DEUTSCHE BÖRSE
GROUP

Deutsche Börse Group´s comments on the EBA:

“Discussion Paper on management and supervision of ESG risks for credit institutions and investment firms”

2 February 2021

I. Introduction:

Deutsche Börse Group (DBG) welcomes the opportunity to provide comments on the "EBA Discussion Paper on management and supervision of ESG risks for credit institutions and investment firms".

DBG is operating in the area of financial markets along the complete chain of trading, clearing, settlement and custody for securities, derivatives and other financial instruments, hence as a provider of regulated Financial Market Infrastructure (FMI). We would like to respond to this paper, as our company includes several investment firms within our group structure and several institutions holding banking licenses.

We fully support the overall Sustainable Finance agenda aimed at reorienting capital flows to sustainable investments and managing financial risk related to environmental, social and governance (ESG) factors as well as fostering transparency and long-termism in financial and economic activity. DBG considers it important to ensure that capital market raising activities adhere to sustainable financing so all companies can be part of the necessary transition towards a sustainable future for our planet.

II. General remarks:

We share the EBA position that institutions as well as their counterparties are directly as well as indirectly exposed to ESG factors, e.g. through the physical effects of climate change as well as reputational impacts from environmental and social factors, and that these risks should be identified and appropriately covered by the related management arrangements. Moreover, we appreciate that this discussion paper provides insight into considerations which will further shape supervisory practice and that it allows institutions to provide early feedback and thereby highlight potential inconsistencies and ambiguities.

While we fully support the ongoing clarification that ESG risk materialize through common prudential risks, as it is our view that ESG risk factors act as risk drivers for existing prudential risks and do not constitute a separate risk category (for institutions). Further, we are of the opinion that the discussion paper does not capture the full diversity of institutions and their different business activities adequately and could be extended to provide more insights.

We understand that most credit institutions in scope of the paper are characterized through a "classic" lending business, arising from taking deposits and providing credits long term. Nevertheless, we would like to encourage EBA to further elaborate on the differences within credit institutions and investment firms, particularly as the concept of managing ESG risks focuses on

risks arising from counterparties. Different business activities and models will lead to different ESG risk profiles faced by respective institutions.

In this context, the discussion paper does neither fully capture the diversity of the European banking landscape as it, among others, does not, considers short term risk exposures, e.g. arising from intraday or short-term credit exposures from intra-bank transactions or central counterparty clearing houses (CCPs) and central securities depositories (CSDs), classifying as credit institutions in some European jurisdictions, nor does it capture the diversity of investment firms adequately.

As explained under question no. 14, many investment firms do not have retail and corporate loan portfolios. ESG risks will rather manifest through different risk metrics, for example through assets under management, net position risk or customer orders handled. Moreover, the discussion paper does not seem to consider investment firms operating a Multilateral Trading Facility (MTF) or an Organised Trading Facility (OTF) without carrying out any other investment services. Within the current discussion paper, it is not sufficiently clear how and if MTFs / OTFs might assess their ESG risks.

Furthermore, we consider the concept of social risk as generally too broad and in part unclear, leading to a potentially too far-reaching scope of single institutions' responsibility. It should be clarified that the ultimate responsibility to ensure adherence to social standards should rather stay on governmental level.

As the concept of managing ESG risks focuses on risks arising from counterparties, further ambiguities arise, which should be addresses to ensure a consistent and appropriate implementation by institutions and supervision by competent authorities. We would like to point out that it is unclear, whether and to what extent EBA expects institutions to consider indirect ESG risk exposures, i.e. such arising along a potential chain of counterparties. In general, such an approach might be very burdensome, especially considering the potential risk mitigating effect, which we fear could be rather limited in comparison. Providing insight on this question is of particular relevance, as many institutions face professional counterparties or other financial institutions as counterparties, which are not exposed to ESG risk as outlined in the examples provided.

Finally, we would like to point out that the concept of ESG risk, as outlined, might benefit certain industries (counterparties) that per definition are not exposed to high ESG risks due to their business model or sector and therefore unproportionally disadvantage others. Management of ESG risk might disadvantage corporations (counterparties) that pose higher ESG risks.

For example, independent from their business model, acute or chronical physical effects could moreover reduce the availability of water for counterparties in specific regions. Although they might have business activities posing only low ESG risks, they might nevertheless be disadvantaged when applying for credit lines based on e.g. geographical locations merely.

