Response to public consultation

EC consultation on a Renewed Sustainable Finance Strategy

15 July 2020 | ESMA30-22-821

Scope of ESMA's response

This answer was prepared by ESMA from the viewpoint of securities regulators.

Some of the questions in this consultation offer response options that require a clear-cut choice between certain alternatives. ESMA gathered a single European response to these questions. However, in some cases the choice of a specific alternative needs to be read in the context of the accompanying narrative comments. When this is the case, additional information is included in the comment boxes provided by the EUSurvey tool or added by ESMA, either when a comment box is not available in the EU Survey tool or when the text of the comments provided exceeded the limit foreseen in the EUSurvey tool.

Lastly, please note that ESMA refrained from responding to questions which were directed at companies or which fell outside ESMA's remit. In these cases, ESMA did not tick any of the boxes in the questionnaire.

About you

Language of my contribution:	English
I am giving my contribution as:	Public authority
Scope:	Regional
Organisation name:	European Securities and Markets Authority (ESMA)
Organisation size:	Large (250 or more)
Country of origin:	France
Field of activity or sector:	Other – Securities regulator

Section I. Questions addressed to all stakeholders on how the financial sector and the economy can become more sustainable

Question 1: With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate and environmental-related challenges, do you think that (please select one of the following):

	Major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector
X	Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient
	No further policy action is needed for the time being
	Don’t know / no opinion / not relevant

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

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

Question 2.1:

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

Please explain and specify whether you searched for the information yourself or whether the information was made available to you. [Box max. 2000 characters]

Not applicable

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
X	Don’t know / no opinion / not relevant

If necessary, please explain your answer to question 2.1. [Box max. 2000 characters]

Not applicable

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

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

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

	Yes, corporates
	Yes, financial institutions
X	Yes, both
	No
	Don’t know / no opinion / not relevant

Question 4.1: If no, what other steps should be taken instead to accelerate the adoption by corporates and financial sector firms of business targets, strategies and practices that aim to align their emissions and activities with the goals of the Paris Agreement? [Box max. 2000 characters]

Not applicable

Comment box added by ESMA

Clarity on the extent to which business strategies and targets relate to clear goals for climate action could contribute to providing the necessary anchor to enable investors to assess the credibility of claims made by issuers of their efforts in the sustainability space. However, ESMA notes that in order to be effective such link should be supported by clear disclosure standards that would make it possible to achieve comparable, relevant and reliable information on issuer’s ability and progress made to meet these high-level goals.

Question 5: One of the objectives of the European Commission’s 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects.

Do you believe the EU should also take further action to:

	1 (strongly disagree)	2 (disagree)	3 (neutral)	4 (agree)	5 (strongly agree)	Don’t know / No opinion
Encourage investors to engage, including making use of their						

voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models						
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						

Question 5.1: In case you agree or strongly agree with one or both options, what should the EU do to reach this objective? [Box max. 2000 characters]

Not applicable

Comment box added by ESMA

While not taking a position on this matter, ESMA would nevertheless highlight that in its advice to the European Commission on Undue Short-term pressure on corporations, ESMA recommended to consider whether a vote on the non-financial statement as prepared in accordance with the Non-Financial Reporting Directive (NFRD)[1] could serve as an effective tool for investors to voice any concern they might have on the way investee companies approach sustainability risks.

[1] https://www.esma.europa.eu/press-news/esma-news/esma-responds-european-commission-consultation-revision-nfrd.

Section II. Questions targeted at experts

Question 6: What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years? [Box max. 2000 characters]

Challenges

- ESG disclosures by companies: in the applicable legislation, significant limitations to the ability of investors and the public at large to rely on ESG disclosure that is comparable, reliable and relevant. In particular, we concur with the challenges identified in the European Commission's consultation document on the review of the Non-Financial Reporting Directive (NFRD) and ESMA has made proposals with regards to the improvement of the status quo with respect to, most notably, mandatory standardisation of the disclosures and the proportionate expansion of the personal scope of the NFRD. These and other actions set out in ESMA's response are needed to address the lack of appropriate disclosures already in the shorter term.
- ESG ratings: lack of a legally binding definition and comparability among providers, no legal requirements to ensure transparency of underlying methodologies.
- Risk assessment: steps needed to enhance management of climate- and environment-related risks. These include increasing the availability and quality of data both from financial market participants and from companies, increasing investor awareness and expertise in in the area of climate- and environment- related risks.
- Ensuring proper implementation and application of new legislation given the intense legislative activity at EU level in the last few years.

Opportunities

- Supervision and enforcement: no longstanding supervisory practices exist, thus the opportunity to build a consistent supervisory framework through coordination among national supervisory authorities and through setting up EU level supervision for certain specific actors such as accredited verifiers for green bond standards or ESG rating providers. Ensuring consistent supervisory practices across national authorities is of high relevance to address regulatory and supervisory arbitrage risks and safeguarding the effectiveness of supervision e.g. in addressing greenwashing (e.g. for the consistent application of the Taxonomy requirements).
- Building resilience in the financial system: the improved awareness on the risks relating to different sustainability factors, also taking into account the effects of the COVID-19 crisis, should trigger better management and preparation to address the consequences of severe events triggered by environmental as well as social crises and possibly also prevent them.
- Strengthening financial education: increasing financial literacy on sustainability matters is important to both retail investors and finance professionals.
- Influencing the international agenda: Developing world-wide standards improve cross-border business and provide investors with comparable information leveraging on the role of ESMA in the broader international community of regulators in IOSCO and also on the European Commission's Platform on Sustainable Finance.
- Consistency across different areas of legislation: as legislation is just being developed, there is an opportunity to ensure that these address sustainability related risks and issues in a comprehensive manner. ESMA stands ready to advise the Commission on upcoming legislation in this respect. Moreover, it is important that a proportionate approach is taken to the requirements put on SMEs to avoid subjecting them to any unnecessary administrative burden, also taking into account the current recovery efforts

following the COVID-19 outbreak. Indeed, a positive environment is needed for SMEs to be able to deliver financial services related to sustainability. Finally, attention has to be paid to any potential negative impact that new legislative initiatives may have on financial innovation.

One clear example where there is a need for building consistency is with respect to what we could call the *sustainability reporting chain*, to ensure that the information that financial market participants are required to report on the ESG profile of their investments build on comparable, relevant and reliable information publicly reported at company level by (actual or future) investee companies. In this respect, there is room to ensuring the alignment between the disclosures required by the Disclosure Regulation and any future disclosure requirements that may be set out for corporate ESG disclosures under the revised NFRD which could be expanded in a proportionate way to SMEs.

Question 7: Overall, can you identify specific obstacles in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making? Please provide a maximum of three examples. [Box max. 2000 characters]

Lack of standardised disclosure regime for issuers relating to sustainability reporting. This is an area where ESMA and the other ESAs can provide technical standards similar to other areas of disclosures linked to sustainable finance. ESMA has expressed its proposals on the improvement of the disclosure regime for companies in its response to the EC consultation on the revision of the NFRD.

Lack of consistency of definition relating to sustainable investments and sustainable activities across different areas of legislation: for example the notion of Do No Significant Harm (DNSH) is inconsistent between Disclosure Regulation and Taxonomy Regulation.Furthermore, the COVID-19 has further exposed the relevance of the social dimension into financial decision-making. It will remain a challenge to factor the aspects relating to this dimension into financial decision-making taking into account the lack of a definition of social aspects.

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 max. 2000 characters]

Appropriate disclosure, consistent and converged supervision of the ‘do no significant harm principle’ and the development of a taxonomy addressing the social implications of certain activities will be a necessary tool to complement those concerning environmental implications and prevent the emerging risk of social-washing. Investment flows could then be directed towards activities that meet both environmental as well as social objectives, to the extent possible.

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

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

Question 9.1: What are, in your view, the mechanisms necessary to be put in place by policy-makers to best give the right signals to you as a corporate or a financial institution? [Box max. 2000 characters]

Not applicable

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

	Yes, institutional investors
	Yes, credit institutions
X	Yes, both
	No
	Don’t know / no opinion / not relevant

Comment box added by ESMA

As previously mentioned in response to Question 4.1., the clear reference to climate action goals relating to the Paris Agreement is key to provide concrete evidence regarding the compatibility of investment strategies and portfolios with specific sustainability objectives. Climate scenarios information at portfolio level could be a useful tool to contribute to efforts to avoid green-washing.

In this respect, ESMA notes that various tools are currently available for climate scenario analysis and that it would provide relevant information to provide common requirements and reference scenarios, with the objective of achieving the necessary comparability in this area.

ESMA also notes that Article 4(2)(d) of the Disclosure Regulation already requires that institutional investors (financial market participants) disclosing the principal adverse impacts of their investment decisions on sustainability factors must disclose “their alignment with the objectives of the Paris Agreement”. The joint ESAs’ draft RTS (currently under consultation) further specifies in Article 10 that this Paris Agreement alignment disclosure has to include “forward-looking scenarios”.

However, ESMA also notes that the methodologies to align portfolios with specific temperature scenarios vary widely and are complex. The Commission may wish to consider further measures to make methodologies more robust and enhance transparency in this area.

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

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

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

Several initiatives[3] have recognised the relevance of biodiversity loss as a source of key risks for businesses as well as financial institutions. When such risks are material to an understanding of the performance, position and impact of its activities, ESMA notes that such risks should be disclosed. However, ESMA also notes that the mechanism of effect of the way in which biodiversity loss may turn into material risks may be difficult to determine and quantify. ESMA therefore believes that specific guidance should be provided to business and financial institutions as to how to adequately monitor, measure and mitigate those risks and what public disclosure of those risks should be provided. In this respect, as part of the revision of the NFRD, specific disclosure requirements should be provided to address also biodiversity while also envisaging due diligence requirements when it comes to the identification, monitoring and mitigation of these risks. To address the importance of biodiversity, ESMA also notes that in the Joint Consultation Paper on ESG disclosures, the 3 ESAs propose specific requirements aiming at providing transparency on this important area which qualifies as one where any adverse impacts constitute principal adverse impacts.

Question 12: In your opinion, how can the Commission best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level in order to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan? [Box max. 2000 characters]

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

[3] OECD - Biodiversity: Finance and the Economic and Business Case for Action – May 2019; NGFS - A call for action Climate change as a source of financial risk – April 2019; G. Schellekens and J. van Toor - Values at risk? Sustainability risks and goals in the Dutch financial sector – Dutch National Bank 2019

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

In addition, as ESMA, we believe that there are certain areas where it is important to create consistency with the other technical work that we are undertaking in the area of sustainable finance. For instance, in the context of the revision of the Non-Financial Reporting Directive, we see a role for ESAs to be responsible for the standardisation work for companies' disclosures, as highlighted in the ESMA's response to the EC consultation on the revision of the NFRD. Please see Q:7 for further details.

Question 13: In your opinion, which, if any, further actions would you like to see at international, EU, or Member State level to enable the financing of the sustainability transition? Please identify actions aside from the areas for future work identified in the targeted questions below (remainder of Section II), as well as the existing actions implemented as part of the European Commission's 2018 Action Plan on Financing Sustainable Growth. [Box max. 2000 characters]

International standardisation in the field of disclosures of corporates as well as other financial market participants is an objective that could facilitate cross-border investment in the area of sustainable finance. In the context of securities regulation, NCAs and ESMA are ready to contribute via IOSCO's Sustainability Task-Force. Such international standardisation should address both environmental and social aspects.

In addition, the high number of private sector initiatives calls for monitoring by public bodies and collaboration at international level.

