UNEP FI

Consultation Response

European Commission - Consultation on the Renewed Sustainable Finance Strategy

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About UNEP FI

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 300 members – banks, insurers, and investors—and over 100 supporting institutions—to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

UNEP FI supports global finance sector principles to catalyse integration of sustainability into financial market practice. The frameworks UNEP FI has established or co-created include:

- Principles for Responsible Banking (PRB) launched in September 2019 and now supported by more than 180 banks collectively holding USD 53 trillion in assets, or over one third of the global banking sector.
- Principles for Positive Impact Finance released in January 2017, applicable across the investment chain.
- Principles for Sustainable Insurance (PSI), established 2012 by UNEP FI and today applied by one-quarter of the world's insurers (25% of world premium);
- Principles for Responsible Investment (PRI), established in 2006 by UNEP FI and the UN Global Compact, now applied by half the world's institutional investors (USD 83 trillion).

These frameworks establish the norms for sustainable finance, providing the basis for standard-setting and helping to ensure private finance fulfils its potential role in contributing to achieving the 2030 Agenda for Sustainable Development and Paris Agreement on Climate Change agreed by governments around the world in 2015. They are underpinned by a series of UNEP FI initiatives that provide practical support to enable the finance sector to play this role.

Sounding board

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Our submission

UNEP FI supports the European Commission's proposals, both in terms of the direction being taken and in terms of the specific proposals that are being made for the Renewed Sustainable Finance Strategy. In particular, we would like to express our support for:

- Raising the bar and emphasis on sustainability impacts. Within the next decade, assessing and managing the sustainability impact needs to be a core part of how finance institutions provide capital to the real economy.
- The broadening of the Commission's focus from climate change to a more holistic approach to sustainability, encompassing the full range of positive and negative social, economic and environmental impacts. Finance should align its practices, strategies and capital allocation with the net-zero carbon objective, with the net gain of biodiversity objective and with the realization of the Sustainable Development Goals.
- The explicit focus on the banking sector, given the sector's critical role in supporting the transition to the low carbon economy and the transition towards more sustainable business models. UNEP FI is supportive of a coherent regulatory framework that incentivizes and promotes the integration of impact in financial decision-making and also that influences the shaping of business models and strategies that have the ability to navigate and achieve the transition.

We are writing this response as the devastating impacts of Covid-19 are becoming clearer, with governments taking unprecedented steps to save lives and livelihoods. Covid-19 has made visible the interconnected nature of social, environmental and economic issues. It has made evident the need for an economy in which the financial industry and the private sector more broadly, fully understand how they interrelate and integrate these issues into their business strategies. The case for impact analysis and management has never been clearer. As attention turns to planning for the recovery and to preventing future outbreaks, we see that the interconnectedness between economic, environmental and social issues offers an opportunity. While they can be a source of risk, they can also be used and leveraged to create both financial and societal value when business models can be designed and reinvented to address multiple needs and to lessen the burden on consumers and governments alike. There is a unique opportunity for the European Commission to demonstrate its leadership and commitment to the New Green Deal, by encouraging holistic impact analysis and management, by setting the right sustainability targets and by establishing a coherent and clear regulatory direction for the finance industry to support sustainable recovery efforts.

We see a unique opportunity for the European Commission to align the recovery efforts with the goals of sustainable development. We believe that recovery plans—both at the European level and at the level of individual countries—must be explicitly designed to be consistent with the 2030 Agenda for Sustainable Development, with the goals of the Paris Agreement and with the EU's own net zero ambitions. We encourage the Commission to work not only with the finance industry, but also with governments, and businesses around the world to encourage and support them to align their recovery strategies with these goals.

Our submission concentrates on 14 questions across 5 themes as follows:

1. The importance of taking a holistic impact approach, which focuses on the interlinkages between environmental, social and economic factors and the finance value chain (our responses to Questions 6, 8, 52, 82, 83, 89 and 90 focus on this theme).
2. Climate change (Question 10 specifically).
3. Biodiversity and ecosystems (Question 11).
4. The importance of harmonized and consistent disclosures across the value chain (Question 14).
5. The importance of mainstreaming both risk and impact management, in Europe and globally (Questions 60, 77, 91 and 102).

For each of these questions we have positive and supportive responses. These are areas where UNEP FI has been to the forefront of efforts to develop tools and methods for the finance sector, to develop policy advice and recommendations to governments, and to convene the finance sector (banks, investors, insurance companies) to take concrete actions to deliver the 2030 Agenda for Sustainable Development and the goals of the Paris Agreement.

To the extent possible we have made available a list of reports, material and tools. We would be delighted to share our expertise with the Commission and to lend our support and resources to developing and implementing the Renewed Sustainable Finance Strategy.

Finally, we commend the Commission for this consultation. We are supportive of a bold and ambitious plan that builds on finance sector's leadership and action. We believe that future generations will depend on its success.

Should you wish to discuss any aspect of this submission in more detail, please contact Elodie Feller, Investment Programme Lead, UNEP FI at Elodie.Feller@un.org and Careen Abb, Positive Impact Finance Lead, UNEP FI at Careen.Abb@un.org.

Summary of our responses

Question No	Question	Our response
Cross-cutting		
6	What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years?	▪ We encourage the Commission to adopt a fully integrated and holistic approach to sustainability impact: to establish a coherent regulatory framework that incentivizes and mandates the integration of impact in business and financial decision-making holistically across all sectors for an economy that can deliver on people's needs within planetary boundaries. ▪ We encourage the Commission to establish a coordinated approach to measuring, assessing and reporting on impact globally, across public and private finance. ▪ We encourage the Commission to focus on business models and transition pathways in the real economy. ▪ We encourage the Commission to recognise the central importance of banks and the banking sector to the renewed Sustainable Finance Strategy and to adopt an integrated and common approach across the finance sector as a whole. ▪ We encourage the Commission to improve the effectiveness of joint work between public institutions and private markets in the wake of the Covid-19 crisis.
Taking a holistic impact approach, which focuses on the interlinkages between environmental, social and economic factors and the finance value chain		
8	How could the EU ensure that the financial tools developed to increase sustainable investment flows and manage climate and environmental risks have, to the extent possible, [the intended impact and/or] no or limited negative socio-economic impacts?	**Business and finance can be deemed 'positive impact business/finance' only once negative impacts to any of the three pillars of sustainable development have been duly identified, avoided, mitigated or compensated.** We recommend the Commission extends the Do No Significant Harm approach to (a) include socio-economic indicators, (b) include requirements to act on potential harms, and (c) promote impact-based and results-oriented engagement practices of finance institutions with their clients/investee companies.

Question No	Question	Our response
52	In your view, is it important to better **measure the impact of financial products on sustainability factors?**	**Yes, we believe that it is important to better measure, and manage, the impact of financial products on sustainability factors.** We recommend that requirements to measure impact should not be confined to products. Financial institutions should be encouraged and required to understand and manage their positive and negative impacts across their portfolios and in their engagement practices. We also recommend that the Commission strengthens its approach to disclosure and moves beyond the reporting of impacts, towards the actual management (integration) of these impacts. The UNEP FI Positive Impact Initiative has developed impact management methodologies and tools that we recommend for consideration by the Commission to promote common frameworks and standards for impact measurement. Finally, we recommend the Commission builds on existing networks and initiative to frame a common and shared understanding of sustainability impact.
82	In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called **"brown taxonomy"**) at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?	**Yes, we agree and support the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called "brown taxonomy") at EU level.** The taxonomy will support the transition from brown to green and, will provide a framework to guide the low carbon transition through clarifying which activities are not and cannot be brought in line with the goals of the Paris Agreement or with net-zero by 2050 trajectories. The brown taxonomy will also help address the single biggest challenge faced by banks in implementing the EU Taxonomy for banks: the gap and inconsistencies in the data made available by their clients. Beyond green or brown, we encourage the Commission to consider the broader spectrum of positive and negative impacts across portfolios, assets and clients.
83	Beyond a sustainable and a brown taxonomy, do you see the need for a **taxonomy which would cover all other economic activities** that lie in between the two ends of the spectrum, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?	**Yes, we see the need for a taxonomy which would cover all other economic activities.** We see this is as completing the framework started by the green (sustainable) taxonomy and which will be supplemented by the brown taxonomy (see Question 82). We stress that this broader taxonomy should not only cover all economic sectors and activities but also map positive and negative impacts across all impact areas. As a tool, the taxonomy should function as an all-encompassing mapping, with the green and brown taxonomies nested as sub-sets of the broader mapping. In supporting this proposal, we acknowledge the complexity of developing criteria across all sectors, impact areas and economic activities and we recognise that this may take time to develop. We encourage the Commission to consider work started by UNEP FI's Positive Impact Initiative, the Principles for Responsible Investment as well as the work of the Impact Management Project Structured Network.

