

EU legislative initiatives on sustainable finance – Where do we stand and implications for financial sector?

Slavka Eley, Head of Banking Markets, Innovation and Products

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European Commission leading on sustainable finance

- Action plan Financing Sustainable Growth from March 2018 - setting an EU strategy on sustainable finance
- Main legislative initiatives and Technical Expert Group work
 - EU classification system of sustainable economic activities ('taxonomy')
 - New disclosure requirements for financial market participants
 - Sustainability benchmarks
 - EU Green bond standard

Number of
mandates for
ESAs

Key challenges
No common definition of 'sustainable investment'
Risk of 'greenwashing' of investment products
Banks and insurers often give insufficient consideration to climate and environmental risks
Investors often disregard sustainability factors or underestimate their impact
Too little information on corporate sustainability-related activities

Actions
EU classification (taxonomy) for sustainable activities
Standards and labels for 'green' financial products give investors certainty
Study if capital requirements should reflect exposure to climate change and environmental risks
Clarify institutional investor duties to consider sustainable finance when allocating assets
Enhancing non-financial information disclosure

Reliable
Information

Sustainability
and Risk
Management

Long-Termism in
Governance

Initiatives of European Commission

- Commitment from all European legislators
 - European Green Deal and Green Deal Investment Plan
 - European Commission proposed a European Climate Law
 - European Parliament's declaration of a climate emergency on 28 November 2019
 - European Council conclusions of 12 December 2019 - endorsing the objective of achieving a climate-neutral EU by 2050.
- Consultation on Renewed Sustainable Finance Strategy – expected publication in 2020
- Review of Non-financial Reporting Directive – extending scope of disclosures
- Implementation of EU taxonomy in legal framework
- Level 2 legislation on disclosure and ESAs technical standards

Is climate change a source of financial risk?

Network for Greening the Financial System (NGFS) – Central Banks and Supervisors

De Nederlandsche Bank
EUROSISTÈM

Chair
Frank Elderson

Secretariat
Morgan Després

BANQUE DE FRANCE
EUROSISTÈM

Plenary Members
and Observers

Steering Committee
Members and Observers



45%
of global greenhouse
gas emissions

Source: Global Carbon Budget, 2017.

Views of supervisors and central banks in NGFS

- **Climate change source of structural change** in the economy/financial system with a number of specificities:
 - Far-reaching impact in breadth and magnitude
 - Foreseeable nature
 - Irreversibility
 - Dependency on short-term actions for medium/long-term impacts
 - Non linearity and tipping points
- **Climate-related risks are a source of financial risk.** It is therefore within the mandates of central banks and supervisors to ensure the financial system is resilient to these risks
- **Highly likely that climate-risks are not properly reflected in asset valuations**
- NGFS published number of documents to improve understanding of environmental risks (<https://www.ngfs.net/en>)

EBA action plan on sustainable finance

EBA public communication on the regulatory roadmap and key policy messages and expectations for the industry

