COUNTRY EVALUATION | AS OF MAY 2019

Netherlands

TRANSPARENCY (Dimension)
Common disclosure framework (Sub-dimension)

1. Disclosure on governance — SCORE 5/10

Reporting on climate change related governance is partially covered by the Decree Disclosure of Non-financial Information PbEU, 2014, L330“. With this Decree, the Dutch government follows the requirements of the EU Directive 2014/95/EU. Although climate change is not particularly mentioned, the decree highlights the need for disclosure on environmental matters“ which should implicitly include climate change related governance decisions.

The same degree of reporting requirement is reflected in the Dutch Corporate Governance Code, which requires a long-term view on value creation. Companies reporting under the Code have to follow a comply-or-explain approach.

2. Disclosure on strategy — SCORE 5/10

Following the EU Directive 2014/95/EU, the Decree Disclosure of Non-financial Information PbEU, 2014, L330“ requires companies to disclose non-financial information including a business model, which does not necessarily entail strategic climate change considerations.

However, companies are asked to take a long-term view“ when developing their strategy by the Dutch Corporate Governance Code (Code), Chapter 1. Climate change is not explicitly mentioned; however, non-financial information including environmental aspects should be published. This should imply climate change related information. . Companies reporting under the Code have to follow a comply-or-explain approach; hence, the disclosure on a comprehensive long-term strategy is not necessarily mandatory.

3. Disclosure on risk management — SCORE 4/10

Reporting on climate change related risk management is neither explicitly required by the Dutch Corporate Governance Code (Code) nor by any other regulation.
Requirements on risk management accountability in the Code are focused on the year after the reporting. This implicitly shifts the focus on short-term risks. However, the Code focuses on long-term value creation, which should imply accounting for (and disclosure of) climate change related risks if they become material. It remains unclear to which extent the long-term value creation will impact / interact with risk management.

4. Disclosure on metrics and targets **SCORE 2/10**

The disclosure and utilization of metrics and targets to assess climate-related risks and the companies' contribution to climate change remains voluntary. The Dutch Civil Code motivates the disclosure on environmental metrics if appropriate for the business. However, no explicit guidelines or mandatory metrics are defined.

The TCFD recommendations seem to receive positive feedback from large Dutch companies and could become widely implemented which could translate into an industry code. Particularly the founding of the Platform Carbon Accounting Financials (PCAF) and the Terra approach offer first steps towards a standardised accounting of emissions within the industry. This could translate into national law and thus introduce respective metrics and targets in the Netherlands.
The Netherlands are currently in the process of introducing a CO2 tax. If the tax is introduced to all sectors of the economy, data quality on emissions by financial assets should increase

5. Adapt accounting standards **SCORE 3/10**

No relevant regulatory source could be identified that introduces guidance on assessing climate change related impacts into Dutch GAAP.

Specific sustainability accounting standards exist and are formulated by the Royal Netherlands Institute of Register Accountants. These are however not systematically applied.

With the Platform Carbon Accounting Financials (PCAF), a carbon accounting standard is being developed in the Netherlands. This standard aims to become the internationally accepted approach on carbon accounting. Recently, PCAF published a report on how the financial sector can improve reporting on their carbon footprint and set targets to reduce their climate exposure.

7. Accounting for stranded assets risk **SCORE 0/10**

Dutch GAAP does not mention stranded asset risks.

1. Investment evaluation transparency **SCORE 6/10**

By June 2019, the Dutch government has to integrate the Shareholder Rights Directive II in the Dutch Civil Code Book 2, which requires institutional investors and asset managers to draw up and publish a Shareholder Engagement Policy.
The Shareholder Engagement Policy must comply with transparency requirements on ESG considerations that include information obligations on climate change related aspects. The amendment does not specify exactly what information the policy must contain in this context and how these information should be presented / structured. The Dutch government does not intend to exceed its minimum requirements of the EU Directive.

2. Shareholder responsibility for governance and strategy **SCORE 5/10**

The Dutch government is integrating the Shareholder Rights Directive II (SRD II) which clearly outlines the duties of asset managers, covers information on non-financial aspects of assets and introduces a medium to long term investment horizon. Climate change related financial aspects are not specifically outlined in SRD II. The Bill is currently waiting for assent of the parliament. The Bill should come into full effect in 2020; however, parts could be effective already in 2019.

Pension: The Dutch government has implemented the Institutions for Occupational Retirement Provision (IORPs): IORP II/ Directive 2016/2341 which is effective since January 2019. IORPs will allow the taking into account of potential long-term impact of investment decisions on climate change related factors. IORP II explicitly states the reflection of climate change related aspects in multiple areas such as risk management, governance, potential member information.

