Actuarial Association of Europe
Final response to EC consultation on the renewed sustainable finance strategy – submitted online on 15 July 2020

Responses are only included where we have specific comments to make

Section 1: Questions addressed to all stakeholders on how the financial sector and the economy can become more sustainable

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

- *Major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.*
- *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.*

Major additional policy actions required

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/Do not know.*
- *If yes, do you consider that you have had sufficient access to information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets? Please explain and specify whether you searched for the information yourself or whether the information was made available to you [BOX 2000 characters].*
- *If no, would you like to be offered more information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets and divest from non-sustainable assets?*
  o Yes/No/Do not know
  o If necessary, please explain your answer [BOX 2000 characters].

N/A

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/do not know*

N/A

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; 1234*
- *Yes, financial institutions;*
- *Yes, both;*
- *If no, what other steps should be taken instead to accelerate the adoption by corporates and financial sector firms of business targets, strategies and practices that aim to align their emissions and activities with the goals of the Paris Agreement? [BOX, 2000 characters]*
- *Do not know.*

Yes, with clear parameters and guidance in order to ensure consistency of communication. Communication and education campaign should also target customers/consumers.
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:

- *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: scale from 1 (strongly disagree) to 5 (strongly agree).*
- *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: scale from 1 (strongly disagree) to 5 (strongly agree).*
- *In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective?[BOX, 2000 characters]*

Strong agreement in relation to the first two points. See below for further comments.

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?

Challenges:

- capital requirements for institutional investors are in favour of low risk investments, while the initial phase of sustainable investments tends to be higher risk. Liquidity considerations are also a challenge, with some sustainable investments being less liquid.
- creation of incentives to enable the financial sector to take the required steps, subject to appropriate risk management disciplines. This needs a good set of understandable data and concepts, information that is reported at company level (across all industries) and markets and legislation which encourage sustainable investment. Also it is highly important that customers are able to make decisions based to all this and are offered 'green' solutions. Incentives and focused communication is needed for those pension fund members/beneficiaries and insurance policyholders who may be less environmentally driven.
- communication, labelling and information provision, for instance to avoid "greenwashing". These should be subject to clear rules designed to ensure ease of customer/consumer understanding. This includes provision of more information on how dependent we actually are on energy, and how much of this comes from coal and oil

Opportunities:

- actions that tangibly improve developments with regard to global warming create massive opportunities for generations to come.
- This is an opportunity to access new customers and create sustainable wealth for them, as well as enhancing reputation of financial services through making lasting contributions to society. This will require education and communication campaigns.
- Emerging markets - these economies need to switch to better technology and invest in their macro economy (e.g education) to make very large reductions to CO_2 emissions and large GDP gains. Leapfrogging, partnership with developed economies in Europe.

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?

Solvency II regulation needs to promote climate aware institutional investment. Its risk-based nature should be preserved, but within this consideration could be given to the following aspects:

- Providing scope for actions needed without undue consequent increases in capital requirements. For instance, the short term nature of solvency measurement in Solvency II can act as a deterrent from long term investing, e.g. equities, based on the underpinned risk based approach.
- level of sustainability of business impacting directly on pillar 1 capital requirement.
- Enable centralized (governments and/or EU) guarantees on sustainable investments perceived as higher risk to improve attractiveness by preventing a capital hit from investing in them.
- Provide educational campaign to up-grade the level of the knowledge with the aim of improving the perception of the need to act in less matured EU countries, with particular focus on socially weaker groups of citizens.

Other insurance and pension related legislation, e.g. Solvency II, IORPS, IDD (and PRIIPS) should be revisited to ensure that they encourage and facilitate consideration of ESG issues in investment decision making, and that sustainability risk considerations are integrated in regulatory frameworks.

National legislation and taxation rules can also create obstacles which must be addressed.

Question 8: The transition towards a climate neutral economy might have socioeconomic 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?

Through targeted education and reskilling of workers.