III. Comments in detail

Please find hereunder DBG´s comments on specific questions, sorted according to the chapters of the Discussion Paper.

Chapter 4: Common definitions of ESG factors, ESG risks and their transmission channels

1. Please provide details of other relevant frameworks for ESG factors you use.

No DBG comments.

2. Please provide your views on the proposed definition of ESG factors and ESG risks.

DBG generally supports the approach of defining factors which might pose risk to institutions. The proposed definition is useful for credit institutions that operate a lending business with counterparties exposed to those factors and risks. It is however difficult for institutions that do not operate such lending business to apply the factors. For example, DBG´s counterparties are mainly financial institutions whereas exposures are highly short-term (i.e. intraday).

Following the concept of ESG risk as outlined in the discussion paper, an institution's ESG risk profile would depend significantly on the counterparties to which loans are being provided. Institutions facing financial institutions as counterparties would probably face challenges in determining the ESG risk of financial Institutions, since financial institutions' ESG risk exposure would be determined by their exposure to counterparties. Estimation of the financial institutions' loan portfolio could be expected to be burdensome and would probably still be inappropriate. The discussion paper does not sufficiently explain how the ESG risk of financial counterparties should be assessed in this regard.

We would suggest that clarifications are made, clearly limiting the assessment of ESG risk stemming from counterparties to direct counterparties unless available information indicate a potentially severe materialization of ESG risks along the chain of counterparties.

While we generally support the approach including the limitation to institution's counterparties, we would like to highlight the potential risk of fragmentation, as ESG risk might also affect institutions by other means (excluding those risks the institution is directly exposed to/stemming from the institution' own, fully-controlled activities) e.g. through changed market conditions and business perspectives. It seems rather unclear, whether those risks would be expected to be captured separately.

For example, the proposed definition for ESG risk does not consider the reputational impacts (not covered as a potential loss of revenue or higher costs) of the risk. Defining the ESG risk only based on the counterparty ESG Risk might be misleading.

Although in many cases, the main ESG risk is caused by counterparties, there might still exposure to physical risks (through the location of offices etc.) and transition risk (through products, collaterals) and hence they may need to be reflected in this definition as well.

Furthermore, as outlined in the discussion paper, the materialization of ESG risks often shows up in the medium or long term. Hence, materialization of ESG risks could be excluded per definition for business models with only very short-term exposures towards counterparties, i.e. activities of CCPs and CSDs classifying as credit institutions, as they usually provide only intraday credit lines. A dedicated, tailored definition for investment firms would be useful, also recognizing that concepts and requirements may have to differ depending on the activities.

Finally, we believe more clarifications on the double materiality would be beneficial. A caveat on the double materiality, in terms of the impact that the counterparty's activities can have on the institutions' performance, should include regulatory aspects. In our view, the "regulatory" aspect should be added to the "environmental and social materiality" as a potential economic and financial impact of most interest for regulatory bodies and lawmakers. In this regard, the use of "aggressive" strategies to avoid taxes would be a good example, which has both a social and regulatory materiality.

Although we see some room for clarification as outlined above, we would like to highlight that we fully support the clarification that ESG risk materialize through their impact on prudential risk categories (part of definition of ESG risk).

3. Do you agree that, for the purpose of assessing their inclusion in institutions' and supervisors' practices from a prudential perspective, ESG risks should be approached primarily from the angle of the negative impacts of ESG factors on institutions' counterparties? Please explain why.

See points raised under question no 2.

DBG generally agrees that ESG risks should be captured as negative impacts arising from ESG factors as institutions should be encouraged to foster positive impacts. The development of ESG factors can generally be clearly distinguished in "positive" and "negative", whereas institutions will target positive developments and consider negative developments as potential risks.

ESG risks, especially the environmental and social risk dimensions, are systemic and cannot be "hedged away", but only mitigated. In this regard, despite the opportunities that may arise from the impact of ESG factors on financial institutions' counterparties, the potential systemic negative

effects cannot be offset. Given this systemic nature of ESG risks and the fact that their impact is impossible to define within a certain timeframe, from a prudential perspective, only the negative effects of ESG factors on banks' counterparties should be taken into account, as these negative effects on banks' counterparties are likely to deteriorate banks assets, and therefore have a negative effect on the balance sheet.

