

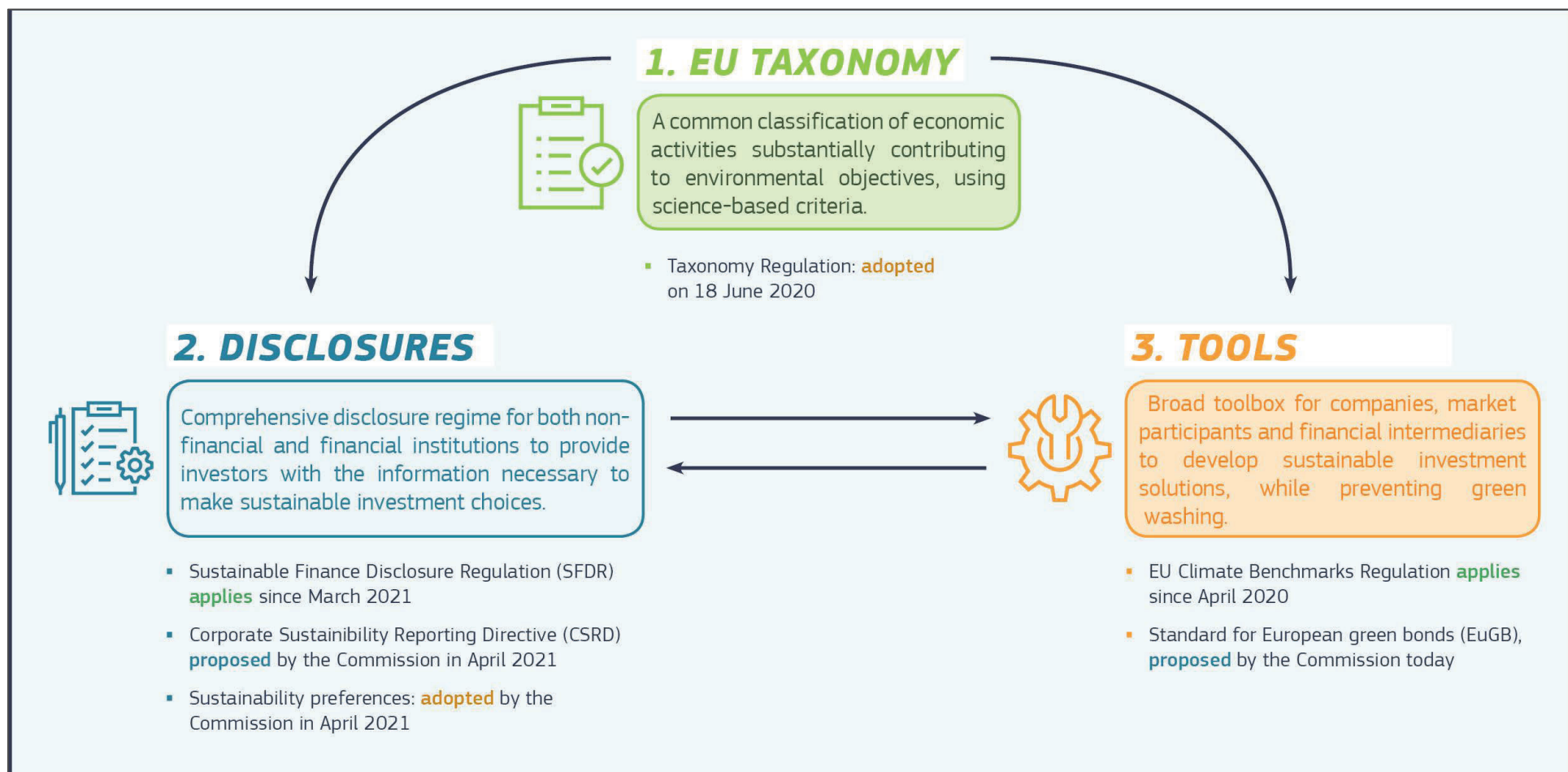


Sustainable Finance and the Issue of Greenwashing

FEPS policy breakfast - Financing the EU Green Deal

*29 September 2021
Martin Spolc, DG FISMA*

The foundations of the EU sustainable finance framework



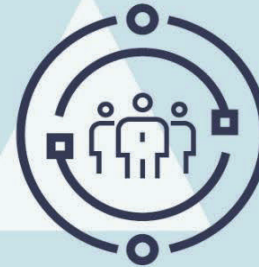
The European Green Deal announced a 'Renewed Sustainable Finance Strategy'

- Complete the work started under the 2018 Action Plan on Financing Sustainable Growth
- An evolved context provides need for additional measures in four key areas



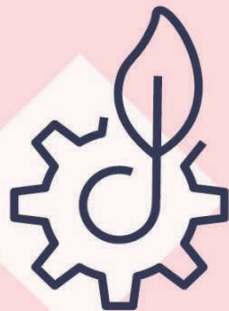
FINANCING THE TRANSITION TO SUSTAINABILITY

This strategy provides the tools and policies to enable economic actors across the economy to finance their transition plans and to reach climate and broader environmental goals, whatever their starting point.



