



ESAs 2020 17
15 July 2020

Valdis Dombrovskis
Executive Vice-President
European Commission
B-1049 Brussels
Belgium

Subject: Public consultation on a Renewed Sustainable Finance Strategy

Dear Vice-President Dombrovskis,

The European Supervisory Authorities (ESAs) welcome the European Commission's consultation on a Renewed Sustainable Finance Strategy as part of its European Green Deal. The ESAs support the Commission's ambition to strengthen the European policy framework to enhance the resilience of the financial sector to environmental, social and governance (ESG) risks and facilitate the ongoing transformation towards a more sustainable economy.

Significant progress has already been made through various initiatives under the Commission's action plan on financing sustainable growth, such as the EU Taxonomy Regulation and the Regulation on sustainability-related disclosures in the financial services sector, and further targeted initiatives are in the pipeline. Additionally, the review of the founding regulations of the ESAs introduced sustainability as an integral part of our respective mandates to promote the integrity and stability of financial markets and ensure investor and consumer protection.

In order to further bolster Europe's future Sustainable Finance Strategy, we would nevertheless like to highlight certain topics which in our view are particularly important. These topics relate to the need for ensuring (i) high-quality, user-friendly sustainability data which will support, inter alia, better disclosures, (ii) a robust and proportionate regulatory framework to promote efficient risk management and a long-term perspective in financial decision-making and (iii) that investors and consumers can buy and use of sustainable financial products in a safe and transparent way.

Firstly, we believe that enhancing the **easy access to sustainability data** would constitute an essential contribution to putting sustainability at the forefront in the financial sector, as well as to support investment, lending and insurance decisions in the transition towards a more sustainable financial system. The current shortage of high-quality data renders it challenging for both firms and investors to identify, assess and measure sustainability risks and opportunities, therefore, to take measures accordingly. It is therefore crucial to take timely action in this regard.

To this end, we strongly believe in the potential of digital tools. Notably, the establishment of a publicly accessible, **single EU data platform** covering both financial and ESG information would grant all market participants equal and timely access to publicly reported information. The availability of financial and ESG information through a single gateway would also prevent potential overlaps or inconsistencies in ESG reporting.



Moreover, the comparability and reliability of ESG data will only improve if clear and sufficiently granular **taxonomies** for “green”, “brown” and “social” activities are developed and consistently implemented by the financial sector, together with common and uniformly enforced **ESG-related disclosure standards** for companies, as already signalled in the ESAs response to the NFRD consultation earlier this year.

Secondly, we believe there is a need to support a more robust regulatory framework to promote efficient risk management and a long-term perspective in financial decision-making. A robust regulatory framework is necessary to support the implementation of business strategies that take sustainability objectives into account and are, as such, viable over the long term. To ensure a more forward-looking perspective, robust **corporate governance arrangements that support a sound risk management** and risk culture at all levels as well as an **effective strategy setting and oversight by management bodies** are key. For example, it would be helpful to improve clarity around the link between a company’s non-financial performance and the variable remuneration afforded to directors.

In contributing to a robust regulatory framework, the work that the ESAs are conducting based on the mandates attributed to them in the area of sustainable finance may inform further potential legislative changes. In this context, we note the importance of assessing the impact of newly implemented legislation before taking additional legislative steps.

We furthermore wish to underline the importance of taking a **proportionate approach** across all legislative and regulatory initiatives considered within the Renewed Sustainable Finance Strategy, to avoid any unnecessary burden on smaller companies.

Thirdly, a crucial aspect of the effort to mainstream sustainable finance would be to ensure that investors and consumers are able to make use of, and have trust in, sustainable financial products in a way that is both safe and transparent. In this context, the ESAs attach importance to the promotion of transparency and oversight on ESG-related aspects and to the **role of ESG ratings, ESG benchmarks and ecolabels**.

- On the one hand, in the absence of legally binding requirements of what **ESG ratings** measure and on the related methodologies applied, it is currently difficult to compare ESG ratings of different providers. The lack of legal requirements in relation to the robustness and transparency of the methodologies used causes shortcomings in the transparency, clarity and consistency of ESG ratings, which should be addressed by introducing minimum standards for ESG ratings and ensuring EU level supervision of ESG rating providers. On the other hand, given the critical role in EU financial legislation of **credit ratings** and their use in the calculation of the capital requirements of credit institutions, it is essential that these ratings remain focused on assessing creditworthiness. At the same time, there should be a sufficient level of transparency around the impact of ESG factors on the creditworthiness assessments of an issuer or entity.
- In addition, there is a growing need in Europe for a methodologically robust and reliable **ESG benchmarks** which encompass the entire ESG spectrum, including the social and governance aspects. Such EU ESG benchmarks would help investors and consumers to take account of the sustainability risks affecting their investee companies and of the positive ESG impact of those companies and as such permit them to build a

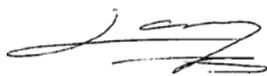
comprehensive ESG strategy for asset allocation, including active investor engagement for sustainable investments.

- Last but not least, the use of specific **labelling for retail sustainable financial products** will help investors and consumers choose sustainable products. It would therefore make sense to broaden the scope of the ecolabel to a wider range of financial products provided the necessary criteria are met and, in particular, to consider aligning ecolabel availability with the product scope of the Regulation on sustainability-related disclosures in the financial services sector. Consideration could also be given to **further standardisation and labelling for green bonds and green securitisation** as a tool to support the origination of sustainable projects.

As a complement to the above three topics, we wish to highlight that while much can be achieved at EU level, both financial markets and sustainability challenges are by their nature global, and **global approaches** must therefore be sought. World-wide initiatives, such as global disclosure standards, in fora such as IOSCO, BCBS, IAIS, the Network for Greening the Financial System and the European Commission's International Platform on Sustainable Finance would help to enhance further international cooperation to promote regulatory convergence at international level, thereby preventing potential negative spill-overs from policy fragmentation and limiting arbitrage opportunities.

We remain available to discuss the content of this letter and the contribution that the ESAs could make to further support the work of the Commission on the topics listed above, in the context of the EU's Renewed Sustainable Finance Strategy.

Yours sincerely,



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Chairperson, EBA



Gabriel Bernardino
Chair, EIOPA



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