

FEBEA ANSWER TO THE EU CONSULTATION ON SUSTAINABLE FINANCE STRATEGY

https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en

SELECTED QUESTIONS

SECTION II: QUESTIONS TARGETED AT EXPERTS

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

There are a number of challenges and opportunities that can be referred to, however we will focus on what we believe mostly relates to the financial institutions FEBEA represents, small and locally focused.

Challenges:

- 1. Constructing working incentives for financial institutions. We believe that the lack of adequate resources (long term duration, risk sensitivity,...) by financial institutions can be a great deterrent to mainstream sustainability in the financial sector, as it is being promoted by standard setters and policy makers. Although some of these institutions are already active in a responsible way at the local level, it proves impossible for them to devote the time and the resources to, for example (non exhaustive) start reporting according to the TCFD (The Task Force on Climate Related Disclosures). In addition, they also devote less resources to communicating compared to mainstream financial institutions. There is also a generalised lack of local incentives that can facilitate the green ecological transition, for example those that can promote energy efficiency loans.*
- 2. Lack of harmonisation of green labels for financial products, with consequences on the difficulties of identifying suitable projects*
- 3. New patterns of risk evaluation and evaluation of impact.*

Opportunities:

- 1. Great financial leverage enabling the implementation of many investment projects*



2. General orientation at institutional and public level towards going back to the roots of the banking activity, meaning in particular the financing of real economy. There is the opportunity to promote measures of social finance (reduced capital requirements, increasing of guarantee funds)

3. Increasing of environmental and financial education and attention both at institutional and public level. There is the opportunity to further promote programs of social finance and financial education

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?

Financial Reporting frequency makes it difficult to focus on the long term. There is also a lack of harmonised frameworks regarding non financial reporting and lack of incentives that can be translated later in the local level.

At the moment there is more bureaucratic reporting (i.e. higher costs) for those who finance the green economy instead of those who do not finance it; this translates in no real incentives in financing the green economy.

At some level and among certain financial actors, there is still a poor identification of risks associated with green and social projects and therefore, due to low knowledge, greater risk is assumed. More information and communication is needed on this point.

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?

The Taxonomy being currently developed should integrate a Social dimension beyond the environmental one, as the environment and society are intrinsically linked. This should include going beyond the minimum safeguards related to Human Rights impacts and respect to ILO conventions.

Such mechanism should however avoid to impose too much reporting obligations on ethical, locally rooted financial institutions. In this perspective, a large NGO training and financing program could be organised to involve them as a partners for monitoring and reporting to the EU.

It could be useful to promote public funds and fiscal incentives for program realized by industries and organisations on professional training and promotion of green jobs.

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 EUwide methodology?

-Do not know

While acknowledging the benefits of doing so, we are forced to point out that this would be extremely burdensome and difficult to comply with for very small credit institutions active at the local level, which currently don't have the tools and the resources to start reporting on that basis. Such estimation could be done for example by independent bodies, with relevant skills, applying a common methodology.

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?

The European Commission should bear in mind that there are key players active in the long term and sustainable financing, and namely ethical banks and financial institutions, frequently very small organisations active at local level. Any upcoming regulations on the sector must be proportionate regarding their size, allowing them the needed flexibility to enable them to continue financing the social economy. It could be useful to promote reduced capital requirements for finance to social and sustainable activities. Moreover, this should be combined with local incentives. The European Green Deal and Green Deal Investment Plan must be translated into the appropriate local incentives and programmes, allowing these institutions to flourish.

Experts and NGO from all member states could be involved to monitor the development of the sustainable finance agenda and to communicate with all stakeholders.

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.

The creation of a centralised electronic register for Environmental, Social and Governance (ESG) data in the EU would be extremely helpful to support credit institutions to comply with disclosure obligations. The availability of quality, comparable, reliable and public ESG data is insufficient, and smaller institutions struggle to collect the information, pending a standardised framework.

There is the need to support different players, big and small, working at national and local level to foster the sustainability transition. Stakeholders should be involved in the process.



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?

Yes, we understand that many of FEBEA members are already active in local projects regarding contributing to environmental goals such as energy efficiency, sustainable food and products, energy transition, sustainable housing, etc (up to 80% of the yearly granted loans were dedicated to ecological projects in some cases). In some cases however starting to comply with the Taxonomy Regulation proves to be difficult for these small players.

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 and national level.

This will provide the necessary legal certainty and will avoid greenwashing. Levels should depend on the volume of the bonds' issue. Common rules and criteria of authorisation (with supervision) should be established, with strong proportionality assumptions.

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?

4 – agree

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

Yes

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?

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, perhaps two or three levels of label should be defined.

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

Yes

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?

4- agree

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, a label for social finance covering simple products such as savings accounts and loans. A warning label for "brown" products could also be considered.

