



EU Initiative on Sustainable Finance

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European
Commission

The case for sustainable finance



Living well, within
the limits of our planet

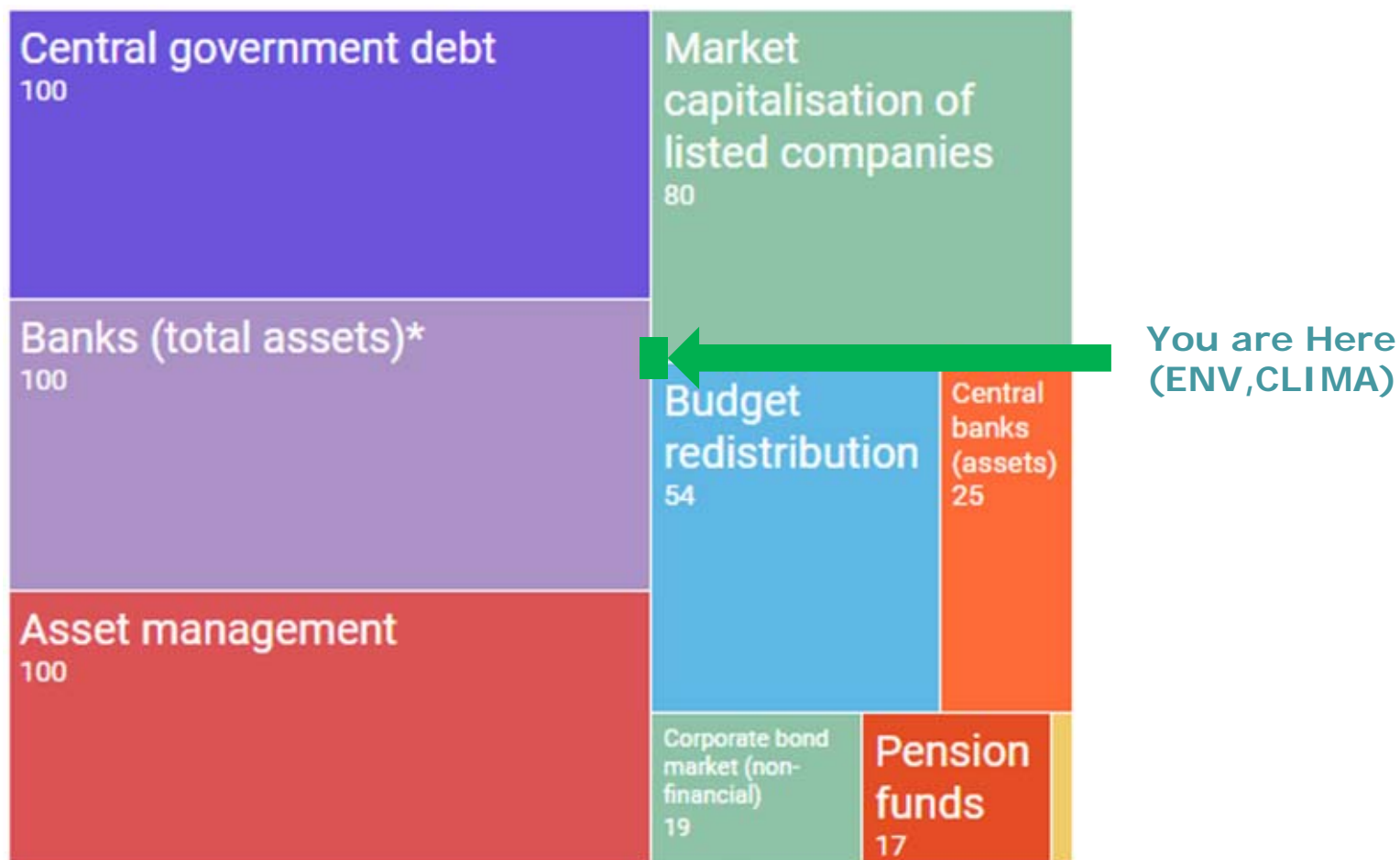
Circular Economy



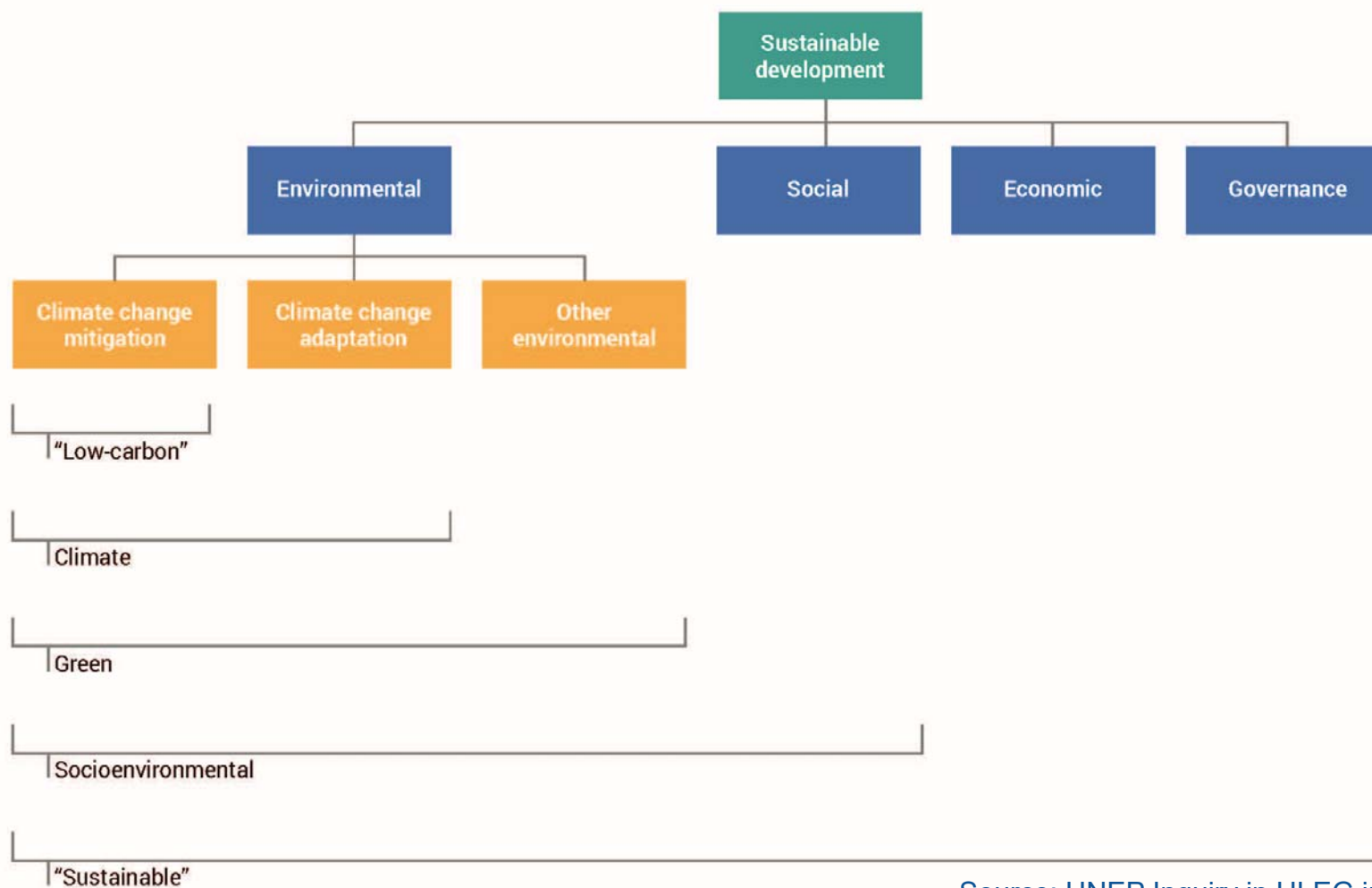
COP21 • CMP11
PARIS 2015
UN CLIMATE CHANGE CONFERENCE

- Investment needs to achieve EU's 2030 energy and climate goals: **EUR 180 billion** every year
- Public *and* private funding needed
- Recognised at international level – G20 Green Finance Study Group

Tapping the financial markets



Green finance vs sustainable finance vs ESG



Source: UNEP Inquiry in HLEG interim report



Why is action needed on sustainable finance?

