



ESMA Consultation Paper 'On Integrating sustainability risks and factors into MIFID II'

European Securities and Markets Authority - ESMA35-43-1210

Response by Julia Dreblow, Founder SRI Services

See www.FundEcoMarket.co.uk and www.sriServices.co.uk

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SRI Services is delighted to respond to this welcome consultation and hopes that it will gain the wide support it deserves.

Our responses to the questions put are listed below.

Q1: Do you agree with the suggested approach and the changes to the Article 21 of the MiFID II Delegated Regulation on 'general organisational requirements'? Please state the reasons for your answer.

Yes, agreed and we welcome the proposal that:

'Investment firms shall comply with the following organisational requirements... *'Where ESG considerations are relevant for the provision of investment services to clients firms should take them into account when complying with the above requirements'*. A 'high level' amendment such as this is appropriate.

Additional information:

- Much of how successful this will be in practice will relate to the interpretation of 'Where ESG considerations are relevant...'
- Given the importance of climate change it should be made clear that the EU expects this area to be considered to be widely relevant - although responses may vary in for a range of reasons.
- The noted emphasis on skills, knowledge and process is particularly important as without this other proposals in this paper will fail.
- Experience shows that obligating advisers to discuss this area with clients without appropriate support is unlikely to have a significant impact.

- At present compliance, training and advice process are a long way from being able to integrate factors such as stranded assets or individual personal opinions into activities and expertise is not commonly found in existing service providers.
- The EU should keep in mind however that this is a complex area. For example a knowledge of 'positive impact' investments will not be sufficient to either guarantee clients aims are met or that the wider objectives the HLEG and TEG seek to address are dealt with (ie carbon emissions) as this is a multifaceted. As such, this is relevant to most asset managers and most funds.
- The taxonomies project is likely to be harder to map across to retail funds that you might expect. The final version of this work may or may not be useful as most collective investment funds hold complex (often large) listed equities that have both positive and negative attributes. Avoiding the challenges this presents eg by focusing on cleantech/solutions companies alone will not reduce emissions so it is essential these collectives are not overlooked. (In order to make progress we need greenhouse gas emissions are reduced and green/clean energy provision to increase.) As such, for the suggested improvements to be made this work should be referred to as a potentially useful tool - rather than the source of all relevant information.

Q2: Do you agree with the suggested approach and the changes to the Article 23 of the MiFID II Delegated Regulation on 'risk management'? Please state the reasons for your answer.

'Investment firms shall take the following actions relating to risk management. (a) establish, implement and maintain adequate risk management policies and procedures which identify the risk relating to the firms activities, processes and systems and where appropriate, set the level of risk tolerated by the firm. In doing so, investment firms shall take into account environmental, social and governance factors'.

- Yes agreed. Sustainability and ESG issues can present significant risks to investors and should be proactively managed. Risks in this area are also increasing.
- See above, also:
- Sustainability - and in particular climate risk – should be regarded as a major risk with due regard for its significance and impact on future generations.
- Regulators should be mindful that sustainability - and climate risk in particular – is relevant to almost all investments (companies collectively cause significant biodiversity loss, pollution, habitat destructions, carbon emissions etc and also present investment opportunities when they are involved in addressing such issues). As such, regulators should focus attention on those organisations that appear to believe that ESG/sustainability is of limited importance (or who can not substantiate activity).
- With regard to serving individual (retail) investors ESMA should note that the taxonomies work may or may not be a useful point of reference given the diverse and dynamic nature of the 'mass' investment market - and the variety of valid investment responses.

Q3: Do you agree with the suggested approach and the new recital on ‘conflicts of interest’? Please state the reasons for your answer. What would be specific examples of conflicts of interests that might arise in relation to sustainability considerations?

‘When identifying the types of conflicts of interest whose existence may damage the interest of a client, investment firms should include those that may stem from the distribution of environmentally sustainable investments, social investments or good governance investments.

Firms should have in place appropriate arrangements to ensure that the inclusion of ESG considerations in the advisor process and portfolio management does not lead to misselling practices.’

Yes, I agree.

Additional information. (From text on page 10)

- These proposals make sense however the conflict of interest risks may be broader than identified here.
- A further conflict is that many intermediaries have ignored this area for many years so changing their strategies will be problematic, particularly when reviewing portfolios with existing clients.
- These changes will create conflicts in terms of adviser credibility, why they did not discuss this earlier with clients and what to do with assets already under management that carry significant ESG/sustainability risks.
- Rather than allowing this to become problematic - proactively ensuring appropriate support is available to intermediaries should help minimise conflict whilst intermediaries adapt.
- The practical aspect of managing workloads may also be of concern to intermediaries. Intermediaries should be allowed a reasonable time period in order to adapt/review previous advice.

