

# **Incorporating Sustainability into the EU Banking Regulation Framework: Some Statistical Issues**

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# Agenda

- 1 Background
- 2 The EU Sustainable Finance Taxonomy
- 3 The EU Sustainable Finance Taxonomy: Statistical Issues
- 4 Integrated European Environmental Economic Accounts (for air emissions)
- 5 Conclusions
- 6 Discussion theme

- The ultimate goal is to reach the EU 2030 climate and energy targets, with climate change mitigation being the most important means to that end.
- Climate change risks may materialise over a longer time horizon than is currently commonly used; as a consequence, these discounted (huge) risks may not yet be fully priced in when taking today's investment decisions and some nudging of these decisions may be required, e.g. through the EU banking regulation framework.
- However, if one wants to integrate sustainability into the EU banking regulation framework, the concept of sustainability must first be operationalised, while keeping the ultimate goal in mind.
- For that purpose, the EU Commission has submitted a *Proposal for a Regulation on the establishment of a framework to facilitate sustainable investment*, in short the EU sustainable finance taxonomy.

- The taxonomy “establishes the criteria for determining *whether* an *economic activity* is environmentally sustainable for the purposes of establishing the degree of environmental sustainability of an *investment*” (my emphases added).
- For this purpose, economic activities are grouped by the economy- and EU-wide, legally established, NACE industrial classification system (615 categories), supplemented by some categories to enable a full evaluation of compliance with environmental objectives.
- Eurostat has also published an indicative compendium of environmental economic activities and environmental products, also to establish the Environmental Goods and Service Sector by EU Member State; it is intended to link this compendium to the taxonomy.

## The EU sustainable finance taxonomy: statistical issues (I)

- In addition to the screening criteria, the taxonomy requires comprehensive and timely greenhouse gas emission data per establishment, at least those belonging to a listed corporation or to another company wishing to acquire funds for an investment to be qualified as environmentally sustainable.
- At present, lack of standardisation, comprehensiveness and timeliness in reporting still presents major challenges to investors.
- Investment according to the Draft Taxonomy Regulation refers to the acquisition of financial assets (equity, bonds) issued by *corporations* that may undertake *a range of economic activities* (NACE codes), some of which may qualify as environmentally sustainable and others may not (although for bonds there could be specific issuances earmarked for a sustainable activity).

## The EU sustainable finance taxonomy: statistical issues (II)

- All this appears to call for a regular, comprehensive, timely and mandatory basic data collection, by expanding existing data collections, e.g. European Pollutant Release and Transfer Register (E-PRTR), Long-Range Transboundary Air Pollution (LRTAP), ideally using the same units and classifications (NACE) as are used for economic statistics.
- Unfortunately, there doesn't exist a comprehensive European Business Register, even though there is an EU Regulation establishing a common framework for national business registers.
- National registers should contain both the economic activity (NACE), the institutional sector code, legal form and information on control and ownership relations: parent/subsidiary legal unit, minority shareholder information, country of global decision centre. Yet, not all characteristics are recorded for each unit, and quality, completeness and comparability are not checked at European level.

## Integrated European Environmental Economic Accounts (for air emissions) (I)

- Since 2014, annual European Environmental Economic Accounts (EEEAs) on air emissions and material flows have become available per EU-country, broken down by 2-digit NACE code (64 industries), plus household air emissions, and in 2017 these accounts were extended with physical energy flows. These accounts are consistent with the national economic accounts (e.g. including global emissions by resident airlines and consumption emissions).
- The original version (called NAMEA) included input-output tables (or supply and use tables) and served to compute total Scope 1, 2 and 3 emissions per unit of final demand for the output of each economic activity, incl. emissions caused by producing inputs used.
- EEEA/NAMEA allow for an analysis of the interactions between the economy and the environment at meso-level; cf. computing air emission footprints, as well as the environmental goods and service sector's share of GDP and employment. They also enable identifying the costs of protecting the environment and who pays it.

## Integrated European Environmental Economic Accounts (for air emissions) (II)

- These EEEAs have a legal basis (Regulation 691/2011 and 538/2014) and were recently (10/10/2019) subject to an Audit that recommended making these accounts more useful, in particular by improving:
  - the strategic framework, including an implementation action plan;
  - the relevance of the modules (e.g. by integrating the different modules); and
  - the timeliness of the data (currently mandatory time lag of 2 years)
- Further elaboration would be useful, for a range of purposes, but may require some additional funding for Eurostat and the EU National Statistical Institutes.

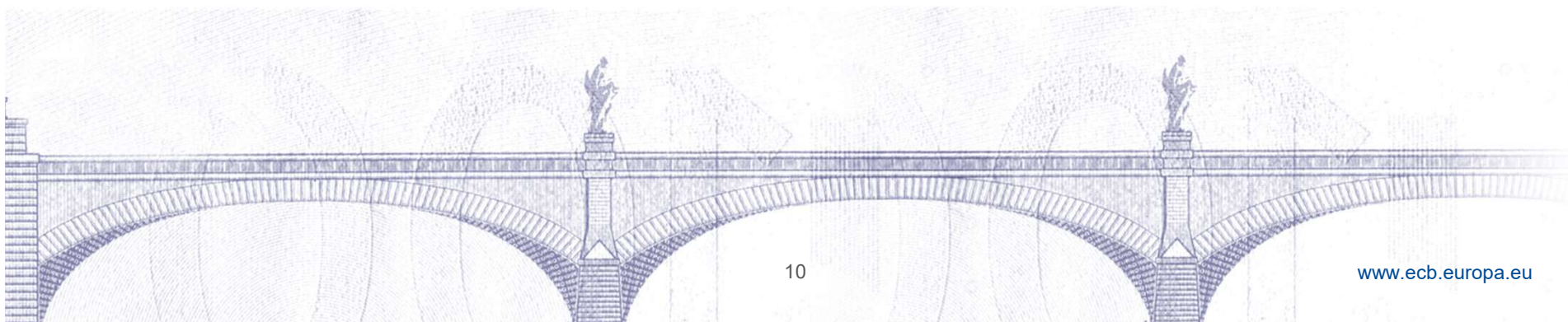
## Conclusions

- The usage of both the taxonomy and the Integrated European Environmental Economic Accounts (for air emissions) would be much served by a regular, comprehensive, timely and mandatory basic data collection), ideally using the same units and classifications (NACE) as are used for economic statistics.
- Total Scope 1, 2 and 3 emissions per unit of final demand for the output of each economic activity, i.e. incl. the emissions caused by producing all inputs used, can be computed from the Integrated Environmental Economic Accounts compiled by the Member States under the guidance of Eurostat.
- This would not obviate the need for private data providers, which could focus on data analysis and developing rating systems and low-carbon benchmarks. The aim would be that the political debate would focus on policy measures and not be hindered by serious doubts about the underlying data (cf. what has been achieved with the debate about (dis)inflation).

# **Thank you for your attention**

**For further information or questions**

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## The EU sustainable finance taxonomy: discussion theme

- Whereas this draft Regulation is undoubtedly a great achievement, the following may provide some food for thought:
  - It is a **binary** classification; an activity is either environmentally sustainable or it isn't, implying that:
    - a) An investment that would not qualify as environmentally sustainable investment according to the Regulation might still lead to a substantial reduction of greenhouse gas emissions, bringing the EU closer to its targets;
    - b) no difference would be made among either investments considered as environmentally sustainable or investments considered as environmentally unsustainable, even though their environmental impacts may vary.