1. **Reorient capital flows** towards more sustainable economy
2. Mainstream sustainability in **risk management**:
 - Environmental and social risks can transform into financial risks
3. Foster **transparency and long-termism**, which go hand in hand with sustainability

=> End 2016, Commission appointed a **High-Level Expert Group (HLEG)** on sustainable finance.





Environmental risks can become financially material

- *Climate change* – through physical or transition risk
 - Cf. Mark Carney, FSB
- *Water scarcity*
- *Biodiversity loss*
 - Cf. World Economic Forum – Global Risks Report
- Risks for individual companies but also for investors...
... and for the financial system as a whole!

But many opportunities as well

(circular economy, energy efficiency, cost savings and risk mitigation)





High-Level Expert Group on sustainable finance

In September 2016, the European Commission decided to establish a High-Level Expert Group (HLEG) on sustainable finance, led by DG FISMA



The HLEG's goals

- Set out **the scale of the challenges and opportunities** of sustainable finance
- Recommend a **comprehensive roadmap of reforms** for the EU financial policy framework



The HLEG's mandate

- **Issue Scope:** starting with climate change, but extending to sustainable development
- **Dual Focus:** mobilising capital & strengthening financial stability
- **Sector Coverage:** asset management, banking, benchmarks, capital markets, credit ratings, financial centres, insurance firms, investment consultants, pension funds, stock exchanges



The HLEG's process

- Chaired by C. Thimann. 20 members and 9 Observers
- Expert-led with strong Commission backing, considerable interaction with key stakeholders, including through an interim report and public consultation.



HLEG Sustainable Finance Report

Other Cross-Cutting Recommendations

1. Short-termism, sustainability and the 'tragedy of the horizon'
2. Empower citizens to engage and connect with sustainable finance issues
3. Establish an EU observatory on sustainable finance to support evidence-based policy-making
4. Benchmarks
5. Accounting
6. Accelerate action to finance energy efficiency investments
7. 'Think sustainability first' principle
8. Leverage EU action to enshrine sustainable finance at global level

Financial Institutions and Sectoral Recommendations

1. Banking
2. Insurance companies
3. Asset management
4. Pension funds
5. Credit ratings and sustainability ratings
6. Stock exchanges and financial centers
7. Investment consultants
8. Investment banks

Social and Broader Environmental Sustainability Recommendations

1. Social dimension
2. Natural capital and environmental challenges
3. Agriculture
4. Marine resources





Key HLEG recommendations

On 31 January 2018, the HLEG published its final report, containing 8 key recommendations:

1

Establish a **common sustainable finance taxonomy** starting with climate change

2

Clarify **investor duties** to better embrace long-term horizons and sustainability preferences

3

Upgrade **disclosure rules**, focusing on TCD implementation

4

Empower retail investors via investment advice, minimum SRI standards and a new **ecolabel**

5

Develop **official European sustainability standards**, starting with green bonds

6

Establish Sustainable Infrastructure Europe to expand the pipeline of sustainable assets

7

Update governance requirements so sustainability becomes part of 'fit and proper' tests

8

Include sustainability in the mandate of the ESAs and extend the horizon of risk monitoring



Action Plan on "financing sustainable growth"

- Actions

- 1 Establish an **EU classification system** for sustainable activities
- 2 Create **standards and labels** for green financial products
- 3 Foster investment in sustainable projects
- 4 Incorporate sustainability in providing investment advice
- 5 Develop **sustainability (low-carbon) benchmarks**
- 6 Better integrate sustainability in ratings and market research
- 7 Clarify **investor duties**
- 8 Incorporate sustainability in prudential requirements
- 9 Strengthen sustainability **disclosure** and **accounting** rule-making
- 10 Foster sustainable corporate governance and attenuate short-termism in capital markets



May 2018 Package of Proposals

1. Taxonomy – EU classification system for sustainable investments

2. Investors' duties

3. Low-carbon benchmarks

Create a new category of benchmarks (financial indices), comprising low-carbon benchmarks and positive-carbon impact benchmarks, to provide investors with better information on the carbon footprint of their investments

4. Suitability test

Ensuring that investment firms and insurance distributors integrate sustainability preferences into their "suitability tests" when offering advice to investors and that the products offered meet their clients' needs



Investor duties

- Scope: *all* asset managers, pension funds and insurance companies
- Proposals to clarify the duties of investor
- To ensure that they
 - **consider environmental, social and governance (ESG) factors** and risks in their investment decision process, and
 - are **more transparent** towards end-client





Taxonomy – what is it?

