Comment

of the German Insurance Association (GDV)
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on the Consultation on the
renewed sustainable finance strategy

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Consultation on the renewed sustainable finance strategy

Fields marked with * are mandatory.

Introduction

This consultation is also available in German and French.

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

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

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

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

Above all, the transition to a sustainable economy will entail significant investment efforts across all sectors, meaning that financing frameworks, both public and private, must support this overall policy direction: reaching the current 2030 climate and energy targets alone would already require additional investments of approximately €260 billion a year by 2030. And as the EU raises its ambition to cut emissions, the need for investment will be even larger than the current estimate. In addition, significant investments in the upskilling and reskilling of the labour force will be necessary to enable a just transition for all. Hence, the scale of the investment needs goes well beyond the capacity of the public sector. Furthermore, if the climate and biodiversity crises are to be successfully addressed and reversed before potentially dangerous tipping points are reached, much of the investment needs to happen in the next 5-10 years. In this context, a more sustainable financial system should also contribute to mitigate existing and future risks to wildlife habitats and biodiversity in general, as well as support the prevention of pandemics – such as the COVID-19 outbreak.

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

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

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

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

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

Objectives of this consultation and links with other consultation activities

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

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

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

This consultation also makes references to past, ongoing and future consultations, such as the public consultation and inception impact assessment on the possible revision of the non-financial reporting directive (NFRD), the inception impact assessment on the review of the Solvenc II Directive or the future consultation on investment protection.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-sf-consultation@ec.europa.eu.

More information:

- on this consultation
- on the consultation document
- on sustainable finance
- on the protection of personal data regime for this consultation

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

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

- ○ major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.
- ◉ incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.
- ○ no further policy action is needed for the time being.
- ○ Don't know / no opinion / not relevant

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

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

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

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

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

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

Question 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?

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Investors should be encouraged/discouraged indirectly. The EU should encourage companies to provide climate-related financial information including straightforward, comparable KPIs on GHG emissions and targets thereby providing transparency for investor's decisions. If climate-related transition pathways of companies are easily available and comparable, investors are encouraged to support the transformation of those companies with concrete climate ambitions (a sustainable future business model) and discouraged to finance companies which miss concrete targets and strategies.

Section II. Questions targeted at experts

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

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

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Challenges:

- Availability/Provision of sustainability data from real economy (in particular from SME / international investees)
- Lack of international standardization
- Avoidance of a too narrow definition of sustainability in order to achieve a broad transformation of the economy instead of deep green niche investments only
- Availability of sufficient investable sustainable (infrastructure) projects in the real economy. Without strong steering measures such as comprehensive pricing of greenhouse gases and other negative environmental impacts, the supply of sustainable investments will remain low; in this respect, the financial sector will inevitably follow the real economy.
- Mismatch between available sustainable investment universe and liability driven investment profiles of insurers and IORPs

Opportunities:

- Mismatch Every (financial) company has the opportunity to define its own pathway towards a more sustainable future business model and should be encouraged/enabled by the financial sector (via engagement)
- Financing of innovation while divesting from non-transformable/expiring businessmodels (no fresh capital for old ideas)
- During low-interest rate environment private capital is seeking investments and real-economy change can be achieved and financed at scale
- Possible establishment of EU regulations as a global standard for financing sustainable growth.

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?

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

- Availability of data/alignment across (upcoming) disclosure legislations (for financial sector disclosure requirements corresponding data provision by investee companies is a prerequisite).
- Definition of sustainability via EU Taxonomy is rather complex (focus on individual activities instead of entities), too narrow (focus on deep green activities/very tight thresholds for eligible activities), status-quo/static view (does not sufficiently incorporate the transformation process and targets of companies).
- Disclosure- and Taxonomy Regulation as well as Non-Financial-Reporting Directive (NFRD) must be aligned as far as possible by adequate technical regulatory standards. Different objectives and terminology (e.g. sustainability risks, adverse sustainability impacts, significant harm of environmental objectives, etc.) are obstacles to consistent implementation.
- As far as sustainability risks are concerned, Solvency II already makes it possible to take them fully into account in corporate management and with the existing risk management tools.
- The EU's subsidies schemes are specific obstacles e.g. export subsidies cause incorrect producer prices.

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

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Encourage multi-stakeholder approach for transitioning of exposed sectors, companies and regions. Provide European funds to support an equitable transition. In order to avoid/limit socio-economic impacts financial tools should enable a broad transformation of the economy, which puts emphasis on transition instead of bans/divestment, where possible and in line with net-zero pathways.

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

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

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

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Planning security and clear investment incentives are of utmost importance for the economy. Policy frameworks should always be predictable and well-communicated.

Sector-specific trajectories would be important in order to develop (company perspective) and compare (investor perspective) the transition goals of tagets of individual companies.

Scrutiny needs to be placed on the instruments applied for steering, with a preference to make use of EU Emission Trading System (ETS), incl. an expansion of EU-level carbon pricing on all types of GHG emissions from all relevant sectors. Strongest Impact would be achieved with comprehensive GHG pricing system with a significant price level and a clear time trajectory with sufficient lead time to allow investments to be made. This creates clear and effective market signals and avoids disruptive developments.

Trajectory for phase-out of certain assets/technologies to be decided carefully as this might lead to self-fulfilling prophecy and take away opportunity/time for transformation.

Involvement of academia and neutral experts is key to ensure a science-based approach to trajectories.

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

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

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 (see for instance The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business, **WWF, 2019), as well as its strong connection with climate change, do you think the EU’s sustainable finance agenda should better reflect growing importance of biodiversity loss?**

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

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

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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?

