



EU Commission update

Renewed Sustainable Finance Strategy in the context of Green, Just and Resilient Recovery

Summer School on Sustainable Finance

2 September 2020

Action plan on financing sustainable growth

The Action Plan 2018 stretches across the whole investment chain

| | | | | | |
|---|---|---|----|---|--|
| 1 | Taxonomy   | Develop an EU classification system for environmentally sustainable economic activities | 6 | Sustainability in research and ratings | Explore how credit rating agencies could more explicitly integrate sustainability in to their assessments. Study on sustainability ratings and research and exploring possible measures to encourage their uptake. |
| 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 | 7 | Disclosures by financial market participants  | Enhance transparency to end-investors on how financial market participants consider sustainability |
| 3 | Fostering investment in sustainable projects | Exploring measures to improve the efficiency and impact of instruments aiming at investment support. Mapping on investment gaps and financing. | 8 | Sustainability in prudential requirements | Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective) |
| 4 | Incorporating sustainability in financial advice  | Amend MiFID II and IDD delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment. | 9 | Strengthening sustainability disclosures by corporates  | Enhance climate and sustainability-related information provided by corporations |
| 5 | Developing sustainability benchmarks   | Develop climate benchmarks and ESG disclosures for benchmarks | 10 | Fostering sustainable corporate governance & promoting long-termism | Collect evidence of undue short-term pressures from capital markets on corporations and consider steps for promoting corporate governance that is more conducive to sustainable investments. |

EU Taxonomy Overview – What is it and what is it not

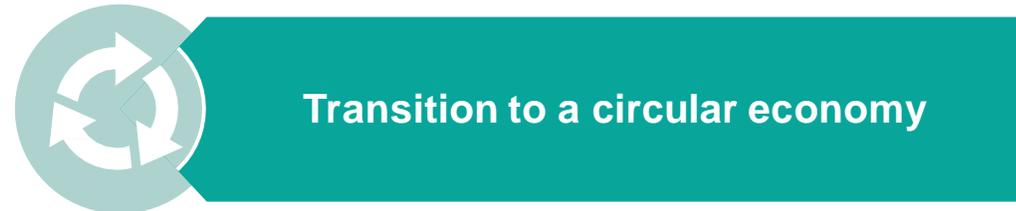
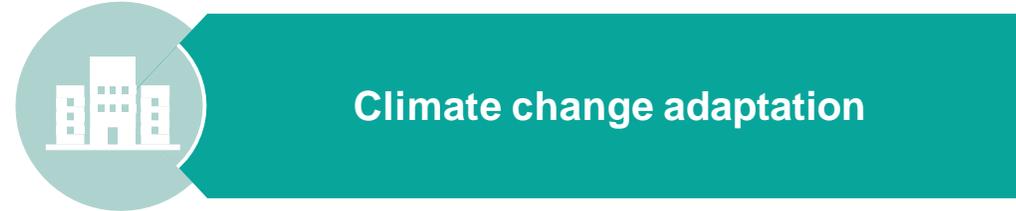
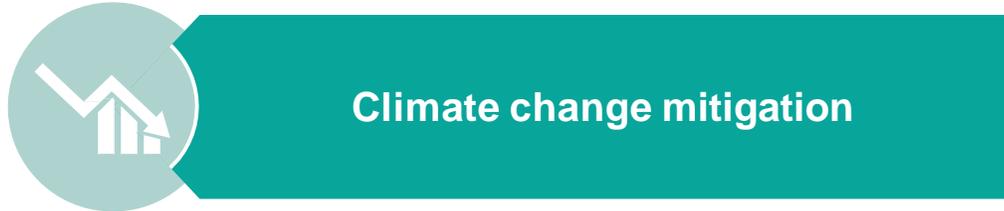
Objective – what is the Taxonomy

- ✓ A classification system to establish clear definitions of what is an environmentally sustainable economic activity
- ✓ 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
- ✓ Reflecting technological and policy developments: The Taxonomy will be updated regularly
- ✓ **Facilitating transition of polluting sectors**
- ✓ Technology neutral
- ✓ Fostering Transparency by disclosures for financial market participants and large companies related to the Taxonomy

What is the Taxonomy not?

