



EU Action Plan on Sustainable Finance: Progress and Next Steps

October 2019

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Context

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EU-level Actions on Sustainable Finance

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The 'Taxonomy' Proposal

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The 'Taxonomy' Proposal

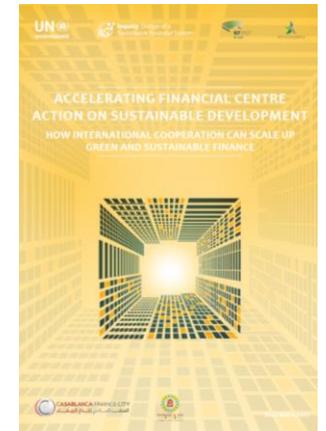
Scaling up sustainable finance : a global challenge



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 (IPSF)**



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



These fora provide innovative ideas to mainstream sustainable finance

Investing in Environment & Climate

The EU budget - "the MFF"

Financing the green transition

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



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Sustainable Finance: Objectives

1



**Reorienting capital flows
towards sustainable
investment**

2



**Mainstreaming
Sustainability into Risk
Management**

3



**Fostering
transparency and
Long-termism**

Commission Action Plan (2018) on Financing Sustainable Growth

Reorient capital flow towards more sustainable investments

- 1 Establish a **Taxonomy** of environmentally sustainability 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 **benchmarks**

Mainstreaming sustainability in risk management

- 6 Better integrate sustainability in ratings and market research
- 7 Clarify institutional **investors'** and asset managers' **duties**
- 8 Incorporate sustainability in **prudential requirements**

Foster transparency & long-termism

- 9 Strengthen corporate **sustainability disclosure**
- 10 ↑ sustainable **corporate governance** and ↓ short-termism