Q4: Do you think that on the topic of ‘organisational requirements’ other amendments should be made to the MiFID II Delegated Regulation in order to incorporate sustainability risks and factors? If yes, which ones? Please state the reasons for your answer.

We welcome sustainability being viewed as part of ‘organisational requirements’.

The following areas should also be considered:

- Senior level responsibility for ensuring ESG integration and sustainability strategies are handled appropriately – throughout the investment supply chain (eg asset owners, managers, intermediaries and advisers).
- Encourage reporting and transparency in this area
- Have due regard for all elements of ESG but retain and entrench a core focus on sustainability challenges such as climate change/risk as these threaten both investment returns and our ‘every day lives’
- Aim to align recommendations to TCFD framework as far as possible (setting parallel recommendations where possible.)

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”? Please describe.

SRI Services has significant experience of fund labels – although not of ‘flags’ for individual assets.

The response below refers to our work in the labelling (or ‘segmenting’) of retail funds.

Labelling is a complex area and open to misrepresentation / misunderstanding and should only form a part of the investment advice process.

We have been working on labelling funds since 2011 with the aim of helping people to match fund options to client aims more precisely.

The SRI Services’ ‘Fund EcoMarket website ‘SRI Styles’ system (www.FundEcoMarket.co.uk) was set up to help financial services intermediaries advise individual investors about retail collective investment fund options. It does not aim to be ‘all things to all people’ as we believe this is unworkable. Our system aims to achieve the following:

- Reflect the fund options that are ‘actually available’ to individual investors
- Focus on the core issues the funds focus on
- Splitting fund options into groups in a way that aims to reduce the risk of misselling or investors buying funds that do not meet their ethical/ESG/sustainability aims
- Use ‘plain English’ ie terminology that makes sense to people outside the investment industry
- Start by highlight the ‘core features’ a fund was designed to address, achieve or reflect (core ESG/SRI/Ethical strategies)
- Evolve over time – this has been updated twice since launch. The names of our ‘SRI Styles’ changes when markets shift what they offer. A ‘fixed’ strategy would not have worked.
- Link to our fact find tool that tells advisers/investors which would be the ‘best fit SRI Styles’. The system normally recommends 3 SRI Styles as there is much crossover between the styles.
- Be used in conjunction with more granular and specific information (available via filter options and links to fund management company literature).

The Fund EcoMarket database tool ‘SRI Styles’ Directory page explains these groups as follows:

Funds which focus on ‘ethical/values based’ negative and/or positive screening based strategies:

- **Ethically Balanced funds** combine a wide range of, sometimes complex, positive and negative ethical screening policies as part of their investment strategies and may apply ‘best in sector’ strategies – which means they may invest in most sectors.
- **Negative Ethical funds** use clear, sometimes strict and extensive, negative ‘ethical’ screens as their core strategy. They may avoid a significant number of areas on ethical grounds (eg armaments, tobacco, gambling) or may focus on avoiding a smaller number of areas.
- **Faith Based investments** invest in line with specific religious principles (eg Shariah Law)

Funds which focus on ‘thematic’ strategies, often alongside screening strategies:

- **Sustainability Themed funds** focus on sustainability related issues and opportunities as part of their investment strategy, often alongside ethical criteria. Their focus is often around longer term societal and environmental trends.

- **Environmental themed funds** significantly integrate environmental issues into their investment strategies, sometimes alongside ethical avoidance criteria. Their focus is often around longer term environmental and resource related issues.
- **Social Themed funds** focus on ‘people issues’ (such as employment and basic necessities of life). Social themed fund managers focus significantly on societal benefits when analysing companies for investment.

Strategies that may apply to an individual fund or across all fund manager assets:

- **ESG Plus** can be a ‘fund level’ strategy or a ‘corporate level’ (fund management company wide) strategy. Fund managers with strong ESG strategies consider ‘Environmental, Social and Governance’ risks (and opportunities) as part of their investment research process. Applied on its own ESG does not normally indicate that there is additional SRI activity (screening or stewardship/responsible ownership), however the Fund EcoMarket ‘ESG Plus’ listing indicates that that there is additional activity. (See ‘more info’ boxes for details.)
- **Responsible Ownership** is typically a ‘corporate level’ strategy – applying across all or most of a fund managers assets. Fund managers with Responsible Ownership or Stewardship strategies work with the companies they invest in to encourage better environmental, social and governance practices – when change is in the best interest of (all) longer term investors. (This strategy often forms a significant part of SRI screened and themed fund activity.)

