

## **Response to the Commission's public consultation on Institutional investors and asset managers' duties regarding sustainability**

Thank you for the opportunity to respond to the Commission's consultation on Institutional investors and asset managers' duties regarding sustainability. The financial sector has an important role to play in the efforts to make our economies greener and more sustainable and thereby foster sustainable growth. Therefore, Denmark is generally supportive of efforts to further develop the area of sustainable finance which is a growing sector in Denmark, in the EU, and globally.

Overall, we have three main considerations with regard to the Commission's consultation. Firstly, Denmark supports the work on establishing a common EU framework with respect to sustainable finance. Secondly, we encourage the Commission to take previous experiences into account from e.g. the work of the UN and OECD as well as including all three ESG factors when addressing sustainable finance. Finally, we continue to see it as imperative that financial regulation first and foremost addresses the institutions' risk profiles and ensure financial stability, and we must stress that enabling more sustainable investments does not automatically mean more regulation is needed.

Despite being a growing market, sustainable finance still faces barriers to reaping its full potential. Some of these current barriers are inadequate or unavailable data, lack of common methodology for assessments, and comparability of information. Some Danish financial companies experience a gap in consistent environmental, social and corporate governance factors (ESG) metrics which prevents them from exploring the full potential of the European market for sustainable finance. Therefore, Denmark would support looking into establishing an EU framework, which could include e.g. common classifications of sustainable finance or reporting standards to create comparability across the EU. This would help investors and intermediaries identify the relevant long-term investments best suited to their client's interests, thereby potentially opening up to further cross-border investments.

While the precise scope of the Commission's proposal is not yet clear, we note that the current scope of the consultation is focused on ESG factors, and the debate often revolves around factors of environmental nature. I believe that all three elements are of equal importance when considering sustainable finance. We would also encourage considering experiences from e.g. the work of the UN and OECD, in particular the UN Guiding Principles on Business and Human Rights (UNGPs), the UN-supported principles for Responsible Investment (PRI) and the OECD Guidelines for Multinational Enterprises from 2011, which Denmark, among other EU Member States, joined in that year. These guidelines address sustainability by encouraging companies to conduct continuous due diligence on their entire supply chain to avoid adverse impact on matters covered by OECD and UN guidelines.

Furthermore, ESG-factors have, to some extent, already been incorporated in several pieces of current financial legislation and structures on both EU and national level, and the effect of these are still to be seen.

It is key to find a balanced approach to sustainable finance which develops the market without compromising financial stability, and it is imperative that any action not only takes into account differences and existing well-functioning initiatives and structures across the EU and in Member States, but also recent developments in the financial regulatory sphere. We are open to considering manners to promote sustainable finance, but the primary goals of specific acts of financial legislation and the overall goal of financial stability should be respected. In general, we believe that the development of sustainable finance should be led by private actors and enabled by public ones.

Financial regulation should first and foremost address the institution's risk profile and ensure financial stability as e.g. capital requirements addressing the risk of losses. It would not be appropriate to promote sustainable investments by lowering capital requirement. First, it would risk reducing capital requirements below the appropriate level given the actual risks. Second, it would distort and incentivize disproportionate risk taking in sustainable investments. This would contribute to creating vulnerable banks and thereby financial stability risks which would be counterproductive in supporting lending to the real economy, including in supporting sustainable investments. Several steps have been taken since the crisis to ensure a sound and stable European financial system and these steps should not be compromised.

To conclude, we look forward to initiatives that, by incorporating sustainability in the duties of institutional investors and asset managers, aim to enable sustainable investment by these actors. We find it important that

such initiatives take into consideration the current activities already promoting and ensuring sustainability. Moreover, they should not lead to disproportionately selective treatment of sustainable finance resulting in increased risk in investment decisions and to financial institutions.

I remain at your disposal for any comments or questions that you might have and I am looking forward to a constructive dialogue on how to continue the work to support sustainable development in the EU.

Yours sincerely,

A handwritten signature in blue ink that reads "Brian Mikkelsen". The signature is written in a cursive, slightly slanted style.

Brian Mikkelsen