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Groupe Technique d'Experts sur la Finance Durable

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The Case for Sustainable Finance

The EU committed to three ambitious climate and energy targets for 2030 in line with the UN 2030 Agenda, the SDGs and the Paris Agreement. In its long-term strategy, the EU strives for net-zero GHG emissions by 2050.



Minimum **40%** cut in greenhouse gas emissions compared to 1990 levels



At least a **32%** share of renewables in final energy consumption



At least **32,5%** energy savings compared with the business-as-usual scenario

Public money

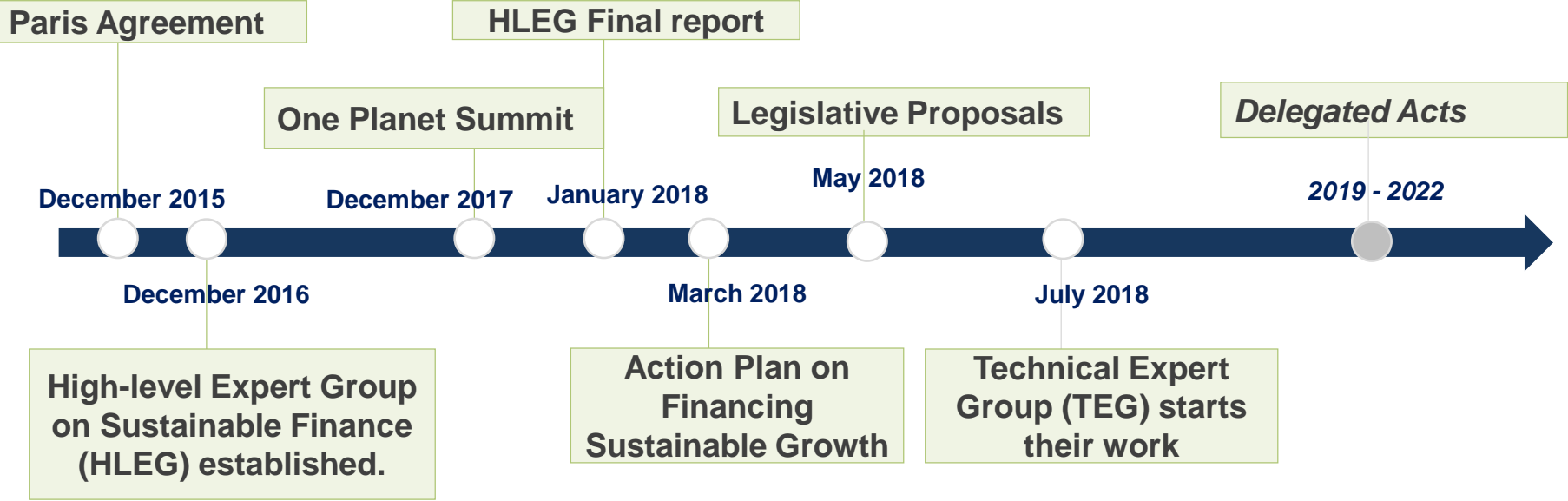
The yearly investment gap to meet these targets is estimated to be between **€ 175 to 290 billion**.

Private money

Public supporting schemes alone will not be sufficient to meet those investment needs. The private sector will have to play a huge role and a smart policy framework is needed to incentivise private investment.

Sources: *EIB: Restoring EU competitiveness (2016)*, *European Commission: A clean planet for all (2018)*, *European Commission: Commission Work Programme 2019*.

EU Timeline Sustainable Finance



High-level Expert Group on Sustainable Finance (HLEG)



Mandate

- Scope: starting with climate change, but extending to sustainable development
- Dual Focus: mobilising capital & strengthening financial stability
- Sector Coverage: asset management, banking, benchmarks, capital markets, credit ratings, financial centres, insurance firms, investment consultants, pension funds, stock exchanges



Process

- Expert-led with strong Commission backing, considerable interaction with key stakeholders, including through an interim report and public consultation.
- Chaired by Christian Thimann. 20 members and 9 observers



Goals

- Recommend a comprehensive roadmap of reforms for the EU financial policy framework
- Set out the scale of the challenges and opportunities of sustainable finance

