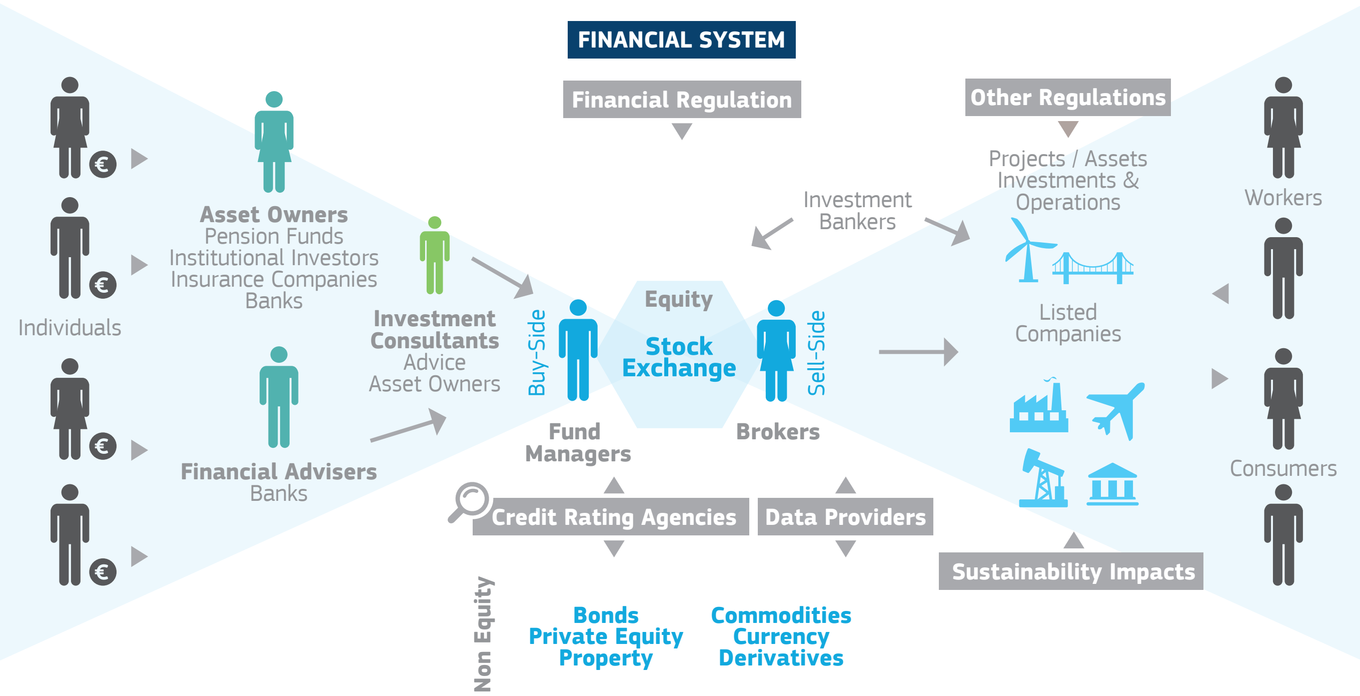
1.1 Putting the Financial Sector at the Service of the Climate

The Paris Agreement sends a clear signal to capital markets and investors, public and private, that the global transition to clean energy is here to stay. **The European Commission is committed to putting in place the necessary reforms to give the incentives to the financial sector to contribute to the green transition**. Shifting and rapidly scaling up private investment is essential to avoid the 'lock-in' of fossil fuels infrastructure and carbon intensive assets and to reach the Paris Agreement targets for 2030. The annual investment shortfall has been estimated at €179 billion, which is too high for the public sector to provide alone, so the private sector will need to fully play its part in this investment effort.

To attract enough private investment, we need to put in place the right conditions and incentives for investors to fund projects such as low-carbon and energy-efficient infrastructure. **By pioneering action through its Capital Markets Union, the EU will be at the forefront of the changes in the global finance industry**. We will create wide-ranging opportunities for investors, and help EU citizens who want to channel their savings towards more environmentally friendly and socially responsible companies and sectors. This will also help position Europe - and our financial sector - as the leading destination and source for investments in green technology development.

How your money is put to work

An overview of the multiple actors in the investment chain



Source: Aviva Investors, European Political Strategy Centre

What will the European Commission do next?

It is time to trigger behavioural change amongst all the actors in the finance value chain. In January, the European Commission's High Level Group on Sustainable Finance will present recommendations for a comprehensive programme of reforms to the EU financial policy framework, making the financial sector play its role by re-orienting investments towards more sustainable technologies and businesses. The sector will be incentivised to finance growth in a sustainable manner over the long-term and contribute to the creation of a low-carbon, climate resilient and circular economy.

The European Commission intends to present a comprehensive action plan in March 2018 with initiatives to stimulate the market for sustainable financial products. These will include:

1. ***Integrating sustainability considerations*** into the duties that asset managers and institutional investors have towards those whose money they manage, to clarify the requirement to take into account risks related to environmental, social, and governance factors.
2. ***Exploring the modalities of a 'green supporting factor' in prudential rules***, to boost investments. Lower capital charges would create incentives for investors to favour low-carbon investments or loans.
3. ***Incorporating ESG (environment, social and governance) factors into the mandate of supervisory authorities***, to enable them to monitor how financial institutions identify, report, and address environmental, social and governance risks.

The European Commission is also exploring other actions in this area:

- ***Developing a European taxonomy – a classification system for sustainable finance - providing investors with a common understanding of how climate-smart, environmentally-friendly and sustainable investments can be defined, and made***. This will help the design of tailor-made financial products, increase transparency of climate risks, facilitate the comparison of different instruments and improve measurement of the impact of investment decisions.
- Building on this system, the goal should be to establish EU quality standards and labels for all sustainable assets over the long term, to address market fragmentation and accelerate the development of these bonds and funds, which are earmarked to fund activities with a positive environmental impact.

Vice President Valdis Dombrovskis at the 1st meeting of the High Level Expert Group on Sustainable Finance

https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en