EU Objectives for Sustainable Finance

More private capital for environmentally sustainable investment

Foster transparency and long-termism in financial and economic activities

Manage financial risks from climate change, resource depletion and environmental degradation

While taking account of social and governance objectives.

as part of the EU's plan for Capital Markets Union

#SustainableFinanceEU
A more sustainable financial system: the EU strategy

Strategy

- More long-term oriented corporate governance
- Standards and labels for “green” financial products, e.g. for an EU green bond standard
- Better disclosure on the integration of ESG factors into investment decisions and advice by institutional investors, asset managers and financial advisors
- Incorporating sustainability into financial advice
- EU classification (‘taxonomy’) for sustainable economic activities
- Incorporating climate change and other environmental factors in prudential requirements for banks and insurance companies (‘green supporting factor’)
- Low-carbon and positive-carbon impact benchmarks
- Integrating sustainability in credit ratings and market research
- Better integration of sustainability in public reporting by companies

#SustainableFinanceEU
Taxonomy for environmentally sustainable activities

When is an economic activity considered environmentally sustainable?

Under the Commission’s proposals it must:

Contribute substantively to at least one of the six environmental objectives laid out in the proposal:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy, waste prevention and recycling
- Pollution prevention and control
- Protection of healthy ecosystems

#SustainableFinanceEU
Taxonomy for environmentally sustainable activities

When is an economic activity considered environmentally sustainable?

Under the Commission’s proposals it must:

Not significantly harm any of the other five environmental objectives
Taxonomy for environmentally sustainable activities

When is an economic activity considered environmentally sustainable?

Under the Commission’s proposals it must:

- Be carried out in compliance with a number of minimum social and governance safeguards, for instance regarding labour rights
- Comply with specific qualitative and quantitative technical screening criteria
EU taxonomy: Determining sustainable economic activities

Technical screening criteria
- Positive contribution
- Do no harm
- Include thresholds where possible
- Based on conclusive scientific evidence
- Take into account the precautionary principle
- Take into account upstream and downstream environmental impacts by considering production and end-of-life
- Take into account the nature and scale of the economic activity
- Cover all relevant economic activities within a sector and treat them equally to avoid distorting competition
- Develop to facilitate the verification of compliance (easy to use)
- Build on EU labelling and certification, methodologies, statistical classifications and take into account relevant EU legislation
- Take into account the potential impact on:
  - Liquidity in the market
  - Risk of stranded assets
  - Risk of wrong incentives

#SustainableFinanceEU
Taxonomy for environmentally sustainable activities

When is an economic activity considered environmentally sustainable?

The EU taxonomy will be developed in two steps:

1. An EU Regulation will define the environmental objectives and when an economic activity can be considered as environmentally sustainable.

2. Delegated Acts will specify the technical criteria for determining under which conditions a specific economic activity contributes to or causes significant harm to an environmental objective.
The EU taxonomy will facilitate environmentally sustainable investments

The EU taxonomy

- will establish a basis for defining labels for “green” financial products
- formulate criteria that must be met by institutional investors, asset managers, insurance distributors or investment advisors to claim that a financial product or corporate bond is “green”
The EU taxonomy will facilitate environmentally sustainable investments

The EU taxonomy

- preventing “greenwashing”, i.e. when a financial product is claimed to be “green” while not (sufficiently) contributing to environmental objectives
- providing uniform criteria for the disclosure of environmental information by institutional investors, asset managers and investment advisors
- helping the financial industry design "green" financial products

#SustainableFinanceEU
The EU taxonomy will facilitate environmentally sustainable investments

The EU taxonomy

- assisting investors, including retail investors, to make investment decisions in line with their sustainability preferences
- reorienting private capital towards sustainable investment
- fostering transparency and long-termism in financial and economic activity

#SustainableFinanceEU
The EU taxonomy will facilitate environmentally sustainable investments

The EU taxonomy

promoting a greener and cleaner economy

#SustainableFinanceEU
Low-carbon and positive-carbon impact benchmarks

Currently there are hundreds of so-called low-carbon benchmarks globally

But:
- they are not commonly used by investors
- there are different categories of low carbon indices
- their significance in overall portfolio allocation remains limited

To help investors compare the carbon footprint of investments, the Commission proposes to introduce two new benchmarks:

1. The low-carbon benchmark based on a standard ‘decarbonising’ benchmark
2. The positive-carbon impact benchmark – portfolio of investment assets needs to demonstrate measurable carbon reduction to be aligned with the Paris Agreement objective of limiting global warming to below 2°C

#SustainableFinanceEU
Low-carbon and positive-carbon impact benchmarks

The new benchmarks will:

- introduce minimum standards for low-carbon and positive-carbon benchmarks
- improve the methodology of benchmarks

Creating a reliable reference tool for ‘green’ investment strategies

Facilitating investments in sustainable projects and assets across the EU
Promote market discipline discouraging greenwashing

Increase the level and quality of information available on the markets

Increase awareness on sustainability issues
Transparency on sustainability risks and sustainable investments

All financial products

Websites
- Sustainability risks policies

Pre-contractual information
- Investment and “advisory” policies
- Impact on returns of financial products
- Remuneration policies

Marketing communications
- Not contradicting other information disclosed

#SustainableFinanceEU
Transparency on sustainability risks and sustainable investments

Financial products with sustainable investment objectives

Websites
- Sustainable investment targets
- Methodologies to assess impact of sustainable investments

Marketing communications
Not contradicting other information disclosed

Pre-contractual information
Sustainable investment targets

Periodical reports
Sustainability-related impact of the financial product

#SustainableFinanceEU
Transparency on sustainability risks and sustainable investments

New rules apply to financial market participants including:

- asset managers
- insurance companies
- investment advisors
- insurance advisors

They have to integrate sustainability risks and, where relevant, other sustainability factors in the areas of:

- organisational requirements
- operating conditions
- risk management
- identifying investors' profile and preferences

#SustainableFinanceEU
Ambitious EU sustainable finance strategy helps shape global efforts

Non-EU financial actors will have to apply new EU rules on investor duties, ESG disclosure and financial advice in the EU. This may lead to the rules being more generally adopted.

The taxonomy for sustainable economic activities and standards and labels for 'green' financial products will serve as a global model.

Promoting sustainable finance worldwide

Supporting the UN 2030 Agenda for Sustainable Development and the Paris Agreement on climate change

#SustainableFinanceEU