



EUROPEAN PRINCIPAL
TRADERS ASSOCIATION

FIA EPTA Principles on Sustainable Finance and ESG



June 2021

CONTENTS

| | |
|---|----|
| INTRODUCTION AND BACKGROUND..... | 3 |
| OUR COMMITMENT TO SUSTAINABLE FINANCE AND ESG..... | 5 |
| ABOUT PRINCIPAL TRADING FIRMS..... | 6 |
| FIA EPTA PRINCIPLES ON SUSTAINABLE FINANCE AND ESG..... | 8 |
| FIA EPTA MEMBERS..... | 15 |
| APPENDIX..... | 16 |

“We must all work together to build a more sustainable and climate-resilient world. Sustainable Finance is the essential tool to achieve this, through unlocking the investment capital that is needed to support the green transition and protect our planet’s future. Through our Sustainable Finance Principles, FIA EPTA members are committed to supporting and accelerating the uptake of ESG products and practices in European capital markets that will help to fight climate change and mitigate its impact.”

Mark Spanbroek, Chairman, FIA EPTA

INTRODUCTION AND BACKGROUND

Since 2019, FIA EPTA has been actively working with its member firms to explore how market makers and liquidity providers can contribute to the green transition. This work is supported by FIA EPTA’s Sustainable Finance Committee which brings together experts from these firms to develop joint positions for the principal trading industry on all issues pertaining to Sustainable Finance.

FIA EPTA actively engages with both public and market stakeholders on Sustainable Finance matters via contributions to formal consultations and informally. To further clarify how market makers and liquidity providers can contribute to achieving Europe’s Sustainable Finance goals, FIA EPTA has developed new principles which reflect the commitment of the principal trading industry to play its part in the green transition.

The risks posed by climate change are real and urgent. In addition to the primary environmental risks, it also poses financial and economic risks with major social implications (e.g. extreme weather such as droughts, floods and hurricanes; environmental degradation and loss of biodiversity threatening physical economic infrastructure

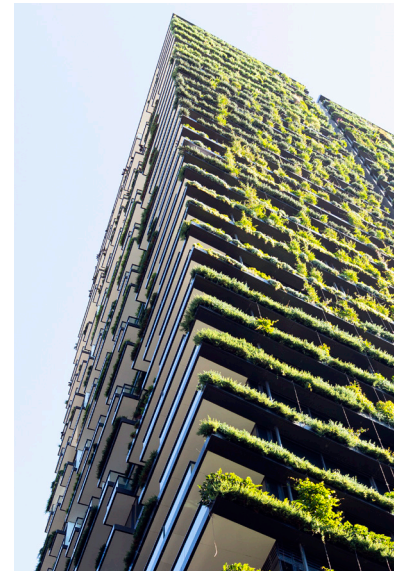
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as well the homes and livelihoods of citizens; environmental disasters such as oil spillage or natural resource depletion undermining companies' business models, leading to lower valuations or even bankruptcies which can result in mass unemployment and stock market volatility).

As the risks associated with climate change require an urgent transition to a more sustainable economy, significant investment needs to be brought to bear to achieve this change. In parallel, the associated financial (transition) risks need to be effectively managed. This cannot be achieved without the full commitment of all sectors of the economy, including the financial sector which given the scale of the needed investments and the nature of the associated risks has a particular role to play. Therefore, Sustainable Finance is a key component for the transition to a more sustainable and climate-resilient world.

Its success requires all parts of the financial industry to closely cooperate across primary, secondary, and post-trading markets. In this regard, FIA EPTA strongly believes that market makers and liquidity providers can play an important role in the transition towards a more sustainable financial ecosystem, working jointly with the buy and sell-side as well as market infrastructures.

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OUR COMMITMENT TO SUSTAINABLE FINANCE AND ESG

The FIA EPTA Principles on Sustainable Finance and ESG represent FIA EPTA members' commitment to engaging with all aspects of the green transition, including environmental and social goals. Given the diversity of its membership, FIA EPTA acknowledges that not all of our members will be addressing these topics at the same pace or with the same intensity in all cases. Nonetheless, FIA EPTA encourages all of its members to use these principles as the industry baseline for the development of a Sustainable Finance strategy that will help to enable the green transition.

1. FIA EPTA members are committed to promoting Sustainable Finance in capital markets, working jointly with end-investors and other parts of the industry across primary, secondary, and post-trading markets.
2. FIA EPTA members will strive for a healthy and transparent ecosystem of financial markets for ESG products.
3. To advance the reorientation of capital flows towards sustainable investments, FIA EPTA members will aim (or continue, where they are already doing so) to integrate sustainable products into the suite of products for which they are providing liquidity.
4. FIA EPTA members will work to improve price discovery and price formation of ESG products.
5. As financial intermediaries facilitating efficient risk transfer between investors, FIA EPTA members are committed to facilitating the transition from non-ESG products to ESG products.
6. FIA EPTA members will establish functional internal governance and policies to support their sustainability efforts.



