



## FESE Position on Sustainable Finance - Taxonomy Proposal

Brussels, 4<sup>th</sup> March 2019

### Introductory remarks

The Federation of European Securities Exchanges (FESE) represents 35 exchanges in equities, bonds, derivatives and commodities through 19 Full Members from 30 countries, as well as 1 Affiliate Member and 1 Observer Member.

FESE is a keen defender of the Internal Market and many of its members have become multi-jurisdictional exchanges, providing market access across multiple investor communities. FESE represents public Regulated Markets. Regulated Markets provide both institutional and retail investors with transparent and neutral price-formation. Securities admitted to trading on our markets have to comply with stringent initial and ongoing disclosure requirements and accounting and auditing standards imposed by EU laws.

FESE members organise markets dedicated to sustainable finance and offer products that contribute to sustainable development, facilitate management of climate risk and incorporate carbon reduction in investment strategies, as well as allow the tracking of sustainable companies' performance. Moreover, FESE members actively engage in the UN Sustainable Stock Exchanges initiative to promote sustainable capital markets, through which companies are encouraged to perform greater disclosures of relevant ESG issues.

FESE fully supports the **Commission's Sustainable Finance proposals** aimed at reorienting capital flows to sustainable investments and managing financial risk related to climate change, as well as fostering transparency and long-termism in financial and economic activity. These initiatives include:

- The proposal for a regulation on the establishment of a framework to facilitate sustainable investment, also defined as the taxonomy regulation proposal (the **Taxonomy Proposal**);
- The proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive EU 2016/2341 (the **Disclosure Proposal**);
- The proposal for a regulation amending regulation EU 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks (the **Benchmarks Proposal**).

This paper outlines FESE's position on the **Commission's Taxonomy Proposal**.

### High-Level Positions on the Taxonomy

FESE supports the creation of a taxonomy as this will favour both comparability and transparency by providing clarity on the activities that can be considered sustainable and, based on this, facilitating the determination of the degree to which assets are sustainable. A clearly defined taxonomy is a necessary starting point for other actions, such as standards and labels.

Moreover, defining sustainable activities as opposed to basing the assessment on types of companies or assets is important as it will enable a differentiation based on activities carried out by companies and will not favour any asset class over another. Activities should include planned activities and respective achievements linked to those planned activities. In line

with the Commission's objectives, the taxonomy should be applied only to financial products labelled or marketed as sustainable and to financial market participants offering these products.

FESE supports the ongoing work of the Technical Experts Group and the useful expertise they are providing to the regulators. We believe that basing the technical screening criteria on conclusive scientific evidence should ensure that the EU Taxonomy is defined by streamlining and enhancing existing international frameworks (including the Global Reporting Initiative, the UN Global Compact and the TCFD-recommendations), as well as national frameworks and that the creation of a new parallel taxonomy is avoided. The intention to make the taxonomy proportionate to the scale of the economic activity is also very welcome.

### **Issues with Scope - Investee Companies / Issuers**

In supporting the objective of the Regulation to establish the criteria for determining whether an economic activity is environmentally sustainable for the purposes of establishing the degree of environmental sustainability of an investment, it is clear that the scope should logically be limited to financial market participants<sup>1</sup>.

However, we are concerned by amendments tabled in the European Parliament to extend the scope of financial market participants to issuers under the Prospectus Directive<sup>2</sup>. In radically extending the scope of the proposal, it is unclear to us how some of the central provisions in the text would be applied to such companies, in particular, the obligations in Article 4 covering the use of the criteria for environmentally sustainable economic activities.

These provisions are clearly designed for financial market participants offering financial products as environmentally sustainable investments: they cannot be applied to companies themselves. Companies should provide the information required for financial intermediaries to make assessments and decisions but should not be required themselves to assess the risk.

In contrast, FESE does support the overall objective to strengthen sustainability-related disclosures by investee companies. However, this should be enacted via the proposal for a Regulation on Disclosure and does not require an extension of scope to issuers within the Taxonomy proposal.

### **Standards and Labels for Green Financial Products**

The Action Plan indicates that the Technical Expert Group will prepare a report on an EU green bond standard and that the Commission will specify content of green bond prospectuses by 2019. The Commission will also explore the use of the EU Ecolabel framework for certain financial products, once the taxonomy is adopted.

FESE considers that defining standards, labels and classifications will be critical as it would bring about three pivotal changes:

- 1) Encourage more rigorous disclosure/reporting to meet clearly defined expectations;
- 2) Improve readability and comparability of performance;

---

<sup>1</sup> As per Article 2(1) of the Disclosure Regulation (COM(2018) 354), these are: insurance undertakings, venture capital funds social, entrepreneurship funds and UCITS.

<sup>2</sup> Amendments 293 and 298.

### 3) Reward high performers and thereby incentivising change.

These high performers could be identified based on planned and executed activities, in accordance with the taxonomy.

The green bond space can be seen in this light, where market standards have in recent years developed and could now benefit from further strengthening by recommendations or some level of regulation.

Should the Prospectus Regulation be modified to impose additional requirements on green bond issuers, FESE considers that consideration should be given to ways of incentivising green bond issuance, for instance by introducing a waiver of the external review requirement or by making the prudential regulation associated with green bonds more attractive.

The Federation of European Securities Exchanges (FESE) represents 35 exchanges in equities, bonds, derivatives and commodities through 19 Full Members from 30 countries, as well as 1 Affiliate Member and 1 Observer Member.

At the end of January 2019, FESE members had 8,648 companies listed on their markets, of which 13% are foreign companies contributing towards the European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access the capital markets; 1,341 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union.