

MEMO# 32378

April 9, 2020

EU Consultation on Renewed Sustainable Finance Strategy

[32378]

April 9, 2020 TO: ICI Global Members

ESG Task Force

Global Advocacy Coordination Advisory Committee

ICI Global Regulated Funds Committee SUBJECTS: Compliance

Disclosure

Distribution

International/Global

Investment Advisers

MiFID, EMIR, AIFMD, UCITS V RE: EU Consultation on Renewed Sustainable Finance Strategy

The European Commission has published a consultation to collect views on its renewed sustainable finance strategy.[\[1\]](#) This strategy builds on the Commission's 2018 Action Plan on sustainable finance and outlines new actions to increase private investment in sustainable projects, to support the different actions set out in the European Green Deal, and to manage and integrate climate and environmental risks into the financial system. The Commission also links its ongoing sustainable finance work to the COVID-19 outbreak and the need to strengthen the sustainability and resilience of societies and the ways in which economies function.

The consultation deadline is 15 July 2020, and we will schedule a member call shortly to discuss the consultation and our response.

The following consultation questions are of particular interest to asset managers and regulated funds:

- Questions 27-29 on labels for sustainable investment products;
- Questions 40-41 on variable remuneration;
- Questions 49-50 on retail investors and financial advice;
- Question 82 on a "brown" taxonomy; and
- Question 91 on expanding asset managers' fiduciary duty.

Below is a more detailed summary of the areas the consultation covers that could have implications for asset managers and regulated funds.

- **Corporate disclosure of ESG information**

- Question 14: Should the EU develop a common database for companies' ESG information, including data reported under the NFRD and other relevant ESG data?
- **Sustainability research and ratings**
 - Question 17: Do you have concerns on the level of concentration in the market for ESG ratings and data?
 - Question 18: How would you rate the comparability, quality and reliability of ESG data from sustainability providers currently available in the market?
 - Question 19: How would you rate the quality and relevance of ESG research material currently available in the market?
 - 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?
 - Question 21: Should the EU take action in this area?
- **EU Green Bond Standard**
 - Questions 22-26
- **Other standards and labels for sustainable financial products**
 - Question 27: Do you currently market financial products that promote environmental characteristics or have environmental objectives [as defined in Disclosure Regulation Article 8]?
 - 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?
 - Question 29: Should the EU establish a label for investment funds (e.g. ESG funds or green funds aimed at professional investors)? If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?
 - Question 33: Should the EU take action to create an ESG benchmark (separate from the two new types of benchmarks under the Climate Benchmarks Regulation)?
- **Corporate governance, long-termism and investor engagement**
 - Questions 38-39 on tackling short-termism and fostering long-termism
 - Question 40: In your view, should there be a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?
 - 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?
 - 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?
 - 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?
 - 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?
 - 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?

- Question 46: Do you think companies and their directors should take account issues such as human rights violations, environmental pollution and climate change in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?
- 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?
- Question 48: Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?

- **Mobilising retail investors and citizens**

- 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?
- 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?
- 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?

- **Better understanding the impact of sustainable finance on sustainability factors**

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

- **Incentives to scale up sustainable investments**

- Question 66: In your view, does the EU financial system face market barriers and inefficiencies that prevent the uptake of sustainable investments?
- Question 67: In your view, to what extent would potential public incentives for issuers and lenders boost the market for sustainable investments?
- Question 68: In your view, to what extent would potential incentives for investors (including retail investors) help create an attractive market for sustainable investments?

- **Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments (i.e., a “brown” taxonomy)**

- 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?
- 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?

- **Financial stability risk**

- Question 91: Do asset managers 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)?

- **Improving resilience to adverse climate and environmental impacts**

- 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?
- 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?

Other areas covered in the consultation include capital markets infrastructure support for sustainable securities, green securitization, digital sustainable finance, how to increase the pipeline of sustainable projects, the use of sustainable finance tools and frameworks by public authorities, investor protection, promoting sustainable finance globally, credit ratings agencies, and natural capital accounting or “environmental footprinting.”

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endnotes

[1] The consultation is available at https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en.

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