

15 July 2020

EC consultation on the Renewed Sustainable Finance Strategy - ICMA response

The International Capital Market Association (ICMA) welcomes the opportunity to provide feedback on the consultation (the “Consultation”) on the Renewed Sustainable Finance Strategy.

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include private and public sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has around 600 members located in over 60 countries.

See: www.icmagroup.org. ICMA’s transparency register number is 0223480577-59.

This feedback is given on behalf of ICMA and especially of its following constituencies: the GBP Executive Committee (GBP ExCom), Sustainable Finance Committee (SFC), the ICMA Corporate Issuer Forum (CIF), ICMA Asset Management and Investors Council (AMIC) and ICMA Legal and Documentation Committee (LDC).

ICMA has not sought to answer all 102 questions in this comprehensive survey but only focused on the ones which seemed most directly relevant to ICMA’s membership.

The following responses were submitted to the European Commission’s consultation on the Renewed Sustainable Finance Strategy using the European Commission’s online questionnaire. The document has also been uploaded to support the questions for which no response box was available.

Yours faithfully,

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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).

- **Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.**

Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient. Mindful that in some cases existing regulation doesn't stretch to some of the ambitions of the European Green Deal, regulators should take into account in the design of the Renewed Sustainable Finance Strategy of the European Commission's "better regulation" agenda, which may involve strengthening, building upon or amending existing regulation, but not necessarily adding to it.

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**

Provided that the products suit the investors' needs and that sustainability aspects are not to take precedence over these needs, we would be in favour of offering sustainable investment products as a default option. As sustainable investment products are likely going to be article 8 or article 9 products as defined under the Sustainable Finance Disclosure Regulation (SFDR), we call on the ESAs and the EC to be cautious when finalising level 2 requirements under SFDR and make sure the supply of such products is not hindered by final provisions. The indicators to be considered when applying the DNSH objective need to rely on information already publicly available and verifiable and cannot preempt the review of the NFRD which will come into application only a couple of years from now.

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, both**

In practice and in the short term, the emphasis should be put on issuer disclosures at this stage. Conducting temperature scenario analysis at a portfolio level requires having access to verified data from issuers, which are currently missing ("comply or explain clause" under the Non-Financial Reporting Directive (NFRD) and optional climate-related guidelines): the carbon emissions (scope 1,2,3), revenues and production by business lines, current investment in low carbon technologies and future capital expenditure plans to measure how far on the transition pathway a company, a sector, and/or a country, and hence an investment portfolio is. Before the EU Taxonomy and the NFRD review come into application, the EC should only encourage financial institutions to disclose how their business aligns with the Paris Agreement goals but should not make it mandatory.

Beyond the issue of access to data, we want to highlight the fact that the implementation of climate scenario analysis by investors is still in its infancy from a methodological perspective and the science behind is complex. Investors need to choose a warming scenario and all the various attached assumptions i.e. the energy supply and demand mix, GDP growth and a discount rate. Many different methods of scenario analysis are being suggested and promoted, each with different assumptions and data sets. Several approaches are also proposed to estimate carbon budgets compatible with a scenario of 1.5°C. The allocation of a carbon budget between countries, regions, sectors and issuers is also another challenging step from a methodological point of view. We do note however the recent publication of the NGFS climate scenarios for central banks and supervisors which may considerably contribute over time to progress on methodological issues.

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

- 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

- **Encourage: Agree**
- **Discourage: Neutral**

Divestment at large scale may simply result in accelerating carbon lock-in effects, stopping companies from transitioning to lower business models, and generating stranded assets and crystallisation of losses for investors and society as a whole. Investments in companies/sectors, which are carbon intensive and able to transition, should be allowed/encouraged provided that it is done via the right instruments: e.g. green bonds and loans, sustainability-linked loans and bonds aligned with the market best practice supported by ICMA (e.g. GBP, GLP, SLLP and the recent Sustainability-Linked Bond Principles). These types of investments could be encouraged from a tax and a prudential perspective. Encouraging investors to engage and making use of their voting rights on a cross-border basis could certainly be helpful. But one needs to manage expectations as to what asset managers can do to foster changes at company level. Asset managers are often minority shareholders and cooperating with other shareholders to push a specific resolution is not always possible from a legal standpoint.

Section II. Questions targeted at experts

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

ICMA's Corporate Issuer Forum (CIF) identified the following:

Challenges

-Lack of awareness of standardised definitions and benchmarks can make it difficult for issuers to know which standards to adhere to and disclosures to make; making it difficult in turn for investors to have comparable benchmarking.