Action Plan on Financing Sustainable Growth

HLEG recommendations

Action Plan

Develop a sustainability taxonomy at the EU level by 2020, starting with climate change



Clarify investor duties regarding sustainability in selected number of provisions (on a case-by-case basis), based on following principles



Upgrade disclosure rules to make sustainability risks fully transparent, starting with climate change



Enable retail investors to invest and benefit from sustainable finance opportunities



Develop and implement official European sustainability standards, starting with green bonds. Introduce during 2018 an official European standard for green bonds



Establish a 'Sustainable Infrastructure Europe' facility to expand the size and quality of the EU pipeline of sustainable assets



Encourage sustainable finance excellence by reforming the governance, financial culture and leadership of corporations

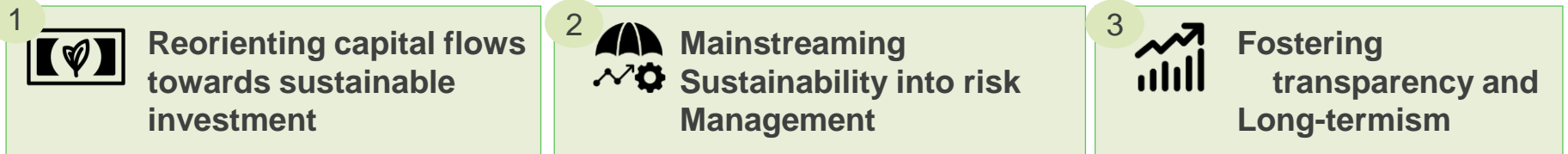
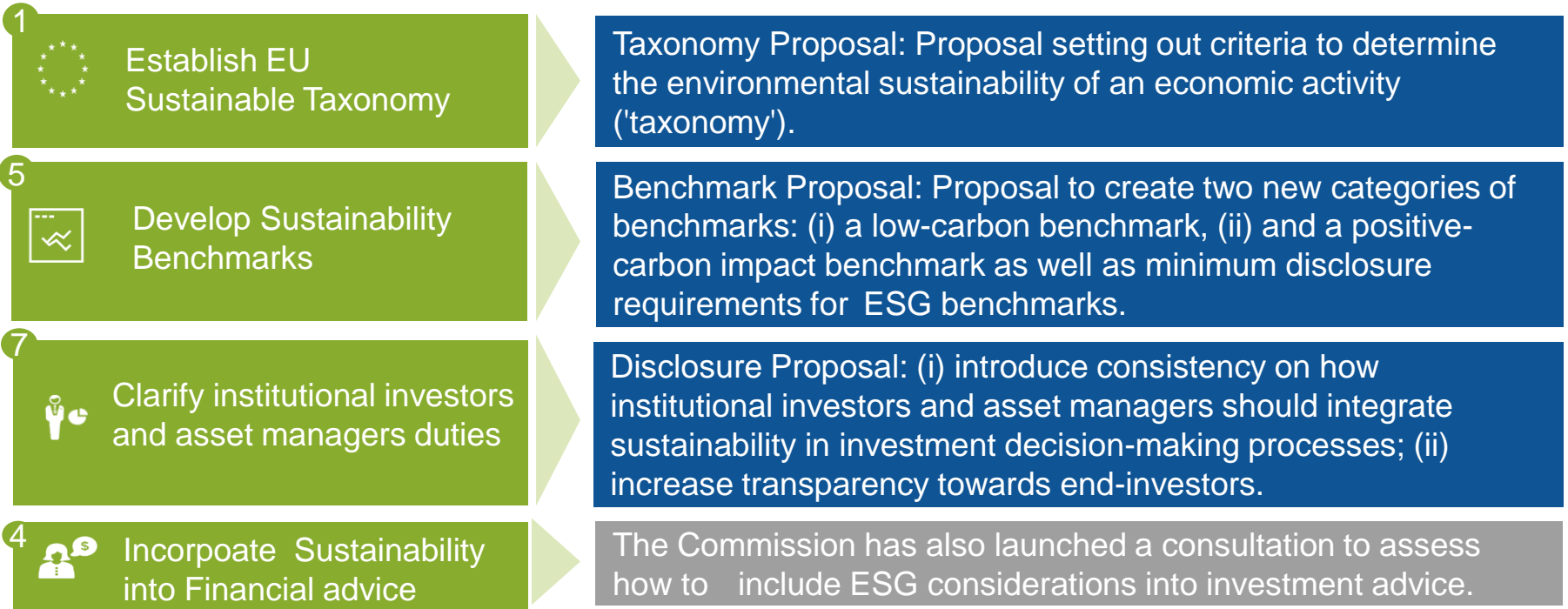


Include sustainability in the supervisory mandate of the ESAs and extend the horizon of risk monitoring



The Legislative Proposals

The most urgent actions from the AP were taken forward as legislative Proposals in May 2018.