ABOUT PRINCIPAL TRADING FIRMS

The FIA European Principal Traders Association (FIA EPTA) represents Europe's leading Principal Trading Firms (PTFs). Our 24 members are independent market makers and providers of liquidity and risk transfer on trading venues to end-investors across Europe.

Principal Trading Firms are independent investment firms which provide liquidity in all asset classes such as equities, fixed income, FX, and commodities markets. The products our members trade include shares, bonds, ETFs, futures, options, and other cleared derivatives. All of FIA EPTA's members are MiFID II regulated investment firms.

FIA EPTA members play an important role in providing liquidity because they connect buyers and sellers to enable the continuous meeting of supply and demand. Liquidity providers can be on either side of a transaction, as a buyer or as a seller. By entering and holding positions they bridge gaps between market participants. In this way, they quite literally make a market for an asset.

FIA EPTA believes that to facilitate the needs of end-investors, Sustainable Finance products must be embedded into a healthy secondary market environment which ensures liquidity and enables investors to risk-manage their exposures. As skilled liquidity providers, FIA EPTA members can play an important role in the transition to and growth of ESG investments.

Since they provide continuous two-sided pricing across correlated products, FIA EPTA members have the ability to support buy-side participants with the

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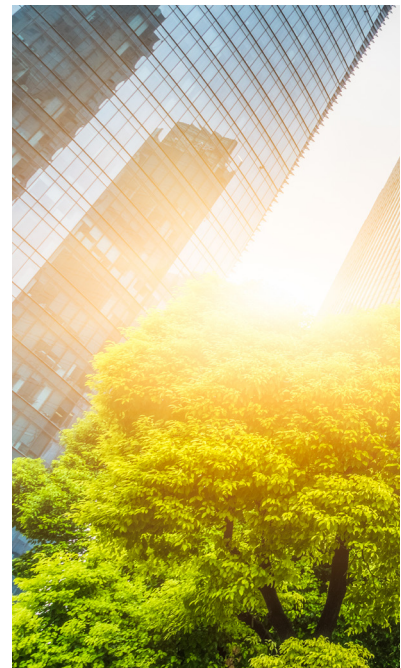
migration towards a green investment portfolio. To achieve the green transition, financial participants including asset managers, pension funds, and hedge-funds will want to significantly reduce or completely close their holdings in products that, over time, will be deemed “brown”. FIA EPTA members can play a vital role in this evolution, making sure there is still a market to sell these products while facilitating a smooth transition towards “green” products.

In this vein, FIA EPTA is committed to supporting the success of Sustainable Finance at all levels of the capital market ecosystem.

For market participants to fully accept ESG products and to be handled equally to established products, it is important that market participants can access sufficient liquidity in these assets. FIA EPTA members serve end-investors by offering the opportunity to buy or sell on a continuous basis while at the same time maintaining tight bid and ask spreads, contributing to price discovery across products and asset classes.

The hallmark of liquidity providers is that they continually provide liquidity in all market conditions, not just when they desire. PTFs use their own capital to act as market makers and liquidity providers. They buy and sell financial instruments for their own risk and do not manage funds for third parties.

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FIA EPTA PRINCIPLES ON SUSTAINABLE FINANCE AND ESG

Below are further details on FIA EPTA's Sustainable Finance Principles that explain how and why FIA EPTA members want to contribute to these parts of the financial ecosystem and commit to engaging with all aspects of the green transition, including on environmental and social goals.

Given the diversity of its membership, FIA EPTA acknowledges that not all of our members will be addressing these topics at the same pace or with the same intensity in all cases. Nonetheless, FIA EPTA encourages all of its members to use these principles as the industry baseline for the development of a Sustainable Finance strategy that will help to enable the green transition.

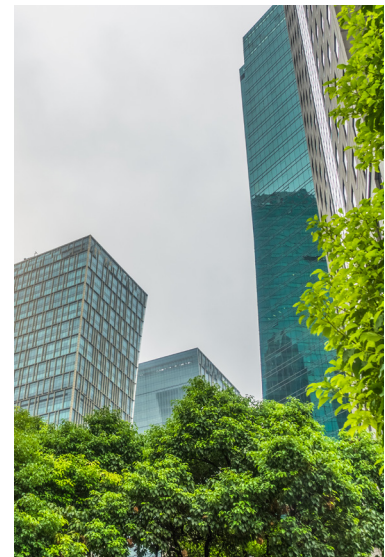
Principle 1

FIA EPTA members are committed to promoting Sustainable Finance in capital markets, working jointly with end-investors and other parts of the industry across primary, secondary, and post-trading markets.

