EUROPEAN
FINANCIAL
CONGRESS

Instytut Badań
nad Gospodarką Rynkową
Do Studzienki Str. 63
80-227 Gdańsk, Poland

tel. +48 58 524 49 01
fax. +48 58 524 49 09

efc@ibngr.pl
www.efcongress.com

Answers of the European Financial Congress[1] in relation to the European Commission's consultation regarding Renewed Sustainable Finance Strategy[2]

Methodology for preparing the answers

The answers were prepared in the following stages:

Stage 1
A group of experts from the Polish financial and industry sectors were invited to participate in the survey. They received the EC's consultation document and a form with selected consultation questions. The experts were guaranteed anonymity.

Stage 2
Responses were obtained from experts representing:
- banks, insurance companies, investment funds
- industry companies
- the academia.

Stage 3
The survey project coordinators from the European Financial Congress prepared a draft synthesis of opinions submitted by the experts. The draft synthesis was sent to the experts participating in the survey with the request to propose modifications and additions as well as marking the passages they did not agree with.

Stage 4
On the basis of the responses received, the final version of the European Financial Congress' answers was prepared.

---

[1] European Financial Congress (EFC – www.efcongress.com). The EFC is a think tank whose purpose is to promote debate on how to ensure the financial security and sustainable development of the European Union and Poland.
[2] https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2020-sustainable-finance-strategy-consultation-document_en.pdf

Answers of the European Financial Congress to the consultation questions

Q16: 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 – 15%
- **No – 46%**
- Do Not Know – 39%

If yes, what is in your view the most important area (please provide details, if necessary):

- Impairment and depreciation rules.

The main issue is that the IFRS rules assume the market price is a fair price and that it could be known or set by the enterprise / company. This gives rise to unrealistic expectations that the IFRS valuation will be FAIR. However, in the case of climate change and the new Sustainability rules, the associated risks are so uncertain that FAIR value cannot be determined. Due to this uncertainty, the application of various tools / items to present the same elements may lack clarity, and it may be impossible to compare the financial reports of different companies. Environmental / sustainability guidelines should help. No new items are needed.

Q17: 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).

1 – 21,5%
2 – 21,5%
3 – 43%
4 – 14%
5 – 0%

If necessary, please explain the reasons for your answer.

Market concentration for ESG ratings/data is similar to market concentration for credit rating services and appears to be adequately balanced between scale and competition. However, the lack of standardization of ESG ratings and different methodologies does raise concern. Currently, companies need to establish internal methods of assessment of their contribution to climate change, which is costly and may prove to be a waste of resources if an integrated approach is adopted and has to be followed. Clear methods for the measurement and reporting of ESG issues will be presented first and only then will be collected and compared by rating agencies and data providers. Otherwise, the data collected may not be reliable.

Q22: 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 – 64%**
- Yes, at a national level – 14%
- No – 22%
- Do not know – 0%

If necessary, please explain the reasons for your answer

Accreditation/authorization/supervision at the European level would ensure standardization of the process, credibility and high quality of services, and would also reduce uncertainty. Authorization at the EU level should ensure at least the use of uniform evaluation standards and equal treatment of all instruments, irrespective of the country of origin. Accreditation should be the responsibility of the European Securities and Markets Authority (ESMA).

Q23: 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 – 71.5%**
- No – 21.5%
- Do Not Know – 7%

If necessary, please specify the reasons for your answer

The regulation of entities tasked with rating and preparing analytical studies is certainly expected, so that their opinions and recommendations can be credible and reliable. In our experience, investors rely on ratings and recommendations for all classes of financial instruments. There is no reason to assume that it would be any different with "green" instruments. The Commission should take steps to regulate credit rating agencies in this respect. Such regulations would ensure that third-party service providers would meet minimal sufficient quality standards and work under the comparable framework.

Q24: 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 – 50%**
- No – 21.5%
- Do Not Know – 28.5%

If necessary, please specify the reasons for your answer

The same rules should apply. Any issues for non-European issuers should comply with the EU market and environmental requirements. This will not be a problem for non-EU issuers. After all, anyone who wants to operate on the EU market must meet the GBS standards – as in “my territory – my rules”. Otherwise, there would be no equal treatment of all market participants.

Q29: Should the EU establish a label for investment funds (e.g. ESG funds or green funds aimed at professional investors)?

- **Yes – 77%**
- No – 23%
- Do Not Know – 0%

If necessary, please explain your answer

Currently, investment funds are being labelled at their own discretion. Any harmonization in this field would be desirable. Labelling (carried out in accordance with established eligibility criteria) would contribute to the overall transparency of the investment funds market, which eventually would support accelerated growth of this market. Due to the very large number of subgroups for “green” investments already in existence, full unification and proper definition of their various types is required. Investors should be informed about opportunities, limits and restrictions for individual investments, so that they can make informed decisions. Given that some funds use negative selection criteria only (that is, they merely refrain from investing in enterprises whose activities have a negative impact on the environment), it should not be assumed that they support environment-friendly projects. Thus, to classify such a fund together with those that focus on funding “green” projects could mislead potential investors.

If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?

- **Yes – 91%**
- No – 0%
- Do Not Know – 9%

If necessary, please explain your answer

There should be a common and clear understanding of what is green and what is not, in order to avoid the risk of greenwashing. However, the methodology should be open to new technologies and solutions, which are not widely used now (for example, windfarms in the power generation industry), but are not harmful to the environment.