1. Strengthening the foundations for sustainable finance

In order to enable the scale-up of sustainable investments, it is crucial to have sufficient and reliable information from financial and non-financial companies on their climate, environmental and social risks and impacts. To this end, companies also need to consider long-term horizons. Similarly, investors and companies need access to reliable climate-related and environmental data and information on social risks, in order to make sound business and investment decisions. Labelling tools, among other measures, can provide clarity and confidence to investors and issuers, which contributes to increasing sustainable investments. In this context, the full deployment of innovative digital solutions requires data to be available in open access and in standardised formats.

1.1 Company reporting and transparency

In its Communication on the European Green Deal, the Commission recognised the need to improve the disclosure of non-financial information by corporates and financial institutions. To that end, the Commission committed to reviewing the Non-Financial Reporting Directive (NFRD) in 2020, as part of its strategy to strengthen the foundations for sustainable investment. A public consultation is ongoing for that purpose.

The political agreement on the Regulation on establishing a framework to facilitate sustainable investment ('Taxonomy Regulation') places **complementary reporting requirements on the companies that fall under the scope of the NFRD**.

In addition to the production of relevant and comparable data, it may be useful to ensure open and centralised access not only to company reporting under the NFRD, but also to relevant company information on other available ESG metrics and data points (please also see the dedicated section on sustainability research and ratings 1.3). To this end, a **common database** would ease transparency and comparability, while avoiding duplication of data collection efforts. The Commission is developing a common European data space in order to create a single market for data by connecting existing databases through digital means. Since 2017, DG FISMA has been assessing the prospects of using Distributed Ledger Technologies (including blockchain) to federate and provide a single point of access to information relevant to investors in European listed companies (European Financial Transparency Gateway - EFTG).

Question 14: In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data?

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

Question 14.1: If yes, please explain how it should be structured and what type of ESG information should feature therein. [Box max. 2000 characters]

A European single access point (ESAP) for all companies' information would bring significant benefits, as it would enable investors to invest their funds without hindrance across borders, compare and take into account without undue effort both financial and non-financial considerations, and businesses to raise funds from a diverse range of sources, irrespective of their location.

ESMA believes that the ESAP should be a single platform hosted on ESMA's website, serving the needs of traditional and electronic data users, and a one-stop-shop for both financial and non-financial information. The ESAP should be a hybrid system whereby information is collected at national level (by OAMs) and is then aggregated by ESMA at European level. It should create a one-step access to all information, which should be classified on the basis of a limited number of metadata and free for visualisation and/or download. The ESAP would be a complex project to set up which the European Commission should provide ESMA and all other relevant actors adequate time and ad hoc funds and resources.

The ESAP should primarily focus on periodic and ongoing company-level information prepared by companies pursuant to securities markets legislation. As a first step, therefore, it should include all non-financial statements disclosed by companies listed on EU regulated markets pursuant to the the NFRD next to all issuers' financial information (e.g. pursuant to the Transparency Directive, the Prospectus Regulation, Shareholders Rights Directive, etc). This would allow investors to access all financial and non-financial information of listed companies from one single database.

At a later stage, the scope of the ESAP could be expanded on a voluntary basis to non-listed companies (especially for data reported under the NFRD), and potentially to a broader range of sustainability-related information disclosed pursuant to sustainable finance legislation.

This view was also supported by the High Level Forum on the CMU. The ESAP is also an example of how new technologies could support sustainable finance (see Questions 57-59).

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?[4]

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

Question 15.1: If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation – Assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU Taxonomy), how likely is it that you would use the taxonomy for your business decisions (such as adapting the scope and focus of your activities in order to be aligned with the EU Taxonomy)?

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

Question 15.2: If necessary, please specify your response to question 15.1. [Box max. 2000 characters]

Not applicable

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

[4] 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.

value of companies that today extract, distribute, or rely heavily on fossil fuels, due to a potential future stranding of their assets.

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

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

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

Question 16.1: If yes, what is in your view the most important area? (Please select as many options as you like)

	Impairment and depreciation rules
	Provision rules
	Contingent liabilities
x	Other

Please explain why you think amending the impairment and depreciation rules is important. [Box max. 2000 characters]

Please explain why you think provision rules is an important area. [Box max. 2000 characters]

Please explain why you think contingent liabilities is an important area. [Box max. 2000 characters]

Please specify which other areas. [Box max. 2000 characters]

Please see in comment bubble/separate document.

Comment box added by ESMA

ESMA does not think that there is evidence that IFRS Standards hamper the adequate and timely recognition and consistent measurement of climate and environmental risks. As discussed in ESMA's report on undue pressures on corporation (ESMA32-22-762), ESMA believes that the primary objective of endorsed accounting standards is and should continue to be to promote transparency, which is the approach which is ultimately the most beneficial for the performance of capital markets, including their capacity to support sustainable and long-term investments.

While climate-change risks and other environmental risks are not covered explicitly by IFRS Standards, the Standards do address issues that relate to them and require companies to consider and disclose their impact, whenever those are material and relevant to the amounts recognised in the financial statements.

In fact when preparing IFRS financial statements, companies need to consider whether emerging risks, including climate and environmental risks, currently or potentially affect the amounts and disclosures reported, and what information about the effect of such emerging risks on the assumptions made in preparing the financial statement is material and thus should be disclosed to users.

On the other hand, comments about the company's overall approach to climate-related and other business risks do not belong inside the financial statements and should rather be disclosed in the management report. The transparency provided by IFRS Standards therefore constitutes and should continue to constitute only one of the pieces of the complex jigsaw, which need to encompass also high quality ESG disclosures.

1.3 Sustainability research and ratings

A variety of sustainability-related assessment tools (ratings, research, scenario analysis, screening lists, carbon data, ESG benchmarks, etc.) are offered by specialised agencies that analyse individual risks and by traditional providers, such as rating agencies and data providers. In the autumn of 2019, the Commission launched a study on the market structure, providers and their role as intermediaries between companies and investors. The study will also explore possible measures to manage conflicts of interest and enhance transparency in the market for sustainability assessment tools. The results are due in the autumn of 2020. To complement this work, the Commission would like to gather further evidence through this consultation.

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

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

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

A recent wave of acquisitions is leading to concentration of the market within large sustainability rating agencies (SRAs). The risk is to recreate an oligopoly situation comparable to that of the credit rating industry. There is also a risk of overreliance on ratings. A few SRAs clearly stand out as the main actors in the market. This assessment rests on the observation that they are most often referred to by firms and studies. Data on their actual market shares are to our knowledge not yet available and would be difficult to define since the criteria for delimiting the market and its participants are not established.

Reflecting the absence of a common definition of ESG ratings, there is no clear way to identify firms that "qualify" as SRAs. Therefore, it is a challenge to estimate the number of SRAs in the market for ESG ratings. Recently, firms such as S&P's and Moody's have entered the market by acquiring specialised providers, i.e. the ESG rating arm of RobecoSAM (2020) or Vigeo Eiris (2019). Other examples of consolidation include MSCI buying GMI Ratings (2014), the purchase of Oekom Research by ISS (2018), Morningstar's acquisition of Sustainalytics (2017), and the takeover of Beyond Ratings by the London Stock Exchange (2019). These are but a sample of the many acquisitions that have taken place which also involved companies that offer other kinds of ESG-related services such as research or investment services.

SRAs can be broadly categorised as follows:

- Established CRAs
- Benchmark administrators
- Financial data vendors
- Consultancies
- Specialised firms

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

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

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

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

The **comparability** of ESG ratings data is low. Given the lack of a legally binding definition of what an ESG rating is measuring it is not possible to compare ratings between sustainability rating agencies (SRAs). ESG ratings can be grouped into three main categories:

- *ESG risk ratings*: most common form, measure the exposure of entities to ESG risks and how they are managed
- *ESG impact ratings*: measure the impact of entities on ESG factors
- *Other ESG ratings:* e.g. ESG disclosure levels, relevance of ESG ratings to credit ratings, etc.

There are no legal requirements to ensure robustness and transparency of the methodologies underlying ESG ratings. As a result, the ability of investors to conduct due diligence and to understand what is being assessed is severely limited by several problems:

- **Consistency**: Berg et al. (2019) document the divergence between ratings from five prominent SRAs.[5] They find that ESG ratings are 60% correlated compared with 99% for credit ratings from the top 3 CRAs. These issues are explained by differences in measurement (measuring the same object in different ways) and aggregation rules.
- **Transparency**: Owing to uneven ESG disclosures, ESG ratings can often be forced to rely on inconsistent or non-comparable data, in some cases penalising the absence of public disclosures in a manner that benefits larger firms able to obtain relevant ESG information. One problem cited by investors is the lack of information regarding the assumptions made where data are incomplete, insufficiently granular, or unavailable. The lack of consistency in methodologies is aggravated by a lack of transparency, as methodologies are proprietary.
- **Clarity**: SRAs often assess business models rather than the nature of products or services offered. While some SRAs assign absolute scores, others produce a grade distributed amongst issuers within the same sector. This helps investors to identify which companies have stronger credentials and allow comparison of companies with similar business models. However, it leads to companies in controversial sectors obtaining high ESG ratings. The production of absolute or relative ratings may reflect different SRA business models (relative scores are better suited to index construction).

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

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

Question 19.1: If necessary, please explain the reasons for your answer to question 19. [Box max. 2000 characters]

ESMA does not have hard evidence on the quantity or quality of ESG research available to the market.

Buy-side research is generally not available to the public, aside from occasional publications.

[5] Berg et al. (2019), "Aggregate confusion: The divergence in ESG ratings", MIT Sloan Research Paper No. 5822-19

According to the UN PRI, sell-side research started integrating ESG information with traditional financing information many years ago (https://www.unpri.org/listed-equity/esg-integration-in-sell-side-equities-research/16.article). Based on anecdotal evidence, the number of publications focusing on ESG matters or covering ESG-related developments appears to have increased. This likely reflects i) the creation of analytics team dedicated to ESG matters within specialised data providers, ii) the recruitment of analysts on the buy side with a growing number of asset managers launching ESG products; iii) increasing interest for sell-side research on ESG-oriented assets, in line with investor appetite for such assets.

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

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

Question 20.1: If necessary, please explain the reasons for your answer. [Box max. 2000 characters]

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

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

Question 21.1: If yes, please explain why and what kind of action you consider would address the identified problems. In particular, do you think the EU should consider regulatory intervention? [Box max. 2000 characters]

The issues concerning ESG ratings highlighted in Q.18.1 have implications for investor protection and financial stability, but also for sustainable development in the long run. In addition, the inconsistency and inaccuracy of ratings leads to issues down the ESG investment value chain. Capital misallocation is likely, either unintentionally through the composition of ESG-rating based indices, or from greenwashing and product mis-selling. A regulatory framework establishing minimum standards for ESG ratings and ensuring supervision of ESG rating providers would be an appropriate way to address the concerns highlighted and ensure consistent and reliable standards of assessment in the ESG rating industry, and in the construction and administration of ESG benchmarks (see also Q.33). The scope of these regulatory requirements and the level of supervision entailed should be proportionate to the role that ESG ratings are given within the broader regulatory framework.

For instance, if a decision is taken that there should be incentives for investing in "green" or "sustainable" products, within the prudential regulatory framework, then it would be appropriate for these ratings and products to be subject to a regulatory or supervisory regime. Definitions would need to be established and aligned as appropriate with other initiatives, such as the Taxonomy, together with minimum standards on the transparency of methodologies and internal arrangements to prevent conflicts of interest.

It may also be necessary for the Commission to take a holistic view of the regulation and supervision of the ESG rating industry, as increased levels of market concentration have resulted in umbrella style rating providers who provide a suite of different rating and rating like services. Given the level of concentration in the market for ESG ratings as well as ESG rating providers often being members of larger groups such as CRAs, ESMA sees benefit in taking up direct supervisory responsibilities for these actors. This would help avoid having a patchwork of regulatory or supervisory mandates for what are in essence consolidated rating providers. Any decisions by the EU legislators should be supported by a cost-benefit analysis. In this context, it is important to note that the supervisory framework has to ensure consistent supervision of sustainability related financial services across the EU, including across NCAs and ESMA.