3. Asset manager responsibility **SCORE 7/10**

The Dutch government is currently translating the Shareholder Rights Directive II into the Dutch Civil Code 2. Under the Directive, the duties of asset managers and non-financial aspects are clearly outlined with a medium to long-term perspective. However, it is not stipulated which time horizon should be used non-financial aspects (longer than the investment horizon of the investor?).

Climate change related aspects are not outlined in detail. Pension: The Dutch government has implemented the Institutions for Occupational Retirement Provision (IORPs): IORP II/ Directive 2016/2341 which is effective since January 2019. IORPs will allow the taking into account of potential long-term impact of investment decisions on climate change related factors. IORP II explicitly states the reflection of climate change related aspects in multiple areas such as risk management, governance, potential member information.

4. Executive remuneration policy **SCORE 5/10**

By June 2019, the translation of the Shareholder Rights Directive II into Dutch law has to be finalized, which will require companies to disclose the principles of executive remuneration and also indicate the impact climate change related performance aspects have on remuneration. It does not require that these aspects form part of the factors to be included in the remuneration. The Dutch government does not intend to exceed requirements of the Directive.

The Dutch Corporate Governance Code further stipulates that executive remuneration should be linked to long-term value creation. The criteria to determine remuneration are mostly long-term oriented.

5. Climate change related risk management **SCORE 5/10**

Pension: IORP II makes climate change related risk assessment mandatory for pension funds and related products.

Insurance: Solvency II is integrated in the Act on Financial Supervision. It requires insurers to take future developments into account including new business plans or the possibility of catastrophic events which might affect their financial standing. The Own Risk and Solvency Assessment (ORSA) is a new tool designed to assist with this. However, it does not outline climate change related factors explicitly.

Other assets: Currently climate change related considerations are not stipulated.

6. Customer/beneficiary centricity **SCORE 5/10**

The Dutch Pension Code states that the board of trustees must ensure that the stakeholders support the choices being made regarding sustainable investment. In practice, Dutch pension funds ask their participants through questionnaires or participant council meetings for their opinion on their sustainable investment approach. This only holds for pension funds, not for banks, insurers or asset managers. Currently, a law on pension funds is under review that would allow stronger stakeholder participation in writing up exclusion and sustainability policies.

There is currently no corresponding regulation on consumer / beneficiary centricity in the Act on Financial Supervision or any other relevant regulatory publication. However, with the Dutch adoption of the Shareholder Rights Directive II (to implement it by June 2019), beneficiary centricity will receive some push forward. The draft bill is currently under review by the Dutch parliament

1. Packaged Retail and Insurance-based Investment Products (PRIIPs)

SCORE 2/10

Main responsibilities for Packaged Retail and Insurance-based Investment Products (PRIIPs) lie on the EU-level and are governed by EU Regulations. The European Supervisory Authorities ESMA, EBA and EIOPA have the mandate to develop the key information document (KID) which provides PRIIP investors with information necessary by EU Regulation 1286/2014. Climate-related information are not part of the KID so far, however general risk (which should include climate risk if material) shall be published. Dutch legislation does not provide further requirements on PRIIPs.

2. Investment advisor duties

SCORE 3/10

The translation of MiFiD II into Dutch law is established through changes to the Act on Financial Supervision. As part of MiFiD II and the subsequent suitability guidelines by ESMA, requirements for investment advisors to integrate sustainability into their services should be in place soon. However, the guidance from ESMA remains vague. Dutch legislation does not exceed requirements of MiFiD II.

3. Retail fund transparency

SCORE 1/10

The Act on Financial Supervision does not require the publication of climate-related information from retail funds. However, they may fall under the PRIIP regulation from the beginning of 2020. In 2019, AFM is reviewing sustainable investment products for correctness of information in order to provide more transparency to the market.

4. Green labels/standards

SCORE 6/10

The Dutch government has set up a mechanism in the regeling groenprojecten which allows banks to establish green funds. These green funds receive capital from Dutch citizens which receive low interest on their investment but get a tax cut from the government. The bank the interest rate below market rates to fund additional green projects. The qualification for such projects is organised and provided by a strict criteria catalogue from the government. The potential scope of the resulting green label should be regarded as moderate.

