



Position Paper

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On sustainable finance

EUROCHAMBRES with its membership is at the forefront of paradigm change when it comes to running a business. There is a clear need to redefine a way of quantifying the economic and business growth. Since one cannot exist without the other, we believe that business community with its most numerous members, namely small and medium sized companies, should be incremental part of current transformation into the green economy.

EUROCHAMBRES acknowledges the European Commission's efforts to recognize the importance of sustainable growth by undertaking works on sustainable finance framework and would like to highlight the following aspects.

Main points

- Administrative burden of companies has to be reduced in the EU; new obligations are only justified if they are absolutely necessary.
- Proportionality is important.
- There is already demand by investors for “sustainable” investment products. ESG factors are taken into account in the investment strategy and product development by the financial services industry. It therefore is questionable whether regulation - additional to a taxonomy - is necessary.
- Incentives are often a more appropriate way to achieve political goals (see for instance the proposals by the European Commission on the Cohesion Policy 2021-2027 and on InvestEU which both foresee sustainability as important priorities for these programmes).
- It makes sense to think of new rules only when it is clear what “sustainable” means, therefore the taxonomy has to be developed first before new rules are created.
- The taxonomy has to be developed with the involvement of all the relevant industries.
- The taxonomy should be technology neutral; no sector of the economy should be excluded.
- The ESG standards are interconnected; every factor should be treated equally and dealt with from the beginning.
- The new rules could lead to unintended consequences like increased financing costs for certain industries, even when they are working on increased sustainability. Negative effects on the labour market cannot be excluded.
- The rules need sufficient time for implementation.
- The political aim can possibly create conflicts with supervisory goals and prudential principles, namely to reduce risks.
- It is not clear how the sustainability of government bonds is measured. Government bonds are an important asset class for many investors and should be excluded from the ESG assessment.

- Provisions in the level 1-acts should be sufficiently precise so that the powers delegated to the ESAs are not open to interpretation.
- An international approach is needed to avoid market distortions.

In detail

Technical Expert Group on Sustainable Finance

Since the change is supposed to come from the real economy as it is the precondition for the transformation on a bigger scale, we believe that the mentioned expert group is not well balanced as it mostly contains financial sector representatives. Out of 35 members there are 14 financial sector representatives. Among 7 defined as business representatives, there are as well: EACB the European Association of Co-operative Banks, EFFAS European Federation of Financial Analysts Societies, Eurelectric (sector specific association), ICMA International Capital Markets Association and RICS Royal Institution of Chartered Surveyors. None of these groups directly represents broader EU business constituency. **Hence, for the sake of transparency we are calling to allocate the members to appropriate stakeholder groups.**

Bearing in mind that one of the objectives of the group is to reach out to relevant stakeholders, as achieving the goals of the Action Plan on Financing Sustainable Growth requires concerted efforts from all relevant actors, and due to lack of involvement of business stakeholders. **The ultimate objective must be to channel the funds to sustainable products and services and not to create a panoply of new financial products. We are thus calling for a Sustainable Finance Envoy who in a series of meetings with business representatives will provide a live update regarding the works and progress made.**

Taxonomy

The project is especially challenging as there is no official and agreed definition of sustainability. We believe that a such a complex aspect that cuts across various fields, going far beyond finance, requires a balanced expertise. Only in such case we will be closer to defining what constitutes sustainable, and next we will need to be able to decide how the operations of a company should be assessed. Companies in the same business sector may have different methods and targets regarding sustainability, what brings us to conclusion that one size does not fit all. Bearing that in mind, **we demand a broader expert base working on the topic.**

It may also prove very important to see where the forthcoming taxonomy will be implemented concretely and who actually receives an EU label. One needs to bear in mind that investment firms and insurance distributors will need to ask about their clients' sustainability preferences and to ensure that sustainability preferences are taken into account. We can just remain hopeful that the burden and bureaucracy caused by this requirement will be reasonable, but we still remain concerned that increased transparency of methods may as well infringe trade secrets. **We are calling for a detailed impact assessment of any proposed regulation, especially in the context of the outcome that could potentially diminish access to finance for investments of European companies. What we certainly do not want is a situation where companies do not receive funding because they are not deemed sustainable according to the taxonomy, simply because their activity is not affecting the environment at all.**

Reporting requirements

When it comes to fitness check of non-financial reporting directive and IFRS – to assess whether public reporting requirements for both listed and unlisted companies are fit for purpose – when considering future legislative measures the European Commission should be very careful with adding administrative burden to companies both listed and unlisted. The non-financial reporting directive and the existing non-binding guidelines on non-financial information are basically new, their full impact is still unknown, and there is no evidence that there is an urgent need to amend them. There is a strong conviction among the business community that the goal is to impose more reporting requirements (e.g. to disclose sustainability strategy, targets and even possibly creating rules regarding the content of the company's interest in which a director is expect to act). We are concerned that all the potential new requirements sound very far-reaching, and all of this in addition to the existing non-financial directive, guidelines and their expected amendments, makes us question actually how much more new reporting

regulation can European companies still handle. **We demand that the outcome of the project should not be to increase reporting requirements for companies without any or much real impact on ESG issues.**

International commitment

Finally, in the current international trade climate there is a need to help to create and sustain competitive, healthy and sustainable European companies, **hence, we are calling for an international level playing field and an education campaign among the consumers and business partners.** Europe has a strong potential to lead a dialogue on sustainable finance and a global change, that is why it is vital to have G20 committed to similar goals. In this regard, EUROCHAMBRES actively contributed to the B20 Policy Recommendations, highlighting the necessity to involve the business community in the design and implementation of the Nationally Determined Contributions (NDC) in the framework of the Paris Agreement, especially in order to leverage private sector investment.

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