- ✗ It's not a mandatory list to invest in
- ✗ It's not a rating of the “greenness” of companies
- ✗ It does not make any judgement on the financial performance of an investment
- ✗ What's not green is not necessarily brown. Activities that are not on the list, are not necessarily polluting activities. The focus is simply on activities that contribute substantially to environmental objectives.

Taxonomy Regulation – 6 environmental objectives



Taxonomy Regulation – four basic conditions

(a) **Substantially contribute** to at least one of the six environmental objectives as defined in the Taxonomy Regulation

+

(b) **Do no significant harm** to any of the other five environmental objectives as defined in the Taxonomy Regulation

+

(c) Comply with **minimum safeguards**

(d) Comply with quantitative or qualitative **Technical Screening Criteria**

The TEG final report on taxonomy – March 2020

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 deals with activities substantially contributing to climate change mitigation and adaptation

7 macro-sectors,
70 activities

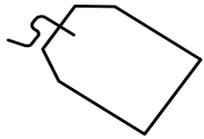
- highest-emitting macro sectors (represent 93.2% of GHG emissions in the EU)

Screening criteria

- Substantial contribution to one environmental objective (for climate change mitigation → e.g. GHG emission thresholds)
- Do no significant harm to any of the other environmental objectives

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

Taxonomy – a very useful tool for companies and investors



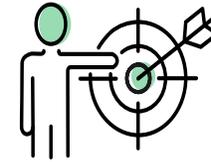
A “dictionary-style” tool

Provides clarity on what is an environmentally sustainable activity and under which circumstances.



A measuring tool

Measures the degree of sustainability of an investment and the degree of green activities of companies

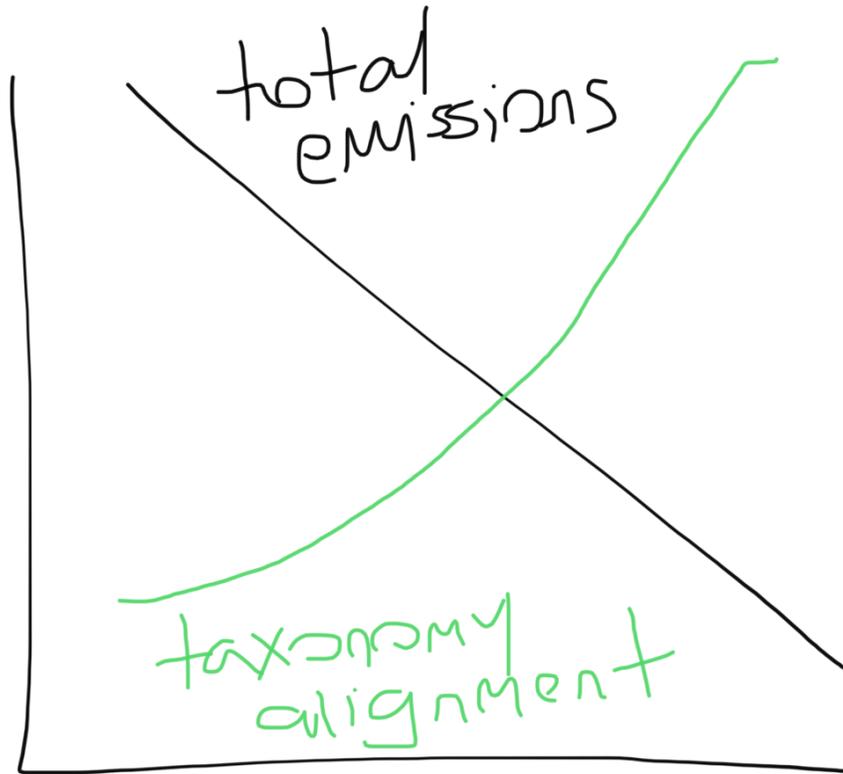


A transition tool

Helps investors and companies to plan and report on the transition. It sets the objectives and the direction of travel for different economic activities.