Question No	Question	Our response
89	Beyond prudential regulation, do you consider that the EU should take further action to mobilise **banks to finance the transition and manage climate-related and environmental risks?**	**Yes, by virtue of their central role in the economy and their close relationship with the real economy (and even more so in emerging markets), banks should be a core part of any conversation or plan to finance the transition and manage climate-related and environmental risks.** In making this recommendation, we note that other sectors of the economy and other actors are also important, and that regulation, policies and incentives targeted at the banking sector need to complement regulation, policies and incentives targeted at the wider economy. The scope of this question should be extended beyond risk management to also include financing the SDGs. We suggest that the Commission builds its proposals on the framework provided by the UNEP FI Principles for Positive Impact Finance and subsequent UNEP FI Principles for Responsible Banking to which over 180 global banks are now signatories.
90	Beyond the possible general measures referred to in section 1.6, would more specific actions related to **banks' governance** foster the integration, the measurement and mitigation of sustainability risks **and impacts** into banks' activities?	**We recognise the central importance of banks and the banking sector to the Renewed Sustainable Finance Strategy, and welcome additional proposals from the Commission on how banks might be encouraged to better integrate, measure and mitigate sustainability risks and impacts into their activities.** In particular we welcome proposals related to the use of the EU Taxonomy in the assessment, measurement, management and reporting of sustainability impacts by banks. We think that these proposals will be more effective if they are integrated into a robust, overarching governance framework. To that end, we suggest that the Commission builds its proposals on the framework provided by the UNEP FI Principles for Responsible Banking.
Climate change		
10	Should institutional investors and credit institutions be **required to estimate and disclose which temperature scenario** their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?	**We strongly support this proposal, although we note that further work is required on methodology development, in parallel to introducing a mandatory requirement for institutional investors and credit institutions.** We recommend that the Commission identifies those measures and disclosures that can be introduced in the short term (these may include carbon footprinting and science-based targets), in parallel to the development of temperature scenarios. We note that tools and methodologies for assessing temperature scenarios and assessing alignment with such scenarios are currently being developed by a number of investor and banking networks (including UNEP FI's TCFD Pilots and the Net Zero Asset Owner Alliance), by various data and service providers and by individual institutional investors. We believe a robust and common methodology for assessing portfolio temperature scenarios could be developed within 2 years.

Question No	Question	Our response
Biodiversity		
11	Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss in particular on corporates who are dependent on ecosystem services, such as in sectors like agriculture, extractives, fisheries, forestry and construction. The importance of biodiversity and ecosystem services is already acknowledged in the EU Taxonomy. However, in light of the growing negative impact of biodiversity loss on companies' profitability and long-term prospects, as well as its strong connection with climate change, **do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?**	**Yes, we believe that the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss. Biodiversity and ecosystem services should be fully integrated, and prioritized, into the Commission's work on the EU taxonomy.** The key priorities for action include: ▪ Developing standards/frameworks/methodologies for the private sector to measure and report on biodiversity impact/performance/risk to ensure reliable, clear, efficient, internationally consistent and decision-useful information is available to lenders, insurers and investors for environment-related risk management, disclosure and inclusion in ESG integration. ▪ Financing for biodiversity should focus on (a) no net loss and even net gain of biodiversity through financing of economic activities in key sectors such as agriculture and mining; (b) mobilise financing for nature-based solutions including a focus on mitigating land-based emissions, ecosystem-based restoration and climate adaptation; (c) resilience of ecosystem services such as freshwater and food. ▪ Extending the EU's sustainable finance agenda to cover ocean and marine-based ecosystems, as well as land and water-based ecosystems. ▪ Requiring financial institutions to: incorporate biodiversity in their strategies; incorporate target-setting in their plans for implementing actions to address environmental issues and contributing towards global goals; assess their exposure to priority sectors—these include agriculture, electricity production and distribution, oil and gas, and mining - where dependencies and/or impacts on biodiversity are high; evaluate opportunities to reduce negative impacts and enhance positive impacts on biodiversity through their activities, using goals such as net gain of biodiversity.

Question No	Question	Our response
Harmonized and consistent disclosures across the value chain		
14	In your opinion, should the EU take action to support the development of a **common, publicly accessible, free-of-cost environmental data space for companies' ESG information**, including data reported under the NFRD and other relevant ESG data?	**Yes, the EU should take action to support the development of a common, publicly accessible, free-of-cost environmental data space for the ESG information that is reported on a mandatory basis. The EU should also continue with its efforts (e.g. through the Non-Financial Reporting Directive) to develop common ESG reporting standards.** Such a data space would address one of the key challenges in environmental policy which is the fragmentation and the format of current reporting and disclosures. This should help address issues around data quality and reliability through the provision of standards, protocols or other form of guidance to ensure the quality and reliability of data disclosed. Creating such a data space should be seen as part of a wider discussion around the consistency and comparability of sustainability reporting more generally. We believe that a common standard for sustainability-related disclosures is essential to achieve comparability, reliability and relevance. At present, the existence of multiple topic-specific frameworks is contributing to reporting burden, does not always encourage or facilitate a holistic understanding of sustainability issues and increases both the costs of report and the costs of achieving sustainability targets. Finally, we note that it should stress the importance of aligning forward-looking information and objectives (e.g. sustainability impact performance, sustainability targets, forward-looking assessments of emissions, resource consumption and impacts).

Question No	Question	Our response
Mainstreaming risk management and impact assessment and management, within Europe and globally		
60	What do you consider to be the key market and key regulatory obstacles that prevent an increase in the pipeline of sustainable projects? Please list a maximum three for each.	**We recommend that the Commission focusses on business strategy and takes measures to mainstream holistic impact analysis across the investment chain.** Of many of the possible solutions to increasing the product pipeline, the UNEP FI Positive Impact Initiative considers that social, economic and environmental impacts have an as-yet under explored potential to generate financial revenues: impact-based business models should be further promoted and developed, to ensure the delivery of positive impacts as a driver of sustainable business growth and long term enterprise value.
77	What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs? Please list a maximum of three proposals.	We recommend that the Commission: **1** Provides—in addition to its ongoing work on the EU Taxonomy—a higher level and live mapping of impact areas to company/organisation types, sectors and geographies that explicitly defines sustainability topics ('impact areas') across the three pillars of sustainable development (economic, environmental and social) so as to create a common language across the investment chain. **2** Broadens the focus of policymaking and implementation to consider the wider influences on and drivers of business models and transition pathways. **3** Leverages the strategic range of partners to connect the Commission's policy work with the financial sector.
91	Do you see merits in adapting rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability (negative externalities)?	**Yes. We support adapting rules on fiduciary duties to facilitate the explicit integration of sustainability impact in investment decisions. Within the next decade, assessing and managing the sustainability impact of investment decision-making needs to be a core part of investment activity.** We believe that the policy and regulatory framework in the EU currently is insufficient, lacks clarity in order to encourage and/or mandate investors to integrate sustainability impacts into their investment decisions. We believe it requires: **1** A permissive and clear legal environment to invest for sustainability impact; **2** A supportive and coherent regulatory framework that requires investment institutions to assess, measure and manage the sustainability impact of their investment decisions.

Question No	Question	Our response
102	In your view, should investors and / or credit institutions, when they provide financing, be required to carry out an assessment of the potential long-term environmental and climate risks on the project, economic activity, or other assets?	**Yes, in our view, investors and credit institutions, when they provide financing should be required to carry out an assessment of the potential long-term environmental and climate risks on the project, economic activity, or other assets.** In addition, we recommend that: ▪ Banks carry out a periodic (annual) impact analysis of their entire portfolio and, based on that analysis, set targets and KPIs to improve their key impacts. ▪ Banks be required to carry out a more detailed assessments for large transactions, for large projects and for significant clients to ensure their activities, their businesses and their strategies are aligned with climate and other key sustainability goals. ▪ The fiduciary duties of investors be adapted to require them to incorporate sustainability-related risks into their investment analysis and decision-making processes, consistent with their investment time horizons. ▪ Investors be required to understand and manage their positive and negative impacts across their portfolios since this is in the best interest of all stakeholders, public and private.

Detailed responses

Question 6	Topic: All
What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years?	

1. **Currently, sustainability issues are predominantly managed in a topic-by-topic and siloed approach. The EC should adopt a fully integrated and holistic approach to sustainability impact.** The realisation of the goals of the Sustainable Finance Strategy requires that:

   a. Green, brown and other taxonomies are treated as an integrated group, not as stand-alone elements, and should cut across all economic sectors and activities. This requirement acknowledges that, while not all financial products/instruments have the same ability to allocate capital to sustainable projects and activities, they are all associated with positive and negative impacts. Environmental and social aspects are treated as integral and interrelated aspects of sustainability, not as discrete, stand-alone elements.

   b. The assessment of impact includes consideration of the direct, the indirect and the cumulative impacts on social and environmental aspects, both within the EU and beyond, and should consider the time-horizons (i.e. short, medium and long-term implications of the actions being taken).

2. **There is currently a wide range of standards, methodologies, indicators and metrics available to manage sustainability issues, with no unified understanding of what impact management is. The EC should build a coordinated approach to managing impact, across public and private finance.** This will reduce the transaction costs associated with measuring and reporting on performance and ensure greater consistency and comparability in how the information is reported. This, in turn, will provide stakeholders and regulators with better information, enabling them to both scrutinise the financial sector's performance and to work with the sector to strengthen its resilience and its sustainability.

3. **Much focus remains at the level of financial products and on individual projects or assets, whereas achieving the SDGs requires structural changes in the economy and strategic adjustments to business models. The EC should ensure that the focus is on business models and transition pathways in the real economy.** There is a risk that the Commission's proposals will be interpreted as requiring more reporting and disclosure rather than actual change in the real economy.

4. **The regulatory framework in the EU currently is insufficient: it lacks sufficient clarity to encourage and/or mandate finance institutions to integrate sustainability impacts into their investment decisions. The EC should establish a coherent regulatory framework that incentivizes and mandates the integration of impact in business and financial decision-making holistically across all sectors of the economy.**

5. **The EC should recognise the central importance of banks and the banking sector to the renewed Sustainable Finance Strategy and adopt an integrated and common approach across the finance sector as a whole.** The critical role of banks in financing green investment and in supporting the transition of business models in the real economy towards the SDGs is not given enough explicit emphasis in the consultation. We suggest that the Commission builds its proposals on the framework provided by the Positive Impact Initiative,[1] which provides a common framework for financing the SDGs, and the Principles for Responsible Banking[2] which set the right level of ambition for the sector.

6. **Improve effectiveness of joint work between public institutions and private markets** to build back better and sustainably in the wake of the Covid-19 crisis. Unless impact analysis is brought to the heart of both public and private financial planning, the cost of post-Covid-19 rebuilding and addressing the SDGs will not be manageable and economies and societies will grow increasingly vulnerable.