-Lack of technical expertise among a broad range of industries (in particular, smaller businesses) and across the whole of the supply chain, and lack of resources to address it.

-Potential lack of pipeline of investible, sustainable projects to meet investor demand and the need for alternative forms of sustainable financing.

Opportunities:

-Sustainable financing requires constant innovation in financial instruments, products, services and market infrastructure to increase interest in, and flows of capital towards, sustainable finance. This represents an opportunity for the financial markets to adapt, structure and innovate accordingly (e.g. Sustainability-Linked Bonds)., while also harnessing the various FinTech solutions which are emerging in the financial markets.

-Mainstreaming sustainable finance will drive progress on issues such as climate change, executive pay, transparency, equality and diversity.

-It will be an opportunity for companies to make meaningful changes responsive to, and as a result of, more direct shareholder engagement.

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)

-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?

➤ **4 – rather important**

Firstly, and fundamentally, the European Green Deal will require disruptive change; including much less dependence on fossil fuels, more innovation with renewables, possibly a change in market infrastructure and, most likely, substantial initial expenditure and investment. So political agreement across the European Union is very necessary if the European Green Deal is to gain traction.

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?

➤ **Don't know**

See our response to question 4

1. Strengthening the foundations for sustainable finance

1.1 Company reporting and transparency

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**

In the medium/long term, we would be in favour of a single data access point. ICMA's Corporate Issuer Forum has also previously highlighted the importance of considering carefully the consequences of where NFRD disclosure is located: firstly to ensure that the disclosure does not become inappropriately subject to any liability regime that applies to the document within which the disclosure is made; secondly to ensure that disclosure is made in a way which is meaningful to investors; and thirdly to ensure that certain unnecessary consequences such as increased costs of capital, or a possible move by issuers away from regulated markets (if applicable) due to overly onerous disclosure requirements or increases in liability, are avoided. Therefore the provision of a central, "one-stop shop" common, publicly accessible, ESG repository for all ESG-related content, including that required under NFRD which might not have a natural "home" elsewhere, would be a sensible and worthwhile ambition which would be of benefit to issuers and investors. It would avoid subjecting an issuer to additional liability and other unnecessary consequences, as described above, and would greatly contribute to increased transparency, data comparability and usability for investors. The design and structure would be subject to the build of the data space, but from a practical point of view, a common structure with standardised reporting templates which can be uploaded systematically could make it easier for companies to fulfil their disclosure obligations. Apportionment of costs would need to be considered as between providers and users of the data. But from a practical point of view, a common structure with standardised reporting templates which can be uploaded systematically could make it easier for companies to fulfil their disclosure obligations.

1.2 Accounting standards and rules

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?

➤ **No**

IFRS require companies to take into consideration climate and environmental risks when they prepare their financial statements. The challenge consists in considering only the information that is material to

allow investors, creditors, lenders to correctly understand the financial information. According to IFRS Standards, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a reporting entity. Climate and environmental risks may have an impact on recognition, measurement, presentation and disclosure of financial information. The potential financial implications arising from climate-related and other emerging risks may include, but are not limited to:

- asset impairment, including goodwill;
- changes in the useful life of assets;
- changes in the fair valuation of assets;
- effects on impairment calculations because of increased costs or reduced demand;
- changes in provisions for onerous contracts because of increased costs or reduced demand;
- changes in provisions and contingent liabilities arising from fines and penalties; and
- changes in expected credit losses for loans and other financial assets.

1.3 Sustainability research and ratings

Question 17: Do you have concerns on the level of concentration in the market for ESG ratings and data?

➤ **4 – rather concerned**

ICMA's Asset Management and Investors Council believes that market concentration and in particular ESG data cost are a concern. It could hinder the efficiency of capital markets and the implementation of the renewed sustainable finance action plan.

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

➤ **3 – neutral**

Comparability should be improved but full harmonisation is not desirable. NFRD review will be instrumental to enhance comparability.

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

➤ **3 – neutral**

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

➤ **Yes**

As raw data/non-financial information disclosed by issuers are still limited in quality, asset managers rely increasingly on ESG data providers and credit rating agencies, which have their own methodology and scoring systems. Combining and interpreting these different ESG rating approaches, asset managers have often developed their own methodology and scoring systems used as filters for their different types of sustainable products (screening investments, impact investments, ESG investments). These analyses contribute to enrich data and, partially, to overcome the lack of reporting on material NFR aspects and enhance comparability between issuers. But it would certainly become more cost-effective and comparable if ESG scoring methodologies were supported by a common set of raw data. The first and immediate priority must therefore be to review NFRD.