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> The close exchange with market participants should be continued in order to further strengthen established best practices. The platform for sustainable finance in accordance with the Taxonomy Regulation could fulfil this role. Adequate staffing of the platform with representatives of financial and real economy is therefore of great importance.
>
> Governance should be ensured via nationally determined contributions (NDCs) and deducted regulation, sectoral roadmaps / trajectories and individual company pathways.
>
> Broad transformation can only be achieved if politics, real economy, financial sector and civil society work closely together. Transition goals should be ambitious but achievable and equitable, public financing must not crowd-out private financing, financial sector can enable real economy but is dependent on investee data. A Platform for project pipeline and data provision should be encouraged / established.

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.

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> For climate change as a global problem, global approaches are preferable.
>
> International Platform on Sustainable Finance should promote global standards and best practices and to constantly expand the circle of countries involved.
>
> International standardization of non-financial reporting should account for global linkages of financial markets and avoid competitive disadvantages for globally operating companies (similar to development of IFRS standards).
>
> Alignment of financial and non-financial reporting so that both should follow a similar rationale and logic also as non-financial aspects are of increasing financial relevance.
>
> A global, reliable and significant CO2 price with strong incentives for the real economy would have the greatest impact on strengthening sustainable investments. In contrast to this, solo national efforts in the EU are usually not very effective, especially since most of the European measures are not yet in place.
>
> Premature national activities could unnecessarily duplicate or even counteract the European measures. Sustainability disclosure should become a public good.

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, Commission Directorate General for Financial Stability, Financial Services and Capital Markets Union (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?

- (selected) 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:

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Generally, the database should cover non-financial data relevant to comply with existing and upcoming disclosure regulations.

With a view to following upcoming regulations ESG-data required for disclosures should be covered. 1. SFDR: Data on indicators proposed by ESAs on adverse Impacts, data on environmental/social characteristics or sustainable investment objectives, data on sustainability risks, 2. Taxonomy: Data relevant to identifiy taxonomy-compatible investment (proportion of turnover from products/services associated with economic activities that qualify as environmentally sustainable, proportion of capital expenditure and, where applicable, proportion of operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable) should be part of the database. Data should be reported by investee companies that are required to report under the NFRD in a standardised and ready-to- use format.

Straightforward climate-related KPIs should be covered to enable easy comparison of low-carbon transition pathways across companies. Items to be covered could be drawn from internationally applied frameworks and non-for-profit ratings (e.g. TCFD). In order to easily allocate stocks a suitable ID (LEI) should be deposited. Access to data room should be free of charge.

In data register also ESG data of states should be collected. Insurers hold substantial holdings of bonds issued by governments/subordinated entities not covered by the Taxonomy.

The database should be addressed to financial and capital markets (investors/issuers). For other stakeholders a limited data volume in the management report/separate non-financial statement that is meaningful for non-experts would rather be suitable. A free of costs and freely accessible data register would reduce costs and relyance on external data providers, ensure the use of comparable high quality data and would therefore in the end benefit consumers.

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[1]?

[1] 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.

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

Question 15.1: If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation – 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
- (x) 3 - Neutral
- ( ) 4 - Likely
- ( ) 5 - Very likely
- ( ) Don't know / no opinion / not relevant

Question 15.2: If necessary, please explain your response to question 15.1.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Insurers carry out activities contributing to the objectives of the Taxonomy.

Insurers as providers of insurance against climate related hazards carry out economic activities that substantially contribute to the environmental objective "climate adaptation". This insurance against climate related hazards is recommended by the TEG as a taxonomy-compliant activity (see TEG report financial and insurance activities).

Investment activities of insurers contribute indirectly to finance economic activities that are aligned with the EU Taxonomy (see also question 27).

1.2 Accounting standards and rules

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

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

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

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

1.3 Sustainability research and ratings

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

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

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

Question 17.1: If necessary, please explain your answer to question 17:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There are only around 4-5 large ESG data providers, that everyone depends on. Market concentration of ESG research providers and agencies is nevertheless ongoing. This is a development into oligopolistic structures, often with a prevalence of US-based entities, which do not always reflect the European approach to sustainability. Financial market participants should not be dependent on these structures as these agencies have too much market power without having respective standards. Financial market participants should not be forced to rely on third party providers of ESG data and research. Such reliance would not be cost effective and would not consider existing issues relating to consistency and comparability of information.

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

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

Question 18.1: If necessary, please explain your answer to question 18.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The main issue is that there are no given standards on the degree of disclosure and/or type. Likewise lack of transparency on the raw data. Therefore ESG data from sustainability data providers is often not comparable and of poor quality and reliability.

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

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

Question 19.1: If necessary, please explain your answer to question 19.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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 your answer to question 20.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> ESG Rating coverage is good and serves as a good basis for preliminary analysis nonetheless insights on company level are missing.

Question 21: In your opinion, should the EU take action in any of these areas?

- (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?

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including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> More stringent non financial reporting standards are needed. A centralised EU register for environmental, social and governance (ESG) data in an electronic and standardised format is necessary (see also question 14). A database for public and free of charge ESG data can lower the cost of ESG data, which would likely lead to improved ESG research.

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:

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

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

EU Green Bond Standard

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

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

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

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

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

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

Question 22.1: If necessary, please explain your answer to question 22.

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> This market should be regulated, preferably by an EU institution, in order to consistently verify that reports provided by Accredited Certifiers are in line with the EU Taxonomy and have followed all commitments within the EU Green Bond Standard. This would avoid disagreements or misinterpretation of the rules behind Green Bonds, as we can see between SPO providers based on ICMA's Green Bond Principles.

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

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

Question 23.1: If necessary, please explain your answer to question 23.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Even if there are linkages between the GB market and the ESG ratings universe, a uniformed ESG standard would be hard to follow and would seek to simplify existing ones. Regulating Green Bonds is useful to avoid Greenwashing and making sure that funds are actually allocated to Green Projects. When it comes to ESG ratings, we need competition to make market players evolve in terms of methodologies.