Ultimately, it helps raise the needed investments to build a net zero, resilient and environmentally sustainable economy.

Paris alignment



Source: PRI – Principles for Responsible Investment

Platform on Sustainable Finance

Advise the Commission on the technical screening criteria for the EU Taxonomy, including on the usability

Advise the Commission on the review of the Taxonomy Regulation and on covering other sustainability objectives, incl. social objectives and activities that significantly harm the environment

Monitor and report on capital flows towards sustainable investments

Advise the Commission on sustainable finance policy more broadly

Call for applications ongoing – deadline for applications: 16 July 2020

EU Green Bond Standard

Main principles

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

Recommendations establishing the standard

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
- (4) **Verification by accredited verifiers**

EU Climate benchmarks

EU Climate Transition Benchmarks

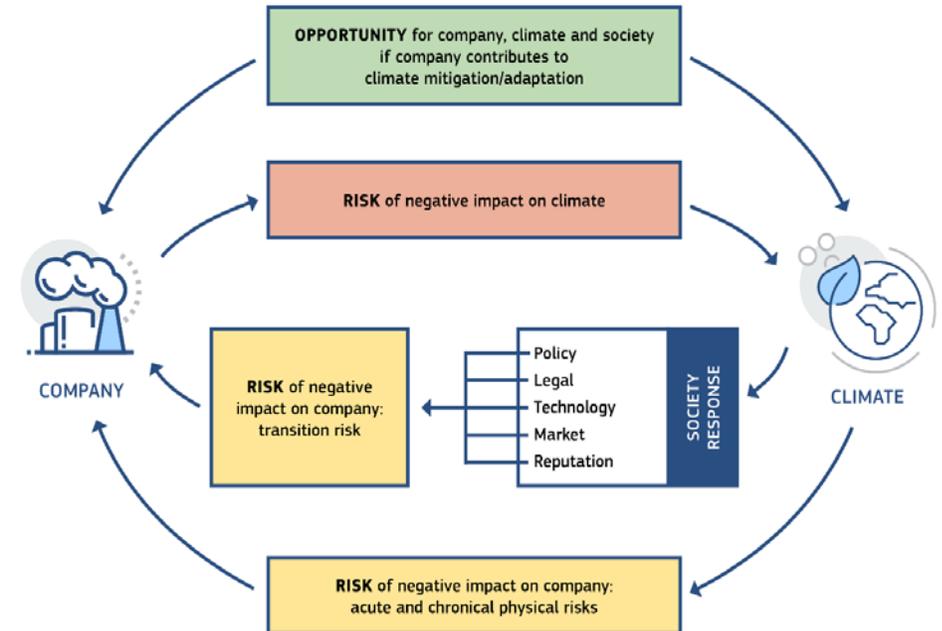
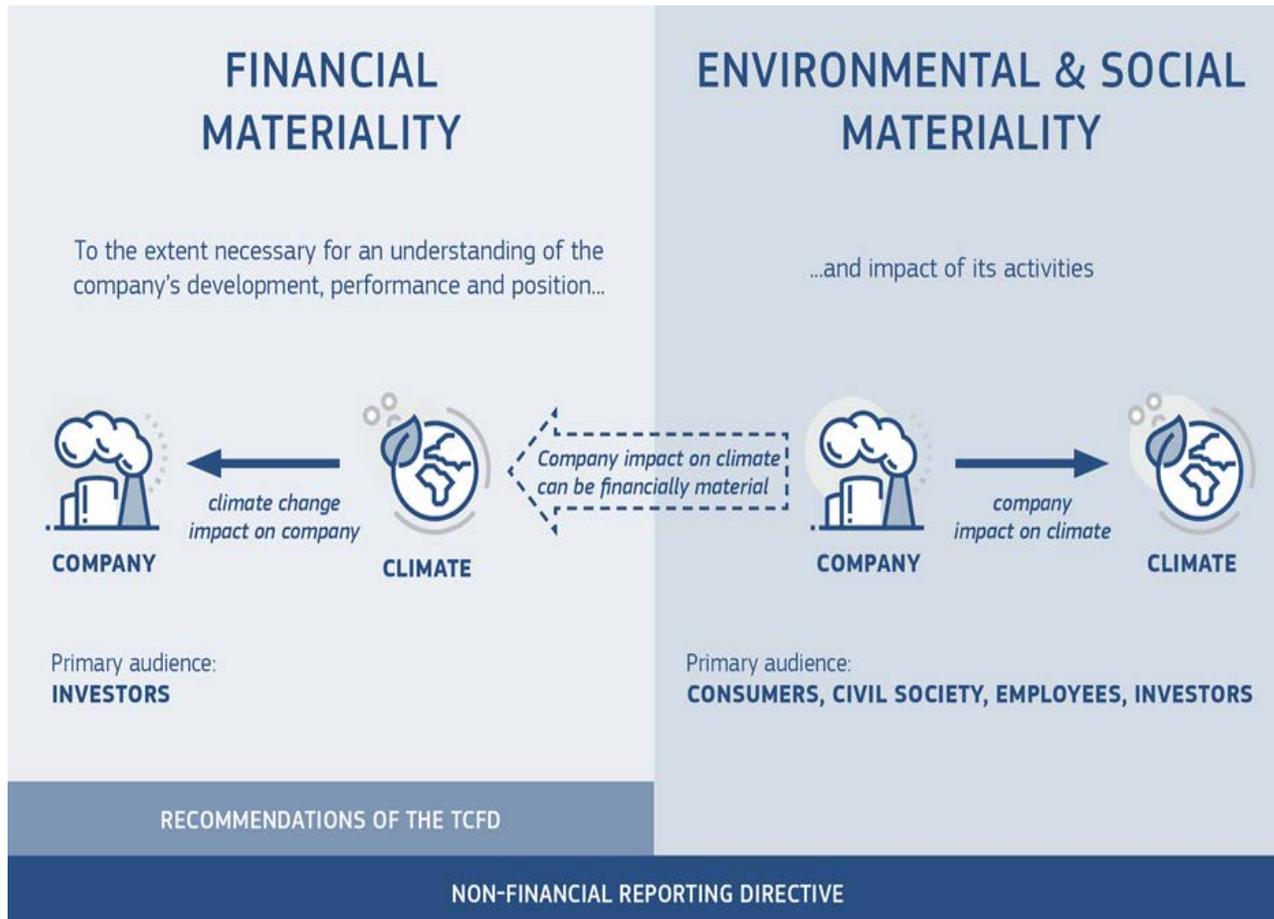
The EU Climate transition benchmarks brings the resulting benchmark portfolio on a **de-carbonisation trajectory**, meaning a **measurable, science-based and time-bound trajectory to reduce carbon emissions**.