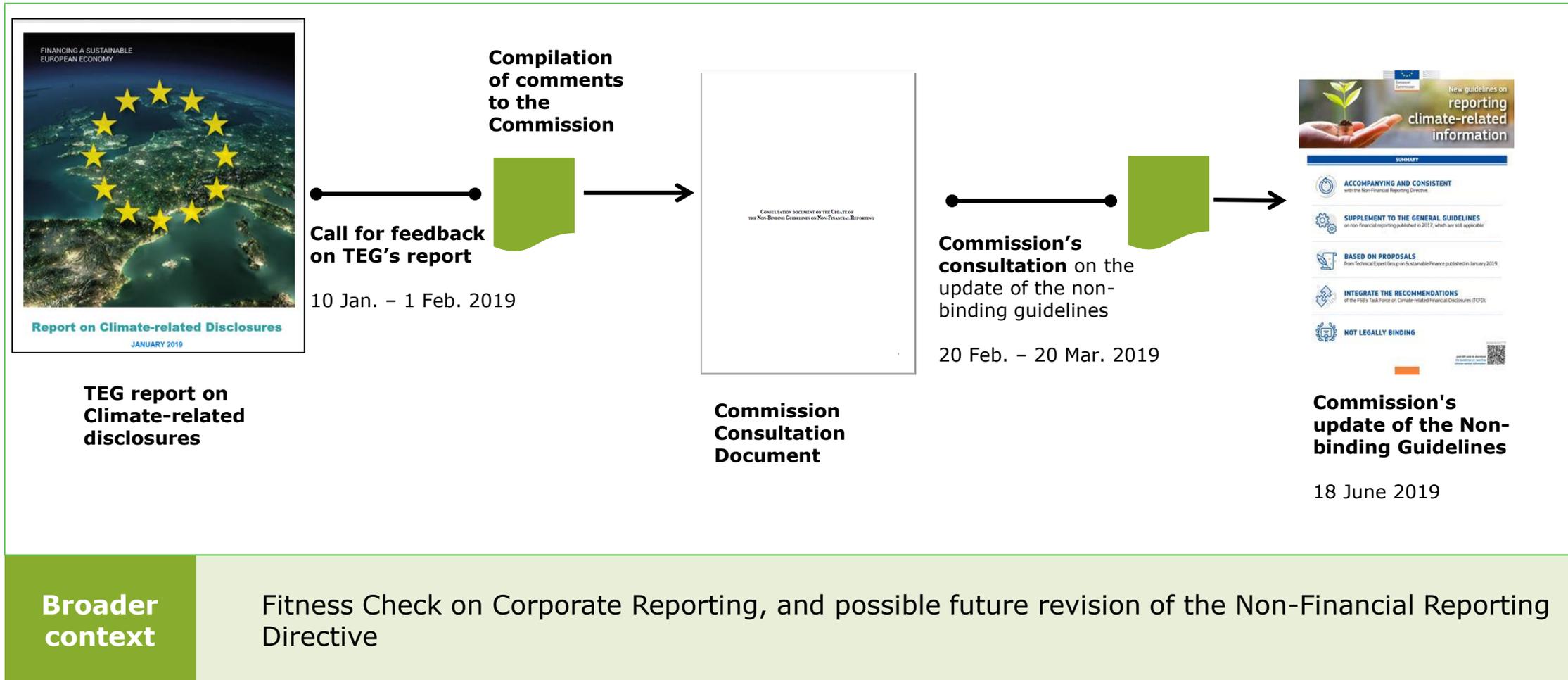
Key actions of the EU Commission



Action	Objective	Legislation Level 1 (framework)	Technical advice	Legislation Level 2 (detailed technical criteria)
1 Taxonomy	Develop an EU common language on environmentally sustainable economic activities	<i>Status:</i> under negotiation ✓	Technical Expert Group (TEG) ✓	Pending the negotiation of level 1
2 Standards and labels	Develop EU standards (such as EU Green Bond Standard) and labels for sustainable financial products (via Ecolabel) to protect integrity and trust of sustainable finance market	To be considered/assessed	TEG: EU Green Bond Standard; JRC: ecolabel for financial products ✓	To be considered/assessed
4 Disclosures by financial market participants	Enhance transparency to end-investors on how financial market participants consider sustainability	<i>Status:</i> approved ✓	European supervisory authorities ✓	Delegated act published
5 Benchmarks	Develop climate benchmarks and ESG disclosures for benchmarks	<i>Status:</i> approved ✓	TEG ✓	COM drafting secondary legislation based on TEG advice
8 Sustainability in prudential requirements	Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective)	Pending the result of technical assessment	EBA and EIOPA ✓	Pending the result of technical assessment
9 Corporate sustainability disclosure	Enhance climate and sustainability-related information provided by corporations	Depending on the result of the ongoing fitness check, possible amendment of the non-financial reporting directive*	TEG (climate-related information) COM fitness check on corporate reporting ✓	Pending the result of technical assessment

* The Commission issued guidelines on reporting climate-related information in June 2019

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



International Platform on Sustainable Finance (IPSF)

EU launched an International Platform on Sustainable Finance in October 2019 together with major like-minded jurisdictions worldwide

The IPSF will deepen international coordination on approaches and initiatives that are fundamental for private investors to identify and seize environmentally sustainable investment opportunities globally



Objectives

- Scale up mobilisation of global private capital towards environmentally sustainable investments
- Avoid market fragmentation and allow markets to operate globally



Mandate

- Exchange and disseminate information to **promote best practices** in sustainable finance
- Compare the different initiatives and identify **barriers and opportunities** to help scale up environmentally sustainable finance internationally
- Respecting national and regional contexts, enhance international coordination where appropriate

Main focus

- **Green taxonomies** (i.e. classification of sustainable economic activities)
- **Green financial product standards and labels** to provide more confidence to investors and
- **Disclosures of sustainability-related information**

Members & observers of the IPSF



IPSF complements

- the Network of central banks and supervisors for Greening the Financial System (NGFS)
- the Coalition of Finance Ministers for Climate Action

Public authorities of different jurisdictions have decided to cooperate and coordinate their efforts on:

- supervision and prudential practices
- public finance, macro-economic and fiscal policies
- approaches and initiatives (including regulatory tools) for capital markets

Observers: Coalition of Finance Ministers, EBRD, EIB, IOSCO, NGFS, OECD, and UNEP-FI

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Context

Currently...

