eurelectric
powering people

Mr Martin Spolc
DG FISMA
European Commission
2, Rue de Spa
B-1000, Brussels

Mr Sven Gentner
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European Commission
2, Rue de Spa
B-1000, Brussels

Brussels, 12 February 2018

Dear Mr. Spolc,
Dear Mr. Gentner,

eurelectric, the sector association which represents the common interests of the electricity industry at pan-European level, is following with interest the work of the High Level Expert Group (HLEG) of the European Commission on sustainable finance. We welcome the HLEG final report that challenges the EU financial regulation with sustainable goals in line with the Paris Agreement and with the G20 Task Force on Climate-related Financial Disclosures (TCFD) recommendations settled by the Financial Stability Board (FSB).

As a follow-up to the public consultation on institutional investors and asset managers' duties regarding sustainability you organised in January, we would like to share with you the following key messages:

1. **Investment entities should contribute to the goals of the Paris Agreement in the transition to a low carbon economy** and thus consider sustainability factors defined by the United Nations Environment Programme (UNEP) but also (i) be consistent with EU issues and (ii) be relevant for the energy sector in the decision making process.

2. Regarding the policy options proposed by the European Commission, the **relevant areas for investment entities to account for the sustainability factors are: investment strategy, asset allocation, risk management and governance** with a periodic reporting to the Board. Moreover, investment entities should disclose how they consider sustainability factors within their investment decision-making process.

3. **It is very challenging to develop uniform criteria at EU level that fit all industrial sectors to perform sustainability risk assessments**, especially in the field of metrics. Therefore, criteria should first be defined in each industrial sector.

4. Regarding CO_2 intensity evaluations, **eurelectric considers that metrics based on ratios like turn-over or market capitalisation are not appropriate and should be avoided**. In the electricity sector, investors should, for example, follow-up direct CO_2 emissions compatibility with the Paris Agreement or low carbon capacity share.

5. **Financial products**, listed or not, which (i) are used in order to hedge long-term industrial and societal risk or (ii) are linked to long-term low carbon infrastructures, **should be considered as "sustainable products" for future generations.**

6. The forthcoming International Financial Reporting Standards 9 (IFRS 9) is of great concern for eurelectric. Given the long lifespan of physical assets, **long-term investors which have a sustainable view will be treated as short-term investors in the equity market with volatility issues which may not be of benefit to future generations**.

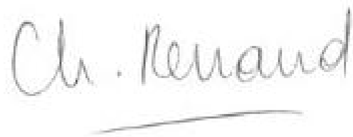
7. eurelectric shares the view that cross-skills issues instead of "silos" are a challenge for both investment entities and for utilities in integrating different sustainability factors. The application of the TCFD recommendations is an excellent opportunity to work beyond silos integrating a number of corporate departments, such as strategy, accounting, risk and sustainability.

8. Finally, **eurelectric urges the legislators to seek for creation of incentives to invest in renewable energy.**

9. **Regulatory stability and preventing retroactive regulatory changes**– Capital cost is intimately attached to the perceived investment risk. A sustainable electricity sector demands investors willing to commit to long-term investments. One decisive manner to reduce the perceived risk of long-term investment commitments is to ensure regulatory stability and to prevent retroactive regulatory changes. The European Commission should have decisive initiatives with this regard.

We remain at your disposal to discuss the content of this letter and assist in the development of any proposals that may come forward.

Yours sincerely,



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