INCLUSIVENESS

This strategy caters for the needs of, and provides opportunities to individuals and small and medium companies to have greater access to sustainable finance.



FINANCIAL SECTOR RESILIENCE AND CONTRIBUTION

This strategy sets out how the financial sector itself can contribute to meet Green Deal targets, while also becoming more resilient and combatting greenwashing.



GLOBAL AMBITION

This strategy sets out how to promote an international consensus for an ambitious global sustainable finance agenda.

Financing the transition and improving inclusiveness

I. Financing the transition of the real economy towards sustainability

Action 1: Develop a more comprehensive framework and help the financing of intermediary steps towards sustainability

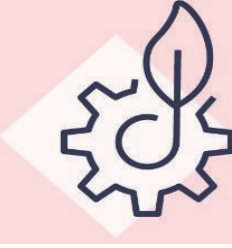
Recognise transition efforts
Include additional sustainable activities in the EU Taxonomy
Extend the framework of SF standards and labels

II. Towards a more inclusive sustainable finance framework

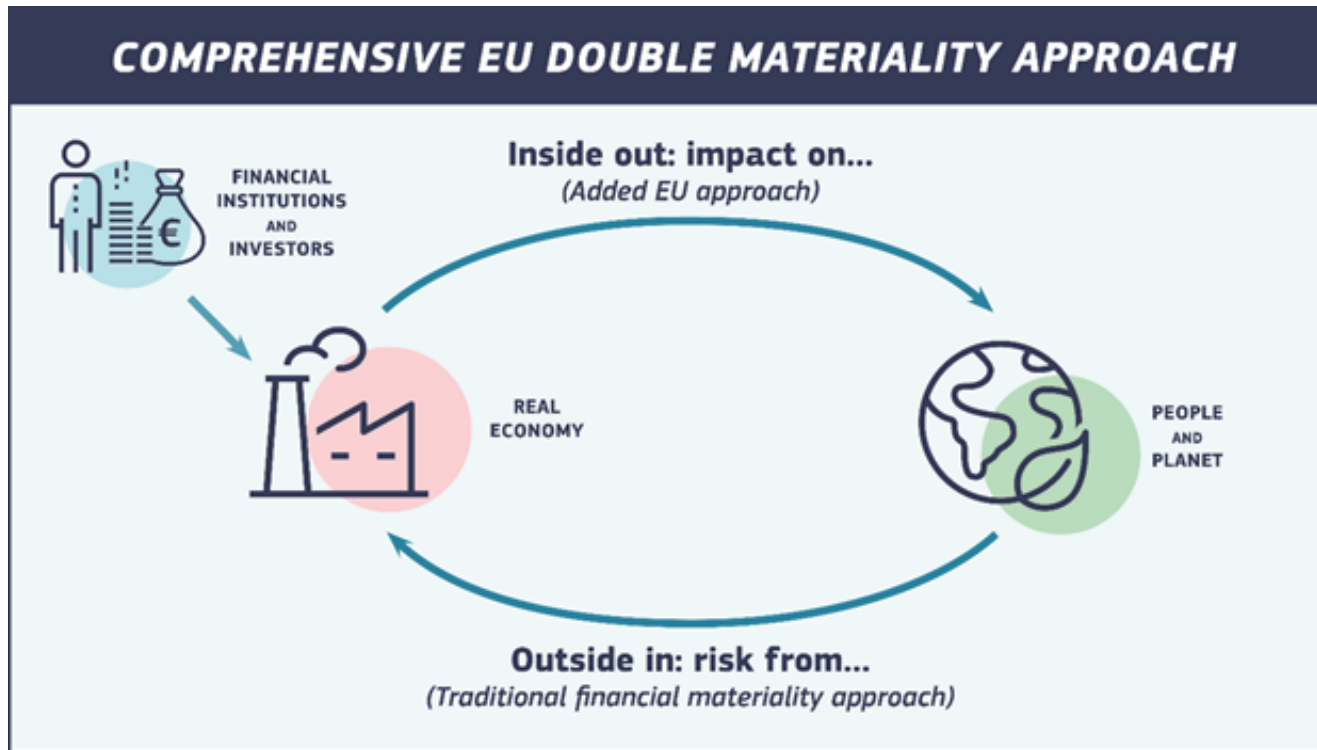
Action 2: Improve the inclusiveness of sustainable finance

