EUROPEAN COMMISSION
Directorate-General for Financial Stability, Financial Services and Capital Markets Union
HORIZONTAL POLICIES
Sustainable finance

CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY

SECTION I: 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.

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;

○ 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.

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).

○ 1 strongly disagree

○ 2 disagree

○ 3 neutral

○ 4 agree

⊗ 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).

○ 1 strongly disagree

⊗ 2 disagree

○ 3 neutral

○ 4 agree

○ 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?

We fully support the Commission's sustainable finance agenda aimed at reorienting capital flows to sustainable investments and managing financial risks related to climate change, as well as fostering transparency and long-termism in financial and economic activity. **This will**

be essential in reaching the goals of the Paris Agreement and implementing a European Green Deal.

Over the past years, the move towards investing in sustainable projects and activities has increased. There seems to be a growing recognition of financial risks associated with continued fossil fuel investment, for example. **Energy policy has already played a strong role in, directly or indirectly, supporting investment is sustainable projects such as renewable energy, energy efficiency or storage – albeit investment levels remain too low.** Financial policy actions should now aim to amplify the move of capital in this direction in the most efficient way. This is not the least necessary for the role financial instruments play in mitigating risks via markets. Market participants across many real economy sectors need access to efficient, transparent and liquid financial markets to be able to hedge and efficiently manage their risks in a rapidly evolving physical energy commodity market.

For this, **policy should aim at encouraging market participants to contribute to a more sustainable environment** rather than on penalizing or other discouragement. A positive and encouraging approach would be most effective and will produce results and transparent data streams by allowing a natural transition to more sustainable activities. This will enable business to adapt and to implement alternatives for less sustainable processes or technologies.

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?

Opportunities:

First and foremost, sustainable finance provides a concrete chance to advance towards 2050 carbon neutrality. Without actively involving the financial sector such targets won't be reached.

Second, momentum in the financial sector and beyond - There is an increasing momentum within public and private actors that supports a transition. Financial policy should make use of this momentum to ensure markets can adjust efficiently to reach the goals set in the Paris Agreement and European climate and energy policy frameworks.

Third, market innovation – Markets have begun a transition towards more sustainable solutions as they react to the increased demand from investors and market participants. Adapting to the changing global economy requires products with targeted risk-profiles. Second, well-functioning markets carry the potential to increase sustainable transactions through greater liquidity and efficient price-discovery.

Challenges:

First, an integrated policy framework - It is essential for policymakers that financial policy complements broader climate and energy policy action. In this way, the renewed sustainable finance strategy and subsequent policy changes can amplify the efforts already taken by energy and climate policy action. Sustainable finance can only become mainstream if investments are sufficiently attractive and – most importantly - appropriately priced according to market developments.

For clean investments to attract capital at scale, there must be a compelling risk/return proposition and sufficient liquidity. Subsidy schemes ultimately distort this process. Renewable energy has for example become increasingly cost competitive and exposed to market risks. Investing in green energy becomes more attractive and offers higher total returns and lower volatility risks relative to fossil fuels. Derivatives markets closely reflect these practices in the real economy by offering efficient price discovery and risk management. Subsidy schemes ultimately distort this process. Please see our response to Q53 and Q60 for a more thorough explanation of these markets and their barriers.

Second, international coordination - Financial markets are global. Market participants will conduct their trading and hedging activities where they are most effective. The EU will have to rise as global sustainability leader and leverage its international exposure to ensure sustainability standards similar to the EU's applied globally, to add to the credibility of its political will and avoid industry or market participants moving to the other regions featuring lower standards. The latter would reduce the effectiveness of policies in Europe, lead to a loss in liquidity or higher prices for end-consumers.

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?

First - For the integration of climate and environmental risks into financial decision-making, it is essential for financial policymakers that finance policy complements – and potentially amplifies – climate and energy policy action. Financial policy should not constrain sufficient liquidity pools for appropriate risk management of energy production and consumption. For example: MiFID II regime for commodity derivatives markets.

Second - A second specific obstacle could be that in the legislative proposals presented and agreed thus far, there might be a potential for overlapping but slightly different requirements as these negotiations have taken place in parallel. The files proposed in the context of the sustainable finance agenda are to a large extent focussed on disclosures but a lack of streamlining of requirements might create difficulties for compliance or voluntary uptake by the wider market.

For instance, while the Taxonomy has been agreed and most details will be provided through Level 2, requirements have been agreed for the Climate Benchmarks Regulation which may not be fully aligned. While we welcome the consideration of ESG factors in benchmarks, we are concerned that diverging standards could produce a disconnect between benchmarks and the underlying market. Overlapping and diverging requirements should be addressed when looking for a market uptake of sustainable finance initiatives.