Question 24: The EU GBS as recommended by the TEG is intended for any type ofissuer: 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 explain your answer to question 24.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

International issuers may want to use standards from their own country. They could align with the EU GBS technically, but disagreements on the sectors, thresholds or DNSH in the EU Taxonomy may limit their adoption.

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 explain your answer to question 25.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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

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

Question 26.1: If necessary, please explain your answer to question 26.

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> As some issuers may go further than the standard (on a best practice basis), a link that the Bond will be aligned with the EU GBS would suffice and more information can be provided in the GB Framework document.

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?

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

Question 27.1: If yes, once the EU Taxonomy is established (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 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
- (selected) Don't know / no opinion / not relevant

Question 27.1: If necessary, please explain your answer to question 27.

2000 character(s) maximum

including spaces and line bre aks, i.e. stricter than the MS Word characters counting method.

Yes, there are already some ESG products on the German market. The industry as a whole takes the issue very seriously (in 2017 half of German insurers' investment fulfilled the UN PRI and currently more than 75 % of the insurance companies include ESG criteria in their investment decisions). We firmly believe that insurers are strong and reliable partners in financing the ecological transition. Moreover, the long-term nature of insurers investments can ensure the long-term sustainability of the transition.

To the follow-up question: Of course, Taxonomy will play a major role for companies. However, the potential application of the Taxonomy Regulation (in conjunction with the Disclosure Regulation) when deciding upon investments cannot be assessed before technical regulatory Standards are not in place. Furthermore, the likeliness that the taxonomy will be used for investment decisions depends on its practicality and whether all necessary data will be supplied by investee companies and are available in a freely accessible standardized, ready-to-use form.

A major problem for the insurance industry is that a considerable proportion of low Risk investments (government bonds, bank securities, etc.) is not covered by the Taxonomy. The share of taxonomy compatible Investments would therfore be very low, especially in comparison with fund providers. However, capital guarantees for customers require precisely these low-risk investments in the security assets. There is therefore no level playing field between the various providers. Therefore it is key to include these assets in the taxonomy and to collect the required data in the proposed data register. Furthermore, to invest more in underlying assets aligned with the Taxonomy, the supply of green investable assets needs to increase.

Question 28: In its final report, the High-Level Expert Group on Sustainable Finance recommended to establish a minimum standard for sustainably denominated investment funds (commonly referred to as ESG or SRI funds, despite having diverse methodologies), aimed at retail investors.

What actions would you consider necessary to standardise investment funds that have broader sustainability denominations?

- ○ No regulatory intervention is needed
- ◉ The Commission or the ESAs should issue guidance on minimum standards
- ○ Regulatory intervention is needed to enshrine minimum standards in law
- ○ Regulatory intervention is needed to create a label
- ○ Don’t know / no opinion / not relevant

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

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

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

2000 character(s) maxim um
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> Professional investors should be able to assess the sustainability of funds without labels.
>
> Label for private investors: A label is a useful tool for private investors so that they can buy a "green" product without having to carry out too much testing of their own. An EU Ecolabel will be an important verifiable tool for consumers wanting to invest in sustainable activities to identify sustainable financial products.
>
> Furthermore, it will give providers incentives to invest more in green assets. In order to have a meaningful label that allows customers to make informed investment choices, it is vital that the criteria for the label are adequate for all products that are in scope of the PRIIPs Regulation. Please see further our answer on Q 34.

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

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

- (•) 1 - Strongly disagree
- ( ) 2 - Disagree
- ( ) 3 - Neutral
- ( ) 4 - Agree
- ( ) 5 - Strongly agree
- ( ) Don’t know / no opinion / not relevant

Question 30.1: If necessary, please explain your answer to question 30.

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> This market could evolve as an easy-way-out of the intensive work that is required from issuers to comply with GB standards. If not done with short-term and ambitious targets, the positive impact of financing these types of instruments could be diluted.

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

- ( ) 1 - Strongly disagree
- (•) 2 - Disagree
- ( ) 3 - Neutral
- ( ) 4 - Agree
- ( ) 5 - Strongly agree
- ( ) Don’t know / no opinion / not relevant

Question 31.1: If necessary, please explain your answer to question 31.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Some of these loans are linked to social indicators, not included in the Taxonomy, and hence can not be linked to the taxonomy at this point. In case of green projects, then the taxonomy could be of guidance. However, there is no tracking of funds in these types of operations (usually general purpose loans), which creates a risk of impact-washing, social-washing and green-washing.

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

Should the EU take action to create an ESG benchmark?

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

Question 33.1: If no, please explain your answer to question 33.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The ESG issue is very extensive. Therefore we do not know which would be the ESG targets put ahead if a benchmark is built. This would require that a common ESG methodology agreed by all market participants is formalised and easy to track.

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

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

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

A label for retail investors makes sense. German insurers therefore welcome the EU Commission's efforts to extend the scope of the EU Ecolabel Regulation to financial products, as already envisaged in the Sustainable Finance Action Plan. In order to ensure a level playing field, it is important to make the eco-label also available for unit-linked life and pension insurance via a "look-through" approach.

A problem with the current deliberations of the Joint Research Centre (JRC), however, is that products with partial or full investment in the security assets are excluded. The easiest way to include these products would be through a so-called "allocation approach", i.e. in simple terms, the share of ESG products must not exceed the share of ESG investments in protection assets. In concrete terms: the insurance company assures policyholders of the sustainable product line that, from the start of the customer contract, they will invest at least the savings portion of the premiums paid in sustainable projects and investments. Throughout the entire term of the contract, the insurance company therefore ensures that the portfolio of sustainable investments is at least as high as the actuarial reserve formed from the savings portions of all sustainable insurance contracts.

