

# Sustainable Finance: Action Plan

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# The action plan

## Reorienting capital flows towards a more sustainable economy

- Establishing a clear and detailed EU taxonomy, a classification system for sustainable activities.
- Creating an EU Green Bond Standard and labels for green financial products
- Fostering investment in sustainable projects
- Incorporating sustainability in financial advice
- Developing sustainability benchmarks

# The action plan

## Mainstreaming sustainability into risk management

- Better integrating sustainability in ratings and market research
- Clarifying asset managers' and institutional investors' duties regarding sustainability
- Introducing a 'green supporting factor' in the EU prudential rules for banks and insurance companies

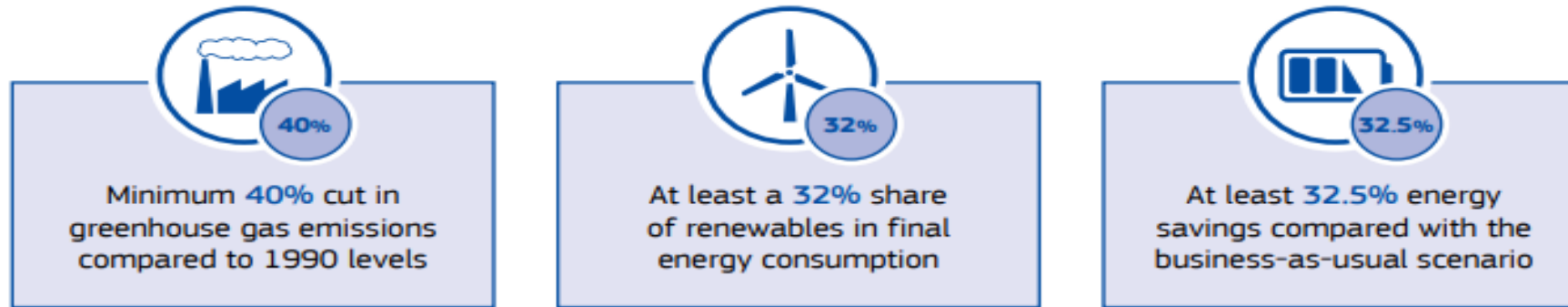
## The action plan

### Fostering transparency and long-termism

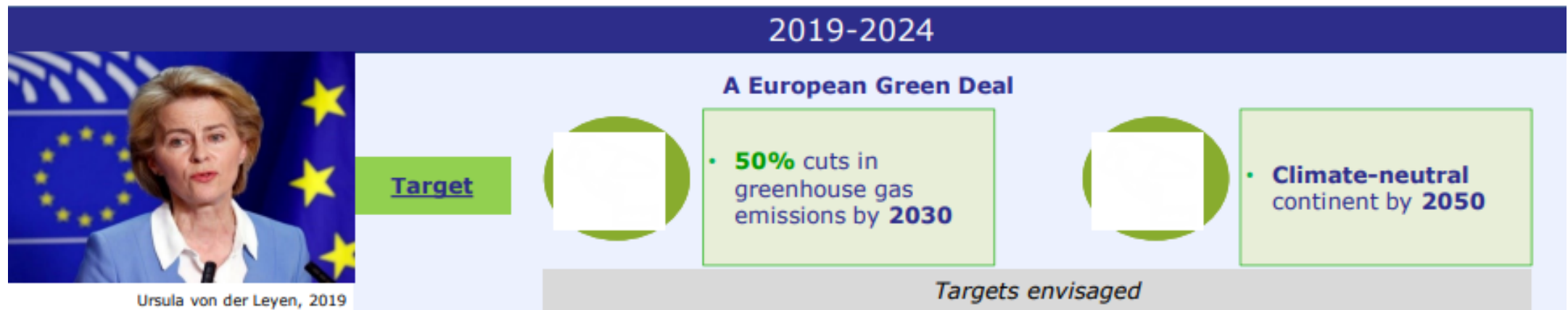
- Strengthening sustainability disclosure and accounting rule-making
- Fostering sustainable corporate governance and attenuating short-termism in capital markets

## FINANCE CAN MAKE THE DIFFERENCE

The EU has committed to three ambitious climate and energy targets by 2030:



To make the EU climate-neutral by 2050, Europe needs between **€175** to **€290** billion in additional yearly investment in the next decades.