1 unepfi.org/positive-impact/positive-impact/
2 unepfi.org/banking/bankingprinciples/

1. Holistic impact approach needed: focus on interlinkages between environmental, social and economic, across the finance value chain.

Question 8	Topic: Impact
How could the EU ensure that the financial tools developed to increase sustainable investment flows and manage climate and environmental risks have, to the extent possible, [the intended impact and/or] no or limited negative socio-economic impacts?	

All activities have both positive and negative impacts. As set out in the UNEP FI Principles for Positive Impact Finance,[3] we believe that business and finance can be deemed 'positive impact business/finance' only once negative impacts on any of the three pillars of sustainable development (economic, environmental and social) have been duly identified, avoided, mitigated or compensated. We note that UNEP FI Member Banks are further encouraged to perform a holistic impact analysis via the Principles for Responsible Banking.[4]

We commend the Commission for integrating a Do No Significant Harm approach into the methodological development of the EU Taxonomy. We believe that this requirement should (a) be extended: to include socio-economic indicators, (b) from disclosing to acting on potential harms (as per the Principles for Positive Impact Finance 'once negative impacts have been identified, avoided, mitigated or compensated'), and (c) beyond products and disclosure to promote impact-based and results-oriented engagement practices of finance institutions with their clients/investee companies. We note that such proposals should be proportionate to the size, scale and impact of the organisation, and that tailored approaches be adopted for SMEs.

This analysis should not be limited to the product level; banks and investors should also be encouraged to engage in a deeper collaboration with their clients/investee companies on impact management. More generally, that should enable finance institutions and their clients to identify the most significant impact areas, develop strategies for business model adaptations and transitions, and set impact goals in line with science-based policy objectives and regulations.

Methodologies and tools for holistic impact analysis are in development at the portfolio level and at the client/investee company level.[5] The tools and methodologies include:

- Impact mappings of positive and negative impacts associated with all industry activities as classified in ISIC (level 4, plus 50 sectors/activities not covered by ISIC). The tool also identifies key sectors for each impact area; these are sectors that are key to the achievement of an impact area and sectors that are most negatively affecting an impact area.[6] It is complemented by a conversion tool prepared by the Frankfurt School of Management that enables navigation between ISIC and NACE. This could be enhanced to directly include Taxonomy information and requirements, thus facilitating banks' use of the Taxonomy.
- A country needs mapping system which enables financial institutions to better contextualize and prioritize their impact management. The system cuts across the same impact areas as the sector/impact mappings described above. These are taken from the Impact Radar developed by the Positive Impact Initiative in 2018 to help operationalize the SDGs for the private sector.[7]

3 unepfi.org/positive-impact/positive-impact/
4 unepfi.org/banking/bankingprinciples/
5 unepfi.org/positive-impact/tools-frameworks-for-holistic-impact-analysis/unep-fi-impact-analysis-tools/
6 unepfi.org/positive-impact/working-groups/open-review-process/
7 unepfi.org/wordpress/wp-content/uploads/2018/11/PI-Impact-Radar.pdf

Question 52	Topic: Impact
In your view, is it important to better measure the impact of financial products on sustainability factors?	

Yes, we believe that it is important to better measure, and manage, the impact of financial products on sustainability factors.

UNEP FI and its members consider that driving sustainability progress requires an ability to understand, measure and manage impact by investors and by banks. We also see that understanding and managing impacts makes it possible to capture the financial value of sustainability issues; this is ultimately one of the biggest drivers of action for both investors and their financial intermediaries (such as banks). We strongly support the proposal that finance institutions measure and manage sustainability issues, alongside financial information. We commend the Commission's leadership in amending disclosure requirements to embed sustainability preferences, to require the disclosure of adverse impacts and to develop the EU taxonomy. Having said that we also recommend that the Commission moves beyond the reporting of impacts, towards the measurement and management (integration) of these impacts.

We further recommend that the Commission specifically promotes common frameworks and standards for impact measurement and assessment. We note that there are established networks and communities of practice that the Commission should work with to develop impact measurement, and impact management frameworks. We highlight two in particular:

- The Positive Impact Initiative[8] has developed two impact analysis tools. Both are being piloted by dedicated impact analysis working groups and are available online:[9]
  - A Portfolio Impact analysis tool,[10] which enables banks to identify their most significant impact areas, to assess current performance and thereby compile the necessary data for meaningful target-setting. This tool was developed UNEP FI's banking members and Principles for Responsible Banking[11] signatories as a means of complying with their impact analysis requirements and is also aligned with the Principles for Positive Impact.
  - A Corporate client/investee company impact analysis tool that identifies companies' impact status and possibilities across the SDGs.[12]

- The Impact Management Project Structured Network[13] is a forum for building global consensus on how to measure, manage and report impacts. Its members and strategic partners include UNEP FI, PRI, IFC, and UN Global Compact, and it is able to coordinate input and advice from many of the key networks in this area.

We note that many of the tools and metrics needed to assess and track the sustainability performance and impact of financial products already exist. We therefore suggest that the Commission starts by engaging with the UNEP FI Positive Impact Initiative and the Impact Management Project Structured Network to understand the current landscape.

8 unepfi.org/positive-impact/positive-impact/
9 unepfi.org/positive-impact/principles-for-positive-impact-finance/unep-fi-impact-analysis-tools/
10 unepfi.org/positive-impact/tools-frameworks-for-holistic-impact-analysis/unep-fi-impact-analysis-tools/portfolio-impact-tool/
11 unepfi.org/banking/bankingprinciples/
12 unepfi.org/publications/positive-impact-publications/corporate-impact-tool/
13 impactmanagementproject.com/

Question 82	Topic: Climate
In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called "brown taxonomy") at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?	

Yes, we agree that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called "brown taxonomy") at EU level. The taxonomy will support the transition from brown to green and will clarify which activities are not and cannot be brought in line with the goals of the Paris Agreement or with net-zero 2050 trajectories. We stress that we see the brown taxonomy as relating to both (downside) risk and to (upside) opportunity, as it will enable better capital decisions to be made (e.g. allowing risk to be better priced, allowing opportunities to be identified).

We see that the development of a brown taxonomy will provide harmonised international expectations for reporting, provide more clarity to companies on what is expected of them, simplify reporting obligations across different jurisdictions, and facilitate comparisons on company performance on specific themes or global challenges, like climate change. In so doing, it will address the single biggest challenge faced by banks in implementing the EU Taxonomy: the gaps and inconsistencies in the data made available by their clients. The consistency provided by a brown taxonomy will also help banks with internal implementation, as it will mean that they need to take the same approach across all aspects of their business, thereby reducing the potential for confusion, simplifying implementation and reducing costs.

A brown taxonomy will also allow investors and other stakeholders to assess financial risks and opportunities alongside the positive and negative social and environmental impacts of lending and investment decisions (the 'double materiality' concept). Together, these benefits would help to drive capital away from unsustainable investments, and as such provide an essential complement to the green taxonomy (which aims to encourage the move of capital towards sustainable investments).

The absence of a brown taxonomy means that we only address the question of where capital should be directed towards, and not the other, equally important, question of where capital should be directed away from. The brown taxonomy will also help identify those sectors of the economy where capital is needed in order to start or accelerate the transition.

We note, however, that focusing only on green or brown, or seeing these as mutually exclusive endpoints, potentially limits our ability to respond to the SDGs as a broader, more inclusive and equally urgent agenda. Our experience with the UNEP FI Positive Impact Initiative[14] confirms the importance of mapping and tracking impacts through an integrated, holistic approach—covering both positive and negative impacts, covering the full range of business activities, covering social as well as environmental impacts—to assessing and managing impact. The UNEP FI Principles for Responsible Banking[15] echo this vision by requiring banks to align with the SDGs and to perform a comprehensive impact self-assessment.

In developing a brown taxonomy and a broader mapping of impacts to sectors, it is important that the exercise is not limited to financial products. Financial institutions and the private sector overall should also be required to conduct a holistic impact self-assessment of their business with a view to identifying most significant impact areas, developing strategies for business model adaptations and transitions, and setting impact goals in-line with science-based policy objectives and regulations. The taxonomy and the mapping can play a critical role in guiding these self-assessments.

UNEP FI and its members have already started work on defining impact areas and mapping associations with different economic sectors and activities to support impact analysis and management processes. We point specifically to:

- Impact mappings of positive and negative impacts associated with all industry activities as classified in ISIC (level 4, plus 50 sectors/activities not covered by ISIC). It also identifies key sectors for each impact area; these are sectors that are key to the achievement of an impact and sectors that are most negatively affecting an impact area.[16] It is complemented by a conversion tool prepared by the Frankfurt School of Management that enables navigation between ISIC and NACE. This could be enhanced to directly include Taxonomy information and requirements, thus facilitating bank's use of the Taxonomy.

14 unepfi.org/positive-impact/positive-impact/
15 unepfi.org/banking/bankingprinciples/
16 unepfi.org/positive-impact/working-groups/open-review-process/

- A UNEP FI Portfolio Impact analysis tool,[17] which enables banks to identify their most significant impact areas, to assess current performance and thereby compile the necessary data for meaningful target-setting. This tool was developed UNEP FI's banking members and Principles for Responsible Banking signatories as a means of complying with their impact analysis requirements and is also aligned with the Principles for Positive Impact. This tool is being piloted.
- A UNEP FI Corporate client/investee company impact analysis tool that identifies companies' impact status and possibilities across the SDGs.[18] This tool is being piloted.
- The Impact Management Project Structured Network[19] which is a forum for building global consensus on how to measure, manage and report impacts. Its members and strategic partners include UNEP FI, PRI, IFC, and UN Global Compact, and is able to coordinate input and advice from many of the key networks in this area.
- The **UNEP FI – EBF Working Group on the EU Taxonomy:** These banks already have taxonomies (or frameworks) for assessing how green or how brown their investments and their portfolios are. While these are not always fully consistent with the EU Taxonomy, there are many common themes and there is now a rich body of experience in these banks. In Q4 2020, the project will launch the results of 25 major banks piloting the EU Taxonomy to core banking products.[20] The report will present case studies, identify gaps and opportunities for the current EU Taxonomy, identify potential shortcomings and propose methodological proposals to expand the Taxonomy's scope to banking products – irrespective of the shade of green, transition or brown that is targeted.