1.5 Capital markets infrastructure

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

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

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

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

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

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

ESG should be fully integrated in all market and trading segments, rather than dividing into one or the other.

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See Q36: Focus should be on integration rather than separation.

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, the European Supervisory Authorities delivered reports in December 2019 (ESMA report, EBA report and EIOPA report) that had the objective of assessing evidence of undue short-term pressure from the financial sector on corporations. They identified areas within their remit where they found some degree of short-termism and issued policy recommendations accordingly. For instance, they advise the adoption of longer-term perspectives among financial institutions through more explicit legal provisions on sustainability.

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

Please select among the following options:

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

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> Insurance companies have a long-term business model. The observation of long-term trends and developments is essential. Risk management is accordingly aligned. In the life insurance sector, the obligations to policyholders are mainly long-term, and investments are matched accordingly. Unlike the banking sector, there is no trading book to speculate on short-term profits.
>
> Remuneration is already regulated in Art. 275 Regulation 2015/35/EU and takes sustainability aspects into account. The payment of a substantial portion of the variable remuneration component shall contain a flexible, deferred component that takes account of the nature and time horizon of the undertaking's business. And that deferral period shall not be less than three years and the period shall be correctly aligned with the nature of the business, its risks, and the activities of the employees in question. We therefore see no need for further regulations in the insurance sector.

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):

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Yes, EU regulation should require less frequent reporting (not quarterly reporting).

As long-term investors insurers are generally able to hold their fixed in-come assets to maturity and to achieve sustainable excess returns with illiquid assets. However, the market values on the asset side of the balance sheet follow all short-term market fluctuations which do not necessarily affect insurers in terms of real cash flows. To prevent possible short-termism effects, these asset side effects must be balanced out by a corresponding valuation on the liabilities side. Thus, an adjustment of the risk-free interest rate term structure should consider the illiquidity of underwriting cash flows in their valuation (illiquidity premium) and mitigate the effects of short-term exaggerations in bond spreads. This prevents frantic pro-cyclical reactions and thus contributes to financial stability. A VA that takes into account insurers' capacity to sustainably achieve higher returns than the risk-free interest rate could thus rectify the current incongruent implementation of the market valuation imperative. It would facilitate the provision of long-term guarantees by insurers and support their role as capital providers with a long-term orientation. The greatest impact on solvency ratios is attributable to the risk-free yield curve used to calculate the technical provisions. The curve is based on data from deep, liquid and transparent markets. The highest maturity classified as deep and liquid is often called the last liquid point. For maturities where either the swap or the bonds market is no longer deep and liquid, the term structure is extrapolated to an ultimate forward rate. To avoid artificial volatility and to get reliable results, unsound data stemming from markets which are not deep, liquid and transparent must not be taken as a basis. Using such data would raise volatility of the technical provisions which in turn prevents long-termism of insurers.

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

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

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

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

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

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

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

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

Question 42.1: If yes, what action should be taken? Please explain or provide appropriate examples.

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> Standardized reporting requierements should be set for companies. This would facilitate processes for those investors, who undertake engagement activities.

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

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

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

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

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

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

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

Question 45.1: If yes, in your view, what do you think this impact is, do you think that the EU should address it and how?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Some long-term investors may consider ESG factors in passive indices as a risk mitigation factor, and worry that ESG exclusions are not taken into account for sectors that are inconsistent with climate agreements (risk for stranded assets).

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

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

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

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

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

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

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

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

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

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

As part of the European Green Deal, the Commission has launched a European Climate Pact to bring together regions, local communities, civil society, businesses and schools in the fight against climate change, incentivising behavioural change from the level of the individual to the largest multinational, and to launch a new wave of actions. A consultation on the European Climate Pact is open until 27 May 2020 in order to better identify the areas where the Commission could support and highlight pledges as well as set up fora to work together on climate action (including possibly on sustainable finance).

2.1 Mobilising retail investors and citizens

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

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

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

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

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Overly prescriptive regulation with regard to the advisory process should be avoided. The provision of advice on insurance-based investment products is a highly individual process. Its objective is to provide the customer with the product which best suits his demands and needs including his specific sustainability preferences, where relevant. The precise questions which need to be asked for this purpose depend on the particular characteristics and situation of the respective customer. Requiring the advisor to ask detailed questions which may not be of interest to the individual customer would risk adding unnecessary red tape to the already complex advisory process. Furthermore we would like to point to the extensive information obligations on sustainability considerations both for providers and intermediaries which are forthcoming in the near future. These serve precisely the aim expressed by the EU Commission with regard to this question.

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

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

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

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

Question 51.1: If you agree, please choose what particular action should be prioritized.

	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.	◯	◯	◯	◯	◉	◯
Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens’ education at school, possibly in the context of a wider effort to raise awareness about climate action and sustainability.[1-5]	◯	◯	◯	◯	◉	◯
Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions.	◯	◯	◉	◯	◯	◯
Directly, through targeted campaigns.	◯	◯	◯	◉	◯	◯
As part of a wider effort to raise the financial literacy of EU citizens.	◯	◯	◯	◯	◉	◯
As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities.	◯	◯	◉	◯	◯	◯
Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals.	◯	◯	◯	◯	◉	◯
Other	◯	◯	◯	◯	◯	◯

2.2 Better understanding the impact of sustainable finance on sustainability factors

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

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

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

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

Question 52.1: What actions should the EU take in your view?

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We understand questions 52 and 52.1 as relating to financial products within the meaning of Article 2 (12) of the Disclosure Regulation.
Generally, it is important that the obligations for financial market participants can be realistically implemented. Extensive quantitative disclosures such as those proposed in Annex 1 of the consultation on Art. 4 of the Disclosure Regulation (RTS) go far beyond the objective. With this degree of granularity, the data cannot be reasonably assessed either by investee companies nor by financial market participants.
There is also the danger of overburdening the addressees of the information, so that the desired effect is not achieved.