SYSTEM STABILITY **(Dimension)**
Supervisory authority positioning (Sub-dimension)

1. Regulatory body's/bodies' awareness to climate risk integration **SCORE 8/10**

DNB raises awareness on physical and transition risks and places sustainable finance and climate risks prominently in speeches and research. DNB is engaged in the Network for Greening the Financial System (NGFS) and has established the Sustainable Finance Platform. The intention to built up expertise in the field is highlighted and the opinion is promoted that regulators should include climate risks in their supervisory practice. Within the Sustainable Finance Platform, discussions on a standardised methodology for climate risk assessment have been initiated. Neither are there specific content webpages on the topic nor studies publicly available on implementation guidance.

AFM reports on on-going climate policies and sustainable finance initiatives and publishes thematic reviews on sustainability reporting.

Both institutions do mention the scope of risks, DNB explicitly refers to physical and transition risks with examples in its reports.

The Ministry of Finance takes an active stance towards integrating climate risks and ESG in the supervision of the financial sector. The semiannual Financial Stability Report includes climate related risks.

2. Climate change and systemic risk **SCORE 8/10**

There is a strong publicly available knowledge base, in particular provided by DNB on several aspects of potential implications of climate change on a systemic level, oftentimes published in reports (e.g. „Waterproof?“ (2017) or „Values at Risk“ (2019)).

SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of banks (Sub-dimension)

1. Supervision of bank governance/strategy reflecting climate change related risk **SCORE 5/10**

Supervision of bank governance is covered by the NVB Social Charter, Banking Code, Rules of Conduct („Banking Code“), which is applicable to all banks operating under FMSA. In the Banking Code, banks commit to implementing a „long-term remuneration policy“ and a long-term focus when assessing risk. This approach could implicitly require incorporating climate change related risks into the reporting.
The Dutch Corporate Governance Code applies to the larger part of the banks under supervision of DNB. The Corporate Governance Code requires banks to take a „long-term view“ when developing their governance and strategy. Climate change is not explicitly mentioned; however, non-

financial information including environmental aspects should be published. This should imply climate change related information. As the Code takes a comply or explain approach, the disclosure on a comprehensive long-term strategy is not necessarily mandatory.

2. Minimum requirements for bank risk management (in the context of the supervisory review process) include ESG/climate risks and a long-term perspective **SCORE 6/10**

Covered by § 25a KWG and MARisk with guidance, part 2.

In the Financial Supervision Act (Wet op het financieel toezicht), risk management is a key element in the assessment of bank operation (section 3:17). Details on the risk management are outlined in in sections 23 and 24 of the Decree on Prudential Rules for Financial Undertakings (Besluit Prudentiële Regels Wft or Bpr). Climate change related risks do not form part of the risk assessment. However, it should be considered if material.

DNB engages with banks to provide more insight into the management of climate-related risks through a self-assessment, in the context of the ICAAP and SREP for LSIs. This will be discussed in more detail in the coming SREP request letter.

3. Scope of supervisory reports of the regulator (risk profile for banks) during the annual supervisory review process covers ESG/climate risks and a long-term perspective **SCORE 5/10**

DNB applies EBA guidance for the Supervisory Review Process. Climate change and sustainability are mentioned in the DNB Supervisory Strategy.

Explicit reference to climate change risk not specified at the moment. Long-term perspective in risk profiles covers at least 3 years (business model sustainability analysis).

DNB has started conversations with banks on climate related risks as part of regular supervisory interviews.

4. Banking stress tests consider climate risks and a long-term perspective

SCORE 4/10

DNB has not performed a fully-fledged stress test on climate change related risks yet.

In 2018, a stress test on the performance of Dutch banks, insurances and pension funds was conducted with regards to risks from the energy transition.

DNB seems to be looking into a full climate risk stress test for banks in the near future. In the Financial Stability Report of autumn 2018 it states that this stress test should be taken as a first step: there is as yet no standard approach to analysing the energy transition by means of stress testing.“

5. Capital requirements reflect ESG/climate risks and a long-term perspective

SCORE 4/10

There is currently neither an explicit reference to brown or green assets.
The CRR in combination with Directive 2013/36/EU does not stipulate changes to capital requirements in this respect. An appropriate long-term perspective is not encouraged and there is no specific treatment of either green“ or brown“ assets. The Directive is incorporated into the Dutch Financial Supervision Act (art. 3:111a) without exceeding the minimum requirements.

SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of insurance companies (Sub-dimension)

1. Supervision of insurance governance reflecting climate change related risk

SCORE 5/10

EIOPA Guidelines on governance systems (enforced through delegated regulation 2015/35) include the responsibility of the management for the overall risk management system that needs to reflect risk identification, measurement and monitoring at group level; this does in principle include climate change related risks if material. There thus can be initial practice reflecting climate change risk if a comprehensive view is taken but not explicitly guided by regulation.

