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Nordic Securities Association's (NSA) comments to the European Commission's legislative proposals on sustainable finance

The Nordic Securities Association (NSA) supports the European Commission's objective to integrate sustainability targets into the European financial markets. In the face of global challenges such as climate change, water depletion and waste management, urgent measures are needed in all sectors to find solutions for them. For ideas to materialize, the European Commission has estimated that 180 billion of additional funding is needed each year. Financial industry's role is critical in both providing and steering this money to the companies and projects.

European Commission Proposal for a regulation on the establishment of a framework to facilitate sustainable investment

The aim of creating an EU taxonomy is to help investors to direct their investments towards economic activities which contribute to the achievement of environmental objectives, while also respecting minimum social and governance standards. Succeeding in this requires that the taxonomy is flexible and dynamic. Otherwise there is a risk that issuers cannot issue ESG instruments adequately in line with it, if the rules are too detailed and strict. This would be contrary to the goal of the Commission's Sustainability Action Plan. In this connection, we underline the importance of a taxonomy that is based on existing market practices such as the Green Bond Principles.

In addition, it is vital that the taxonomy can be adjusted over time to encourage market participants to innovate new solutions. There are 5 billion people in developing economies which are entering the most energy intensive phase of their economic growth, and new solutions are needed for these economies to develop cost efficient and clean energy supply. This process has only just started, and the technology to secure this is not in place currently. The taxonomy must foster an innovation-friendly setting in the environmental area.

Third, the criteria for what counts as sustainable operation should be science-based and as neutral as possible with regards to different industries and sectors. It should not create a static binary division between 'good' and 'bad' industries, but rather it should create incentives for all operators to improve their positive impact to the sustainable development goals (SDGs). Engagement with portfolio companies is an effective way for the financial sector to influence, and the taxonomy should allow different strategies for asset owners and asset managers to advocate the SDGs.

European Commission Proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341

A requirement for financial market participants to increase transparency about sustainability risks can have the positive impact of more investments being directed to actions that support the SDGs. Transparency and disclosure, when provided in a proportionate and easily understandable way, can facilitate the possibility to make well-informed investment decisions. Nevertheless, to fully understand the regulation's requirements on the financial market participants, the NSA deems that some concepts need to be better defined. One example is the notion of "sustainability risks". That notion is central in articles 3 and 4 and would need some clarification to make it possible to understand the requirements in those articles. Another example is the concept of “sustainable investment target”, which is central for the requirements in article 6.

In terms of sequencing, we recommend first putting in place a common EU taxonomy covering at least some essential elements of all E, S and G, before attempting to suggest and/or implement provisions on disclosures of instrument level information. As the taxonomy will be important for the disclosure requirements, the application of the two need to be synchronized.

European Commission Proposal for a regulation amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks

The proposal for a regulation amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks could be of valuable help in the investment process. Nevertheless, it is important to keep in mind that indices and the reweighting of indices could have a large impact on the market and potentially lead to increased volatility. Therefore, it is important that the EU Commission, when elaborating and adopting the delegated acts referred to in the proposal, consults the market and thoroughly evaluates the potential market impact of its proposals.