Question 9: As a corporate or a financial institution, how important is it for you that policy-makers create a predictable and well-communicated policy framework that provides a clear EU-wide trajectory on greenhouse gas emission reductions, based on the climate objectives set out in the European Green Deal, including policy signals on the appropriate pace of phasing out certain assets that are likely to be stranded in the future? Please express your view by using a scale from 1 (not important at all) to 5 (very important). For scores of 4 to 5, what are, in your view, the mechanisms necessary to be put in place by policy-makers to best give the right signals to you as a corporate or a financial institution?

4.
EC must involve and communicate with financial institutions in policy development.

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*
- *Do not know*

No. Appropriate scenarios need to be developed first, allowing properly for the structures of investment portfolios, with disclosure and reporting methodologies to be developed once scenarios are clearly understood.

The principle of proportionality should be applicable in terms of the extent of measurement process, tools and disclosures required.

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, 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/Do not know*
- *If yes, please specify potential actions the EU could take.*

Yes
Potential actions include requirement for disclosure and for appropriate capital reliefs driven by assessment of risks, with preference for clear evidence of expectations. e.g. level of diminishing EU/State subsidies.

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?

N/A

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.

N/A

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?

- *Yes/No/Do not know.*
- *If yes, please explain how it should be structured and what type of ESG information should feature therein.*

Yes. This should enable provision of at least the information on ESG label, e.g. green, yellow, red, similar to credit rating risks.

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/No/Do not know.*

- *If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation), 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)? Please use a scale of 1 (not likely at all) to 5 (very likely). If necessary, please specify.*

N/A

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/do not know.
If yes, what is in your view the most important area (please provide details, if necessary):
o Impairment and depreciation rules.
o Provision rules.
o Contingent liabilities.
o Other, please specify.

Yes. Deferral of realisation of assumption and profitability changes may make the evidence of adverse developments less clear.

Question 17: Do you have concerns on the level of concentration in the market for ESG ratings and data? ♣ Please express your view by using a scale of 1 (not concerned at all) to 5 (very concerned). If necessary, please explain the reasons for your answer.

4.
Preparation of ESG based reports required of financial services industry may need to be outsourced to those few providers in the market who do this, potentially leading to operating model changes and transitional/operational risk.

Question 18: How would you rate the comparability, quality and reliability of ESG data from sustainability providers currently available in the market? Please express your view by using a scale of 1 (very poor) to 5 (very good). If necessary, please explain the reasons for your answer.

N/A

Question 19: How would you rate the quality and relevance of ESG research material currently available in the market? Please express your view by using a scale of 1 (very poor) to 5 (very good). If necessary, please explain the reasons for your answer.

3.
There is too much material which is not of sufficient quality and is lacking in comparability.

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?

- *Individual: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good). Aggregated: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good).*
- *If necessary, please explain the reasons for your answer.*

N/A

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

- *Yes/No/Do not know.*

- *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?*

Yes.
See Q18.

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*
- *Do not know*
- *If necessary, please explain the reasons for your answer [BOX 2000 characters]*

Yes, at European level

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 / Do not know*
- *If necessary, please specify the reasons for your answer*

N/A

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

- *Yes/ No/ Do not know*
- *If necessary, please specify the reasons for your answer*

Yes.
Some issues, but none that cannot be overcome. Internationally this is important, it pulls emerging economies to follow the same standard, and makes local implementation easier. It could close emerging markets for investment if they choose not to comply, but this risk is relatively lower. Europe is an important investor for other economies.

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?

- *Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree)*
- *If necessary, please specify the reasons for your answer*

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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"

- *Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree)*
- *If necessary, please specify the reasons for your answer*

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This would encourage comparability and consistency.

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

- *Yes/No/Do not know.*
- *If yes, once the EU Taxonomy is established, 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)? Please use a scale of 1 (not likely at all) to 5 (very likely). Please specify if necessary.*

N/A

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.*

Regulatory intervention is needed to enshrine minimum standards in law and to create a label, with a specific label for climate rating.

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

- *Yes/No/Do not know. If necessary, please explain your answer.*
- *If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?*
  Yes/No/Do not know
  If necessary, please explain your answer

Yes, in the context of Ecolabel.

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? Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). If necessary, please explain.