4. Please provide your views on the proposed definitions of transition risks and physical risks included in section 4.3.

In our view, the definitions of physical and transition risks are well formulated within the context of climate change and environmental factors. However, the general physical and transition risk concepts are easily extendable to the social and governance factors too. The current COVID-19 crisis is an appropriate example to justify the inclusion of social risks as well. Physical disruptions of supply chains and transition risks, posed by the various and ever-changing policy actions, which have had several economic and social consequences, forcing the economies to lock-down.

Health and safety of the workplace constitute another example of physical risks that may arise from social and governance factors. For instance, the so called “Upper Big Branch Mine disaster” (2010) in US and the Dhaka garment factory collapse in Bangladesh (2013) was resulted from Health and Safety measures’ negligence and bad governance (in dis-agreement with 4.4.76).

However, we see the need for further clarification as the definition of ESG risks focuses on risks arising from counterparties. Therefore, we would argue that the definition of physical and transition risk needs to be considered when assessing the risks arising from counterparties. However, assessing physical risks of counterparties (particularly chronic physical risks) might exceed the institutions’ possibilities. Similarly, this is true for the assessment of transition risks of counterparties. Physical and transition risks seem to be something to be primarily considered by institutions or counterparties themselves when drafting / updating business strategies and business risk.

5. Please provide your views on the proposed definition of social risks and governance risks. As an institution, to which extent is the on-going COVID-19 crisis having an impact on your approach to ESG factors and ESG risks?

DBG fully supports importance of social factors and acknowledge potential source of risk materializing in prudential risk categories through social risk, but generally consider assessment / concept of social risk too broad. Social risk in the form of adherence to human rights is already captured in outsourcing guidelines, where it seems to be rather suitable then in other prudential risk categories.

We notice that EBA already mentions that efforts to capture social risks are quite large and remain - despite the large efforts – inadequate. Therefore, the burden here will most probably exceed potential risk mitigating effects. Risks arising from social factors are most difficult to assess as they are often culturally embedded, which exacerbates an adequate capturing of respective social factors and potential risks.

As regards governance risk of individual institutions, these are already captured as of today by respective institutions. From a governance risk perspective, the risk might be caused by the institution itself, and it might be misleading to focus only on the counterparty risk.

In addition, consideration of governance risk as part of ESG risk arising through institutions' counterparties would prove difficult. For example, governance risk arising (as exemplified by EBA) from bribing scandals of those counterparties cannot be assessed adequately by institutions in advance. Lack of data is one of the problems that occurs, but even more concerning would be fundamental points on confidentiality of business models/activities and legal liabilities resulting from commercial relationships.

In general, the COVID-19 pandemic has shown the importance of strengthening resilience of our societies. Effects stemming from the crisis, such as income inequalities, implications of confinement measures and rising unemployment will impact our societies years ahead. Like many other businesses, our group has also been dealing with several of the challenges mentioned in Box 5 of the report. The developments experienced will inform our future internal discussions on risks and their potential inclusion into ESG risks.

On a related note, we would like to highlight that although the heightened uncertainties caused by pandemic made our group face unprecedented times, financial market infrastructure providers such as ourselves have successfully implemented business continuity plans to ensure continuity of the markets we operate. A robust trading system, combined with sound policies to ensure a fair and orderly market, is essential under any market circumstances but especially relied upon when markets are moving and will continue to play a key role in the long-term recovery.

6. Do you agree with the description of liability transmission channels/liability risks, including the consideration that liability risks may also arise from social and governance factors? If not, please explain why.

From our point of view, the liability transmission channels / liability risks are used here to somehow include the physical and transition risks stemming from social and governance factors. In our opinion, the definition provided is too abstract and does not give clarity of exactly what can be categorized as liability risk or liability transmission channel.

7. Do the specificities of investment firms compared to credit institutions justify the elaboration of different definitions, or are the proposed definitions included in chapter 4 also applicable to them (in particular the perspective of counterparties)? Please elaborate on the potential specificities of investment firms in relation to ESG risks and on how these specificities, if any, could be reflected in this paper.

No DBG comments.

Chapter 5: Quantitative and qualitative indicators, metrics and methods to assess ESG risks

8. Please provide your views on the relevance and use of qualitative and quantitative indicators related to the identification of ESG risks.

No DBG comments.

9. As an institution, do you use or plan to use some of the ESG indicators (including taxonomies, standards, labels and benchmarks) described in section 5.1 or any other indicators, inter alia for the purpose of risks management? If yes, please explain which ones.

No DBG comments.

