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LONG TERM INVESTORS

On behalf of the Public Affairs Executive (PAE) of the EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

15 July 2020

Response to the European Commission consultation on its Renewed Sustainable Finance Strategy

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- **Question 1**: With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate and environmental-related challenges, do you think that (please select ***one*** of the following):
  - Major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.
  - Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.
  - No further policy action is needed for the time being.

  Answer:

  Option 2 - Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.

  The existing policy actions already put a lot of obligations on companies and investors which will require significant resources and time to implement. Adding further obligations will make it more challenging to get investors' support.

- **Question 5:** One of the objectives of the European Commission's 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects. Do you believe the EU should also take further action to:
  - Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models: scale from 1 (strongly disagree) to 5 (strongly agree).
  - Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law: scale from 1 (strongly disagree) to 5 (strongly agree).

- In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective? (maximum 2,000 characters)

Answer:

- Bullet point 1 – Score of 3
- Bullet point 2 – Score of 3

Given that active ownership is in the very DNA of the PE/VC industry, Invest Europe would always welcome encouragement for any other stakeholders/practitioners/firms to take active positions as the industry does.

That said, we would like to note that:

- In relation to bullet point 1 - There is already an effective market response without further regulatory intervention.
- In relation to bullet point 2 - Many larger, institutional investor types are already discouraged – in part, by their own stakeholders' requirements – from such financing activity, which in turn dictates behaviours at investee entity level.
- It may be more effective to take action at the level of the company (or the product/service it supplies) rather than at the investor level. Such an approach will also create a level playing field among companies with different ownership structures.
- It may be worth considering making environmentally harmful activities less attractive as investments, through for example the reduction or removal of subsidies, enforcing responsibility and disclosure.

- **Question 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? (maximum 2,000 characters)

Answer:

Challenges	Opportunities
Creation of a consistent and coherent regulatory framework (both intra-EU and coordinating the requirements of a broader, international investor base) which: (i) balances the availability of consistent, useful data with the administrative burden and cost of its production, being particularly mindful of resources required	Increased transparency leading to better decisions, and the creation of sustainable, long-term value for investors

for data gathering that may disproportionally impact smaller firms; (ii) does not put unfair regulatory burdens and risk on the financial sector for securing ESG outcomes; and (iii) encompasses a clear understanding of and appreciates the holistic perspective of sustainability.	
(Perceived) attractiveness of risk/return profile of sustainable investments and below-market performance of sustainable activities/companies	Opening up new investment opportunities and the development of more sustainable and resilient companies
Creation of a level playing field between companies with different ownership structures	Clear alignment in policy targets – incentives – action and benefits [The opposite could also be seen as a challenge, i.e. the unsuccessful implementation of the regulation creating misalignment between market participants and/or standard-setters.]

- **Question 7**: Overall, can you identify **specific obstacles** in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making? Please provide a maximum of three examples. (maximum 2,000 characters)

  Answer:

  (1) Example 1 - Cost of implementation, especially for smaller players

  (2) Example 2 - No consistency across various pieces of EU regulation

  (3) Example 3 - Inaccessible rules/guidance for market participants with too little awareness created, especially among the corporates who are part of the ecosystem

- **Question 12**: In your opinion, how can the Commission best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level in order to **cover the private and public funding side**, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan? (maximum 2,000 characters)

Answer:

The differences between private and public funding (the former typically more closely aligned with long-term capital and influence over strategy) must be understood and reflected in the governance structure.

- **Question 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/No/Do not know.
    - If yes, please explain how it should be structured and what type of ESG information should feature therein (maximum 2,000 characters).

Answer:

Yes.

Starting with a few key disclosures, for example GHG emissions (intensities) together with information on assurance standard, could be a good start to build a database from.

However, given the associated costs and administrative burden, there should be a **demonstrable benefit** in doing so in respect of the specific data collated. Data would need to be consistent to allow any meaningful comparisons to be drawn.

In addition, we believe it is equally, or even more, important that:

(i) there is clarity around *how* to measure ESG indicators/data; and
(ii) there is consistency throughout EU regulation.

