POSITION PAPER

# ESBG response to the consultation on the renewed sustainable finance strategy


**ESBG (European Savings and Retail Banking Group)**

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ESBG

ESBG welcomes the opportunity to contribute to the Commission's renewed strategy on sustainable finance. Please find below some additional information that will clarify our position on certain questions of the consultation.

**Question 1**

ESBG members believe that incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth is largely sufficient. We would like to point out the risks of excessive regulation; whilst we recognise the clear need of targeted regulatory intervention to foster the transition to a climate-neutral economy and reorient investment flows to achieve this objective, we also must highlight that, as a general principle, the use of the financial sector as a tool for environmental and social policy by governments has the risk of ending up being harmful to the sector. In this regard it is important to note:

- Excessive regulation could put the European financial sector at a disadvantage vis a vis with the US, both in the banking market and in the capital markets;
- Excessive regulation reduces the attractiveness of public markets; we are already seeing how private markets for both equity and debt are growing to avoid the regulatory burden and its cost;
- Excessive regulation puts us at a disadvantage against technological competitors that do not have all this bureaucratic burden
- Excessive regulation adds a regulatory burden and direct and indirect costs that impact upward the cost of capital, at a time when it needs to be reduced to revive the economy.

The regulator must center its efforts as much as possible indirect measures, for example, carbon pricing, that make industries that are large issuers affected in their profitability (incorporation of externalities into costs) or subsidies to social financing (lower tax rate of companies, for example).

Regulatory actions in the financial sector must prioritize the completion and implementation of the regulation developed in the Sustainable Finance Action Plan, avoiding overlaps and misalignments between regulations as well as misalignments in implementation deadlines of interdependent regulations (i.e. SFDR, Taxonomy Regulation and MiFID and the rest of DA). The development of new regulations must be targeted to specific objectives to address market failures or observed deficiencies, proportionate to the regulatory objective (avoid excessive burdens for entities), and must follow the materiality principle.

At this stage, the focus should be on the implementation of the Sustainable Finance Action Plan developed legislation and tools proportionately. Overburdening should be avoided in the implementation of pending regulation. We have already identified areas where the burden could be excessive and generate serious implementation challenges (i.e. implementation of SFDR, its interrelation with other regulations, and the differences in implementation deadlines despite the interdependence among regulations). A global ESG approach should be reached as soon as possible because the differences in the development of aspects regarding each factor (E, S, and G) can have the side effect of abandoning some investments which do not perform well in the E and entering in new investments which have poor performance in S and G once those factors are well developed.

Additionally, we have identified some areas where additional actions are needed: i.e. social aspects which are now more relevant after the COVID-19 crisis. Other aspects regarding the conservation of our environment in the COVID context and prevention of future pandemics seem to be now more relevant.

**Question 4**

We consider it important for corporates and financial institutions to communicate and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement Nevertheless, we believe it is premature to impose a full commitment on all companies and financial institutions now.

The principle of proportionality should be respected - for example by using the thresholds of the NFRD. Also, whilst economic agents should communicate how their business strategies and targets contribute to reaching the goals of the Paris Agreement, this process should go hand in hand with measures aimed at ensuring comparability and completeness of data reported whilst guided by proportionality and materiality principles. Enough time should be provided to arrive at the "steady-state", where companies report complete, material, comparable, and robust data.

**Question 10**

ESBG members do not believe that institutional investors and credit institutions should 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 financing, the goals of the Paris Agreement, and based on a common EU-wide methodology.

Nevertheless it should be pointed out that a common and usable methodology, with minimum thresholds for assets and certain institute sizes, is critical to be able to determine the temperature scenario of a retail banking portfolio. There are already numerous good practical examples (e.g. method of the German start-up right based on science). Availability of data is key.

**Question 16**

First of all, we would like to reiterate our firm opposition to any exclusively European amendments to IFRS as this would constitute a 'carve-in' situation. Deviating from international standards also contradicts the objective of uniform international accounting. Changing accounting rules is not the right solution for the European Commission to support sustainable finance. Support from the Commission should be given through the setting of other incentives (e.g. via taxation policies or guarantees).

It should be discussed if alternative accounting treatments are needed for long-term investments to reflect properly long term returns. In this regard, it is not clear whether a fair value is the right accounting valuation basis for some long term investments, particularly for those equity instruments with a sustainable profile. In this case, a more proper valuation could be oriented towards reflecting its acquisition cost in addition to performing an impairment assessment. A similar question could arise in specific business models such as insurance: long-term investments that are held by insurers should not have a pervasive accounting treatment when considered together with the accounting treatment of insurance liabilities (IFRS17 vs. IFRS 9). If the accounting principles do not reflect the economics and interrelation between the insurance contracts and their supporting investments, it may lead to changes in the investment strategy in debt instruments in addition to inequities impacting mainly long term investments. Apart from it, IFRS Standards provide the transparency that is a vital support to long-term investment.

