Response to The European Commission in relation to its Consultation on amending Regulation (EU) 2017/565 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive; by

THE TRANSPARENCY TASK FORCE

For the Directorate-General for Financial Stability, Financial Services and Capital Markets Union.

June 2018.

Submitted by: A Agathangelou, Transparency Task Force; Dr. K Tan Bhala, Seven Pillars Institute for Global Finance and Ethics; F Lundie, Hermes Investment; J Marshall, Jane Marshall Consulting LLP; JB Beckett, Association of Professional Fund Investors; J Dreblow, SRI Services and Fund EcoMarket (Lead Author); R Scott, Capital Cranfield Pension Trustees Ltd; S Trust, Grant Thornton UK LLP; S Kenzie, UN Global Compact Network UK; T Bevan, GAM Investments; T Webster, Lindis Consulting; V Lie, Borg Consulting; all members of

www.transparencytaskforce.org

We welcome this amendment and agree investors should be able to invest in ways that address climate change, advance the SDGs, support a more circular economy and reflect personal values where appropriate. We agree this must be an integral part of the advice process and be properly explained.

However, we view the definitions and explanations used as too restrictive. Narrow, definitions (eg Social Investment) would make this combination of ES&G too difficult to apply at scale, or for retail clients where risk is a factor.

The text also fails to reflect today's diverse and established fund/segregated mandate strategies that combine SRI/ESG aims.

To effect market wide progress the label SRI (Sustainable and Responsible Investment) would be preferable as it encompasses diverse screened and thematic strategies, ESG, impact investment and stewardship activity.

In our view appropriate fund strategies include: avoidance/exclusion (eg fossil free), positive/thematic investment (eg investment in solutions companies) and engagement/stewardship (eg voting at AGMs). Aims may include ESG risk management, thematic opportunities and/or social impacts.

Funds should be able to focus on a single issue (eg climate risk) or a combination provided communication is fair and not misleading. Quality, clarity and guarding against 'greenwash' are essential - and as such, definitions used by PRI, HLEG and TCFD are useful.

Supporting diversity of this kind will facilitate the increased integration of sustainability into the investment/advice processes - and support innovation by allowing products to be designed to meet different clients' needs.

Although we would welcome a clearer focus on sustainability (eg by reverting to 'SRI'), if 'ESG' *is* retained we recommend the following broader definitions for Point 1, in Article 2 Sections 7 – 11:

7: "ESG Preferences means a client or potential client's desire to consider environmental, social and/or governance issues and additional related considerations as part of their investment strategy".

8: "ESG Considerations means the explicit, and significant integration of environmental, social and/ or governance factors into investment selection, retention and/or realisation processes, policies and practices. Relevant strategies may include but are not restricted to positive selection, avoidance criteria and responsible investor stewardship. Objectives may include financial, risk and/or impact aims."

9: "Environmental investment means a strategy that explicitly and significantly considers environmental and sustainability issues and reflects this through policies and practices. Relevant strategies may include but are not restricted to climate change, resource management, energy, transport and sustainability."

10: "Social investment means an investment that explicitly and significantly considers social issues and reflects this through policies and practices. Relevant issues may include, but are not restricted to; human rights, labour standards, child labour, equal opportunities, health and wellbeing."

11: "Governance means investment strategies that explicitly and significantly considers governance issues and reflects this through policies and practices. Relevant issues may include, but are not restricted to; board structure, company management, executive remuneration, tax, bribery and corruption."

Any amends should be reflected in articles 47-54.