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

EU Green Bond Standard

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**

The EU GBS builds on market best practices promoted by the Green Bond Principles (GBP) which recommend that green bond issuers get an external review which can be in form of a Second Party Opinion (SPO), Verification, Certification or Scoring/Rating. The latest version (June 2020) of ICMA's Guidelines for External Reviewers was released in parallel with a list of external review providers that voluntarily align with its recommendations.

The EU GBS is designed as a verified standard requiring what can be considered as a form of certification. It is logical that the organisations tasked with the verification or certification of the EU GBS are themselves subject to accreditation which could eventually lead to formal supervision. We support the TEG's proposal to first put in place a registry of verifiers in the form of a market-led "Voluntary Interim Registration System" (VIRS). The benefits of the VIRS would be among other to allow for the quick implementation of the EU GBS, build on existing market practice with the support of qualified TEG organisations and "road test" the proposed verification process. The outcome of the VIRS could then feed into and inform an eventual transition to actual supervision of verifiers by a competent authority such as ESMA.

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?

➤ **No**

Any action that the Commission takes on verifiers of Green Bonds should be considered separately from potential action to regulate the market for third-party service providers on sustainability data, ratings and research. These latter activities are different in nature and should be considered individually even if certain organisations provide all or a combination of them as part of their service offerings. Regulation

and supervision of all of these services could nonetheless potentially help to streamline processes, increase transparency and comparability.

ICMA's Corporate Issuer Forum underlines that while Credit Rating Agencies are already regulated by ESMA specialised ESG rating providers are not. As a result, ESG ratings from specialised providers often diverge, based on their methodologies. While this may not be problematic for large asset managers who have resources to compare and understand all of the methodologies and find one that is most closely aligned with their own process, it still means that end-investors and retail investors will have to rely on the methodology chosen on their behalf. Regulating this market by, for example, having a list of key factors to focus on within environmental, social and governance and maybe even suggesting the weights to give to these elements, would help make this market more transparent and make it easier for issuers and investors to understand the ratings. Consistency with future disclosure requirements under NFRD should be carefully considered in parallel.

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**

We see challenges for both non-EU issuers as well as EU issuers intending to finance projects outside of the EU. The EU GBS requires alignment of use of proceeds with the EU Taxonomy. However, some aspects of the Taxonomy, specifically around minimum safeguards or the DNSH principle may create difficulties for non-European issuers and projects if local environmental and social standards and/or regulations significantly diverge from those of the EU. For issuers in other developed markets, there may be sensitivity/reluctance in doing an actual comparison of company or national environmental and social rules with EU regulations through a verifier's opinion. This may be particularly problematic when comparing regulatory frameworks across jurisdictions. Additionally, in instances where assessing compliance with DNSH criteria requires significant judgment, there may be difficulties in making such representation or relying on the analysis of a verifier to do so.

For developed and emerging markets alike, not all third countries have signed up to the ILO Declaration on Fundamental Principles and Rights at Work, allow freedom of association or recognise collective bargaining. As a result, issuers and projects in these jurisdictions may not be able to comply with the social aspects of the Taxonomy that are integrated in the minimum safeguards.

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)
- If necessary, please specify the reasons for your answer [BOX, 2000 characters]

➤ **2 – Disagree**

Both ICMA's Legal and Documentation Committee (LDC) and ICMA's Corporate Issuer Forum (CIF) consider that it is not necessary or desirable to introduce new requirements for green bonds into the Prospectus Regulation at this point in time.

It is not considered to be necessary because prospectus disclosure for green bonds already follows a relatively consistent approach.

And it is not considered to be desirable because, absent an appropriately developed and regulated regime for green / social / sustainability bond framework verification, issuers and underwriters may not feel comfortable with certain disclosure requirements (eg related to green bond frameworks), and so mandatory disclosure requirements under the Prospectus Regulation could be a disincentive to issuing green bonds (or at least admitting them to trading on regulated markets).

It may be appropriate to re-visit the question of prospectus requirements for green bonds when an appropriate regulatory regime for green / social / sustainability bond framework verification is established. At that time, the [AMF/AFM proposal](#) of April 2019 might be a useful starting point for further public consultation. This proposal loosely reflects market practice as it stands today, but there would need to be several adjustments to the precise drafting in order to ensure that the new rules allowed the green bond market to develop and flourish, which is crucial for meeting Europe's long-term climate and sustainable finance goals.

