AFME's Response

European Commission's proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment

23 August 2018

General comments

The Taxonomy Regulation[1] is a foundational proposal of the European Commission's Sustainable Finance Action Plan and we welcome the opportunity to provide feedback on this important initiative.

We agree that a lack of clarity as to what constitutes "sustainability" is a key obstacle for increasing and directing capital flows towards sustainable investments, which as a small and nascent market requires appropriate and proportionate impetus. Therefore, we welcome the current proposal. As we have set out in previous AFME documents, we support both the ambitious objectives of the Action Plan and its proposed "step-by-step" approach.

We see this Taxonomy proposal as being a fundamental building block, indeed as being the cornerstone, of the project to build, in the words of the High-Level Expert Group, "*the world's most sustainable financial system*".

In consequence, we believe that it is critical that this Taxonomy proposal be as effective as possible in delivering its core objective set out in the European Commission Action Plan to "*provide clarity on which activities can be considered 'sustainable'* ". We would warn against attempts to broaden the scope of the Commission's current text to achieve other objectives, no matter how desirable in the long term, as such attempts may well be premature, and consequently ineffective.

Accordingly, we believe that the review of the Taxonomy proposal should consider the following key principles:

1) **Develop the Taxonomy prior to any important review of existing financial regulations**: the establishment of an EU Taxonomy and creating standards and labels for investments products are crucial enabling factors for the success of the European Commission's Action Plan. We would therefore recommend the Commission to focus on delivering a workable and flexible Taxonomy as a vital first step before incorporating ESG considerations in other parts of the financial regulations, such as intended with the Commission's amendments to the delegated act supplementing MiFID II and IDD on suitability requirements.[2]

2) **Ensure clarity as to the product scope with respect to the different components of the proposal**: the stated purpose of the proposal is to **establish criteria for determining which economic activities are sustainable**. It then permits extrapolation to determine the sustainability of assets. If a company performs a mix of sustainable and unsustainable activities, shares of a company can, for example, be designated by a degree of sustainability corresponding to the proportion of turnover that originates from sustainable activities. However, the proposal also places some specific requirements on Member States and market

[1] Defined in this document as the Taxonomy Regulation, Taxonomy proposal, proposal or EU Taxonomy
[2] See AFME response to the Commission's amendments to the delegated act supplementing MiFID II on suitability requirements, 21 June 2018

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participants with respect to a limited set of financial products. Article 1(2)(a) of the current proposal defines a scope for some requirements that is limited to corporate bonds and financial products (including inter alia portfolio management, AIF, UCITS, pension and insurance products). The European Commission should therefore ensure that the Taxonomy Regulation is aligned with the Explanatory Memorandum[3] such that it is clear that the Taxonomy applies to economic activities rather than companies or assets. The extension to other financial products could be envisaged in a second step once a detailed costs/benefits analysis has been run.

3) **Ensure clarity as to the scope of market participants**: the main purpose of the proposal is to help provide information as to the environmental sustainability of economic activities and of financial investments. This information will be relevant and of use for all market participants and for a variety of different business activities. The proposal also contains a set of requirements placed on a limited set of market participants. As a general point, we believe that there should be no exclusions from the process of moving towards a more sustainable financial system. At the same time, and in order to ensure their appropriateness and effectiveness, the specific obligations should be carefully tailored to the specific business profiles of market participants. More concretely, banks should not be required to apply sustainability criteria over all their very wide range of offerings but instead make sure that solutions provided by banks as a response to clients' demand for sustainable investments meet the criteria set out in the proposal. It is in fact important not to take out of the equation that clients may have legitimate needs for solutions driven by Asset-Liability Management (ALM), accountancy, prudential and performance constrains that are not necessarily matching sustainability objectives. Gathering all investment solutions into the environmental sustainability Taxonomy filter would result in an illegitimate discredit thrown to solutions that are not qualified as sustainable but that bring appropriate or suitable remedies to clients tasked with complex risk management, ALM optimisation, long term profitability objectives etc which could have severe unintended consequences for financial stability. We therefore recommend that the Taxonomy and standards around investor duty towards sustainability stay in the remit of market participants making the decision to make sustainable investments.