Further, external verification of ESG data can be considered, especially for larger organizations.

- **Question 16**: Do you see any further areas in existing financial accounting rules (based on the IFRS framework) which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks?
    - Yes/no/do not know.
    - If yes, what is in your view the most important area (please provide details, if necessary – maximum 2,000 characters):
        - Impairment and depreciation rules.
        - Provision rules.
        - Contingent liabilities.
        - Other, please specify.

Answer:

Yes.

All three areas listed are of importance, to varying degrees depending on the industry.

- **Question 17**: Do you have concerns on the level of concentration in the market for ESG ratings and data? Please express your view by using a scale of 1 (not concerned at all) to 5 (very concerned). If necessary, please explain the reasons for your answer (maximum 2,000 characters).

  Answer:

  3.

  The increased importance of ESG should naturally give rise to increased competition among service providers, without any legislative intervention. This is illustrated by the fact that there is some concentration but there are new competitors popping up using AI, etc.

  There are, however, concerns regarding the general quality of ratings/data and the differences in methodologies applied that all in all give scattered pictures. Another concern relates to the fact that firms need to put in a lot of resources in this area to correct errors.

  The benefit though is that ESG rating agencies accelerate or have the potential to accelerate transparency of information. As the standardization and public disclosures of ESG information increase, the need for only a few independent rating agencies will remain as a complement (hence concentration to a certain degree is positive and needed).

- **Question 18**: How would you rate the comparability, quality and reliability of ESG data from sustainability providers currently available in the market? Please express your view by using a scale of 1 (very poor) to 5 (very good). If necessary, please explain the reasons for your answer (maximum 2,000 characters).

  Answer:

  3 - There is generally insufficient data available for private equity owned companies to assess this.

  That said, at a more general level, there is very little commonality in methodology of measurement, or facts obtained.

- **<u>Question 29</u>**: Should the EU establish **<u>a label for investment funds</u>** (e.g. ESG funds or green funds aimed at professional investors)? (maximum 2,000 characters)

    - Yes/No/Do not know. If necessary, please explain your answer.
    - If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?

  <u>Answer</u>:

  Yes.

  A label (certification system / clearly labelled standard) may facilitate capital flowing to sustainable investment products and be beneficial in order to accelerate investments in certified top-performing funds as regards ESG.

  However:

    - If there is an initiative to "label" green funds, this should not discriminate (and should allow room for) generalist private equity and other funds that, whilst not labelled as green, take ESG seriously. Such an approach would be a reflection of the fact that most private equity managers take ESG (increasingly) seriously but do not market sustainable funds or those with explicit sustainable characteristics.

    - Costs versus benefits from a holistic standpoint need to be carefully addressed when formalizing this. Time and costs involved in acquiring accreditation may be high.

    - A proper control system will be needed.

    - Too many – parallel – standards should be avoided.

    - The classification needs to be right and capture the additionality of innovation. A common language is needed that is flexible enough to work across manufacturing and service industries, across large companies and SMEs, and across both mature and innovative sectors and enterprises.

  Commercial parties may be well, or better, placed to develop and/or govern such a system.

- **<u>Question 38</u>**: In your view, which recommendation(s) made in the ESAs' reports have the highest potential to effectively tackle **<u>short-termism</u>**? Please select among the following options. [*Note*: **Only one** option can be selected.]
    - Adopt more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management;

- Define clear objectives on portfolio turn-over ratios and holding periods for institutional investors;
- Require Member States to have an independent monitoring framework to ensure the quality of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs);
- Other, please specify (maximum 2,000 characters).

Answer:

[Tick the "Other" box and give the following explanation:]

Of the above options, the private equity industry will likely be most impacted by legal provisions for credit institutions.

On a general note, we believe that the legislator and supervisors should stay **principle-based** and not reign into individual portfolio-related decisions and their timing (Option 2). We are also not sure there is relevant value-add in further extending remuneration disclosure (Option 3).