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

The market for sustainable financial assets (loans, bonds, funds, etc.) is composed of a wide variety of products, offered under various denominations like 'green', 'SDG', 'transition', 'ESG', 'ethical', 'impact', 'sustainability-linked', etc. While a variety of products allows for different approaches that can meet the specific needs and wishes of those investing or lending, it can be difficult for clients, in particular retail investors, to understand the different degrees of climate, environmental and social ambition and compare the specificities of each product. Clarity on these definitions through standards and labels can help to protect the integrity of and trust in the market for sustainable financial products, enabling easier access for investors, **companies**, and savers.

As set out in the 2018 Action Plan on Financing Sustainable Growth, the Commission services started working on:

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

establishing an EU Green Bond Standard (EU GBS).

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

EU Green Bond Standard

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

The TEG recommends the creation of an official voluntary EU GBS building on the EU Taxonomy. Such an EU Green Bond Standard could finance both physical assets and financial assets (including through covered bonds and asset-backed securities), capital expenditure and selected operating expenditure, as well as specific expenditure for sovereigns and sub-sovereigns. The standard should in the TEG's view exist alongside existing market standards.

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

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

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

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

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

Third-party verifiers of Green Bond Standards will be required to conduct rigourous and reliable assessments of issuer's green bond frameworks. The Green Bond market is small, in its infancy and concentrated in four countries that make up two thirds of the market (France, Germany, the Netherlands and Luxembourg). Corporate green bond issuance is the highest in France and in the Netherlands. Given these market characteristics and the limited legacy NCA supervision in this field, building supervisory capacities at a central European level would ensure economies of scale and the development of the required specific supervisory expertise. Moreover, in terms of supervision, ESMA could already leverage on its experience in supervising CRAs given the similarities of activities and actors. In some cases it can even be expected that third party verifiers will be part of wider CRA groups.

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

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

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

Please refer to the response provided under question 21. It may be necessary for the Commission to take a holistic view to the regulation and supervision of third-party verifiers as well as ESG ratings and research providers, as increased levels of market concentration are likely to result in umbrella style rating providers who provide a suite of different rating and rating like services. A unified approach to the regulation of all rating providers (and related sustainability assessments such as third party verification) would help avoid creating a patchwork of regulatory or supervisory mandates for what are in essence consolidated rating providers.

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

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

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

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

Prospectus and green bonds

Question 25: In those cases where a prospectus has to be published, do you believe that requiring the disclosure of specific information on green bonds in the prospectus, which is a single binding document, would improve the consistency and comparability of information for such instruments and help fight greenwashing?

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

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

ESMA points out that under PR Article 6(1) the prospectus should include all the necessary information for an investor to assess the 'green' characteristics of a bond. However, this minimum information is not specified in Level 1 or Level 2 text. In ESMA's view, it is possible to identify (e.g. in a building block) a minimum set of standardised information relating to the green elements of an offer . Examples of such material disclosure include information on the use of proceeds to finance or re-finance new and/or existing green business or projects, the framework adopted by the issuer concerning its strategy for the selection of green projects and the possible alignment of green projects with the EU taxonomy, the potential existence of third party verification of the framework and allocation of proceeds, possible commitment by the issuer to provide periodic reporting on the use of proceeds and where such information can be obtained, as well as an indication of whether the issuer intends to comply with voluntary green bond standards. Mandating the disclosure of this type of information, which is already available to green bond issuers and commonly communicated in roadshows and included in marketing material, would ensure that investors have access to material information that is pertinent to determine if a bond is green. Furthermore, issuers and their advisors would operate under legal certainty over the specific information that needs to be disclosed in a prospectus, a key factor which would speed up the approval of the prospectus. Standardisation of the disclosure requirements in green bond prospectuses would additionally make it easier for investors to compare different bond issuances in order to assess the green elements of the offers. Consistency of information disclosed in different parts of the prospectus would also be enhanced as green bond issuers would have to provide coherent disclosure about the greenness of the projects financed by the offer in one single document. Moreover, investors would be able to monitor compliance of green bond issuers with the information disclosed in the prospectus and if necessary, hold them to account, resulting thus in limiting 'greenwashing'.

Question 26: In those cases where a prospectus has to be published, to what extent do you agree with the following statement: "Issuers that adopt the EU GBS should include a link to that standard in the prospectus instead of being subject to specific disclosure requirements on green bonds in the prospectus"

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

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

ESMA points out that including in the prospectus a link to the EU GBS standard does not suffice to ensure investor protection. However, ESMA considers that it could be possible for the information disclosed by issuers adopting the EU-GBS to be incorporated by reference in the prospectus to allow issuers to comply with their prospectus disclosure obligations.

ESMA, though, notes that the recommendations of the EU Technical Expert Group's (TEG) for the establishment of the EU-GBS have not yet been taken forward. Therefore, the specific elements of the EU-GBS set out in the TEG's proposal may not be fully reflected in a future legal act. ESMA, nevertheless, suggests allowing the incorporation by reference in the prospectus of information that issuers adopting the EU-GBS have already disclosed elsewhere, provided that the core components of the EU-GBS are fully consistent with the specific disclosure requirements for green bond issuances.

In ESMA's view this alignment is key for investor protection in order to ensure that the same level of disclosure is provided in green bond prospectuses regardless of whether the issuer is a voluntary adopter of the EU-GBS or not. Therefore, ESMA considers that all green bond issuers should be subject to the same disclosure requirements, which should be set out in legislation. Issuers which voluntarily adopt the EU-GBS can fulfil those disclosure requirements by incorporating by reference the information disclosed in compliance to that standard provided that there is full alignment with the minimum disclosure requirements for green bond prospectuses.

Expanding the list of information that can be incorporated by reference in a prospectus pursuant to Article 19 of the Prospectus Regulation to include information disclosed by issuers that voluntarily adopt the EU-GBS will give access to investors to relevant and up-to-date information at the time of the prospectus approval. Furthermore, ESMA notes that scrutiny of this information by competent authorities would provide investors with comfort regarding its consistency with the overall information disclosed in the prospectus.

Other standards and labels

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

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

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

Question 27.1:

If yes, once the EU Taxonomy is established,[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)?

	1 – Not likely at all
	2 – Not likely
	3 – Neutral
	4 – Likely
	5 – Very likely

	Don’t know / no opinion / not relevant

If necessary, please specify the reasons for your answer to question 27. [Box max. 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
X	The Commission or the ESAs should issue guidance on minimum standards
	Regulatory intervention is needed to enshrine minimum standards in law
	Regulatory intervention is needed to create a label
	Don’t know / no opinion / not relevant

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

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

Question 29.1:

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

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

If necessary, please explain your answer to question 29. [Box max. 2000 characters]

The EU has a comprehensive framework for investment funds in the UCITS and AIFMD frameworks. It is possible to create ESG or green funds targeting either retail or professional investors through these broad frameworks. The EU has also already created specific legal frameworks within AIFMD for social entrepreneurship funds and for long-term investment funds. As the Commission notes, the new Disclosure Regulation has categorised sustainable products into those with environmental or social characteristics on the one hand and those with sustainable investment objectives on the other. The Disclosure Regulation will require extensive disclosures from product manufacturers on their products. It would be premature to create new product standards for

professional investors by new legislation until the experience from the EU Ecolabel for retail investors, and the disclosures emanating from the Disclosure Regulation are taken into account.

While there could be distributional benefits to a label for professional investors, over-reliance on such a label could lead to lower due diligence by professional investors regarding product characteristics or objectives, jeopardising the usefulness of the product disclosures that are required by the Disclosure Regulation. In addition, investments would primarily be encouraged to the labelled products instead of incentivising a wider innovation for sustainable products.

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

Should the EU develop standards for these types of sustainability-linked bonds or loans?

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

Question 30.1: If necessary, please explain your answer to question 30. [Box max. 2000 characters]

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

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

In the long run, it will be crucial to ensure that the objectives of these instruments are fully aligned with widely-recognised principles such as the UN Sustainable Development Goals. Furthermore, as these instruments link ESG performance to bond pricing, developing standards will facilitate holding actors accountable, improve disclosure and simultaneously hinder impact washing.

This also applies to financial instruments where distribution of payouts are contingent upon/linked to reaching pre-defined sustainability targets, especially social impact bonds, and social bonds, which have seen an increase in issuance during the Covid-19 crisis and are already gaining prominence.

Question 31: Should such a potential standard for target-setting sustainability-linked bonds or loans make use of the EU Taxonomy as one of the key performance indicators?

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

Question 31.1: If necessary, please explain your answer to question 31. [Box max. 2000 characters]

Standards for sustainability-linked securities would obviously require reference to a taxonomy. However, the EU Taxonomy only covers environmental aspects, implying that it would only be adapted to securities that are linked to environmental objectives.

Other sustainability-linked assets (e.g. bonds linked to social objectives) would require the development of a different taxonomy (e.g. a social taxonomy). However, ESMA recognises the significant challenges associated with the development of such frameworks.

Question 32: Several initiatives are currently ongoing in relation to energy-efficient mortgages (see for instance the work of the EEFIG (Energy Efficiency Financial Institutions Group set by the EC and the United Nations Environment Program Finance Initiative or UNEP FI) on the financial performance of energy efficiency loans or the energy efficient mortgages initiatives) and green loans more broadly. Should the EU develop standards or labels for these types of products?

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

Question 32.1:

If yes, please select all that apply:

	a broad standard or label for sustainable mortgages and loans (including social and environmental considerations)
	a standard or label for green (environmental and climate) mortgages and loans
	a narrow standard or label only for energy-efficient mortgages and loans for the renovation of a residential immovable property
	Other

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

Question 33: The Climate Benchmarks Regulation creates two types of EU climate benchmarks - ‘EU Climate Transition’ and ‘EU Paris-aligned’ - aimed at investors with climate-conscious investment strategies. The regulation also requires the Commission to assess the feasibility of a broader ‘ESG benchmark’.

Should the EU take action to create an ESG benchmark?

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

Question 33.1:

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

We understand this question as referring to the set-up of specific requirements for benchmark administrators to establish EU ESG benchmarks similar to those already in place for climate benchmarks. As indicated in the action plan of the commission on sustainable finance, administrators have been developing ESG benchmarks to capture sustainability goals. While these ESG benchmarks are subject to the overall requirements of the Benchmarks Regulation (BMR), they lack specific requirements regarding the ESG methodologies which may affect their reliability. As a response, the Climate Benchmarks Regulation has created two new types of benchmarks focusing on climate investment strategies including methodology requirements designed to reflect the compatibility with the objectives of the Paris Agreement.

While these two new types of benchmarks address the Environment factor, they do not include investment strategies related to the Social or Governance factors. Therefore, ESMA considers that setting out requirements for a broader ESG benchmark would help to take into account the Social and Governance considerations in the market and to achieve sustainability goals to reorient efficiently capital flows.

ESMA believes that more transparent and sounder sustainable indices methodologies are needed to reduce greenwashing. In terms of content, the legislative proposal could provide, *inter alia*, criteria for the choice and weighting of the underlying assets and if any exclusions should be applicable.

In addition, the establishment of a regulatory framework for ESG ratings will enhance the reliability of ESG Benchmarks (see Q18 and Q21)

ESMA is further of the view that ESG benchmarks should be set-up after the adoption by the market of the newly designed climate benchmarks. In addition, as the BMR already includes extensive disclosure for all benchmark administrators that pursue ESG objectives and therefore that this new legislative proposal should avoid adding additional disclosure requirements for administrators, except for the disclosures linked to the methodology of the ESG benchmarks.