4) **Ensure clarity as to the territorial scope**: the draft Regulation does not clearly specify whether the Taxonomy also applies to economic activities outside of the EU. The Taxonomy is intended to enable classification of economic activities but does not say whether the geographical location of these activities is relevant for its application. AFME expects the Taxonomy to apply to any economic activity regardless of their geographical location. If this was not the case, it will ignore environmentally sustainable finance opportunities in, for example, emerging markets. Given the global scope of sustainability issues, it is important that the EU Taxonomy should be adaptable to economic activities and investments on a global basis, without creating an unlevel playing-field for EU entities operating in third-countries. The EU Taxonomy would need to be calibrated in such a way that it can be replicated by third-countries, and that it does not affect the competitiveness of EU market participants globally, whilst keeping the EU market for sustainable investments and projects attractive to foreign investments. At the same time, we recommend EU institutions to promote actively the use of the EU Taxonomy approach in third-countries with non-EU policymakers at global fora so as to encourage convergence in global best-practice.

5) **Remain open to the variety of existing ESG strategies, practices and taxonomies**: as currently drafted, the application of the Taxonomy seems to be limited to green thematic funds or capital market products such as green bonds but ignores or even perhaps rejects other sustainable investing strategies adopted by European investors such as exclusionary screening, best-in class screening for ESG performance, norms-

[3] See page 12 of the draft Regulation which specifies that "*[t]his proposal provides the basis to establish the environmental sustainability of economic activities, rather than that of companies or assets*"

based screening, sustainability themed investing, integration of ESG factors, shareholder engagement and stewardship. In addition, the draft Regulation seems to ignore existing private-led taxonomies and market practices, including in the Recitals, despite the statement of the Action Plan to "*[build] on existing work, where relevant*"[4]. In the following pages, we have listed existing frameworks that could be taken into account in the Taxonomy Regulation and the work being undertaken by the Technical Expert Group. Finally, the Taxonomy proposal should also allow for sufficient flexibility for "transition" investments – meaning investments in companies that are taking meaningful strides towards environmental sustainability, rather than to focus exclusively on investments that are already fully sustainable.

6) **Ensure flexibility and regular updates:** the proposal recognises the importance of ensuring that "*the taxonomy will only be used once it is stable and mature*". However, it is worth noting that sectors and associated business models are themselves evolving quite rapidly in response to numerous challenges, so that it may be unlikely that a "*stable and mature*" Taxonomy could ever be achieved. Therefore, it is important that the proposal adds an element of ongoing flexibility so that new technologies can be incorporated. Therefore, the Sustainable Finance Platform introduced in Article 15 or a similar standing body should be set-up in a way to allow for a regular update of the Taxonomy.

7) **Clarify the potential impact on liquidity of assets becoming stranded**: Article 14(h) specifies that the technical screening criteria "*shall take into account the potential impact on liquidity in the market, the risk of certain assets becoming stranded as a result of losing value due to the transition to a more sustainable economy*". Although we recognise the vital importance of identifying potential stranded assets and mitigating the risks of a transition on their value, we consider that paragraph (h) goes beyond the objective of building a Taxonomy. More importantly, Article 14(h) will make the evaluation of economic activities difficult given that it is currently challenging to map and quantify the transition risks to the financial system. We consider that further studies and research such as the work undertaken by the Network for Greening the Financial System, would need to be completed so that such transition risks can be identified and priced. At a more general level, we believe that sound regulatory practice, including early communication by regulators as to regulatory priorities and regulatory intentions, can help the process of transition to a sustainable financial system, and thus can help mitigate the challenges related to stranded assets.

8) **Finding the right balance:** the proposed Regulation should acknowledge the fact that economic activities are very heterogeneous, and wide variations in business models exist, even within the same sector. For instance, an operator of a wind farm which generates power would have strong low-carbon credentials, however if the wind farm has been constructed in a location where it has created negative impacts on biodiversity, protected species, the people dwelling in the area etc., then this "trade-off" also needs to be understood or, considered when the Taxonomy will, at a later stage, look at the remaining EU priorities, including biodiversity and social impacts.

