

VALDIS DOMBROVSKIS

Vice-President of the European Commission

Brussels

Dear Madam, Dear Sir,

Thank you for the open letter on sustainable finance of 16 April 2018, which expresses your support for our Sustainable Finance Action Plan, however drawing the attention of the European Commission to a set of key issues we should consider.

The European Commission's commitment to hardwire sustainability into the functioning of financial markets, as part of the Capital Markets Union framework, led to the publication of the Sustainable Finance Legislative Package on 24 May as a follow-up to its Action Plan on financing sustainable growth.

The legislative proposals already address most of the concerns expressed in your letter. The package includes three proposals aimed at (i) establishing a unified EU classification system of sustainable economic activities ('taxonomy'), (ii) requiring institutional investors, as part of their fiduciary duty, to systematically take into account sustainability risks within their investment and voting processes, and to report them, and (iii) creating a new category of benchmarks that will help investors compare the carbon impact of their investments.

In addition, the Commission is seeking feedback by 21 June 2018 on amendments to delegated acts under the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive to include ESG considerations into the advice that investment firms and insurance distributors offer to individual clients. Finally, the Commission launched on 21 March 2018 a public consultation to assess if the EU's mandatory reporting requirements are fit for purpose, including from a sustainable development perspective.

The Commission will also be supported in its reflection on the topics addressed by the legislative proposals as well as on related issues by a Technical Expert Group on Sustainable Finance, to be launched later this month, which will be working on taxonomies, the EU standard for green bonds, benchmarks and 'climate' disclosure metrics.

Your letter highlights the importance of an EU classification system for defining sustainable assets, and requires the Commission to provide "clear guidance as opposed to a positive list approach", "clear processes regarding objectives" as well as "institutional safeguards for maintaining and enhancing the classification system".

The Commission's proposal i) sets out uniform criteria and a clear process for the establishment of a taxonomy of environmentally sustainable activities; ii) is granular and detailed enough to provide the basis for a common and unique language on sustainability; iii) embeds the 'no harm' principle (Art. 12), iv) requires that the economic activity is carried out in compliance with minimum social and labour international standards (Art. 13), and v) finally provides for a review clause to possibly cover also social objectives. Consequently, although the process will start with climate-related issues, for practical reasons you have mentioned, safeguards are de facto provided for to consider broader environmental (the 'no harm' principle) and social (Art. 13) issues in this initial step. This is the rationale behind the "environmental sustainability" concept referred to in the proposal.

The proposal also recognises the need for a robust independent institution to maintain and enhance the taxonomy. To that purpose, a multi-stakeholders Platform on Sustainable Finance (Art. 15) will provide the Commission with technical input for granular, science-based and calibrated technical screening criteria for the different economic activities.

All the measures set out in the Action Plan and legislative proposals are an indispensable step to nurture the current momentum on sustainable finance. And of course the European Supervisory Agencies will play a key role in the whole process required in the Action Plan and in the legislative proposals. It is indeed important to ensure that the implementation of the legislative measures, once agreed upon, is effective in a way that meets the far-reaching objectives of the Action Plan.

Thank you once more for sharing your reflections on what you consider are the key issues to be dealt with on carrying out the different work-streams of our commitment to sustainable finance.

Sincerely yours,



Valdis Dombrovskis

To the initiators and signatories of
the open letter on sustainable finance

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