The Technical Expert Group on Sustainable Finance

Expert group established in June 2018 to assist the Commission in the development of:

1. technical screening criteria for environmentally sustainable economic activities under the EU taxonomy;
2. an EU Green Bond Standard;
3. minimum standards for the methodology of "low carbon" and "positive carbon impact" indices; and
4. metrics allowing improving disclosure on climate-related information.

35 experts from 17 countries were selected from ≈240 highly qualified candidates

15 women, 15 sectors represented

A two day meeting every month in Bruxelles,
one day in a plenary session and one day by subgroup

Taxonomy

Green Bond Standard

Benchmarks

Disclosures

Taxonomy subgroup

Mandate

Within the framework of the Taxonomy proposal, this subgroup will **deliver a report**, which will be subject to a public consultation and used as a basis for the delegated act.

The **task** of the subgroup is the following:

1) **Determine a list** of environmentally sustainable economic activities:

- contributing substantially to a given environmental objective - starting with climate change mitigation and adaptation
- not significantly harming any environmental objective.

2) **Assess the implications** of the taxonomy considering the potential environmental, economic and financial (market) impacts.


Principles


- Science based
- Support transition from brown to green
- Dynamic, flexible tool
- On-going process
- Environmental system perspective
- Make it easy to use
- Leverage existing labelling
- Facilitate rapid, not incremental change


Taxonomy - The Case for an EU Taxonomy

Current market practice

Different taxonomies among different Member States and financial institutions

 Costly to raise capital for real economy

 Burdensome to check and compare information for investors


 Costly for financial institutions to provide clarity on a voluntary basis


Hampering investments into a low-carbon economy


Establish an EU Sustainable Taxonomy


Bridging the gap by developing a harmonized list of economic activities that can be considered “environmentally sustainable” for investment purposes.


Value-add of the taxonomy for the market practice

 Provide appropriate signals and more certainty to economic actors.

 Protect private investors and mitigate the risk of greenwashing.

 Make it easier to raise capital.

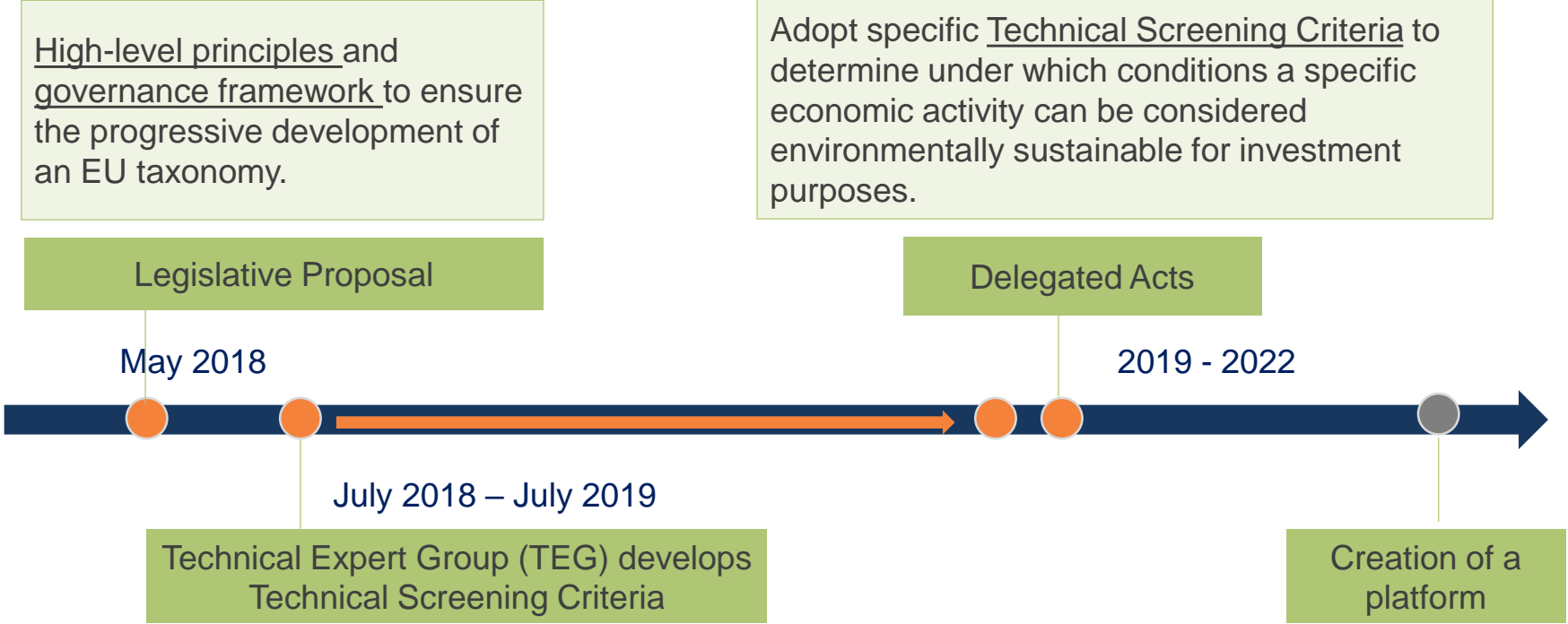
 Address and avoid market fragmentation and barriers to cross border capital flows.