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-It could be interesting to have a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions, however this should be carefully calibrated so that small institutions unable to report are not put in a position of disadvantage.

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, but bearing in mind that this might be challenging for credit institutions financing the Social Economy. This should be done in particular for big (working at European or regional scale) institutions which have significant industrial portfolio.

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



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

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? Please reply using a scale of 1 (completely disagree) to 5 (fully agree)

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

- *Integrate sustainable finance literacy in the training requirements of finance professionals. -5*
- *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.-4*
- *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. -4*
- *Directly, through targeted campaigns. -4*
- *As part of a wider effort to raise the financial literacy of EU citizens. -5*
- *As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. -5*
- *Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. -5]*

The EU could play a relevant role in raising awareness regarding the role that finance should play in society, but also in empowering consumers by informing them that they can make a difference and drive the market with their choices. In this respect it could be helpful to highlight the role of an ethical bank, fully devoted to the promotion of inclusive societies. Finance must serve society and not the other way round.

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

Very Important

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?

Yes, particularly supporting smaller players and consumers.

Question 60: What do you consider to be the key market and key regulatory obstacles that prevent an increase in the pipeline of sustainable projects? Please list a maximum three for each.

Lack of consumer awareness regarding their potential to drive the market, lack of publicly available ESG data and lack of harmonised reporting frameworks and labels. There are no risk analysis methods approved by the supervisors for such projects, which demotivates financial institutions because apart from the increased costs of analysis, there is a need for larger provisions. Regulatory incentives are needed.

Question 62: In your view, how can the EU facilitate the uptake of sustainable finance tools and frameworks by SMEs and smaller professional investors? Please list a maximum of three actions you would like to see at EU-level

Allowing the necessary flexibility for SMEs (and social economy organisations) to report, also via the implementation of a technical assistance program. Empowering smaller professional investors, providing a robust EU harmonised label.

Question 67: In your view, to what extent would potential public incentives for issuers and lenders boost the market for sustainable investments? Please express your view on the importance of financial incentives by using a scale of 1 (not effective at all) to 5 (very effective).

5

In case you see a strong need for public incentives (scores of 4 to 5), which specific incentive(s) would support the issuance of which sustainable financial assets, in your view? Please rank their effectiveness using a scale of 1 (not effective at all) to 5 (very effective).

De-risking mechanisms such as guarantees and blended financing instruments at EU-level 5

Technical Assistance 5

Any other public sector incentives:

- Equity*
- Non financial support (technical assistance, investment readiness...)*
- Member States could propose banking tax incentives for that type of assets*

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:



- *Flexible and proportionate regulation for SMEs and local incentives*
- *Support investment readiness programs and non financial support services*
- *Use local professional intermediaries in addition to big commercial banks.*

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

- *Excessive (perceived or real) investment risk;*
- *Difficulties to measure sustainable project achievements over time;*
- *Lack of publicly available ESG data;*
- *Difficulty to finance innovative business models;*
- *Lack of technical assistance and cooperation with supervisors.*

Question 84: Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system. What are in your view the most important channels through which climate change will affect your industry? Please provide links to quantitative analysis when available.

- Physical risks, please specify if necessary [BOX max. 2000 characters]

- Transition risks, please specify if necessary [BOX max. 2000 characters]

These refer to new policies and processes, environmental liabilities and new technologies. Adapting the business models to all these new requirements will have in the short term a higher impact on ethical banks. In this respect new environmental liabilities are likely to incur in unexpected legal costs. It should be borne in mind that physical risks in the long term will have an impact in the degree of transition risks (new liabilities, new procedures to which institutions need to adapt, new scenarios). Thus, both risks are interlinked.

- Second-order effects, please specify if necessary [BOX max. 2000 characters]

- Other, please specify [BOX max. 2000 characters]

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

1. take further action to mobilise banks to finance the transition?

Yes, Sharing the best practices in the sector and fostering the circulation of transparent information about the behaviour in that aspect of the biggest banks.

2. manage climate-related and environmental risks?

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?

Adequate remuneration policies for CEO will trigger responsible and sustainable behaviour (please see FEBEA Charter) regarding the maximum ratio between the highest and lowest wage in the company.

4. ADDITIONAL INFORMATION Should you wish to provide additional information (e.g. a position paper, report, further quantitative evidence, other) or raise specific points not covered by the questionnaire, you can upload your additional document(s).

Annexes:

- *FEBEA Charter*
- *FEBEA LETTER TO EUROPEAN COMMISSION AND EIF ON EASI FINANCIAL INSTRUMENTS*
- *FEBEA Athens Declaration*
- *ETHICAL FINANCE RESPONSE TO THE COVID-19 CRISIS*