Empower retail investors and SMEs to access sustainable finance
Leverage the opportunities digital technologies offer for sustainable finance
Offer greater protection from climate and environmental risks
Publish a report on a social taxonomy
Support green budgeting and risk-sharing mechanisms

The EU double materiality approach



III. Improving the financial sector's resilience and contribution to sustainability: the double materiality perspective



The **double materiality** approach consists of the systematic integration of both financially material sustainability risks (outside-in) and sustainability impacts (inside-out) in financial decision-making processes.

It is crucial that both angles of the materiality concept are duly integrated for the financial sector to contribute pro-actively and fully to the success of the European Green Deal.

Strengthening financial sector's resilience and contribution to sustainability

Action 3: Enhance economic and financial resilience to sustainability risks

Reflect sustainability risks in **financial reporting standards and accounting**
Identify and managing sustainability risks by **banks and insurers**
Manage sustainability risks at **system level**

Action 4: Increase the contribution of the financial sector to sustainability

Improve science-based target setting, disclosure and monitoring of the **financial sector's commitments**
Clarify the **fiduciary duties and stewardship rules** of investors to reflect sustainability impacts
Improve the availability, integrity and transparency of **ESG market research and ratings**

Action 5: Monitor an orderly transition and ensure the integrity of the EU financial system

Monitor **greenwashing risks** and assess and review the current supervisory and enforcement toolkit to address green-washing
Monitor an **orderly transition of the EU financial system** and develop a robust **monitoring framework** to measure capital flows and assist Member States in assessing the investment gap

Addressing greenwashing in the Strategy (Action 5.a)

Assess whether supervisory powers, capabilities and obligations of Competent Authorities as well as the enforcement measures taken by them are **fit for purpose** to effectively fight greenwashing. This includes:

Monitor greenwashing risks by the ESAs and competent authorities;

Ask the ESAs to **assess and report** to the Commission whether the current supervisory and enforcement toolkit available to competent authorities for monitoring, investigating and sanctioning greenwashing is sufficiently efficient, consistent and deterrent across the EU;

Consider whether **further steps** are necessary to enable supervisors to ensure a sufficient and consistent level of supervision and enforcement across the EU.

Fostering global ambition

IV. Fostering global ambition

Action 6: Set a high level of ambition in developing international sustainable finance initiatives and standards and to support EU partner countries

Seek an ambitious consensus in international forums

- Seek an ambitious consensus in international forums, mainstream the concept of double materiality, stress the importance of disclosure frameworks, and agree on objectives and principles for taxonomies.

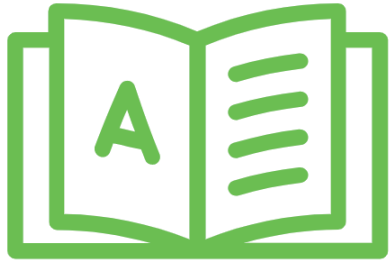
Advance and deepen the work of the IPSF

- Propose to expand the work of the IPSF to new topics and strengthen its governance.

Support low- and middle-income countries in scaling up their access to sustainable finance

- Support our low- and middle-income partner countries in scaling up their access to sustainable finance by developing a comprehensive strategy and by promoting sustainability-related financial instruments.

Taxonomy Regulation – defining sustainable



A classification system

Provides clarity on what is an environmentally sustainable activity and under which circumstances.