- **Classification system** defining which economic activities are sustainable – and under which conditions: They have to
 - Contribute substantially to one environmental objective
 - Not significantly harm any environmental objective
 - Respect minimum safeguards (social and governance aspects of sustainability)
 - Comply with the Commission technical criteria
- **6 environmental objectives:**
 - (1) **Climate** change **mitigation** & (2) **adaptation**
 - (3) **Circular economy** and **waste prevention**
 - (4) **Pollution** prevention and control
 - (5) **Water** resource management and conservation
 - (6) Healthy natural **habitats**



Taxonomy - process

- 24 May 2018: **Legislative proposal** taxonomy regulation
 - High-level principles and governance framework
 - Adoption of detailed taxonomy through Delegated Acts
 - 2019: Climate change mitigation and adaptation
 - 2021: pollution prevention and control, circular economy and waste prevention
 - 2022: sustainable use of water resources, healthy ecosystems
- June 2018: Setting up of a **Technical Expert Group** (TEG) on sustainable finance (35 experts)
 - Report by Q2 2019, focus on climate change mitigation and adaptation, but also other environmental issues.
- **Member States Expert Group** to steer TEG
- **Long-term: Platform** for sustainable finance

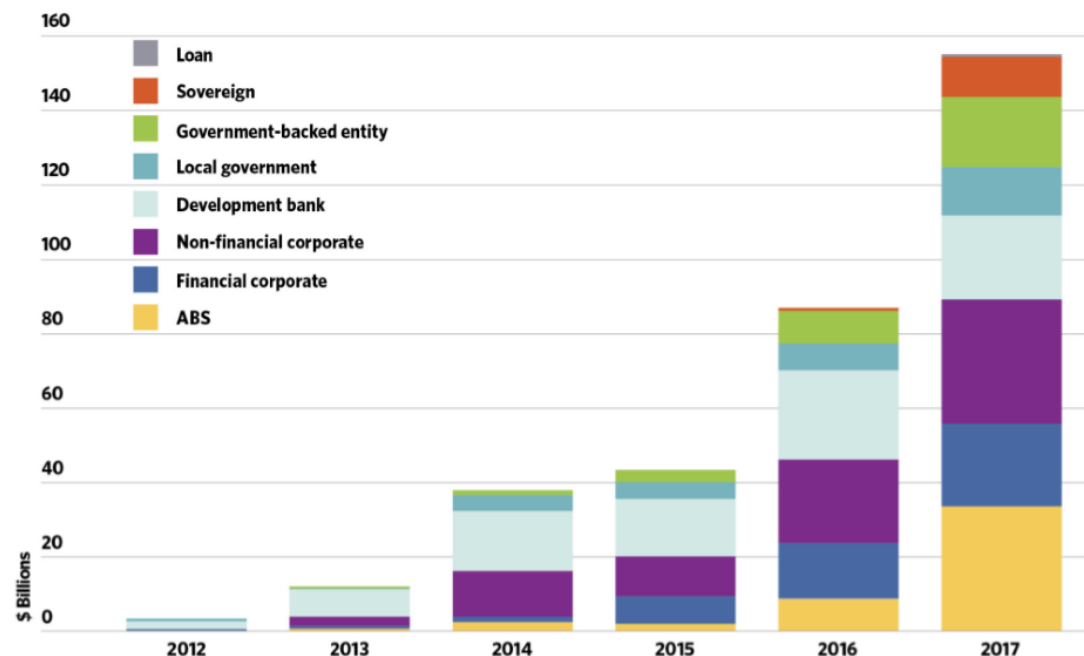




EU Green Bond Standard

- Expert group to prepare a report on EU green bond standard (Q2 2019)
- Use of proceed requirement
- Link to Taxonomy
- Commission to amend Prospectus requirements to better inform investors (Q2 2019)

