



# **EU Action Plan on Sustainable Finance**

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# Investing in Environment

## The EU budget - "the MFF"

25% of the overall future budget (+/- €320 billion) likely dedicated to climate objectives – with important environmental co-benefits.

## Special rules for State Aid

to promote environmental objectives



## Taxation

Renewed focus on role of taxation under European Green Deal by President-elect

## Private Finance

channel private capital towards priority environmental investment needs

**Sustainable  
Finance  
Action Plan  
2018-20**

# Timeline on EU Sustainable Finance Initiative



# Scaling up sustainable finance : a global challenge



**Industry-led initiatives:** UN Environment Programme Finance Initiative (UNEP-FI), Principles for Responsible Investment (PRI), Task force on climate-related financial disclosures (FSB-TCFD), Network of Financial Centers for Sustainability (FC4S), etc.



**Governments:** Coalition of Finance Ministers for Climate Action (CAPE), International Platform on Sustainable Finance



**Central banks, supervisors and market authorities:** Sustainable Banking Network (IFC-SBN), Network for Greening the Financial System (NGFS), Sustainable Insurance Forum (SIF), IOSCO-Sustainable Finance Network



THE COALITION OF FINANCE MINISTERS FOR CLIMATE ACTION

HELSINKI PRINCIPLES

5

These fora provide innovative ideas to mainstream sustainable finance

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# Action Plan on Financing Sustainable Growth






One comprehensive strategy | Three main objectives | Ten Actions

**1**  **Reorienting capital flows** towards sustainable investment

**2**  **Mainstreaming Sustainability into risk Management**


**3**  **Fostering transparency and Long-termism**

## Actions

<p><b>1</b>  <b>Establish EU Sustainable Taxonomy</b></p>	<p>COM is progressively developing the <b>EU taxonomy</b>. The technical details (screening criteria) are developed by the Technical Expert Group (TEG) that published their report in June 2019.</p>
<p><b>2</b>  <b>Create Standards and Labels</b></p>	<p>COM works on <b>EU Ecolabel</b> criteria for green financial products together with the JRC (Q3 2020). In June 2019, the TEG delivered a report on an EU Green Bond Standard building on current best practices.</p>
<p><b>3</b>  <b>Foster Investment in Sustainable Projects</b></p>	<p>COM explores measures to improve the efficiency and impact of instruments aiming at investment support. A <b>mapping on investment gaps and financing</b> took place in Q3 2018, best practices for sustainable investments were exchanged on (inter-)national and EU level in Q4 2018.</p>
<p><b>4</b>  <b>Incorporate Sustainability in Investment Advice</b></p>	<p>COM will ensure that <b>advisors will take into account the sustainable preference of clients</b>. The current version of draft delegated acts was published in January 2019, taking into account stakeholder feedback. COM will further align the text with the disclosures regulation.</p>
<p><b>5</b>  <b>Develop Sustainability Benchmarks</b></p>	<p>COM will increase the <b>transparency of sustainability benchmarks</b>. The TEG is currently assisting the Commission in developing minimum standards for climate benchmarks and ESG disclosures. It published an interim report in June 2019 and will deliver final report in September.</p>

# Action Plan on Financing Sustainable Growth

One comprehensive strategy | Three main objectives | Ten Actions

**1**  **Reorienting capital flows**  
towards sustainable investment

**2**  **Mainstreaming Sustainability into risk Management**

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## Actions

**6**  **Integrate ESG in Ratings and Market Research**


COM is gathering information on ratings and research. ESMA will **update Guidelines related to disclosure of ESG factors by CRAs** and report to COM on current practices in CRA market during the summer. COM will launch a **study on sustainability in research and ratings**.

**7**  **Clarify institutional investors and asset managers duties**


The **disclosures regulation** will provide greater transparency on how financial market participants and financial advisers consider sustainability. COM is also preparing **changes to sectoral rules based on advice from ESMA and EIOPA on integrating sustainability risks** in the investment process, risk management, the organisation as well as operating conditions.

**8**  **Incorporate sustainability in prudential requirements**

COM will explore the **feasibility of a green supporting factor** when it is justified from a risk perspective to safeguard financial stability. COM has also asked EIOPA to analyse the impact of Solvency II on sustainable investments.

**9**  **Strengthen Sustainability Disclosure & Accounting**

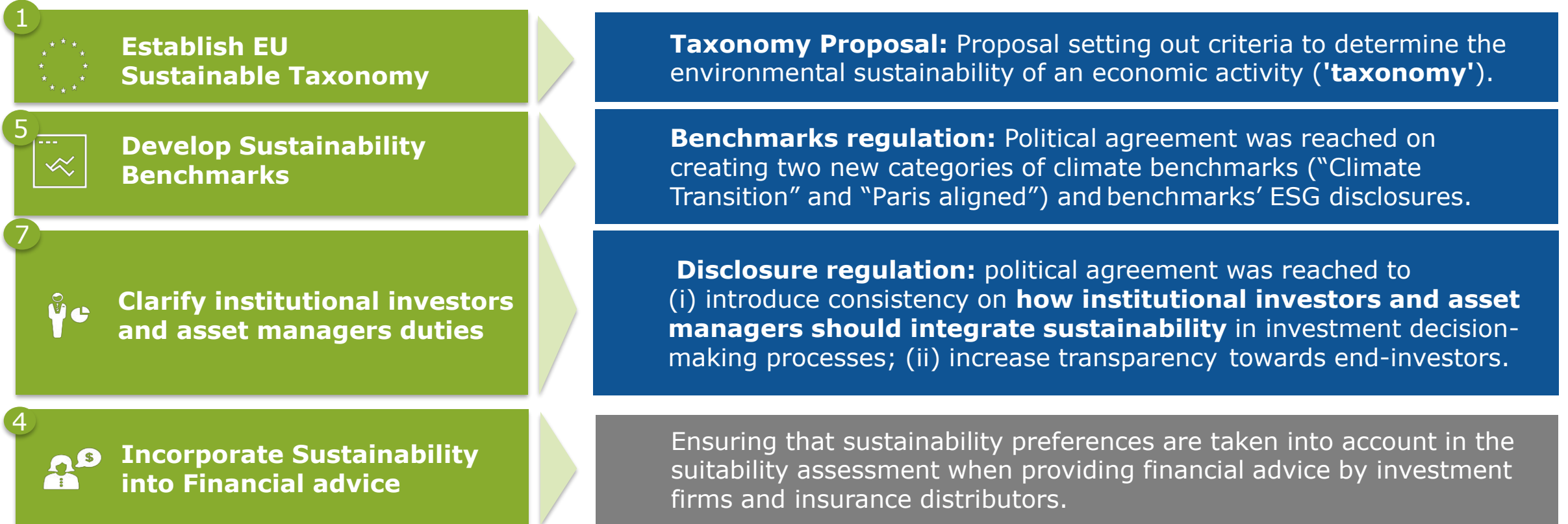
COM is evaluating the current **reporting requirements for companies**. The TEG helped the COM to integrate TCFD recommendations in the guidelines on climate-related reporting, which were updated in June 2019. COM will further analyse the impact of accounting rules (IFRS standards) on sustainable and long-term investments.

**10**  **Foster Sustainable Corporate Governance**

COM is exploring how **improved corporate governance** can enhance sustainability and is collecting evidence from the ESAs on short term market pressure arising from capital markets.

# The Legislative Proposals

The most urgent actions from the AP were taken forward as Legislative Proposals in May 2018



# In 2019, TEG delivered 4 ground-breaking reports

January

Report on climate-related disclosure

In June, the Commission followed up on this report by publishing **new guidelines for companies on how to report climate-related information.**

June

Report on the EU Taxonomy

Report on the EU Green Bond Standard

Interim report on climate benchmarks and benchmarks' ESG disclosures



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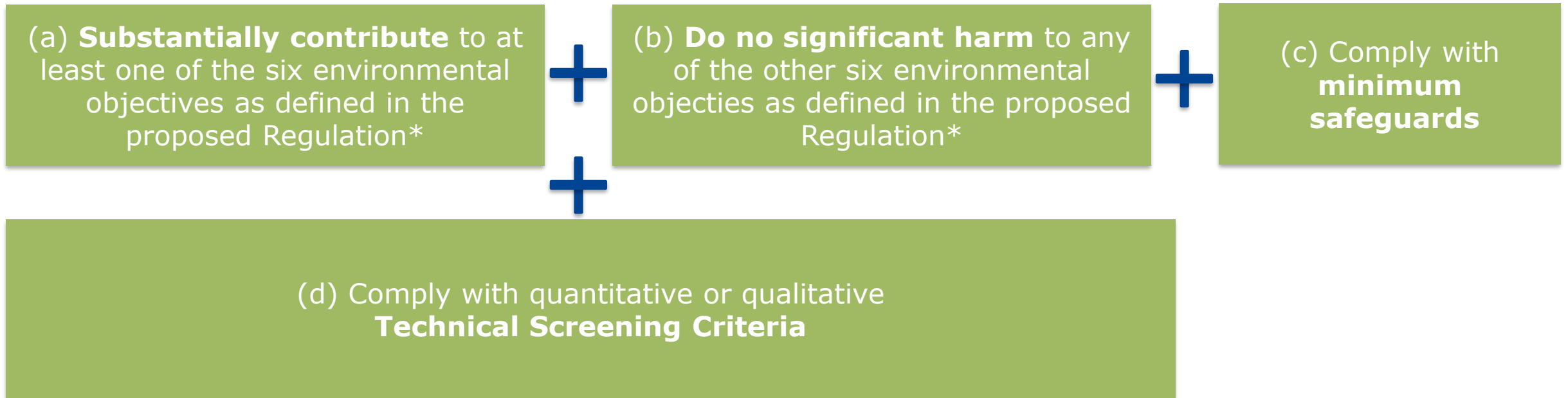
# The Taxonomy Proposal

## What is the Taxonomy?

**A list of economic activities** that are considered environmentally sustainable for investment purposes.

## What is set out in the Proposal?

**The framework to develop the taxonomy.** For an economic activity to be on the list, it has to comply with four conditions:



\*The six environmental objectives as defined in the proposed Regulation are: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy, waste prevention and recycling; (5) pollution prevention and control; (6) protection of healthy ecosystems.

# Intended Impact of an EU Taxonomy

## Market practice

**Different taxonomies** among Member States and institutions hinder cross-border capital flows

**Costs for real economy** to raise capital and for financial institutions to provide clarity

**Burdensome for investors** to check and compare information

**Hampering investments into a more sustainable economy**



 **EU Sustainable Taxonomy**

A harmonised **list of economic activities** that can be considered **environmentally sustainable** for investment purposes.

## Intended impact

- ✓ **Certainty for economic actors** and financial market participants
- ✓ **Protection of private investors** and mitigation of Greenwashing
- ✓ **Easier for real economy** to raise capital
- ✓ **Mitigation of** market fragmentation
- ✓ **Basis for further policy action**

**Reorienting capital flows towards sustainable investment**

# Who will use the Taxonomy and how?

The proposed regulation has two mandatory users:

1. **Financial market participants**
2. **EU Member States**

Under the Non-Binding Guidelines for Non-Financial Reporting, **Companies** are also encouraged to disclose in line with the Taxonomy.

The Taxonomy can be used on a voluntary basis by **credit institutions** and other **issuers**, such as local authorities, or **banks** for lending activities

## Voluntary use by investors

- Expressing investment preferences
- Selecting holdings
- Designing green financial products
- Measuring the environmental performance of a security or product
- Engaging with investees

# Example: How Taxonomy helps companies raise capital

## Example 1: Energy sector

- An energy company with multiple energy sources **is committed to transition to a low carbon business model.**
- The company proposes to allocate funds to build a **new electricity generation facility eligible under the taxonomy** (like solar or wind) and therefore can issue a green bond that meets the requirement of the EU Green Bond Standard.
- Investors understand the strategy, assess the information provided in the bond documentation, understand the environmental benefits and invest.

## Example 2: Manufacturing sector

- An aluminum manufacturer is looking for capital **to improve the performance of its manufacturing facility.**
- The company can get a green loan from a bank for the expenditure to bring the performance of the facility in line with the criteria of the taxonomy.
- Once the facility meets the taxonomy criteria, the shares of the company can be included in a green equity fund.

**The Taxonomy can encourage more companies and investors to come into sustainable finance markets.**

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**3.1**

**Technical Expert Group (TEG) on Sustainable Finance**

# TEG Reports: June 2019



## User guide

- Concise guide to key concepts
- Examples
- Overview of the criteria



## Technical report

- Full methodology;
- Use cases and case studies;
- 67 economic activities assessed for contribution to climate change mitigation;
- Methodology for adaptation tested on 9 activities.

+ Call for feedback (July – 16 Sept 2019)

Agriculture and forestry	Manufacturing	Electricity, gas, steam and air conditioning supply	Water, waste and sewerage remediation	Transport	ICT	Buildings
Growing of perennial crops	Low carbon technologies	Production of Electricity	Water collection, treatment and supply	Passenger Rail Transport (Interurban)	Data processing, hosting and related activities	Construction of new buildings
Growing of non-perennial crops	Cement	Transmission and distribution of electricity	Centralised wastewater treatment systems	Freight Rail Transport	Data-driven solutions for GHG emissions reductions	Renovation of existing buildings
Livestock production	Aluminium	Storage of energy	Sewage sludge treatment	Public transport		Individual renovation measures
Afforestation	Iron and steel	Manufacture of biomass, biogas and biofuels	Collection and transport of non-hazardous waste	Infrastructure for low carbon transport		Acquisition of buildings
Rehabilitation/restoration	Hydrogen	Retrofit of gas transmission and distribution networks	Anaerobic digestion of bio-waste	Passenger cars and commercial vehicles		
Reforestation	Other inorganic basic chemicals	District heating/cooling distribution	Composting of bio-waste	Freight transport services by road		
Existing forest management	Other organic basic chemicals	Installation and operation of electric heat pumps	Material recovery from waste	Interurban scheduled road transport		
	Fertilizers and nitrogen compounds	Cogeneration of heating/cooling and power	Landfill gas capture and energetic utilization	Inland passenger water transport		
	Plastics in primary form	Production of heating/cooling	Direct air capture of CO <sub>2</sub>	Inland freight water transport		
			Capture of anthropogenic emissions	Construction of water projects		
			Transport of CO <sub>2</sub>			
			Sequestration of captured CO <sub>2</sub>			

**+ adaptation activities !!**

# Substantial contribution to climate change mitigation

Characteristics	Type of activity	Criteria
"Greening of"	<b>Already low carbon</b> (very low, zero or net negative emissions). Compatible with net zero carbon economy by 2050.	Likely to be stable and long term
	<b>Contribute to a transition</b> to a zero net emissions economy in 2050 or shortly thereafter, but are not currently close to a net zero carbon emission level.	Likely to be revised regularly and tightened over time
"Greening by"	Activities that <b>enable emissions reductions</b> in either of the two previous categories.	Some likely to be stable and long term, some likely to be revised regularly.

Activities that undermine mitigation objectives are **not** included.

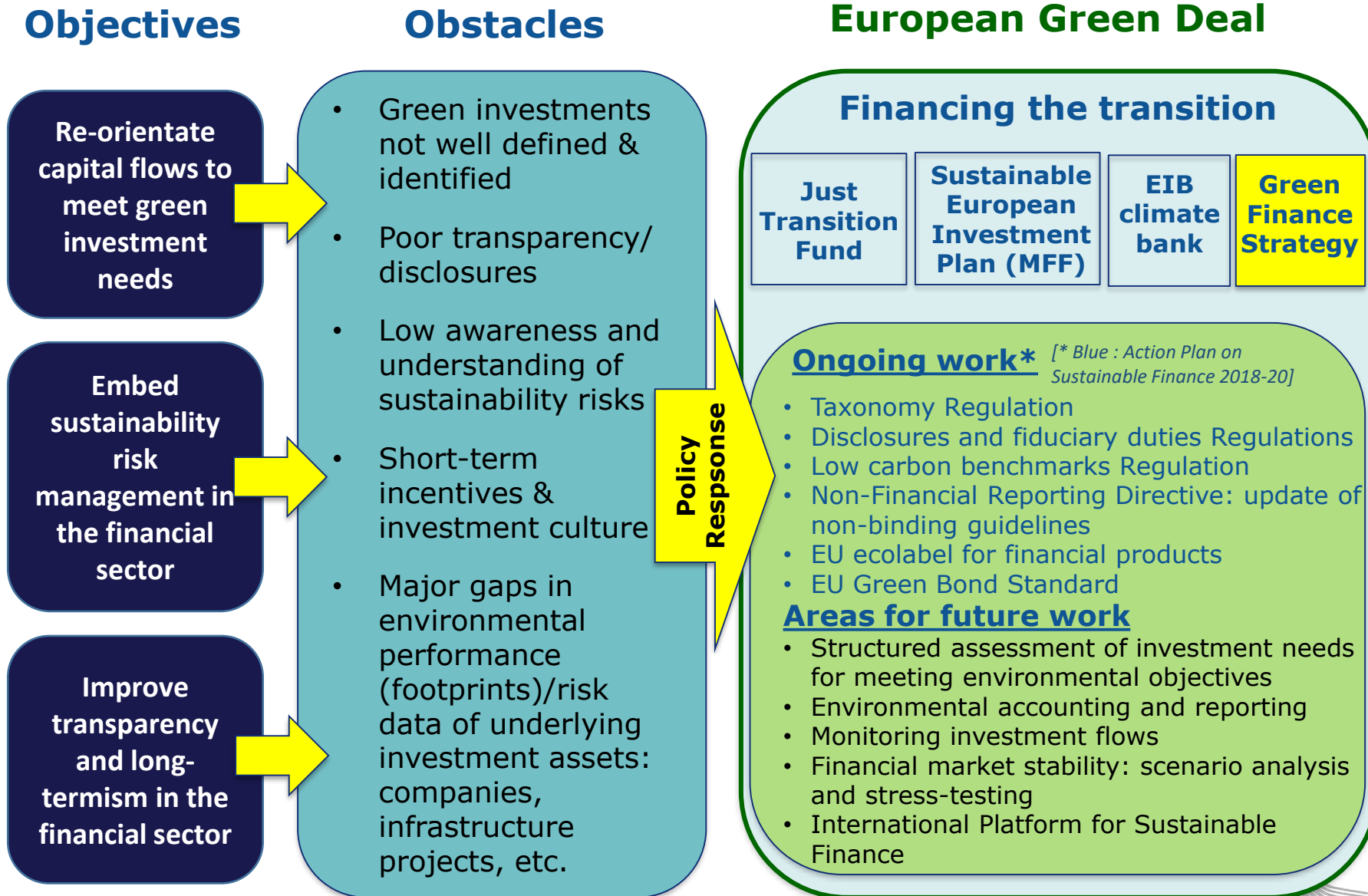
# Timeline

25 Sept: General approach in Council



Defining substantial contribution to the other four environmental objectives

# A strategy for green finance





# Thank you for your attention

**More information about the EU sustainable finance policy agenda:**

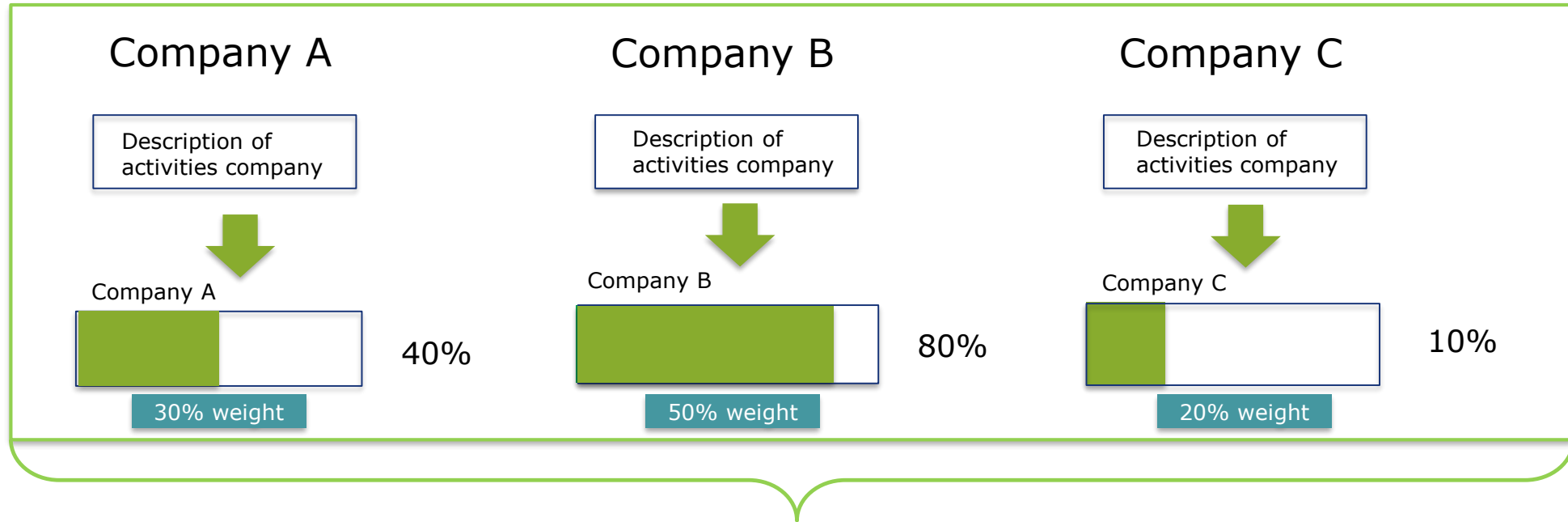
<https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance>

**And the work of the Technical Expert Group on sustainable finance:**

<https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group>

# How to apply the taxonomy: example from an equity fund

## Part 2: From economic activities to fund level



My equity fund is 54% taxonomy-compliant

# EU Ecolabel on Financial Products



- Financial products addressed at **retail investors**
- The **current proposal** defines a green fund as a fund that invests in green companies, i.e. companies with green activities
- Focuses on defining **thresholds** for green activities at company and at investment portfolio level (e.g. 70% of portfolio must relate to green activities)
- Process:
  - JRC is doing the technical work, under DG ENV and DG FISMA leadership
  - Transparent and multi-stakeholder (Annex I of EU Ecolabel Regulation)
  - First stakeholder meeting in April 2019
  - Adoption foreseen in Q3 2020

# Disclosures by financial entities: who, what, where?

The disclosures regulation places the following requirements on financial market participants:

Scope	What to disclose	Where to disclose	Who should disclose
All investment products	<p><b>How negative impacts on financial returns arising from sustainability risks are integrated in risk policies</b></p>	<p>Websites, pre-contractual information, marketing communication</p>	<p>all financial entities</p>
	<p><b>How the financial entity considers adverse impacts on sustainability factors (negative externalities)</b></p>	<p>Websites, pre-contractual information</p>	<p>compulsory for financial entities &gt;500 and holding companies, other entities to disclose on a comply or explain basis</p>
Investment products with sustainability characteristics or objectives	<p><b>How these sustainability characteristics or objectives are met</b></p>	<p>Pre-contractual information, websites, periodical reports, marketing communication</p>	<p>all financial entities</p>

# The Benchmark proposal: What is a benchmark



**Definition:** Benchmarks are indices created to weigh and aggregate multiple securities representing some aspect of the total investment market. Benchmarks are extensively used by institutional investors as investment monitoring solutions.

## Use cases for Benchmarks

### PERFORMANCE BENCHMARK

Used to **measure the performance** of a fund that can track the return of the index

### INVESTMENT UNIVERSE

Used to define the **investment universe** of a portfolio

### FINANCIAL INSTRUMENTS

Used as **underlying list of securities for passive products** (e.g. funds)

### INCENTIVE TOOL

Used as a **scalable way to encourage companies** to improve ESG performance

# Benchmark proposal: key elements of the February 2019 political agreement between co-legislators

## EU Climate Transition Benchmarks

The EU Climate transition benchmarks brings the resulting benchmark portfolio on a **decarbonisation trajectory**, meaning a **measurable, science-based and time-bound trajectory to reduce carbon emissions**.

## EU Paris-aligned Benchmarks

The EU Paris-aligned Benchmarks brings the resulting benchmark portfolio's carbon emissions **in line with the Paris Climate Agreement goal to limit the global temperature to 1.5°** compared to pre-industrial levels.