Questions 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)

If necessary, please specify the reasons for your answer [BOX]

➤ **2 - Disagree**

Both ICMA's Legal and Documentation Committee and ICMA's Corporate Issuer Forum consider that it is not clear what this question is asking. Compliance with the EU GBS is unlikely to mean that issuers can avoid giving other relevant prospectus disclosure relating to, for example, use of proceeds, and so it is not clear what purpose including a link to the EU GBS as the disclosure standard would serve or whether it would have any practical impact for issuers of green bonds.

It would also seem strange to be in a position in which there were mandatory disclosure requirements introduced for green bonds that aligned with the ICMA Green Bond Principles or other standards, but no mandatory disclosure requirements for those that align with the EU GBS.

To the extent that this proposal is taken forward, consideration would need to be given to the fact that the EU GBS could change over time. In the light of this, it would need to be clear which version of the EU GBS the issuer intends to reference in the prospectus. All versions would need to be available online.

Other standards and labels

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

➤ **No**

The International Capital Markets Association (ICMA) does not market financial products. ICMA is a not-for-profit membership association, headquartered in Switzerland, that serves the needs of its wide range of member firms in global capital markets. It provides as part of its activities in support of sustainable finance the secretariat for the Green and Social Bond Principles (GBP and SBP), the Sustainable Bond Guidelines (SBG) and the Sustainability-Linked Bond Principles (SLBP). These are voluntary process guidelines that have become the de facto standards in the global markets for issuing sustainable bonds.

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?

➤ **Regulatory intervention is needed to create a label**

The draft EU Ecolabel proposal is already supposed to capture ESG funds according to the JRC. ICMA's Asset Management and Investors Council (AMIC) strongly supports this proposal of an EU quality stamp for sustainable retail investment funds but also warned in its [response to the consultation](#) that some important changes are required to ensure the success of this new label. AMIC recommends in particular broadening the list of eligible assets for diversification purposes but also to further support companies transitioning to a lower-carbon business model.

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

➤ **Yes**

If well calibrated the funds that get the EU Ecolabel could also be appealing to professional investors. Professional AIFs should also be eligible for the EU Ecolabel.

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

➤ **1 - Strongly Disagree**

The GBP SBP Executive Committee recommend that the EU not seek to duplicate market-based standards such as the Sustainability-Linked Bond Principles (SLBP) recently released by the GBP SBP with the support of ICMA. The SLBP have been developed following a wide market outreach coordinated by the

GBP SBP Executive Committee. They aim to support and structure a burgeoning sustainable debt security market while protecting its integrity. The development of a parallel EU standard would neither address any market dysfunction nor be additional to the ongoing initiative coordinated by the GBP SBP. The GBP SBP Executive Committee would of course welcome the participation and input of the Commission as an observer in future discussions regarding the SLBP.

For reference, the SLBPs define SLBs as “any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuers achieve predefined Sustainability/ESG objectives”. SLBs are forward-looking performance-based instruments where the issuer is committing to future improvements in sustainability outcome(s) within a predefined timeline. In contrast to green, social and sustainability bonds, SLBs are intended to be used for general corporate purposes within the pursuit of sustainability outcomes so use of proceeds is not a determinant in their categorisation.

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**?

➤ **3 - Neutral**

The GBP SBP Executive Committee confirm that the Sustainability-Linked Bond Principles (SLBP) recently released by the GBP SBP with the support of ICMA are already structured to allow for the use of the EU Taxonomy as a potential KPI and reference. No action is therefore required in this respect.

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?

➤ **No (for bonds)**

We generally recommend that the EU should only seek to develop sustainable product standards in the financial markets where there is either (i) no market-supported standard and documented evidence of market dysfunction, or (ii) documented evidence of market dysfunction despite the existence of a market-supported standard, or (iii) an overarching policy based objective or supporting action that requires in counterparty an official standard.

We would otherwise like to confirm that the GBP SBP Executive Committee would welcome the participation and input of the Commission as an observer in discussions regarding existing and future guidance for sustainable products in the financial markets.

1.5 Capital markets infrastructure

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?

➤ No

We think that it would be superfluous to develop a sustainable finance-oriented exchange since some of the most prominent existing stock exchanges already established segments in this space. It is useful to have sustainable finance segments in these exchanges where sustainable financing instruments can have a natural “home”; it means that a lot of expertise can be concentrated and gathered in one place. This should facilitate the review and listing process, so that the exchange is acting as an enabler.

