Amundi's reply to ESMA's consultation

On integrating sustainability factors in UCITS Directive and AIFMD

Introduction:

With 17 analysts dedicated to ESG issues and 35 SRI fund managers, Amundi is one of the leading asset managers, if not the first, in terms of ESG integration.

Amundi welcomes the EC initiatives in this field, in particular its Action Plan, and do appreciate the possibility to express its views through this consultation.

In the title of this document we have dropped the term 'risk' because we think that focusing on ESG risk may be reducer. In fact, risk analysis in our day to day business mainly addresses micro-economic risks (corporate risks) while ESG risks have, above all, a macro-economic reach, except in respect of governance matters. However governance risks are already part of any investment risk so this requires no new regulation. It is also likely that some Corporate environmental failures may result in some value impact but this is not key.

The macro-economic dimension of sustainability appears clearly in the EC Action Plan :

"As we are increasingly facing the catastrophic and unpredictable effects of climate change, urgent action is needed to adapt public policies to this new reality. To achieve more sustainable growth, all societal actors must play a role. The financial system is no exception. Reorienting private capital to more sustainable investments requires a comprehensive rethinking of how our financial system works. This is necessary for three reasons: first, to reorient sufficient capital to put our economies on a more sustainable growth path; second, to protect the stability of the financial system from environmental and social risks."

It is not in the power of investment firms and asset managers to address these global risks and policy makers or governments cannot discharge their responsibility in this field via the medium of financial regulation. Rather, regulation aiming at reducing these risks must address directly those who are responsible for contributing to climate change or societal ills i.e. above all industrial Corporates.

There is a need for better and more standardized information from Corporates on these aspects to allow for well-informed investments. But **prescriptive regulation on how to integrate sustainability in the investment activities is not really needed; therefore we do appreciate the general content of ESMA's proposal.**

Last but not least, looking at ESG in a pro-active way, we are in the view that **a gap has to be filled in terms of driving long term savings towards sustainable finance and, in a wider perspective, long term investments**. ELTIF was created with this objective but it did not reach the goal. There is a need for a long term fund better fitted to retail investors a part of which would be kept for climate transition, specific environment investments or else social care.

Q1: 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?

As explained in the introduction, sustainability is much more a factor to take into account at a macro level than a risk at micro-economic level. We consider that sustainable investment must be seen as a proactive orientation which has to be encouraged instead of focusing on fear that the risk linked to any environmental breach could occur. In addition, when considering societal aspects an exclusively risk-based approach may lead to a deadlock. In fact social sustainability has close links with employment but full employment or other employment considerations can often conflict with financial interests and risks.

Therefore we consider that regulation can positively influence sustainable factors through better taxonomy applied to industrial activities and should only oblige investment firms to take into account breaches from issuers or borrowers (Corporates) in the field of environment and of climate change.

Q2: 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.

Yes we do agree and we consider that a more granular approach is not necessary. In order to put things in the right way it would probably be more accurate to write in the amended articles "take into account (or integrate) sustainability factors **and potential risks linked to failures in this field**".

In article 22 of DR (EU) 231/2013 it would be more relevant to write: "AIFMs should take into account the necessary resources and expertise for the effective integration of sustainability ~~risks and~~ factors **in their investment processes**."

Q3: 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)?

No we do not: such requirement only makes sense when providing SRI products which is not the business model of all asset managers. Any risk linked to possible failures in ESG topics is part of a usual risk analysis.

Q4: 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?

No the proposed amendments are sufficient.

Q5: 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.

In the due diligence article, we would also suggest to speak of "sustainability factors and potential risks of failure in this field". But we do agree with a high-level and principles based approach.

Q6: 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?

No we do not.

Q7: 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?

Yes we agree but we would propose to delete risks and to mention only sustainability factors when speaking of conflict of interests in the AIFMD DR recital. In case of failure or breach to an ESG constraint from part of an issuer, there is no conflict of interest to be taken into consideration.

Q8: 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?

No we would not.

Q9: 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.

Yes we do agree with this approach.

Q10: 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 underlying data and methodologies etc.)?

No we do not. It is up to the Management Companies to assess their investment risk management policy. What is needed is a comprehensive taxonomy framework applicable to issuers (Corporates acting in industries with environmental impact).

Q11: 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)?

No we do not for the same reason.

Q12: 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?

No it is not needed.

Q13: What level of resources (financial and other) would be required to implement and comply with the proposed changes (risk management arrangements, market researches and analyses, organisational costs, IT costs, training costs, staff costs, etc., differentiated between one 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.

It depends on the policy and choices of each asset management company in the field of SRI products. We join a document describing our involvement in ESG.