In contrast, qualitative information on the extent to which such effects are taken into account in the investment process (e.g. through exclusions or specific investments) is particularly helpful. If quantitative information is to be provided, it should be based on the Taxonomy. However, the information on conformity with the Taxonomy should be provided by the investee companies themselves, also in order to achieve consistency and comparability of data. Furthermore, this data should be provided through an EU-wide register free of charge. Publication obligations of financial undertakings should be limited to the data contained in that register. However, it should be noted that certain capital investments (e.g. government bonds, mortgage bonds) are not yet covered by the Taxonomy.

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

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

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Not all instruments can be used reasonably to promote sustainable projects and not all instruments have the same ability to allocate capital. Sustainable projects require a long-term allocation of capital. Money market funds or bank deposits are generally not suitable for this purpose.
Long-term financing, on the other hand, is possible both through equity capital (shares, holdings) and debt capital (bonds, loans). The choice of instruments also depends on investor preferences. Funds may also be suitable if several projects are to be bundled.
It is important not to reward or penalise any financing method in order to prevent false allocative incentives. We also believe that the low level of interest rates means that financial market participants are sufficiently willing to provide financing, provided that the projects show an adequate return. It is therefore sufficient to create the conditions on the supply side. In addition, uniform criteria are useful, as already provided for in the Taxonomy.

2.3 Green securitisation

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

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

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

Question 54.1 If necessary, please explain your answer to question 54.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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

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

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

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

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

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

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

Please list a maximum of 3 actions and a maximum of three existing initiatives:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> Standardization of open source company data
>
> Development of a public, accessible, free-of-cost database for ESG data.

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 3 actions:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> A regards the financing of sustainable economic activities through crowd funding can involve considerable risks for retail customers.
>
> Please also see Q62.

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

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

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 of 3 for each:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Concerning climate change mitigation companies need a reliable and controllable CO2 price. If companies have reliable clarity as to the (sufficiently measured) time frame and scale in which prices for CO2 or other environmentally relevant issues will develop, then there will also be a very strong incentive for corresponding investments.

Moreover, the risk profiles of sustainable projects often do not meet regulatory requirements. Partial state guarantees, e.g. from development banks, could therefore help, making it easier for the financial sector to act as an investor against the background of limited risk-bearing capacity. In order to avoid crowding-out of private investors, development institutions should limit themselves to projects that otherwise could not be financed at market conditions. This should be taken into account in a binding way in the legal requirements for investment and development programmes.

The asset management capacities of financial market participants should also be considered. Insurance companies have to invest large amounts of money and, in the interests of their customers, ensure that there is an appropriate relationship between management expenses/transaction costs and investment volume. For small scale investments these costs are too high. In addition, maturity profiles of green investments offered currently on the market often do not match the coverage requirements of the insurance companies. The replication of long-term obligations requires long-term cash flows.

Bureaucratic and therefore slow approval processes by authorities and costly planning requirements impede the implementation of sustainable projects. It is therefore appropriate to promote the supply side by speeding up and simplifying approval processes for 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 60 and provide details.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See our answer to Q 60 concerning the aspect of crowding out. Also national development banks and institutions should not crowd out private investors.

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 3 actions you would like to see at EU-level:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> Sustainable product labeling standard needed for greater transparency and avoidance of green washing.

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

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> See also question 60: Particularly for high-risk innovation projects, a partial assumption of risks by national or European instruments is necessary. The corresponding programmes of the EIB as well as the national development banks should therefore be increased. However, it should be avoided that no crowding out of private investors takes place.
>
> In addition, uncertainty about the path of the CO_2 price hinders many innovations. A clear time path of a steerable CO_2 price would make these projects attractive.

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

- (x) 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?	( )	(x)	( )
Assisting the development of R&I projects to reach in-vestment-ready stages, with volumes, scales, and risk- return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)?	(x)	( )	( )
Better identifying areas in R&I where public intervention is critical to crowd in private funding?	(x)	( )	( )
Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds?	(x)	( )	( )
Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)?	(x)	( )	( )

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 answers to question 65.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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 answers to question 66.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

One reason is the lack of trust due to insufficient labeling of sustainable finance solutions.
However, more important is the lack of a CO_2 price which has a steering effect with a clear time path that leaves companies in uncertainty about their sustainable projects. Consequently, there is less need for optimization in the financial system than in the real economy, where the climate-relevant investments are mainly made.

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

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

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

Please rate 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 answers to question 65.1 a) (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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 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:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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 issuance of what other type(s) of asset would be supported by technical assistance:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 68: In your view, for investors (including retail investors), to what extent would potential financial incentives help to create a viable 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: Since you see a strong need for incentives for investors, 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
- [x] Public guarantee or co-financing
- [x] Other

Question 68.2: Please specify what other specific incentive(s) would support best increasing sustainable investments.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Tax subsidies would create the necessary incentives. Pre-condition: adequate labeling

Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other):

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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

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 C limate 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 [rep ort 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?

- (x) Yes
- ( ) Yes, but only partially
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Question 70.1: Please explain which public authority could use it, how and for what purposes:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> Public finance institutions can screen, steer and disclose their financing of taxonomy-compliant projects /assets.
>
> Public entities on municipal level can steer their asset base (buildings, fleet etc.) towards long-term compliance. In addition they could use the Taxonomy as a screening tool for public expenditure, eg procurement.

Question 71: In particular, is the EU Taxonomy, as currently set out in the [rep ort 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.

