Dear Sir/Madam,

Response to ESMA Consultation Paper on Integrating Sustainability Risks and Factors in MiFID II

The Alternative Investment Management Association (AIMA)\(^1\) welcomes the chance to respond to the European Securities and Markets Agency's (ESMA's) public consultation on integrating sustainability risks and factors in MiFID II.

Sustainable finance is growing in importance to the alternative investment management industry, and indeed to the investment management industry as a whole. Alternative investment managers are increasingly being asked about their sustainability practices by their investors; an increasing number of alternative investment managers are offering sustainable investment products.\(^2\) These efforts are building on a historical foundation of investment manager stewardship, and engagement with issuers on corporate governance. Alternative investment managers have long recognised the challenge of sustainability risks, even if they did not use that term.

Nonetheless, the integration of sustainable finance into the regulatory framework of investment management represents a potentially radical change for the industry. While our members recognise that action is needed to combat climate change, any fundamental change to investment management needs to be carefully calibrated so as to foster natural, sustainable change, and not impose an artificial or inefficient regulatory framework. That is why we agree with ESMA's high-level, proportional approach to integrating sustainability risks and factors in MiFID II.

There are four main issues that we believe sustainable finance regulation must take into account in order to be effective:

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\(^1\) AIMA is the global representative of the alternative investment industry, with more than 1,900 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than $2 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) - the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors). For further information, please visit AIMA's website, www.aima.org.

• **The dynamism of sustainable finance.** This is a fast-moving area of investment management, and any regulation that deviates from a principles-based approach may run the risk of stifling innovation or creating regulatory inconsistencies (a risk noted by ESMA).

• **The non-materiality of sustainable finance for many investment strategies.** For many alternative investment strategies, such as those focused on the sovereign bonds of developed countries, sustainability risks and factors may simply not be material. Compelling such managers to account for such risks and factors may run the risk of devaluing the meaning of sustainable finance.

• **The scarcity of data.** At present issuers are not obligated to disclose most environmental, social, and governance (ESG) data. This has led to a situation in which the data alternative investment managers would need to fully implement sustainable finance is inconsistent, expensive, or simply unavailable.

• **The problem of definitions.** Sustainable finance can mean different things to different people, and can often be hard to define accurately. In order to be effective regulation will need to offer a flexible definition of sustainability that is consistent across sectors, asset classes, and regulatory instruments.

We believe that in order to be truly effective, and to accomplish the goals set out by the European Commission’s action plan of sustainable finance, any sustainable finance regulation should be high-level, proportionate, consistent, and broad-based (i.e., affect more than just the investment management industry).

We are happy to see that ESMA’s proposed changes to MiFID II meet those requirements. ESMA’s use of the phrase ‘if relevant’ in its proposed changes is particularly welcome, as this will ensure that investment managers for which sustainability issues are not a concern are not compelled to account for it. This, in turn, will help ensure that sustainability stays meaningful.

However, we would highlight that in ESMA’s consultation paper on the integration of sustainability risks and factors in the UCITS Directive and AIFMD the term ‘sustainability’ is used in most amendments, whereas in the consultation paper on MiFID II ‘ESG’ is used in its stead. We urge ESMA to ensure that it uses the same terms in all of its amendments, in order to prevent any possible confusion.

The financial system undoubtedly has a part to play in combatting climate change and ensuring the planet is safe for future generations. Effective, proportionate regulation will play a part in that. We look forward to working with ESMA to craft the most effective regulation possible.

If you have any questions or would like to discuss any aspect of this issue in more detail, please contact Jiří Król ([jkrol@aima.org](mailto:jkrol@aima.org)) or Max Budra ([mbudra@aima.org](mailto:mbudra@aima.org)).

Yours sincerely,
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