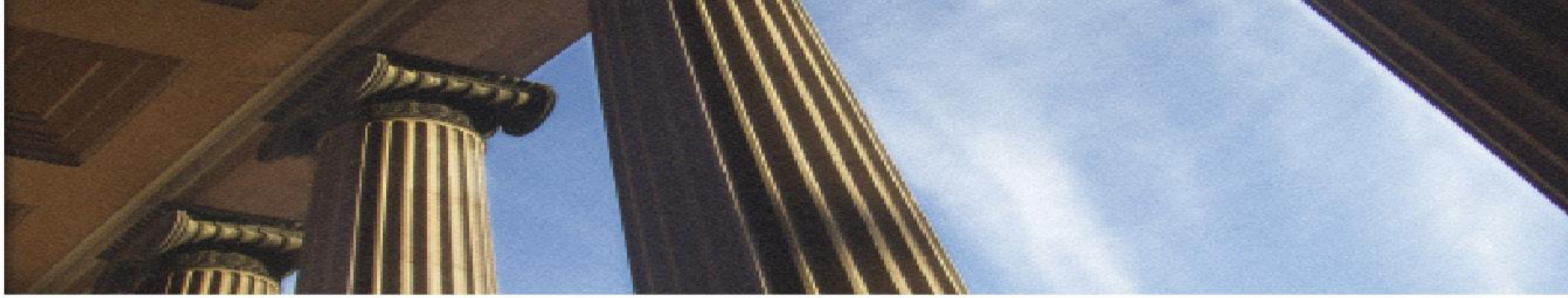

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The EU Sustainable Finance Initiative

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Sustainable finance (SF) in the EU

- Sustainable finance = the provision of finance to investments taking into account environmental, social and governance (ESG) issues
- Commission: SF "includes a strong green finance component that aims to support economic growth while reducing pressures on the environment"
- Economic growth v. environmentalism: A contradiction?

A narrow concept of sustainability

- Limited selection of *planetary boundaries* aspects:
  - addressing green-house gas emissions
  - tackling conventional pollution
  - minimising waste and improving efficiency in the use of natural resources 🡐 circular economy
- No mention of social issues
  - *social foundation in sustainability*

What is important, however

- EU SF encompasses increasing awareness of and transparency on
  - the risks which may have an impact on the sustainability of the financial system
  - the need for financial and corporate actors to mitigate those risks through appropriate governance

- The hard core of SF

EU and global commitments

- UN 2030 Agenda and Sustainable Development Goals
- The Paris Climate Agreement
  - commitment to align financial flows with a pathway towards low-carbon and climate-resilient development
- Commission estimate:
  - to achieve the EU's 2030 targets agreed in Paris, including a 40% cut in greenhouse gas emissions, we have to fill an investment gap estimated at 180 billion EUR per year

EU public funding is not enough

- European Fund for Strategic Investments (EFSI) a start
- The scale of the investment challenge is beyond the capacity of the public sector alone
- The financial sector has a key role to play in reaching those goals by
  - *re-orienting investments* towards more sustainable technologies and businesses
  - *financing* growth in a sustainable manner *over the long-term*
  - *contributing* to the *creation* of a
    - low-carbon
    - climate resilient
    - circular

    economy

History of EU SF

- Commission Communication Capital Markets Union - Accelerating Reform (September 2016) ➔
- High Level Expert Group on Sustainable Finance (HLEG) ➔
- Commission action plan on sustainable finance (Action Plan) ➔
- Implementation of the Action Plan
- Technical Expert Group on sustainable finance (TEG)

High-Level Expert Group on Sustainable Finance (HLEG)

- established in December 2016
- comprised 20 senior experts from civil society, the finance sector, academia and observers from European and international institutions

HLEG mandated to

- provide advice to the Commission on how to steer the flow of public and private capital towards sustainable investments
- identify the steps that financial institutions and supervisors should take to protect the stability of the financial system from risks related to the environment
- deploy these policies on a pan-European scale