Fund EcoMarket has around 800 (mainly financial services intermediary) users per month. Our aim is to highlight the major areas of focus through labels and explain further through tick box options – which are then supplemented with text supplied by fund managers and url links to their websites.

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.

- Some of the terms used are too narrowly focused.
- The term ‘where relevant’ should not be allowed to be used as an excuse for inaction
- All ‘products’ have ESG features - some will be positive others will be negative, most will be a mixture of the two.
- In order to address climate change, negative (as well as positive) ESG attributes must also be recognised. Corporate responses should be able to vary but overlooking companies and funds that causing harm (or hold companies that cause harm) and manage risks poorly should not be able to save costs by not having to respond to the duties of companies or funds that promote their ESG credentials.
- All clients have opinions on ESG matters – their view may be that they are not particularly interested, if so this should be recorded.

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.

- ESG/SRI, sustainable, responsible and ethical investment options vary significantly and can commonly be appropriate for investors on their ('conventional') investment merit as many are well managed investment options. I agree that a client does not have to have expressed an interest in ESG for such a fund to meet their investment objectives.
- I do not agree with the premise that a substantial proportion of people have no opinions on ESG related issues. Most people have opinions, however they may or may not want to integrate them into investment decision making.
- Case studies are normally helpful however I am not in agreement with the use of case studies that focus on sustainability in a way that implies it is 'niche', 'specialist' or necessarily significantly weighted towards pure play clean technology companies.
- Sustainability issues are relevant to almost all investments (to a greater or lesser extent) and by taking a broad view of this area we can use investment as a significant force for good and a facilitator of the transition towards more sustainable lifestyles. Focusing on a single sector can not achieve this.
- If the EU focuses on a narrow range of investment opportunities (pure play green finance companies and related investments) it will not fulfil the objectives set by the HLEG.
- A preferable focus is to recognise to address issues throughout the investment chain, whilst retaining a degree of pragmatism.
- The EU should consider the range of investment strategies that can contribute to sustainability eg negatively screened avoidance led strategies, positive stock selection strategies and responsible ownership / stewardship activities.
- Case studies should not confuse ESG (ie management or E, S & G factors – alongside other factors) with pure 'impact investment' where strategies and aims differ.

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

- A negative target market is hard to define for two main reasons:
 - o A client may indicate that they are not interested because they do not understand the magnitude of ESG/climate risk - or may be steered to indicate a lack of interest because their adviser is not comfortable advising on this area.
 - o Well managed investments are increasingly integrating ESG considerations into 'regular' investment options in recognition of the fact that all investments have ESG characteristics (although historically these have generally been overlooked). This trend is growing and it may soon be difficult to differentiate conventional investment strategies from funds marketed as being 'ESG'. Although problematic in this context this should be welcomed and encouraged.
- My view is that this area should not be overlooked for any clients. All funds (and therefore their clients) should have at least some ESG analysis.
- Funds that display no information on ESG performance should be considered higher risk than others in their cohort. The information funds publish should be able to be explained to clients.

Q9: Please specify any approach you see to identify environmental, social and governance criteria separately from each other or as a single indicator. Please explain how the criteria would interact with each other and how the target market assessment and matching would be performed in such cases.