17 unepfi.org/positive-impact/tools-frameworks-for-holistic-impact-analysis/unep-fi-impact-analysis-tools/portfolio-impact-tool/
18 unepfi.org/publications/positive-impact-publications/corporate-impact-tool/
19 impactmanagementproject.com/
20 unepfi.org/banking/high-level-recommendations-on-the-voluntary-application-of-the-eu-taxonomy-to-core-banking-products/

Question 83	Topic: Taxonomy
Beyond a sustainable and a brown taxonomy, do you see the need for a taxonomy which would cover all other economic activities that lie in between the two ends of the spectrum, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?	

Yes, we see the need for a taxonomy which would cover all other economic activities that lie in between the green/ sustainable and the brown ends of the spectrum. We stress that this broader taxonomy should also holistically map positive and negative impacts, i.e. across economic, environmental and social dimensions. We see this as completing the framework started by the **green (sustainable) taxonomy and which will be supplemented by the brown taxonomy (see Question 82)**. This wider taxonomy will support the transition from brown to green and will clarify which activities are not and cannot be brought in line with the goals of the Paris Agreement or with net-zero 2050 trajectories.

This expanded taxonomy should complete the landscape for analysis and for reporting and provide harmonised international expectations for reporting, provide more clarity to companies on what is expected of them, simplify reporting obligations across different jurisdictions, and facilitate comparisons on company performance on specific themes, or global challenges, like climate change. In so doing, it will address one of the single biggest challenge faced by banks in implementing the EU Taxonomy for banks and investors: the gaps and inconsistencies in the data made available by their clients and investee companies.

In supporting this extended taxonomy, we recognise the complexity of developing criteria across all sectors, impact areas and economic activities and we recognise that this will take time to develop. We do, however, see this extension as being of equal importance to the green and brown taxonomies as it will bring much needed coherence to the financial landscape and will enable banks/investors to assess and manage all if their major impacts, positive and negative, across all of their portfolios.

(also see Question 82): UNEP FI and its members have already started work on defining impact areas and mapping associations with different economic sectors and activities to support impact analysis and management processes. We point specifically to:

- Impact mappings of positive and negative impacts associated with all industry activities as classified in ISIC (level 4, plus 50 sectors/activities not covered by ISIC). It also identifies key sectors for each impact area; these are sectors that are key to the achievement of an impact and sectors that are most negatively affecting an impact area.[21] It is complemented by a conversion tool prepared by the Frankfurt School of Management that enables navigation between ISIC and NACE. This could be enhanced to directly include Taxonomy information and requirements, thus facilitating bank's use of the Taxonomy.
- A UNEP FI Portfolio Impact analysis tool,[22] which enables banks to identify their most significant impact areas, to assess current performance and thereby compile the necessary data for meaningful target-setting. This tool was developed UNEP FI's banking members and Principles for Responsible Banking signatories as a means of complying with their impact analysis requirements and is also aligned with the Principles for Positive Impact. This tool is being piloted.
- A UNEP FI Corporate client/investee company impact analysis tool that identifies companies' impact status and possibilities across the SDGs.[23] This tool is being piloted.
- The Impact Management Project Structured Network[24] which is a forum for building global consensus on how to measure, manage and report impacts. Its members and strategic partners include UNEP FI, PRI, IFC, and UN Global Compact, and is able to coordinate input and advice from many of the key networks in this area.

- The **UNEP FI – EBF Working Group on the EU Taxonomy:** These banks already have taxonomies (or frameworks) for assessing how green or how brown their investments and their portfolios are. While these are not always fully consistent with the EU Taxonomy, there are many common themes and there is now a rich body of experience in these banks. In Q4 2020, the project will launch the results of 25 major banks piloting the EU Taxonomy to core banking products.[25] The report will present case studies, identify gaps and opportunities for the current EU Taxonomy, identify potential shortcomings and propose methodological proposals to expand the Taxonomy's scope to banking products – irrespective of the shade of green, transition or brown that is targeted.

21 unepfi.org/positive-impact/working-groups/open-review-process/
22 unepfi.org/positive-impact/tools-frameworks-for-holistic-impact-analysis/unep-fi-impact-analysis-tools/portfolio-impact-tool/
23 unepfi.org/publications/positive-impact-publications/corporate-impact-tool/
24 impactmanagementproject.com/
25 unepfi.org/banking/high-level-recommendations-on-the-voluntary-application-of-the-eu-taxonomy-to-core-banking-products/

Question 89	Topic: Climate change/environment
Beyond prudential regulation, do you consider that the EU should take further action to mobilise banks to finance the transition and manage climate-related and environmental risks?	

Yes, by virtue of their central role in the economy and their close relationship with the real economy (and even more so in emerging markets), banks should be a core part of any conversation or plan to finance the transition and manage climate-related and environmental risks. In making this recommendation, we note the importance of ensuring that other sectors of the economy and other actors are also important, and that regulation, policies and incentives targeted at the banking sector need to be complemented by regulation, policies and incentives targeted at the wider economy.

We believe that the scope of this question should be extended beyond risk management to also include financing the SDGs.

We suggest that the Commission builds its proposals on the framework provided by the UNEP FI Positive Impact Initiative and subsequent Principles for Responsible Banking[26] and the associated guidance materials.[27] The emphasis of the Principles for Responsible Banking is on the areas where signatory banks have the greatest positive and negative impacts as a result of their practices and policies. This requires that signatory banks undertake a thorough impact analysis and publicly report the findings. Banks are then expected to set targets that address the most significant impacts they have identified. The targets must be ambitious enough to objectively bring the bank's business and portfolio into alignment with the respective Sustainable Development Goals and the goals of the Paris Climate Agreement. Finally, signatory banks must report regularly on how they are implementing the Principles for Responsible Banking, the targets they have set and the progress that they have made.

In the short-term, we suggest that the Commission encourages the banking sector to voluntarily commit to the Principles for Responsible Banking. More than 180 banks collectively holding USD 53 trillion in assets, or over one third of the global banking sector, have signed the Principles. To support signatories, UNEP FI's banking members and Principles for Responsible Banking signatories have developed a Portfolio Impact Analysis Tool for Banks. The Positive Impact Initiative[28] has developed a further tool to enable banks and investors to analyse their clients and investee companies based on the same methodology.[29]

We also believe that banks have a critical role to play through working with others on leadership initiatives to jointly advance on key topics. One such example is the Collective Commitment to Climate Action.[30] We suggest that the Commission actively encourages the development of such initiatives to both build capacity within the banking sector and to allow progress to be made in areas where policy development and implementation may take time.

26 unepfi.org/banking/bankingprinciples/
27 unepfi.org/banking/bankingprinciples/resources-for-implementation/
28 unepfi.org/positive-impact/positive-impact/
29 unepfi.org/positive-impact/principles-for-positive-impact-finance/unep-fi-impact-analysis-tools/
30 unepfi.org/banking/bankingprinciples/collective-commitment/

Question 90	Topic: Impact

Beyond the possible general measures referred to in section 1.6, would more specific actions related to banks' governance foster the integration, the measurement and mitigation of sustainability risks and impacts into banks' activities?

We recognise the central importance of banks and the banking sector to the renewed Sustainable Finance Strategy and welcome the additional proposals from the Commission on how banks might be encouraged to better integrate, measure and mitigate sustainability risks and impacts into their activities. In particular we welcome those related to the EU Taxonomy, the assessment of sustainability impacts and the reporting of these impacts–which are all important and necessary elements.

We think that these proposals will be more effective if they are integrated into a robust, overarching governance framework. To that end, we suggest that the Commission builds its proposals on the framework provided by the UNEP FI Principles for Responsible Banking.[31] The signatories to these Principles acknowledge that banks play a key role in society, and that banks' success and ability to remain profitable and relevant is intrinsically dependent on the long-term prosperity of the societies that they serve. These banks note that only in an inclusive society founded on human dignity, equality and the sustainable use of natural resources, can their clients and customers and, in turn, our businesses thrive.

We note that the emphasis of the Principles for Responsible Banking is on the areas where signatory banks have the greatest positive and negative impacts as a result of their practices and policies. This requires that signatory banks undertake a thorough impact analysis and publicly report the findings. Banks are then expected to set targets that address the most significant impacts they have identified. These targets must be ambitious enough to objectively bring the bank's business and portfolio into alignment with the Sustainable Development Goals and the goals of the Paris Climate Agreement. Finally, signatory banks must report regularly on how they are implementing the Principles for Responsible Banking, the targets they have set and the progress made.

In relation to the integration of impact management in practice we highlight that UNEP FI's banking members, including Principles for Responsible Banking signatories and Positive Impact Initiative participants, have worked together to develop a Portfolio Impact analysis tool based on UNEP FI's impact mappings of the positive and negative impacts associated with all industry activities, and with UNEP FI's Impact Radar.[32] These organisations are now piloting and further refining these as part of their Principles for Responsible Banking implementation requirements. A corporate client/investee company impact analysis tool has also been developed and is currently being piloted. Together, these tools provide key building blocks for integrating impact analysis and management into the heart of financial institutions' business strategies.[33]

31 unepfi.org/banking/bankingprinciples/
32 unepfi.org/wordpress/wp-content/uploads/2018/11/PI-Impact-Radar.pdf.
33 unepfi.org/positive-impact/principles-for-positive-impact-finance/unep-fi-impact-analysis-tools/

2. Thematic insight: climate change

Question 10	Topic: Climate
Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?	