- FIA EPTA members will work toward the development, adaptation, and endorsement of ESG products and initiatives across primary, secondary and post-trading markets. This will take place through active cooperation, formal and informal partnering with end-investors, financial intermediaries, data and index providers, trading venues, and other financial infrastructure providers and clearing firms, as well as by actively engaging with public authorities and other relevant stakeholders.

- FIA EPTA members are innovative and adaptive firms and commit to using their capabilities as liquidity providers using their own capital for their own risk to provide liquidity to end-investors and markets to promote and facilitate the transformation towards a more sustainable financial sector.
- FIA EPTA believes that all parts of the financial infrastructure should cooperate to support the success of the green transition to share knowledge and learn from each other. FIA EPTA is organising roundtables with market stakeholders for its members to strengthen these partnerships, the roundtables are ongoing and included asset managers, index providers, trading venues, and clearing firms.
- FIA EPTA members will contribute to the discussions around Sustainable Finance and create awareness to promote a healthy and inclusive shift towards a sustainable economy.
- FIA EPTA members are working with issuers and exchanges to develop effective ESG standards for new products.

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Principle 2

FIA EPTA members will strive for a healthy and transparent ecosystem of financial markets for ESG products.

- FIA EPTA members believe that secondary markets are key for the success of the green transition, in particular, to enable asset holders to effectively manage their fiduciary duty in regard to their sustainable holdings (e.g. to buy or sell ESG products on behalf of end-investors, insurance holders, or pension participants) and to enable sound financial risk management for these end-investors.
- To support this, a mature and healthy secondary markets ecosystem of exchange-traded derivatives and ETFs, based on underlying assets, needs to be developed alongside the primary and secondary market for sustainable shares and bonds. This will foster a liquid market for sustainable investment and risk management which is needed to ensure that Sustainable Finance is fully embedded into the mainstream of the financial markets ecosystem.
- Based on their expertise as liquidity providers, FIA EPTA members will contribute as (technical) experts towards issuers, trading venues, and end-investors who develop, list, and/or hold these products on what is needed to enhance the ESG product ecosystem and the contract specifications on individual products to ensure their success in European financial markets.
- The listed and cleared derivatives sector can play an important role in the shift towards a green economy. 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; thus, the listed and cleared derivatives sector is an important secondary contributor to long-termism.

The listed and cleared derivatives sector can play an important role in the shift towards a green economy.

Principle 3

To advance the reorientation of capital flows towards sustainable investments, FIA EPTA members will aim (or continue, where they are already doing so) to integrate sustainable products into the suite of products for which they are providing liquidity.

- FIA EPTA members are independent providers of liquidity on all of the main European trading venues, making products more liquid, and therefore more accessible for other market participants (including end-investors), which facilitates greater diversity and broader participation in financial markets.
- Liquid products with deep volumes and a tight bid/ask spread help to minimise the cost of investing in ESG products, which in turn helps investors to reorient their capital towards sustainable investments.
- FIA EPTA members are committed to providing liquidity on a continuous basis for instruments in which they registered in all market conditions, i.e. under normal as well as volatile market circumstances, to ensure that the price formation process is as efficient as possible.

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Principle 4

FIA EPTA members will work to improve price discovery and price formation of ESG products.

- Although they are Europe-based, FIA EPTA members are active on a wide range of global markets and aim to impact ESG practices in markets worldwide.
- Derivatives products enable the global economy to manage risk. Derivatives play an important role in mitigating price volatility, from currency fluctuations to the impact on farmers who benefit from stable prices for their products.
- FIA EPTA members are an important source of liquidity in listed and cleared derivatives, including ESG futures and options. By providing a tight bid-ask spread, climate change-related financial risks can be hedged with minimal cost (contributing to the enabling and mainstreaming of the management of financial risks coming from climate change).
- By maintaining tight bid and ask spreads and offering reliable market liquidity FIA EPTA members serve investors by contributing to the price discovery process across products and asset classes.
- By effectively processing market information from many public sources, the work of FIA EPTA members results in better prices for end-investors and reduces volatility in the market, including for ESG products¹.

