000 characters].
- Do not know.

The External Investment Plan builds on the approach taken by the European Plan for Strategic Investments. However, it was significantly adapted to make it workable in developing countries and two new dimensions (technical assistance, investment climate reforms) were added to the instrument to flexibly adapt it to the specific contexts of each country it operates in.

Similarly, there is no one size fits all approach to sustainable finance. Tools need to be adapted to the local specificities in different developing countries, building on local expertise and approaches already in place. While the exact criteria of the EU's sustainable finance tools have not been defined yet, many of them build on EU standards and are subject to complex calculation methods that require exact data that has been collected according to specific methods. In developing countries standards and data collection methods may vary or not available. The EU can share its experience and technical knowledge in bilateral cooperation with partner countries and help them establish their own frameworks. Moreover, the EU should encourage more countries to join its International Platform on Sustainable Finance to ensure a coordinated approach internationally and share best practices.

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 / do not know.
- If no or yes, but only partially, please explain why and how the obstacles you identify could be best addressed [box max. 2000 characters].

Many development finance institutions already have their own taxonomies in place to ensure that the projects they finance contribute to the Sustainable Development Goals and the mitigation of climate change. The EU needs to cooperate closely with development banks and business to identify best practices for sustainable finance and work towards common criteria as a more globally harmonized taxonomy in this area would be beneficial.

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.[8] 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

[8] 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), EBA Action Plan (,and EIOPA's dedicated webpage (https://www.eiopa.europa.eu/browse/sustainable-finance_en)

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/Do not know.
- If no, please explain why you disagree [BOX max. 2000 characters]
- 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, please specify. [box max. 2000 characters]

If the main purpose is to support financing the transition, then the focus should remain on the positive approach of a taxonomy that helps to steer investments towards environmentally sustainable activities as initially proposed by the European Commission. Such an approach based on incentives, Is likely to be more efficient in terms of cost and time needed for application and does not require any additional taxonomy.

Sustainable finance must not penalize companies that are excluded from the taxonomy but rather create additional and parallel financing channels for sustainable activities. Such a restrictive view could involve the risk of a credit crunch or even an exclusion from the financial market of those companies that are not yet able to communicate and transfer environmental non-financial information to stakeholders. The offer of sustainable financial products and services must be an effective way of **gradually** transferring companies’ investments to more sustainable activities.

Also, the purpose and added value of such a brown taxonomy is not clear. Introducing a “brown taxonomy” is likely end up in a punitive approach which will not necessarily help closing the financial gap, but on the opposite risks to significantly add complexity to the system, to unnecessarily delay the implementation process and to lead to unproportionate reporting burden for companies. Further such an approach risks to create stranded assets and misleading investment signals towards a niche market, which could have detrimental effects on companies access to finance, potentially restricting the access for activities that otherwise could have great GHG emission reductions potential.

If the purpose is to use such an taxonomy to identify risk exposure it is highly questionable how this could be realized within the currently developed taxonomy approach and it would inevitably lead to number of open questions regarding the purpose, the potential users, the scope which have to be clarified before an further assessment can be made.

Referring to Question 83:

No, such an approach and its added value is highly questionable as it would imply a brown list and moreover claim to entirely and absolutely categorise the sustainability of an economic activity which can be hardly met, in particular as the current approach focuses on the “green” dimension only and does not consider other relevant sustainability aspects.

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/Do not know.
- If yes, what should be the purpose of such a taxonomy? Please specify. [BOX max. 2000 characters]

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,[9] regulators and research centres. However, significant progress still needs to be made in order to properly understand and manage the impact of these risks.

Question 84: Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system. What are in your view the most important channels through which climate change will affect your industry? Please provide links to quantitative analysis when available.

- Physical risks, please specify if necessary [BOX max. 2000 characters]
- Transition risks, please specify if necessary [BOX max. 2000 characters]
- Second-order effects, please specify if necessary [BOX max. 2000 characters]
- Other, please specify [BOX max. 2000 characters]

Question 85: What key actions taken in your industry do you consider to be relevant and impactful to enhance the management of climate and environment related risks?

- Please identify a maximum of three actions taken in your industry [BOX max. 2000 characters]

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

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

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

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

Insurance prudential framework

Insurers manage large volumes of assets on behalf of policyholders and they can therefore play an important role in the transition to a sustainable economy. At the same time, insurance companies have underwriting liabilities exposed to sustainability risks. In addition, the (re)insurance sector plays a key role in managing risks arising from natural catastrophes though risk-pooling and influencing risk mitigating behaviour. The Solvency II Directive[10] 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.

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/Do not know.
- If yes, please specify which actions would be relevant. [BOX max. 2000 characters]

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).

[10] 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).

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/Do not know.
- If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy? [box max. 2000 characters]

Question 89: Beyond prudential regulation, do you consider that the EU should take further action to mobilise banks to finance the transition and manage climate-related and environmental risks?