Furthermore, we would like to stress that private equity in itself is a long-term asset class, characterised by: (i) the length of the investors' commitment to the fund (the average fund lasts ten years, without redemption rights), (ii) the holding period of private equity investments, which is relatively long compared to other asset classes; and (iii) the typical private equity incentive structures, which are long-term by nature.

It is the combination of patient capital and active ownership that characterises the private equity and venture capital (PE/VC) business model and sets it apart from most other sources of funding. Funds managed by PE/VC firms hold investments for an average of six years, giving fund managers the time to help build successful and sustainable companies. This makes it an attractive investment opportunity for pension funds or insurance companies looking for real returns and to better meet their long-term liabilities.

In addition, the asset management sector is very broad. Not all alternative investment fund managers are the same and the incentive and remuneration models they employ vary, inter alia depending on the investment policy. PE/VC has put in place mechanisms to ensure that the fund manager is incentivised to focus on the long-term performance of the fund as a whole and that the interests of fund managers are aligned with the long-term interest of their investors through the fund's life.

- **Question 39**: Beyond the recommendations issued by the ESAs, do you see any **barriers in the EU regulatory framework** that prevent long-termism and/or do you see scope for further actions that could foster long-termism in financial markets and the way corporates operate? If yes, please explain which barriers you see and/or what action(s) could help foster long-termism in financial markets and the way corporates operate (maximum 2,000 characters).

Answer:

We do not see any immediate regulatory barriers to long-termism as it is. However, given that regulation keeps changing, sometimes at a rapid pace, regulatory risk in itself becomes an unknown factor. This short-termism in regulatory changes may be detrimental to long-term investors' perspectives and choices.

It is key that long-term aspects and aspirations are valued and hence that the mechanisms (e.g. Taxonomy alignment, credit reliefs, etc.) are designed to allow for potential transformational cases that require more investments upfront and clear benefits over time.

In addition, it may be worth assessing and addressing the limited availability of **long-term, patient investment vehicles** (not requiring periodic redemptions) for investors, including retail ones.

- **Question 40**: In your view, should there be a mandatory share of **variable remuneration linked to non-financial performance** for corporates and financial institutions? Yes; No; Don't know / no opinion / not relevant. [If "No" or "Don't know", end of question.] If yes, please indicate what share of the variable remuneration should be linked to non-financial performance (maximum 2,000 characters).

  Answer:

  No.

- **Question 41**: Do you think that a defined set of EU companies should be required to include carbon emission reductions, where applicable, in their **lists of ESG factors affecting directors' variable remuneration**? Yes; No; Don't know/no opinion/not relevant. [No possibility to give further explanations.]

  Answer:

  No.

- **Question 42**: Beyond the Shareholder Rights Directive II, do you think that EU action would be necessary to further enhance long-term engagement between investors and their investee companies? If yes, what action should be taken? Please explain or provide appropriate examples (maximum 2,000 characters). [If no, end of question.]

Answer:

No. It is not obvious what additional tools would be helpful which are not already available.

In addition, as mentioned above, private equity holdings are long term by nature, particularly compared to other asset classes. This long-term alignment of interest is one of the secrets of success of the industry.

- **Question 46:** Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change. Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law? [***Only one*** option possible.] [No possibility to give further explanations.]

  - Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.
  - Yes, as these issues are relevant to the financial performance of the company in the long term.
  - No, companies and their directors should not take account of these sorts of interests.
  - I do not know.

  Answer:

  Option 2 - Yes, as these issues are relevant to the financial performance of the company in the long term.

- **Question 47**: Do you think that an EU framework for supply chain due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives? Yes/No/Do not know. [No possibility to provide further explanations.]

  Answer:

  Yes.

- **Question 48**: Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?
  - Yes/No/Do not know.

- If yes, please select your preferred option:
  - All companies, including SMEs.
  - All companies, but with lighter minimum requirements for SMEs.
  - Only large companies in general, and SMEs in the most risky economic sectors sustainability-wise.
  - Only large companies.
- If necessary, please explain the reasons for your answer (maximum 2,000 characters).