EU Paris-aligned Benchmarks

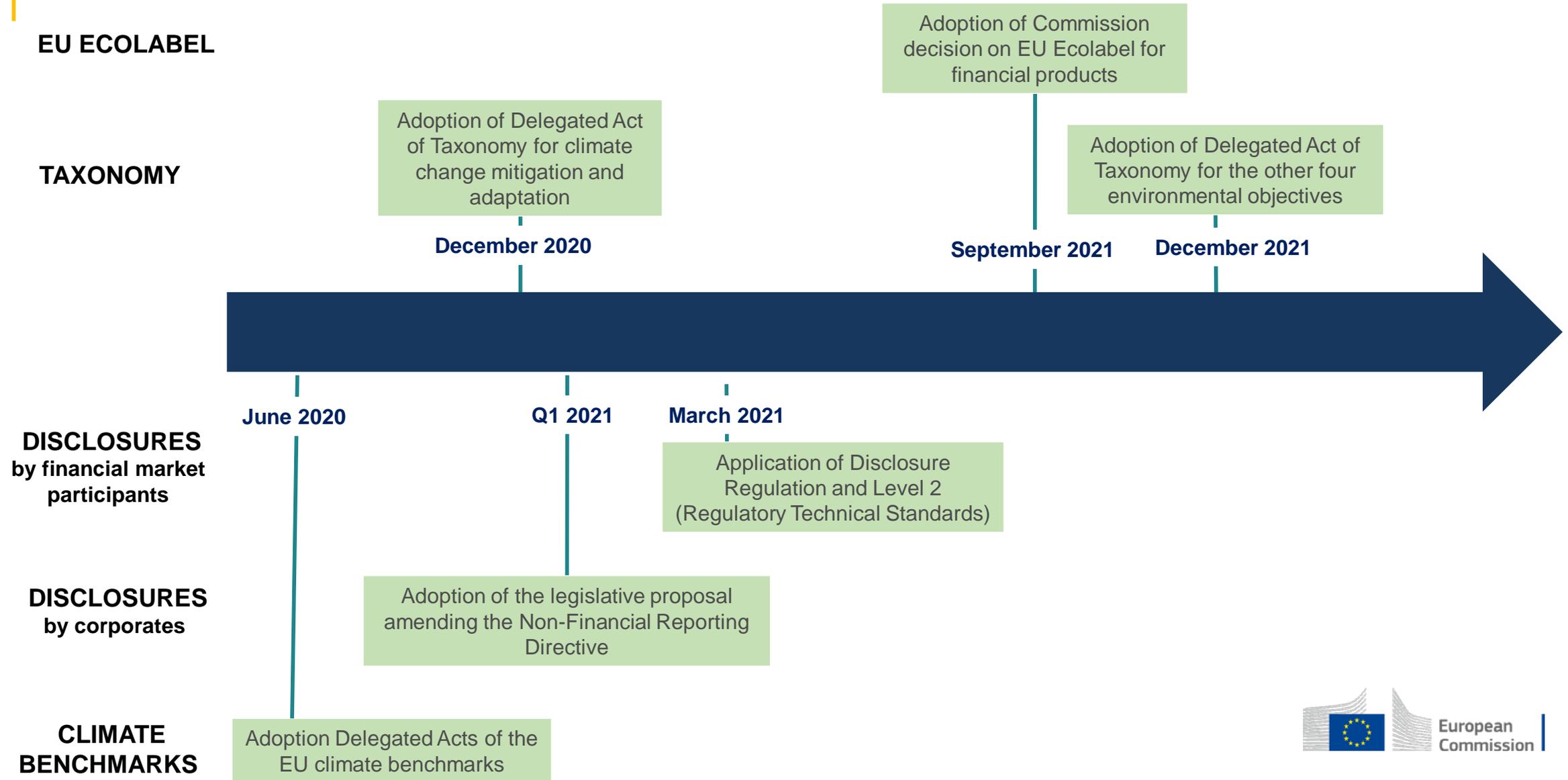
The EU Paris-aligned Benchmarks brings the resulting benchmark portfolio's carbon emissions **in line with the Paris Climate Agreement goal to limit the global temperature to 1.5°** compared to pre-industrial levels.

Corporate reporting - double materiality

Two important perspectives are considered in COM work on corporate disclosures...