 Provide the basis for further policy action in the area of sustainable finance.

Reorienting capital flows towards sustainable investment

Taxonomy
Green Bond Standard
Benchmarks
Disclosures

Taxonomy – Timeline



Green Bond Subgroup

Subgroup's recommendations for possible EU Green Bond Standard are due by Q2 2019

These recommendations will be carefully considered as a basis for next steps taken by the Commission.

The work of this subgroup will also feed into the work currently undertaken by the Commission on an EU Ecolabel for green financial products

It will also inform the work on the content of possible related legislative initiatives or amendments

Key features of the green bonds standard

EU taxonomy
including 6
environmental
objectives

Core Components:
Use of proceeds (UoP)
Process for project evaluation and selection
Tracking of allocation
Reporting including impact reporting

Mandatory
verification &
accreditation of
verifiers

Green Bond Standard subgroup's ambition

Key objectives:

To increase the flow of finance to green and sustainable projects by providing an official European and international standard representing best practice

To promote the markets impact through alignment with the EU taxonomy and environmental objectives, and

To support the market's integrity by providing a template for content and reporting as well as proposing a robust verification process performed by accredited parties.

The EU GBS will also enhance transparency, consistency and comparability of EU Green Bonds, and thereby set an example for the financial markets at large.

Benchmark subgroup

Preparing a report by June 2019 to serve as a basis for a Commission delegated act, together with feedback from stakeholders.

The report shall:

- Provide minimum standards for the methodology of the low carbon benchmarks. The group will define the key elements of the methodology used providing standards for the selection criteria, type and source of input data, methods used to weight,
- Provide minimum standards for the methodology of the PCIB: how emissions savings are calculated overall, how to choose an appropriate baseline scenario against which the company's emissions savings are measured, what category of emissions may be included in the category of saved emissions.
- Specify the minimum content of disclosure for ESG benchmarks