Answer:

[Tick the following boxes:

Yes. All companies, but with lighter minimum requirements for SMEs.]

Explanation:

If the EU were to move into this direction, then a **framework/guidance** is preferred as a first step. A hard requirement runs the risk of becoming too standardized and burdensome in a first instance. Increased transparency from firms around these issues could instead be a better and potentially self-regulative action. With deeper requirements as a potential next step if there is limited positive development.

In line with the above, such a framework should apply to all companies, but with lighter minimum requirements for SMEs, including SMEs backed by private equity and venture capital fund managers. It should be practical and not disproportionally burden smaller companies. Proportionality assessment based on **size**, **capabilities** and **risk exposures**, and resource availability are the two key criteria in this context. It is crucial to recognise that smaller companies may have limited supply chain options and limited scope to orchestrate change.

In addition, it would make sense to differentiate among sectors.

- **Question 62**: In your view, how can the EU facilitate the uptake of sustainable finance tools and frameworks by SMEs and smaller professional investors? Please list a maximum of three actions you would like to see at EU-level (maximum 2,000 characters).

  Answer:

  Actions to consider include:

  - Create clarity around sustainable financial products
  - Simplification: Limit administrative burden / resource requirements

- High-quality communication: Provide information on available tools and incentive programs

- **Question 65**: In your view, do you consider that the EU should take further action in:
  - Bringing more financial engineering to sustainable R&I projects? Yes/No/Don't know
  - Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)? Yes/No/Don't know
  - Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes/No/Don't know
  - Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes/No/Don't know
  - Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes/No/Don't know
  - Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes/No/Don't know
  - Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions? Yes/No/Don't know
  - Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? Yes/No/Don't know

  Answer:

Bringing more financial engineering to sustainable R&I projects?	No
Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)?	Yes
Better identifying areas in R&I where public intervention is critical to crowd in private funding?	Yes
Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds?	Yes
Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)?	Yes
Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication?	Yes
Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions?	Yes
Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks?	Yes

  - If necessary, please explain your answer (maximum 2,000 characters).

As regards option 4 – There needs to be simplicity in the statements of aims and communication, interfaces, etc. Despite the scale of funding, these are surprisingly little understood. More should be spent on communication and interaction as well as on the projects themselves.

As regards the last option - The real question is *how* this is done and we strongly believe more mentoring is needed. Teaching rather than telling is the appropriate way rather than enforcing. It is by far the more impactful method.

- **Question 66**: In your view, does the EU financial system face market barriers and inefficiencies that prevent the uptake of sustainable investments? Please express your view on the current market functioning by using a scale of 1 (not well functioning at all) to 5 (functioning very well). 1 - Not functioning well at all; 2 - Not functioning so well; 3 – Neutral; 4 - Functioning rather well; 5 - Functioning very well; Don't know / no opinion / not relevant. Please specify your answer (maximum 2,000 characters).

  Answer:

  3

  - There is no common language to explain sustainability and how it is measured. **Consistent terminology** and **disclosure** requirements to permit comparability of products (and allow their ESG green credentials to be validated and measured) are a barrier but are being addressed by the Taxonomy and Sustainability Disclosure Regulations.

  - Investment performance will always be key in attracting investors and so **tax neutral products**, which are also able to hold underlying assets efficiently without requiring complex holding structures, marketable to as broad a range of investors as possible, should improve the uptake of sustainable investments.

  - If the EU considers putting these types of incentives in place, it is important that they are/remain a reliable partner (e.g. not suddenly withdrawing support in an economic downturn or changing conditions) and there should be a level playing field (e.g. programs should be available for comparable companies regardless of their ownership model).

- **Question 68**: In your view, to what extent would potential **incentives for investors** (including retail investors) help create an attractive market for sustainable investments? Please express your view by using a scale of 1 to 5. 1 - Not effective at all; 2 - Rather not effective; 3 – Neutral; 4 - Rather effective; 5 - Very effective; Don't know / no opinion / not relevant.

For scores of 4 to 5, in case you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments? [Several options are possible.]