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Question 31: Should such a potential standard for target-setting sustainability-linked bonds or loans make use of the EU Taxonomy as one of the key performance indicators? Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). If necessary, please explain.

N/A

Question 32: Several initiatives are currently ongoing in relation to energy-efficient mortgages and green loans more broadly. Should the EU develop standards or labels for these types of products?

- *Yes/No/Do not know.*
- *If yes, please select all that apply: - a broad standard or label for sustainable mortgages and loans (including social and environmental considerations); - a standard or label for green (environmental and climate) mortgages and loans; - a narrow standard or label only for energy-efficient mortgages and loans for the renovation of a residential immovable property; - other: please specify what type of standard or label on sustainability in the loan market you would like to see*

Yes – standard label for green mortgages and loans, with clear policy for all types of product, with the aim of providing good quality information to consumers, and supported by education campaigns.

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/Do not know.*
- *If no, please explain the reasons for your answer, if necessary.*
- *If yes, please explain what the key elements of such a benchmark should be.*

Do not know. Any such benchmark should be clearly defined, with transparent parameters set which must be met, and have a specific purpose in sitting alongside other benchmarks.

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/Do not know.*
- *If yes, what should they cover thematically and for what types of financial products?*

Yes.
Aligned to question 10. Labels should be clearly linked to defined scenarios (see above)to remove ambiguity.

Question 35: Do you think the existing capital market infrastructure sufficiently supports the issuance and liquidity of sustainable securities? Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). For scores of 1 and 2, please list the main problems you see (maximum three).

2
Liquidity is a catch 22 for sustainable finance. Liquidity is the very luxury that makes markets unsustainable, promotes capital flight behaviour. These are long term investments, with initial high risk. So some sort of illiquidity premium plus protection for initial risk hump is required.

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/Do not know.
If necessary, please explain the reasons for your answer.

No.
There should not be a separate exchange for sustainable investments – the same consideration should be applied to all investments and sustainability should be integrated within the wider considerations. Sustainable should not be treated as a special interest category.

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?

Reflecting comments above, sustainable investments will require consideration of certain features, e.g. dividend policy (none for the first 5 years for instance), allowed trade frequency, measures to reduce speculative behaviour and to encourage investment behaviour.

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, please specify.*

All

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/Do not know.*
- *If yes, please explain what action(s).*

Yes.
See Q7, Q36 and Q37 above.
For insurers the Solvency II framework should better enable insurers to plan long-term and keep business models (products being sold, how assets invested, what capital levels etc.) that are in line with these plans. This would benefit both economies and customers in the long run. An adjusted approach to Solvency II could incorporate a long term risk-based assessment founded on cash flow projections in addition to the 1 year time horizon which is currently applied for calculation of capital requirements. This could reflect the benefits of long term investment and the illiquid nature of some such investments.

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/Do not know.*
- *If yes, please indicate what share.*

N/A

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/Do not know.

N/A

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/Do not know.*
- *If yes, what action should be taken? Please explain or provide appropriate examples.*

N/A

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/Do not know

N/A

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/Do not know.*
- *If yes, please explain.*

N/A

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/Do not know.*
- *If no, please explain the reasons for your answer if necessary.*
- *If yes, in your view, what do you think this impact is, do you think that the EU should address it and how?*

N/A

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?

- *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.*
- *I do not know.*

N/A

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/No/Do not know.

N/A

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/Do not know.*
- *If yes, please select your preferred option:*
  All companies, including SMEs.

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

- *If necessary, please explain the reasons for your answer.*

N/A

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/Do not know.*
- *If necessary, please provide an explanation of your answer.*

Yes, with requirement that education be provided to retail investors, and with clear, harmonized and easy to understand rules.

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/Do not know.*

Yes, with requirement that education be provided to retail investors, and with clear, harmonized and easy to understand rules. Transparent risk/return information, with comparison to other asset types, should be available.