- Why? Growing market, lack of standardisation



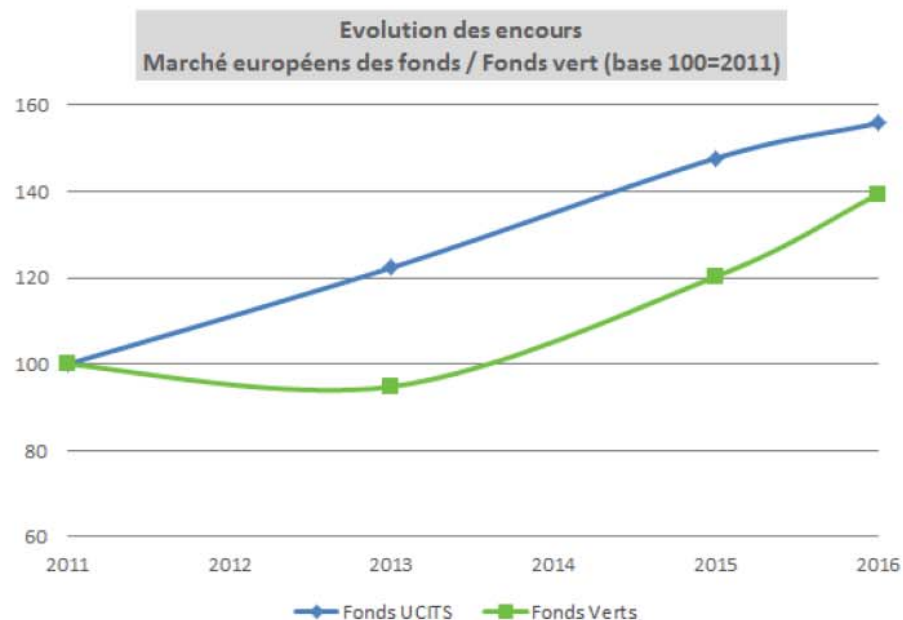
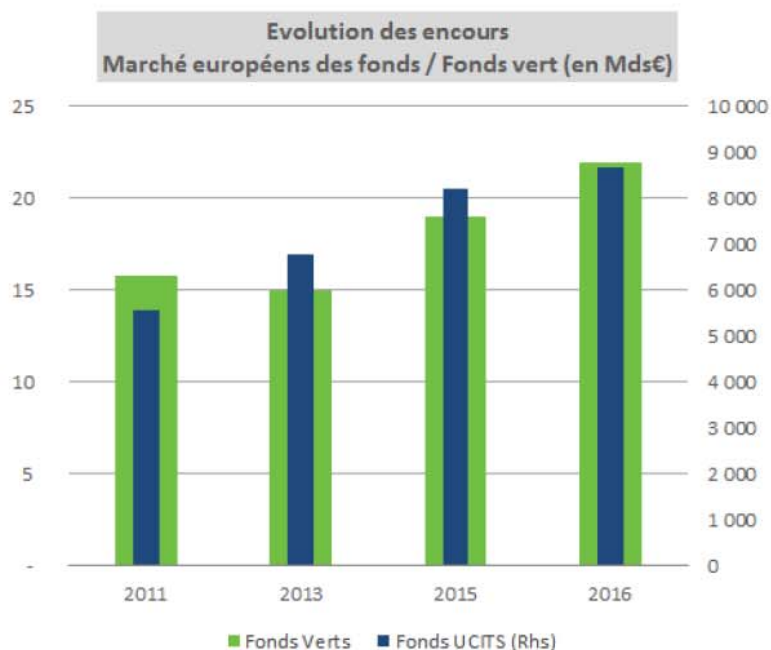
Source: Climate Bond Initiative, 2018



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Ecolabel for green financial products

- Scope: PRIIPs
- Technical work by JRC (to be available by *Q1 2020*)



AUM for UCITS funds and funds labelled green by Novethic (in EU)

