Robeco response to ESMA consultation on integrating sustainability risks and factors in MiFID II

INTRODUCTION

Robeco welcomes the EU’s ambition of transitioning to a sustainable economy and promoting investments with environmental and social impact. We are highly motivated to, on behalf of our clients, contribute to the EU Sustainable Finance Action Plan to be implemented successfully.

Robeco and its affiliate RobecoSAM have a longstanding and very strong focus on sustainable investment. We are convinced that asset managers should not only deliver on the creation of long-term wealth for their clients, but also contribute to the well-being of society.

Our broad and unique range of sustainability products has environmental, social and governance (ESG) considerations robustly embedded in its investment strategies. We are working very hard every day to identify sustainability risks and opportunities that impact long-term returns and to integrate these throughout our investment strategies to help our clients to achieve their long term financial and sustainability objectives.

Sustainability factors are becoming increasingly important, not only because sustainability risks such as climate change risk become more likely to materialize and affect returns, but also due to the increasing appetite of clients to greater consideration of ESG issues in their portfolios. This dient appetite is triggered by new legislation, increasing evidence for the importance of ESG integration and calls by society.

We very much support ESMA’s approach to integrating sustainability risks and factors in MiFID II in order to promote investment firms to take ESG criteria into closer consideration when providing investment services and activities.

We will comment on a variety of questions in the consultation on issues of importance to our services and clients below.

PRODUCT GOVERNANCE

Q5: Which existing market standards or “labels” are you intending to take into account or already taking into account for the consideration of ESG factors? Do you see any issues when relying on current market standards or “labels”?

As a manufacturer, we adhere to several sustainability market practices and labels. All our funds take ESG factors into account, and we incorporate the best-practices of the PRI in our investment processes in this area. For our sustainability targeted fund range, we have designated SDG funds that aim for alignment with and contribution to the Sustainable Development Goals of the UN. A priori, we don’t see any issues between these and the EU Ecolabel concept, since the topics covered in the SDGs are exhaustive.

The only potential issue exists for thematic funds with a social aim: the positive relative environmental benefits of these may be too insignificant to warrant the EU Ecolabel. In that case, it should be clearly
stated by the regulator that the EU Ecolabel’s purpose is to “certify” environmental contribution (and not social).

In our view eco-labelling should be developed on a pan-European level and not on a national level. A variety of national labels may well result in obsolete situations of a cross border marketed product receiving an eco-label in one Member State, while being denied an national ecolabel in another member state. This is neither in the interest of investors or the manufacturer, nor would it meaningfully contribute to financing a sustainable economy.

Developing a uniform pan-European Ecolabel for investment products, certified by third-party auditors is the best way to both serve European retail investors with ESG preferences, reduce unwanted ‘green-washing’ practices, and promote cross border marketing of ESG targeting products.

Q6: Do you agree with the suggested approach and the proposed amendments to the MiFID II Delegated Directive Articles on ‘product governance’? If not, please explain.

Yes, we agree with ESMA’s approach to amend the product governance regime through principle-based provisions leaving sufficient flexibility for implementation. We understand that manufacturers and distributors are expected to specify with a meaningful level of granularity which ESG preferences the investment product fulfils.

Q7: Do you agree with the proposed changes to the ESMA Guidelines on MiFID II product governance requirements and the addition of an additional case study? If not, please explain what changes should be made and why.

We agree with the high-level approach to the guidelines in relation to the ‘client’s objectives and needs’ section. ESMA rightly insists that ESG preferences in the “objectives and needs” category should not imply that the investment product is not compatible with clients who do not have those specific objectives or needs. Hence, specifying a negative target market with regard to ESG reference made in the ‘objectives and needs’ section is unnecessary.

Including a case study would certainly be of added value. The proposed study of a UCITS fund largely investing in loans may however be a bit too exotic to serve as an suitable example for a sufficiently broad range of new ESG products to be developed.

Q8: Do you think extra guidance is needed on the elements listed in paragraph 15 above? If yes, please provide details.

We would welcome allowing manufacturers and distributors to specify in their Target Definition the ESG considerations separately from each other. At the same time, it should also be allowed to capture ESG considerations in a single factor. The flexibility to apply both concepts will enable manufactures to develop products targeting clients with preferences dedicated to one of the ESG criteria as well as products targeting clients with overall ESG preferences.

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