European Commission

The EU Sustainable Finance Framework

World Bank FinSac Conference – 18 May 2022

Delivering on the EU Green Deal

Investments + Reforms = Green transition of economy

- To deliver on the Green Deal, we need to increase the investments **every year** by, at least, around **EUR 520 billion** until 2030 (compared to the previous decade).
- Public support will not be enough. We need a strong Capital Markets Union to mobilise the flow of private money to support the green transition.
- Sustainable finance is a tool to increase private investments in sustainable projects. And the EU Taxonomy is the cornerstones of the EU sustainable finance framework.

The foundations of the EU sustainable finance framework

1. EU TAXONOMY

A common classification of economic activities substantially contributing to environmental objectives, using science-based criteria.

- Taxonomy Regulation: **adopted** on 18 June 2020

2. DISCLOSURES

Comprehensive disclosure regime for both non-financial and financial institutions to provide investors with the information necessary to make sustainable investment choices.

- Sustainable Finance Disclosure Regulation (SFDR) **applies** since March 2021
- Corporate Sustainibility Reporting Directive (CSRD) **proposed** by the Commission in April 2021
- Sustainability preferences: **adopted** by the Commission in April 2021

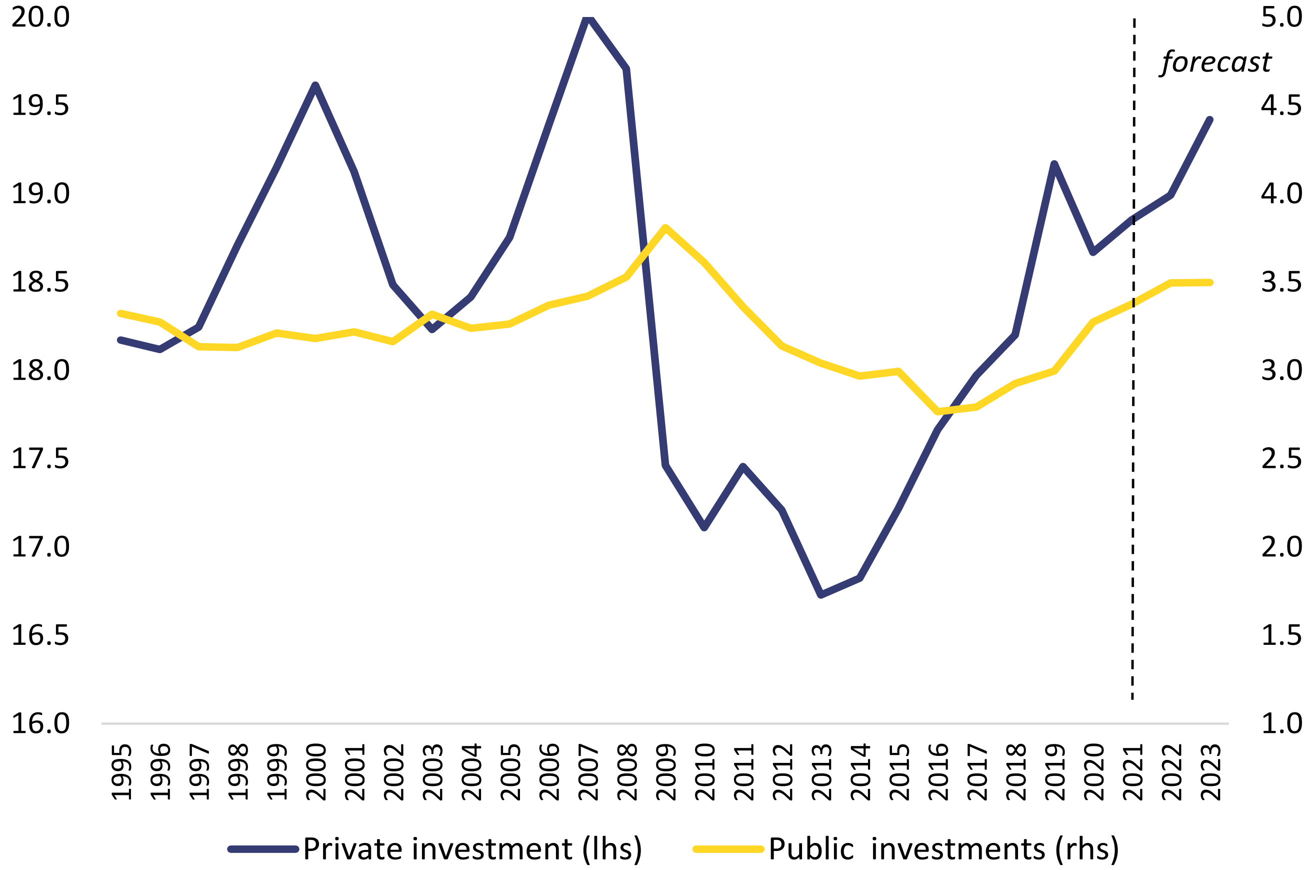
3. TOOLS

Broad toolbox for companies, market participants and financial intermediaries to develop sustainable investment solutions, while preventing green washing.

- EU Climate Benchmarks Regulation **applies** since April 2020
- Standard for European green bonds (EuGB), **proposed** by the Commission today

Investment trends in the EU (% of GDP)

Source: Commission services



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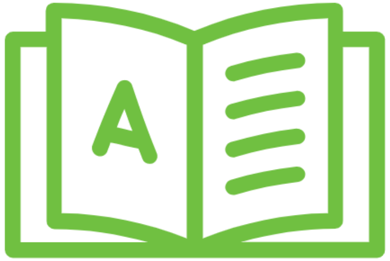
Taxonomy Regulation – defining sustainable



A classification system

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

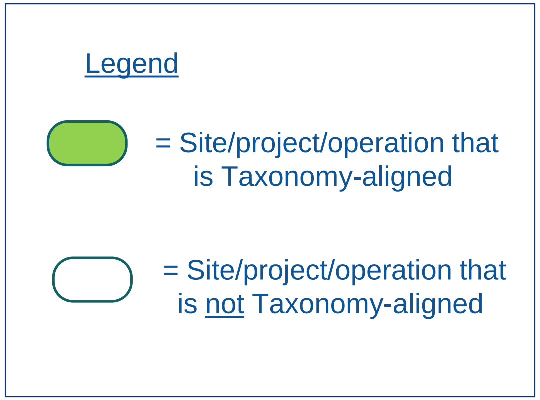
A transition tool

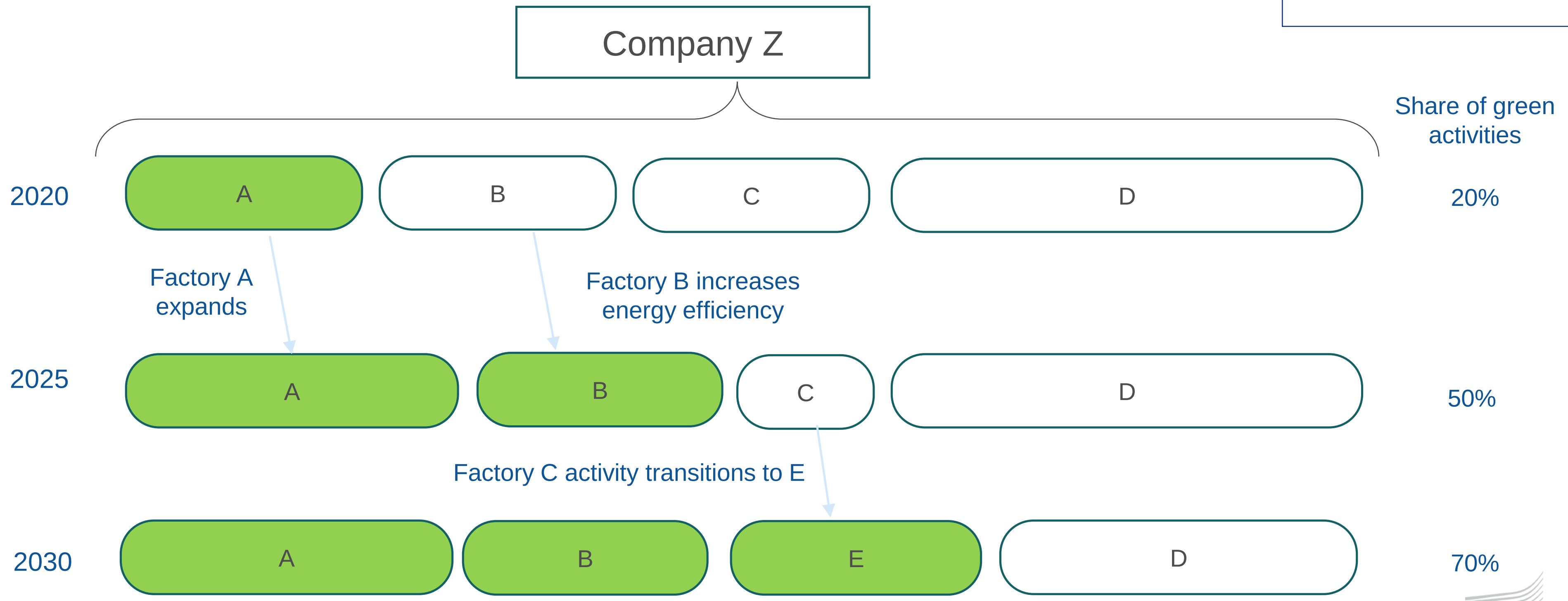
Helps investors and companies to plan and report on the transition. It sets the objectives and the direction of travel for different economic activities.