We strongly support this proposal, although we note that further work is required on methodology development, in parallel to introducing a mandatory requirement for institutional investors and credit institutions. We therefore recommend that the Commission identifies measures and disclosures that can be introduced in the short term (these may include carbon footprinting and science-based targets), in parallel to the development of temperature scenarios. Within this, we recommend that the Commission presses for forward-looking disclosures (e.g. climate change-related objectives and targets, future emission projects) as part of this reporting.

The introduction of requirements to report on portfolio temperature scenarios, assuming that such requirements are underpinned by clear guidance on how these calculations are to be performed, would provide four main benefits. First, it would encourage harmonisation of reporting, thereby allowing portfolios to be compared on a consistent basis. Second, it would reduce the transaction (research) costs for investors. Third, it would provide information that is valuable to a range of stakeholders, including customers and clients, regulators, employees and wider society. This information would also complement other climate change and environmental-related disclosures, thereby providing a more holistic picture of corporate practice and performance. Fourth, it would encourage the reallocation of capital from heavily polluting sectors to greener sectors.

Tools and methodologies for assessing temperature scenarios are currently being developed by a number of investor networks and by various data and service providers. A number of institutional investors–examples include Allianz, AXA and Aviva Investors–have already published temperature scores for some or all of their portfolios, and we are aware that other UNEP FI members are considering doing so.

UNEP FI is involved in or leading a number of collaborative initiatives that are developing tools and methodologies for assessing and reporting on how portfolios align with specific temperature scenarios and/or reporting on the temperature scenarios of investment portfolios. These include the work of the Net Zero Asset Owner Alliance,[34] and the UNEP FI pilot projects on implementing the TCFD recommendations for banks, insurers and for investors[35].

We see that a robust methodology for assessing portfolio temperature scenarios could be developed within a period of 2 years. There has been a lot of work on analysing the carbon characteristics of portfolios, and the EU taxonomy will provide insights into the specific activities included within a portfolio. In relation to temperature scenarios, further work is required to strengthen corporate disclosures, to broaden the coverage of the methodologies that have been developed (to date, most of the work has focused on specific asset classes, in particular listed equities) and to develop market consensus on the most robust and credible approaches.

Our suggestion is that the Commission establishes a global–i.e. one that involved countries inside and outside the EU–programme to develop methods for assessing portfolio temperature scenarios. We see the following as the key elements of a two-year process:

- Establish a working/advisory group of those organisations that have already been active in this area.
- Review and consolidate existing knowledge on tools, methods and data, to identify those approaches that show most promise.
- In conjunction with the finance sector and with companies, work to define a preferred methodology and specify the indicators/data that need to be provided by companies.
- Pilot and test the methodology.
- Consider how wider adoption is to be encouraged. One critical part of encouraging wider adoption is to make the model (assumptions, calculation protocols), date and underlying code open-source and publicly available. This will allow companies and other stakeholders to use the tool for their own purposes (e.g. internal risk assessment).

UNEP FI would be delighted to support this programme, e.g. as a member of a working/advisory group, as a source of data, information and expertise to the Commission.

34 unepfi.org/net-zero-alliance/
35 unepfi.org/climate-change/tcfd/

3. Thematic insight: biodiversity

Question 11	Topic: Biodiversity
Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss in particular on corporates who are dependent on ecosystem services, such as in sectors like agriculture, extractives, fisheries, forestry and construction. The importance of biodiversity and ecosystem services is already acknowledged in the EU Taxonomy. However, in light of the growing negative impact of biodiversity loss on companies' profitability and long-term prospects, as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?	

Yes, we believe that the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss. We believe that biodiversity and ecosystem services should be fully integrated, and prioritized, into the Commission's work on the EU taxonomy.

The case for including biodiversity in the sustainable finance agenda is clear. Biodiversity underpins all economic activities through the provision of a range of ecosystem services, and it is experiencing dangerous and unprecedented declines due to the current model of economic development. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) estimates that there has been 47% reduction in global indicators of ecosystem extent and condition against their estimated natural baselines, with many ecosystems continuing to decline by at least 4% per decade.[36] In a separate study, PWC and the World Economic Forum (WEF) estimate that $44 trillion of economic value depends on nature.[37]

Financial institutions are exposed to multiple types of biodiversity-related risk through their various activities, including risk of default by clients, lower returns from investees, and increasing insurance liabilities due to environmental catastrophes. Working with their client and/or customer bases and investees, financial institutions can turn these risks into opportunities by mitigating impacts on and managing investments in biodiversity in a sustainable way. The Convention on Biological Diversity (CBD) Conference of the Parties (COP15) Zero draft includes a proposed goal of no net loss by 2030 in the area and integrity of ecosystems, and increases of at least 20% by 2050, for ecosystem resilience.[38] Delivering these goals urgently requires transformative policy, economic and technological changes.

Delivering these goals also requires financing at scale. It will require financial institutions to acknowledge the importance of biodiversity and ecosystem services, across terrestrial and marine environments. It will require financial institutions to identify and assess biodiversity and ecosystem services related risks and opportunities, and their impacts and dependencies on biodiversity and ecosystem services. It will require financial institutions to set targets relating to biodiversity and ecosystem services—both long-term net zero targets and intermediate targets—and to report on their performance against these targets.

The key priorities for action include:

- Developing standards/frameworks/methodologies for the private sector to measure and report on biodiversity impact/performance/risk to ensure reliable, clear, efficient, internationally-consistent and decision-useful information is available to lenders, insurers and investors for environment-related risk management, disclosure and inclusion in ESG integration.[39]
- Financing for biodiversity should focus on (a) no net loss and even net gain of biodiversity through financing of economic activities in key sectors such as agriculture and mining; (b) mobilise financing for nature-based solutions including a focus on mitigating land-based emissions, ecosystem-based restoration and climate adaptation; (c) resilience of ecosystem services such as freshwater and food.

36 ipbes.net/global-assessment
37 www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf
38 cbd.int/article/2020-01-10-19-02-38
39 See, further:
dnb.nl/en/news/news-and-archive/dnbulletin-2020/dnb389169.jsp
ngfs.net/sites/default/files/medias/documents/ngfs_annual_report_2019.pdf
unepfi.org/publications/ecosystems-publications/exploring-natural-capital-opportunities-risks-and-exposure-a-practical-guide-for-financial-institutions/
cbd.int/doc/c/4c88/dbb1/e264eaae72b86747416e0d8c/sbi-03-05-add1-en.pdf
oecd.org/environment/resources/biodiversity/report-a-comprehensive-overview-of-global-biodiversity-finance.pdf

- Adding, in addition to land/water, ocean and marine-based ecosystem services to the EU's sustainable finance agenda. According to the OECD, the ocean economy is expected to expand at twice the rate of the traditional 'land-based' economy by 2030.[40] Maritime industries and those with an impact on the ocean contribute significantly to the EU economy in terms of GDP and job creation.[41]
- Requiring financial institutions to: incorporate biodiversity in their strategies; incorporate target-setting in their plans for implementing actions to address environmental issues and contributing towards global goals; assess their exposure to priority sectors—these include agriculture, electricity production and distribution, oil and gas, and mining—where dependencies and/or impacts on biodiversity are high; evaluate opportunities to reduce negative impacts and enhance positive impacts on biodiversity through their activities, using goals such as no net loss of biodiversity.

Many of the risk assessment management tools needed by companies and by their investors have already been developed. We, therefore, suggest that the EU starts by reviewing the tools that are available and their current rate of usage or adoption by companies and their investors, as a first step towards encouraging wider adoption of these tools and towards generating data and information that could be used as the basis for more assertive policy on this issue. UNEP FI would be delighted to support the EU in this review process. We and our partners have been to the forefront of efforts to develop biodiversity risk assessment and risk management tools for the finance sector. These have included:

- Natural Capital Credit Risk Assessment in Agricultural Lending, which provides a template that enables financial institutions to conduct natural capital credit risk assessment across different agricultural sectors and geographies, taking into account factors such as water availability, use and quality; soil health; biodiversity; energy use and greenhouse gas emissions.[42]
- Integrating Natural Capital in Risk Assessments, a step-by-step guide to help financial institutions conduct a rapid natural capital risk assessment. The guide has already been piloted by five banks.[43]
- Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE): A Practical Guide for Financial Institutions, the world's first comprehensive tool linking environmental change with its consequences for the economy.[44]
- Natural Capital Protocol – Finance Sector Supplement, a tool for financial institutions to assess how their business is impacted by, and depends upon the natural world.[45]
- Drought Stress Testing Tool, which enables banks to assess if a client may be at risk from drought and how drought can affect a sector or region.[46]

Due to its direct relevance to the EU's Sustainable Finance Agenda, we would like to highlight the work we are conducting to enhance ENCORE to enable financial institutions to align their portfolios with biodiversity targets.[47] ENCORE is the world's first comprehensive tool linking environmental change with its consequences for the economy. It enables global banks, investors and insurance firms assess the risks that environmental degradation (e.g. the pollution of oceans, the destruction of forests) causes for financial institutions. The Dutch Central Bank has published a study on biodiversity and financial risk, based on analysis using the ENCORE tool.[48] The outputs from this new project, which will complete in 2021, include:

1. Analysis of business sectors to determine which have highest impacts and dependence on biodiversity
2. Analysis of how these sectors are financed, including analysis of the tools they currently use for assessing these risks and the identification of data and analytical gaps.
3. Feasibility study of biodiversity targets and indicators for use by the finance sector.
4. Evaluation of industry scenarios for priority sectors to understand links to biodiversity. This will include a review of the models, scenarios and datasets for the key industry sectors.
5. Development of ENCORE to enable the finance sector to understand how its activities may drive the loss of biodiversity.

