



# AFM EN DUURZAAMHEID - DE REGELGEVENDE FOCUS ZET ZICH VOORT

The Netherlands Authority for Financial Markets, *Autoriteit Financiële Markten* (the AFM) published a position paper on sustainability (the position paper) on 25 June 2020.

A link to the full position paper can be found [here](#).

The role of the financial sector in the transition to a sustainable economy and society is a supervisory priority for the AFM and is increasingly becoming an integral part of its supervision strategy. In the position paper, the AFM describes its vision for sustainability:



## Areas discussed

In the position paper the AFM notes, among other things, that:

### *Sustainability as a term*

Sustainability is a broad term and encompasses environmental, social and governance (ESG) aspects. Climate change is one of the most urgent issues within this context due to the great risks to society and the economy.

Financial institutions play an important role in the sustainability transition through the mobilisation of capital for sustainable investments by governments, companies and households. In addition, financial institutions such as asset managers and institutional investors can contribute to making companies more sustainable by focusing on sustainability aspects in their business operations.

## Financial sector

The financial sector is also affected by sustainability-related risks, as previous studies by the Dutch Central Bank (*De Nederlandsche Bank*) and the European Central Bank have shown that investments in companies that are exposed to sustainability risks (e.g. water or raw materials scarcity) are worth less, and insurance companies may face increasing claims for damages as a result of extreme weather.

The range of sustainable financial products and services is growing and institutional investors are at the forefront of demand for these products, while at the same time there is also growing interest among consumers.



### *Non-financial information in reporting*

In parallel, the importance of non-financial information in reporting is increasing. Investors expect companies to provide insight into how they contribute to achieving the sustainability goals and base their investment decisions on this. As a result, financial institutions are expected to incorporate sustainability into their own decision-making processes, policies and investments to manage risk and meet their customers' needs.

### *What's happening in Europe?*

The position paper mentions that there are a lot of sustainability related regulations on their way, especially from Europe. These aim to stimulate and manage the sustainability transition.

The AFM notes that supervised financial institutions already have obligations to provide customers with complete and correct information, including when it comes to sustainability. However, the emergence of sustainable products has exposed a number of regulatory gaps. One is the lack of a shared definition of the concept of "sustainability". This makes it difficult for investors to determine exactly what an offeror understands by a sustainable product and there is no clear framework for the offeror to make this known.

A similar problem exists when it comes to non-financial reporting and sustainable benchmarks and ratings. There are a multitude of frameworks and guidelines for non-financial information, which makes it difficult to compare for investors.

In response to this, many new European regulations have been developed or are still in preparation, which specifically address the problems in dealing with sustainability, most of which originate from the [EU Action Plan for Financing Sustainable Growth](#).

### *Aspects of AFM supervision*

Sustainability affects various aspects of AFM supervision, including the risk management of supervised institutions, adequate provision of information to investors (including in prospectuses and non-financial reporting) and advisory services to retail customers.

The AFM notes that there are two important starting points in terms of its mandate:

1

**Sustainability aspects must be integrated in a responsible and careful manner in financial products and services.**

**Consumers and investors must be empowered to make informed decisions (i.e. they must be able to rely on the fact that financial products and services with a sustainable character are actually sustainable and gain insight into the extent to which these products and services contribute to sustainability goals).**

2

### *Other sections of the position paper*

Sections 2 and 3 address the main risks for investors and other financial markets actors when it comes to sustainability, including a list of risks which will be receiving extra attention from the AFM in its supervision.

Section 4 sets out the principles of the AFM's supervisory strategy (including supervisory targets per market).

Section 5 describes what the AFM will be doing to achieve the goals of its supervisory strategy (e.g. assess the behaviour of financial institutions with regard to sustainability, make an inventory of how the sustainability transition is progressing in the sector and contribute to the development of national and international regulations on sustainability).

### **Next steps**

Given the growing regulatory focus in the area of sustainable finance and ESG, we will continue to monitor how this topic develops at multiple levels i.e. national, supranational and international.

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