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Position Paper of the European Association Public Banks (EAPB):

On the ECON Draft Report on disclosures relating to sustainable investments and sustainability risks tabled on 2 August 2018

I. General comments

With this Position Paper, the EAPB would like to briefly comment on the Draft Report on the proposal for the Regulation on **disclosures relating to sustainable investments and sustainability risks 2018/0179(COD)** tabled by Mr. Paul Tang MEP on 2 August 2018.

In principle we welcome that the **ESG criteria should apply to all market participants**. However, various new disclosure standards and requirements, as proposed, would only create additional administrative burden and imply significantly higher costs without benefits to customers, market participants, or tax payers. Moreover, it does not seem that the Draft Report and the legislative proposal take into account the entire regulatory framework already in place for financial institutions, such as MiFID II, PRIIPs, etc.

The Draft Report and the proposal for the regulation **lack clear and suitable definitions for critical terms** (i.e. sustainable risk, sustainable preferences): all the published papers use the wording **"sustainability risk"**, especially in connection with internal policies and procedures, risk hubs yet the market players still miss a suitable clear definition for this term.

We would like to once again urge that all definitions should be **consistent with other legal requirements** (executive director, credit institutions, due diligence, etc.), and that all new definitions concerning ESG should **be in line with ESMA proposal and be measurable**.

II. Specific comments on the Draft Report

Amendment 10

Extending the transparency rules on all financial products, not just the sustainable ones as proposed by the Commission, is perceived critically by our members. It remains unclear whether this requirement would be compatible with the functioning of the banking market and could only cover new contracts/investment launched after the entry into force of the Regulation.

Amendment 12

The Regulation as such must take into account the specificities and business models of bank if credit institutions shall be included in the scope as proposed by the Rapporteur. Extending the scope of the regulation on disclosures relating to sustainable investments and sustainable risks to credit institutions without reflecting its characteristics is not appropriate.

Credit institutions are already regulated and supervised. According to the recent banking package adopted by the ECON Committee, large banks should report on environmental, social and governance risks. The European Banking Authority must also examine how these risks shall be taken into account in the risk management of European banks. With regard to

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consistency within the Single Rulebook, ESG risks for banks should not be regulated by different approaches.

Amendment 20

Furthermore, for the financial industry it would be very difficult to deal with all the listed criteria mentioned by the Rapporteur in this amendment. These would necessarily lead to an effective emptiness of these targets with symbolic relevance only, which is certainly not the purpose of the legislative proposal.

All the ESG criteria listed should therefore only be taken into account according to the relevance in respect to the underlying investment. The user of these criteria should choose which ones are relevant and measurable for the purpose without having to analyze, for example, a contribution of an energy efficiency project to sustainable waste management or HIV prevention.

Amendment 22

The EAPB members doubt that the proposed amendment could be easily implemented in an actual organizational structure of insurance intermediaries. Again, a definition and instructions on how to handle a sustainability risk are missing. Importantly, it does not seem that the draft proposal takes into account the entire regulatory framework already in place for financial institutions (particularly PRIIPs and MiFID II.).

Amendments 5 + 32

Setting out the sustainable investment targets at a minimum of 50 % for executive directors, when establishing performance measurement criteria in view of determining variable remuneration, is non-proportionate and unsuitable for credit institutions. There are already very detailed provisions related to performance targets (MiFID and EBA measures on qualitative and quantitative criteria, considering risk related behavior, customer satisfaction, avoiding conflicts of interests, etc.). Putting a specific percentage into a regulation as suggested by the Rapporteur represents a "one size fits all" approach. It should be in the sole discretion of the entity how these targets influence the variable remuneration.

The wording of the Commission proposal to which the Rapporteur amendments are related to *"remuneration policies are consistent with the integration of sustainability risks and are in line, where relevant, with the sustainable investments targets of the financial products advised on"* (recital 5) seems sufficient.

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