40 oecd.org/ocean/OECD-work-in-support-of-a-sustainable-ocean.pdf
41 ec.europa.eu/commission/presscorner/detail/en/IP_20_986. We also note that the European Commission's DG MARE has just launched the BlueInvest Initiative to contribute to the European Green Deal, and supports the Sustainable Blue Economy Finance Initiative hosted by UNEP FI to support operationalising the Sustainable Blue Economy Finance Principles, developed by the EC, the World Resources Institute, WWF and the European Investment Bank. The BlueInvest Initiative aims to accelerate financing of economic activities from ocean-linked industries, resources and ecosystem services that are in balance with the long-term capacity of marine ecosystems. The Initiative and its group of experts will work on concrete and actionable guidance for financial institutions to align their activities (lending, insuring and investment) with the Sustainable Blue Economy Finance Principles.
42 unepfi.org/publications/ecosystems-publications/natural-capital-credit-risk-assessment-in-agricultural-lending/
43 unepfi.org/publications/ecosystems-publications/integrating-natural-capital-in-risk-assessments/
44 unepfi.org/publications/ecosystems-publications/exploring-natural-capital-opportunities-risks-and-exposure-a-practical-guide-for-financial-institutions/
45 unepfi.org/publications/ecosystems-publications/natural-capital-protocol-finance-sector-supplement/
46 unepfi.org/publications/banking-publications/drought-stress-testing-tool/
47 unepfi.org/ecosystems/exploring-natural-capital-opportunities-risks-and-exposure-encore-tool/
48 dnb.nl/en/news/news-and-archive/dnbulletin-2020/dnb389169.jsp

We have also established a reference group which will advise target setting approaches for investors and other financial institutions. The reference group will review and advise on approaches to target setting (e.g. science-based targets), indicators and metrics, methodologies and measurement approaches, priority sectors and pathways, scenarios and models, and business and finance sector-related initiatives and standards.

Beyond UNEP FI, there are a variety of other finance sector initiatives focusing on biodiversity. These include:

- An Informal Working Group is being established to develop a roadmap for a Task Force for Nature-Related Financial Disclosures.[49]
- Investors with €6 trillion ($6.6 trillion) in assets have backed a call for the development of a methodology to assess the impacts of investments and companies on biodiversity.[50]
- The charity ShareAction has called for asset owners to embed expectations on integrating and reporting biodiversity-related issues in Investment Management Agreements.[51]
- The French government plans to require investors to report on biodiversity impacts under Article 173 from next year.
- Natixis, HSBC and a number of Dutch banks are calling for the financial sector to accelerate action to prevent biodiversity loss, with a study by the Dutch Sustainable Finance Platform highlighting the sector's role in halting global biodiversity loss and realizing opportunities.[52]
- The Principles for Responsible Investment (PRI) will release recommendations for institutional investors to address biodiversity loss in August 2020.

49 globalcanopy.org/press-centre/there-can-be-no-return-business-usual-finance-sector
50 pionline.com/esg/investors-urge-development-biodiversity-metrics
51 shareaction.org/wp-content/uploads/2020/06/ShareAction-Biodiversity-Report-Final.pdf
52 dnb.nl/binaries/Biodiversity%20opportunities%20risks%20for%20the%20financial%20sector_tcm46-389029.pdf

4. Consistency across the value chain – need for harmonised and coherent disclosures

Question 14	Topic: Disclosure
In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data?	

Yes, the EU should take action to support the development of a common, publicly accessible, free-of-cost environmental data space for ESG information that is reported on a mandatory basis. The EU should also continue with its efforts (e.g. through the Non-Financial Reporting Directive) to develop common ESG reporting standards and leverage existing work to arrive at a common standard for impact management and disclosures, in particular the work conducted by the Impact Management Project Structured Network[53].

A publicly accessible, free-of-cost environmental data space would address one of the key challenges in environmental policy which is the fragmentation (multiple sources/channels) and the format (often pdf reports) of current reporting and disclosures. We note that it is important that attention is paid to the quality of reported data. Therefore, one of the goals of establishing such a data space should be to help address issues around data quality and reliability through the provision of standards, protocols or other form of guidance to ensure the quality and reliability of data disclosed.

We see the data space as particularly important for any information—these may be specific data points or wider narrative information—that is to be reported on a mandatory basis. In our view, companies should be required to provide this information in a standardised, searchable form. We suggest that the Commission establishes a data collection and sharing mechanism allowing all stakeholders to access this information free of charge, in a format (e.g. Excel) that enables easy use of the information.

We suggest the following principles should guide the development of such a mechanism:

1. All mandatory to report indicators should be included. These are likely to include taxonomy-related data.
2. Data should meet minimum quality standards. This will require the development of standard protocols or other form of guidance to ensure the quality and reliability of data disclosed.
3. Data should not be limited to listed entities but should also include non-listed companies and companies, irrespective of their size, whose impacts are just as real and significant. We note that attention should be paid to the needs and capabilities of SMEs, and we support proposals to simplify reporting requirements for such organisations.
4. Information should be clearly tagged so that it links to entities, sectors, geographies and impacts.
5. Users should be able to analyse and use the data, and the data should be available in formats that enable this analysis. This suggests that the mechanism should both enable users to analyse/search data, and allow users to extract information.
6. All of the information should be available through a single access point. To promote data protection as efficiency we recommend that the Commission explores decentralised/distributed rather than platform-driven data collection, whereby data remains with its owner and is shared at different levels with different users with different needs[54]. We also note that the data space may be linked to other (public-private) open data platforms (e.g. those to be created as part of the EU Data Strategy and Digitalization agenda).

53 impactmanagementproject.com/
54 Consider experimenting with a 'data-pod' system

We note that the above comments about the data space are part of a wider discussion around the consistency and comparability of sustainability reporting more generally. At present, the existence of multiple topic-specific frameworks is contributing to reporting burden, does not always encourage or facilitate a global and holistic understanding of sustainability issues and increases both the costs of report and the costs of achieving sustainability targets. We believe that a common standard for sustainability-related disclosures is indispensable to achieve comparability, reliability and relevance. Based on our experience with the UNEP FI Positive Impact Initiative, we believe that this common standard should be based on a holistic and impact-based approach. Specifically, the standard should:[55]

- Identify all sustainability topics and treat/position them as a collection of 'impact areas'. Provide a live mapping of impact areas to company types, sectors and geographies and use the work of the UNEP FI Positive Impact Initiative as a reference point.[56] Provide as much guidance as possible on the relevant indicators, target values and thresholds vis a vis the different impact areas. To this effect draw on and harmonise current reporting /disclosure frameworks and standards (GRI, SASB, CDP, TCFD, EU taxonomy, IRIS, HIPSO, ENCORE, UN Guiding Principles, etc.). Actively proceed to fill the numerous gaps in impact science, in particular to determine appropriate indicators and metrics for the private sector, as well as to establish current baselines and appropriate targets (see the PII Impact R&D Agenda for further details).
- Require companies (including financial institutions) to determine which impact areas are most significant to them based on their typology, sector/s of activity and geographical scope (hence not relying solely on stakeholder consultations). Significant impact areas should be understood as areas on which the company may have a positive or negative impact (not the other way around). The description of the process for determining significant impact areas should be part of the disclosure.
- Require companies to assess their performance, revise business strategy, set targets and monitor progress accordingly.
- Require companies to signal the importance of forward-looking rather than backward-looking (or historic) data. For example, companies should be encouraged to provide sustainability-related objectives and targets, and to provide information on their expected or projected emissions, rates of resource consumption and sustainability impacts.
- Finally, it is important to note that for the above approach to be workable, financial disclosures need to be fit for purpose – in particular data on revenue split by sector and geography are essential.

It is important that creating this standard involves companies from all sectors, and investors in the wide sense of the word – this means including banks, who have the broadest and closest relationship with all segments of the economy. EU and member state authorities beyond the financial and environmental authorities: employment, health, infrastructure, communications, education, etc., and other intergovernmental bodies such as the UN, the OECD as well as Civil society bodies. We note the specific relevance of the Impact Management Project Structured Network[57] which is a forum for building global consensus on how to measure, manage and report impacts and that is able to coordinate input and advice from many of the key networks in this area.

- Mainstreaming risks and impact integration, and global collaboration

55 These inputs draw from the UNEP FI Positive Impact input to the NFRD consultation.

56 UNEP FI's Positive Impact Initiative (PII) has defined impact areas and has mapped these to corporate activities and sectors. See unepfi.org/positive-impact/working-groups/open-review-process/ and unepfi.org/positive-impact/principles-for-positive-impact-finance/unep-fi-impact-analysis-tools/

57 impactmanagementproject.com/

Question 60	Topic: Pipeline and impact analysis
What do you consider to be the key market and key regulatory obstacles that prevent an increase in the pipeline of sustainable projects? Please list a maximum three for each.	

This response draws from the UNEP FI Positive Impact Initiative.