The Dutch Corporate Governance Code applies to the larger part of the insurance companies under supervision of DNB. The Corporate Governance Code asks insurance companies to take a long-term view“ when developing their governance and strategy Climate change is not explicitly mentioned; however, non-financial information including environmental aspects should be published. This should imply climate change related information. The Code takes a comply or explain approach, hence the disclosure on a comprehensive long-term strategy is not necessarily mandatory

2. Minimum requirements for insurance risk management include ESG/climate risks and a long-term perspective **SCORE 4/10**

EIOPA based on Solvency II and Delegated Regulation (EU) 2015/35 takes a comprehensive risk perspective, particularly in its guidelines on the ORSA.

The regulation in principle includes climate change related risks if material. There thus can be initial practice reflecting climate change risk if a comprehensive view is taken.

DNB's 2019 action plan however foresees a stronger focus on climate related risks.

3. Scope of supervisory review of the insurance company covers ESG/climate risks and a long-term perspective **SCORE 1/10**

The DNB does not control for climate change related aspects in their annual review. In its 2019 strategy, it stresses however the need to change action. However, insurances are required to submit their Own Risk and Solvency Assessment (ORSA) to DNB. This could provide DNB with a better understanding of climate-related risks in the insurance industry.

4. Insurance stress tests consider ESG/climate risks and a long-term perspective **SCORE 3/10**

The research could not identify any institution specific and fully-fledged climate risk stress test for insurances.

A first stress test on physical risks for insurers has been conducted by DNB in 2017. In 2018, DNB ran a stress test on the energy transition with banks, pension funds and insurances.

5. Capital requirements reflect ESG/climate risks and a long-term perspective **SCORE 4/10**

Solvency II and its translation into the Dutch Financial Supervision Act take a comprehensive risk perspective that all risks have to be considered. There is no obvious distinction between green and brown assets. A long-term perspective is not encouraged.
DNB has developed the FOCUS! Methodology for the supervisory process, which does not include climate change in the risk analysis.

SYSTEM STABILITY **(Dimension)**

Regulation/Supervision of pension funds (Sub-dimension)

1. Supervision of pension fund governance reflecting climate change related risk

SCORE 6/10

With the translation of IORP II into Dutch law, pension funds in the Netherlands are required to establish a system of governance that appropriate for the complexity, scale and organisational structure as well as the risk to which the organisation is exposed. Risks should be documented including climate change related risks where material. A distinction between transition and physical risks is not stipulated explicitly.

The Code of the Dutch Pension Funds prescribes good governance for pension funds based on the “comply or explain principle’. It explicitly includes long termism (1.1 Characteristics of a pension fund) and climate relates issues (2.7 Sustainable Investment).

2. Minimum requirements for pension fund risk management include climate risks and a long-term perspective

SCORE 8/10

Minimum requirements for risk management under IORP II, which has been implemented in the Dutch Act on Financial Supervision in January 2019 includes a triennial risk assessment by insurance companies and an integrated risk management in all processes. Inclusion of climate change related risks are explicitly requested where material.

Under IORP II, the DNB also includes an ‘Eigen Risico Beoordeling (ERB)’ (=self-assessment) in which pension funds also take into account climate risk. Furthermore, DNB stresses that climate risks are going to be integrated in the risk management.

3. Scope of supervisory review of the pension funds covers ESG/climate risks and a long-term perspective

SCORE 3/10

At present, DNB is not systematically reviewing climate change related risks. However, it has already allowed pension funds to integrate them into their risk management and is considering introducing mandatory measurements soon.

4. Capital requirements for pension funds reflect ESG/climate risks and a long-term perspective

SCORE 4/10

The EU has left the modelling of capital requirements for pension funds to the member states under IORP II. Currently, pension funds are not required by DNB to demonstrate specific risk impacts. However, many institutions tend to use the FIRM risk model developed by DNB.

There is currently no explicit inclusion of climate change related considerations into capital requirements - positively or negatively.

SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of asset managers and investment funds (Sub-dimension)

1. Requirements for organisation, capital requirements and risk management include ESG/climate risks and a long-term perspective

SCORE 4/10

The integration of EU regulation on investment funds (AIF, UCITS Directives) into the Dutch Act on Financial Supervision introduces a comprehensive risk management perspective to Dutch asset fund manager.

However, the introduction does not constitute an explicit reference to climate change related risks or an appropriate long-term perspective.

In 2019, DNB will devote efforts to increase the level of commitment by asset managers to integrate governance, risk management and disclosure aspects of climate change.