Metrics and disclosures subgroup

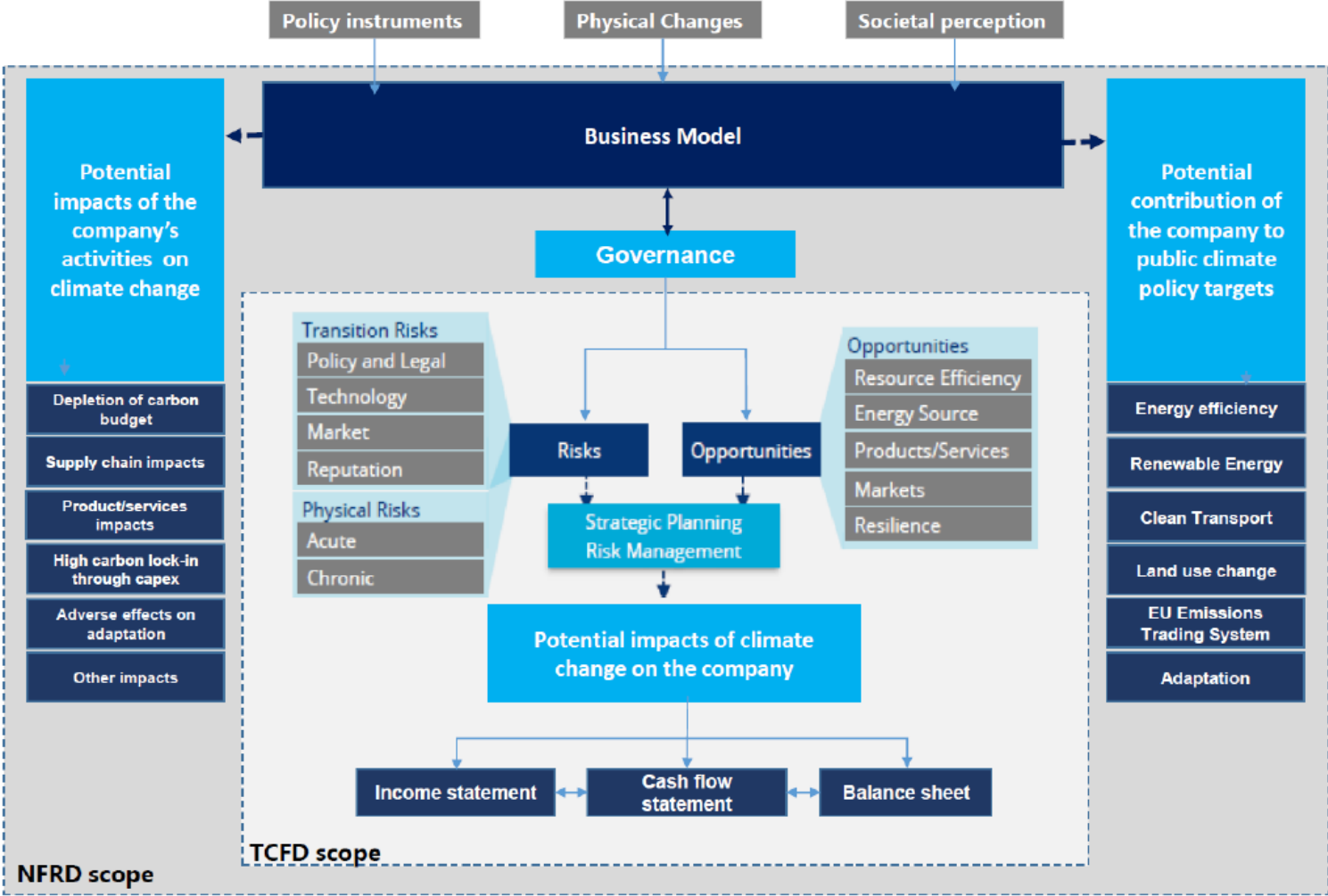


- ❑ Report released on 10 January for public consultation until 1st of February
- ❑ The European Commission will take this report into account for its revision of the non-binding guidelines that accompany the NFRD Directive, which is scheduled for the second quarter of 2019. The Commission will consult stakeholders on the update of the non-binding guidelines during a one-month online consultation, starting by the end of February

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Metrics and disclosures subgroup | Linking NFRD and TCFD



Mapping of TCFD recommendations and NFRD requirements

TCFD Recommended Disclosures		NFRD Elements				
		Business Model	Policies and Due Diligence Processes	Outcomes	Principal Risks and Their Management	Key Performance Indicators
Governance	a) Board's oversight		■			
	b) Management's role		■			
Strategy	a) Climate-related risks and opportunities	■ ①			■	
	b) Impact of climate-related risks and opportunities			■ ②		■
	c) Resilience of the organization's strategy				■ ③	
Risk Mgmt.	a) Processes for identifying and assessing		■		■	
	b) Processes for managing		■		■	
	c) Integration into overall risk management		■		■	
Metrics & Targets	a) Metrics used to assess			■		■
	b) GHG emissions					
	c) Targets			■		