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. [1-5]*
    - *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.[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. [1-5]*
    - *Directly, through targeted campaigns. [1-5]*
    - *As part of a wider effort to raise the financial literacy of EU citizens. [1-5]*
    - *As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. [1-5]*
    - *Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. [1-5]*
    - *Other, please explain.*

Yes – 5
Action to be prioritised: Integrate in training requirements, looking to:

- stimulate sustainable finance literacy requirements for financial professionals
- enhance beyond the school education relating to pensions and investment, with cooperation between Member States.

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

- *Please express your view by using a scale of 1 (not important at all) to 5 (very important).*
- *For scores of 4 to 5, what actions should the EU take in your view?*

5.
Actions should include measures to check for unsustainable consequences.

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/Do not know.*
- *If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way.*

No, with aspects such as time horizon of investors and users of capital, need for liquidity, inherent riskiness leading to differentiated appetite between different product/instrument types.

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

- *Please express your view by using a scale of 1 (not important at all) to 5 (very important).*
- *If necessary, please explain your answer.*

5
Securitisation can change the risk profile of insurers and IORPs, reducing capital requirement for an insurer for instance. This can make particular investments attractive to a potentially wider range of investors.

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

- *Yes/No/Do not know.*
- *If yes, please list the barriers you see (maximum three).*

N/A

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

- *Yes/No/Do not know.*
- *If yes, what regulatory and/or prudential measures should the dedicated framework contain and how would they interact with the existing general rules for all securitisations and specific rule for STS securitisations?*

Yes.
Existing rules should be modified where necessary to ensure that they facilitate "green securitisation", with a clear risk-based trackable approach. The Solvency II framework should be amended for a specific and favourable treatment of STS securitisations, or equities, also under clear risk-based evidence.

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

- *Yes/No/Do not know*
- *If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider? Please list a maximum of three actions and a maximum of three existing initiatives.*

Yes, e.g. CO2 label on products.

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/No/Do not know.*
- *If yes, please explain what actions would be relevant from your perspective and which public authority would be best-positioned to deliver it. Please list a maximum of three actions.*

Yes, supported by educational campaigns, which may be sponsored by Central Banks together with environment ministries.

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/Do not know.*
- *If yes, please detail, in particular if you see a role for EU intervention, including financial support.*

Yes, with an important role to be played by EU or Member State in education of citizens and in demonstrating likely outturn, risks involved, benefit to society and element of EU/State contribution.

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.

N/A

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

- *Yes/No/Do not know If necessary, please provide details.*

N/A

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.

N/A

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?

N/A

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

- *Yes/No/Do not know*

Yes

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

- *Bringing more financial engineering to sustainable R&I projects? Yes/No*
- *Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)? Yes/No*
- *Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes/No*
- *Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes/No*
- *Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes/No*
- *Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes/No*
- *Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions? Yes/No*
- *Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? Yes/No*
- *If necessary, please explain your answer.*

Yes to all of above. Financial engineering should only be used where there is a real and justifiable need for an adaptation of characteristics of an instrument in order to enable investment.

Question 66: In your view, does the EU financial system face market barriers and inefficiencies that prevent the uptake of sustainable investments?

- *Please express your view on the current market functioning by using a scale of 1 (not well functioning at all) to 5 (functioning very well).*
- *Please specify your answer.*

N/A

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).*
- *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).*
- *Types of incentives – Bonds, Loans, Equity, Other Revenue-neutral subsidies for issuers, De-risking mechanisms such as guarantees and blended financing instruments at EU-level Technical Assistance, Any other public sector incentives - Please specify in the box below. ♣ Please specify the reasons for your answer (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider.*

4
De-risking mechanisms such as guarantees and blended financing, combined with a revised approach to capital requirements associated with long term sustainable investments, would potentially unlock large institutional funds from insurers and pension funds.

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

- *Please express your view by using a scale of 1 (not effective at all) to 5 (very effective).*
- *For scores of 4 to 5, in case you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments? - Revenue-neutral public sector incentives - Adjusted prudential treatment - Public guarantee or co-financing - Other*

- *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).*

5.
Adjusted prudential treatment to facilitate long term investment and guarantees would best support an increase. Nevertheless we believe that such adjustments should still support a solid risk-based framework.