Q30: 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):

1 – 14.5%
2 – 7%
3 – 28.5%
4 – 28.5%
5 – 21.5%

If necessary, please explain.

Flexibility of solutions regarding sustainability-linked bonds or loans is its main advantage, and only the key characteristics of green instruments should be covered by the standard, rather than their specific features. In general, an EU standard with regard to sustainability-linked bonds or loans would leave less room for greenwashing and would ensure greater transparency for investors. The right direction for sustainable finance is standardization of green lending. The only danger of such an approach is that it might slow down the green transition process. Therefore, we recommend gradual introduction of such market standards.

Q32: 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 – 54%**
- No – 31%
- Do Not Know – 15%

If yes, please select all that apply:

- a broad standard or label for sustainable mortgages and loans (including social and environmental considerations) - **61.5%**
- a standard or label for green (environmental and climate) mortgages and loans - 23%
- a narrow standard or label only for energy-efficient mortgages and loans for the renovation of a residential immovable property - 15.5%

Q40: In your view, should there be a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?

- **Yes – 54%**
- No – 23%
- Do Not Know – 23%

If yes, please indicate what share.

Any rules should be applied prudently and at the lowest possible level. The market, not the regulatory body, should decide how to react to non-financial performance of the company.

Q54: 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).

1 – 7%
2 – 28.5%
3 – 14.5%
4 – 43%
5 – 7%

If necessary, please explain your answer.

Due to the recent trends, green securitisation could contribute positively to an increase in the capital allocated to sustainable projects and activities; however, this impact would be difficult to estimate. Securitisation in the field of green/sustainable assets could improve access to capital, as well as significantly lower the relevant costs of raising capital.

Q55: 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 – 15.5%
- No – 23%
- **Do Not Know – 61.5%**

If yes, please list the barriers you see (maximum three).

Lack of specific regulation for green securitization. It would be advisable to introduce preferential risk-weights for green ABS.

Q66: 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).

1 – 8%
2 – 25%
3 – 42%
4 – 17%
5 – 8%

Please specify your answer.

The market in its current state provides reasonable mechanisms for sustainable investments. The most important gaps in the area of taxonomy and labelling are currently being addressed. However, companies have created their own methods and systems for determining how green they are or how green their investments are. New regulation should provide market participants with clear instructions for reporting and allow for a transition from legacy methods.

Q69: 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 – 71.5%**
- No – 7%
- Do Not Know – 21.5%

If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue?

Limited risk weights for SME, reflecting their sustainability introduced in CRR/CRD. A simplified method for the assessment of SME sustainability, available to banks on short notice and maintained for the lifetime of a financial product (otherwise, updates could be difficult). Provide market with reports on SME sustainable activities to give reliable context to all market participants when looking at particular SME activity. Subsidise certification. Ensure easy access to education and training programs.

Q84: 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

Access to water in the production process and drought.

Transition risks, please specify if necessary

Transition risks at banks mainly include climate risks related to their clients, particularly the corporate segment finance with loans, leasing, and debt origination and investment. They include, among others, transformation of the energy sector and share of fossil fuels in energy generation (energy mix), but also market and price uncertainty, access to funds, high cost of the transition, cutbacks in employment.

Second-order effects, please specify if necessary

- for instance changes in the real estate prices uses as a collateral and stranded assets in the energy sector.

Other, please specify

The greatest risk is posed by regulations on the EU or country level which are not in line with global regulations (regulation arbitrage). Climate issues may have indirect effects on our business, as decreased supply of water, and increased inflation.

Q86: Following the financial crisis, the EU has developed several macro- prudential instruments, in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system. Do you consider the current macro- prudential 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).

1 – 0%
2 – 8%
3 – 42%
4 – 33%
5 – 17%

Q88: 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 – 23%
- **No – 38.5%**
- Do Not Know – 38.5%

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?

Although our response is NO, we would like to add a few comments. In the context of the last CRR/D review, legislators agreed on a mandate for the EBA to assess and possibly issue guidelines regarding the inclusion of ESG risks in the supervisory review and evaluation process (SREP). It is important to include the ESG risk assessment in the SREP process, ensuring a consistent approach to assessment at the European and national levels. It is also important to ensure consistency between regulators.

Q99: 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 – 54.5%**
- No – 30%
- Do Not Know – 15.5%

If yes, please select all that apply:

Loss data, please explain why

Any improvement in access to data is welcome. Coordination will help lower the cost of such data. Access to any climate-related loss and physical risk data across the EU will in general lead to the adoption of a better approach to systematic risk by financial institutions.

Physical risk data, please explain why

Currently, this information is completely ignored in equity valuations. Such a mechanism and access to data would promote businesses that are socially responsible and engage in sustainable development. Furthermore, access to any climate-related loss and physical risk data across the EU will in general lead to the adoption of a better approach to systematic risk by financial institutions. Therefore, data of this type should be widely available.

Q102: 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 – 57%**
- No – 36%
- Do Not Know – 7%

If yes, what action should the EU take? Please list a maximum of three actions.

The EU should issue high level guidelines on risk assessment, addressed to investors and lending institutions. Once all these risks are better understood, one may consider refining these guidelines further. Moreover, the EU should establish and implement a credible and robust EU environmental climate change risk categorising system to facilitate screening and encourage and motivate investors and/or credit institutions to implement standards/tools for the assessment of such risks (e.g. capital adequacy rules, tax shields etc.).