- ESG factors are significantly interconnected (eg environmental challenges have social implications and visa versa), however in terms of practicality and precision it is useful to list issues and criteria separately. This can aid the identification of risks and opportunities (for an investment manager) and help point to appropriate investment / fund options (for an individual investor/client.)
- The way issues interact within individual organisations should be considered by fund managers and assessed in line with their stated fund objectives/strategy.
- As well as considering issues it is equally important to consider a fund manager's approach (ie avoid, support, engage). Similarly a fund manager should be expected to be able to explain their approach to specific business scenarios.
- The starting point for understanding what an investment fund does must be what the fund manager says they do (supported with evidence as appropriate). For individual investors this means starting with documented funds policies and strategies.
- To see our approach and how the individual issues interact see the filter systems on our fund tool www.FundEcoMarket.co.uk .
- The tool aims provide a level of detail that is appropriate for individual investors and their advisers. Information is submitted by fund managers.
- The tool (ie filter options) differentiate in some key areas between themes, policies and specific areas of investment. The representation and interconnectedness of ESG factors across fund options varies as funds have evolved (over time) to meet different client needs.
- The focus of the site is to facilitate and therefore increase the uptake of investment into funds that focus on environmental, social and ethical issues. (We do not explain every issue or situation in detail as this would be off putting to many users - but do supply links to where additional information can be found).
- Searching our database for funds flagged as 'ESG' (as opposed to searching for individual environmental, social or governance activity) is appropriate in two main situations:
 - o Where a client expresses a general interest in this area and is not specifically interested in individual issues (their aim may be risk mitigation rather than eg a desire to invest in clean technology)
 - o as a starting point from which to build additional more specific research/additional filter criteria (eg search 'ESG' alongside other factors eg 'Avoids coal, oil and gas majors').
- Fund EcoMarket represents this in a number of different ways.
 - o We offer an 'ESG Plus' SRI Style to identify individual funds (the 'plus' indicates that there are additional features in addition to pure ESG research as this is increasingly integrated into conventional funds.)
 - o 'ESG Integration Strategy' is a filter option within the 'Approaches, Application and Features' filter area as it forms part of the methodology of many different fund

- options – which in the cohort of SRI/ESG specific funds – is often the foundation onto which additional features (eg positive stock selection or avoidance criteria) are built.
- With regard to how to display different environmental social and governance factors and how they cross over please see our tool which is the result of 25 years work in this field. on www.FundEcoMarket.co.uk
 - o note - retail investors do not typically express a direct interest in detailed governance factors. Their interest is normally in the underlying social and environmental issues that governance tools aim to address (with the possible exception of remuneration and diversity). This tool therefore displays few 'pure' governance related filters although Environmental, Social and Responsible Ownership/ Stewardship/ Voting/ Corporate Activity detail is extensive.
 - Methods vary, this area is dynamic and different options reflect different opinions and objectives
 - An extensive list of the areas a fund considers enables clients/advisers to build a picture of what a fund does (as too little detail can lead to misrepresentation)
 - Fund managers should be encouraged to explain in detail what they do across individual E, S & G factors. Transparency is essential. This is different from encouraging detail led standardisation which risks causing bubbles.
 - A further risk of too 'granular' or 'narrow' an approach is that funds that can help meet the needs of the EU's climate action plan by encouraging higher standards across diverse sectors might be overlooked and therefore potentially disincentivised from carrying out their greatly beneficial work.

Q10: What current 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”? Please describe.

See response to Question 5 above.

We run our own system of labels for retail financial services intermediaries – which was launched in 2011. In brief we split retail collective investments as being; 'values led' (Faith based, Negative ethical or Balanced Ethical), 'SRI themed' (Sustainability, Environmental, Social) or more broad based (ESG plus, Responsible Ownership). These are designed to ensure fund strategies can be matched to what a client says they are interested in.

There are many 'issues' in doing this. For example, data used by fund managers regarded generally as not being perfect so our aim is to focus more on fund manager intentions, aims and objectives.

Issues/challenges include:

- Research and user interpretations of data is often subjective
- Information presented is often too vague or too complicated to be useful (eg referencing norms or methodologies to clients is unlikely to be helpful)
- Rating systems can be too simplistic and binary – and often work from incomplete data. They can be therefore misleading (a single rating can not be matched to diverse individual investor aims and opinions)
- Data providers belief that more data points = better information, is not necessarily right.
- People often do not realise terminology is used differently in different markets. Eg in the UK all funds in this area are generally referred to as 'Ethical funds' by financial advisers, investors

and the media. In the institutional (fund management) community the same funds tend to be referred to as 'ESG' or 'Responsible Investment'.

- Terms such as ESG and Sustainability are used interchangeably by some (this is incorrect – or at least open to misunderstandings)
- Labels need to be able to evolve over time as neither challenges or strategies are 'fixed'

Q11: Do you agree with the suggested approach and the amendments to paragraph 28 of the suitability guidelines? If not, do you have any suggestions for developing a more detailed approach with regard to (a) the collection of information from clients and (b) the assessment of ESG preferences with the assessment of suitability?

Excerpt from paper:

“Paragraph 28 of the guidelines to be replaced by the following

When collecting information about their clients' ESG preferences, firms should ask questions in relation to environmental, social and governance factors. The information collected on clients' ESG preferences should be granular enough to allow the firm to assess the suitability of the investment and should be consistent with the EU's classification system of ESG investment products, once developed. While this classification system is under development, investment firms should clearly specify what they consider to be ESG preferences or considerations, while taking into account current market standards.”