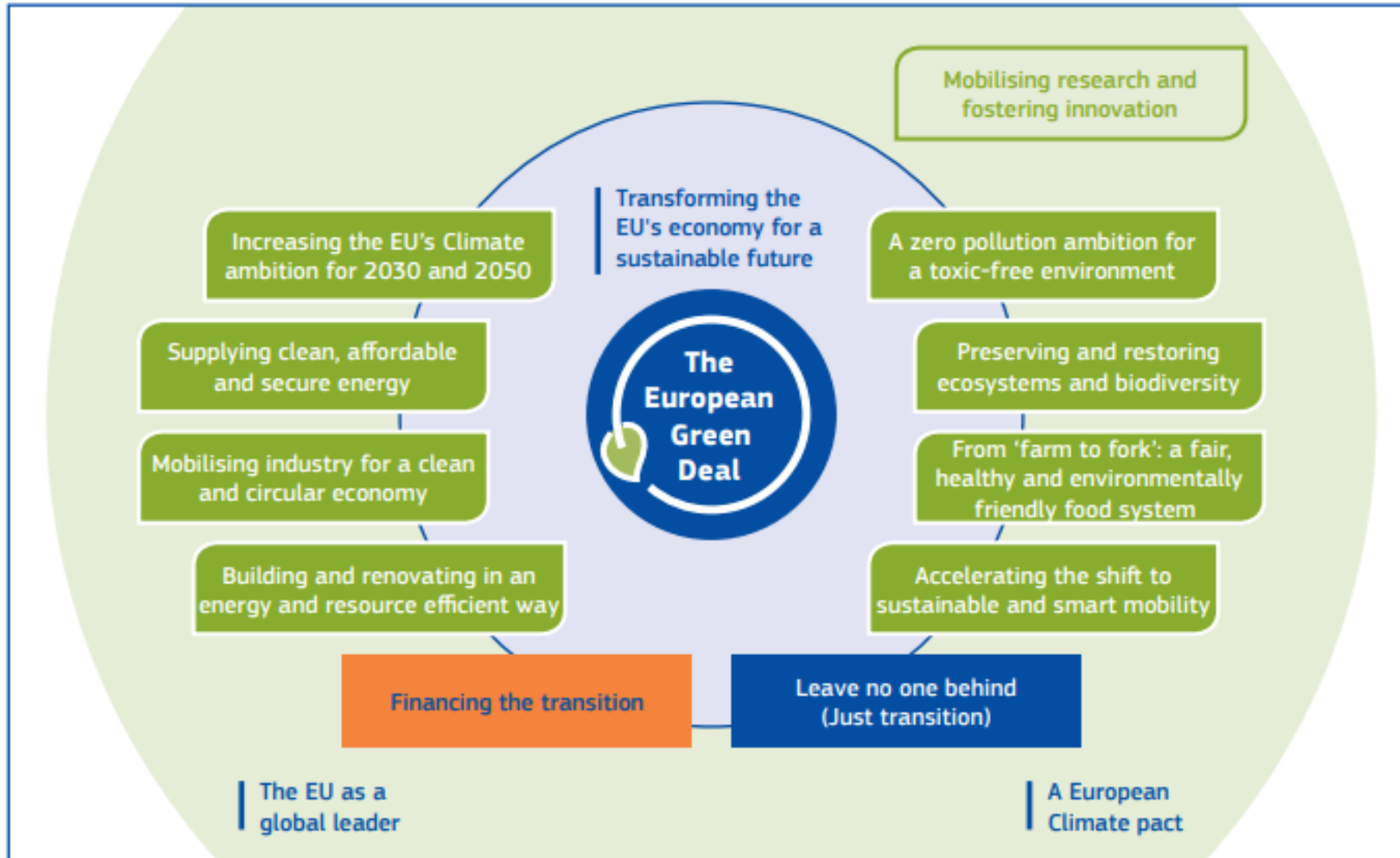
## BENEFITS FOR INVESTORS

greater choice of projects and green finance products to satisfy the fast growing demand