- **EU Commission proposal May 2018 ('Level 1' regulation):** still in negotiation between Council and European Parliament (trilogues)

Meanwhile...

- **Technical Expert Group (TEG) established June 2018:** develop proposed technical screening criteria (for adoption as 'level 2' legislation) for 2 of the 6 environmental objectives:
 - Climate mitigation
 - Climate adaptation

Once the 'Level 1' Taxonomy Regulation is agreed and adopted...

- **Platform on Sustainable Finance:** criteria for the other 4 environmental objectives (and DNSH criteria for any new 'activities' not already addressed)

1 Commission proposal for EU Taxonomy Regulation

Objective

Provide a classification tool to help investors and companies to make informed investment decisions on environmentally sustainable activities for the purpose of determining the degree of sustainability of an investment

We need a taxonomy that is robust, science-based, and ambitious, in line with our shared environmental objectives, including going towards climate neutrality in line with the Paris agreement

What is it?

A list of economic activities that are environmentally sustainable. To be included in the Taxonomy, an economic activity must meet the following criteria:

substantially contribute to 1 of the 6 objectives

+ Do not significantly harm any of the other 5 obj.

+ Minimum social* safeguards

6 environmental objectives

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use & protection of water
4. Circular economy, waste prevent & recycling
5. Pollution prevention and control
6. Protection of healthy ecosystems

* Observe International Labour Organisation (ILO) core labour conventions

Use: is it obligatory ?

- Obligatory disclosures for institutional investors and asset managers marketing investment products as 'green'
- EU Member States are required to use the EU Taxonomy when creating public labelling schemes for 'green' investment products and corporate bonds

Further voluntary use by a range of actors

What is it not?

- A rating of good or bad companies
- A mandatory list to invest in
- Making a judgement on the financial performance of an investment
- Inflexible or static

Taxonomy Regulation (Level 1) – update on negotiations

Commission proposal

24 May 2018

European Parliament:

- No “brown” nor “social taxonomy”, but
 - by end of 2021, COM to conduct impact assessments on 1) defining criteria for *activities with a negative impact on sustainability and 2) social objectives*
 - minimum social safeguards (Art. 13) strengthened
 - excluding power generation activities that utilise solid fossil fuels, produce non-renewable waste, or contribute to carbon intensive lock-in effects
- Enlarged scope to cover all financial market participants (incl. banks)
- Enlarged composition and additional tasks for the Platform on Sustainable Finance
- Use harmonised indicators that measure environmental impact based on LCA
- Explicit inclusion of transition activities
- ENVI/ECON Committee re-confirmed 1st Reading position on 21 Oct 2019

Council

- ‘General Approach’ agreed on 25 September 2019. Key aspects: Delegated Acts vs Implementing Acts for the criteria, the issue of exclusions (e.g. nuclear? Gas?), timing (when the Regulation and technical screening criteria would come into force).

Trilogue Negotiations

- Finnish Presidency: Trilogue negotiations commencing 23 October 2019 with a view to achieving political agreement by end-2019

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2.1

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 stakeholder feedback (July – mid-Sept 2019): finalised proposals by the TEG for the Technical Screening Criteria for 2 of the 6 environmental objectives (Climate Mitigation and Climate Adaptation) are due in December 2019.