If no, please explain your answer to question 33. [Box max. 2000 characters]

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

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

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

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

Question 35.1: If you disagree (scores of 1 and 2), please list the main problems you see (maximum three). [Box max. 2000 characters]

The current EU market infrastructures appear to have handled the high-speed growth of the markets in sustainable instruments adequately so far. We have focused on the green bond market as this is the most mature within sustainable securities and information is easily identifiable in the data reported to ESMA and published by the Climate Bond Initiative. Green bonds share the same technical characteristics as standard bonds but differ in the obligation to use the proceeds for a defined "green" purpose, which in itself does not necessarily make a difference for the actual issuance or trading of the bond in the secondary markets.

As an illustration of the market growth, the share of private-sector green bonds increased from 0.2% in 2015 to 2% in 2019 of the EU corporate bond market (see ESMA report on Trends, Risks and Vulnerabilities). Trading activity in green bonds in the EU is taking place mainly OTC (for roughly 40% of volumes) and bilaterally via systematic internalisers (for another 30%), while the remaining part is traded mainly on multilateral trading facilities (MTFs) and organised trading facilities (OTFs), and marginally on regulated markets (RM). This breakdown is relatively similar to the one observed in the broader bond market, although the share of OTC trading is even larger for the overall bond market. The data also suggest that green bonds are made available for trading in a large number of venues throughout the EU (i.e. 38 MTFs, 14 OTF, 15 RM and 70 SIs), although sometimes with very low volumes.

As for any new market, investors may face liquidity issues in terms of e.g. bid-ask spreads, trading volumes and number of market participants, but there are signs that liquidity is increasing. For example, there has been a significant increase in the number of market participants both on the buy side (increase in green funds and ETFs) and the intermediary side (high number of SIs active on green bonds in Europe).

As a result, it appears that the existing structures of the larger bond market are evolving to accompany issuers and investors growing interest in green bonds. There is less evidence in relation to other types of sustainable investments and market developments in this respect should be monitored. The development of sustainable finance could be further supported via the use of targeted incentives: for example, trading venues could provide for a reduction (or exemption) of listing fees for sustainable securities, both for initial listing and on-going annual listing fees.

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?

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

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

ESMA is of the view that the development of sustainable finance-oriented exchanges, or possibly segments of already established exchanges which target trading of sustainable finance securities, could contribute to promoting the trading of such type of financial instruments. Nevertheless, the potential benefits of such initiative should be evaluated against the possible risks, among which there would be the introduction of further fragmentation in EU market structures.

In ESMA's view the creation of dedicated segments could provide incentives both for investors and for issuers focussed on ESG issues and represent one step to the way towards mainstreaming ESG across all market segments. While it would be important to carefully assess the experience of the markets where such segments already exist, ESMA notes that on the investors' side, the creation of such targeted segments could facilitate identification of ESG investment opportunity and contribute to the dissemination of information on ESG projects. In order to foster investors' confidence, it would appear necessary to establish in the first place homogeneous criteria at the EU level for admission to trading, which issuers should adhere to, and promote harmonization of information to be disclosed on ESG issuances.

The creation of such type of segments could also enhance the visibility of issuers which adhere to ESG factors in their projects or corporate policies and facilitate their access to capital locally and cross-border. This may incentivise, for instance, SME issuers to seek funding from capital markets, but also attract mature companies which could use such opportunity to enhance the visibility of ongoing ESG projects. To ensure that those segments attract a level of liquidity that creates economies of scale for issuers, there may also be a need for regulatory initiatives to promote such segments. Such initiatives could be crafted in a manner which promotes long termism in investment.

ESMA also acknowledges that such type of initiative could pose some challenges for EU market microstructures. To avoid the fragmentation of trading and investors that the creation of dedicated segments could create, exchanges could focus on the visibility and accessibility of ESG investments, without necessarily adding a segregation in terms of place of execution. Additionally such segments would need to list, to ensure a sufficient liquidity, both well established companies and SMEs. Nevertheless, such companies have different needs which might be complex to integrate. Furthermore, at this stage it could be complex to categorise ESG companies as many companies are in a transition stage, where not all the projects can be labelled as ESG.

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]

In ESMA's view, in order to encourage capital flow to ESG projects, a sustainable finance-oriented exchange should adopt arrangements targeted at increasing the visibility of ESG securities. This result can be achieved through the creation of dedicated segments or section of the exchange website which allow direct access to ESG products.

On the investors' side, in order to promote and facilitate trading in ESG securities, the exchange should provide expertise to facilitate understanding of ESG products. Sharing of existing standards, principles or best practices, together with the deployment of educational resources and expert assistance can improve understanding ESG investment risks and advantages, and consequently attract investors on this market.

On the issuers' side, stock exchanges could provide guidance on ESG reporting, through the production of documentation helping companies gain a clear understanding of what ESG information should be displayed to investors. This type of guidance would also meet the demand from investors of a consistent approach to ESG reporting, facilitating an investment decision process which takes into consideration ESG aspects.

Exchanges should also adopt a specific focus to encourage ESG related SME listings. In this context, exchanges could provide education to issuers to ensure they undertake the opportunities markets offers. For example, helping SMEs in the identification and display of their ESG features could promote their attractiveness on markets both domestically and internationally. To this aim, targeted guidance in the listing process and advice in preparing initial and on-going information would be recommendable. Furthermore, exchanges could undertake measures to enhance liquidity, such as market making schemes and where deemed appropriate encourage the use of specialist liquidity providers.

1.6 Corporate governance, long-termism and investor engagement

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

The ongoing COVID-19 outbreak in particular underscores that companies should prioritise the long term interests of their stakeholders. Many companies in the EU have decided to prioritise the interests of key stakeholders, in particular employees, customers and suppliers, over short-term shareholder interest (The European Central Bank also recommended on 27 March 2020 that significant credit institution refrain from distributing dividend so that "they can continue to fulfil their role to fund households, small and medium businesses and corporations" during the COVID-19 economic shock). These factors contribute to driving long-term returns as they are crucial in order to maintain companies' ability to operate. Therefore, institutional investors have an important role to play in this context. As part of action 10 of the Action Plan on Financing Sustainable Growth, in December 2019 the European Supervisory Authorities delivered reports (ESMA report, EBA report, EIOPA report) that had the objective of assessing evidence of undue short-term pressure from the financial sector on corporations. They identified areas within their remit where they found some degree of short-termism and issued policy recommendations accordingly. For instance, they advise the adoption of longer-term perspectives among financial institutions through more explicit legal provisions on sustainability.

Question 38: In your view, which recommendation(s) made in the ESAs' reports have the highest potential to effectively tackle short-termism?

Please select among the following options.

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

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

Reference is made to ESMA's advice on undue short-term pressures (Ref.: ESMA30-22-762, 18 December 2019). In ESMA's view, each of the proposals in the report should be implemented to maximise effectiveness, and these proposals should as such be seen as a single package. However, ESMA points out that its proposal on the monitoring framework for remuneration is one of the key proposals included in its advice on undue short-term pressures.

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

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

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

Please list a maximum of 3 barrier(s) and / or a maximum of 3 action(s). [Box max. 2000 characters]

N/A

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

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

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

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

ESMA has ticked Yes not to indicate that it agrees there should be a mandatory share of variable remuneration linked to non-financial performance, but to indicate that there should indeed be a link between non-financial performance and variable remuneration, as explained further below.

Firstly, in general, ESMA highlights that clear and full corporate disclosure on directors' variable remuneration, including its link to financial and non-financial performance, is an essential starting point to improve market practice and we are still far from reaching that goal. As suggested in ESMA's advice on undue short-term pressures, the Commission's draft guidelines provided for in the SRDII could be improved to enhance disclosure around variable remuneration and its link to non-financial performance. In addition, ESMA suggests that the Commission should closely monitor the implementation and effectiveness of its guidelines and consider the use of more binding tools should the guidelines fail to bring about the envisaged level of disclosure across Member States.

Secondly, in response to Question 40, while ESMA understands that linking a minimum share of variable remuneration to non-financial performance could be foreseen as an effective tool in order to quickly improve market practices in this area, it considers that any such provision should be subject to the comply-or-explain principle in order to allow companies sufficient flexibility to cater for their specificities and gradually adjust their practice. Such comply-or-explain mechanism could be applied on the basis of codes of conduct to be developed by issuers. ESMA also highlights that it would be important to prevent the misuse of any new requirement in this area which may give rise to the risk of green-washing. In connection to question 41, such codes of conduct should also address the specific list of ESG factors to be included as a minimum across different industries. In addition, ESMA finds that – should a rule be introduced to link a minimum share of variable remuneration to non-financial performance – such tool should be non-binding and its effectiveness should be reviewed after a limited amount of time (e.g. five years) to see how market practice has evolved.

With reference to Question 41, a similar approach should be applied to the use of specific metrics as parameters for directors' variable remuneration so that companies are provided with adequate flexibility to cater for their specificities and can gradually adjust their practices.

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
X	Don't know / no opinion / not relevant

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

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

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

Question 42.1: If yes, what action should be taken? Please explain or provide appropriate examples. [Box max. 2000 characters]

Preliminarily, ESMA notes that the national transpositions of the revised Shareholder Rights Directive (SRD II) became applicable in most EU Member States (MS) in the course of 2019. As such, the SRD II has just started producing its effects in improving long-term engagement between investors and their investee companies and the alignment of long-term interests between institutional investors and their asset managers. In line with the Commission's Better Regulation agenda, ESMA is of the view that stability is an important element to ensure the effectiveness of regulatory frameworks and that, before considering new regulatory actions, the Commission should give further consideration to the proper application of the existing rules. In this regard, supervision at national level and its consistency across MSs are key elements to ensure full application of the rulebook. It should be noted that ESMA's supervisory convergence powers in this area are currently limited due to the SRD II not falling under Art. 1 (2) of the ESMA Regulation.

With this caveat, ESMA makes reference to the actions proposed in sections 2.4.3/2.4.4 of its 2019 advice on undue short-term pressures, including in the context of the envisaged review of certain provisions of the SRD II. Here, ESMA recognised that long-term investor engagement increasingly addresses sustainability-related topics, for example, when it comes to AGM voting. In ESMA's view, sustainability goals have a great deal in common with long-term investments and therefore a proper management of ESG risks is well aligned with long-term investor goals. In this context, ESMA suggested some targeted improvements of the regulatory framework including in the direction of

integrating ESG aspects more overtly in the SRD II to make the relevant provisions more effective in connecting long-term engagement activities and ESG factors.

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?

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

Comment box added by ESMA

In response to this question, ESMA would like to highlight two areas in which it could be relevant to further harmonise voting frameworks across the EU to facilitate shareholder engagement and votes on ESG issues.

Firstly, as ESMA suggested in its advice to the Commission on undue short-term pressures, ESMA considers that the Commission should assess the impact of national legislation that has recently introduced additional incentives (such as increased voting or dividend rights) to promote shareholders’ long-term perspective. On the basis of this assessment, the Commission should consider whether EU-harmonised incentives would be necessary. ESMA stands ready to assist the Commission in relation to this work.

Secondly, ESMA is of the view that – in order to remove existing obstacles to cross-border voting – it would be relevant to harmonise the technical aspects in these areas. Here, the Commission Implementing Regulation (EU) 2018/1212 which establishes detailed requirements for shareholder identification, transmission of information and facilitation of the exercise of shareholders’ rights is a first step in this direction. As the Regulation has yet to become applicable, ESMA suggests that its impact should be carefully monitored and assessed before further legislative or regulatory actions are considered. However, ESMA considers that in the future it may be necessary to undertake further steps, including harmonising the definition of shareholder and improving the use of technology to facilitate remote voting.

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?