HLEG

- Interim report in July 2017
- Final report in January 2018

- Basis for Commission Action Plan in March 2019

Commission Action Plan on sustainable finance

- Commission strategy to further connect finance with sustainability
- Key actions
  - establishing “a clear and detailed EU classification system” (“taxonomy”) for sustainable activities for a “common language” for all actors in the financial system (Action 1)
  - establishing EU labels for green financial products to “help investors to easily identify products that comply with green or low-carbon criteria” (Action 2)

Action Plan

- introducing measures to clarify asset managers' and institutional investors' duties regarding sustainability (Action 7)
- strengthening the transparency of companies on their environmental, social and governance (ESG) policies (Action 9)
  - evaluation of the current reporting requirements for issuers to make sure they provide the right information to investors

Action Plan

- introducing a 'green supporting factor' in the EU prudential rules for banks and insurance companies (Action 8)
  - incorporating climate risks into banks' risk management policies and supporting financial institutions that contribute to fund sustainable projects

Corporate law relevance: Action 10

- "Corporate governance and undue capital market short-termism"
- Commission:
  - CG can significantly contribute to a more sustainable economy, allowing companies to take the strategic steps necessary to develop new technologies, to strengthen business models and to improve performance
  - This would in turn improve their risk management practices and competitiveness, thus creating jobs and spurring innovation
  - Undue short-term market pressures make it difficult to lengthen the time horizon in corporate decision-making

Action 10

- Focus on short-term financial performance and disregard opportunities and risks stemming from environmental and social sustainability considerations
- As a consequence, the interactions between capital market pressures and corporate incentives may lead to unnecessary exposure in the long-term to sustainability risks

Action 10

- Action 10: Fostering sustainable corporate governance and attenuating short-termism in capital markets
  - Q2/2019: An analytical and consultative work with relevant stakeholders to assess:
  - (i) the possible need to require corporate boards to develop and disclose a sustainability strategy, including appropriate due diligence throughout the supply chain, and measurable sustainability targets
  - (ii) the possible need to clarify the rules according to which boards are expected to act in the company's long-term interest

Action 10

- DG Justice Conference on «Sustainable Corporate Governance», 24 Jan 2019
  - Presentations available on the website
- Our SMART Project was there

- Further follow-up to be expected in 2019

Action 10

- Commission request on advice from European Securities Markets Authority (ESMA), European Banking Authority (EBA) and European Insurance and Occupational Pensions Authority (EIOPA)on undue short-term pressure from the financial sector on corporations (1 February 2019)
- Delivery by end of 2019

Implementation of the Action Plan

- Three Commission proposals
  - Proposal for a regulation on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation)
  - Proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU)2016/2341
  - Proposal for a regulation amending the 2016 regulation on low carbon benchmarks and positive carbon impact benchmarks

Taxonomy Regulation

- conditions and the framework to “gradually create” a unified classification system ('taxonomy’)
- what can be considered an environmentally sustainable economic activity
- “This is a first and essential step in the efforts to channel investments into sustainable activities.”

Disclosure Regulation

- disclosure obligations on how *institutional investors and asset managers* integrate ESG factors in their risk processes
- requirements to integrate ESG factors in investment decision-making processes, as part of their duties towards investors and beneficiaries, will be further specified through delegated acts

Benchmark Regulation

- a new category of benchmarks comprising low-carbon and positive carbon impact benchmarks, which will provide investors with better information on the carbon footprint of their investments

Technical expert group on sustainable finance (TEG)

- Technical expert group on sustainable finance (TEG) to assist it in
  - the development of a unified classification system for sustainable economic activities
  - an EU green bond standard
  - methodologies for low-carbon indices
  - metrics for climate-related disclosure.
- The TEG began work in July 2018 and will operate until June 2019, with a possible extension until end-2019

Research Group Companies Markets and Sustainability

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