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# EFAMA Brief - 2019

***EFAMA's Response to Integrating Sustainability Risks in Investment Directives and Consultations (sustainability)***

The European Fund and Asset Management Association (EFAMA) has responded positively to the European Securities and Markets Authority's (ESMA) and European Insurance and Occupational Pensions Authority's (EIOPA) consultations on integrating sustainability risks and factors into the UCITS Directive, AIFMD, MIFID II, Solvency II, and the Insurance Distribution Directive (IDD). EFAMA emphasizes the importance of consistent application across all ongoing consultations for effective integration of sustainability risks and factors in investment decisions and distribution processes. They stress that sustainability risk should be seen as a material risk affecting financial performance based on sustainability considerations, not as externality risks posed from investments to the environment and society at large. EFAMA encourages ESMA and EIOPA to link sustainability risk to the financially material impact on investments and align regulatory frameworks across the insurance and asset management industry. The concise definition and application of sustainability risks and factors across sectors will significantly impact the asset management industry, since insurance companies are among their biggest institutional clients.

***EFAMA's Guidelines for Investment Management Companies on International Standards and ESG Factors (nist)***

The European Fund and Asset Management Association (EFAMA) believes their document may offer value to small-sized investment firms who may struggle with meeting challenging international standards such as ISO, NIST, CPMI-IOSCO. The recent extension allows users additional time to shift to new risk-free rates and keep using indices from third country administrators in the absence of similar third country regulations. EFAMA supports enhanced transparency regarding benchmarks' carbon footprint and encourages all benchmark administrators to disclose how Environmental, Social, and Governance (ESG) factors are incorporated into their investment strategies. Although they welcome the extension of the right to use benchmarks from third country administrators, they suggest the need for a long-term solution to ensure that non-EU benchmark administrators can continue providing their indices within the EU single market.

***Engaging ESG Factors in Investment Strategies (esg)***

Asset managers are increasingly focusing on long-term strategic plans, board diversity, environmental impact, executive remuneration, and capital allocation in their interactions with investee companies. They are supporting further transparency, particularly in relation to a benchmark's carbon footprint, and improved disclosure on the integration of environmental, social and governance (ESG) factors into investment strategies. The necessity for extensive, public ESG disclosures is underlined, especially considering the EU Taxonomy. The EFAMA appreciates EIOPA's recognition of sustainability risks through the lens of how ESG factors might influence the financial performance of an investment.

***ESG Factors in Investment Strategy and Sustainability Risk (environment)***

The focus is on sustainability risks as they impact investment financial performance, not the external risks posed to the environment and society. Asset managers engage with the company stakeholders regarding various topics including business strategy, board composition, gender diversity, impact on the environment, executive compensation, and capital allocation. There's support for enhanced disclosure regarding benchmark carbon footprints and how environmental, social, and governance (ESG) factors are integrated into investment strategies. The European Fund and Asset Management Association (EFAMA) supports the approach to identify sustainability risks based on ESG impacts on financial performance rather than the fund's overall ESG impact.

***Enhancing Corporate Governance through ESG Considerations and Shareholder Engagement (governance)***

The recent proposed rules aimed at fostering long-term shareholder engagement and rectifying the flaws within the corporate governance of listed companies, as uncovered by the financial crisis. A governance code was developed with guiding principles and best practice recommendations. Further emphasis is placed on delivering more clarity on a benchmark's carbon footprint and improving disclosures by all benchmark administrators on environmental, social, and governance (ESG) incorporation within their investment strategies.

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