10. As an institution, do you use or plan to use a portfolio alignment method in your approach to measuring and managing ESG risks? Please explain why and provide details on the methodology used.

No DBG comments.

11. As an institution, do you use or plan to use a risk framework method (including climate stress testing and climate sensitivity analysis) in your approach to measuring and managing ESG risks? Please explain why and provide details on the methodology used.

No DBG comments.

12. As an institution, do you use or plan to use an exposure method in your approach to measuring and managing ESG risks? Please explain why and provide details on the methodology used.

No DBG comments.

13. As an institution, do you use or plan to use any different approaches in relation to ESG risk management than the ones included in chapter 5? If yes, please provide details.

No DBG comments.

14. Specifically for investment firms, do you apply other methodological approaches, or are the approaches described in this chapter applicable also for investment firms?

No DBG comments.

Chapter 6: The management of ESG risks by institutions

General Comments:

We welcome the recommendations on embedding ESG risks into business strategies, governance processes and risk management in this chapter. However, these relate to the ESG risks associated with exposures. We have difficulties in understanding how these recommendations apply to ESG risks associated with activities which are under full control by a company.

15. Please provide your views on the extent to which smaller institutions can be vulnerable to ESG risks and on the criteria that should be used to design and implement a proportionate ESG risks management approach.

In this chapter, EBA highlights several times that the principle of "proportionality" should be applied when assessing or evaluating ESG risk management as part of the Supervisory Review and Evaluation Process (SREP), but also when choosing the adequate methodologies for assessing risks by the institution. We are of the opinion that the business model and related risks, respectively an institution's risk profile is the most important factor to be considered when structuring an adequate management framework or applying supervisory measures.

From our understanding, EBA refers to the principle of proportionality in the sense that supervisory actions as well as the management of ESG risks as such, should be proportionate to "the size, the complexity and the business model "(Para. 109).

But according to our view, instead of applying requirements proportionate to the size, EBA might encourage supervisory authorities and institutions to apply requirements proportionate to the risk they are facing as the mere size does not necessarily correlate to the ESG risks faced.

16. Through which measures could the adoption of strategic ESG risk-related objectives and/or limits be further supported?

No DBG comments.

17. Please provide your views on the proposed ways how to integrate ESG risks into the business strategies and processes of institutions.

In this context we would like to provide several comments and observations:

Firstly, we agree that ESG risks scenarios should be included in the planning process, however from a practical point of view, it seems difficult to adequately implement social scenarios. From our point of view, the information basis for the social development scenarios (e.g. labour and human rights) could often times not be sufficient to do so.

Secondly, when incorporating ESG risk-related considerations into CRR and CRD, we would urge EBA to please take the different business models of credit institutions into account, as not all of them are operating a lending business. Acknowledging the diversity of business activities of investment firms is equally important.

Thirdly, most aspects outlined in the paper are worth considering in more depth, but some are too far reaching in their implications for institutions. For example, while we generally acknowledge the idea of e.g. labels or ratings to foster investment in ESG risk reducing products or set incentives through transparency scorings, the proposal that institutions could “assist counterparties with the development of action plans gradually reducing their exposure to ESG risks” seems too far reaching and generally exceeding the responsibility and the capabilities of institutions (Para. 184).

Fourthly, the recommendation to generally extend the time horizon for strategic planning (p. 94) might not lead to the desired results, as insecurities increase with longer time horizons, while predictability decreases. We think that the planning on ESG risks exceeding the common time horizon of 3-5 years should be separately considered and evaluated to draw conclusions on the common strategic planning horizon instead of extended the time horizon of planning in general.

Overall, we are of the opinion that institutions should first of all be encouraged to identify potential impacts arising from ESG risks. Any other consideration, e.g. management of those risks, identification of risk appetite, quantification of risks, etc., should be conditional on the basis of the severity of the ESG risks identified. Whereas institutions should be able to prove to have assessed a potential impact of ESG factors appropriately, institutions should not be required to specify risk appetite for such risks they have assessed as negligible.

Finally, we believe it is important to highlight the key role of certain financial instruments, i.e. derivatives to further improve the incorporation of ESG risks into the institutions' business strategies. We believe EBA should include the promotion of those derivatives which give exposure (long or short) to sustainable investment strategies.