Sequencing of EBA work



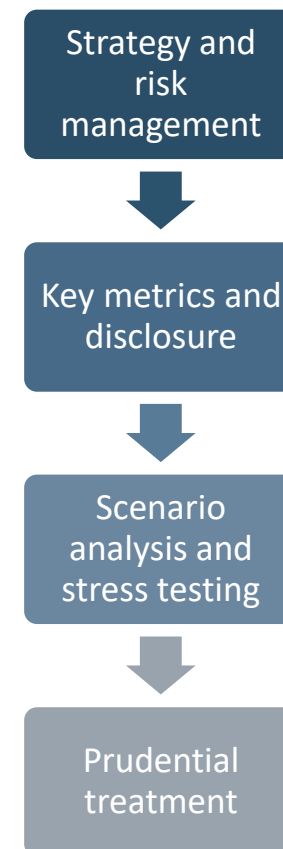
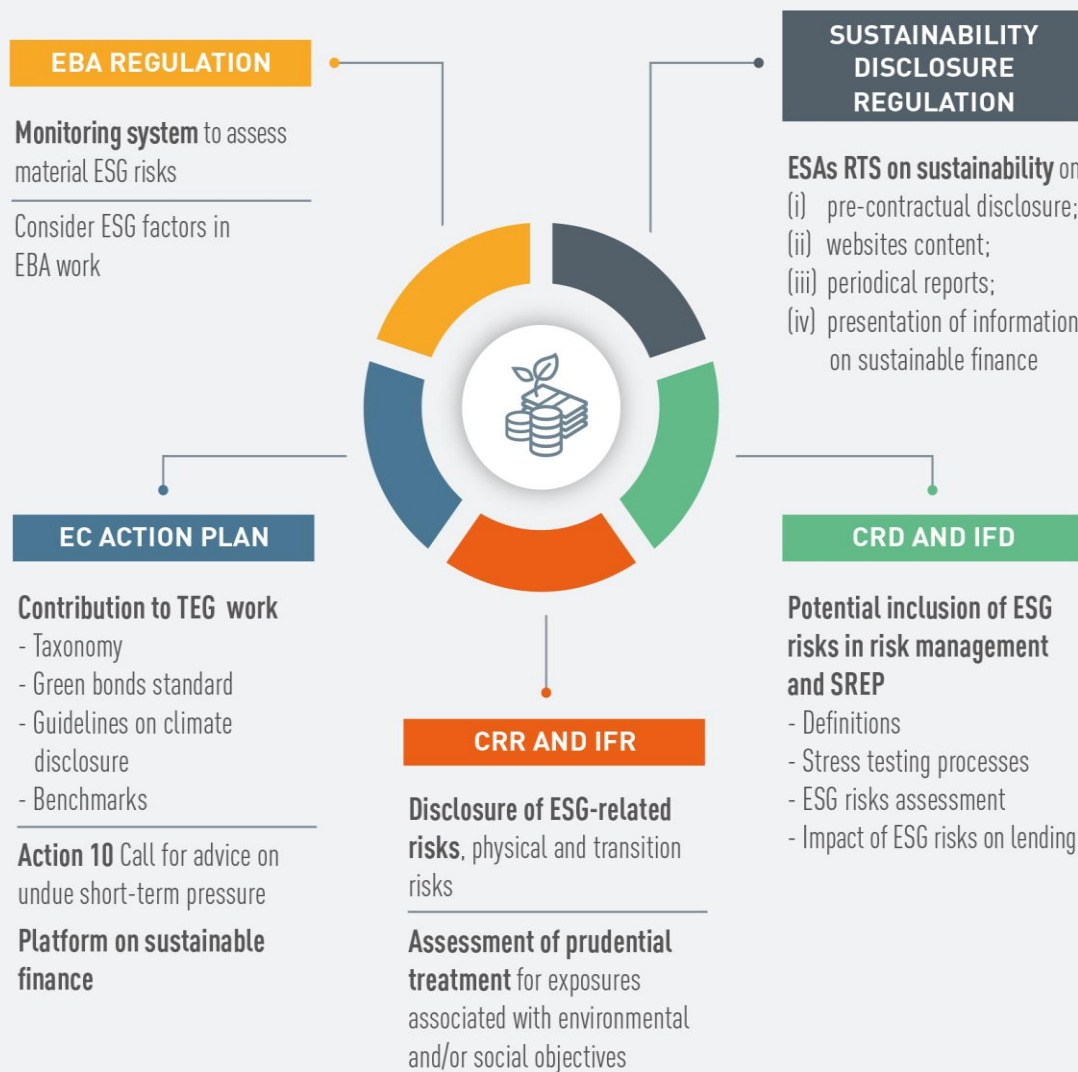
Key policy messages and expectations for the industry

- Need to act proactively on ESG in business strategy – risk mitigation
- Need to incorporate ESG into risk management
- Promote climate-related disclosure including quantitative metrics; disclosure monitoring
- Promote scenario analysis as an important tool
- Support industry initiatives to understand ESG and collecting data

