

Subject *the Sustainable Finance Taxonomy debate in the European Union*

Dear Mr Lintilä,

We write you urgently as Secretary General of the European Federation of Ethical and Alternative Banks and Financiers (FEBEA) and Executive Director of the Global Alliance on Banking on Values (GABV). We have been applying social and environmental sustainability criteria to all our finance decisions for several decades across billions of Euros of lending and impact investing and we appreciate your attention on a matter that could make a huge difference to the progress of sustainability and sustainable finance within the European Union.

We are very concerned with the current state of the debate on taxonomy, as it may introduce an unintended consequence that could jeopardize the entire premise of the sustainable finance action plan. We had welcomed the sustainable finance action plan's objectives: mainstreaming sustainability in finance decisions, re-allocating capital towards sustainable causes, and fostering transparency and long termism in finance. The action plan's objectives recognize the notion that all finance has an impact, and that it will require all financial market participants' involvement to get to those objectives. But we have a major concern relating to the taxonomy debate and its scope of application which ironically runs the risk becoming a barrier rather than an enabler of sustainable finance. In essence, by loading requirements only on to those market participants who are making efforts in sustainability, the EU would avoid disclosure where it is needed most – namely in activities which are not sustainable. In effect, there could be a disincentive to move towards sustainable finance at a time where Europe needs it most.

The current combination of the Council's approach for the Taxonomy Regulation, following the Commission's proposal, and the TEG's detailed report for the first set of activities that are regarded environmentally sustainable if they meet certain criteria will:

- impose reporting requirements on the subset of the market that intends to invest sustainably; and
- require traceable thus audit-able information from companies that intend to operate sustainably.

The current combination will not:

- impose any requirements on funds that invest in harmful or polluting activities; and
- require any information from companies that undertake harmful or polluting activities.

This observation implies that funds and companies that intend to re-allocate money to more sustainable causes, will be faced with costly reporting requirements and audit costs, while harmful and polluting funds and companies can continue business as usual. In other words, the current set regulates the solution instead of the problem. This is conflicting with basic principles in EU-legislation, that market failures justify regulation, and that regulation must address and reduce observed problems. In this case the observed problem is a lack of investment capital for sustainable investments. That gap, however, will increase with higher

regulatory costs for specific funds in the green corner of the market. The market failure that the taxonomy proposal may address is green washing by (large) funds that claim to be green. But that doesn't change finance flows across the market nor will it fundamentally change finance decisions as purported by the action plan. The taxonomy proposal and the Council's general approach are counter-effective for the main goal of the sustainable finance action plan: re-allocating capital towards sustainable causes. Money in the market seeks the highest financial return and tends to flow from high cost to low cost alternatives, *ceteris paribus*. So, for the same return on investments, in this case, money will flow from green to brown activities, and the main market failure will not be addressed.

Moreover, the granularity of the criteria requires such auditing processes, that big scale funds that are part of large (institutional) investment companies and who invest in large, listed companies, will be able to bear the costs, but smaller funds, especially those AIFs that fund the new, innovative, non-listed entrepreneurs, will not be able to afford the costs, for it may evaporate the expected return of their investments. Nor will the smaller investees, and for example smaller organic and circular farms, be able to prove they are taxonomy eligible. This is sad, as it is exactly this last category of innovative companies that need funding for their contribution to sustainable development, but their funds will be crowded out by large funds of large listed companies. Being sustainable is very different from proving taxonomy eligibility, the difference being significant auditing costs. A restricted scope of application of the taxonomy could easily raise an entry barrier for smaller AIFs, precisely those that fund whose activities the action plan was meant to support, while at the same time it will ignore funds financing harmful activities.

Alternatively, the European institutions could choose for a full scope of actors, recognizing that all finance has an impact: a level playing field between all financial market participants, regardless what they offer, so that all funds are faced with the same reporting requirements of the degree of sustainable activities in their portfolios. The scope of the taxonomy should at least be the same as the scope for the Disclosure of Sustainability Regulation (DSR). In this way, also funds that finance harmful activities will have to be explicit with respect the degree of sustainable investments in their portfolios. This scope of all financial market participants offering financial products is defined in Article 2(1) DSR (see annex to this letter). **Only if all funds and all companies are required to be transparent about their impact on planet and people, then money may flow from brown to green activities. Only comparable information for all financial products implies that investors can make truly informed choices, knowing that all finance has an impact.** In order to make a full scope application feasible, new requirements must be as simple and feasible as possible. This can be achieved by aligning the disclosure requirements specified in article 4 of the draft Taxonomy Regulation to the DSR, notably article 6 DSR (see annex to this letter).

Finally, finance decisions regard the full spectrum of risks and degrees of environmental sustainability. Market actors, and especially their supervisors gathered in the NGFS, are waiting for a classification that also reveals which activities are no longer regarded as environmentally sustainable as meant in the Paris Agreement. At least, the Taxonomy

Regulation should announce in a review clause that a classification of non-sustainable activities will be considered as well.

We urge you to take decisions that genuinely reflect the original objectives of the sustainable financial action plan: reorienting capital flows towards sustainability, integrating sustainability in risk management, and fostering a culture of transparency and long-termism.

Brussels October 29, 2019

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FEBEA (European Federation of Ethical and
Alternative Banks)

Dr Marcos Eguiguren
Executive Director
GABV (Global Alliance for Banking on
Values)

Copy to:

- the financial attaché for Finland, dealing with the EU's intended classification of sustainable investments, in short "the taxonomy", Mrs Marianna Uotinen;
- the rapporteurs and shadow rapporteurs in this matter of the European Parliament;
- DG FISMA's officials assigned with the matter; and
- member states' financial attachés.