Capital markets play a vital role for institutions to acquire the funds they need for their (sustainable) investments. Risks arising from these investments, such as ESG risks can be mitigated via derivative markets. Derivative and capital markets are complementary, affect each other and are therefore closely related. For example, price movements in capital markets directly influence the respective derivative prices. On the other hand, prices in derivative markets reflect trends for price developments in capital markets. As prices in derivative markets reflect anticipated supply and demand, they enhance the ability of market participants to make more accurate decisions. They pool liquidity around spot market instruments, and enhance transparency, through the provision of forward information on the underlying assets, which also fosters long-term sustainability objectives increasing the attractiveness to investors. Via this process, derivatives can play an essential role to further improve ESG products.

Especially derivatives that give exposure to sustainable investment strategies can be considered as appropriate product to promote and to make sustainable investment more efficient. Derivatives on sustainable investment strategies are an effective hedging tool to manage risks of sustainable aligned portfolios, allowing for a long exposure, as they provide a versatile way to calibrate the beta to a specific market index (equity or fixed income).

Derivatives are also useful to optimally manage cash in a fund resulting from fund events such as coupon or dividend payments. Fund managers would enter into a derivative on a sustainable investment strategy if the cash gained is not enough to buy the fund's composition. Overall, derivatives represent an efficient tool to enhance the standardization of practices and strategies in sustainable investments.

18. Please provide your views on the proposed ways how to integrate ESG risks into the internal governance of institutions.

Commenting on section 6.3.1., we would like to highlight that although Article 88 (1) CRD requires the management body to "ensure effective and prudent management" it does not define mandatory risk categories to be considered as part of a prudent management of risks. From our perspective, the management of ESG risks should build on an initial and thorough assessment of potential ESG risk and not constitute a general minimum requirement (Para. 198).

Further, Para. 211 outlines how the compliance function shall be integrated in the management of ESG risks. From our understanding of the document, EBA's suggestion is based on a perception that the compliance function should monitor "the alignment of institutions' activities with legal and regulatory requirements on all legal aspects" as well as "own internal policies", which should also include ESG regulatory aspects.

We would like to note, that the compliance function is mainly focusing on the management of compliance related aspects of regulatory or legal requirements. It is not responsible to monitor the adherence to those requirements, as the business lines are ultimately responsible for the alignment of their activities with internal policies. Therefore, adding more tasks to the compliance function, e.g. to consider any ESG aspects as described in Para. 211, could exceed its responsibilities as defined by national competent authorities (see e.g. the German norm-interpreting administrative regulation MaRisk published by the BaFin in 2017, p. 22 f.).

With regard to remuneration (6.3.3), we understand that associated policies should be linked to ESG-related objectives. We kindly ask for further clarification on whether such ESG-related objectives would refer to the ESG risks the institution itself is facing and can actively manage (own physical or transition risks, etc.) or whether it refers to the ESG risks stemming from its counterparties. We are generally in favor of objectives primarily referring to ESG risks an institution is directly exposed to and can actively manage.

19. Please provide your views on the proposed ways how to integrate ESG risks into the risk management framework of institutions.

We fully support EBA´s approach that ESG risks are understood as drivers of traditional prudential risks (i.e. credit risk, market risk, operational risk and business risk), and that institutions should be able to capture the risks associated with ESG factors through their existing risk management framework (see Chapter 4 and Para. 219). We would welcome consequently applying this underlying concept throughout all consideration on the management of ESG risks.

However, referring to the definition of risk appetite, we think that the assessment for this appetite is difficult in regard to some ESG risks, due to the long-time horizon through which ESG risks are expected to usually materialize (moreover see comment on Q17). In some areas of ESG risks, we are already considering the risk appetite within the normal risk management process (as for example the "political environment" relates to the social dimension of ESG risks).

In the context of the paragraph "6.4.2. Data and methodology", we fear that a robust risk management framework would not only be methodologically challenged by missing or limited data availability, but also by conflicting economic, sustainable or political implications and intentions, arising from data-correlations. For example, borrowers facing high ESG risks might

simultaneously not be in the position to be predestined to receive loans from banks. In this case, both factors would correlate and affect the borrower´s chance to receive a loan negatively, which could conflict with political or ethical views. This would especially be of relevance, if those factors would not only correlate but have a causal relationship.

We also welcome the development of methodologies and approaches for a climate risk stress test (p. 110ff.). However, we think that any methodology in this context should be based on already established models, since credit intuitions have already made experiences with these models. Additionally, by using already established/existing methodologies investors can better compare the development of the institutions' resilience to ESG risks over time.