Timeline of key actions of the Action Plan



The European Green Deal

Increasing the EU's Climate ambition for 2030 and 2050

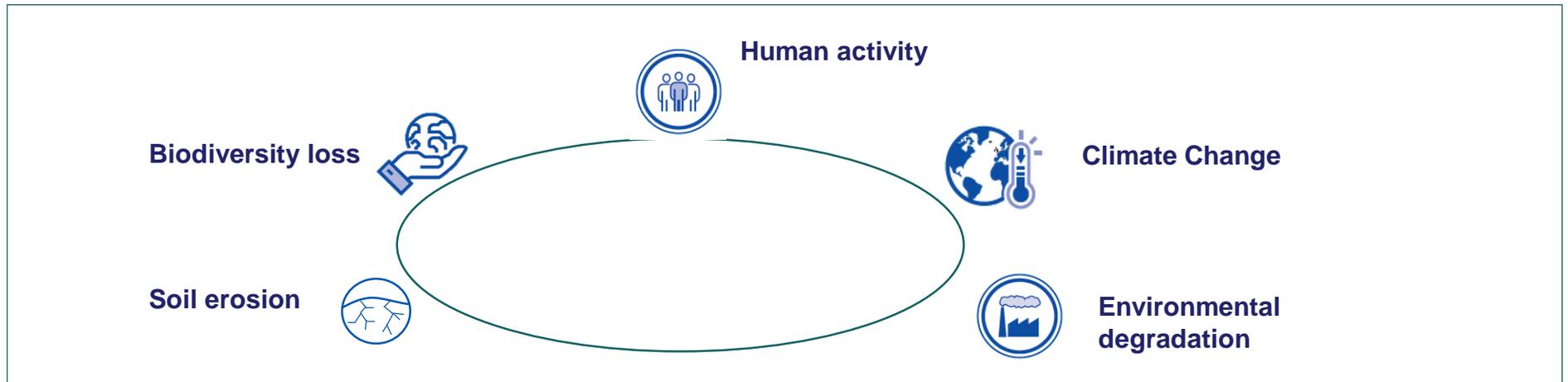
- European '**Climate Law**' enshrining the 2050 climate neutrality objective in legislation
- Comprehensive plan to **increase the EU's climate target for 2030** to at least 50% and towards 55% in a responsible way by October 2020
- **A European Climate Pact**
- **Review and revise where needed all relevant legislative measures to deliver on this increased ambition** by June 2021
- Proposal for a **revision of the Energy Taxation Directive** by June 2021
- **Carbon border adjustment mechanism** for selected sectors by 2021
- A new **EU Strategy on Adaptation** in 2020/2021
- **The Renewed Sustainable Finance Strategy**

Designing a set
of deeply
transformative
policies

The need for a Green Recovery

COVID-19 revealed the insufficient integration of sustainability considerations in our economic systems

The crisis underscores the links between human activity and multiple ecological crises we face



A Green Recovery is indispensable

- **Up until now, governments have focused on emergency plans** to cope with the most immediate consequences of the crisis.
- In the recovery phase, the focus will shift **to preventing massive disruption related to the consequences of climate change and to benefit from the economic and job opportunities.**

The EU Green Deal as motor for the recovery



There is **no trade-off between incentivizing a speedy economic recovery and supporting the sustainability transition**, especially given that our 2050 deadline for climate-neutrality cannot be postponed. On the contrary, the sustainability transition is **a source of economic and job opportunities**.

Sustainable Finance and the Renewed Strategy will play a key role in the EU recovery

A more sustainable financial system means **economies and societies will be more resilient** toward climate and environmental risks

The EU sustainable finance taxonomy will guide investment in Europe's recovery to ensure they are in line with our long-term ambitions.