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

Question 44.1: If yes, please explain to question 44. [Box max. 2000 characters]

ESMA makes reference to the specific action proposed in sections 2.4.3/2.4.4 of its 2019 advice on undue short-term pressures. Here, ESMA suggested that the Commission should carefully consider whether, for those companies that fall under the obligation to publish a non-financial statement, a

general advisory vote on that document could serve as an effective tool for shareholders to voice any concern they might have on the way their investee companies approach sustainability risks. ESMA indicated that this would be a preferable option to the introduction of ad-hoc votes on a specific document, such as a sustainability policy, as it would avoid duplications of disclosures and votes and therefore reduce fragmentation of shareholders' efforts and enhance engagement.

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
X	Don't know ~~/ no opinion / not relevant~~

Question 45.1:

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

Comment box added by ESMA

As regards the potential impact of passive index investing on the interests of long-term shareholders, ESMA observes that the relationship is complex and would depend significantly on the extent to which indices that the products track take into account ESG factors. While some research has been conducted in this area, findings on the existence of a correlation / causal effect are quite diverse and no clear consensus exists among academics. ESMA therefore suggests that before drawing any conclusion, further research is needed in order to make a robust assessment of which impact it might have on the interests of long-term shareholders if passive index investing does not take into account ESG factors.

As regards whether and how to address the relationship between passive index investing and long-term shareholders' interest, the EU has already addressed this to a significant degree. The Disclosure Regulation will impose significant transparency requirements on index funds and index fund providers. As UCITS management companies, European index fund providers will have to show the manner in which sustainability risks are integrated into investment decisions and the impacts of those assessments. Also, from 2023, where the management company takes into account principal adverse impacts of investment decisions at entity level, its index funds will have to explain whether the product takes into account principal adverse impacts on sustainability factors and show these impacts in periodic reporting.

These disclosures should have the effect of giving some visibility to investors about the impact of passive index funds that do not take into account ESG factors. The EU should wait to assess the impact of these rules before contemplating further measures.

If no, please explain the reasons for your answer if necessary. [Box max. 2000 characters]

To foster more sustainable corporate governance, as part of action 10 of the 2018 Action Plan on Financing Sustainable Growth, **the Commission launched a study on due diligence** (i.e. identification and mitigation of adverse social and environmental impact in a company's own operations and supply chain), which was published in February 2020. This study indicated the need for policy intervention, a conclusion which was supported by both multinational companies and NGOs. Another study on directors' duties and possible sustainability targets will be finalised in Q2 2020.

Question 46: Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change.

Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?

x	Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance
	Yes, as these issues are relevant to the financial performance of the company in the long term
	No, companies and their directors should not take account of these sorts of interests
	Don't know / no opinion / not relevant

Comment box added by ESMA

We address this question solely from the perspective of the 'double materiality' underlying the requirements in the Non-Financial Reporting Directive when determining which non-financial information to disclose. According to these requirements, an issuer must disclose not only non-financial information which impacts its development, performance and position – and can as such have a significance for its financial situation – but also non-financial information about the issuer's impact on its surroundings – which may not, at least in the short term, affect its financial situation. The second kind of non-financial information will be relevant not only to investors but also to customers, suppliers, employees, the public at large etc. (though some of these stakeholders may also, to an extent, be interested in the first kind of non-financial information).

In order to ensure that the double materiality perspective not only relates to the information an issuer *discloses* but also to the way it actually *makes its decisions*, ESMA considers it would be important for companies and their directors to take account of a broader set of stakeholder interests in their corporate decisions than what is currently required by EU law. Such an approach would furthermore contribute to a more robust identification of potential risks which issuers may be subject to at present or in the future, and it would generally facilitate issuers in taking a more long-term oriented decisions.

Question 47: Do you think that an EU framework for supply chain due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?

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

Question 48: Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?

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

Question 48.1:

If yes, please select your preferred option:

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

If necessary, please explain the reasons for your answer. [Box max. 2000 characters]

While ESMA suggests that SMEs in the most risky economic sectors sustainability-wise should be subject to a new supply chain due diligence requirement, we wish to higlight that it would be important to clarify in detail which specific sectors qualify as ‘most risky’ and take a proportionate approach to any requirements imposed on SMEs to avoid subjecting them to any unnecessary administrative burden.

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?

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

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

Guidance to financial advisors is indeed important and ESMA has already provided such guidance through two sets of existing MiFID guidelines :

- MiFID II guidelines on knowledge and competence of sales staff - https://www.esma.europa.eu/sites/default/files/library/2015-1886_-_final_report_on_guidelines_for_the_assessment_of_knowledge_and_competence.pdf
- MiFID II guidelines on suitability - https://www.esma.europa.eu/sites/default/files/library/esma35-43-869-_fr_on_guidelines_on_suitability.pdf

In particular on ESG-related aspects, ESMA is already updating its guidelines on suitability in order to take into account the changes that are being introduced in the MiFID II Delegated Regulation and has issued a public consultation document (link).

However, ESMA is not in favour of providing firms with detailed indications on the questions that firms should ask clients as market participants would tend to passively use the examples provided by legislators. ESMA believes that a standard questionnaire for the collection of information from clients would be against the spirit of the rules, as the number/granularity and type of questions asked will necessarily depend on the firm's business model, the types of products it offers, the types of clients it serves, etc.

ESMA considers that the integration of sustainability risks within the MiFID II requirements is better done through a high-level principles-based approach.

Question 50: Do you think that retail investors should be systematically offered sustainable investment products as one of the default options, when the provider has them available, at a comparable cost and if those products meet the suitability test?

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

Comment box added by ESMA

In line with the expected revision of the MIFID II Delegated Regulation, if a client were to express clear ESG preferences, these need to be considered by the intermediary in the advisory process and the assessment of suitability. In updating the guidelines on MIFID suitability requirements, ESMA will aim to provide further guidance to firms on this important topic.

Question 51: Should the EU support the development of more structured actions in the area of financial literacy and sustainability, in order to raise awareness and knowledge of sustainable finance among citizens and finance professionals?

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

If you agree (scores 4-5), please choose what particular action should be prioritised:

	1 (strongly disagree)	2 (disagree)	3 (neutral)	4 (agree)	5 (strongly agree)	Don't know / No opinion
Integrate sustainable finance literacy in the training requirements of finance professionals					X	
Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens' education at school, possibly in the context						

of a wider effort to raise awareness about climate action and sustainability						
Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions				X		
Directly, through targeted campaigns						
As part of a wider effort to raise the financial literacy of EU citizens					X	
As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities						
Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals						
Other						

If you selected other (4-5), please specify what other action(s) should be prioritised. [Box max. 2000 characters]

Comment box added by ESMA

Integrating sustainable finance literacy in the training requirements of finance professionals would be helpful and would fit perfectly well with the proposed amendments to integrate sustainability in the MiFID II delegated acts.

MiFID II requires staff giving investment advice or information about financial instruments or services to possess the necessary knowledge and competence. This means, inter alia, that these staff should have the appropriate qualifications through continuous professional development (e.g. education or training).

Depending on the finalisation of the MiFID II delegated acts, firms should take ESG considerations into account when providing portfolio management or investment advice to clients. To be able to recommend suitable ESG investment products to a client that has expressed ESG preferences, the firm's staff should have the necessary knowledge and competence with regard to such products. Although effectively already required, the knowledge and competence requirements could be strengthened in this respect by explicitly referring to sustainable finance literacy in the context of appropriate qualifications of staff.

Sustainable finance can only work if consumers also are able to understand the issue at stake. Even if a fanstatic job is being done with respect to disclosure on this topic, it will never be sufficient without a financial education effort.

2.2 Better understanding the impact of sustainable finance on sustainability factors

While sustainable finance is growing, there are questions on how to measure and assess the positive impact of sustainable finance on the real economy. Recently, tools have been developed that can be used to approximate an understanding of the climate and environmental impact of economic activities that are being financed. Examples of such tools include the EU Taxonomy, which identifies under which conditions economic activities can be considered environmentally sustainable, use-of-proceeds reporting as part of green bond issuances, or the Disclosure Regulation, which requires the reporting of specific adverse impact indicators.

Yet, an improved understanding of how different sustainable financial products impact the economy may further increase their positive impact on sustainability factors and accelerate the transition.

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

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

Question 52.1: For scores of 4 to 5, what actions should the EU take in your view? [Box max. 2000 characters]

Investors are increasingly integrating ESG assets into their portfolios and are considering ESG factors alongside traditional financial factors in their investment decision-making processes. The drivers of demand for ESG investment are varied. Some investors seek to maximise a social outcome while others focus on identifying ESG issues to reduce risks (for example excluding companies or sectors with low ESG ratings from portfolios) or to detect undervalued opportunities. While financial performance remains the main driver for most investments, willingness to invest sustainably increasingly drives investors' considerations. If investment products (e.g. funds, structured products, etc.) are not to be assessed only based on their costs and performance anymore, it is essential to have reliable impact metrics to assess their sustainability credentials which could then feed also more reliable ESG ratings which are currently unsatisfactory (please see our responses to Q17 and Q18). The draft Regulatory Technical Standard that the ESAs are developing under the Disclosure Regulation provides metrics for principal <u>adverse</u> impacts of investments at entity level, which may be used from 2023 also for products under Article 7 of the Disclosure Regulation. These metrics help assess the negative impact of products on sustainability factors. ESMA highlights that it is important that such metrics are built as far as possible on data collected at investee company level, hence the importance of the consistent review of the NFRD requirements.

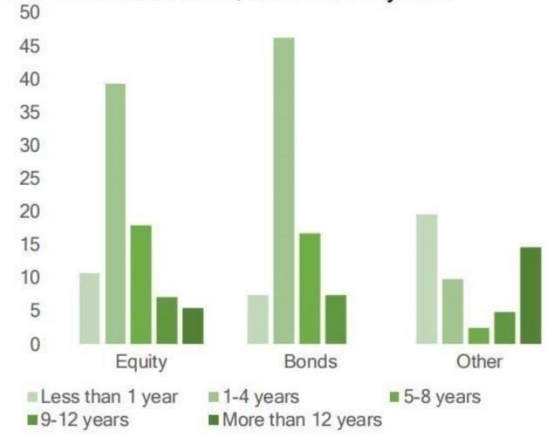
Question 53: Do you think that all financial products / instruments (e.g. shares, bonds, ETFs, money market funds) have the same ability to allocate capital to sustainable projects and activities?

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

Question 53.1: If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way. [Box max. 2000 characters]

Comment box added by ESMA In ESMA's view, at this stage, there is not sufficient evidence to support any specific view regarding the ability of different financial products/instruments to allocate capital to sustainable projects and activities (including considerations of the cause and effect of such allocations).

RA.20
Holding period
For more than 50%, less than 4 years



Note: Actual holding period prevailing in the investment strategy (Q11), %
Source: ESMA public consultation.

2.3 Green securitisation

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

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

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

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

In a situation where reliable standards can be created for what constitutes, for example, a "green" auto loan, "green" mortgage or "green" home loan (see also the response to question 55), the securitisation of these loans could play a valuable role in (i) allowing lenders to free up additional lending capacity; and (ii) providing investors with a pool of investable "green" securities. In this regard, securitisation is 'special' insofar as it allows investors to obtain exposure to (and thus allocate

capital to) sectors of the economy to which they would normally have difficulty accessing otherwise. In addition, compared to green bonds, green securitisation provides through the tranching mechanism a broader investment opportunities thereby expanding the universe of potential investors. Tthe maturity of securitisation instruments is also longer than many other financial products available to investors. These factors makes securitisation instruments attractive products from the perspective of financing a transition that must happen soon, and yet in a stable manner over the long-term. In addition, this approach could build upon the existing STS label, whereby it could be foreseen that a securitisation composed of these green components could also conform to the STS requirements. This could conceivably open the way for a double label approach of Green STS securitisations, with the potential for proportionate incentives for investors.

Question 55: Do the existing EU securitisation market and regulatory frameworks, including prudential treatment, create any barriers for securitising 'green assets' and increasing growth in their secondary market?