Within our group, as part of our "Risk Inventory" (for DBG´s banking regulated entities) and "Risk Map" (only on a group level), dedicated teams identify and flag the specific risk items that may pose ESG risks and also classify these risk items according to their relevance to the respective dimensions of ESG.

20. The EBA acknowledges that institutions' approaches to environmental, and particularly climate-related, risks might be more advanced compared to social and governance risks, and gives particular prominence in this report to the former type of risks. To what extent do you support this approach? Please also provide your views on any specificities associated with the management of social and governance risks.

As already outlined for the "social" dimension, we consider risks related to the "governance" dimension of ESG risks as difficult (if not impossible) to adequately assess and incorporate when it comes to risks potentially arising through counterparties.

21. Specifically for investment firms, what are the most relevant characteristics or particularities of business strategies, internal governance and risk management that should be taken into account for the management of the ESG risks? Please provide specific suggestions how could these be reflected.

From our perspective, EBA might consider differentiating more between the activities of investment firms, as they vary largely. They are ranging from classical investment activities to the mere maintenance of trading platforms (MTF / OTF), with no trading or investment activities. Particularly, MTFs and OTFs should generally not be subject to the full set of ESG risk management requirements as well as other investment firms not performing dealing on own account.

EBA should moreover consider structuring the ESG requirements along the existing classifications of investment firms following the IFR.

Chapter 7: ESG factors and ESG risks in supervision

22. Please provide your views on the incorporation of ESG factors and ESG risks considerations in the business model analysis of credit institutions.

No DBG comments.

23. Do you agree with the need to extend the time horizon of the supervisory assessment of the business model and introduce as a new area of analysis the assessment of the long term resilience of credit institutions in accordance with relevant public policies? Please explain why.

In general, we understand and appreciate the idea of introducing an additional area of supervisory analysis in the business model of institutions and agree on the argumentation that sustainability is a precondition for longer term resilience. However, we struggle to understand whether the additional area of supervisory analysis would be limited to the impact of ESG risks related to exposures or would also include ESG risks from the institution´s own, fully controlled activities.

As mentioned earlier, questions arise as to how institutions can reliably test the resilience of their business strategy in the long-term and how this will be reflected in the supervisory reviews, especially in the case of social risks.

24. Please provide your views on the incorporation of ESG risks considerations into the assessment of the credit institution's internal governance and wide controls.

From our internal perspective, we currently consider ESG risks as a subset of the common main risk types in our risk strategies. Currently we consider to further facilitate our risk culture in the group by using tools associated with the "tone from the top principle", like top management messages. This could also be expanded to a clearer focus on our position towards ESG risks.

25. Please provide your views on the incorporation of ESG risks considerations in the assessment of risks to capital, liquidity and funding.

No DBG comments.

26. If not covered in your previous answers, please provide your views on whether the principle of proportionality is appropriately reflected in the discussion paper, and your suggestions in this respect keeping in mind the need to ensure consistency with a risk-based approach.

No DBG comments.

27. Are there other important channels (i.e. other than the ones included in chapter 7) through which ESG risks should be incorporated in the supervisory review of credit institutions?

No DBG comments.

Annex 1

28. As an institution, do you use or plan to use some of the indicators and metrics included in annex 1? If yes, please describe how they are used in relation to your ESG risk management approach.

No DBG comments.

29. If relevant, please elaborate on potential obstacles, including scope of applicability, granularity and data availability, associated with the indicators and metrics included in Annex 1.

Overall, we believe quantitative and qualitative indicators to measure ESG risks need to be informative and standardized across institutions, otherwise the ESG risk assessment may be diverging from institution to institution.

In terms of metrics, the "lack of initiatives" should be promoted carefully as an indicator, since it may not always be applicable, especially for companies whose business activity already has a small or no impact on the environment. That is, if the "lack of initiatives" is used as a metric, it may be detrimental for the reputation of certain companies on which, for example, the reduction of GHG emissions is not applicable.

In relation to “Community/Society” for social factors, which an indicator would be the social impact of product and services, more clarification would be beneficial to explain how to measure the "potential reach to rural areas” by products and services. Additionally, in relation to the indicator related to the “workplace health and safety”, a metric to check whether a company has passed a third-party audit to the safety of the workplace could also be included.

Finally, an alternative metric could be included, such as the number of initiatives promoted to achieve environment, social and governance objectives, which demonstrate a company’s engagement i.e. sales campaigns, marketing tools, educational articles and brochures, etc.