- Yes one or both, please specify which action would be relevant [BOX max. 2000 characters]
- No.
- Do not know.

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/Do not know.
- If yes, please specify which measures would be relevant. [BOX max. 2000 characters]

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/Do not know.
- If yes, what solution would you propose? [BOX max. 2000 characters]

Pension providers

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

However, according to a stress test on IORPs run by EIOPA in 2019 and assessing for the first time the integration of ESG factors in IORPs' risk management and investment allocation, only about 30% of IORPs in the EU have a strategy in place to manage ESG-related risks to their investments. Moreover, while most IORPs claimed to have taken appropriate steps to identify ESG risks to their investments, only 19% assess the impact of ESG factors on investments' risks and returns.[11] Lastly, the study provided a preliminary quantitative analysis of the investment portfolio[13][12] 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/Do not know.
- If yes, please specify what actions would be relevant in your view. [BOX max. 2000

[11] The analysis shows that the preparedness of pension schemes to integrate sustainability factors is widely dispersed and seems correlated to how advanced national frameworks were. IORP II directive sets minimum harmonisation and was expected to be transposed in national law by January 2019 (and hence could not necessarily be expected to be implemented by end-2018 for the EIOPA survey for the 2019 stress test).

[12] 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.

characters]

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

- [BOX max. 2000 characters]

It is essential to reassess the calibration of prudential rules in relation for business securities, including green securities. Excessive capital charges make investment in a range of assets (including those that support long-term sustainable stable investment in the economy) unnecessarily expensive, especially when those capital charges are significantly in excess of the actual risks the assets create.

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/Do not know.
- 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]

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?

- Please express your view by using a scale of 1 (not transparent at all) to 5 (very transparent). (3)
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

Investors and issuers are not always able to retrace and validate how a CRA came to a specific rating decision. For this reason, it is important to establish greater market acceptance and trust in the quality of CRA's rating procedures and decisions.

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

- Please express your view by using a scale of 1 (very ineffective) to 5 (very effective). (3)
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

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

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

- Yes/No/Do not know.
- If yes, please specify what kind of action you consider would address the identified problems. In particular should the EU consider regulatory intervention? [BOX max. 2000 characters]

Encourage self-regulation and best practices to ensure that CRAs publish information about rating definitions, criteria, methodologies and procedures so that issuers can retrace the steps an agency took to arrive at its decision. Issuers should have the right to review and appeal a rating before it is published.

3.4 Natural capital accounting or "environmental footprint"

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

Question 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/Do not know.
- If yes, please list a maximum of three relevant initiatives. [BOX max. 2000 characters].

3.5 Improving resilience to adverse climate and environmental impacts[13]

Climate-related loss and physical risk data

Investors and asset owners, be they businesses, citizens or public authorities, can better navigate and manage the increased adverse impacts of a changing climate when given access to decision-relevant data. Although many non-life insurance undertakings have built up significant knowledge, most other financial institutions and economic actors have a limited understanding of (increasing) climate-related physical risks.
A wider-spread and more precise understanding of current losses arising from climate- and weather-related events is hence crucial to assess macro-economic impacts, which determine investment environments. It could also be helpful to better calibrate and customise climate- related physical risk models needed to inform investment decisions going forward, to unlock public and private adaptation and resilience investments and to enhance the resilience of the EU's economy and society to the unavoidable impacts of climate change.

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

- Yes/No/Do not know.
- If yes, please select all that apply:
    - Loss data, please explain why [BOX max. 2000 characters]
    - Physical risk data, please explain why [BOX max. 2000 characters]

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

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

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/Do not know.
- If yes, please indicate the degree to which you believe the following actions could be helpful, using a scale of 1 (not helpful at all) to 5 (very helpful) and substantiate your reasoning:
  - Financial support to the development of more accurate climate physical risk models. [BOX max. 2000 characters]
  - Raise awareness about climate physical risk. [BOX max. 2000 characters].
  - Promote ex-ante "build back better" requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe. [BOX max. 2000 characters].
  - Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage. [BOX max. 2000 characters].
  - Reform EU post-disaster financial support. [BOX max. 2000 characters].
  - Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events. [BOX max. 2000 characters]
  - Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks. [BOX max. 2000 characters].
  - Regulate by setting minimum performance features for national climate-related disaster financial management schemes. [BOX max. 2000 characters].
  - Create a European climate-related disaster risk transfer mechanism. [BOX max. 2000 characters].
  - Other, please specify. [BOX max. 2000 characters].

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/Do not know.
- 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? [14]
  - Yes/No/Do not know.
  - If yes, please explain which actions and the expected impact (high, medium, low). [BOX max. 2000 characters]
  - If no, please explain. [BOX max. 2000 characters]
  -

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?

[14] 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 / Do not know.
- If yes, what action should the EU take? Please list a maximum of three actions. [BOX max. 2000 characters]

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.