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> Many activities which fall under public procurement will likely not yet be covered by existing taxonomy classification. Also data availability will be limited in short- to mid-term.

Question 72: In particular, should the EU Taxonomy[2] 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?

[2] 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.

- (x) 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
- ( ) Don't know / no opinion / not relevant

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

- [x] In the context of some EU spending programmes
- [ ] In the context of EU state aid rules
- [ ] Other

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> In short-term, application of existing Taxonomy might be helpful to steer recovery programmes. In mid-term, a fully developed and legally processed Taxonomy is required, including social and societal aspects.

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

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

2.8 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?

- (x) 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.

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

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)
- (x) 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

2.10 Promoting sustainable finance globally

The global financial challenge posed by climate change and environmental degradation requires an **internationally coordinated**. To complement the work done by the Network of Central Banks and Supervisors for Greening the Financial system (NGFS) on climate-related risks and the Coalition of Finance Ministers for Climate Action mainly on public budgetary matters and fiscal policies, **the EU has launched together with the**

relevant public authorities from like-minded countries the International Platform on Sustainable Finance (IPSF). The purpose of the IPSF is to promote integrated markets for environmentally sustainable investment at a global level. It will deepen international coordination on approaches and initiatives that are fundamental for private investors to identify and seize environmentally sustainable investment opportunities globally, in particular in the areas of taxonomy, disclosures, standards and labels.

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

- ○ 1 - Highly insufficient
- ● 2 - Rather insufficient
- ○ 3 - Neutral
- ○ 4 - Rather sufficient
- ○ 5 - Fully sufficient
- ○ Don’t know / no opinion / not relevant

Question 76.1: What are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions?

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Disclosure items and KPIs are not harmonized. In many jurisdictions even basic data like GHG accounting is not yet existent - disclosure of the type EU taxonomy requires is not in sight. Therefore proposal to start with a set of mandatory key KPIs, e.g. for GHG accounting. In general, there should be a close discussion within and between global economic governance and steering bodies to coordinate and align efforts for those jurisdictions inclined to take the same government regulatory approach as the EU.

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 3 proposals:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

- International standardization of non-financial reporting.
- Definition/assessment of sustainability along low-carbon transition pathways to allow for global scaling of portfolios.
- Translation of SDGs into private-sector indicators e.g. carbon emission KPIs as indicators for SDG 13 climate action.
- Start with a set of mandatory key KPIs, e.g. for GHG Accounting.

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

Please select all that apply:

Please select as many options as you like.

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

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Conflicting sustainability goals are an obstacle, especially for investments in emerging and developing countries. Clearly positive effects on the environment often contrast with unclear social and governance impacts. These are also difficult for the investor to influence, resulting in uncontrollable reputational risks. As a consequence, investment risks are hardly presentable without risk sharing with the public sector.

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 3 proposals:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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: Please explain how you think these tools could be adapted:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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

- ○ Yes
- ● Yes, but only partially
- ○ No
- ○ Don’t know / no opinion / not relevant

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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[3]. Building, among others, on the ESAs' activities further actions are envisaged to[3] 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] *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.

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 yes, what would be the purpose of such a brown taxonomy?

Please (select all that apply):

Please select as many options as you like.

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

Question 82.2: Please specify what would be the other purpose(s) of such a brown taxonomy.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The Taxonomy as a positive list steers more capital into sustainable investments. This automatically means that less capital is available for other projects. In addition, economic activities that have been less sustainable to date in particular must be given sufficient funds to transform their business models. Furthermore, social and governance factors also play a role alongside the environmental aspects mentioned above. A negative list is therefore neither necessary nor useful and apart from that the Do-Not- Significantly-Harm principle will de facto already establish a brown Taxonomy. Therefore, a positive approach is preferred to encourage all sectors to participate to the sustainability transition. If the EC decides to implement a brown Taxonomy, then it should at best be developed to identify assets/activities which will require phase-out by a defined time-frame because they are non-transitionable (such as investments in coal). Transitionable actitivies however should not be labelled brown but "yellow" or similar to better reflect the spectrum. The solution cannot be to stop or reduce financial exposure to companies with such activities. On the contrary, investments are needed to conduct their transition. Apart from that, many of the potentially affected sectors are important regional employers with secure jobs and high tax benefits. The "green taxonomy" provides these companies with sufficient incentives to develop accordingly.

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?

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

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Beside a deep green taxonomy and a potential brown taxonomy we see a strong need for a "transition" taxonomy in order to enable a broad transition. A transition taxonomy should be based on company pathways, targets and milestones taking into account the process of transformation instead of status quo assessment of green activities only. According to Art. 26 para 2 (a) the EU Commission has the task to describe in its report by end of 2021 the provisons required to extend the scope of the Taxonomy beyond environmentally sustainable economic activities to economic activities that do not have a significant impact on environmental sustainability. Here we see a strong need to analyse these economic activities (e.g. economic activities with low/moderate greenhouse gas emissions) as soon as possible. These activities should not have to be earmarked as "not taxonomy compatible" just because they do not have a significant impact on environmental sustainability. The earlier these activities are analysed, the earlier they are available for a potentially taxonomy-compatible investment universe.

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 (see for instance the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)), 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 cange will affect your industry?

Please select all that apply:

Please select as many options as you like.