The TEG report on taxonomy – June 2019

TEG

Composed of 35 experts from civil society, academia, business and the finance sector, as well as 10 additional members and observers from EU and international public bodies



- All assessments made by TEG were based on scientific evidence, literature and international practice
- TEG report initial focus is on climate change mitigation and adaption

7 Sectors
67 activities

- highest-emitting macro sectors (represent 93.2% of GHG emissions in the EU)



	Agriculture and forestry
	Manufacturing
	Electricity, gas, steam and air conditioning supply
	Water, sewerage, waste and remediation
	Transport
	Information and Communication Technologies (ICT)
	Buildings

Screening criteria

- Substantial contribution to one environmental objective (for climate change mitigation → e.g. GHG emission thresholds)
- Do not significant harm to any of the other environmental objectives

The TEG report on taxonomy – June 2019

Characteristics	Type of activity	Criteria	Example
"Greening of"	Already low carbon (very low, zero or net negative emissions). Compatible with net zero carbon economy by 2050.	Likely to be stable and long term	Electricity generation from solar PV
	Contribute to a transition 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	Manufacturing of steel
"Greening by"	Activities that enable emissions reductions in either of the two previous categories.	Some likely to be stable and long term, some likely to be revised regularly	Manufacturing of wind turbines

Activities that undermine mitigation objectives are not included.

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 ₂	Inland freight water transport		
			Capture of anthropogenic emissions	Construction of water projects		
			Transport of CO ₂			
			Sequestration of captured CO ₂			

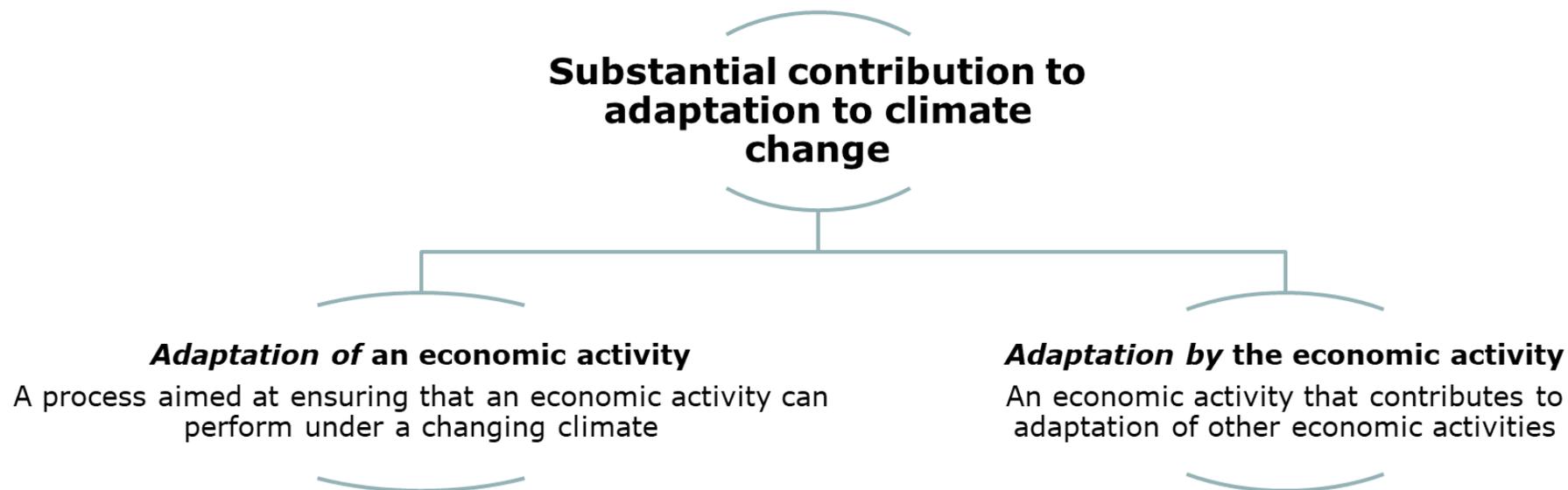
The 'activities' selected by the TEG for which to develop criteria

+ adaptation activities !!