The achievement of positive impacts and the management of negative impacts are currently externalities to the private sector, which means that addressing them is a cost centre, not a source of revenue. The implication is that attractive financing opportunities are comparatively few and far between, or small in scale. There is potential for positive impacts, and the reduction of negative impacts, to become business model drivers, i.e. sources of financial revenue. See UNEP FI's paper, 'Rethinking Impact to finance the SDGs'.[58] To unlock this potential, however, a deliberate effort needs to be made to understand companies' current and potential impacts – in particular potential positive impacts that respond to the needs of populations and that can become a source of revenue – so that companies can adjust their business models and/or develop new business lines accordingly. This requires the mainstreaming of impact analysis at the company level, as an input to business strategy and development. Furthermore, it is critical that this analysis be holistic in nature, so as to understand the interlinkages between impact areas (e.g. housing, mobility, connectivity, economic convergence, energy efficiency, resource efficiency, etc.). These interlinkages are what will enable seemingly 'unattractive' impact areas to become part of a business model proposition. This is key to achieving the SDGs, as, ultimately, it will result in a decrease in the cost of delivering positive impacts / addressing negative impacts, making the SDGs affordable. It is worth noting that this is particularly important for middle and low-income countries, where the bulk of SDG needs lie.

Current regulation aiming to promote sustainable investments is a) single topic focused (in particular climate change) b) focused solely on existing economic activities and business models (taxonomy built on NACE), and c) focuses on redirection of capital and financial product development. By focusing solely on environmental issues, the EU taxonomy and bond standard do not promote the private sectors' consideration of the interlinkages between sustainability topics, and by extension the business solutions that they could develop to address multiple impact areas, thereby decreasing the overall cost-impact ratio of SDG topics. Relatedly, by focusing on existing economic activities, current regulation does not sufficiently acknowledge and promote the role of innovation and disruption in finding new business solutions, models and sectors to deliver on social, economic and environmental needs. The biggest innovations and disruptions will cut across both topics and sectors, they will not be contained within or aligned with current industry classifications, sectors and business activities. By focusing on specific product types such as bonds, the focus of attention is oriented toward product development rather than business model analysis, adaptation and disruption. This combination creates a 'glass ceiling' effect in terms of the scope and scale of progress that can be made. In order to remove these barriers and overcome the glass ceiling effect, holistic impact analysis at the company level, as described above, is key.

Specifically, we recommend that the Commission:

- Expands requirements to assess and measure impact beyond products. Financial institutions should be encouraged and required to understand and manage their positive and negative impacts across their portfolios. (see more under response to question 52 on impact measurement)
- Expands requirements to assess and measure impact beyond Financial institutions to the real economy.
- Encourage engagement, collaboration, and co-creation between companies and between companies and financial institutions. Banks should be encouraged to stand by a client throughout a business-model transformation and this should be seen as both value creation and risk mitigation.
- Facilitate the emergence of new, impact-based business models that are relevant and responsible by significantly revisiting public-private collaboration towards a new, impact-based and solution-building system, and by stepping up the breadth and depth of data science: what are the right indicators and metrics, what are current baselines and thresholds, what does a good target look like? (see more under question 77 on global coordination and questions 82-83 on taxonomies).
- Promote common and action-oriented frameworks and standards for impact management (analysis, measurement, disclosure) to accelerate the process. (see more under response to question 14 on disclosures and the Positive Impact Initiative input to the Non-Financial Reporting Directive consultation and question 52 on impact measurement)
- Build on the impact management methodologies and tools developed by UNEP FI Positive Impact Initiative and the drive for convergence on standards of the Impact Management Project Structured Network[59] which brings together the main impact-related standard-setting bodies for business and finance (see more under response to question 52 on impact measurement)

58 unepfi.org/wordpress/wp-content/uploads/2018/11/Rethinking-Impact-to-Finance-the-SDGs.pdf
59 impactmanagementproject.com/

Question 77	Topic: All

What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs? Please list a maximum of three proposals.

Effective global coordination must be built on a common language and architecture for the analysis and management of positive and negative impacts across the three pillars of the SDGs (economic, environmental including climate change and the Paris Agreement, and social). Our proposals focus on how this common language might be developed and institutionalised. We therefore suggest that the Commission:

1. **Provides**—in addition to its ongoing work on the EU Taxonomy—**a higher level, continuously updated, mapping of impact areas to company/organisation types, sectors and geographies that explicitly defines sustainability topics ('impact areas') across the three pillars of sustainable development (economic, environmental and social)** i.e. a global, all-encompassing sector map of impacts that could form the basis for global taxonomy development. This mapping should help policymakers connect the financial sector's impacts on the real economy. In addition, the Commission should provide as much guidance as possible on the relevant indicators, target values and thresholds in relation to the different impact areas, as it has started to do with the green taxonomy. This work should draw on and harmonise existing standards, both those focused on data points and indicators, and those relating to the relationship between sustainability reporting and wider corporate reporting. UNEP FI's Positive Impact Initiative is a valuable reference point and a network for the development and testing of frameworks. We refer specifically to:

- Impact Radar[60]
- Impact mappings[61]
- Impact analysis tools based on the radar and mappings[62]
- Our work on identifying the gaps in impact science and corporate measurement and reporting[63]

2. **Broadens the focus of policymaking and implementation to accelerate business model changes and the identification of transition pathways.** This requires that attention is paid to the influence that different actors have on the actions of companies and investors, and the range of interventions needed to drive substantive change. A number of cross-sectoral and multi-stakeholder dialogue processes have been initiated in recent months, through collaborative initiatives such as the Positive Impact Finance Initiative, the Net-Zero Asset Owners Alliance[64], the Institutional Investors Group on Climate Change[65] and the Transition Pathway Initiative.[66]

3. **Leverages a strategic range of partners to connect the Commission's policy work with the financial sector.** We note that the following initiatives are particularly important as networks of networks and as policy platforms:

   a. EU's International Platform for Sustainable Finance (and the potential to leverage on UNEP FI's observer role and connection to the finance sector).
   b. The Global Investors for Sustainable Development Alliance (GISD), convened by the UN Secretary General[67]
   c. The Impact Management Project Structured Network[68]

60 unepfi.org/wordpress/wp-content/uploads/2018/11/PI-Impact-Radar.pdf
61 unepfi.org/positive-impact/working-groups/open-review-process/
62 unepfi.org/positive-impact/principles-for-positive-impact-finance/unep-fi-impact-analysis-tools/
63 unepfi.org/positive-impact/positive-impact/
64 unepfi.org/climate-change/united-nations-convened-net-zero-asset-owner-alliance/
65 iigcc.org
66 transitionpathwayinitiative.org
67 un.org/esa/ffd/wp-content/uploads/2019/10/GISD-Background.pdf
68 impactmanagementproject.com/about/

Question 91	Topic: Fiduciary Duty and Impact

Do you see merits in adapting rules on fiduciary duties, best interests of investors/ the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability (negative externalities)?

Yes. We strongly support adapting of rules on fiduciary duties to facilitate the explicit integration of sustainability impact in investment decisions. Within the next decade, assessing and managing the sustainability impact of investment decision-making needs to be a core part of investment activity.[69]

Our research suggests that the current legal and regulatory framework presents gaps that discourage investors from considering (assessing, measuring and managing) the sustainability impacts of their investment. These weaknesses could be addressed by amending the rules on the fiduciary duty and on the due diligence procedures.

In terms of the principles that should underpin the analysis:

- We support requirements to integrate the consideration of sustainability impacts, positive and negative, of investment decisions into investment decision making processes. We stress that this includes positive impacts, not just negative externalities. This focus on both positive and negative impacts should support better management of impacts overall, including helping prioritize assets with a positive contribution to the low carbon transition and the SDGs.
- We believe that investors and other stakeholders can assess financial risks and opportunities alongside the positive and negative social and environmental impacts of lending and investment decisions (the 'double materiality' concept).

In 2019, UNEP FI and PRI commissioned the law firm Freshfields to analyse how investors might explicitly incorporate sustainability impacts in investment decision making processes.[70] This project is exploring the legal contours around when and how investors can or may even be required to assess and manage sustainability impacts as part of their investment decision-making process.

Preliminary findings indicate that the policy and regulatory framework in the EU currently is insufficient, lacks clarity in order to encourage and/or mandate investors to integrate sustainability impacts into their investment decisions. We believe it requires:

1. A permissive and clear legal environment to invest for sustainability impact;
2. A supportive and coherent regulatory framework that mandates investment institutions to assess, measure and manage the sustainability impact of their investment decisions.

We understand that the (large) scope of this question may cover firms regulated by IORP II, PEPP, Solvency II, MiFID II, AIFMD and the UCITS Directive. Rather than a detailed analysis of those frameworks, at this stage, we wish to draw attention to the possible challenges with the current framework.

Current EU law does not provide guidance on how to solve the potential conflict between generating financial return and aiming for a positive impact on sustainability: UCITS management companies are required to incorporate principal adverse impacts into their due diligence processes, where they consider them under their SFDR obligations, but no clarification is made regarding fiduciary duties. In the absence of an investment policy which makes specific reference to sustainability objectives, the best interests will likely be understood as the financial best interest. In many cases, we expect that sustainability impact and financial materiality can be pursued in tandem. However, there are cases where an investment decision may require resolution of a conflict between the two. In addition, stewardship – a critical tool for investors to influence the performance of investees, and therefore real economy outcomes – may incur additional costs, which may be considered inconsistent with the "best interests" of the UCITS unless a clear financial benefit can be expected. UCITS does not offer any guidance on resolving these conflicts, or clarity around whether these issues can be taken into account as part of pursuing best interests. It offers little comfort to investors seeking to introduce impact into their investment decision-making and stewardship activities, including where they are doing so to comply with the SFDR disclosure obligations.

69 unepfi.org/investment/legal-framework-for-impact/
70 The Legal Framework for Impact project, unepfi.org/investment/legal-framework-for-impact/

Pension funds regulations do not impose any formal obligations on investing for sustainability impact. For example, Art. 19.1(b) Directive (EU) 2016/2341 (IORP II) only requires IORPs to consider the potential long-term effect of investment decisions on ESG factors, and Art. 41.1(b) Regulation (EU) 2019/1238 (PEPP Regulation) similarly only requires the consideration of risks related to and the potential long-term impact of investment decisions on ESG factors. Art. 25 IORP II requires IORPs, as part of their risk management, to cover ESG risks relating to the investment portfolio and the management thereof; this requires IORPs to identify the risks they but does not require them to aim for a certain sustainability impact.