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

Question 55.1: If yes, please list the barriers you see (maximum three). [Box max. 2000 characters]

From the regulatory perspective, we note that, aside from a few basic fields where a securitisation meets the Simple, Transparent, and Standardised (STS) requirements, the securitisation disclosure requirements associated with the Securitisation Regulation do not contain substantial information on the 'greenness' of underlying exposures. To the extent that investors seek to adapt and obey investment guidelines that include investment in 'green' financial products, it will be difficult for securitisations to be considered as 'eligible' by these investors, until there is sufficient transparency to allow an informed opinion on the 'greenness' of the product to be formed. Additional transparency does not necessarily have to constitute extra burdens, but instead could take the form of efforts made to 'connect' information available elsewhere — using other disclosure requirements under consideration (e.g. the taxonomy, with due regard for minimising reporting burdens — and make this easily retrievable for each securitisation underlying exposure (or potentially aggregated, depending on the type of securitisation). However, ESMA also notes that some degree of standardisation may become necessary to set a 'green-securitisation label'. Such a label could facilitate the inclusion of securitisations in investment portfolios that pursue sustainability objectives (in line with the Taxonomy Regulation), thus helping to attract new investors to this asset class. Such a label could also potentially enable investors to more easily differentiate securitised products based on their relative greenness.

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

X	Yes
	No

	Don't know / no opinion / not relevant

Question 56.1: If yes, what regulatory and/or prudential measures should the dedicated framework contain and how would they interact with the existing general rules for all securitisations and specific rule for STS securitisations? [Box max. 2000 characters]

As referred to in the response to questions 54 and 55, a bottom-up approach to the creation of "green" securitisations requires a regulatory framework that establishes definitions for certain types of "green" loans. Similar to the approach for STS securitisations this would conceivably require some degree of verification of compliance with these "green" securitisations. To the extent that prudential measures are adopted, it is emphasized that these should be consistent across investor types (given their investment horizon) and not be set in isolation from other nearby financial products that investors could substitute for securitisations (such as covered bonds, and direct purchases/sales of underlying exposures).

2.4 Digital sustainable finance

The ongoing COVID-19 outbreak is highlighting the key role of digitalisation for the daily personal and professional lives of many Europeans. However, it has also revealed how digital exclusion can exacerbate financial exclusion – a risk that needs to be mitigated.

Digitalisation is transforming the provision of financial services to Europe's businesses and citizens As shown in the Progress Report of the UN Secretary-General's Task Force on Digital Financing of the Sustainable Development Goals (SDGs), digital finance brings a wide array of opportunities for citizens worldwide by making it easier to make payments, save money, invest, or get insured. However, digital finance also brings new risks, such as deepening the digital divide. It is therefore paramount to ensure that the potential of digitalisation for sustainable finance is fully reaped, while mitigating associated challenges appropriately. In this context, the Commission has launched a consultation dedicated to digital finance.

In the area of sustainable finance, technological innovation such as Artificial intelligence (AI) and machine learning can help to better identify and assess to what extent a company's activities, a large equity portfolio, or a bank's assets are sustainable. The application of Blockchain and the Internet of Things (IoT) may allow for increased transparency and accountability in sustainable finance, for instance with automated reporting and traceability of use of proceeds for green bonds.

Question 57: Do you think EU policy action is needed to maximise the potential of digital tools for integrating sustainability into the financial sector?

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

Question 57.1: If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider?

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

Digital finance, including different technologies, such as big data, artificial intelligence, blockchain and the Internet of Things, may offer innovative solutions to support sustainable finance and help financial actors to assess environmental risks, opportunities, incentives and choices, at reduced costs. For development and scaling up of technologies that could enable sustainable finance, coordination of policy actions across Member States is essential. The joint EC and ESAs EFIF initiative provides a platform for the European innovation hubs and sandboxes to exchange information, best practices and experiences and may potentially facilitate development of enabling digital tools for sustainable finance. New technologies have the potential to improve current processes and systems by acting as a digital enabler across the financing value chain. For instance, a recent OECD study *(OECD (2019), "Blockchain technologies as a digital enabler for sustainable infrastructure", OECD Environment Policy Papers, No. 16, OECD Publishing, Paris, https://doi.org/10.1787/0ec26947-en)* discusses a possible roadmap for blockchain implementation and pilot programmes for sustainable infrastructures. Blockchain technologies can be beneficial in meeting sustainability objectives due to their, among others, immutability and traceability features that enhance digital finance and increase transparency of sustainable initiatives. The European Blockchain Services Infrastructure (EBSI), a joint initiative of the EC and the European Blockchain Association (EBP), promotes cross-border public services across the EU using blockchain technology. Such potential positive outcomes require coordination at international level. At EU level, policies addressing regulatory uncertainty and ensuring market integrity and investor protection, as well as actions encouraging co-innovation and collaboration, supporting R&D and education efforts (e.g. for understanding risks and opportunities underlying distributed-ledger technology) are needed to exploit the potential benefits of digital finance for sustainable finance. Another initative for the EC to consider is establishement of the European Single Access Point (ESAP), as proposed in the answer to question 14.1. The ESAP providing free and one-stop acess to a single database of all financial and non-financial information of listed companies and thus enabling public for informed decisions, is a concrete example of how to maximise the potential of digital tools for integrating sustainability into the financial sector. A pre-condition for the use of digital tools in sustainable finance is harmonisation and standardisation of non-financial information and making it available in a machine-readable format. Among others, this would be simplified by the implementation of requirements under the NFRD.

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?

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

Question 58.1: If yes, please explain what actions would be relevant from your perspective and which public authority would be best-positioned to deliver it.

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

From ESMA's perspective there are several areas where digital solutions could bring benefits for retail investors to better channel their "money" to finance the sustainable developments. Digital technologies may improve the access to information of retail investors. Better availability and use of machine-readable data, leveraging for instance on new technologies such as AI, could help European consumers and firms to better channel their investment in sustainable products. Another aspect to consider is how digitalisation can engage citizens (as consumers, co-producers and voters) in raising finance for sustainable infrastructure (see more in OECD/the World Bank/UN Environment (2019), "Financing Climate Futures: Rethinking Infrastructure. Digital Finance and Citizen Action In Financing the Future of Climate-smart Infrastructure", a joint paper of the OECD, UN Environment and the World Bank Group, Inquiry: Design of a Sustainable Financial System, Geneva, https://www.oecd.org/environment/cc/climate-futures/case-study-digital-finance-and-citizen-action.pdf). There are innovations that are already changing consumer-citizen behaviour, increasing finance for climate-smart infrastructure and reducing emissions. EU policy efforts are needed in creating meaningful digital engagement processes where consumers and retail investors would understand the technologies and the opportunities presented by the technologies and trust in the systems' transparency and security. The key challenge in the retail investing is not only about providing enabling technologies but also in making them accessible, clear and accepted by citizens. Together with the benefits that digitalisation can bring about for retail investors, there are also risks associated with digital technologies. They include data security and the use and protection of consumer data. The risks of greenwashing are also high because the key definitions, standards and labelling of sustainable and climate-smart infrastructure are still missing in the market. There are also educational risks where retail investors may not understand the technologies and the products offered. The risks associated with the lack of understanding by retail investors become more relevant because digitalisation enable prompt and facilitated investment decisions even when they are not well considered by investors as unintended. Digitalisation should also be inclusive as there are risks that retail investors with less access to advanced tools or less knowledge would be excluded. Another risk is the environmental consequences of new technologies: some technologies may require natural resources and energy consumption that would not justify the ultimate benefits that the deployed systems can provide. These risks can be addressed through establishing a clear regulatory environment; online learning; and development of standards and relevant labels. It also includes RegTech to combat fraud, crime or corruption. In addition, for automated advisory (roboadvisor, or quantadvisor when AI/ML is used to make advisory decisions) providing enhanced access to investment services, an adequate regulatory and supervisory framework should ensure security and transparency. It might include proper testing of algorithms, and supervision by NCAs their adequacy and implementation. The EC white paper on AI covering the risks inherent in AI, is relevant in creating this regulatory framework.

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?

X	Yes

	No
	Don't know / no opinion / not relevant

Question 59.1: If yes, please detail, in particular if you see a role for EU intervention, including financial support. [Box max. 2000 characters]

Digital tools could indeed enable engagement of EU citizens in co-financing local sustainable projects. Digital platforms, including crowdfunding platforms; DLT technology; data mining and analyses tools; AI solutions could bridge the gap between the shifting towards sustainability demand of retail investors in Europe and available in the market offer (infrastructure projects, green finance in both equity and debt markets). The recent EC hackathon initiative is a good example of harnessing digitalisation and enabling fast, transparent, accountable identification of solutions to support the fight against the COVID-19 outbreak. Citizenenergy is another example of connecting innovation, investment and civic engagement for clean energy production and consumption. It is a platform that features in a systematic and user-friendly manner other crowdfunding platforms and cooperatives with a focus on getting the public involved in sustainable energy projects. Digital platforms for sustainable projects supported by the EU, by Member States or at the local levels arguably inspire more trust to citizens and therefore might attract more investments. Supported fully by governments or in cooperation with private partners, such platforms could support citizens' willingness to participate in environmental projects, inspire trust about the transparency and security of the technologies employed and the investment products offered. EU intervention can also consist in providing educational and analytical information to retail investors through digital (and thus fast and accessible) tools (e.g. websites, webinars) about green financial instruments and products available in the financial market. It relates, for instance, to green and social bonds, equity markets (ESG indices) and ESG funds. At present, there is little information for retail investors about the nature of such green products, the possibilities to invest in them and the risks associated. Risks to investor protection should also be addressed, including the risks of unintended investment decisions by retailers who do not fully understand the technologies or opportunities enabled by these technologies, while the digital decision process is fast and procedurally simple.

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. [Box max. 2000 characters]

From the regulatory perspective, a key obstacle is the lack of metrics and market standards underpinning information on the integration of sustainability risks and factors made available on the

market. In the absence of standardised and comparable information, it is difficult for an investor to assess the risks and opportunities of a sustainable project, as well as identifying sustainable projects.

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

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

Question 61.1: If necessary, please explain your answer to question 61 and 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]

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]

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

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

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

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

Question 65.1: If necessary, please explain your answer to question 65. [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?

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

Question 66.1: If necessary, please explain your answer to question 66. [Box max. 2000 characters]

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

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

Question 67.1: In case you see a strong need for public incentives (scores 4-5), which specific incentive(s) would support the issuance of which sustainable financial assets, in your view?

Please rank the effectiveness of each type of asset for each type of incentive.

a) Revenue-neutral subsidies for issuers

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

Please specify the reasons for your answer to question 67.1 a) (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider. [Box max. 2000 characters]

If a score of 4-5 was chosen for other, please specify the issuance of what other type(s) of asset would be supported by revenue-neutral subsidies for issuers. [Box max. 2000 characters]

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

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

Please specify the reasons for your answer to question 67.1 b) (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider. [Box max. 2000 characters]

If a score of 4-5 was chosen for other, please specify the issuance of what other type(s) of asset would be supported by de-risking mechanisms such as guarantees and blended financing instruments at EU-level. [Box max. 2000 characters]

c) Technical assistance

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

Please specify the reasons for your answers to question 67.1 c) (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider. [Box max. 2000 characters]

If a score of 4-5 was chosen for other, please specify the issuance of what other type(s) of asset would be supported by technical assistance. [Box max. 2000 characters]

d) Any other public sector incentives

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

Please specify the reasons for your answers (provide if possible quantitative evidence) and other incentives you would like the Commission to consider. [Box max. 2000 characters]

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

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

Question 68.1: In case you see a strong need for incentives for investors (score 4-5), which specific incentive(s) would best support an increase in sustainable investments? Please select as many options as you like.

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

Question 68.2: If other, please specify what other incentive(s) would support best increasing sustainable investments.

