June 2018

European Financial Services Round Table

EFR PAPER ON THE EUROPEAN COMMISSION ACTION PLAN ON FINANCING SUSTAINABLE GROWTH

In the context of the European Commission's recently released Action Plan on financing sustainable growth[1], the European Financial Services Round Table (EFR) - a round table organisation of Chairmen and Chief Executives of Europe's leading banks and insurance companies – takes this opportunity to reiterate the importance of sustainable finance, strongly welcome the Commission's Action Plan, and provide insights into key areas.

Context

Europe needs an economy that can deliver growth and jobs for the long-term. This means making sure that current development is sustainable - meeting the needs of the present without compromising the ability of future generations to meet their own needs. However, Europe is currently facing a number of sustainability challenges, including climate change, depleting natural resources, poor air quality, youth unemployment and ageing populations. Tackling these challenges is important for the financial sector, the real economy and, most importantly, people. An unsustainable economy poses risks for financial institutions and their clients, including for example the risks of damage due to increasing extreme weather events and the risks to existing financial investments of assets that may be stranded by the energy transition.

Financial institutions will have to pursue, at the same time, both ambitious and realistic sustainability strategies. These should include concrete commitments to facilitate the transition to a low-carbon and resilient society. They should develop a strategy to identify clients and business opportunities that contribute to this and commit budget for investments to support sustainable projects.

In the last year, the EU has formed a number of initiatives to address these issues, notably the recommendations of the EU High Level Expert Group on sustainable finance in January 2018[2], feeding into in to the Commission's Action Plan in March 2018 and legislative proposals of May 2018.

[1] https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

[3] https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en

EFR view of the Action Plan

The EFR is supportive of the leadership shown by the EU in this area, and strongly welcomes the Commission Action Plan on financing sustainable growth.

The EFR believes that sustainable finance and climate change are important topics and it is essential that the UN Sustainable Development Goals (SDGs) and the commitments of the Paris Agreement on climate change are met. The financial sector has a key role to play in delivering a strong and viable economy, which is long-term and sustainable. For that, a robust and stable comprehensive framework that ensures financial stability, a common ground and credibility is needed. This will also need to provide an enabling and incentivising environment to support an early and predictable transition to a low-carbon economy, investment in green technologies and ensure that growth can be financed in a sustainable way. Sustainable finance is sometimes approached from the risk perspective, but it is important to stress that sustainable finance also offers opportunities, most certainly in accomplishing the investment and growth agenda.

In the context of our overall support for the Action Plan, we would therefore note the following:

1. Clarifying investor duties to integrate ESG issues and requiring more proactive transparency and consultation of clients throughout the investment chain on their ESG preferences is essential, and could significantly drive demand for sustainable investment.

2. The definition of a common language in the form of an EU taxonomy should help create liquid markets and work on such a taxonomy should be run by a public-private partnership, be consulted in an open and transparent way and include significant expertise on both sustainability and finance issues. Given the lack of a common definition and taking into account the international discussion on the necessity of "green finance" as well as proposals concerning disclosure of information concerning sustainable finance, it is important to establish certain parameters or guidelines, so that a correct assessment can be done whether "a green finance transaction" is indeed green. Such a taxonomy needs to be broad enough to allow for the inclusion of technologies and project types not existing as of today. In the financial sector, there are already various existing initiatives, such as the Green Bond Principles (GBP), and therefore it would be good to assess whether those can be used to build on. Furthermore, various strategies could already serve as parameters: national adaptation, mitigation and capital-raising strategies on climate change; European and national Climate Change strategies; European Energy Strategy. Also, some (public) information is already available to come to certain assessments, for instance: energy labels[3] (to enable customers to choose products that consume less energy and thereby save money); EU Ecolabel for Businesses[4]; EU Ecolabel for Consumers[5]; Environmental labels in the housing sector.

3. We welcome the Commission's reflection on the possibility of recalibrating capital charges for green assets. It is important that any reduction in the calibration must be based on a comprehensive and rigorous empirical analysis, consistent with the existing (financial) risk based prudential framework subject to further review. The introduction of prudential regulation of sustainability risk will need to consider, inter alia, a common classification for qualifying assets, the current challenges with modelling and stress testing climate-related risk and an assessment of the risk of unintended distorting consequences.