- This text is most welcome, with the exception of the reference to the EU classification system as this system is incomplete, untested and may be too granular to be useful to retail advisers.
- Any reference to methodologies or tools should be sufficiently flexible to cope with future improvements and innovations. (Noting that it may not always be appropriate or desirable for the EU to continue with and continually update this taxonomy.)
- In broad terms – as in any area innovation in this area should be encouraged (providing it is constructive, in the best interest of clients and helps address sustainability challenges/ climate change / climate risk).
- In my opinion the role of the EU in this instance should be to facilitate progress by instructing advisers to discuss this area with clients. The development of tools that can help hasten progress is also welcome but should not necessarily be a long term commitment. Also:
 - o The taxonomies classification system that is under development may be more useful for asset managers than retail investors/intermediaries.
 - o It may or may not succeed in representing the activity of larger investee companies ie those held in 'conventional' investment funds (which should also be encouraged to improve their ESG processes).
 - o The output of this work may not be suitable for financial advisers and other intermediaries as they do not normally assess (or advise on) individual fund holdings or single assets. If work of this level of detail is expected to be used by intermediaries this could lead to the need for significant regulatory change and/or competence assessment as well as possible professional indemnity insurance issues.
- Paragraph 28 should therefore read: *‘When collecting information about their clients' ESG preferences, firms should ask questions in relation to environmental, social and governance factors. The information collected on clients ESG preferences should be granular enough to*

allow the firm to assess the suitability of the investment. Methods of assessing suitability should be transparent and documented with a full audit trail in order to demonstrate the appropriateness of the advice given.

- (a) With regard to ‘collecting information from clients’ the most important step is to ensure that intermediaries offer clients the option exists to invest in line with their opinions on ESG issues. At present most individuals are not aware that this is possible. The next step is to ensure clients are aware that there is a variety of options as there are different way to address ESG / sustainability issues – and different options will be appropriate for different clients (both from an ‘ethical’ perspective and from a standard risk analysis perspective (eg selecting between different combinations of: fixed interest/bonds, equities, larger company focus, smaller/impact focus, with or without ethical avoidance criteria or positive stock selection bias etc). Once ‘broadly appropriate’ ‘top level’ areas of interest eg environmental, social, faith or a combination of all relevant issues and strategies have been identified (or sufficient information has been collected in order for this to be possible) the adviser should consider more granular information in order to match client aims to (typically collective investment) fund options to clients preferences.
- (b) The Fund EcoMarket fact finding tool, SRI Styles methodology and filter options are an example of how this can work. Filter options include both ESG ‘issues’ and ‘approaches’ as well as filters to allow ESG factors to be mapped to standard fact finding related data such as ‘geographic region’ and ‘asset type’ . These need to be brought together – although the precise order in which this takes place is not necessarily important. A suggested advice process (that we discuss with advisers) is shown below.



Additional information:

- With regard to advancing this, although it is correct that there is relatively limited practical experience of this area there are however many (eg in the UK) investment professionals who have been involved in advising on this area (or helping others to advise) for many decades. Most do not normally respond to consultations as their organisations are small. Regulators should find ways to learn from their experience.
- Regulators should be aware that there is a risk that the status quo will remain – where documentation appears to be in order but clients have been verbally directed to indicate that this area is not of interest – typically because of a lack of adviser experience/ competence / confidence / supporting processes.
- The content of Paragraph 11 (p23) is not where ESMA should be heading. Understanding clients’ opinions and assessing risk should be integral to the advice process. (This links to 11b) It would be realistic to expect intermediaries to require time to transition to new processes. They should also remain mindful that this is not a new area and that many advisers (and/or their support providers) have previously taken the decision not to recommend investments that focus significantly on ESG factors (often referred to as ‘ethical funds’).
- Processes are likely to evolve in this area if regulatory scrutiny increases and the materiality of ESG and sustainability factors becomes better understood.
- The risk of greenwash needs to be recognised and addressed through greater transparency and management for ESG risks becoming the responsibility of senior management teams (eg CEO).

Q12: Please specify any approach you see to assess environmental, social and governance criteria separately from each other or as single preferences. Please explain how the criteria would interact with each other and how the suitability assessment would be performed in such cases.

