

# OSSERVATORIO ESG

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The EU's [Action Plan: Financing Sustainable Growth](#) (3/2018) seeks to clarify the duties of financial institutions to provide their clients with clear advice on the social and environmental risks and opportunities linked to their investments. The aim is to shift capital flows away from activities that have negative social and environmental consequences and direct finance towards economic activities that have genuine long-term benefits for society.

## FEEDBACK REGARDS THE SUSTAINABILITY RISKS AND FACTORS TO BE TAKEN INTO ACCOUNT FOR UCITS

Aiaf has actively participated to the EU invitation to give a feedback on the [EU amendment](#) of the Directive on Sustainable finance – an obligation for mutual funds to advise clients on social & environmental aspects regarding the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS) – deadline 6 July 2020. This document is based also on the

ESMA's technical advice to the European Commission on integrating sustainability risks and factors in the UCITS Directive and AIFMD (30 April 2019 [ESMA34-45-688](#)). Our main considerations are presented below.

Currently are open six feedback requests about the following Directive UCITS, MiFID II, IDD, Solvency II and AIFM.

DIRECTIVE	LINK	DESCRIPTION
1 <b>Directive UCITS</b>	<a href="https://bit.ly/3foj6ev">https://bit.ly/3foj6ev</a>	Sustainable finance – obligation for mutual funds to advise clients on social & environmental aspects
2 <b>Directive MiFID II</b>	<a href="https://bit.ly/3dQMLwd">https://bit.ly/3dQMLwd</a> <a href="https://bit.ly/3dSMWam">https://bit.ly/3dSMWam</a>	<ul style="list-style-type: none"><li>• Sustainable finance – obligation on investment funds to advise clients on social &amp; environmental aspects</li><li>• Sustainable finance – obligation for investment firms to advise clients on social and environmental aspects of financial products</li></ul>
3 <b>Directive IDD</b>	<a href="https://bit.ly/2MO1QTG">https://bit.ly/2MO1QTG</a>	Sustainable finance – obligation for insurance firms & brokers to advise clients on social & environmental aspects
4 <b>Directive Solvency II</b>	<a href="https://bit.ly/2BY0Hqt">https://bit.ly/2BY0Hqt</a>	Sustainable finance – obligation for (re)insurance companies to advise clients on social & environmental aspects
5 <b>Directive AIFM</b>	<a href="https://bit.ly/3hj94wH">https://bit.ly/3hj94wH</a>	Sustainable finance – obligation for alternative investment funds to advise clients on social & environmental aspects

### 1. Alignment with the Commission legislative proposals on Sustainable Finance

We hold necessary to perform a common review of the terminology of the final legislative acts about UCITS Directive connected to the other Directives AIFM, MiFID II, IDD and Solvency II in order to ensure consistency amongst the various legislative proposals on Sustainable Finance.

### 2. Shared terminology for all amendments

All these amendments refer directly to [Regulation \(EU\) 2019/2088](#) of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector whose objective is to lay down harmonized rules for financial market participants and financial advisers on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the

provision of sustainability-related information with respect to financial products.

All the amendments should be considered jointly as they refer to common sustainability issues.

The relevant concepts and terms should be more clearly defined, in particular the notions of “sustainability risks” and “sustainability factors” and we, hereby, underline the importance of having a shared terminology of relevant terms in order for market participants to comprehend the proposed amendments impact avoiding possible misunderstandings between clients and investment firms/funds.

### 3. Clear and precise assessment of sustainability risks and factors

Authorized entities' due diligence processes are most effective when assess sustainability both in relation to *i*) risks of a decrease in the performance for the investment portfolios

due to sustainability-related causes and *ii*) the potential long-term impact of the investee companies business activities on sustainability factors.

In order to define Sustainability risks and factors, it is necessary to define precise risk assessment procedures which at present are not sufficiently treated. The [Guide on climate-related and environmental risks](#) prepared by the ECB for the management of climate-related risk could be useful.

#### 4. Skills and company structures to manage the integration of sustainability

- The integration of sustainability risks and factors should be part of a clear definition of roles and responsibilities within a firm.
- Reference should be made to a list of sustainability factors shared and harmonized with all the new regulations.
- Minimum functions to be performed: for integration of sustainability risks and factors could be sufficient to ensure that Senior Management (collectively) is responsible for the integration of sustainability risks or an authorized entity (collectively) that has the skills, knowledge and expertise to manage sustainability risks without the need to necessarily designate a specific employee as responsible with all relevant tasks,
- Companies are required to employ personnel with skills, knowledge and expertise necessary for the responsibilities allocated to them,
- Having shared procedures and definitions, at least to a minimum level, helps to strengthen market practices, avoid greenwashing practices and is useful to make financial products comparable.

#### 5. Integration of sustainability in so-called fiduciary duties requirements

Related to the topic of sustainability risks, financial market participants should:

- define the investment strategy,
- where relevant, identify a proper asset allocation which clarifies how clients' money is allocated in accordance with the investment strategy,
- undertake proper due diligence in the selection and monitoring of investments, and
- ensure that the portfolios remain in line with the investment strategy and, where relevant, the asset allocation, while integrating sustainability risks.

Similarly, the topic of sustainability factors is too generic as in the Regulation (EU) 2019/2088 it is indicated only that it refers to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Therefore, it is considered important to have much more detailed information.

A precise definition of sustainability risks and factors allows to clearly specify which requirements for management companies as regards the integration of sustainability risks and sustainability factors must be followed:

- what is required to integrate?
- at what stage of the investment process?
- how should the integration take place?

#### 6. EU Taxonomy of eco-compatible activities

EU needs a common and clear set of definitions and classifications to determine which are the ESG compatible (or not compatible) economic activities.

Only a clear and concise taxonomy that is built on a harmonized list of sustainability indicators, designed by experts, provides for a stable regulatory system which in turn is of utmost importance to foster private sector involvement in sustainable finance and prevents harmful divergences, confusions and misconceptions.

With its large and diverse scope, a taxonomy for E, S and G cannot be left to self-regulation or “best practices”, but must be established through directly applicable, binding provisions at Union law level, in order to avoid diverging application of law.

It would be preferable to adopt clear and appropriate taxonomy and labels before investment firms, institutional investors and assets managers were requested to disclose how they integrate sustainability risks in the investment decision-making process or advisory process<sup>1</sup>.

The current lack of agreed definitions and labels at the EU level is a substantial shortcoming and seriously hampers the implementation of a harmonized approach on Sustainable Finance. However, it must not be considered an excuse for not making progress in order to incorporate sustainability risks and factors.

#### CONCLUSIONS

Considering the importance of the topic of Sustainable Finance as well as the fast evolution of market practices and the legislative framework, we hold very important to monitor the above topics very closely<sup>2</sup>.

<sup>1</sup> The European Parliament has approved on June 18, 2020 the Regulation (EU) 2020/852 on the Taxonomy of eco-compatible activities and the law entered into force 20 days after the publication in the Official Journal of the European Union, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=de>

<sup>2</sup> European commission, Sustainable Finance, “*The EU is examining how to integrate sustainability considerations into its financial policy framework in order to mobilize finance for sustainable growth*”, [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en)