Nordea Response to the Questionnaire by the High-level Expert Group on the Sustainable Finance Interim Report

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Key high-level comments by Nordea Bank AB

Nordea Bank AB (publ) (Nordea) welcomes the opportunity to submit a response on the questionnaire by the High-level Expert Groupon the sustainable finance interim report.

Nordea strongly supports and engages in the efforts of financing a sustainable European economy and recognizes the important work performed by the dedicated and well-experienced group of experts.

We would like to point out three key factors, which in combination are key to address sustainable finance:

• Transparency. Investment decisions require ESG data that is material, forward-looking and standardized. This includes efficient and comparable data collection and reporting based on common metrics, methodologies and easily accessible basic quantitative data.

• Alignment of targets and policies. The signals given to the real economy prevail and must be aligned with what the financial sector is required to report on and enhance. The financial sector can amplify and accelerate the impact by directing investments to the best business models and performers.

• Focus on the role of general purpose financing. This is by far the largest segment in the capital markets and multiple in size compared to project financing. Hence, to reach scale in impact of efforts, focus on general purpose financing is essential.

In the following sections, the responses to specific questions in the questionnaire are outlined.

Sustainable Finance at Nordea is about integrating sustainability into all our activities and products within our core areas investment, lending and customer advice. We work integrated with environmental, social and governance issues in all our fields.

Nordea remains open for further dialogue with the High-level Expert Group and other stakeholders on Sustainable Finance. For further contact, please contact Aila Aho, Head of Sustainable Financing, Wholesale Banking at aila.aho@nordea.com or visit our webpage at http://sustainablefinance.nordea.com/.

Nordea response to the consultation

Question 1. From your constituency's point of view, what is the most important issue that needs to be addressed to move towards sustainable finance? (sustainable finance being understood as improving the contribution of finance to long-term sustainable and inclusive growth, as well as strengthening financial stability by considering material environmental, social and governance factors)

Transparency is key. Investment decisions require ESG data that is material, forward-looking and standardized. This includes efficient and comparable data collection and reporting based on common metrics, methodologies and easily accessible basic quantitative data.

Also, the signals given to the real economy prevail and must be aligned with what the financial sector is required to report on and enhance. E.g. measures that directly affect the fossil intensive industries and transparency around the impacts are more effective than indirect impact through financial sector left alone. The financial sector can amplify and accelerate the impact by directing investments to the best business models and performers.

Focus on the role of general purpose financing. This is by far the largest segment in the capital markets and multiple in size compared to project financing. While it is important to identify the assets that generate real change, the asset based financing model may overlook smaller or scattered investments that on aggregate level make an important contribution. These investments are not fully recognised in the project focused approach. It could be beneficial to explore further ways that would allow more companies in various industries to create and report relevant investments towards sustainability.

The following questions cover selected areas that are addressed in the recommendations (chapter VI) of the interim report, which the expert group considers to be crucial and would appreciate your feedback on:

Develop a classification system for sustainable assets and financial products

Question 2. What do you think such an EU taxonomy for sustainable assets and financial products should include?

It should include common metrics on measuring the different aspects and their materiality in industry sectors in regards to major topics like climate change, resource efficiency and use of natural capital, including emissions and pollution, and human rights. Scale can start with indicative categories like major, minor, insignificant accompanied with reference values per industry.. The market mechanisms should be enhanced with solid data rather than stifled by additional and potentially slow moving guidance.

Establish a European standard and label for green bonds and other sustainable assets

Question 3. What considerations should the EU keep in mind when establishing a European standard and label for green bonds and other sustainable assets? How can the EU ensure high quality standards and labels that avoid misuse/green-washing?

• Good to build on already recognized standards such as Green Bond Principles that have reached wide market acceptance and start to be global. The investor demand is already well established.

• Market growth is currently hampered by the lack of recognisable assets and the extra demands and reporting expected from the issuers. The issuing institutions are well aware of the risks related to greenwashing, to the extent that it is hampering the supply of green bonds. More focus should be directed to facilitating the issuers work load and mitigating their concerns for being accused of greenwashing.

• Potentially explore ways to recognise the green investments and transformation that are done by the companies but not specifically financed with green labels.

• Base sustainability strategies and target setting on the SDGs.

• Ensure standards are adapted according to evolving market reality.

Create "Sustainable Infrastructure Europe" to channel finance into sustainable projects

Question 4. What key services do you think an entity like "Sustainable Infrastructure Europe" should provide, more specifically in terms of advisory services and connecting public authorities with private investors

• There is no lack of liquidity but there is a lack of investments that fulfil criteria that financial institutions are required to meet. Measures to share risks that are not, and should not be, carried by lenders are important. However, this should be done in co-operation with the markets in a transparent way that does not blur the responsibilities and healthy technological and market evolution.

• Focus on creating benchmarks, data and methodologies together with EIB, NIB and similar established institutions. Sustainability needs to become mainstream standard part of decision making in all financial institutions.