Dedicated sustainable finance segments help to raise profile and awareness, and to promote visibility, transparency and accessibility of sustainable finance for investors, which in turn improves communication between investors and issuers. The segmenting could be further developed as the sustainable finance universe and product range evolves. Of course, one has to be mindful of not becoming so specialised as to disenfranchise other investors by moving sustainable finance away from their radar, so cross-marketing of mainstream and specialist segments is important.

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?

As mentioned in question 36, we do not think it is necessary to create a sustainable finance-oriented exchange in order to encourage capital flows to ESG projects. This already works very well through the green, social and sustainability bonds listed on the dedicated segments of the existing stock exchanges.

1.6 Corporate governance, long-termism and investor engagement

Question 38: In your view, which recommendation(s) made in the ESAs’ reports have the highest potential to effectively tackle short-termism? Please select among the following options:

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

➤ Other

Portfolio turnover is not antinomic with long-term investment. Investors are simply re-investing in assets presenting better risk-reward ratios. It is a sound practice especially when assets are over-valued.

Portfolio turnover should not be precisely defined in advance. Turnover can result from many factors (market risk, firm specific risk, rate environment) which cannot be fully predicted. Flexibility is needed. Furthermore as flagged by ESMA in its report: “ESMA believes the rules being implemented in Directive (EU) 2017/828 (the revised Shareholder Rights Directive or SRD II) could improve transparency around portfolio turnover. While asset managers must report on portfolio turnover and turnover costs to their institutional investor clients, institutional investors must report how they monitor turnover costs and how they define and monitor a targeted portfolio turnover or turnover range with their asset managers.” Therefore no further regulatory action is needed from our perspective.

Remuneration rules: We are surprised to see this extensive set of rules being suspected of driving short-termism when they were precisely put in place recently to align interests of investors and fund managers in the long-term.

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**

In light of the recent crisis, the EU could assess whether the current rules need to be revisited and softened to avoid forced selling of certain assets during a peak of stress. Ex: Solvency 2 prudential charge for fallen angels.

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**

AGM voting process and filing of resolutions on a cross-border basis can be very cumbersome in some EU countries.

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**

Passive investors hold companies for as long as they remain in the index (while adjusting the size of their position to reflect changes in market capitalisation) and are often long-term investors in many companies. They therefore particularly attach importance to stewardship (engagement and voting) because they recognize its importance to long-term value creation.

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

2.2 Better understanding the impact of sustainable finance on sustainability factors

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

➤ **4 – rather important**

Yes, but a qualitative description is preferred at this stage until NFRD review is implemented.

2.5. Project Pipeline

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.

It is important to be aware that ongoing regulatory developments in the EU (such as the Taxonomy and Disclosure Regulations) could substantially increase the costs of reporting and disclosing on sustainability aspects for issuers, financial advisers and asset managers.

The current rate of growth of the green, social and sustainability bond markets does not indicate that there are currently major impediments to the increase in the pipeline of sustainable projects although there may be obstacles in specific and important areas.

ICMA's Corporate Issuer Forum underlines that the energy transition represents a complete shift in paradigm for many sectors, where mutually exclusive choices occur for some technologies. This tension represents an uncertainty for an accelerated deployment of sustainable projects. For instance, in order to trigger an increase in the project pipeline related to green hydrogen, there must be some confidence in the fact that end-users will adopt this technology.

It should also be noted that decarbonisation involves the deployment of promising but economically not yet viable technologies with high up-front investments. The EU and national member states should create an enabling regulatory framework for these technologies to deploy and scale-up, such as financial incentives and/or support schemes.

2.6 Incentives to scale up sustainable investments

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 – Rather effective**

From the point of view of ICMA's Corporate Issuer Forum (CIF), there are generally and potentially several types of financial incentives which could influence an issuer's decision to change their allocation of capital towards positive environmental or social outcomes. These would most likely be a function of measures aimed at reducing costs of capital and might include, for instance (but not limited to): a reduction of capital allocation requirements for sustainable investments made by banks, the creation of funds at a European level, or subsidised grants or loans, each of which could offer efficient capital funding.

However, financial incentives are not the only way to boost the market for sustainable investments: pressure from shareholders and society, together with increased regulatory focus, have already resulted in more of an equilibrium between environmental/social impacts, and financial returns. This has already led to higher expectations of companies to focus on, and show leadership as regards, the environment and society. So while financial incentives are an effective tool, it is important to ensure they are used appropriately and commensurately as required, such as in times of economic stress and in higher interest rate environments. The Commission therefore needs to take a more holistic, long-term view of incentivising the market at appropriate intervals in order to ensure the incentive fits the economic and societal profile existing at a particular time.