- There are many different issues and these can be broken down into many different criteria or data points. Different research providers have different methodologies, however given the complexity of investee companies it is often an organisations ‘direction of travel’ that is as important as often (backward looking) data.
- See www.FundEcoMarket.co.uk for our view of how this can be achieved for financial advisers matching individual funds to clients needs.
- Fund EcoMarket can be used in a number of different ways as we recognise that it is up to the intermediary to decide what is appropriate for an individual client.
- In order to meet clients needs an adviser needs to know not on the issues (ie policies, issues and themes) a fund manager considers but the approach (approaches, application and features) they take to that (and other) issues – as well as how the fund management organisation as a whole behaves. See image below for how we present this to intermediaries.
- ESG issues do interact but I would suggest the important aspect is to focus on how these are represented to clients.
- Encouraging detailed, transparent information on fund strategies is essential.
- The purpose, intentionality and any explicit impact and financial goals should also be published and able to be understood by individual investors.

Policies, Issues & Themes (what?)	Approaches, Application & Features (how & why?)	Corporate Activity (who?)
eg.	eg.	eg.
Environmental <ul style="list-style-type: none"> Has environmental policy Coal, Oil and Gas majors excluded Sustainable transport theme Social <ul style="list-style-type: none"> Avoids child labour Has human rights policy Responsible supply chain policy Governance <ul style="list-style-type: none"> Has governance policy Encourage board diversity (eg gender) Ethical <ul style="list-style-type: none"> Avoids tobacco Avoids animal testing Avoids armaments 	Approaches <ul style="list-style-type: none"> Strictly screened Limited/few exclusions Single resource theme Impact <ul style="list-style-type: none"> Aims to deliver positive impacts Measures positive impacts Policies in practice <ul style="list-style-type: none"> Over 50% large cap Faith friendly Favours cleaner/greener companies Features <ul style="list-style-type: none"> RSMR Rated Available via an ISA External committee with power of veto 	Resources <ul style="list-style-type: none"> Employ specialist ESG/SRI researchers Use Specialist ESG/SRI research companies Stewardship & Responsible Ownership <ul style="list-style-type: none"> ESG/SRI Engagement Publish full voting record UK Stewardship Code signatory Affiliations & Collaboration <ul style="list-style-type: none"> UKSIF member PRI Signatory Climate Action 100+ member Other company features <ul style="list-style-type: none"> Specialist/boutique company Specialist SRI/positive impact fund management company

Q13: Do you agree with the suggested approach and the amendments to paragraph 70 of the suitability guidelines?

“Paragraph 70 of the guidelines to be amended as follows

Firms should adopt robust and objective procedures, methodologies and tools that allow them to appropriately consider the different characteristics (including, where relevant, ESG considerations) and relevant risk factors (such as credit risk, market risk, liquidity risk, ...) of each investment product they may recommend or invest in on behalf of clients. This should include taking into consideration the firm’s analysis conducted for the purposes of product governance obligations. In this context, firms should carefully assess how certain products could behave under certain circumstances (e.g. convertible bonds or other debt instruments subject to the Bank Recovery and Resolution Directive 19 which may, for example, change their nature into shares).”

- Yes. This is most welcome.
- I would suggest all fund should have a publicly available ESG statement (or similar) expressing how managers consider ESG issues, particularly climate risk. This should point to where further information is available regarding their procedures and methodologies.
- (nb Most major fund managers now promote their green credentials - so this would direct them to be more explicit in their claims – with evidence, including data highlighting ‘ESG performance’ across the organisation and not simply ‘cherry picking’ positive examples for marketing gain).
- Examples of processes and methodologies will be available from fund managers with expertise in this area, but broadly these should be expected to recognise the diversity of issues but focus

on core risks. ESMA should expect these to show different approaches relating to stock selection (or divestment) and active ownership (stewardship).

Q14: 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.

- The level of resources required to make progress in this area will vary dependent on the type of organisations and the resources employed.
- Much work in this area can be out-sourced. For asset managers I would recommend using multiple sources (so that differences in data can be recognised and considered) and there being at least two people actively involved in management of this area so that it can be debated internally.
- Responsibility for this area must rest with senior management so a proportion of their time should also be allocated to understanding and assessing ESG issues and strategic responses.
- All areas of a business should have nominated individuals responsible for integrating ESG into both strategic and tactical decision making.
- At present resources across fund management organisations range between c0.5 headcount and teams of c30+ inhouse specialists. As a 'ball-park' figure where this area is managed inhouse a team of at least 2-3 people would be required in order to develop ideas and bring together external research in a way that fits stated strategies.
- In most firms the objective should be to ensure ESG is significantly integrated across all aspects of the business.