[4] European Commission's Sustainable Finance Action Plan, Action 1, Page 4, 8 March 2018

Specific comments

1. **Develop the Taxonomy Regulation prior to any important review of existing financial regulations**

A workable, flexible and dynamic Taxonomy is a pivotal initiative which should be achieved prior to any important review of existing financial regulations, including MiFID II[5] and the IDD. We believe that the progressive development of a sustainability Taxonomy with strong involvement from sustainability and financial market experts is a pre-requisite to achieve the objective of integrating ESG considerations into the investment decision and advisory processes in a consistent manner across sectors.

Without the establishment of the EU Taxonomy first, firms would not have clear, common criteria to use to ascertain the degree of an investment's sustainability and compare these investments appropriately which could lead to inconsistent and divergent comparisons of sustainable investments and could increase the 'greenwashing' risks which the European Commission is trying to tackle.

Finally, for these changes to be successful it would be important to have sufficient supply of investment products available to address the varied sustainability-related requirements from clients, once these preferences have been articulated. The establishment of an EU Taxonomy and creating standards and labels for investments products are therefore crucial enabling factors for the success of this initiative.

Recommendation 1: We therefore believe that any potential changes to other financial regulations should reference the EU taxonomy Regulation and should take account of the granularity of the taxonomy and how dynamic it is. The European Commission's request to EIOPA and ESMA for technical advices with regard to the integration of sustainability risks and factors in investment decision and advisory processes is an important step in this process for which we would look forward to be consulted on.

2. **Ensure clarity as to the product scope with respect to the different components of the proposal**

We agree with the Taxonomy proposal's objective to "[p]*rovide clarity at EU level on what are sustainable economic activities*"[6] and that uniform criteria to determine the degree of sustainability of an economic activity are accordingly set at the EU level rather than at a Member State level[7], therefore avoiding market fragmentation.

However, we understand that the Taxonomy places some specific requirements on Member States and market participants with respect to a limited set of financial products and corporate bonds - the former being defined by reference to the Disclosures proposal as portfolio management, AIF, UCITS, pension and insurance products.

While the Explanatory Memorandum highlights that the Taxonomy proposal "*provides the basis to establish the environmental sustainability of economic activities, rather than that of companies or assets*", Article 1(2)(a) limits the scope of the taxonomy to "*financial products or corporate bonds*" which do not represent the total bond issuance market given that many sovereign, supranational and ABS instruments have been issued under the green bond principles and other types of taxonomies. The EU institutions and Member States should

[5] See AFME's response to the Commission's amendments to the delegated act supplementing MiFID II on suitability requirements, 21 June 2018
[6] Commission Staff Working Document Impact Assessment SWD(2018) 264 final
[7] As stated in Recital 9 of the Taxonomy Regulation

therefore ensure that the text of the Regulation is aligned with the Explanatory Memorandum such that it is clear that the Taxonomy applies to economic activities rather than companies or assets.

Similarly, shares issued to finance sustainable economic activities are not included in the scope under Article 1(2)(a) while the Explanatory Memorandum explicitly clarifies that the uniform criteria for environmentally sustainable activities will permit to determine the degree of environmental sustainability of a given company, for the purposes of investment, and further suggests that, where companies perform several activities with only some of them being environmentally sustainable, they may have different degrees of environmental sustainability, that can be determined, for instance, based on the proportion of turnover that originates from the sustainable activities as compared to other activities.