The EU recovery package adopted on 27 May 2020

The new recovery instrument 'Next Generation EU' (€750bn) and Commission budget for 2021-2027 (€1,100bn) will:

Support Member States with investments and reforms

- *A new Recovery and Resilience Facility of €560bn*
- *€55bn top-up of current cohesion policy programs through REACT-EU*
- *Just Transition Fund of up to €40bn*
- *European Agricultural Fund for Rural Development of €15bn*

Kick-start EU economy by incentivising private investments

- *Solvency Support Instrument of €31bn*
- *InvestEU of €15.3bn*
- *Strategic Investment Facility of up to €150bn*

Address the lessons of the crisis

- *EU4Health programme of €9.4bn*
- *€2bn reinforcement of rescEU*
- *Horizon Europe fund of €94.4bn*
- *Support for Europe's global partners through additional €16.5bn*
- *Strengthening of other EU programmes*

From Action Plan to Renewed Strategy

Action Plan on Financing Sustainable Growth



Renewed Sustainable Finance Strategy

Building on the 2018 Action Plan, the current context requires a more ambitious and comprehensive strategy



As the **EU moves towards climate-neutrality and steps up its fight against environmental degradation**, the financial and industrial sectors will have to undergo a large-scale transformation. Although the financial sector has already made considerable progress, its **transition is not fast enough to achieve the climate targets of 2030 and 2050**.



The 2018 Action Plan addressed the needs that were identified in the financial sector. The **Renewed Strategy will shift the focus to the real economy and corporates, as well as to public authorities and citizens** to give everyone the necessary tools to transition from brown to green.



The **COVID-19** pandemic has shown the critical **need to strengthen the sustainability and resilience** of our societies and the ways in which our economies function. In the next years, a more sustainable financial system will be essential to ensure a **green recovery** from the crisis and support the prevention of other pandemics in the future.

Overview of the Renewed Sustainable Finance Strategy

Targeted stakeholder questionnaire – 4 sections

General questions

Overall ambition and pace of change in the financial sector to support the sustainability transition

1

Strengthen the foundations for sustainable investment

Improving and growing the existing toolkit for companies and investors that was laid out in the 2018 Action Plan on Sustainable Growth.

2

Increased opportunities for citizens, investors and companies

Maximising the impact of the frameworks and tools in our arsenal in order to 'finance green' as part of the EGD investment plan.

3

Fully managing climate and environmental risks

Measures to further contribute to 'greening finance'.

The renewed strategy will also aim to provide policy tools for the financial system to support a sustainable recovery from COVID-19

Strengthen the foundations for sustainable investment

Improving and growing the existing toolkit for companies and investors that was laid out in the 2018 Action Plan on Sustainable Growth.

Company reporting and transparency

Accounting standards and rules

Sustainability research and ratings

Definitions, standards and labels for sustainable financial assets and financial products

Capital markets infrastructure

Corporate governance, long-termism and investor engagement

Increased opportunities for citizens, investors and companies

Maximising the impact of the frameworks and tools to 'finance green' as part of the EGD investment plan

Mobilising retail investors and citizens

Better understanding the impact of sustainable finance on sustainability factors

Green securitisation

Digital sustainable finance

Project pipeline

Incentives to scale up sustainable investments

The use of sustainable finance tools and frameworks by public authorities

Promoting intra-EU cross-border sustainable investments

EU Investment Protection Framework

Promoting sustainable finance globally

Fully managing climate and environmental risks

Measures to further contribute to 'greening finance'

Identifying exposures to harmful activities and assets and dis-incentivising environmentally harmful investments

Financial stability risk

Credit rating agencies

Natural capital accounting or 'environmental footprint'

Improving resilience to adverse climate and environmental impacts

International Platform on Sustainable Finance



ARGENTINA



CANADA



CHILE



CHINA



EUROPEAN UNION



INDIA



INDONESIA



KENYA



MOROCCO



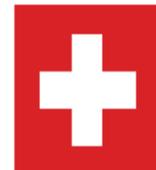
NEW ZEALAND



NORWAY



SINGAPORE



SWITZERLAND



50%
OF GLOBAL GHG EMISSIONS



45%
OF GLOBAL GDP



50%
OF WORLD POPULATION



Thank you

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