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?

○ 1 not important at all
○ 2 not important
○ 3 neutral
○ 4 important
⊗ 5 very important

To unlock the necessary private investments, long-term visibility and predictability are essential. This underlines the importance of this Strategy and the European Green Deal and Climate Law. The Climate Law showed the opportunity to coordinate efficiently several EU climate action initiatives (such as ETS Directive, Effort Sharing Regulation, RED II, CO_2 emission performance standards). **The Sustainable Finance Strategy should first ensure financial initiatives effectively complement each other, and second, strengthen the European climate actions and goals.**

- A transparent and consistent approach holds great opportunities in the area of risk assessment and for the identification of new business areas. This requires a long-term vision in which the **alignment of different pieces of legislation** is a prerequisite.

- Moreover, as already highlighted, it is important to keep in mind that **financial markets reflect developments in other parts of the economy.** Sustainability is one of the most significant trends in all policy spheres, financial policy action should ensure that there are no obstacles for markets to move towards this increased demand and to put the right price on carbon.

A clear EU wide trajectory on greenhouse gas emissions reductions can be provided by putting a correct price on carbon and thus extending the ETS to other sectors. A single carbon price across sectors not only levels the playing field during business as usual but will serve the same purpose when it comes to public support to companies in the aftermath of the crisis.

Market participants require clear signalling from policy makers to improve predictability and avoid market disruption. For instance, cheaper fossil fuels prices after the COVID-19 crisis demand shock provide the chance to reduce or phase out fossil fuel subsidies. For the energy sector in particular, whilst low oil prices mean renewable energies could be penalised, the opposite has happened. Such trend should light for policy makers when figuring how to support renewables in the context of the economic/financial stimulus plan.

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?

By ensuring a dynamic, flexible and inclusive process when developing new initiatives. For this we welcome the European Commission is enabling a **transparent dialogue with stakeholders that are directly or indirectly impacted by the new policies and market developments.**

The Commission can additionally provide support to stakeholders when applying the newly adopted frameworks, such as the taxonomy. There should be a dialogue with the stakeholders in order to keep track of the efficiency of new regulation

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.

At this moment we believe it is important to work on a global approach on the sustainable finance initiatives, building on the EU leadership within the field. Moreover, the 2018 Action plan on financing Sustainable Growth should be completed. Several files have only recently been adopted and now is the time to see how these frameworks work in practice, where potential gaps are to be found and where synergies can be increased.

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.

We support the facilitation of information sharing as it will improve transparency. The creation of a new raw database for sustainability data which would ideally be managed at European level could be one helpful measure. Its purpose would be the centralised collection of sustainability data published by companies pursuant to their sustainability reporting obligation. There are already a number of reporting obligations in place, data gathered under those existing regulations should be used. **The cost of any additional reporting needs to be proportionate to the benefits gained.** Market participants will require information to engage in sustainable investments. Market based voluntary uptake of data reporting will likely and most efficiently follow on this demand.

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).

As market infrastructure provider, it is our understanding that activities performed by us or the services we provide are not included in the scope of the Technical Screening Criteria of the Taxonomy Regulation. Rather the economic activities underlying our products are recognised as potentially contributing to the environmental objectives.

However, we can contribute to the European climate targets by continuously responding to market demand and by providing financial instruments and hedging opportunities that support sustainable developments. We do this for example by marketing secondary power and emission allowances markets and react to changes in risk perception.

Additionally, EEX offers registry solutions for Guarantees of Origin in France, as well as Capacity Guarantees for the French TSO RTE and the Energy Savings Certificate mechanism. Expanding these mechanisms further could have the potential to enable tracking and certifying of renewable energies and the contracts derived thereof, and sustain their growth.

For us as energy exchange, the EU Taxonomy will to the extent possible be used for our business and business development decisions as we aim to transition towards being a climate- and future proof exchange.

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).

○ 1 not likely at all

○ 2 not likely

○ 3 neutral

⊗ 4 likely

○ 5 very likely

Energy derivatives markets, and in particular power and emissions markets, will be a key instrument in delivering on Europe's long-term climate ambitions. Derivatives markets bring together financial and physical players, ensuring liquidity necessary

for risk management. Strong and clear price signals are needed in an ever more complex energy system, to allow for proper risk management, to enable the energy transition and meet the EU's climate targets.