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/Do not know.*
- *If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue?*

Yes, especially considering the economic dip which will follow the Covid 19 market shock.

Question 70: In your view, is the EU Taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector, for example in order to classify and report on green expenditures?

- *Yes - please explain which public authority could use it, how and for what purposes.*
- *Yes, but only partially - please explain which public authority could use it, how and for what purposes, as well as the changes what would be required to make it fit for purpose.*
- *No - please explain why you consider that it is not suitable for use by public authorities, and how those reasons could be best addressed in your view.*
- *Do not know.*

N/A

Question 71: In particular, is the EU Taxonomy, as currently set out in the report of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector in the area of green public procurement?

- *Yes/Yes, but only partially/No /Do not know*
- *If no or yes, but only partially, please explain why and how those reasons could be best addressed.*

N/A

Question 72: In particular, should the EU Taxonomy play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.

- *Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation;*
- *Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation.*
- *No;*
- *Do not know.*

N/A

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?

- *Yes/No/Do not know.*

- *If no, are there specificities of public issuers and funded projects or assets that the existing guidance on green bonds, developed by the TEG, does not account for?*

Yes, though it will be important to enable this in a way which does not slow down issuance and become counterproductive as a result.

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

- *Yes/No/Do not know.*
- *If yes, please specify what type of services would be useful for this purpose: - Information on legal frameworks - Individualised advice (e.g. on financing) - Partner and location search - Support in completing authorisations - Problem-solving mechanisms - Other, please specify*

Yes – all services mentioned could have a role to play in this initiative.

Question 75: Do you consider that the investment protection framework has an impact on decisions to engage in cross-border sustainable investment? Please choose one of the following:

- *Investment protection has no impact.*
- *Investment protection has a small impact (one of many factors to consider).*
- *Investment protection has medium impact (e.g. it can lead to an increase in costs).*
- *Investment protection has a significant impact (e.g. influence on scale or type of investment).*
- *Investment protection is a factor that can have a decisive impact on cross-border investments decisions and can result in cancellation of planned or withdrawal of existing investments.*
- *Do not know*

N/A

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)?

- *Please express your view by using a scale of 1 (highly insufficient) to 5 (fully sufficient).*
- *For scores of 1-2, what are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions?*

N/A

Question 77: What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs? Please list a maximum of three proposals.

N/A

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

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

All of above. Also difference in priority. Emerging economies prioritise growth, which is often dependent on cheap energy. Nations living in poverty will generally focus on human welfare and wealth ahead of environmental concerns.

Question 79: In your opinion, in the context of European international cooperation and development policy, how can the EU best support the mobilisation of international and domestic private investors to finance sustainable projects and activities in emerging markets and developing countries, whilst avoiding market distortions? Please provide a maximum of three proposals.

By providing expertise and understanding cultural context. For instance, in South Africa, coal mining is precious due to the unskilled labour and the strength of trade unions. Sustainable finance initiatives (for instance to develop solar or wind farms) will need to also consider the unemployment problem, and be sensitive to inequality considerations.

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. If necessary, please explain.*
- *These tools need to be adapted to local specificities in emerging markets and/or developing economies. Please explain how you think they could be adapted.*
- *Do not know.*

N/A

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 / do not know.*
- *If no or yes, but only partially, please explain why and how the obstacles you identify could be best addressed*

N/A

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?

- *Yes/No/Do not know.*
- *If no, please explain why you disagree*
- *If yes, what would be the purpose of such a brown taxonomy? (select all that apply)*
  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.
  Other, please specify.

N/A

Question 83: Beyond a sustainable and a brown taxonomy, do you see the need for a taxonomy which would cover all other economic activities that lie in between the two ends of the spectrum, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?

- *Yes/No/Do not know.*
- *If yes, what should be the purpose of such a taxonomy? Please specify*

N/A

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

Second order effects, as is currently happening with the Covid-19 pandemic. In particular, sovereign credit risk as smaller countries which are most exposed to both physical and transition risk have a harder time balancing their budgets.

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 three actions taken in your industry.

Change/evolution in the types of investment being made and the considerations which are applying to selection of investments.
Active shareholdership.

