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AMAFI Position Paper

EU Sustainable Finance policies: enabling the ecological transition of EU economies and societies

The Paris Agreement and the elaboration of the United Nations Sustainable Development Goals in 2015 have played a pivotal role in putting climate change mitigation as a top priority both for the public and for the private sectors. **AMAFI has always paid a close attention to the role financial markets should play** for the economy and society, and welcomed the ambitious Sustainable Finance Action Plan published by the European Commission (EC) in March 2018. Reflecting on the activities of our members, we decided to focus its engagement on two specific actions: **(i) the creation of an EU taxonomy for sustainable activities** and **(ii) the integration of sustainability criteria in MiFID II.**

As a general principle, AMAFI would like to highlight that beyond the practical implications these reforms would have for the industry, and precisely because of the importance of sustainability and climate stakes, the transition has to be envisaged as a progressive process. Indeed, fulfilling these objectives will require drastic changes in investors' behaviours and practices, which can only be achieved through an orderly, medium-term approach.

Overall, we are highly supportive of the EC's goals to reorient capital flows towards sustainable investment, to manage financial risks stemming from climate change and to foster transparency and long-termism in financial and economic activities. With this in mind, we would like to emphasize the following points we consider key in order for the two specific actions to deliver on their objectives.

1. Building-up an EU taxonomy to facilitate the climate transition

Generally speaking, AMAFI is very supportive of the creation of an EU taxonomy to promote sustainable activities and practices. We consider it should play a central role in facilitating climate transition by enabling investors funding companies operating sustainable activities and/or with sustainable practices to get more certainty around the level of sustainability of their investments. The EU taxonomy could on these grounds become the reference for all types of environmentally sustainable investment products distributed in the EU in order to avoid greenwashing, addressing environmental issues first. The proposed taxonomy should cover both activities and companies' sustainable practices as well as transition strategy which are legitimate and instrumental considerations for ESG investors.

With regards to the regulatory framework, we believe it should remain flexible enough to include future innovations, in particular in the field of energy transition. Typically, legislators should be able to update the taxonomy before the planned review of the level 1 text.

Looking at the scope, taxonomy should be envisaged as a tool enabling comparability of financial products.

We also consider that **the building-up of an EU taxonomy should be progressive and at first focus on environmental issues, before considering its extension to social issues.**

AMAFI ■ 13, rue Auber ■ 75009 Paris ■ France
Phone : +33 1 53 83 00 70 ■ Fax : +33 1 53 83 00 83 ■ http://www.amafi.fr ■ E-mail : info@amafi.fr

We strongly recommend including carbon intensive sectors in the scope in order to capture the transition of activities that are not considered as being sustainable (so-called “brown activities”) and decarbonisation strategy of companies within those sectors. Our clients’ efforts to transition their activities towards increased sustainability shall be taken into account and defining only activities that are considered “green” today is not enough. However, the associated obligations should be designed carefully.

2. ESG criteria should be principle based and subject to a minimum 18month implementation period

Generally speaking, **AMAFI is very supportive of ESMA’s proposal of a principle-based approach for the integration of ESG factors into the product governance and investment advice processes**. Nevertheless, the Association would like to underline it is important to avoid being over-prescriptive on such a forward-looking topic given the industry has not yet reached maturity on ESG issues.

AMAFI estimates that the implementation schedule of ESG requirements should be carefully considered. We would like to stress that both ESMA and the EC should give a sufficient and reasonable period of time to apply these new requirements which should result in an implementation period of at least 18 months. This would enable investment firms to:

- **adapt their internal processes and client’s communication** to integrate ESG preferences;
- **take into account those changes in exchanges between manufacturers and distributors,** especially and in particular on the way to determine whether a financial product could be considered as ESG.

Another critical issue is the need for flexibility to enable investment firms to take into account ESG considerations. They should have enough flexibility to determine the ESG considerations of the clients as well as for identifying ESG features of products. Timely completion of the EU taxonomy will be essential, in particular for assessing environmental features.

Finally, **AMAFI** considers that the availability of exploitable ESG data from underlying issuers appears as a necessary pre-condition in order to identify environmental, social and governance criteria separately. These criteria play a central role in investors’ capital allocation decisions. While there are already multiple reliable ESG data providers and we see good progresses in corporate companies ESG reporting, exploitable ESG data is still missing on a wide array of issuers’ activities and/or behaviours.

About AMAFI

Association française des marchés financiers (AMAFI) *is the trade organisation working at national, European and international levels to represent financial market participants in France. It acts on behalf of credit institutions, investment firms and trading and post-trade infrastructures, regardless of where they operate or where their clients or counterparties are located. AMAFI’s members operate for their own account or for clients in different segments, particularly organised and over-the-counter markets for equities, fixed-income products and derivatives, including commodities. Nearly one-third of members are subsidiaries or branches of non-French institutions.*