As leading European power exchange, we offer trading in euro-denominated power derivatives. We provide transparent price discovery mechanisms, thereby offering market-based remuneration to renewable and conventional energies alike. These products support market-based renewable energy development. For example – power purchase agreements (PPA) are a driver of renewable energy investments. Our power derivatives markets allow a long-term hedge to offset the PPA's risks. This process incentivizes developers to invest and source their capital into green alternatives.

Furthermore, we are the leading primary auction platform for emission allowances and offer trading in derivatives markets. The EU ETS is the EU's central climate policy instrument, covering nearly half of EU emissions in 11,000+ installations at 7,000+ companies. It provides market actors with an integrated price signal across industries, delivering transparency and long-term visibility to businesses and policymakers alike. This can guide their economic activity and sustainable efforts.

Power and carbon emission derivatives markets offer critical price signals for effectively integrating and connecting different economic and financial sectors and to efficiently anticipate future trends. We strongly welcome the "common sustainable dictionary" the EU Taxonomy provides. While our financial products as derivatives are currently not in the scope of the EU Taxonomy – we do believe they clearly promote the environmental and notably the climate change objectives. Following this, the EU Taxonomy will to the extent possible be used for assessing new market offering of products.

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.

Before making additional policy decisions of this kind, we believe the impact and development of existing benchmarks and disclosure requirements should be monitored and assessed.

However, we acknowledge the EU climate benchmarks (CTB and PAB) which are regulatory driven are not the only ESG benchmarks in the market. Currently, a multitude of ESG benchmarks with different objectives are being offered. With a high degree of subjectivity in ESG labels, it might not always be possible to compare such benchmarks for the end investor due to the different ESG data which might be used by benchmark administrators. In could be beneficial to make those benchmarks broadly comparable by for example setting a range of objectives for ESG benchmarks with minimum standards with reference to the EU Taxonomy.

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?

As the European Union moves towards climate neutrality; both the financial and 'real economy' sectors will undergo large-scale transformation. Commodity (derivatives) exchanges have a unique position bridging these two worlds by offering risk-management products that will support this move. We believe that existing venues are equipped to offer effective de-risking instruments as described in the previous questions and developing innovative financing mechanisms to accelerate and scale up sustainable investment. By making use of existing liquidity pools, market participants can trade and hedge in a more efficient and less risky way.

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.

ESG approaches becomes more widespread across tangible and intangible assets and within business activities as firms globally are showing more and more appetite to include these considerations in their sustainable investment strategies. **In addition to the products addressed in this consultation paper, we want to stress that derivatives have a clear potential to allocate capital to and to support the development of sustainable projects and activities.** As said, energy derivatives markets bring together financial and physical players, ensuring the necessary liquidity for a market-based uptake of sustainable activities and projects with diverging risk profiles. **Well-functioning power derivatives markets are the most efficient basis of market integration and increasing shares of renewables.** These existing markets make it cheaper and less risky for energy producers to invest in renewable alternatives. Notably, liquid power derivatives markets are used by producers to hedge their investment in renewable energy. They become able to hedge in a transparent way against the risk of future price changes, facilitating short to long-term portfolio optimization globally and access a large network of trading participants while reducing counterparty risk. In this way, we offer power operators the possibility to, for example, hedge power purchase agreements they completed bilaterally, taking away risks stemming from price volatility and counterparty credit. These contracts provide long-term price stability required to obtain project financing from banks, for example. This process incentivizes developers to invest and source their capital into green power alternatives.

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.

In the energy sector, studies show renewable energy has become increasingly cost competitive and exposed to market risks, also thanks to hedging options and the

possibility to trade closer to delivery time. Investing in green energy becomes more attractive and offers higher total returns and lower volatility risks relative to fossil fuels. The latest oil price developments and the heightened unpredictability of hydrocarbon investments make the business case for renewables even stronger. Derivatives markets closely reflect these practices in the real economy by offering effective and efficient price discovery and risk management.
Financial flows will follow projects and investments that have a potential of rentability and feasibility. Resurging inappropriate support schemes such as Contract for Difference are a step back that will hamper financing of new sustainable capacities.
Market integration on the contrary will allow to create a level playing field which brings together participants from different sectors - such as investors, utilities and trading companies - and allow further integration between the financial and "real" economy.

Currently, the picture in Europe is mixed. Many member states are in a situation where subsidy schemes – often established decades ago – will run out. A decision has to be made whether and/or to what extent state aid schemes should be maintained. Subsidy schemes – such as Contracts for Difference (CfDs) where the market exposure of RES is reduced to zero – disincentivise an increased supply of sustainable projects open for long-term investments.