FEBEA (European Federation of Ethical and Alternative Banks), is a non-profit organisation founded by European financial institutions in order to develop ethical and sustainable finance in a concrete way. It currently includes 28 members in 15 European countries, with around 30.5 billion euros of total assets and 650,000 customers. Learn more at febea.org

GABV (Global Alliance for Banking on Values), is an independent global network of banks that aims to direct finance towards sustainable economic, social, and environmental development. It is composed of 55 members and seven strategic partners, reaching approximately 56 million customers, and investing a total of 200 billion euros. Learn more at gabv.org

Members of FEBEA:

Aps Bank	Malta	www.apsbank.com.mt
Banca Etica	Italy	www.bancaetica.it
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Caisse Solidaire	France	www.caisse-solidaire.org
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Cassa Rurale di Bolzano	Italy	www.raiffeisen.it/it/cassa-rurale-di-bolzano.html
Cooperative Bank of Chania	Greece	www.chaniabank.gr
Bank of Karditsa	Greece	www.bankofkarditsa.gr
Cooperative For Ethical Financing	Croatia	www.ebanka.eu
Credal	Belgium	www.credal.be
Crédit Coopératif	France	www.credit-cooperatif.coop
Cultura Bank	Norway	www.cultura.no
Erste Social Finance	Austria	www.erstegroup.com/en/about-us/social-banking
Etimos	Italy	www.etimos.it
Femu Qui	France	www.femuqui.com
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Fundacion Finanzas Eticas	Spain	www.finanzaseticas.net
Hefboom	Belgium	www.hefboom.be
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Merkur Bank	Denmark	www.merkur.dk
SIDI	France	www.sidi.fr
France Active	France	www.franceactive.org
TISE	Poland	www.tise.pl
Ulster Community Investment Trust	UK & Ireland	www.ucitltd.com

Members of GABV in Europe:

Cultura Bank	Norway	www.cultura.no
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Magnet Hungarian Community Bank	Hungary	www.magnetbank.hu
GLS Bank	Germany	www.glsbank.de
Opportunity Bank Serbia	Serbia	www.obs.rs
Freie Gemeinschaftsbank Genossenschaft	Switzerland	www.gemeinschaftsbank.ch
Bank of Karditsa	Greece	www.bankofkarditsa.gr
Folkesparekassens	Denmark	www.folkesparekassen.dk
UmweltBank	Germany	www.umweltbank.de
Charity Bank	UK	www.charitybank.org

Annex: draft compromise texts for scope and disclosure requirementsAlignment of Article 1(2) TR with Article 2(1) DSR: scope of application

(2) This Regulation applies to the following:

- (a) measures adopted by Member States or by the Union setting out any requirements on financial market participants in respect of financial products or corporate bonds;
- (b) financial market participants offering financial products within the Union:
 - i. an insurance undertaking which makes available an insurance-based investment product (IBIP);
 - ii. an investment firm which provides portfolio management;
 - iii. an institution for occupational retirement provision (IORP);
 - iv. a manufacturer of a pension product;
 - v. an alternative investment fund manager (AIFM);
 - vi. a pan-European personal pension product (PEPP) provider;
 - vii. a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013 (EUVeCa);
 - viii. a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013 (EUSEF);
 - ix. a management company of an undertaking for collective investment in transferable securities (UCITS management company); or
 - x. a credit institution which provides portfolio management.

Alignment of Article 4 TR with Article 6(3) DSR: disclosure requirements

“The classification that follows from this Taxonomy Regulation should be applied in financial market participants’ disclosure requirements in the following manner:

- (a) for AIFMs, in the disclosures to investors referred to in Article 23(1) of Directive 2011/61/EU;
- (b) for insurance undertakings, in the provision of information referred to in Article 185(2) of Directive 2009/138/EC or, where relevant, in accordance with Article 29(1) of Directive (EU) 2016/97;
- (c) for IORPs, in the provision of information referred to in Article 41 of Directive (EU) 2016/2341;
- (d) for managers of qualifying venture capital funds, in the provision of information referred to in Article 13(1) of Regulation (EU) No 345/2013;
- (e) for managers of qualifying social entrepreneurship funds, in the provision of information referred to in Article 14(1) of Regulation (EU) No 346/2013;
- (f) for manufacturers of pension products, in writing in good time before a retail investor is bound by a contract relating to a pension product;
- (g) for UCITS management companies, in the prospectus referred to in Article 69 of Directive 2009/65/EC;
- (h) for investment firms which provide portfolio management or provide investment advice, in accordance with Article 24(4) of Directive 2014/65/EU;
- (i) for credit institutions which provide portfolio management or provide investment advice, in accordance with Article 24(4) of Directive 2014/65/EU;

- (j) for insurance intermediaries and insurance undertakings which provide insurance advice with regard to IBIPs and for insurance intermediaries which provide insurance advice with regard to pension products exposed to market fluctuations, in accordance with Article 29(1) of Directive (EU) 2016/97;
- (k) for AIFMs of ELTIFs, in the prospectus referred to in Article 23 of Regulation (EU) 2015/760;
- (l) for PEPP providers, in the PEPP key information document referred to in Article 26 of Regulation (EU) 2019/1238.”