- [x] Physical risks
- [x] Transition risks
- [x] Second-order effects
- [x] Other

Please specify, if necessary, what are these physical risks:

Please provide links to quantitative analysis when available:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Physical risks can be caused by slowly evolving changes (temperature/sea level rise) and changing frequencies/intensities of extreme weather/hydrological events. However, slowly evolving changes are the cause of more intense or frequent extremes. From P&C perspective most important physical risk/risk factors are: Individual extreme weather events and their consequences/expected change in hazard incidence in regions with substantial insurance exposure. Changes expected by climate science for Europe: More (frequent) losses/damages from: Heat/drought in some regions with agricultural yield covers, subsidence due to drought conditions in some regions, thawing permafrost at alpine elevation levels of mountain areas and in high European latitudes, more frequent and intensive: Severe convective storm outbreaks/rainfall events/flash flooding/large river flood events/storm surge events due to future sea-level rise. In remote future: Higher losses from strong winter storms. Thus, more damaging events could in a first phase lead to rise in demand for natural catastrophe insurance covers. Under such conditions sound risk management which has to focus on the presence need to adequately figure in climate change impacts so far. For tail risk where no clue from observations exists we need to know what has already changed in terms of the rare high- impact events. Assistance from climate science/climate modelling is needed. With ever increasing frequencies of damaging events, there may be a second phase when prices will have been increased to a level which will materialize substantial affordability issues. In such remote future other tools (increased deductibles, changed limits, covers for higher layers of risk (e.g. risk of ruin) instead of minor losses will keep insurance in many places affordable and avoid non-insurability issues. For risks turning into systematic losses in some places, local non-insurability may become an issue in that future. Please see also additional comments.

Please specify, if necessary, what are these transition risks:

Please provide links to quantitative analysis when available:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Transition risks (TR) evolve from a policy- and regulatory driven move to a low-carbon economy, which may be augmented by new technology options. Political agenda and derived regulation may lead to fossil fuels or emission certificates becoming more expensive/scarce, or to high investment costs as a result of the required clean-up of buildings and plants. We expect risks involved with the transition to a low-carbon economy to impact underwriting business performance, in particular risk profile and profitability of lines of business may change with new technology options. Other consequences may be shrinking cover offerings for coal-based industries. Over next decades, developments in technology, systems and associated markets (smart and digital technologies for steering various systems more efficiently regarding energy and resource consumption, further upscaling of renewable energies, steering toward low-carbon products and services) will in some sectors gradually change the characteristics of insured assets, businesses, processes, thereby fostering new product designs, making new risk assessment approaches necessary applicable to technologies and processes without already existing record of damage and loss. Good underwriting performance will be a consequence of adjustments to these changes in terms of new demands, adequately designed insurance products including adequate risks assessment preconditioned by professional expertise. On the asset side, risks may arise from the depreciation of carbon-intensive industries, which may be responded to by increasing carbon footprinting of asset portfolios and steering the footprint of asset portfolios toward net-zero carbon emission goals by mid-century. Unforeseen changes are the greatest risk here. A policy- and regulation-driven early transition path with an orderly transition path may entail relatively low TR, and late and abrupt transition path with disorderly transition may lead to relatively high TR.

Please specify, if necessary, what are these second-order effects:

Please provide links to quantitative analysis when available:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Climate science expects many weather extremes to increase in frequency and intensity in future decades under relevant scenarios of future greenhouse gas concentrations (Representative Concentration Pathways RCPs indicating the radiative forcing by the end of the 21st century, and combined shared socioeconomic pathways SSPS, indicating the socioeconomic pattern of world defining the pathway). Such weather extremes include among others severe flooding, both riverine and pluvial, and storm surges caused by sea level rise, severe convective storm outbreaks with hail and thunderstorm gusts, heat waves, droughts and wildfire. We assume that underwriting practices and performance will be affected. The timing of noticeable changes on the loss side (emerging time scale) will depend on the RCP scenario taken, region and peril in scope. For example, heat incidences with associated dry soils potentially affecting agricultural insurance are already increasing in some regions, heavy precipitation events have already increased in some European regions due to climate change, severe convective storm hazards are already changing in regions of Europe. Impacts on insurance business and underwriting will comprise increased market demand, claims management, strategies for risk reduction and prevention, involvement of climate change knowledge in risk modelling. See also our answer on physical risks.

ESG regulation itself could be a source of financial instability, therefore all ESG regulation should have a reasonable time frame and transitionary phase of implementation.

It should be avoided that ESG regulation whether directly or indirectly leads to short-term restructuring requirements of insurers portfolios.

Please explain through what other channel(s) climate change will affect your industry?

Please provide links to quantitative analysis when available:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Another channel through which climate change will affect insurance industry is climate liability. For instance, a potential driver of future claims in the field of indirect climate liability may evolve from the introduction of limits for greenhouse gas emissions or duties to inform/report/disclose the amount of greenhouse gases produced by a product or service.

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

Please identify a maximum of 3 actions taken in your industry

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Insurance industry is active in providing protection against the physical impact of climate change. Thereby, internal risk management systems are an important instrument in monitoring climate related risk and among others to avoid accumulation risks. Accumulations due to natural hazards are an essential component of the calculations for Solvency II. The excess cover ratios show that German insurers have sufficient funds available even for very rare events. To strengthen these risk-adaption measures research on the effects of climate change as well as risk prevention play an important role. Results are used to update the risk assessment and underwriting policies to improve how long-term changes in climate are taken into account, often via innovative solutions. Insurers are e.g. actively committed to ensuring that building standards are upgraded with regard to natural hazards and climate change. In general, insurance contracts are limited in the area of property and casualty insurance (maximum of three years) which allows for contract amendments as a reaction to a changing risk framework. A monitoring for loss trends has been set up for decades, as documented for example in the Natural Hazards Report Knowing the changing risk levels for some decades ahead is relevant from a strategic point of view, not so much from the perspective of current business practices. To gain such knowledge is to monitor the scientific literature on projected changes in weather-related hazards and to assess uncertainty involved in such projections. This gives some ideas on the direction of change. The quantity of change is much less clear yet than the direction and depends on technical capabilities such as the spatial resolution of climate models. One has to avoid overconfidence in what is already known by climate science, which presupposes some knowledge of the scientific discussions.