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
	Don't know / no opinion / not relevant

Question 69.1: If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue? [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
	Yes, but only partially
	No
	Don't know / no opinion / not relevant

Question 70.1:

If yes, please explain which public authority could use it, how and for what purposes. [Box max. 2000 characters]

If 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]

If no, please explain why you consider that it is not suitable for use by public authorities, and how those reasons could be best addressed in your view. [Box max. 2000 characters]

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

Question 71.1: If no or yes, but only partially, please explain why and how those reasons could be best addressed in your view. [Box max. 2000 characters]

The taxonomy was developed with the aim of allowing companies access to green financing; however, with adaptation, it could provide the basis for more broadly describing activities that contribute to ESG goals. Specifically in ESMA's context, it would require the EU and framework financial regulations to be amended.

Question 72: In particular, should the EU Taxonomy[6] 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

[6] 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.

	Don't know / no opinion / not relevant

Question 72.1:

If your answer to question 72 is 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? Please select all that apply.

	In the context of some EU spending programmes
	In the context of EU state aid rules
	Other, please specify

If in the context of some EU spending programmes, please explain if the EU Taxonomy is suitable for the purpose of EU spending programmes and what role it should play in this context. [Box max 2000 characters]

If in the context of EU state aid rules, please explain if the EU Taxonomy is suitable for the purpose of EU state aid rules and what role it should play in this context. [Box max 2000 characters]

If other, please explain for what other purpose is the EU Taxonomy suitable and what role it should play in that context [Box max 2000 characters]

If your answer to question 72 is 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
	In the context of EU state aid rules
	Other, please specify

If in the context of some EU spending programmes, please explain what role you see for a social, climate and environmental taxonomy in the context of some EU spending programmes [Box max. 2000 characters]

If in the context of EU state aid rules, please explain what role you see for a social, climate and environmental taxonomy in the context of EU state aid rules [Box max 2000 characters]

If other, please explain in what other context a social, climate and environmental taxonomy should play a role and what that role should be. [Box max. 2000 characters]

If your answer to question 72 is no or don't know / no opinion / not relevant, if necessary, please explain your answers to question 72. [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?

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

Question 73.1: If no, are there specificities of public issuers and funded projects or assets that the existing guidance on green bonds, developed by the TEG, does not account for? [Box max. 2000 characters]

The success of the EU Green Bond Standard will to some degree be dependent upon the extent to which it is adopted by the market in general. A higher level of adoption will result in deeper, more liquid secondary markets for these types of issuances which will encourage further issuances. In this regard Member States can play a valuable role in supporting the development of the standard and ensuring that there is consistency in the market for issuances aimed at investing in green projects. Should Member States choose to develop their own standards this could result in market fragmentation with consequences for the demand from investors.

2.8 Promoting intra-EU cross-border sustainable investments

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

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

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

Question 74.1: If yes, please specify what type of services would be useful for this purpose. Please select as many options as you like.

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

Question 74.2: If other, please specify what other type(s) of services would be useful for this purpose. [Box max. 2000 characters]

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
	Don't know / no opinion / not relevant

Promoting sustainable finance globally

The global financial challenge posed by climate change and environmental degradation requires an **internationally coordinated** response. To complement the work done by the Network of Central Banks and Supervisors for Greening the Financial system (NGFS) on climate-related risks and the Coalition of

Finance Ministers for Climate Action mainly on public budgetary matters and fiscal policies, **the EU has launched together with the relevant public authorities from like-minded countries the [International Platform on Sustainable Finance] (IPSF)**. The purpose of the IPSF is to promote integrated markets for environmentally sustainable investment at a global level. It will deepen international coordination on approaches and initiatives that are fundamental for private investors to identify and seize environmentally sustainable investment opportunities globally, in particular in the areas of taxonomy, disclosures, standards and labels.

Question 76: Do you think the current level of global coordination between public actors for sustainable finance is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?

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

Question 76.1: For scores of 1-2, what are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions? [Box max. 2000 characters]

Comment box added by ESMA

ESMA recognises the significant value of international cooperation on the emerging risks and trends associated to sustainable finance, in particular from the perspective of securities regulators within the network provided by the International Organisation of Securities Commissions (IOSCO).

In its recent report[7] on sustainable finance, IOSCO in particular recognised the importance of improving sustainability–related disclosures made by issuers and asset managers as well as to work in collaboration with other international organizations and regulators to avoid duplicative efforts and to enhance coordination of relevant regulatory and supervisory approaches. International cooperation amongst securities regulators is seen as particularly useful to promote transparency and prevent the risk of green-washing, in order for stakeholders to benefit from increased comparability of ESG- and climate-related information in the investment decision-making process. The European Commission should leverage on the International Platform on Sustainable Finance to promote international convergence in the above-mentioned areas, for example by fostering the debate around international standardisation for disclosures provideded both by corporates as well as by investment firms as well as standardisation to achieve a common understanading of sustainable investments.

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]

[7] IOSCO - Sustainable Finance and the Role of Securities Regulators and IOSCO- Final Report – April 2020

• Promote global standardisation for disclosures in relation to ESG by companies as well as market participants. • Launch targeted campaigns to inform different segments of private sector of the current challenges and reiterate the goals of the Paris Agreement; this could include ideas for different steps private sector companies could take to move towards the envisaged direction. • Fund research and collaborations between various actors in the private sector with the involvement of public sector. • Develop guidance for private sector with the aim of increasing the level of financial education, this could include providing information on how ESG considerations may fit in various investment decisions.

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

Please select all that apply.

	Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.)
	Lack of clearly identifiable sustainable projects on the ground
	Excessive (perceived or real) investment risk
	Difficulties to measure sustainable project achievements over time
	Other

Question 78.1: For other, please specify what other main barrier(s) private investors face when financing sustainable projects and activities in emerging markets and developing economies. [Box max. 2000 characters]

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]

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
	These tools need to be adapted to local specificities in emerging markets and/or developing economies
	Don't know / no opinion / not relevant

Question 80.1:

If some tools can be applied, if necessary, please explain your answer. [Box max. 2000 characters]

If these tools need to be adapted, please explain how you think they could be adapted. [Box max. 2000 characters]

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

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

Question 81.1: If no or yes, but only partially, please explain why and how the obstacles you identify could be best addressed. [Box max. 2000 characters]

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 with publishing a report on the provisions required for extending its requirements to activities that do significantly harm environmental sustainability (the so-called "brown taxonomy").

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

Question 82: In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called "brown taxonomy") at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?

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

Question 82.1:

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

Please select all that apply.

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

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

The green taxonomy is still being created and it would be important that taxonomies are developed incrementally in order to ensure proper alignment and correct application. In the longer term, however, a brown taxonomy can play a role in helping supervisors to identify and monitor risks, as well as in increasing transparency, making it easier for investors to decrease their exposures. In addition, a brown taxonomy could help increase the alignment between the indicators for principal adverse impact of investment decisions on sustainability factors, being developed by the ESAs under

[8] More information on the ESAs' activities on sustainable finance is available on the authorities' websites. See in particular ESMA's strategy, EBA Action Plan, and EIOPA's dedicated webpage.

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

If your answer to question 82 is no, please explain why you disagree. [Box max. 2000 characters]

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

Question 83.1: If yes, what should be the purpose of such a taxonomy? [Box max. 2000 characters]

Comment box added by ESMA

As stated above, it would be important that taxonomies are developed incrementally in order to ensure proper alignment and correct application. Priority should be given to the green / brown taxonomies and also to a social taxonomy.

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 select all that apply.

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

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

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

Physical risk may impact EU securities markets through multiple channels. First and foremost, the recent market turmoil during the COVID-19 crisis illustrated the impact that physical disasters can have on securities markets. The pandemic triggered a massive sell-off in equity and bond markets, large redemptions from fixed-income collective investment vehicles, and a sharp decline in market liquidity materially affecting trading conditions.

The resilience of EU market infrastructures is paramount to the orderly functioning of EU financial markets. In particular, the ability of EU trading venues, central counterparties and central securities depositories to provide financial services on a continuous basis must be ensured so as to reduce the risk of severe market disruption and ensure the stability of EU financial system.

When it comes to climate-related risk, the focus has been so far mainly on the banking and insurance sectors. However, climate hazards such as extreme weather events may impact critical infrastructure regardless of the sector.[10] This implies that the operations of financial service providers might be severely impared, which could lead to financial stability issues. Example of such operations include:

a) Derivatives clearing services from central counterparties;

b) On-venue trading of equity, bond and derivatives instruments; and

c) The settlement of cash transactions or arrangements involving a transfer of collateral securities between client accounts by central securities depositories.

The continuity of these operations ensure indeed that financial market participants can continue to manage risks (such as counterparty risk and liquidity risk) without creating uncertainty.

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

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

Directly related to this, while physical risk could impact investment funds over-exposed to climate-sensitive sectors, financial stability issues may materialise in the asset management sector from transition risk. In the Euro Area, the investment fund sector had the largest financial exposure to assets from climate sensitive sectors, with EUR 400bn in holdings, including fossil-fuels, in the form

[10] See “Advancing TCFD guidance on climate risk and opportunities”: https://www.physicalclimaterisk.com/EBRD-GCA_TCFD_physical_climate_final_report.pdf

of securities (shares and debt securities).[11] These assets are the most likely to become stranded in the event of an abrupt transition, with large imbalances in the demand and supply for securities leading to large price movements.

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

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

In the broader context of financial stability risk monitoring, second-order effects can materialise in complex ways and are very challenging to model. In the context of climate-related risk, the focus has mainly been on understanding the most immediate sources of risk, i.e. physical and transition risk.

One of the main issues in trying to analyse second-order effects from climate-related risk is the breadth and pervasiveness of these effects in all areas of financial risk management and monitoring. Therefore, at this stage we are not in a position to provide a ranking of the possible sources of risk from these effects compared with physical and transition risk. However, the list below provides an illustration of some of the channels through which second-order effects may materialise in EU securities markets:

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

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

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

If other, please explain through what other channel(s) climate change will affect your industry? Please provide links to quantitative analysis when available. [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?

[11] "Climate change and financial stability", ECB Financial Stability Review, May 2019: https://www.ecb.europa.eu/pub/financial-stability/fsr/special/html/ecb.fsrart201905_1~47cf778cc1.en.html

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

First and foremost, there is broad agreement that data-related issues are plaguing the identification, measurement, and therefore management of environment-related risks. This includes the availability, quality, transparency and usability of data (see Question 99 for additional details on physical risk and loss data). The development of harmonised metrics as proposed by the ESAs on the proposed ESG disclosures of financial market participants would go a long way in improving the consistency and availability of data. However, data-related issues are not limited to the sole financial sector, while the ability of financial market participants to measure and manage the climated-related risk of their loan or securities portfolio also depends on the availability and reliability of this information in other sectors. Similarly ambitious goals in terms of disclosure and metrics should thus be introduced for the non-financial sector, including for issuers that are subject to the NFRD, giving due regard to SMEs and maintaining the principle of proportionality. A second important step, already well underway in Europe, is to increase investor awareness and develop expertise in in the area of climate-related risks. The last two years have seen tremendous developments in the area of sustainability, with huge investor appetite for assets such as green bonds and sustainable funds which has been met with very strong growth in the issuance and offering of such instruments. As the market expands and the EU develops its framework that will allow for the use of a common terminology and classification, the number of experts on sustainability-related issues grows and the degree of expertise improves in both financial risk management within the private sector and public authorities. In addition to keeping green finance as its top priority, the EU should favour the development of fora to exchange views, initiatives and the experience of actors in the area of climate risk management.

Question 86: Following the financial crisis, the EU has developed several macro-prudential instruments, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system.

Do you consider the current macro-prudential policy toolbox for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change?

