
Press release

AFME comments on Commission's HLEG final report on sustainable finance

31 January 2018

Commenting on the publication of the European Commission's HLEG final report on sustainable finance today, Simon Lewis, Chief Executive at AFME said:

"The HLEG's final report on sustainable finance is a big step in the right direction. The recommendations in the report will help to encourage the financial sector's contribution to sustainable and inclusive growth. It is crucial that capital markets are geared towards ensuring social and environmental sustainability and we look forward to working with the European institutions to take forward those areas of the HLEG report requiring further discussion and analysis."

On specific issues in the report:

Taxonomy: AFME welcomes the proposed creation of the Sustainable Taxonomy Technical Working Committee and consultation process, but would strongly recommend the Committee to include a strong governance structure with key objectives and a timeline. Such work should also be consulted by a wide range of industry participants.

Disclosure rules: AFME supports the recommendations taken by the HLEG on disclosure rules with voluntary disclosures but avoiding premature standardisation. Better voluntary disclosures should be focused on materiality, to improve investment decisions through the industry-led FSB TCFD work and the Non-Financial Reporting Directive. We are supportive of the HLEG approach to align any proposal at international level.

Green supporting factor: AFME supports the development of sustainable finance in Europe and is reviewing the merits of a green supporting factor. A green supporting factor provides a clear incentive for institutions and may lead to quick change, but it should be recognised that capital requirements are there to mitigate risk and green investments could also contain risks that may then not be fully represented in capital requirements. Even where there is strong support for immediate implementation of a green supporting factor, there should be recognition that further work is needed in the EU to allow effective implementation, such as the need to develop a clear EU definition of green assets and a clear taxonomy.

ESA review: AFME supports the HLEG's view of building expertise at the level of the European Supervisory Authorities (ESAs). Our members support further research and cost-benefit analysis on how Environmental, Social and Governance (ESG) considerations - including climate change - can be integrated into various potential initiatives, such as data gathering. Banks are actively engaged in sustainability initiatives and would welcome further engagement with policymakers on sustainable finance. Such involvement from the industry would help wholesale financial participants inform supervisors about current market approaches to assessing risks associated with climate change, social and governance issues.

Sell-side Research: AFME does not agree with the HLEG's general commentary on the production of research by investment banks. Specifically, AFME disagrees with the view that sell-side analysts do not consider ESG criteria when preparing research. Many AFME members have ESG- or climate change-specific analyst teams with many years of experience required to assess the materiality of ESG-related risks to a sector or security. Although there is no industry-level best practice on the inclusion of ESG criteria, many firms use their in-house frameworks to integrate such criteria in their research. With respect to the reference to potential conflicts of

interest AFME members have robust procedures in place to protect the independence of their analysts. The general question of the use of ESG criteria and the horizon under review by analysts has no connection with the issue of independence.

Sustainable Infrastructure Europe facility: We welcome the HLEG's recommendation to expand the EIAH remit to include sustainability considerations and increase its footprint by including regional offices. The creation of a separate dedicated organisation would, however, overlap and potentially conflict with the EIAH.

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About AFME:

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu.

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