This preference for specific financial products will restrict the potential for mobilising private capital towards sustainable investments which is at the core of the European Commission's Action Plan on Financing Sustainable Growth. Moreover, this approach will add to the existing European debt bias while also going against the objective of the Capital Markets Union to boost equity investing and "*provide new sources of funding for business, help increase options for savers and make the economy more resilient*"[8]. Finally, this will still allow the market considerable room for interpretation in defining what is a green or sustainable investment, for example, in equities; thus defeating the Taxonomy proposal's objective – clearly outlined in the Explanatory Memorandum – of addressing the "*divergence of national taxonomies and market-based initiatives at national level, in order to tackle the risk of 'greenwashing', to make it easier for economic operators to raise funds for environmentally sustainable activities across borders, and try to establish a level playing field for all market participants*".

In addition, in the case of a green bond issued by a corporate, it is unclear whether the taxonomy would apply to the bond, or the bank underwriting the bond and marketing to investors, or the corporate itself. We would welcome the latter to be in line with the Green Bond Principles.

Recommendation 2: (a) We recommend clarifying the scope of the Taxonomy such as mentioned in page 12 of the Explanatory Memorandum so that it is clear that the Taxonomy is set out to determine the degree of which economic activities, rather than companies or assets, are sustainable. The extension to other financial products could be envisaged in a second step once a detailed costs/benefits analysis has been run.

(b) In Article 2(c) which defines financial products, we recommend removing the reference to the Disclosures proposal and clearly insert the definition in the Regulation to avoid any legalistic issues which might arise from cross-referencing.

(c) In Article 2(c), we also recommend clarifying the meaning of "portfolio management" (currently in Article 2(j) of the Disclosures proposals) which is a financial service rather than a financial product, or whether it was intended to refer to investment portfolios instead.

[8] Commission's Action Plan on Building a Capital Markets Union, 30 September 2015

3. Ensure clarity as to the scope of market participants

The main purpose of the proposal is to help provide information as to the sustainability of economic activities and of financial investments; this information will be relevant and of use for all market participants and for a variety of different business activities.

However, the proposal also contains a set of requirements placed on a limited set of market participants. As a general point, we believe that there should be no exclusions from the process of moving to a more sustainable financial system. But at the same time, and in order to ensure their appropriateness and effectiveness, the specific obligations should be carefully tailored to the specific business profiles of market participants. Indeed, banks are acting in accordance with their clients' wishes, be it as part of their financial products manufacturing or distribution/execution activities. When it comes to clients' needs for sustainable investments, the Taxonomy would then be a necessary tool for banks to offer the appropriate or suitable solutions to their clients. It is through this lens that banks can bring their contribution to the improvement of sustainable investments. However, banks should not be required to apply sustainability criteria over all their very wide range of offerings. Banks should just make sure that their solutions offered in response to clients' demand for sustainable investments meet the Taxonomy.
In addition, in the case of a green bond issued by a corporate, it is unclear whether the Taxonomy would apply to the bond, or also to the bank underwriting the bond and marketing to investors, or the corporate itself. Again, there appears to be a disparity between the explained intention of the proposal (the Explanatory Memorandum) and the proposed Regulation.

Recommendation 3: (a) We recommend that the Taxonomy and standards around investor duty towards sustainability stay in the remit of investors making the decision to make sustainable investments.

(b) We recommend providing more clarity as to which market participants the Taxonomy is intended to apply to.

4. Ensure clarity as to the territorial scope

The Regulation does not clearly specify whether the Taxonomy also applies to economic activity outside of the EU. The Taxonomy is intended to enable classification of economic activities but does not say whether the geographical location of these activities is relevant for its application. AFME expects the Taxonomy to apply to any economic activity regardless of its geographical location. If this was not the case, it will ignore environmentally sustainable finance opportunities, for example, in emerging markets.

Given the global scope of sustainability issues, it is important that the EU Taxonomy should be adaptable to economic activities and investments on a global basis, without creating an unlevel playing-field for EU entities operating in third-countries. The EU Taxonomy would need to be calibrated in such a way that it can be replicated by third-countries and, that it does not affect the competitiveness of EU market participants globally, whilst keeping the EU market for sustainable investments and projects attractive to foreign investments.

At the same time, we recommend EU institutions to promote actively the use of the EU Taxonomy approach in third-countries with non-EU policymakers at global fora so as to encourage convergence in global best-practice.