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

Question 86.1: For scores of 1-2, if you think the current macro-prudential policy toolbox for the EU financial sector is not sufficient to identify and address potential systemic financial stability risks related to climate change, what solution would you propose?

Please list a maximum of three solutions. [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 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
	Don't know / no opinion / not relevant

Question 87.1: 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).

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

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

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

Question 88.1: If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy? [Box max. 2000 characters]

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

1. take further action to mobilise banks to finance the transition?
2. manage climate-related and environmental risks?

	Yes, option 1. or option 2. or both options
	No
	Don't know / no opinion / not relevant

Question 89.1: If yes, please specify which action(s) would be relevant. [Box max. 2000 characters]

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

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

Question 90.1: If yes, please specify which measures would be relevant. [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)?

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

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

There is merit in adapting rules on fiduciary duties, best interests of investors and prudent person rules, but before any new solutions are provided, the EU should first ensure that the initiatives undertaken as part of Action 7 on clarifying institutional investors' and asset managers' duties under the Action Plan: Financing Sustainable Growth are implemented and their effects are observed and understood. In this respect we note that, the European Commission is preparing to adopt the Level 2 measures, having published drafts for comment on 8 June 2020. Once the Commission's legislative proposals have been applied, their effect should be observed and enforced before further changes are made.

ESMA published technical advice in April 2019 on the integration of sustainability risks and factors, relating to environmental, social and good governance considerations with regards to investment firms and investment funds, into MiFID II, AIFMD and the UCITS Directive.Combined with EIOPA's technical advice on the integration of sustainability in the prudent person principle for investments under Solvency II, the ESAs have provided the blueprint for legislative amendments to integrate sustainability factors in portfolios.

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.[12] Lastly, the study provided a preliminary quantitative analysis of the investment portfolio (with almost 4 trillion Euros of assets under management, the EEA's Institutions for Occupational Retirement Provision (IORPs) sector is an important actor on financial markets) which would indicate significant exposures of the IORPs in the sample to business sectors prone to high greenhouse gas emissions.

In 2017, the Commission established a High-level group of experts on pensions to provide policy advice on matters related to supplementary pensions. In its report, the group recommended that the EU, its Member States and the social partners further clarify how pension providers can take into account the impact of ESG factors on investment decisions and develop cost-effective tools and methodologies to assess the vulnerability of EU pension providers to long-term environmental and social sustainability risks. The group also pointed out that, in the case of IORPs which are collective schemes, it might be challenging to make investment decisions reconciling possibly diverging views of individual members and beneficiaries on ESG investment. Moreover, in 2019, EIOPA issued an opinion on the supervision of the management of ESG risks faced by IORPs.

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

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

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

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]

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

[12] 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).

	Don't know / no opinion / not relevant

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

3.3 Credit rating agencies

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

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

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

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

Question 95.1: If necessary, please explain your answer to question 95. [Box max. 2000 characters]

ESMA communicated its advice on this matter in July 2019 as part of its Technical Advice on Sustainabilty Considerations in the Credit Rating Market (Ref: ESMA33-9-321). In addition, ESMA also proposed measures to increase the transparency around ESG factors where they are a key driver of the credit rating action through its Guidelines on Disclosure Requirements Applicable to Credit Ratings (Ref: ESMA33-9-320). The purpose of this guidance is to allow the users of ratings to better assess where ESG factors are affecting credit rating actions. These Guidelines have become applicable for the purposes of ESMA's supervision on 30 March 2020 and therefore ESMA still needs to assess their effect. Hence ESMA's reply to the question is "don't know" (yet). Going forward, the Commission may consider elevating provisions of the Guidelines to binding EU Law.

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

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

Question 96.1: If necessary, please explain your answer to question 96. [Box max. 2000 characters]

We refer to our response to question 95.1.

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

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

Question 97.1: If yes, please specify what kind of action you consider would address the identified problems. In particular should the EU consider regulatory intervention? [Box max. 2000 characters]

As set out in its Technical Advice of July 2019, ESMA considers that it could be useful to update the CRA Regulation's disclosure provisions to provide a more consistent level of transparency around how CRAs are considering ESG factors in these assessments and ensure the CRA regulatory framework keeps pace with ESG developments in other areas. In particular, given the trajectory of EU financial market legislation towards integrating sustainability assessments in the operational and decision making processes of financial market participants, it may be relevant to assess whether there are sufficient regulatory safeguards in place elsewhere, for those non-credit rating products that will fill the need for such sustainability considerations.

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
	Don’t know / no opinion / not relevant

Question 98.1: If yes, please list a maximum of 3 initiatives. [Box max. 2000 characters]

3.5 Improving resilience to adverse climate and environmental impacts

Climate-related loss and physical risk data

Investors and asset owners, be they businesses, citizens or public authorities, can better navigate and manage the increased adverse impacts of a changing climate when given access to decision-relevant data. Although many non-life insurance undertakings have built up significant knowledge, most other financial institutions and economic actors have a limited understanding of (increasing) climate-related physical risks.

A wider-spread and more precise understanding of current losses arising from climate- and weather-related events is hence crucial to assess macro-economic impacts, which determine investment environments. It could also be helpful to better calibrate and customise climate-related physical risk models needed to inform investment decisions going forward, to unlock public and private adaptation and resilience investments and to enhance the resilience of the EU’s economy and society to the unavoidable impacts of climate change.

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

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

Question 99.1: If yes, for which of the following type of data should the European Commission take action to enhance its availability, usability and comparability across the EU?

Please select as many options as you like.

X	Loss data
X	Physical risk data

If loss data, please specify why you think the European Commission should take action to enhance the availability, usability and comparability of climate-related loss data across the EU? [Box max. 2000 characters]

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

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

Integrating loss and physical risk data in the reporting framework of financial market participants would be of particular interest, provided that reliable data become available.

More generally future reviews of existing EU regulations and new regulatory initiatives with a strong data component should similarly consider the systematic integration of ESG-related information, and in particular climate-related risk metrics. In particular, the availability at EU level of granular information (including non-ESG related) on UCITS investment funds, which is currently absent from the UCITS framework, would significantly improve the ability of EU authorities to monitor risks in this sector. The integration of ESG data reporting may prove useful to avoid unnecessary duplications when considering the need for new reporting obligations. The scope and granularity of ESG data to be reported should be carefully considered and consulted on.

In addition to increasing transparency, climate-related loss and physical risk data would be very relevant in the context of risk and vulnerabilities monitoring as part of the ESAs' financial stability mandate, and help them with the integration of climate-related risks in stress-testing frameworks.

One essential point when introducing new reporting requirements is to ensure their comparability (i.e. clear definitions and calculation methodologies) and that they are compatible with existing international standards (e.g. ISO codes). To optimise their usability, the information should also be compatible with data reporting under other mandates, e.g. for entity-level reporting to make the provision of Legal Entity Identifier (LEIs) mandatory, or of ISINs for instrument-level reporting. This would allow for comparability and merger of different datasets, which is necessary to obtain a comprehensive view of risk in supervised entities.

If physical risk data, please specify why you think the European Commission should take action to enhance the availability, usability and comparability of climate-related physical risk data across the EU? [Box max. 2000 characters]

See response above

Financial management of physical risk

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

Furthermore, the ongoing COVID-19 outbreak is highlighting the growing risk arising from pandemics in particular, which will become more frequent with the reduction of biodiversity and wildlife habitat. UNEP's

Frontiers 2016 Report on Emerging Issues of Environment Concern shows that such diseases can threaten economic development.

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

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

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

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

	1 (not at all helpful)	2 (rather not helpful)	3 (neutral)	4 (rather helpful)	5 (very helpful)	N.A.
Financial support to the development of more accurate climate physical risk models						
Raise awareness about climate physical risk					X	
Promote ex-ante "build back better" requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe					X	
Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage						
Reform EU post-disaster financial support						

Support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events					X	
Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks						
Regulate by setting minimum performance features for national climate-related disaster financial management schemes						
Create a European climate-related disaster risk transfer mechanism						
Other						

If financial support, please explain why you think it would be useful for the EU to provide financial support to the development of more accurate climate physical risk models. [Box max. 2000 characters]

If raise awareness, please explain why you think it would be useful for the EU to raise awareness about climate physical risk. [Box max. 2000 characters]

It is of paramount importance to raise awareness at individual financial market participants level,in order to support appropriate political and economic choices. Different tools could be envisaged, including, for example, corporate governance mechanisms which could , for instance by promote a larger involvement of senior management and investors in the analysis of physical risks and of material non-financial issues.

If promote ex-ante “build back better” requirements, please explain why you think it would be useful for the EU to promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe. [Box max. 2000 characters]

An ex ante adaptation measures may limit the abrupt consequences of catastrofic events which may ultimately have negative consequences on the financial system.

As sthe COVID-19 outbreak showed, the occurrence of catastrofic events might contribute to a general increase in awareness about the need for the financial system and the economy at large to be sufficiently resilient to face extreme events, including pandemics and climate-related crises To this end, as indicated in response to question 99, it would be useful to envisage the centralised collection of information and data about such adverse events. This would facilitate an assessment of risks and of exposures and vulnerabilities for the financial market participants involved, including for the purposes of preventing such risks in the future.

If facilitate public-private partnerships, please explain why you think it would be useful for the EU to facilitate public-private partnerships to expand affordable and comprehensive related insurance coverage. [Box max. 2000 characters]

If reform EU post disaster financial support, please explain why you think it would be useful for the EU to reform EU post disaster financial support. [Box max. 2000 characters]

If support the development of alternative financial products, please explain why you think it would be useful for the EU to support the development of alternative financial products (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events. [Box max. 2000 characters]

As the COVID-19 crisis illustrates, pandemics have immense impacts on economic development and tend to increase existing social issues such as inequality, employment, economic empowerment or access to health infrastructure.

Social bonds, which are tradable securities with their proceeds earmarked to (re)financing social projects, can play a substantial role in aiding a more rapid recovery following a crisis, especially in supporting health systems, including but not limited to funding the development of a vaccine. So-called “vaccine bonds” have received increased attention over the last few months. Further, social bonds can help limit the general economic and social repercussions following a pandemic and thus become an additional toolkit for policymakers.

The social bond market has seen a drastic increase in recent issuance volumes rising from roughly EUR 13bn in 2019 to roughly EUR 30bn by late April 2020. Estimates suggest that EUR 10bn were issued over the past months as a response to COVID-19, targeting mainly the health sector (e.g. medical equipment production) but also in support of SMEs.

Despite their potential, the EU should ensure a careful development of standardised reporting tools and frameworks to ensure accountability, sufficient disclosure, and to prevent 'impact-washing'. A key challenge will be to identify quantitative targets upon which the social impact can be measured and verified, which is essential to ensure investor protection and the proper use of money raised from these instruments.

If advise Member States, please explain why you think it would be useful for the EU to advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks. [Box max. 2000 characters]

If regulate by setting minimum performance features, please explain why you think it would be useful for the EU to regulate by setting minimum performance features for national climate-related disaster financial management schemes. [Box max. 2000 characters]

If create a European climate-related risk transfer mechanism, please explain why you think it would be useful for the EU to create a European climate-related disaster risk transfer mechanism. [Box max. 2000 characters]

If other, please explain what other action(s) the EU should take in this regard. [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
	Don't know / no opinion / not relevant

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

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

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

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

Question 101.2:

If yes, please explain which actions and the expected impact (high, medium, low). [Box max. 2000 characters]

If no, please explain your answer to question 101 and 101.1. [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?

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

Question 102.1: If yes, what action should the EU take?
Please list a maximum of three actions. [Box max. 2000 characters]

As mentioned in response to question 91, there is merit in adopting rules on fiduciary duties, best interests of investors and prudent person rules once the initiatives undertaken as part of Action 7 on clarifying institutional investors' and asset managers' duties under the Action Plan: Financing Sustainable Growth are implemented and their effects are observed and understood.

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