Source: Novethic, 2017



Corporate disclosure

- **Non-Financial Reporting Directive**
 - requires large listed companies to disclose information on key Environmental, Social and Governance factors
 - June 2017: Commission guidelines
 - Action Plan: commitment to review of guidelines, in particular integrating the FSB's TCFD Recommendations
- **Exploratory work by DG ENV on Environmental Accounting and Reporting Standards**
 - To compare environmental performance of companies –
 - ... and impact on financial performance (material risks)
 - Information used by investors to take decisions





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Overview

Action Plan on SF

Legislative

- Taxonomy
- Low-carbon benchmarks
- Investor duties
- Suitability test

Non-legislative

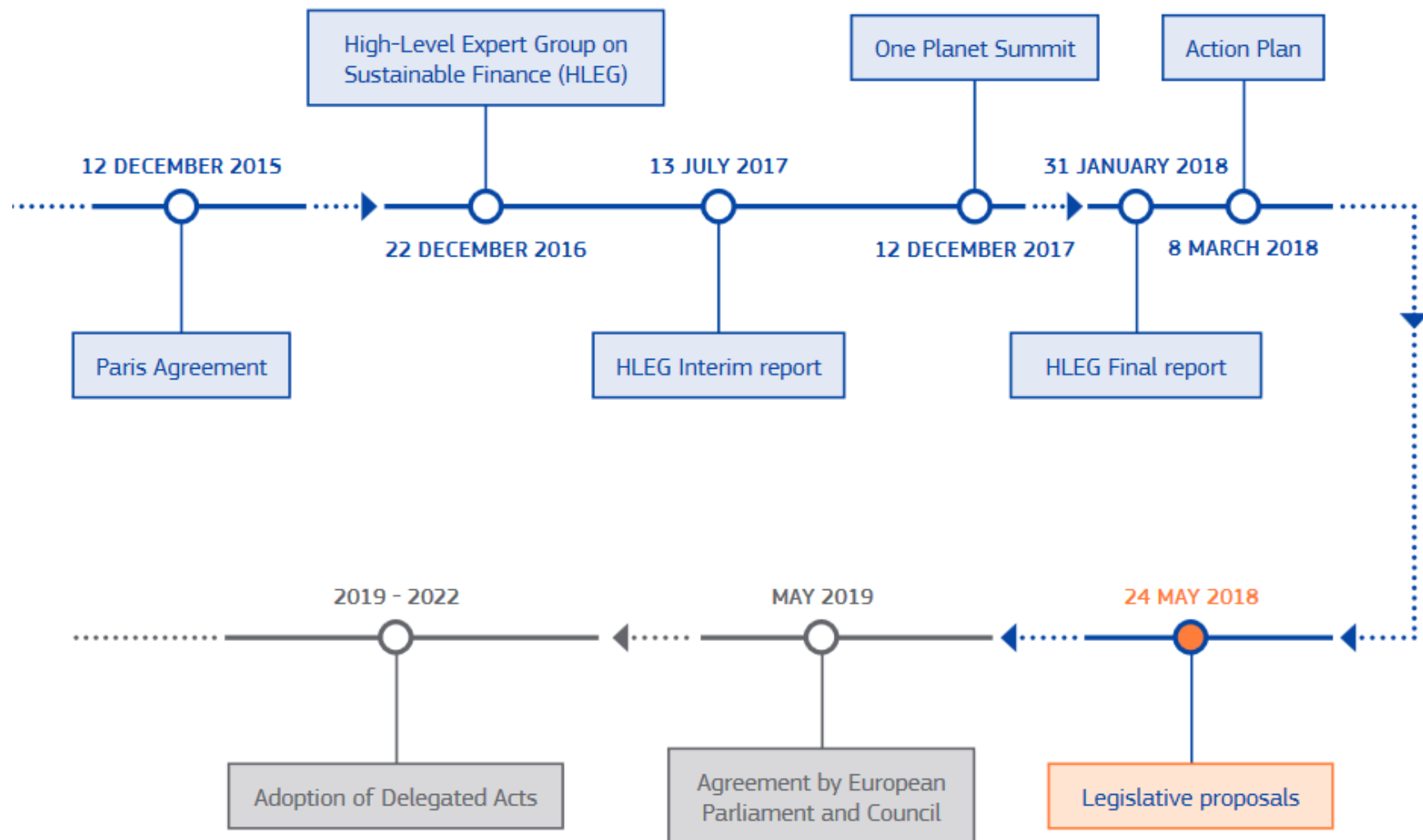
- Green Bond Standard
- Climate metrics for disclosure
- EU Ecolabel
- Environmental Accounting
- ...