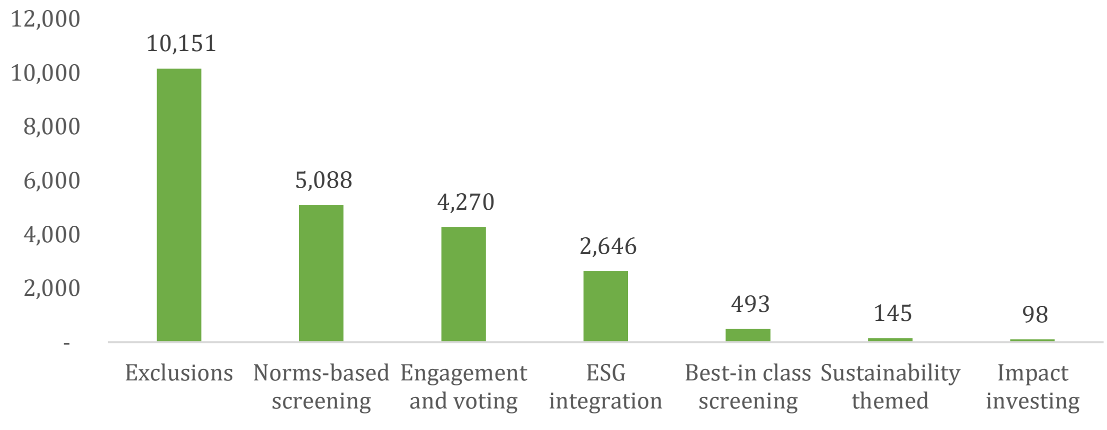
Recommendation 4: We recommend clarifying the territorial scope of the regulation. It is unclear whether the taxonomy only applies to economic activity within the EU. If this is the case, this will restrict the EU green bond market as well as ignore environmentally sustainable finance opportunities in other markets, including emerging markets. In addition, we recommend the EU Taxonomy to be calibrated in such a way that it can be replicated by third-countries and, that it does not affect the competitiveness of EU market participants globally, whilst keeping the EU market for sustainable investments and projects attractive to foreign investments. We also recommend EU institutions to promote actively the use of the EU Taxonomy approach in third-countries with non-EU policymakers at global fora so as to encourage convergence in global best-practice standards.

In addition, in relation to Article 13, if an EU environmentally sustainable investment can only apply to EU economic activity then these wider social risks are sufficiently mitigated by existing EU law, but if the framework is to be applied to economic activity outside of the EU, wider social risks will need to be further considered in the technical screening criteria (for example, using EBRD Performance Requirements, or the Equator Principles).

5. Remain open to the variety of existing ESG strategies, practices and taxonomies

As currently drafted, the Taxonomy is limited to green thematic funds or impact products such as green bonds but ignores or even perhaps rejects other sustainable investment strategies adopted by European investors. Article 5 which details six environmental objectives implies that only investment preferences that have a stated positive environmental or social objective are included (commonly referred to as “impact investing”). This could result in a lack of product diversification (see Exhibit 1 below) as well as incompatibility with existing private sector wider taxonomies (e.g. APG and PGGM taxonomies that identified sustainable investments in line with 13 of the United Nations’ 17 Sustainable Development Goals).

Exhibit 1: Overview of Sustainable and Responsible Investments (SRI) in Europe (€bn):



Source: Eurosif, European SRI Study, 2016

The Taxonomy proposal should also allow for sufficient flexibility for “transition” investments – meaning investments in companies that are taking meaningful strides towards environmental sustainability, rather than to focus exclusively on investments that are already fully sustainable.

Finally, it is vital for the success of the Sustainable Finance Action Plan that the EU Taxonomy builds on existing best practices and taxonomies used by a wide range of market participants for different types of investments such as the Green Bond Principles for green bonds, Equator principles for infrastructure investments, Green Loan Principles for loans (see list below), and make sure they can be embedded in the EU Taxonomy.