For other promising technologies, such as hydrogen, market driven investment in research and innovation are vital.

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

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).

○ 1 not well functioning at all
○ 2 not well functioning
○ 3 neutral
○ 4 functioning well
○ 5 functioning very well

As described before, for the integration of climate and environmental risks into financial decision-making, it is essential for financial policymakers that finance policy complements – and potentially amplifies – climate and energy policy action. **Financial policy should not constrain sufficient liquidity pools for appropriate risk management of energy production and consumption.** One notable example of this is the MiFID II regime for commodity derivatives markets. The position limits regime in particular is found to be restricting growth in euro-denominated energy derivatives markets that have the potential to support the sustainable transition.

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)?

Insufficient - We strongly believe that global coordination will be key to the success of any policies, not only to ensure a positive global impact on our climate, but also to avoid arbitrage.

EEX welcomes Europe's 2050 carbon neutrality ambition as a pivotal step to assert its role as global climate action leader. With the Green Deal, Europe is setting out to intensify its efforts in global climate diplomacy. We welcome this course as it can make a significant contribution to both increasing global climate action efforts and aligning them, thereby facilitating cooperation. **The European initiatives in sustainable finance should be added to this global spectrum of coordination. Correctly pricing and financing of carbon-intensive industries should be part of this global endeavour.**

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.

Over the last few years, we have seen a rapid increase in carbon pricing globally, in particular in form of emissions trading schemes. There are now 21 systems covering 29 jurisdictions with an ETS in force. While significant differences in policy exist globally, the global policy landscape is gradually moving closer towards the vision of global carbon pricing. This also offers significant potential for cooperation between different trading schemes, for instance in the form of linking.

This has the potential to provide market actors with an integrated price signal across industry, energy and transport sectors, and guide their economic activity and decarbonisation efforts; as well as to ensure **global connectivity across national carbon markets across the world and pave the way for a global market including a global price for emission certificates.**

Encouraging such global cooperation needs to be a core priority for all stakeholders as pricing carbon globally is the most efficient remedy against carbon leakage.

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.

EEX fully supports the aim of the EU Taxonomy to focus first on redirecting capital flows towards environmentally sustainable activities. We believe the focus should indeed lie on facilitating and encouraging green investments. In this regard, we fear a brown taxonomy would be premature at this stage, rather we would see the need for a sufficient time and experience of using the taxonomy before such initiative. Implementing the green taxonomy and keeping it sufficiently up to date will already be a big task for the Platform on Sustainable Finance.

We support the agreement reached by co-legislators including also transitional and enabling activities and see merit in increasing the granularity of these activities. This will incentivize investing in CO_2 reduction and help investors decide on how to invest within these sectors. **We also explicitly encourage the possibility to propose inclusion of further economic activities and services, or potentially additional financial instruments, in the scope of the EU taxonomy to the Platform.**

An easy to use, complete and timely updated EU Taxonomy on sustainable economic activities across the six environmental objectives will encourage voluntary uptake of the list and criteria by companies or actors currently not obliged to disclose against the taxonomy, where deemed feasible.

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.

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

As the European Union moves towards climate neutrality; both the financial and 'real economy' sectors will undergo large-scale transformation. **Commodity (derivatives) exchanges notably have a unique position to connect the real economy and financial markets by offering effective de-risking instruments as described in the previous questions and developing innovative financing mechanisms to accelerate and scale up sustainable investment.**

Notably, liquid power derivatives markets are used by producers to hedge their investment in renewable energy. They become able to hedge in a transparent way against the risk of future price changes, facilitating short to long-term portfolio optimization globally and access a large network of trading participants while reducing counterparty risk.

In this way, we offer power operators the possibility to, for example, hedge power purchase agreements they completed bilaterally, taking away risks stemming from price volatility and counterparty credit. These contracts provide long-term price stability required to obtain project financing from banks, for example. This process incentivizes developers to invest and source their capital into green power alternatives.

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?

We understand that in the long run, environmentally sustainable activities are more likely to prosper regarding risk assessment, given the implementation of additional policies to reach the EU's climate objectives. Market participants can use ESG factors to assess potential risks of investments, if their environmental performance is materially diverging from ESG criteria. However, prudential regulation should not be used to merely stimulate certain market behaviour. EEX believes prudential regulation should be risk based. **We support evidence-based assessment of including (ESG) measures to align a risk-based prudential regulatory framework to the market changes and for example risks of stranded assets**.