Three NFRD Elements relate to TCFD Strategy c) on strategic resilience, taking climate-related scenarios into account

- ① Companies may refer to scenarios as part of "business model" if they inform its strategy related to environment and climate
- ② Companies may refer to scenarios as part of "outcomes" if they provide material information and inform management decisions
- ③ Companies may refer to scenarios as part of "risk management" if they are considered risk management tools that reflect climate-related risks and opportunities

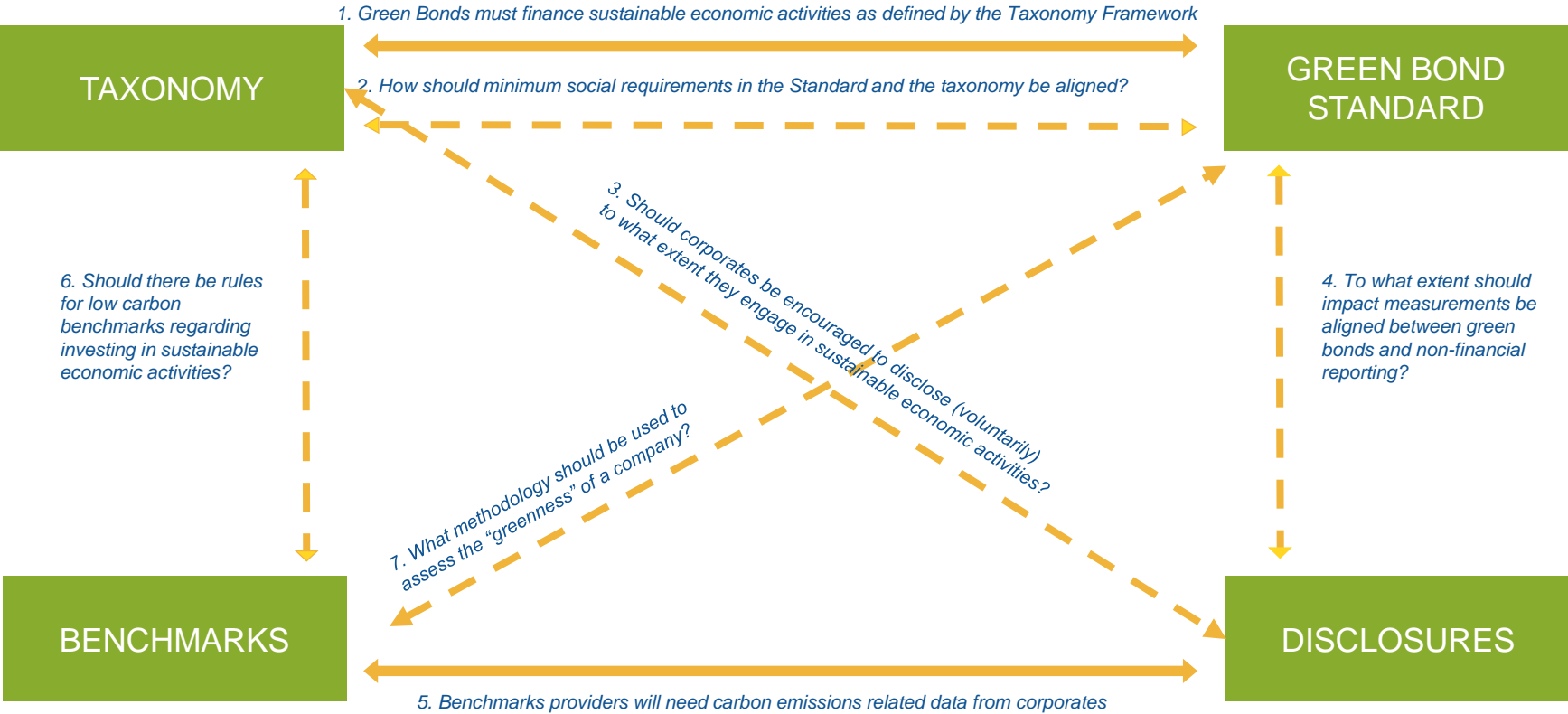
Overview of recommended disclosures (1/2)