Question 86: Following the financial crisis, the EU has developed several new 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

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 liabilities in the balance sheet or undue impediments to long-term investments, as part of the 2020 Review of Solvency II. The Commission also mandated EIOPA to investigate whether there is undue volatility of their solvency position that may impede to 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

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 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 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

Asset managers

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

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

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

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[4]. 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.

[4] 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).

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

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

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As soon as sustainable assets are reliable defined, indices that assess the corresponding risk profiles could be developed. As far as these indices lead to adjusted Solvency II capital requirements providers may foster the development and targeted sale of such products and thereby contribute to the achievement of the EU's climate and environmental goals .

The market towards transition is influenced by new investment guidelines and restrictions on investments in the scope. IORPs may foster the development and targeted sale of defined sustainable assets and thereby contribute to the achievement of the EU's climate and environmental goals. Therefore no additional regulation for IORPs is required.

If the EU wants to continue to be helpful here, it should think about cutting red tape (e.g. excessive regulation on the disclosure regulation).

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?

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

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

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The integration of members 'and beneficiaries' ESG preferences in the investment strategies and the management and governance represents major challenges for the IORPs. We would like to take note that the Disclosure Regulation and its regulatory technical standards (RTS) are only just being developed and will only come into force next year. These requirements and standards still need time and some effort to be implemented. In particular, the regulatory dynamics should take into account that the implementation of new requirements for the IORPs always causes considerable expenditure of time and costs, which must be in a reasonable proportion to the achievable result. Furthermore, the implementation of the requirements of IORPs II needs extensive efforts and is still far from being completed. This is especially true in the current low interest rate scenario, which faces IORPs with significant problems. In addition, any regulatory framework and requirements for IORPs must not prevail their actual purpose: to safeguard the age, death and disability of their members and beneficiaries.

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

Question 95.1: If necessary, please explain your answer to question 95.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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

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

Question 96.1: If necessary, please explain your answer to question 96.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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

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

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 100: 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 foot-printing practices within the EU and internationally?

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

3.5 Improving resilience to adverse climate and environmental impacts

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

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?

- (selected) 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.

- (selected) Loss data
- (selected) Physical risk 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?

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> The question can basically be answered with "yes" - however, with a clear limitation regarding loss data. High-resolution loss datasets are the intellectual property of the insurance industry. This data will therefore certainly not be made freely available to everyone by the insurance industry. This does not rule out the provision of high-resolution data for specific research projects. This has been practiced successfully for many years.

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?

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> Education and prevention are essential to keep future losses within limits, to initiate adaptation processes and to insure natural hazards today and in the future. German insurers are already using a wide range of resources to inform people about the hazards of extreme weather events and natural disasters. However, all experts have to join forces in the sense of the adaptation strategy and inform about hazards and options for prevention measures. We therefore propose to bundle the existing physical risk information on natural hazards and make it easily and understandably accessible to the public in a central online information system. Pinpoint information about hazards like floods, heavy rain, lightning as well as storms and hail should be a matter of course in the digital society.

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.	○	○	○	○	●	○
Promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe.	○	○	○	○	●	○
Facilitate public-private partnerships to expand affordable and comprehensive related 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.	●	○	○	○	○	○
Advise Member States on their national natural disaster insurance and post disaster compensation and re-construction 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	○	○	○	○	○	○

Please explain why you think it would be useful for the EU to raise awareness about climate physical risk:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

People quickly forget about natural disasters. There is no platform and no overarching initiative that tries to change that.

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

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We shouldn't keep repeating past mistakes. The latest findings on climate adaptation should therefore be incorporated to a reasonable extent during the reconstruction.

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

- (x) 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”.

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

Question 101.2: If yes, please explain which actions and the expected impact (high, medium, low).

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Actions:

- Consideration and facilitation by the EU of private public partnerships for cases in which there is a lack of insurability through the private sector alone caused by an absence of diversification and resulting pricing issues, in particular regarding pandemic covers and the long-term decrease in insurability of climate related risks in particularly exposed
- regions.
- A clear framework for identifying activities that enhance policyholder resilience is needed for the industry as a reference of underwriting decisions.
- Anchor climate resilience in planning standards and building regulations to improve policyholders' resilience to natural hazards beyond a mere financial compensation function. This would not only have a climate protection and climate adaptation effect through more sustainable buildings, but would also be expected to improve insurability, since both the probability of loss occurrence and the development of the loss amount would be positively influenced.

Impact:

- The effect would be even greater if these standards did not only apply to new buildings, since the speed of penetration would remain low. (new building quota)
- An expansion to include existing buildings would require accompanying tangible support measures. The greater the acceptance of these measures, the greater the speed of penetration, which would increase the resilience of the building stock.
- With the insurance methods already in place, the insurance industry is in a position to reflect the expected positive developments in terms of risk - and thus also price - and to pass them on to the policyholder. This will be ensured by the large provider market in property insurance in Germany.
- Similarly, the same technical methods will mean that if the risk continues to develop negatively, insurability and insurance costs will also develop in line with the risk.

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

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

Additional information

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

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

The maximum file size is 1 MB.

You can upload several files.

Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

c17bde8e-45f8-4a40-a921-d2ae04770d58/Additional_comments_OnlineSurvey_GDV_GermanInsuranceAssociation_20200714.pdf

Useful links

More on this consultation (https://ec.europa.eu/info/publications/finance-consultations-2020-sustainable-finance- strategy_en)

Consultation document (https://ec.europa.eu/info/files/2020-sustainable-finance-strategy-consultation-document_ More on sustainable finance (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable- finance_en)

Specific privacy statement (https://ec.europa.eu/info/files/2020-sustainable-finance-strategy-specific-privacy-statement_en)

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

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