TEG





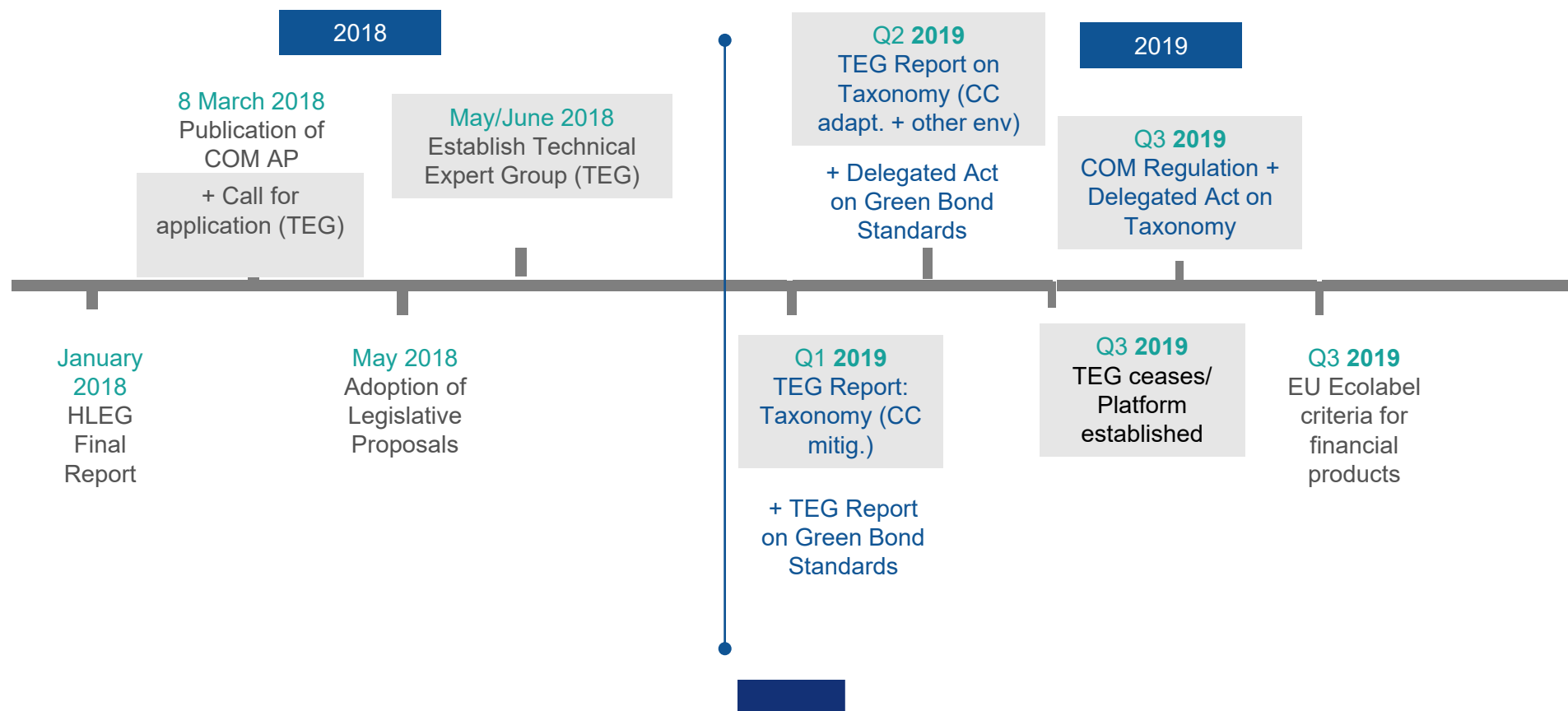
Timeline





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COM Sustainable Finance Action Plan *Roadmap (2018-2019)*





Thank you for your attention!



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Commission website on sustainable finance: : https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