- Revenue-neutral public sector incentives
- Adjusted prudential treatment
- Public guarantee or co-financing
- Other

Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other) (maximum 2,000 characters).

Answer:

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Tick all the boxes:

- Revenue-neutral public sector incentives + Adjusted prudential treatment (adjust the legislated risk) + Public guarantee or co-financing (investment institutions should be given incentives to invest in green investment funds)
- Other:
    - **Low cost fund structures** suited to patient capital investment, which therefore enhance investor returns, available to a broad range of investor types may increase the relative attractiveness of sustainable investments.

- **Question 69**: In your view, should the EU consider putting in place specific **incentives** that are aimed at **facilitating access to finance for SMEs** carrying out sustainable activities or those SMEs that wish to transition? If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue (maximum 2,000 characters)?

  Answer:

  Yes.

  Suggestions:

  1. Bank guarantees and discounts on interest rates

2. Direct more EU investment capital into venture capital, particularly funds with measurable sustainability goals.

   If the EU is working towards a 10-year timeframe, there is not sufficient time to build up a new infrastructure or to remake the financial system. Even trying to amend it significantly may cause delay, which is not helpful given the urgency of the situation. The existing system does have established channels and governance for deployment of capital into the required infrastructure and innovation that is needed. In the interests of time, it makes sense not to 're-invent the wheel' but simply to greatly increase the supply of capital through those channels.

   Existing venture capital structures are focused on 10-year periods. The European Investment Fund is there – these channels are in place with good governance, and the expertise pools to make difficult and high risk judgements. It is a matter of opening the taps.

- **Question 72**: In particular, should the **EU Taxonomy** play a role in the context of **public spending frameworks at EU level**, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.
  - Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation;
  - Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation;
  - No;
  - Do not know.

  Answer:

  Option 2 - Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation.

  If the EU considers investing in sustainable projects, then it would make sense to align its investment criteria with those defined by the Taxonomy and the Sustainable Finance Disclosure Regulation.

  That said, if the EU Taxonomy is not broadened to other than E factors, there is a risk that there will be over-allocation and spending to climate and environmental solutions at the cost of other sustainable solutions the world needs. But a tilt towards E-factors can still be applied given the urgent needs.

- **Question 74**: Do you consider that targeted investment promotion services could support the **scaling up of cross-border sustainable investments**? If yes, please specify what type of services would be useful for this purpose:
    - Information on legal frameworks
    - Individualised advice (e.g. on financing)
    - Partner and location search
    - Support in completing authorisations
    - Problem-solving mechanisms
    - Other, please specify (maximum 2,000 characters)

  Answer:

  Tick the following boxes:

  Information on legal frameworks + Partner and location search + Support in completing authorisations + Problem-solving mechanisms

  + Other:

  There should be a drive to simplify and reduce cross-border impediments and bureaucracy. If the EU is trying to attract capital from elsewhere, this all needs simplification across the geographic continent of Europe.

- **Question 78**: In your view, what are the **main barriers private investors face** when financing sustainable projects and activities in emerging markets and/or developing economies? Please select ***all*** that apply.

    - Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.);
    - Lack of clearly identifiable sustainable projects on the ground;
    - Excessive (perceived or real) investment risk;
    - Difficulties to measure sustainable project achievements over time;
    - Other, please specify

  Answer:

  Tick the following boxes:

- Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.)
- Lack of clearly identifiable sustainable projects on the ground
- Excessive investment risk
- Other:
  - Availability of suitable investment vehicles
  - The barriers for private investors are probably comparable to other investments in emerging markets; in addition, it may be more challenging to get reliable sustainability data.

- **Question 79**: In your opinion, in the context of European international cooperation and development policy, how can the EU best support the **mobilisation of international and domestic private investors** to finance sustainable projects and activities in emerging markets and developing countries, whilst avoiding market distortions? Please provide a maximum of 3 proposals (maximum 2,000 characters)

  Answer:

  One way of support is via international initiatives and the UN – being a role model in setting standards and designing financial structures.