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

Transition tool - how does it help companies to transition?

- By defining green economic activities, not companies
- The Taxonomy enables companies to transition by gradually increasing their share of green activities





Source: Platform on Sustainable Finance

Proposal for a Corporate Sustainability Reporting Directive – CSRD (April)

Wider scope: all large & all listed companies

Mandatory EU sustainability reporting standards

Assurance (audit) requirement

- ✓ Coherence with EU sustainable finance legislation
- ✓ EU standards that meet EU needs – and build on and contribute to global standards
- ✓ Clarity and certainty for reporting companies
- ✓ Relevant, reliable, comparable information for investors and others
- ✓ Coherence with international initiatives

Proposal for **Regulation on European Green Bond Standard** (July)

Voluntary 'gold standard' based on concept of the Technical Expert Group on Sustainable Finance

Scope - Usable by all types of bond issuers (corporate, sovereign, etc.) worldwide = covers all types of bonds (corporate, sovereign, etc.); flexibility for sovereign issuers

Main requirement: Alignment with EU Taxonomy - Issuers must allocate 100% of the proceeds of the bond to finance Taxonomy-aligned economic activities, before maturity of the bond

Supporting the transition

- Issuers may issue European green bonds to fund projects aimed at becoming more Taxonomy-aligned
- 5-year grandfathering: if Taxonomy technical screening criteria are revised, unallocated bond proceeds can be allocated according to old criteria for five more years

Reporting requirements in line with market best practice

External review requirements in line with market best practice

Registration of external reviewers with ESMA - Role of ESMA: supervise, investigate complaints, impose fines or withdraw registration

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Updated EU sustainable finance strategy 2021

- **Complete the work started under the 2018 Action Plan on Financing Sustainable Growth**
- **An evolved context provides need for additional measures in four key areas**

FINANCING THE TRANSITION TO SUSTAINABILITY

This strategy provides the tools and policies to enable economic actors across the economy to finance their transition plans and to reach climate and broader environmental goals, whatever their starting point.

INCLUSIVENESS

This strategy caters for the needs of, and provides opportunities to individuals and small and medium companies to have greater access to sustainable finance.