Being too prescriptive, the Taxonomy runs the risk of not being suitable for the realities of the market and could discourage genuine take-up of sustainable investments by imposing unduly high barriers to entry on the development of sustainable products. Therefore, it is important that the Taxonomy remains open to the wide variety of existing private frameworks and we recommend, where relevant in the context of determining whether an economic activity is sustainable, that the European Commission takes into consideration the following taxonomies:

Name	**Details**
Green Bonds Principles	Process guidelines for issuing green bonds. Sustainability bond principles for mix "green" and social projects have also been recently available. https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/
Green Loan Principles	Standards based on the green bond principles applied to loans. http://www.lma.eu.com/news-publications/press-releases?id=146
EIB	Existing work done by EIB in mapping EIB and Chinese green taxonomies. http://www.eib.org/attachments/press/white-paper-green-finance-common-language-eib-and-green-finance-committee.pdf
APG-PGGM Taxonomy	Taxonomy created by Dutch pension funds APG and PGGM for sustainable development instruments. https://www.pggm.nl/english/what-we-do/Documents/SDI-taxonomies-APG-PGGM-mei_2017.pdf
Climate Bonds Initiative	Provides broad guidance for eligible green bond and climate bond issuers and investors, underpinned by more detailed criteria that provides the basis for bond certification by the CBI. https://www.climatebonds.net/standards/taxonomy
EBRD Performance Requirements	Guidance covering key areas of environmental and social issues and impacts. https://www.ebrd.com/who-we-are/our-values/environmental-and-social-policy/performance-requirements.html
OECD Common Approaches	http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TAD/ECG%282016%293&doclanguage=en
IFC Performance Standards	https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

Recommendation 5: (a) Where relevant in the context of determining whether an economic activity is sustainable, we recommend the Taxonomy to take into considerations and build on the above list of existing frameworks.

(b) In particular, the proposal, whether in its Explanatory Memorandum or Regulation, does not explicitly refer to the Green Bond Principles (GBP). The GBP are an important set of principles already providing an indicative list of activities which may be considered as "green". This list is widely recognised and used by the market participants. The GBP are working properly and are becoming a *de facto* taxonomy for the green bonds market and which has been recently replicated in the loan market with the Green Loan Principles. Therefore, we recommend adding a reference in the recitals to the existing international frameworks and classifications currently being used by market participants.

(c) We recommend that the current regulation should remain open to current existing taxonomies and frameworks, and include a wider variety of sustainability investment strategies. For instance, the Global Sustainable Investment Alliance (GSIA) has identified seven sustainability investment strategies including:
- Negative/exclusionary screening;
- Positive/best-in-class screening for ESG performance;
- Norms-based screening;
- Sustainability themed investing (e.g. renewable energy company equity);
- Integration of ESG factors;
- Impact/community investing; and
- Shareholder engagement and stewardship.

(d) To avoid the Taxonomy being too focused on a subset of green assets a new recital specifying that the transition pathway towards lower greenhouse gas emissions and climate-resilient could open up the Taxonomy to support carbon reduction generating technologies adopted by companies which contributes towards their transition to a low carbon economy.

6. Ensure flexibility and regular updates

The proposal recognises the importance of ensuring "*the taxonomy will only be used once stable and mature*". However, it is worth noting that industry sectors and associated business models are themselves evolving quite rapidly in response to numerous challenges, so that it may be unlikely that a "*stable and mature*" taxonomy could ever be achieved.

Recommendation 6: Article 17 of the proposal envisages a three-year time horizon for evaluation and reporting. We consider this is too long to make the Taxonomy a success and ensure market adoption and innovation as business models in the various economic sectors may have changed considerably within that timeframe, with the implication that the market is ready to finance sustainable activities, that are not recognised by the existing Taxonomy. Instead, it is important to include a mechanism in the Taxonomy proposal which will facilitate regular updates of the Taxonomy in response to the relevant changes in the evolution of industry sectors and new business models. This could be achieved by empowering the Platform on Sustainable Finance set out in Article 15 or a similar standing body comprised of EU authorities and market participants to regularly (e.g. every two months) update the Taxonomy to keep it relevant and ensure the Taxonomy is up to date with market developments. In addition, a clear and open communication to the market of these updates are critical for the success and continued relevance of Taxonomy.