• Arrange knowledge sharing and cooperate with institutions in education, including the faculties teaching finance, law and engineering.

The report also touches upon areas for further analysis. The following questions focus on a selection of these, which the group would appreciate your feedback on:

Mismatched time horizons and short-termism versus long-term orientation

Question 5. It is frequently stated that the inherent short-termism in finance, especially financial markets, represents a distraction from, or even obstacle to, a long-term orientation in economic decision-making, including investments that are essential for sustainability. Do you agree with this statement?

Yes
No
Don't know / no opinion / not relevant

Question 5.1. If you agree with this statement, which sectors of the economy and financial system are particularly affected by the 'mismatch of time horizons'? What are possible measures to resolve or attenuate this conflict?

Regulation of banks has short-term focus and punishes long term risk taking – as it probably should to some extent. Long term targets and scenario analyses required from the top management as recommended in the TCFD could be an adequate starting point if combined with an obligation to describe how ESG is integrated in the investment decisions. Increased transparency would direct financial flows towards the best practises.

The energy sector is also affected by mismatch of targets and policies- if we want transformation to low carbon economy, a price on carbon and stopping subsidising fossil fuels would be the first steps. That would add clarity and give a predictable and quantifiable base for financial decisions.

Governance of the investment and analyst community

Question 6. What key levers do you think the EU could use to best align the investment and analyst community with long-term sustainability considerations in the real economy?

• Requiring transparency on how asset owners, intermediaries and companies take ESG risks and SGDs into account and creating uniform and standardised reporting methods and data bases.

• Support the development of market-based benchmarks and credit ratings

• Support creation of an EU sustainability stewardship standard

• Facilitate sustainability education in finance, law and engineering.

A strong pipeline of sustainable projects for investment

Question 7. How can the EU best create a strong and visible pipeline of sustainable investment projects ready for investment at scale?

In addition to targeted project financing, it is key to recognise the role of general purpose financing that is by far the largest segment in the capital markets. General purpose bond and syndicated loan markets are multiple in size compared to project financing. For instance the companies in the energy production value chain present a very tangible potential for effecting transformation. Their current cash flows mitigate the technical and market risks related to the new business models. This is essential for the financial stability and also required to achieve scale. This type of financing could be better addressed in the future work as the contribution of this type of financing is not fully recognised in the project finance focused approach. Naturally this would require public and clear commitment by the companies in question towards the transformation. This can be well aligned to the TCFD reporting recommendations concerning medium and long-term goals.

Integrating sustainability and long-term perspectives into credit ratings

Question 8. What are some of the most effective ways to encourage credit rating agencies to take into consideration ESG factors and/or long-term risk factors? Please choose 1 option from the list below
- Create a European credit rating agency designed to track long-term sustainability risks
- Require all credit rating agencies to disclose whether and how they consider TCFD-related information in their credit ratings
- Require all credit rating agencies to include ESG factors as part of their rating
- All of the above
- **Other**

Question 8.1 Please specify what other ways you would deem most effective in encouraging credit rating agencies to take into consideration ESG and/or long-term risk factors.

Redefining Fiduciary duty – credit ratings respond to a need to define and price risk in relation to return. ESG should be integrated to this as an obligatory part of the assessment. The ESG assessment does not need to be done by the rating agencies but they should state how it has impacted their rating.

Role of banks

Question 9. What would be the best way to involve banks more strongly on sustainability, particularly through long-term lending and project finance?

Integrate sustainability in banks' risk assessment and create a clear methodology as described in Q1. True transformation happens in energy companies, utilities and manufacturing companies as a shift in their investments that are largely funded by the cash flow form the old operations. Focusing on project financing will not facilitate scale or mainstream thinking. Hence, focus on general purpose financing is necessary.

Role of insurers

Question 10. What would be the best way to involve insurers more strongly on sustainability, particularly through long-term investment?

Facilitate data sharing and benchmark creation for the physical risks related to climate change. Other financial institutions do not have the data collection systems and methodologies to evaluate this risk (for instance based on location of real estate, manufacturing and utility plants, forestry and farming).

Social dimensions

Question 11. What do you think should be the priority when mobilising private capital for social dimensions of sustainable development?

• Promoting social bond issuance and the social bond principles.

• Establish a consistent definition of social investment and enterprise that also clarifies how green investment and environmental effects have a social dimension.

• The challenge is to find interesting investment streams in the developed world where the impact is marginal compared to what is needed in the developing world. Maybe one idea would be to explore ways to mitigate the repayment risks of the developing world social projects so that they could be funded with social bonds targeted to European private investors in small tickets.

Other

Question 12. Do you have any comments on the policy recommendations or policy areas mentioned in the Interim Report but not mentioned in this survey?
Question 13. In your view, is there any other area that the expert group should cover in their work?

The Report is available here: https://ec.europa.eu/info/sites/info/files/170713-sustainable-finance-report_en.pdf The consultation webpage can be opened from this link: https://ec.europa.eu/eusurvey/runner/sustainable-finance-interim-report-2017