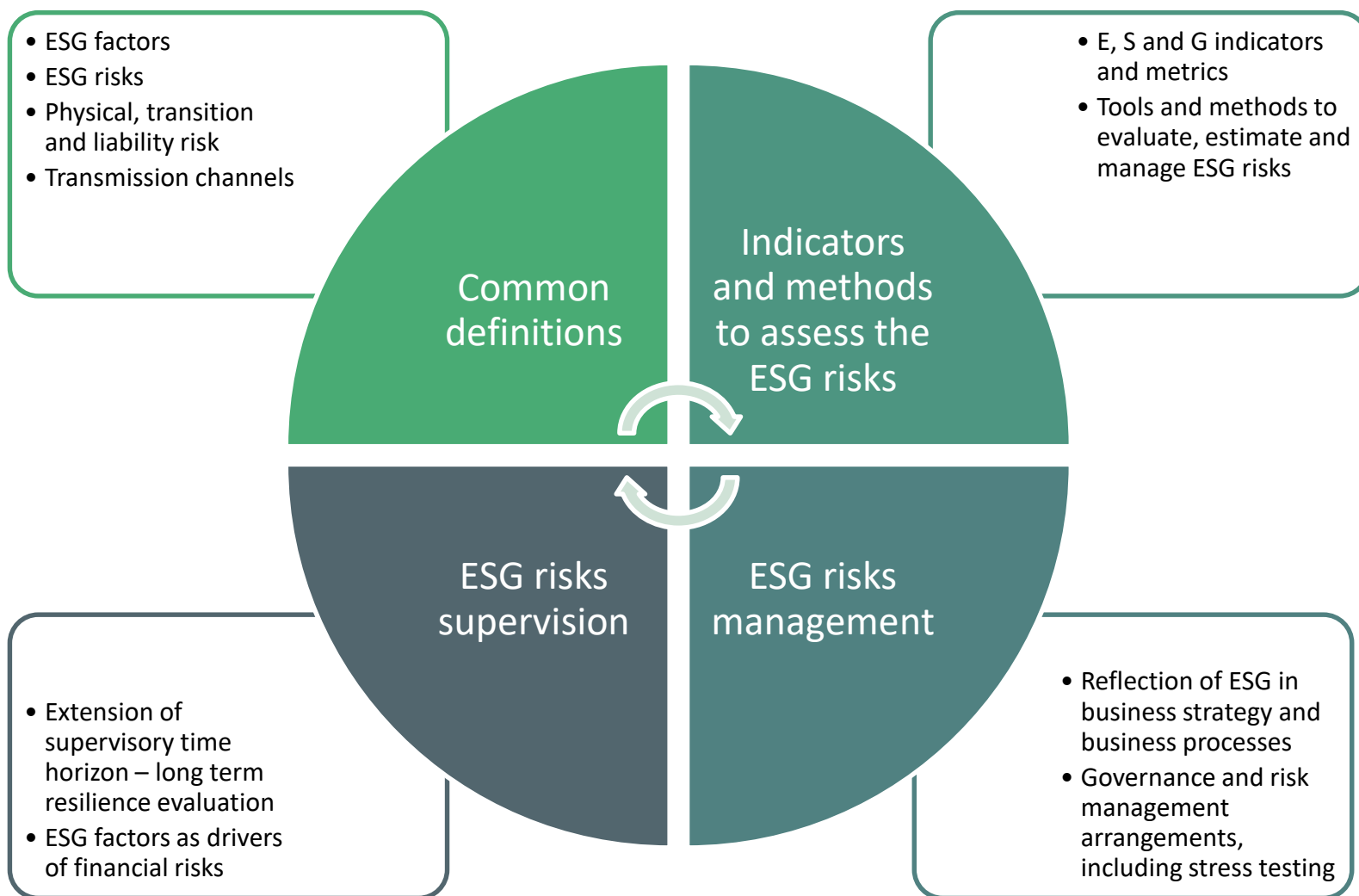
Sensitivity analysis and voluntary disclosure in 2020

- Sensitivity analysis for climate risks in 2020 with sample of volunteer banks
- Disclosure of key metrics - estimates and ranges with sample of volunteer banks