Table 3 – Overview of Recommended Disclosures	
General disclosures (Type 1)	
Irrespective of the companies’ own assessment carried out autonomously and/or in consultation with stakeholders, companies should disclose:	
<ul style="list-style-type: none"> • their governance processes addressing climate-related risk and opportunities, • how climate change is incorporated into their strategy and risk management processes, and • their Scope 1 and Scope 2 GHG emissions. 	
Based on the company’s own assessment carried out autonomously and/or in consultation with stakeholders, companies should disclose:	
<i>Business Model</i>	<ul style="list-style-type: none"> • Significance of climate-related issues for the business model and impact on strategy.
<i>Policies and Due Diligence Processes</i>	<ul style="list-style-type: none"> • Board’s oversight of climate-related risks, opportunities and impacts (TCFD Governance a)). • Management role in assessing and managing climate-related risks, opportunities and impacts (TCFD Governance b)). • Systems and processes in place for identifying, assessing climate-related risks and impacts and how they are integrated into their overall risk management (TCFD Risk Management c)).
<i>Outcomes</i>	<ul style="list-style-type: none"> • GHG emissions and related targets. • Impact of the company’s activities on climate change and natural capital dependencies also including those related to water consumption, deforestation, biodiversity loss, pollution, land use, etc., where relevant. • Insights on impact of climate-related risks and opportunities on the strategy, financial planning as well as mitigation and adaptation actions.
<i>Principal Risks and Their Management</i>	<ul style="list-style-type: none"> • Climate-related risks and opportunities identified over the short, medium, and long term (TCFD Strategy a)). • Processes for managing climate-related risks (TCFD Risk Management b)). • Impacts of the company on climate change mitigation and/or adaptation.
<i>Key Performance Indicators</i>	<ul style="list-style-type: none"> • Scope 1, Scope 2, and Scope 3 GHG emissions. • GHG emissions targets. • Sectoral and company-specific KPIs.

Overview of recommended disclosures (2/2)

Supplementary disclosures (Type 2)	
Based on the company's own assessment carried out autonomously and in consultation with stakeholders, companies should consider disclosing:	
<i>Business Model</i>	<ul style="list-style-type: none"> • Business segments' financially material exposure to climate-related risks, opportunities. • Impact of the company's activity on the climate change and potential mitigation or adaptation strategies. • Resilience of the company's strategy to climate-related risks and opportunities.
<i>Policies and Due Diligence Processes</i>	<ul style="list-style-type: none"> • Roles of the various (board) committees and management level positions in charge of climate-related topics. • Existing and emerging regulatory requirements related to climate change as well as other relevant factors (TCFD Strategy a)). • Processes for assessing the potential size and scope climate-related risks and impacts. (TCFD Risk Management a)). • Definitions of risk terminology or references to existing risk classification frameworks.
<i>Outcomes</i>	<ul style="list-style-type: none"> • The development of GHG emissions over time vis a vis targets (TCFD Metrics and Targets b) and c)). • Provide information on the process of target setting and performance reporting against the targets Further insights on how the company adapts its business model to climate related risks, opportunities and impacts over time and references to targets (TCFD Strategy b)). • Relationship between the company's financial position and its impact on climate change • Any dependency to climate-related risks and opportunities that affects the company's financial position (TCFD Strategy b)). • Any dependency of financial KPIs to climate-related impact of companies' activities on climate change over the short, medium and long term. • Its assessment of the resilience of its strategy under different climate-related scenarios (TCFD Strategy c)).
<i>Principal Risks and Their Management</i>	<ul style="list-style-type: none"> • Processes for prioritizing climate-related risks. • Risk and opportunity maps including climate-related issues. • Use of risk mitigation techniques such as insurance contracts, reinsurance treaties, insurance linked securities. • Relevance filter for classifying climate-related risks and opportunities. • Current climate-related high-risk and high-opportunity potentials across the value chain. • Linkages between major climate-related risks and opportunities with financial and non-financial KPIs.
<i>Key Performance Indicators</i>	<ul style="list-style-type: none"> • Energy consumption or production from renewable and non-renewable sources. • GHG emissions breakdown. • Energy efficiency target. • Renewable energy target.

Linkages between the four TEG subgroups



Linkages between the four TEG subgroups