7. Clarify the potential impact on liquidity of assets becoming stranded

Article 14(h) specifies that the technical screening criteria "*shall take into account the potential impact on liquidity in the market, the risk of certain assets becoming stranded as a result of losing value due to the transition to a more sustainable economy*".

Although we recognise the vital importance of identifying potential stranded assets and mitigating the risks of a transition on their value, we consider that paragraph (h) goes beyond the objective of building a Taxonomy. More importantly, Article 14(h) will make the evaluation of economic activities difficult given that it is currently challenging to map and quantify the transition risks to the financial system. We consider that further studies and research such as the work undertaken by the Network for Greening the Financial System, would need to be completed so that such transition risks can be identified and priced.

In addition, we are concerned that the implication of "*taking into account the potential impact on liquidity*" is to limit financing to only highly liquid asset classes which would potentially rule out infrastructure investments. Indeed, secondary market liquidity is not a priority for infrastructure investments for most market participants. Investors are aware that due to the bespoke and project-specific nature of most transactions, many of which are complex, it is unlikely that there will be much, if any trading in the securities subsequent to their initial purchase.

Recommendation 7: (a) We believe that sound regulatory practice, including early communication by regulators as to regulatory priorities and regulatory intentions, can help the process of transition to a sustainable financial system, and thus can help mitigate the challenges related to stranded assets.

(b) We recommend to carefully assess whether infrastructure investments, which are long-term capital-intensive investments which securities are unlikely to be traded on a secondary market, are not automatically ruled out of the Taxonomy as a consequence of the introduction of a liquidity criterion.

8. Finding the right balance

The draft Regulation should acknowledge the fact that economic activities are very heterogeneous, and wide variations in business models exist, even within the same industry sector.

This point recognised on page 9 of the proposal when discussing 'Option 2', needs to be borne in mind when developing a taxonomy. This context-specific complexity often defeats attempts to categorise activities as "sustainable" or otherwise. It is more usually the case that a particular activity involves a series of sustainability trade-offs, and these trade-offs can be more or less attractive from a sustainability perspective, depending on the specifics of the business model. For example, a water company providing clean water to citizens would typically be considered as a "sustainable activity" but there may be a sizeable sustainability trade off if the energy used in providing the water is provided from carbon intensive sources. Equally, if the water provider is providing all the water using only renewable energy, then the sustainability benefits are clearer. Another example would be an operator of a wind farm – the power generated has strong low-carbon credentials, however if the wind farm has been constructed in a location where it has created negative impacts on biodiversity, protected species, the people dwelling in the area etc., then this "trade-off" also needs to be understood or, considered when the Taxonomy will, at a later stage, look at the remaining EU priorities, including biodiversity and social impacts.

This is why the current approach in the green bonds market has merit. The focus of the voluntary framework established by the Green Bonds Principles is on creating transparency – the obligation then falls on the issuer to create a robust 'green proposition' to the investors, using whatever information, data and communication pathways necessary to support and defend the proposition. It then falls to the investor to decide, based on tailored, case-specific information provided by the issuer, whether or not to accept the green proposition.

Article 3(b) of the proposal is relevant to this point when listing the various criteria to be applied: "*the economic activity does not significantly harm any of the environmental objectives set out in Article 5 in accordance with Article 12*". The challenge will be in determining the definition of 'significant', as this may be either very subjective, or actually 'measuring' significance using a scientific approach may be very burdensome. We recommend that the specification of minimum requirements to avoid significant harm should remain flexible and regularly reviewed by a wide range of private market participants.

Recommendation 8: Systematically include the industry feedback in the details that will follow the proposal, including in the assessment of the technical screening criteria.
Many uncertainties remain in the details of the proposal. For instance, the vast majority of businesses will have "green" and "non-green" elements which will test the flexibility of the framework and therefore its usability by market participants.

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About AFME:
AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu.