EU Action Plan on Financing Sustainable Growth

1st Workshop on Green Finance in the Energy Community
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BACKGROUND ON GREEN FINANCE

- There is no internationally agreed description of what is Green / Sustainable Finance;
  - First ethical financing dates back to 18th century, but mainstreaming started in 1960’s/70’s and green aspects started to emerge in 1980’s/90’s.
- However landmark international agreements on the UN 2030 agenda and sustainable development goals and the Paris Agreement provide a framework;
  - Article 2(1)(c) includes the commitment to align financial flows with a pathway towards low-carbon and climate-resilient development.
- In response the EU developed its Action Plan on Financing Sustainable Growth in 2018, the European Green Deal Investment Plan in 2020.
  - Reaching the previous EU climate and energy targets would require ~ €260 billion a year up to 2030.
The European Commission established a High-level expert group on sustainable finance (HLEG) in December 2016.

The group was 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.

The recommendations of the HLEG form the basis of the action plan on sustainable finance adopted by the Commission in March 2018. The action plan set out a comprehensive strategy to further connect finance with sustainability.
REORIENTING CAPITAL FLOWS TOWARDS A MORE SUSTAINABLE ECONOMY - I.

1. Establishing a clear and detailed EU taxonomy, a classification system for sustainable activities.

2. Creating an EU Green Bond Standard and labels for green financial products.

3. Fostering investment in sustainable projects.

- The EU Green Taxonomy is a common language and a clear definition of what is sustainable and provides a common classification system for sustainable economic activities, establishing a list of environmentally sustainable economic activities.

- The Commission is exploring the development of a voluntary EU Green Bond Standard; working on an EU Ecolabel for retail investment products.

- The aim is to connect sustainable finance frameworks and tools with relevant EU funds; The InvestEU programme aims to support four policy areas through funding, technical support and assistance, and by bringing together stakeholders.
Reorienting capital flows towards a more sustainable economy

1. Incorporating sustainability in financial advice
   - Rules on how investment advisers and insurance distributors should take sustainability factors into account when providing advice to their clients.
   - Delegated acts on the integration of the sustainability risks into organisational requirements, risk management procedures and product governance.

2. Developing sustainability benchmarks
   - Updated Benchmark Regulation and delegated acts to create a new category of benchmarks comprising low-carbon and positive carbon impact benchmarks.
   - To provide investors with better information on the carbon footprint of their investments.
MAINSTREAMING SUSTAINABILITY INTO RISK MANAGEMENT

6. Better integrating sustainability in ratings and market research

7. Clarifying asset managers' and institutional investors' duties regarding sustainability

8. Introducing a 'green supporting factor' in the EU prudential rules for banks and insurance companies

- To strengthen disclosure of ESG and how they are represented;
- Purpose of these requirements are to ensure a sufficient level of transparency around the credit rating actions.

- Discusses disclosure obligations of different financial market participants like insurance undertakings, investment firms, pension providers, fund managers and credit institutions which provide portfolio management.

- European Banking Authority now has a mandate to:
  - identify the principles and methodologies for the inclusion of ESG risks in review and evaluation;
  - explore prudential soundness of introducing a more risk sensitive treatment of “green assets”.
FOSTERING TRANSPARENCY AND LONG-TERMISM

Guidelines on non-financial reporting:
- Non-Financial reporting Directive (NFRD) for large public interest entities of 2019;
- Corporate Sustainability Reporting Directive (CSRD) for all large companies in 2021.

Fostering sustainable corporate governance and attenuating short-termism in capital markets

Aims to **undue short-term pressure from the financial sector** on corporations;
- ESMA, EBA and EIOPA published findings and recommendations on **strengthening disclosure of ESG factors** to facilitate institutional investor engagement.
THANK YOU
FOR YOUR ATTENTION

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