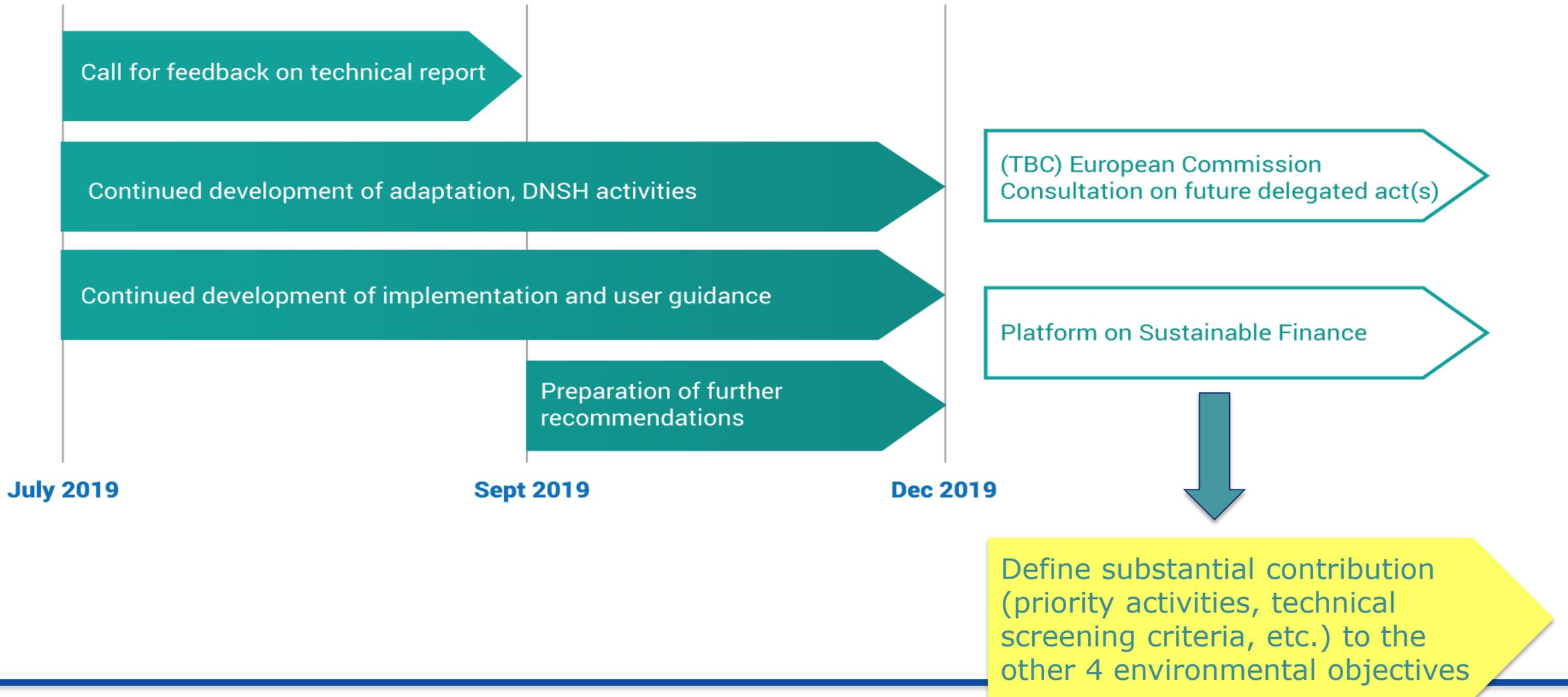
The TEG report on taxonomy – June 2019

Methodology for evaluating substantial contribution to climate change adaptation

- **Principle 1:** The economic activity reduces all material physical climate risks to the extent possible and on a best effort basis.
- **Principle 2:** The economic activity does not adversely affect adaptation efforts by others.
- **Principle 3:** The economic activity has adaptation-related outcomes that can be defined and measured using adequate indicators.



TEG Timeline





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>