DG FISMA
European Commission
1000 Brussels, Belgium

Mr. Ugo Bassi, Director, Financial Markets
Mr. Marcel Haag, Director, Horizontal Policies
Mr. Alain Deckers, Head of Unit, Asset Management
Mr. Martin Spolc, Head of Unit, Sustainable Finance

VIA E-MAIL

Amsterdam, 28 January 2022

SUBJECT:
Treatment of exchange-traded derivatives in the draft RTS methodology for the Taxonomy-alignment ratio – unintended consequences for the green transition

Dear Mr. Bassi, Mr. Haag, Mr. Deckers, Mr. Spolc,

The FIA European Principal Traders Association (FIA EPTA) represents 26 independent European Principal Trading Firms that deal on own account to provide liquidity and immediate risk transfer in exchange-traded and centrally cleared markets for a wide range of instruments, including shares, bonds, options, futures, ETFs, and OTC derivatives. As market makers and liquidity providers, our members contribute to efficient, resilient, and high-quality secondary markets that serve the investment and risk management needs of end-investors and companies throughout the EU.

FIA EPTA members strongly support the sustainable finance goals of the European Commission and consider that secondary markets play an important role in reorienting capital flows towards more sustainable outcomes. In June last year, FIA EPTA published its Sustainable Finance Principles illustrating the role market makers can play in this regard.

FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from about 50 countries as well as technology vendors, law firms and other professional service providers. FIA's mission is to:

- support open, transparent and competitive markets,
- protect and enhance the integrity of the financial system, and
- promote high standards of professional conduct.

As the principal members of derivatives clearinghouses worldwide, FIA's clearing firm members play a critical role in the reduction of systemic risk in global financial markets.

We are concerned by current proposals[1] under the Taxonomy and Sustainable Finance Disclosure Regulation (SFDR) that would in effect restrain the use of listed derivatives by market participants and restrict the amount of capital that can be made available for a sustainable transition.

Listed derivatives are a key component of mature secondary markets. The recent growth in demand for listed ESG derivatives demonstrates that these products are a core component of sustainable investment strategies, especially since the availability of liquid and transparent derivatives significantly reduces funding and financing costs for equity and bond issuers in primary markets. In addition, derivatives products enable asset holders to manage their financial risks, which is crucial for discharging their fiduciary duty and for appropriately managing their long-term investments. This makes listed and cleared derivatives an important component of long-termism in financial markets.

Under the currently proposed ESMA draft RTS, the Taxonomy alignment of certain specified financial products is to be expressed via a ratio, namely the number of assets in Taxonomy aligned activities over total assets. Derivatives may not be included in the numerator on account of the absence of a reliable methodology for assessing their Taxonomy alignment.

In practice, this would mean that under the draft RTS, ETDs would not be recognised as contributing to Taxonomy-aligned investment activities, and yet would still need to be included in the denominator as part of the total assets of the product or portfolio. This proposed approach would unduly disincentivise the use of derivatives in the affected financial products since any exposures to derivatives could only ever contribute negatively to the Taxonomy-alignment ratio. This would make it more difficult for end-users to use exchange-traded derivatives for managing their financial risks and in the process undermine the goal of having safe, liquid, and efficient markets that can support the green transition.

In line with the views expressed by a broad range of market participants, we would urge the European Commission to amend the calculation methodology to recognise the important role that derivatives play in securing market-based financing for Taxonomy-aligned investment and risk management activities. Derivatives should be able to be included on both sides of the ratio, i.e., not solely in the denominator. This is also illustrated by the Federation of European Securities Exchanges (FESE) recent position paper on this topic, whose recommendations FIA & FIA EPTA supports and echoes.

We remain at your disposal should you require any further information.

Kind regards,

Futures Industry Association (FIA)
&
FIA European Principal Traders Association (FIA EPTA)

[1] Draft Regulatory Technical Standards with regard to the content and presentation of disclosures pursuant to Article 8(4), 9(6), and 1(5) of Regulation (EU) 2019/2088 (JC/2021/50).