- **Question 84**: Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system. What are in your view the most important channels through which climate change will affect your industry? Please provide links to quantitative analysis when available.
  - Physical risks, please specify if necessary (maximum 2,000 characters)
  - Transition risks, please specify if necessary (maximum 2,000 characters)
  - Second-order effects, please specify if necessary (maximum 2,000 characters)
  - Other, please specify (maximum 2,000 characters)

  Answer:

  [Tick the “Other” box and give the following explanation:]

  Our initial response would be: Transition risks and second-order effects.

  That said, private equity is invested in such a wide range of sectors and geographies with supply chains across the globe. Hence, all of the above can potentially impact private equity investment portfolios.

- **Question 85**: What key actions taken in your industry do you consider to be relevant and impactful to enhance the management of climate and environment related risks? Please identify a maximum of three actions taken in your industry (maximum 2,000 characters).

  Answer:

  1. Awareness creation, including through industry guidelines and tools

  2. Expectations of institutional investors

     a. The requirement of key institutional investors for **ESG sensitive investment strategies** has a consequent impact on private equity managers' requirements of their portfolio companies. Indeed, client requirements, and the ability to raise capital from investors with particular ESG requirements, drives manager behaviours and focus.
     b. Active exercise of **voting and management rights** to secure impactful ESG-focused outcomes.

  3. Regulation (both at investor and investee company level), though we recognise this is an external development and not an industry-driven action.

- **Question 88**: Do you consider that there is a need to **incorporate ESG risks into prudential regulation** in a more effective and faster manner, while ensuring a level-playing field? If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy? (maximum 2,000 characters).

  Answer:

  Yes, but ESG should ***only*** be factored into prudential regulation to the extent ESG risks are considered to translate into **financial risk**.

- **Question 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)? [*Note*: If no, end of question.] If so, what solution would you propose? (max 2,000 characters)

  Answer:

  No.

- **Question 98**: Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing **standardised natural capital accounting/environmental footprinting practices** within the EU and internationally?
    - Yes/No/Do not know.
    - If yes, please list a maximum of three relevant initiatives (maximum 2,000 characters).

  Answer:

  Yes.

  We would propose ***light*** consideration of initiatives like Impact Weighted Accounting and Natural Capital Protocol (Natural Capital Coalition).

  At a higher level, we agree that it would be helpful if companies could make statements as to their long-term sustainability in their accounts.

- **Question 99**: In your opinion, should the European Commission take action to enhance the availability, usability and comparability of climate-related loss and physical risk data across the EU? If yes, for which of the following type of data should the European Commission take action to enhance its availability, usability and comparability across the EU?
    - Yes/No/Do not know.
    - If yes, please select all that apply:
        - Loss data, please explain why
        - Physical risk data, please explain why

  Please specify why you think the European Commission should take action to enhance the availability, usability and comparability of climate-related loss data across the EU (maximum 2,000 characters)?

  Answer:

  Yes. Loss data and physical risk data.

  However, while we are in favour of the underlying aims, we are generally worried about the bureaucracy. Small companies cannot afford the burden of reporting until a common language is set. It is important to create a simple subset that can be readily and easily used by SMEs which is congruent with a larger and more complex set that is used by companies with the infrastructure and reporting capability.

- **Question 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? If yes, what action should the EU take? Please list a maximum of three actions (maximum 2,000 characters).

Answer:

No, we do not think at this current stage that this should be a regulatory requirement.

Such an assessment should be required as part of the **financial risk assessment**; however, an environmental impact assessment independent of an assessment of the risk of financial loss is not the work of credit institutions. Investors should only be required to undertake such an assessment to the extent relevant to representations made to their own investors regarding their own investment strategy and its ESG focus.

Contact

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About the PAE

The Public Affairs Executive (PAE) consists of representatives from the venture capital, mid-market and large buyout parts of the private equity industry, as well as institutional investors and representatives of national private equity associations (NVCAs). The PAE represents the views of this industry in EU-level public affairs and aims to improve the understanding of its activities and its importance for the European economy.

About Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members' role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry's professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.
For more information please visit www.investeurope.eu.