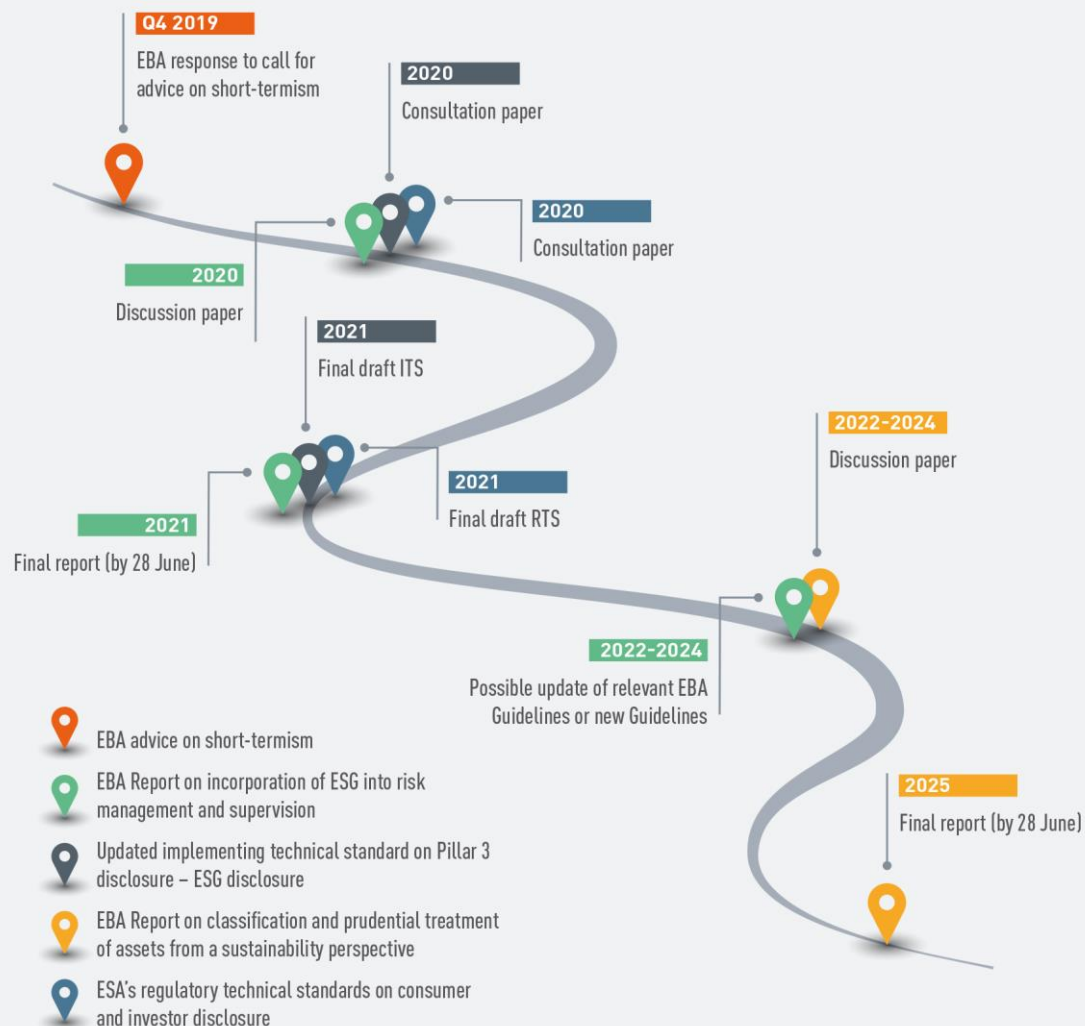
EBA mandates on sustainable finance



Discussion paper on ESG risks management and supervision for banks and investment firms



Milestones for EBA regulatory mandates on sustainable finance



Other possible areas where legislation might change

- European Commission was consulting on number of areas seeking input on the need to legislative or non-legislative action
 - Company reporting and transparency, accounting rules
 - Improved access to data
 - Definitions, standards and labels for sustainable financial assets and products
 - Corporate governance and long-termism and investor engagement
 - Green securitisation
 - Incentives to scale up sustainable investments
 - Brown taxonomy
 - Financial stability risk
 - Insurance prudential framework
 - Banking prudential framework
 - Asset managers
 - Pension providers
 - Credit rating agencies



EUROPEAN BANKING AUTHORITY

Floor 46, One Canada Square, London E14 5AA

Tel: +44 207 382 1776

Fax: +44 207 382 1771

E-mail: info@eba.europa.eu

<http://www.eba.europa.eu>