FINANCIAL SECTOR RESILIENCE AND CONTRIBUTION

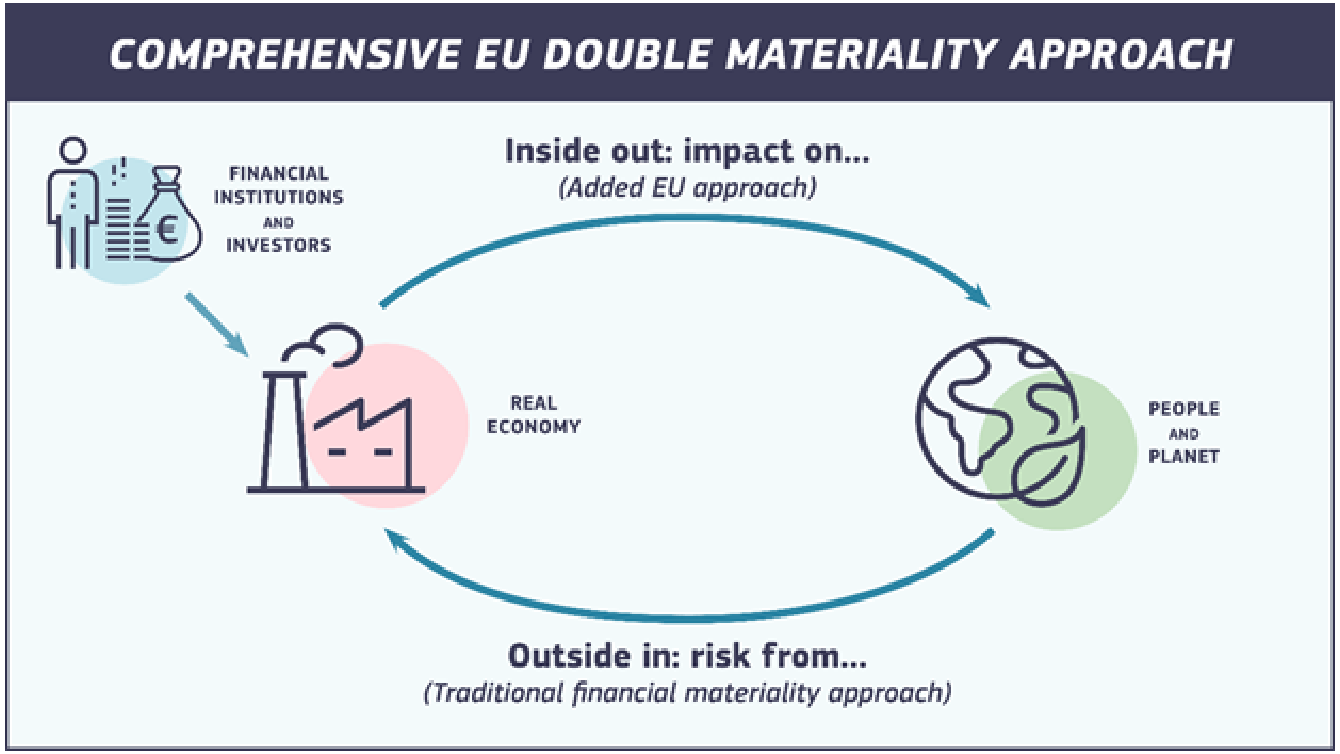
This strategy sets out how the financial sector itself can contribute to meet Green Deal targets, while also becoming more resilient and combatting greenwashing.

GLOBAL AMBITION

This strategy sets out how to promote an international consensus for an ambitious global sustainable finance agenda.

The EU double materiality approach

Improving the financial sector's resilience and contribution to sustainability: the double materiality perspective



The **double materiality** approach consists of the systematic integration of both financially material sustainability risks (outside-in) and sustainability impacts (inside-out) in financial decision-making processes.

Both angles of the materiality concept must be duly integrated for the financial sector to contribute pro-actively and fully to the success of the European Green Deal.

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Strengthening financial sector's resilience and contribution to sustainability

Action 3: Enhance economic and financial resilience to sustainability risks

Reflect sustainability risks in **financial reporting standards and accounting**

Identify and managing sustainability risks by **banks and insurers**

Manage sustainability risks at **system level**

Action 4: Increase the contribution of the financial sector to sustainability

Improve science-based target setting, disclosure and monitoring of the **financial sector's commitments**

Clarify the **fiduciary duties and stewardship rules** of investors to reflect sustainability impacts

Improve the availability, integrity and transparency of **ESG market research and ratings**

Action 5: Monitor an orderly transition and ensure the integrity of the EU financial system

Monitor **greenwashing risks** and assess and review the current supervisory and enforcement toolkit to address green-washing

Monitor an **orderly transition of the EU financial system** and develop a robust **monitoring framework** to measure capital flows and assist Member States in assessing the investment gap

International Platform on Sustainable Finance

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HONG KONG SAR | INDIA | INDONESIA | JAPAN | KENYA | MOROCCO

NEW ZEALAND | NORWAY | SENEGAL | SINGAPORE | SWITZERLAND | UNITED KINGDOM

55% OF GLOBAL GHG EMISSIONS

55% OF GLOBAL GDP

50% OF WORLD POPULATION

Observers

European Bank for Reconstruction and Development

European Investment Bank

EDFI European Development Finance Institutions

NGFS

UNEP

UNDP

IFRS

The Coalition of Finance Ministers for Climate Action

International Monetary Fund

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Thank you