ENABLING ENVIRONMENT **(Dimension)**
Established and maintained common taxonomy (Sub-dimension)

1. Established and maintained common taxonomy

SCORE 4/10

For the Dutch Green Fund Scheme, the government has developed an official catalogue of criteria defining the projects eligible for the Fund. This can be viewed as an uncomprehensive taxonomy.

ENABLING ENVIRONMENT **(Dimension)**
Supporting climate change related finance with public incentives (Sub-dimension)

1. Government provides financing instruments for green investments

SCORE 6/10

Grants to promote investments in energy efficient technologies and renewable energy generation are available.

The Stimulation of Sustainable Energy Production (SDE+) scheme should increase production of renewable energy as it compensates for the unprofitable component in renewable energy production (difference between costs and market prices).

The Sustainable energy investment subsidy scheme (ISDE) partly compensated for the initial investment costs of several RE devices (e.g. heat pumps, solar boilers, pellet stoves) for private households and companies.

2. There are subsidies for sustainable investments/ fiscal policy/taxation of products that reflect ESG criteria **SCORE 7/10**

The Netherlands offer several tax relief products to enable investment in the environment, inter alia, Energy Investment Allowance (EIA), Arbitrary Depreciation of Environmental Investments (VAMIL) and Environmental investment credit (MIA).
A special regulation in the Netherlands is the Regeling Verlaagd Tarief". It offers an exemption for 15 years from the energy tax on solar or wind energy. Even though the maximum mortgage amount is set at 100% of the underlying value, there is an exception for households that are also investing in energy-saving facilities when buying a house. They may borrow up to 106%.

ENABLING ENVIRONMENT **(Dimension)**
2-Degree Consistency of Public sector acting (Sub-dimension)

1. Government reflects climate change related risks in its investment strategy **SCORE 6/10**

The Sustainable Public Procurement (Maatschappelijk Verantwoord Inkopen) requires national, regional and local governmental bodies to procure sustainably. Per procurement item, relevant environmental factors are listed.

There is no regulation at the national level that mandates the inclusion of climate change related risks in public investment decision-making. However, some municipalities or state-owned entities have developed their own climate related criteria and divestment goals. DNB intends to take climate change related risks into account in its investment portfolio for the first time this year.

2. Government agencies issue Green Bonds **SCORE 4/10**

The Dutch Ministry of Finance announced in late 2018 that it would issue its first green government bond on the 21st of May 2019. This green bond will have a volume of € 4 to € 6 billion.

3. Green public financial institution **SCORE 6/10**

The Netherlands Development Finance Company (FMO) provides financial services primarily outside the Netherlands. Several public investment banks such as BNG and waterschapsbank provide sustainable investment opportunities to the Dutch market. RVO (Netherlands Enterprise Agency) offers subsidies and financing programmes to companies in the Netherlands.
This year, Invest-NL will start operation to provide financing to the markets for projects and sectors that struggle to acquire sufficient financing from the open markets because of, inter alia, uncertain payback periods.

4. Central banks disclosure on climate-related risks **SCORE 5/10**

DNB is currently pushing the sustainable finance agenda in the Netherlands. DNB signed the UN PRI in March 2019, making it the first central bank to do so. However, until now, DNB has not undertaken a climate change related risk assessment of its portfolio. Reporting on own emissions exists, i.e. buildings, travel, etc.

ENABLING ENVIRONMENT **(Dimension)**
Public capacity building and awareness raising on green finance (Sub-dimension)

1. Providing free green label certifications **SCORE 0/10**

Currently, there is no green label for financial products and there are no initiatives related to developing a free green label certification.

2. Consumer education on green finance is integrated in curricula (schools, universities, general public education) **SCORE 6/10**

Green finance is currently not included in general curricula at universities or schools. However, the government/DNB-led platform for sustainable finance is currently developing ideas on how to implement sustainable finance in education.

A small number of universities already offer courses that include sustainable finance (e.g. Nyenrode Business University, Maastricht University and Rotterdam School of Management). Some of them are private universities.

ENABLING ENVIRONMENT **(Dimension)**
Green Financial Centres (Sub-dimension)

1. Green public-private initiatives of financial centers **SCORE 6/10**

The Sustainable Finance Lab (SFL) aims to provide ideas for effective financial sector sustainability. It is an interdisciplinary network of mostly academics from various Dutch universities. The initiative receives funding from Tridos Bank and the DNB. However, the partners do not represent the majority of private actors in the financial industry.

Another initiative by DNB is the Sustainable Finance Platform, which brings together several stakeholder from associations, authorities, ministries and academia. Its primary aim is to raise awareness for sustainable finance in working groups on, inter alia, climate risks, SDG Impact Assessment or carbon pricing.