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Ministry of Finance
Attn. Mr M. Snel
PO Box 20201
2500 EE The Hague

Date	Place
30 October 2019	Zeist

Subject *box 3 adjustment*

Dear Mr Snel,

On 6 September, you sent a letter to the Lower House of Parliament with your intentions regarding the adjustment of box 3, to come into effect in 2022. On behalf of Triodos Bank N.V. we would make the following remarks.

The Lower House of Parliament has urged you to develop a system for box 3 that is based on actual returns on capital. We support this choice. In your proposal, however, the fixed base of box 3 is retained; you propose a return of 5.33% for all investment products, and make a substantial distinction between the fixed returns on savings and on investment products. We are concerned about the consequences.

Triodos Bank N.V. has been operating as a value-driven financial institution since 1980 on the basis of the 'all finance is impact finance' principle. Together with our savers, investors and borrowers, we ensure on a daily basis that lending and investing in the real economy is weighed against its positive impact on the community and society at large. Return always has various aspects, the financial aspect being just one of them. In our opinion, the community benefits from 'patient capital', in which both the intended social return (positive impact) and the financial return weigh heavily. This is particularly important at this time, with all kinds of necessary transitions (controlling climate change, restoring biodiversity, promoting social inclusiveness, etc.) on the agenda. Your proposal to set returns on investments at a fixed rate of 5.33% ignores the diversity of the financial landscape and implicitly favours investment products with a high financial return objective. That means that investors opting for a combination of positive social impact, a long-term horizon, modest risk and controlled financial return are financially harmed.

The disadvantage of any flat-rate approach to capital return - including return on investment - is that different situations are treated the same for tax purposes and that it

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pays off, in terms of taxation, to take significant risks. This has been the case in recent years, on the understanding that the current exemption and graduated flat-rate returns have brought some relief. With your proposal, however, this disadvantage of the flat-rate approach is again increased significantly, since all investment returns 'from the first euro' are set at a flat rate of 5.33%.

Many citizens want their investments to make a positive contribution to society and consider positive impact, a long-term commitment and a moderate risk profile more important than the highest possible financial return. Your proposal puts them at a disadvantage compared to investors opting for high-yield investments that can afford the associated risks. It is difficult to understand why the tax authorities reward taking risks (often coupled to a short-term focus) and financially harm investors that have a social purpose and a controlled risk profile.

Furthermore, the introduction of the separate (and much lower) flat-rate return applicable to savings products will lead to new effects that we consider undesirable. The difference between these flat-rate returns (savings products: 0.09% and the investment products: 5.33%) is so big that cautious investors are more likely to resort to savings products, purely in light of taxation, as you have stated in your own letter. We wonder how this fits in with the government's view that the economy would benefit from the use of more equity capital.

In short, we fear that your proposal will have a negative impact on the sustainable funds and investments that we so desperately need these days. These include low-risk investments in green bonds (as recently issued by the Dutch government) and social bonds, which do not or cannot fall under the so-called green scheme. Return on those investments is lower than on investments in securities with a high-risk profile. Your proposal encourages investors to avoid these sustainable investments. This cannot be your intention, can it? We do not see any justification for this in your proposal.

Incidentally, the ongoing European debate on green taxonomy will unfortunately lead to an increase in the costs of sustainable funds in favour of non-sustainable funds with, for example, high levels of fossil investment. We have already shared our concerns in that respect with the Minister of Finance.

The manner in which you deal with the standing green investment facility is also relevant here. Your letter does not address this, but we would like you to give us more clarity on this matter in the near future.

Finally, by accepting the Climate Agreement, the government has explicitly opted for the sustainable transition of the Netherlands. We welcome this wholeheartedly and Triodos Bank N.V. is happy to contribute to it where possible. This transition also requires a major

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change in thinking and acting in the financial sector, which is marked by the Dutch financial sector signing the financial commitment to the Climate Agreement. In addition to risk and return, the focus will now be on impact (with regard to climate: funding with the lowest possible carbon footprint). That will make a positive contribution. Climate transition requires a lot of patient capital with both a risk aversion profile and a high risk profile in order to broadly finance new and existing sustainable companies and projects. By introducing tax relief for those seeking high returns with a high risk profile is not in line with this. In addition, the financial sector will have to do its utmost to energetically decarbonise current financing and internalise external costs, on pain of 'stranded assets' that will sooner or later cause major losses; fortunately, financial regulators are explicitly asking attention for this theme. It would mean a significant contribution if this crucial change were also supported in terms of taxation. That should at least be part of the building block exercise you are referring to. In addition to switching to a realistic return system - which would in itself solve many of the above problems - it would be wise to take a broader look at 'non-sustainable investments' which so far may offer a high return in terms of dividend or otherwise, but should be phased out and discouraged in light of the transition and the importance of financial stability. We hope that promoting sustainability via box 3 will be an important focus in the building block exercise. The European debate on a 'brown add-on' in the capitalisation of banks and the need for a 'brown' taxonomy, as well as the commitment of the Dutch financial sector to establish and significantly reduce the carbon footprint of financing, are a source of inspiration here.

Should you have any queries about the above, please do not hesitate to contact us.

Yours sincerely,

Peter Blom
CEO Triodos Bank N.V.

cc. Chairman of the Parliamentary Standing Committee on Finance, Lower House