Besides the Taxonomy Regulation under current EU law—a very commended effort—there is no further legal guidance on the measurement of risks related to sustainability factors and / or the qualification of sustainable activities. The Taxonomy Regulation focuses on environmental activities and does not regulate governance or social sustainability.

PRI and UNEP FI expect final recommendations will be published in late 2020. Once our analysis is finalised, we would welcome the opportunity to support the Commission in framing the changes and opportunities necessary to amend fiduciary rules and/or other mechanisms identified to integrate sustainability impacts in investors' decisions.

Background: UNEP FI has been the leading investor voice on fiduciary duty for over 15 years.

- In 2005, the United Nations Environment Programme Finance Initiative (UNEP FI) together with the law firm Freshfields Bruckhaus Deringer published a ground-breaking report titled *A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment* (commonly referred to as the 'Freshfields Report').[71]
- In 2009, UNEP FI published *Fiduciary Responsibility: Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment* (UNEP FI 2009). This report extended the Freshfields report by exploring legal options on how best to integration ESG issues into investment processes, particularly with respect to investment mandates and investment management contracts.[72]
- In 2015, UNEP FI, the Principles for Responsible Investment (PRI), the UNEP Inquiry into the Design of a Sustainable Financial System and the United Nations Global Compact launched *Fiduciary Duty in the 21st Century* (PRI, UNEP FI et. al., 2015),[73] which analysed investment practice and fiduciary duty in eight countries: Australia, Brazil, Canada, Germany, Japan, South Africa, the UK and the US.
- Following on from this report, in January 2016, UNEP FI, PRI and The Generation Foundation launched a three-year project, Fiduciary Duty in the 21st Century,[74] to encourage legal clarification of investors' obligations and duties in relation to the integration of (financially material) ESG issues in investment practice and decision-making.

71 unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf
72 unepfi.org/fileadmin/documents/fiduciaryII.pdf
73 unepfi.org/fileadmin/documents/fiduciary_duty_21st_century.pdf
74 unepfi.org/investment/fiduciary-duty/

Question 102	Topic: Mainstreaming risk and impact

In your view, should investors and / or credit institutions, when they provide financing, be required to carry out an assessment of the potential long-term environmental and climate risks on the project, economic activity, or other assets?

Yes, in our view, investors and credit institutions, when they provide financing should be required to carry out an assessment of the potential long-term environmental and climate risks and impact on the project, economic activity, or other assets.

We read the question through the lens of the double materiality concept introduced by the Commission in its 2019 non-binding guidelines to the Non-Financial Reporting Directive. All sustainability issues eventually pose financial risks to businesses, investors and credit institutions' portfolios and to the financial system. Risks can vary by country or region, line of business, type of cover, economic sectors, client characteristics, over time, and due to other factors. Such risks must be anticipated, measured and mitigated by financial institutions. In turn, financing decisions also affect companies 'strategies, business models, and by extension the broader environmental and social ecosystem.

In addition, it is our view that the assessment and management of long-term risks should not be limited to environmental and climate risks but that it should account for all sustainability-related risks including environmental, social, governance and economic risks.

Banks:
In supporting the proposal we acknowledge that (a) such an assessment may be challenging for each individual smaller transaction, and (b) a transaction-focused assessment does not give a full picture and lend itself to an evaluation of strategic opportunities to grow more sustainable lending business. We therefore recommend that this proposal be supplemented by two additional proposals, namely that:

- Banks should carry out a periodic (annual) impact analysis of their entire portfolio and based on that set targets and KPIs to improve their key impacts (as required of Signatories to the Principles for Responsible Banking[75] and as per the methodology of the UNEP FI Portfolio Impact Analysis Tool.[76])
- Banks should do more detailed assessments for large transactions, for large projects and for significant clients to ensure their activities, their businesses and their strategies are aligned with climate and other key sustainability goals.[77]

Investors:
The fiduciary duties of investors must be adapted to require them to incorporate sustainability-related risks into their investment analysis and decision-making processes, consistent with their investment time horizons.[78] Systemic issues, like climate change or biodiversity loss, may significantly alter the investment rationale for particular sectors, industries and geographies and may have generalised negative impacts on economic output. Ultimately, the consideration of sustainability issues must become one of the core characteristics of a prudent investment process. In this regard, we commend the Commission for including sustainability in the Solvency II delegated acts consultation (2020). We also encourage the Commission and EU co-legislators to clarify in MiFID II and UCITS delegated acts i.e. consultation - that sustainability should be considered by an investor in the fulfilment of their core duties.

In addition, investors should be encouraged and required to understand and manage their positive and negative impacts across their portfolios, this being in the best interest of all stakeholders, public and private. UNEP FI in partnership with PRI has commissioned the law firm Freshfields to analyse how investors might explicitly incorporate sustainability impacts in investment decision making processes.[79] This project explores the legal contours around when and how investors can or are even required to assess and manage sustainability impacts as part of their investment decision-making process (see also question 91).

Insurers:
Sustainability issues equally pose a shared risk to insurers, providing a strong incentive for innovation and collaboration. Sustainability issues have varying implications, with some having the potential to be financially material (e.g. climate change, ecosystem degradation, pollution). The Principles for Sustainable Insurance[80] initiative recently launched its first guide for managing environmental, social and governance risks in non-life insurance business.[81] This document is a result of a multi-year initiative around the Principles for Sustainable Insurance that focuses on managing sustainability risks in non-life insurance business—also known as property and casualty insurance business.

75 unepfi.org/banking/bankingprinciples/
76 unepfi.org/publications/positive-impact-publications/portfolio-impact-tool-for-banks/
77 unepfi.org/publications/positive-impact-publications/corporate-impact-tool/
78 fiduciaryduty21.org/publications.html
79 unepfi.org/investment/legal-framework-for-impact/
80 unepfi.org/psi/
81 unepfi.org/wordpress/wp-content/uploads/2020/06/PSI-ESG-guide-for-non-life-insurance.pdf

List of external resources

On the UNEP FI Positive Impact Initiative

- unepfi.org/positive-impact/positive-impact/
- unepfi.org/positive-impact/tools-frameworks-for-holistic-impact-analysis/unep-fi-impact-analysis-tools/
- unepfi.org/positive-impact/working-groups/open-review-process/
- unepfi.org/wordpress/wp-content/uploads/2018/11/PI-Impact-Radar.pdf
- unepfi.org/wordpress/wp-content/uploads/2018/11/Rethinking-Impact-to-Finance-the-SDGs.pdf
- additional resource for impact: impactmanagementproject.com/

On the UNEP FI Principles for Responsible Banking

- unepfi.org/banking/bankingprinciples/
- unepfi.org/banking/bankingprinciples/resources-for-implementation/
- on climate: unepfi.org/banking/bankingprinciples/collective-commitment/

On the UNEP FI Principles for Sustainable Insurance

- unepfi.org/psi/
- unepfi.org/wordpress/wp-content/uploads/2020/06/PSI-ESG-guide-for-non-life-insurance.pdf

Other climate-related UNEP FI projects

- unepfi.org/banking/high-level-recommendations-on-the-voluntary-application-of-the-eu-taxonomy-to-core-banking-products/
- unepfi.org/net-zero-alliance/
- unepfi.org/climate-change/tcfd/

UNEP FI work on fiduciary duty

- unepfi.org/investment/fiduciary-duty/
- unepfi.org/investment/legal-framework-for-impact/
- unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf
- unepfi.org/fileadmin/documents/fiduciaryII.pdf
- unepfi.org/fileadmin/documents/fiduciary_duty_21st_century.pdf
- fiduciaryduty21.org/publications.html

Other initiatives

- iigcc.org
- transitionpathwayinitiative.org

UNEP FI work on ecosystems and biodiversity

- unepfi.org/publications/ecosystems-publications/exploring-natural-capital-opportunities-risks-and-exposure-a-practical-guide-for-financial-institutions/
- unepfi.org/publications/ecosystems-publications/natural-capital-credit-risk-assessment-in-agricultural-lending/
- unepfi.org/publications/ecosystems-publications/integrating-natural-capital-in-risk-assessments/
- unepfi.org/publications/ecosystems-publications/natural-capital-protocol-finance-sector-supplement/
- unepfi.org/publications/banking-publications/drought-stress-testing-tool/

Additional resources on ecosystems and biodiversity

- ipbes.net/global-assessment
- www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf
- cbd.int/article/2020-01-10-19-02-38
- unepfi.org/ecosystems/exploring-natural-capital-opportunities-risks-and-exposure-encore-tool/
- dnb.nl/en/news/news-and-archive/dnbulletin-2020/dnb389169.jsp
- globalcanopy.org/press-centre/there-can-be-no-return-business-usual-finance-sector
- pionline.com/esg/investors-urge-development-biodiversity-metrics
- shareaction.org/wp-content/uploads/2020/06/ShareAction-Biodiversity-Report-Final.pdf
- dnb.nl/binaries/Biodiversity%20opportunities%20risks%20for%20the%20financial%20sector_tcm46-389029.pdf
- cbd.int/doc/c/4c88/dbb1/e264eaae72b86747416e0d8c/sbi-03-05-add1-en.pdf
- oecd.org/environment/resources/biodiversity/report-a-comprehensive-overview-of-global-biodiversity-finance.pdf
- oecd.org/ocean/OECD-work-in-support-of-a-sustainable-ocean.pdf
- ec.europa.eu/commission/presscorner/detail/en/IP_20_986.
- ngfs.net/sites/default/files/medias/documents/ngfs_annual_report_2019.pdf