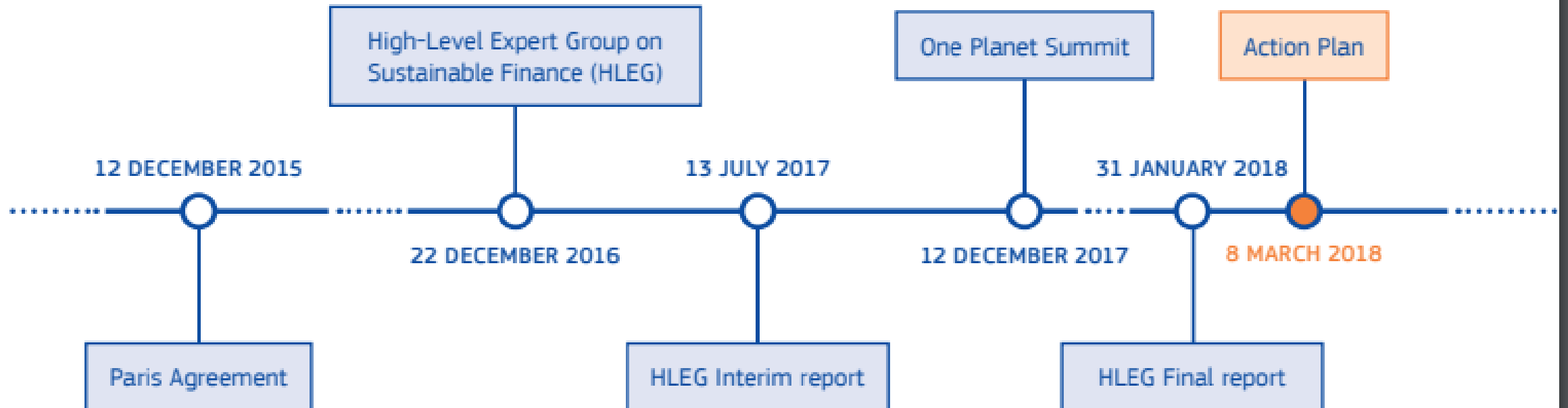
## BENEFITS FOR BUSINESSES

new sources of funding through global capital markets and the financial sector worldwide



WHAT HAS THE EU ACHIEVED before 2018?

## WHAT HAVE WE DONE SO FAR?



# WHAT HAS THE EU ACHIEVED?

1

## A UNIFIED EU GREEN CLASSIFICATION SYSTEM - 'TAXONOMY'

to determine if an economic activity is environmentally sustainable based on harmonised EU criteria. The European Parliament and the Council reached a political agreement in December 2019. The Taxonomy Regulation provides for a general framework that will allow for the progressive development of an EU-wide classification system for environmentally sustainable economic activities. This aims to provide guidance for policy makers, industry and investors on how best to support and invest in economic activities that contribute to achieving a climate neutral economy.

To qualify as green, an investment would need to contribute to at least one of these **six objectives**:



CLIMATE CHANGE  
MITIGATION



CLIMATE CHANGE  
ADAPTATION



SUSTAINABLE USE OF WATER AND  
MARINE RESOURCES



CIRCULAR  
ECONOMY



POLLUTION  
PREVENTION



HEALTHY  
ECOSYSTEM



# WHAT HAS THE EU ACHIEVED?

2

## **SUSTAINABILITY-RELATED DISCLOSURES**







Enhanced disclosures by manufacturers and distributors of financial products to end-investors. Financial market participants will have to disclose to their clients the impact of sustainability on financial returns and the impact of their investment decision on sustainability. These obligations will apply from March 2021.

3

## **CLIMATE BENCHMARKS AND BENCHMARKS' ESG DISCLOSURES**

Two new categories of climate benchmarks to orient the choice of investors who wish to adopt a climate-conscious investment strategy. All mainstream benchmarks have to disclose their alignment with the Paris Agreement. Delegated acts, based on work of the Technical Expert Group on Sustainable Finance, forthcoming beginning of 2020.

## WHAT CHALLENGES DOES THE ACTION PLAN ADDRESS?

 <b>KEY CHALLENGES</b>	 <b>ACTIONS</b>	
No common definition of 'sustainable investment'	 EU classification (taxonomy) for sustainable activities	 <b>RELIABLE INFORMATION</b>
Risk of 'greenwashing' of investment products	 Standards and labels for 'green' financial products give investors certainty	
Banks and insurers often give insufficient consideration to climate and environmental risks	 Study if capital requirements should reflect exposure to climate change and environmental risks	 <b>SUSTAINABILITY AND RISK MANAGEMENT</b>
Investors often disregard sustainability factors or underestimate their impact	 Clarify institutional investor duties to consider sustainable finance when allocating assets	
Too little information on corporate sustainability-related activities	 Enhancing non-financial information disclosure	 <b>LONG-TERMISM IN GOVERNANCE</b>

# International platform on sustainable finance



## INTERNATIONAL PLATFORM ON SUSTAINABLE FINANCE

Platform to exchange and disseminate information to promote best practices in environmentally sustainable finance.



