Dear Sir/Madam

Re: Response to Consultation on integrating sustainability risks and factors in the UCITS Directive and AIFMD

We appreciate the opportunity to review and provide feedback to the European Securities and Markets Authority ("ESMA") in response to the consultation paper titled "Consultation Paper: On integrating sustainability risks and factors in the UCITS Directive and AIFMD" (the "Consultation Paper").

We commend the commitment of the European community to support the delivery of the European Union (the "EU") and global targets for sustainable growth. These targets are contained within the Paris Agreement and the United Nations 2030 Agenda for Sustainable Development outlining the Sustainable Development Goals (expressed by the European Commission in the Action Plan: Financing Sustainable Growth) (together referred to as the "Targets"). In this regard, the EU is recognised as a global leader in sustainable finance policy.

In order to meet the Targets, we agree that amendments should be made to the EU law to explicitly require the integration of sustainability factors into the decision making and the processes applied by financial markets participants.

However, we have concern that many of the proposed amendments will not successfully support the delivery of the Targets. In the report titled "A Clean Planet for All" released in 2018, the European Commission identified an investment gap of €150-177bn in additional investment per year to 2030 that is required to meet the EU energy and climate targets. Furthermore, investment in the range of €1.19 to €1.48 trillion from 2031 to 2050 is required in order to achieve the EU’s long-term vision of a net-zero greenhouse gas economy by 2050.1

We acknowledge that ESMA and the EU Commission are mindful of the negative consequences of excessively prescriptive regulations, such as the opportunity for regulatory arbitrage or the potential to impede economic growth. However in our view, our suggestions will not be excessively burdensome on management companies and are consistent with the amendments contemplated by the EU Commission in the Impact Assessment Report2 accompanying the proposed amendments.

This submission invites ESMA to consider our views and suggestions, which have been set out in response to ESMA’s questions listed in Annex II of the Consultation Paper.

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How do you understand or how would you define the notion of “sustainability risks” for the purposes of the delegated acts adopted under the UCITS Directive and AIFMD?

In the directives, we suggest that the definition of sustainability risks and factors makes reference to social and environmental outcomes set out in the Paris Agreement and the 2030 Agenda for Sustainable Development.

1. Do you agree with the proposed amendments relating to organisational requirements included above following a high-level and principles-based approach? If not, please elaborate on the reasons for preferring a more granular approach and describe how you would incorporate such view in the aforementioned provisions.

If the definition of sustainability risks and factors makes reference to social and environmental outcomes set out in the Paris Agreement and the 2030 Agenda for Sustainable Development, then we consider that a high-level and principles-based approach is suitable. However, if this definition is not applied, our view is that a more granular approach is required.

If a granular approach is applied, we suggest that it consist of sustainability risks being separated into the categories of environmental and social. In addition, a more granular approach should be taken in regards to climate risk and aligned to the climate related risk categories recommended by the Task Force on Climate-related Financial Disclosures ("TCFD") in their 2017 Final Report. These climate related risk categories identified by the TCFD consist of:

- Transition Risks, including policy and legal risks, technology risk, market risk and reputation risk; and
- Physical risk, including acute risk and chronic risk.

2. Do you see merit in expressly requiring or elaborating on the designation of a qualified person within the authorised entity responsible for the integration of sustainability risks and factors (e.g. under Article 5 of the Commission Directive 2010/43/EU and Article 22 of the Commission Delegated Regulation (EU) 231/2013)?

We suggest that member states require the appointment of a compliance officer at management level that is responsible for the sustainability risk monitoring activities.

3. Would you propose any other amendments to the provisions on organisational requirements in the Commission Directive 2010/43/EU or Commission Delegated Regulation (EU) 231/2013 as set out in Annex III to ensure the effective and adequate integration of sustainability risks and factors?

We support the proposed amendments to Article 9 as a minimum. However, our view is that the amendments should be aligned with the individual accountability regimes in place in the EU.

We suggest that member states ensure that senior managers are responsible for the management companies compliance (rather than the current wording “integration”) with the regulations relating to sustainability risks and factors.

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4. Do you agree with the proposed amendments to provisions relating to due diligence included above following a high-level and principles-based approach? If not, please elaborate on the reasons for preferring a more granular approach and describe how you would incorporate such view in the aforementioned provisions.

We suggest an enhanced investment due diligence approach to climate change risk. Member States should require enhanced investment due diligence measures to be applied by management companies when dealing with investments that have been identified to be materially exposed to climate change risk.

5. Do you see merit in further elaborating in the provisions above on the identification and ongoing monitoring of sustainability risks, factors and indicators that are material for the financial return of investments?

We suggest that management companies are required to take a risk based approach to identifying and assessing sustainability risks, taking into account risk factors relating to environmental (including climate change) and social. Those steps shall be proportionate to the nature and size of the management company.

The risk assessments referred to here shall be documented, kept up-to-date and made available to the relevant competent authorities.

Member States should also establish risk-based monitoring activities or take other adequate measures to ensure compliance with these provisions.

6. Do you agree with the proposed inclusion of recitals relating to conflicts of interest? Should the technical advice cover specific examples? If so, what would be specific examples of conflicts of interests that might arise in relation to the integration of sustainability risks and factors and should be covered in the advice?

We support the proposed amendment relating to conflicts of interest.

7. Would you propose any other amendment to the provisions on operating conditions in the Commission Directive 2010/43/EU or Commission Delegated Regulation (EU) 231/2013 as set out in Annex III to ensure the effective and adequate integration of sustainability risks and factors?

See above, response to Question 5.

8. Do you agree with the proposed amendments to provisions relating to the risk management included above following a high-level and principles-based approach? If not, please elaborate on the reasons for preferring a more granular approach and describe how you would incorporate such view in the aforementioned provisions.

See above, response to Question 5.

9. Do you see merit in further specifying the content of the risk management policy by expressly listing key elements for the effective integration of sustainability risks (e.g. techniques, tools and arrangements enabling the assessment of sustainability risks, probability of occurrence and time horizon of sustainability risks with regard to the expected time of holding of the positions bearing the risks, quality of underlyng data and methodologies etc.)?

We support the specification of the content of the risk management policy. We suggest that, where appropriate with regard to the size and nature of the management company, an independent audit function to test the internal policies, controls and procedures is required.

10. Do you see merit in amending risk management provisions relating to regular review of risk management policies and systems in order to more
specifically refer to elements related to sustainability risks (e.g. quality of the arrangements, processes, techniques and data used, need for authorised entities to highlight the limitations, and demonstrate the absence of available alternatives)?

See above, response to Question 5.

11. Would you propose any other amendment to the provisions on risk management in the Commission Directive 2010/43/EU or Commission Delegated Regulation (EU) 231/2013 as set out in Annex III to ensure the effective and adequate integration of sustainability risk and factors?

N/A

12. What level of resources (costs, IT costs, training costs, staff costs, etc., differentiated between one financial and other) would be required to implement and comply with the proposed changes (risk management arrangements, market researches and analyses, organisational off and ongoing costs)? When answering this question, please also provide information about the size, internal organisation and the nature, scale and complexity of the activities of your institution, where relevant.

N/A