Question 86: Following the financial crisis, the EU has developed several macroprudential instruments, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system. Do you consider the current macroprudential policy toolbox for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change? Please express your view by using a scale of 1 (highly inadequate) to 5 (fully sufficient). For scores of 1-2, what solution would you propose? Please list a maximum of three.

1.
Backward looking assumption setting processes do not sufficiently account for increased risk of climate events and their systemic, interconnected and globalised nature.

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/Do not know.*
- *If yes, please specify which actions would be relevant. [BOX max. 2000 characters]*

Yes. Key actions are as set out elsewhere in these responses.

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/Do not know.*
- *If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy?*

Yes, though without diverting attention from other risks.

Question 89: Beyond prudential regulation, do you consider that the EU should take further action to mobilise banks to finance the transition and manage climate-related and environmental risks?

- *Yes one or both, please specify which action would be relevant*
- *No.*
- *Do not know.*

N/A

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/Do not know.*
- *If yes, please specify which measures would be relevant*.

N/A

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/Do not know.*
- *If yes, what solution would you propose?*

Yes

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

- *Yes/No/Do not know.*
- *If yes, please specify what actions would be relevant in your view.*

Yes. Pension funds have long term horizons, as do eco infrastructure and other deeply sustainable projects. There is a very good cashflow matching opportunity for pension funds which needs to be further explored and institutionalised. There will be a need for proportionality in the level of reporting imposed, reflecting the large variations in scale which apply in the case of pension funds.

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?

See Q92

Question 94: In view of the planned review of the IORP II Directive in 2023, should the EU further improve the integration of members' and beneficiaries' ESG preferences in the investment strategies and the management and governance of IORPs?

- *Yes/No/Do not know.*
- *If yes, how could this be achieved, taking into account that IORPs are collective schemes whose members may have different views on ESG integration?*

Yes, but again in a proportional manner.

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

- *Please express your view by using a scale of 1 (not transparent at all) to 5 (very transparent).*
- *If necessary, please explain the reasons for your answer.*

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Moody's for instance clearly highlights increased sovereign credit risk from climate change.

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

- *Please express your view by using a scale of 1 (very ineffective) to 5 (very effective).*
- *If necessary, please explain the reasons for your answer.*

N/A

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

- *Yes/No/Do not know.*
- *If yes, please specify what kind of action you consider would address the identified problems. In particular should the EU consider regulatory intervention?*

N/A

Question 98: Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing standardised natural capital accounting/environmental footprinting practices within the EU and internationally?

- *Yes/No/Do not know.*
- *If yes, please list a maximum of three relevant initiatives.*

N/A

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?
♣ *Yes/No/Do not know.*
♣ *If yes, please select all that apply: - Loss data, please explain why - Physical risk data, please explain why*

Yes, in order to enhance the understanding of the benefits of sustainable investment.

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?

- *Yes/No/Do not know.*
- *If yes, please indicate the degree to which you believe the following actions could be helpful, using a scale of 1 (not helpful at all) to 5 (very helpful) and substantiate your reasoning: - 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 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 reconstruction frameworks. - Regulate by setting minimum performance features for national climate-related disaster financial management schemes. - Create a European climate-related disaster risk transfer mechanism. - Other, please specify.

Yes. All of the actions listed should be considered and would potentially be beneficial.

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

- *Yes/No/Do not know.*
- *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? - Yes/No/Do not know. - If yes, please explain which actions and the expected impact (high, medium, low). If no, please explain.*

Yes. There is scope for EU action to improve the offer of products and services for climate-related disaster risk reduction and to enhance insurers' potential to promote increased resilience of their policyholders beyond a mere compensatory role.
The AAE is currently contributing to the creation of solutions in this area, and has made contact with both EC and EIOPA.

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 / Do not know.*
- *If yes, what action should the EU take? Please list a maximum of three actions.*

Yes. EU should consider following actions:

- Ensure that assessment of factors impacting on project or activity is prepared and made available in order to enable consistent and informed due diligence by investors.
- Establish standards and requirements for such assessments.