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

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

➤ **4 – Rather effective**

- Revenue-neutral public sector incentives (4)
- Adjusted prudential treatment (4)
- Public guarantee or co-financing (4)

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

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?

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?

➤ **No**

Public issuers, as private sector issuers, should retain the flexibility to issue either in alignment with the EU GBS and/or the market standard represented by the Green Bond Principles (GBP). This will ensure that public sector issuers will be able to contribute/benefit from market practice as it develops around the EU GBS and especially its required compliance with the EU Taxonomy. It is indeed very likely that there will be a necessary experimentation phase for issuers of future EU Green Bonds and public issuers should not face as a result the dilemma of having to delay transactions that could otherwise take place under the GBP. There may also be specific challenges for sovereign issuers in interpreting budget expenditures within the framework of the Taxonomy classifications that will require time to be resolved.

2.10 Promoting sustainable finance globally

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.

➤ **Some tools can be applied, but not all of them**

The technical criteria of the EU Taxonomy can serve as a global reference for benchmarking sustainability in areas such as climate change mitigation or adaptation. Other elements of the Taxonomy may be more difficult or impossible for issuers in non-European jurisdictions to align to.

For issuers in other developed markets, there may be sensitivity/reluctance in doing an actual comparison of company or national environmental and safety rules with EU regulations through a verifier's opinion. This may be particularly problematic when comparing regulatory frameworks across jurisdictions. Additionally, in instances where assessing compliance with DNSH criteria requires significant judgment, there may be difficulties in making such representation or relying on the analysis of a verifier to do so

For developed and emerging markets alike, the minimum safeguards or the DNSH principle may create difficulties for non-European issuers and projects if local environmental and social standards and/or regulations significantly diverge from those of the EU. For example, not all third countries have signed up to the ILO Declaration on Fundamental Principles and Rights at Work, allow freedom of association or recognise collective bargaining. As a result, issuers and projects in these jurisdictions may not be able to comply with the social aspects of the Taxonomy that are integrated in the minimum safeguards.

3. Reducing and managing climate and environmental risks

3.2 Financial stability risk

Asset managers

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**

SFDR already requires asset manager to inform clients on how they assess sustainability risks (article 6) at product level and how they consider principal adverse impacts at both product and company level (article 4). All firms, group subsidiaries with more than 500 employees will have to comply with article 4 after 30 June 2021. This already implicates significant changes from organisation, resources, and management and already covers due diligence requirements. Furthermore, the integration of sustainability risks (SR) in UCITS, AIFs and investment firms (MiFID) is also considered by the EC.

In our response to this consultation we call on the EC to integrate SR as part of the risks to be considered under risk management processes. But beyond that we do not see the need to further amend sectorial rules as suggested by the EC.

Pension providers

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**

Once finalised SFDR will cover pension providers which should already contribute to a better ESG integration and reporting.

3.3 Credit rating agencies

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

➤ **2 – Rather not transparent**

It is helpful that CRAs must outline whether any of the key drivers behind the change to the credit rating or rating outlook correspond to that CRA's categorisation of ESG factors and that were considered by that CRA to be ESG factors. While such positive identification is a good thing, it could be challenging to isolate in *all* cases where a particular ESG element is, or importantly, is not a key underlying element. Often, environmental and social risk is inextricably weaved into the business and financial risk profile of an issuer, in the country profile of the issuer or in the wider geopolitical environment. To unravel the genesis of the ESG factors and apply them in a way that shows direct correlation to the risk profile of an issuer may not only be a challenge, but also may give a disproportionate view (positive or negative) of the actual effect of the ESG factor on the issuer and/or its rating.

It is helpful that the CRAs should explain why these ESG factors were material to the credit rating or rating outlook. It would also be helpful to know how material the ESG factor is considered to be in the context of all other considerations which are taken into account when assigning a rating.

3.5. Improving resilience to adverse climate and environmental impacts

Financial management of physical risk

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

➤ **Yes**

Once finalised SFDR will require asset managers to inform clients on how they assess sustainability risks (article 6) at product level. Furthermore, the integration of sustainability risks (SR) in UCITS, AIFs and investment firms (MiFID) is also considered by the European Commission (EC). In our response we call on the EC to integrate SR as part of the risks to be considered under risk management processes.