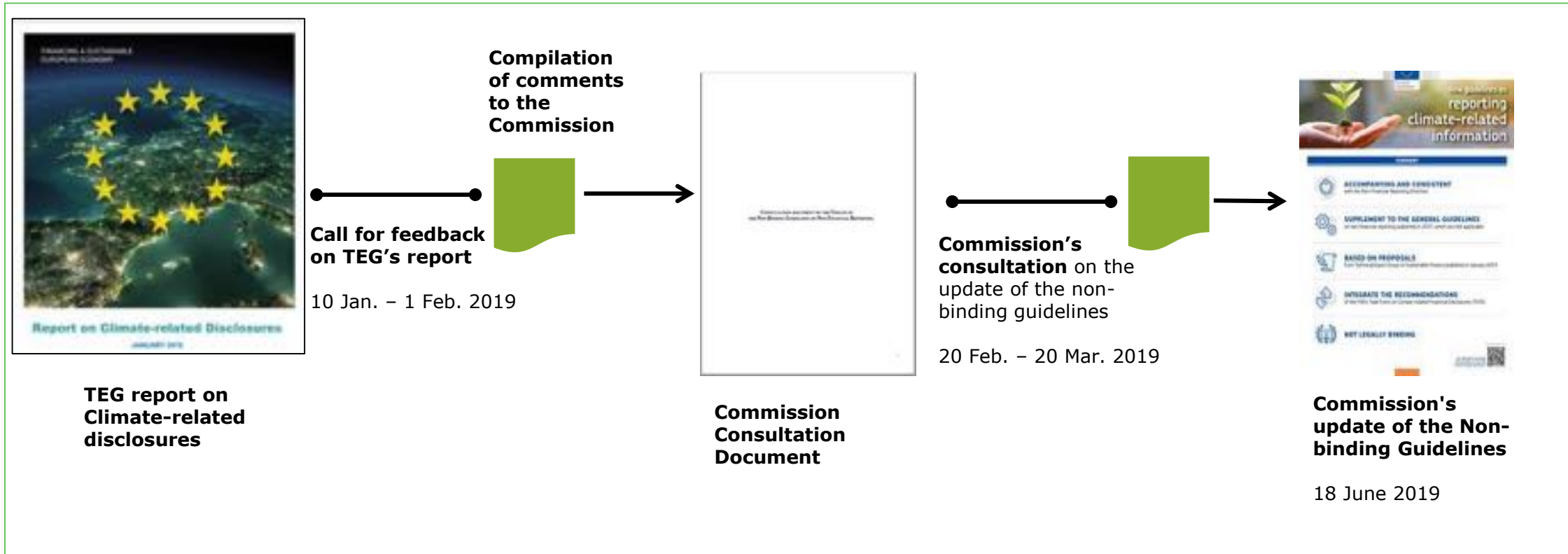
## Benchmarks ESG Disclosures

The Benchmarks ESG disclosures ensures that **ESG and climate-related considerations can be integrated in the valuation** of assets across various asset classes

## Other key elements

- Extension of the transitional period for providers of “critical benchmarks” — interest rates such as Euribor or EONIA — by two extra years until 31 December 2021.
- Extension of the period for mandatory contributions/administration to five years.
- Extension of the transitional period also covers the possibility for benchmarks administered in third-countries to be used in the EU for another two years.

# TEG recommendations on company climate-related disclosures were reflected in the new Commission guidelines



## Broader context

Fitness Check on Corporate Reporting, and possible future revision of the Non-Financial Reporting Directive

# TEG report on proposed EU Green Bond Standard (1/2)

The report was published on 18 June, reflecting stakeholder feedback on the interim report

## Main principles

- (1) **Voluntary standard** applicable for both listed and non-**listed** bonds
- (2) Builds on best **market practices** (transparency and use-of-proceeds approach)
- (3) Applicable to **EU or international** green projects and issuers

## Recommendations establishing the standard

**#01:** Create a **voluntary** EU Green Bond Standard.

**#02:** The EU-GBS should comprise **four core components**: (1) alignment of Green Projects with the EU Taxonomy, (2) Green Bond Framework, (3) reporting on allocation and impact and (4) verification by accredited verifiers.

**#03:** Encourage the set-up of a **voluntary interim registration process for Verifiers** of EU Green Bonds for an estimated transition period of up to three years until a permanent ESMA-led accreditation scheme comes into force.

# TEG report on proposed EU Green Bond Standard (2/2)

## Recommendations to support and monitor the adoption of the EU GBS

**#04:** Investors are encouraged to use the requirements of the EU-GBS when **designing their green fixed-income investment strategies** and to **communicate their preference and expectations** actively to green bond issuers, as well as to underwriters.

**#05:** The TEG welcomes the recent political compromise on the **sustainability-related disclosures regulation** and recommends that the European Commission adopts an ambitious disclosures regime on green bond holdings for institutional investors.

**#06:** Consider promoting greening the financial system by expressing and implementing a **preference for EU Green Bonds**.

**#07:** Consider developing **financial incentives to support the EU Green Bond Market alignment with the EU-GBS**.

**#08:** The TEG encourages all types of bond issuers to issue their **future green bonds** in conformity with the requirements of the EU-GBS.

**#09:** Promote adoption of the EU-GBS through the **EU Ecolabel for financial products**.

**#10: Monitor impact on the alignment of financial flows with the EU Taxonomy's Environmental Objectives** and consider further supporting action including possible legislation after an estimated period of up to 3 years.