---

[3] http://europa.eu/youreurope/business/environment/energy-labels/index_en.htm
[4] http://ec.europa.eu/environment/ecolabel/eu-ecolabel-for-businesses.html
[5] http://ec.europa.eu/environment/ecolabel/eu-ecolabel-for-consumers.html.

4. The implementation of the Non-Financial Reporting Directive (NFRD) should be consistent with the recommendations of the FSB Task force on Climate-related Financial Disclosures (TCFD), while overlaps and inconsistencies should be avoided – it is important that all large companies disclose sustainability information in a comparable, consistent way.

5. In order to increase the supply of sustainable projects, the EU Multiannual Financial Framework could be more aligned with EU climate and energy goals and with the SDGs. Furthermore, national capital raising plans and project pipelines should be created to build a sustainable future including measures to ensure climate-change resilience.

6. The EU and its member states should do more to explore how to involve EU citizens in this work – only by educating people and communicating and about how the financial system works and influences the wider world will we be able to drive major demand for sustainable investment and rebuild trust in the financial system. We would have liked to see more measures on this (e.g. financial literacy, free company league tables) in the action plan, and hope the Commission will look to develop and support these in coming months, building on examples of good practice already seen in the industry in terms of social responsibility activities.

Next steps

The EFR looks forward to supporting the various legislative and non-legislative initiatives set out in the Commission's Action Plan. In particular, we would now encourage the EU and its Member States to look to drive similar action across the globe, as well as in the next steps for delivering the EU's climate change and SDG pledges.

The EU should look to make a contribution through:

1. The Commission can provide some common guiding principles directly to EU member states on aspects of incorporating sustainable finance considerations into national laws and rules, building on the recommendations of the High-Level Expert Group on Sustainable Finance. On going work to integrate the sustainability considerations into the mandates of EU regulators should be coordinated with international bodies including by clarifying fiduciary/ investor duty to include longer term factors.

2. The Commission should assess the ESA's Joint Committee Report on Risks and Vulnerabilities on the EU financial system, which was recently released and contains a chapter dedicated to climate change risks (to decide what is green and what is not).

3. The Commission should take into account the activities of the group of central banks and supervisors who announced at the One Planet Summit on 12 December 2017 in Paris, to collectively commit to establish a Network of Central Banks and Supervisors for Greening the Financial System. The Network will help to strengthen the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development.

4. The work of global associations such as the Institute of International Finance (IIF) should be considered especially on how sustainability and climate considerations can further be incorporated at the core of financial institutions' business activities.

5. Since climate and broader sustainability goals can only be met on a global level, it is important that both the Commission, Member States and the private sector collaborate with players such as G20, UN, OECD, FSB, and international supervisors and standard setters (e.g. Basel, International Association of Insurance Supervisors (IAIS), International Organisation of Securities Commissions (IOSCO), International Accounting Standards Board (IASB)).

   It is furthermore important to note that ISO and the national arms are working on two ISO standards, one on green bonds (14030) and one on climate and investing (14097). They address similar problems and intermediate steps like a green taxonomy.

6. Providing a stable, adequate, transparent, and reliable policy framework around investments is very important. This includes specific policies for certain sectors like infrastructure, of which (renewable) energy is part, but also general macroeconomic conditions like rule of law, grandfathering, economic and political stability and others.

7. Promoting the establishment of corporate sustainability benchmarks to measure company performance against the SDGs and improve standards over time.

8. Creating of a sustainable finance investment standard or benchmark at EU level aligned with international and MS domestic standards.

9. Improving levels of financial literacy – including with retail clients and investors but also increasing capacity and capability within standard setters, policy-making institutions and society at large.

The European Financial Services Round Table (EFR) was formed in 2001. The Members of EFR are Chairmen and Chief Executive Officers of international banks or insurers with headquarters in Europe. EFR Members believe that a fully integrated EU financial market, a Single Market with consistent rules and requirements, combined with a strong, stable and competitive European financial services industry will lead to increased choice and better value for all users of financial services across the Member States of the European Union. An open and integrated market reflecting the diversity of banking and insurance business models will support investment and growth, expanding the overall soundness and competitiveness of the European economy.

EFR – European Financial Services Round Table (asbl)
Rond Point Schuman 11 | B-1040 Brussels | Belgium | Tel: +32 2 256 75 23 | Fax: +32 2 256 75 70 | www.efr.be
Siège social: rue Royale 97 | B-1000 Bruxelles | Belgium | RPM BXL 0861.973.276