**Question 28**

ESBG members support the development of a voluntary label to increase transparency for consumers on sustainability. However, regulators should firstly observe market developments and make sure that an EU standard will not complicate future harmonisation. It is also important that such a label underpins an effective transition of the economy to a carbon-neutral society and sustainable development. Therefore, labels should not only apply to products, that are strictly low-carbon but also support transition and enabling activities to promote a faster, broader, and more effective transition. Both low carbon activities, transition, and enabling activities should be included in the scope of the EU ecolabel.

If an ESG/SRI fund label is established, it should be defined according to a common definition of ESG (provided that minimum safeguards are in place if a product has dominance on one of the three pillars), which needs to be as simple as possible in order to be easily understood by retail clients.

For consistency, if created, a 'professional' Ecolabel should have the same characteristics as the retail Ecolabel. Indeed, a lot of investment products (or underlying investment strategies) are designed for both retail and professional investors. Additionally, the gap of financial expertise that legitimates the differentiated approaches between retail and professional funds when it comes to their financial characteristics is not yet valid when it comes to green/ESG aspects: a large part of professional investors are still in a discovering phase on sustainable investment. Therefore, offering them a green/ESG label/minimum standard that applies to both retail and professional funds facilitates their access to such funds.

At the management company level, we think that it will be very useful to have labels, as they will allow us to demonstrate why certain funds are considered sustainable and why others not.

**Question 34**

Existing labeling and standard initiatives should be sufficient. However, their scope should be expanded to include financial product types, which are currently not covered by these initiatives (e.g. structured products). If the current scope is not being expanded, likely, EU investors, who integrate ESG into their investment decisions will not consider other financial products to the extent they would have done under level playing field conditions. As a result, the EU financial market for sustainable products will be biased towards certain financial products, which are in the scope of the labeling regime. As always, such a situation runs the danger to ultimately distort market-adequate asset allocation and risk exposure, especially though not only of retail investors. So it is necessary to establish a label for all kinds of financial instruments according to the principle: “diversity in methodologies (because of different nature of products), unity in the label”.

**Question 35**

The development of deep enough and liquid capital markets is one of the most relevant pending tasks to mainstream sustainable investment. A good example of the urgent need for well-functioning capital markets is the scarce role of securitisations in Europe. This tool has a great potential for redirecting flows to green investment but the existing framework doesn’t foster its development.

**Question 44**

Interested/committed (large) investors are already voting on a company’s environmental and social strategies or performance because they have long recognized the need. Nevertheless, resolutions submitting the CSR strategy to the approval of shareholders are still the exception.  The legal framework may evolve towards an obligation to present the main components of such a strategy to the shareholder.

**Question 52**

The added value of additional analysis of the impact on sustainability factors for financial products relating to secondary market equity and debt instruments does not justify the additional workload.

In primary markets is much more important. If investment products are forced to report according to the established standards, the retail investor will have better information on the real impact that their investments have on sustainability. Given that in all discretionary portfolio management and advice they will be asked about their sensitivity towards sustainability, this generates a virtuous feedback process.

**Question 56**

Whilst there could be room for a dedicated regulatory framework for green securitisations, particularly to avoid greenwashing, the most important aspect here is to address the barriers for securitisation in general and STS, in particular. Please see our answer to question 57.

Regarding the specific treatment of green securitizations any framework that could be developed should try to avoid overburden and be proportionate to fulfil the regulatory objective. If the regulatory constraints are excessive this could harm the proper development of a market for these instruments, which are key to free up capital to increase loans to the real economy (in particular green loans) and to scale up small projects to institutional investors. As indicated in 55.1 Regulation should be focused just on reinvestment requirements more than Asset or Structure requirements of the issued instrument conditions. The new regulation should focus only on the release of regulatory capital release apart from the reinvestment requirements as indicated before.

**Question 82.2**

We think we are still in an early stage to have a clear image of what the consequences of a brown taxonomy could be. Indeed, we think the ongoing taxonomy developments should be finalised and taxonomy for S and G factors should be prioritised before opening up the discussion on the brown taxonomy. A proper impact assessment should be carried out before deciding to develop such a taxonomy as there are risks associated with it. For example, it can put at risk the transition of sectors considered “Brown” as it can restrict their access to finance.

Nevertheless, we shall also mention that a common understanding of the most harmful and risky activities could be possibly useful to focus risk management and engagement actions with clients, particularly in an environment of growing pressure from supervisors to manage climate and environmental risks.

Other aspects where a common understanding of the most harmful activities can help are transparency and comparability among institutions (reporting); avoiding greenwashing of brown activities; avoiding that transition activities might be considered/treated as brown; facilitating supervisory dialogue (ECB expectations).

Anyway, irrespective of the approach taken by legislators, regulators, or supervisors, penalization of financing to more exposed sectors to climate risk shall be avoided. It could raise serious concerns, and in particular, it may burden their transition and increase social risks if the needed steps to transition haven’t been taken. The approach has to be coordinated combining properly supervisory and political concerns to avoid unilateral decisions that can hamper the economy.

**Question 86**

A deeper focus on scenario analysis/appropriate methodologies: the lack of appropriate methodologies makes it much more difficult for financial firms to assess climate risks and to incorporate these risks into internal risk models.

### About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.

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