ARGENTINA



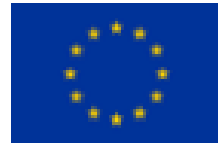
CANADA



CHILE



CHINA



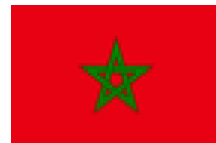
EUROPEAN UNION



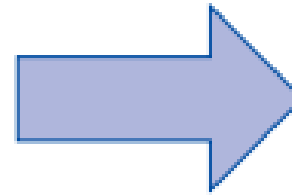
INDIA



KENYA



MOROCCO



**45%**

OF GLOBAL GHG EMISSIONS



**40%**

OF GLOBAL GDP



**40%**

OF WORLD POPULATION

Objective of the IPSF

to help get more private capital being invested in environmentally sustainable investments.

# What is Social taxonomy?

The social taxonomy is the planned classification of economic activities that contribute to the EU's social goals and provide guidelines for investors, businesses and regulators concerning what is and is not sustainable from a social perspective.

The suggested structure of a social taxonomy therefore consists of three objectives, each of which addresses a different group of stakeholders:

- decent work (including for value-chain workers);
- adequate living standards and wellbeing for end-users
- inclusive and sustainable communities and societies

The letters 'SE' are displayed in a large, bold, red font, centered within a light gray rectangular box.

# What is Social taxonomy?

## Two preliminary tasks for ST working group:

- The first task was to explore extending the taxonomy to social objectives in accordance with article 26(2)(b) of the Taxonomy Regulation. This article called on the Commission to publish a report describing the provisions that would be required to extend the scope of the Taxonomy Regulation.
- The second task consisted of two parts both related to so-called minimum safeguards. The first part was to advise the European Commission on how Article 18 works in practice. Article 18 requires businesses carrying out environmentally sustainable economic activities to uphold international labour standards and human rights. The second part was to assess whether there was a need to supplement the requirements of Article 18 (with so-called minimum safeguards).

# What is Social taxonomy?

## Feedback received

- 78% of the respondents agreed with at least one of the merits of the social taxonomy outlined in the draft report;
- 15% did not see any merits in the social taxonomy outlined in the report;
- 6% did not answer this question.

## The merits of a social taxonomy that were most often mentioned were:

- that it strengthens the definitions and measurement of social investment (65%);
- that it supports investment in social sustainability and a just transition (62%);
- that it addresses social and human-rights risks and opportunities for investors (47%).

## Concerns most often mentioned by respondents were as follows:

- 83% of respondents said that they had at least one concern about a social taxonomy;
- increasing administrative burden was the concern most frequently identified (chosen by 58% of respondents);
- interference with national legislation and the autonomy of social partners was the second most frequently identified concern (chosen by 45% of respondents)

The latter highlights the priorities of the EU's social agenda in the three areas of:

- (i) equal opportunities and access to the labour market;
- (ii) fair working conditions;
- (iii) social protection and inclusion



## List of Literature

- [https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance\\_en](https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en)
- [https://finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance\\_en](https://finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance_en)
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- <https://www.ebf.eu/sustainable-finance/usability-of-the-taxonomy-ebf-responds-to-european-commissios-technical-expert-group-consultation/>
- [https://finance.ec.europa.eu/publications/sustainable-finance-package\\_en](https://finance.ec.europa.eu/publications/sustainable-finance-package_en)
- [https://finance.ec.europa.eu/system/files/2019-06/190618-climate-related-information-reporting-guidelines-overview\\_en.pdf](https://finance.ec.europa.eu/system/files/2019-06/190618-climate-related-information-reporting-guidelines-overview_en.pdf)
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- <https://ec.europa.eu/environment/enveco/pdf/6.%20Sustainable%20finance.pdf>
- [https://finance.ec.europa.eu/system/files/2018-03/180308-action-plan-sustainable-growth-factsheet\\_en.pdf](https://finance.ec.europa.eu/system/files/2018-03/180308-action-plan-sustainable-growth-factsheet_en.pdf)
- [https://finance.ec.europa.eu/system/files/2020-01/200108-financing-sustainable-growth-factsheet\\_en.pdf](https://finance.ec.europa.eu/system/files/2020-01/200108-financing-sustainable-growth-factsheet_en.pdf)
- [https://finance.ec.europa.eu/system/files/2022-08/220228-sustainable-finance-platform-finance-report-social-taxonomy\\_en.pdf](https://finance.ec.europa.eu/system/files/2022-08/220228-sustainable-finance-platform-finance-report-social-taxonomy_en.pdf)
- <https://www.funds-europe.com/october-2022/shelving-eu-social-taxonomy-financial-sector#:~:text=What%20is%20the%20social%20taxonomy,sustainable%20from%20a%20social%20perspective.>