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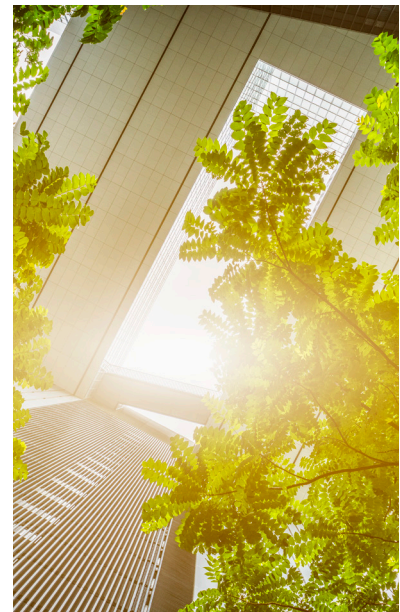
¹ Menkveld, Albert J., The Economics of High-Frequency Trading: Taking Stock (June 1, 2016). Annual Review of Financial Economics, Volume 8, Forthcoming, Available at SSRN: <https://ssrn.com/abstract=2787542>

Principle 5

As financial intermediaries facilitating efficient risk transfer between investors, FIA EPTA members are committed to facilitating the transition from non-ESG products to ESG products.

- Providing liquidity in ESG products allows long-term investors to buy or sell financial instruments at all times, without having to wait for another long-term investor looking to do the opposite. In this manner liquidity provision by principal trading firms results in lower transaction costs and less risk for end investors, creating increased price transparency and lower search costs for all market participants.
- By providing liquidity in ESG products with a tight bid-ask spread and volume, FIA EPTA members can play a vital role in the green transition. This helps minimise the cost of investing in ESG products, which in turn helps investors reorient their capital to sustainable investments.
- As market makers and liquidity providers, FIA EPTA members have the ability to support buy-side participants with the migration towards a green investment portfolio. Making sure there remains a counterparty to sell 'brown' products facilitates a smooth transition towards green products.

As market makers and liquidity providers, FIA EPTA members have the ability to support buy-side participants with the migration towards a green investment portfolio.



Principle 6

FIA EPTA members will establish functional internal governance and policies to support their sustainability efforts.

- FIA EPTA members support the incorporation of ESG risk-related considerations into the regulatory framework, which should then be applied across the whole markets value chain in order to promote a standardised approach.
- FIA EPTA members support the objective of policymakers to integrate ESG factors into firms' risk management and governance processes.
- FIA EPTA members will challenge themselves to identify ways within their own operations to support the establishment of a circular economy, i.e. to reduce the carbon intensity of their own operations and those of their business partners, e.g. regarding the energy use of market data centers.
- FIA EPTA members will be creating awareness within their firms of the opportunities that ESG related activity offers, not only providing information on new ESG products, but also establishing gender diversity measures for a safe and inclusive work environment. FIA EPTA members are implementing initiatives ranging from creating LGBTQ inclusive workplaces to women's networks which focus on establishing a culture that supports and empowers women within trading firms.
- FIA EPTA members aim to provide equal opportunities and fair remuneration policies for staff; FIA EPTA members employ workers of many different nationalities, and from many different backgrounds. PTFs generally have extensive profit-sharing schemes in place for employees.
- FIA EPTA members are committed to establishing a healthy, sustainable and safe work environment, in reference to Goals 8.3 and 8.8 of the UN Social Development Goals². In addition, many FIA EPTA members have signed up to anti-Modern Slavery and anti-Human Trafficking commitments and have policies in place to facilitate the recruitment of disadvantaged and marginalised people.

² <https://sdgs.un.org/goals/goal8>

FIA EPTA MEMBERS



APPENDIX

DEFINITION OF ESG

FIA EPTA believes it is vital for policy makers and market stakeholders to use common definitions, so as to make sure everyone has a clear and consistent understanding, making for more transparent and inclusive policy dialogue. Hence, FIA EPTA follows the European Commission's definition of ESG³ below:

“Sustainable Finance generally refers to the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects.”

Environmental considerations refer to climate change mitigation and adaptation, as well as to the environment more broadly, such as the preservation of biodiversity, pollution prevention and the circular economy.

Social considerations refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues.

Governance of public and private institutions, including management structures, employee relations and executive remuneration, plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process.

³ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en#:~:text=Sustainable%20finance%20refers%20to%20the,sustainable%20economic%20activities%20and%20projects.

About FIA EPTA

The FIA European Principal Traders Association (FIA EPTA) represents 24 independent European Principal Trading Firms (PTFs) which deal on own account, using their own money for their own risk, to provide liquidity and immediate risk-transfer in exchange-traded and centrally-cleared markets for a wide range of financial instruments, including shares, options, futures, bonds and ETFs. Our members are independent market makers and providers of liquidity and risk transfer for exchanges and end-investors across Europe, including the UK. FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands and the UK.



Gustav Mahlerplein 105-115 | 27th
Floor 1082 MS Amsterdam
The Netherlands

Tel +31 20.767.1798

FIA.org/epta
epta@fia.org