A measuring tool

Measures the degree of sustainability of an investment and the degree of green activities of companies

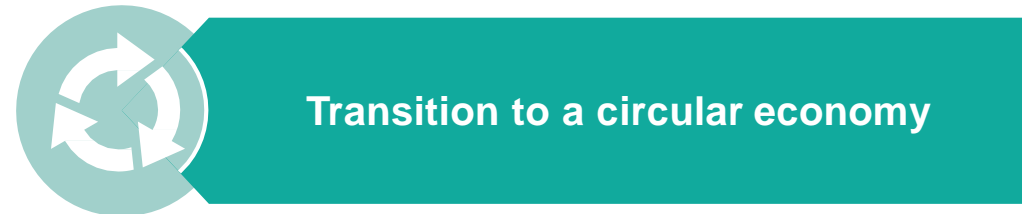
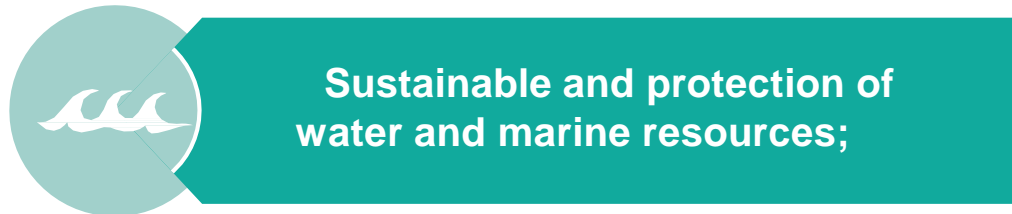


A transition tool

Helps investors and companies to plan and report on the transition. It sets the objectives and the direction of travel for different economic activities.

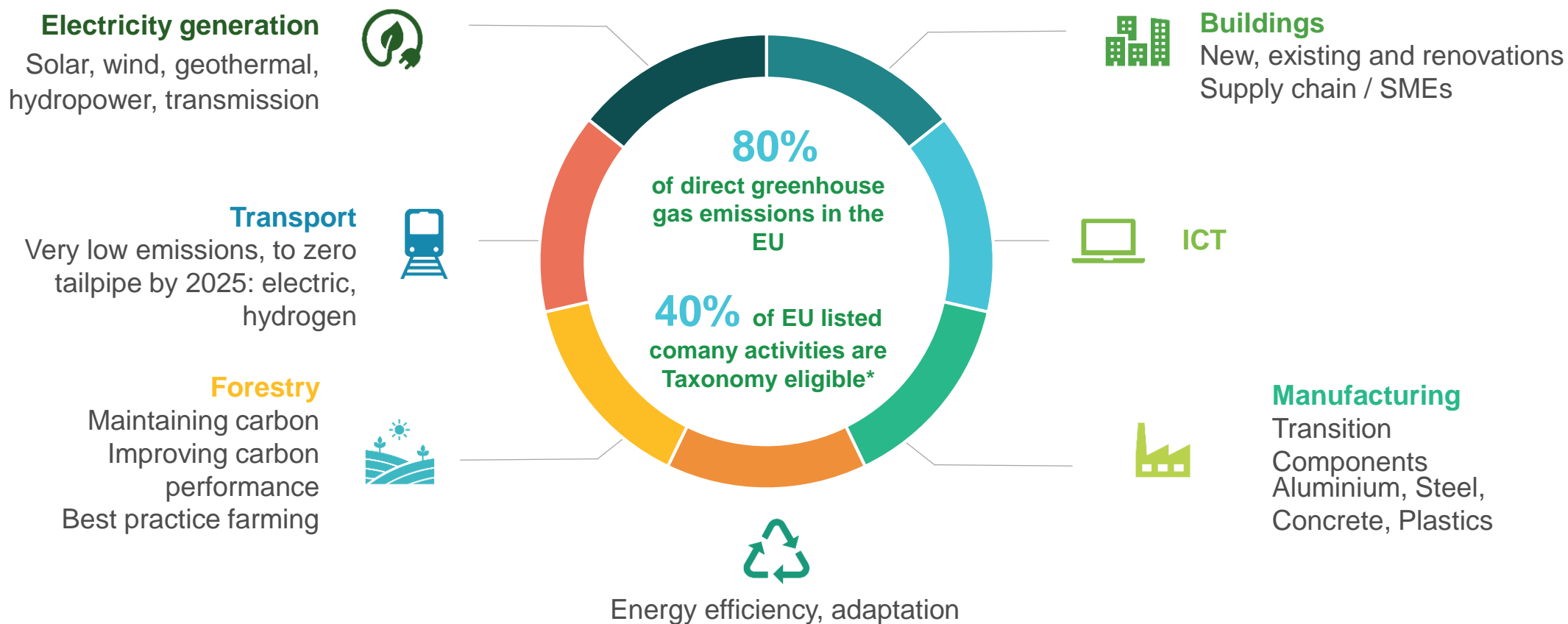
Ultimately, it helps raise the needed investments to build a net zero, resilient and environmentally sustainable economy.

Taxonomy Regulation: the climate and environmental objectives



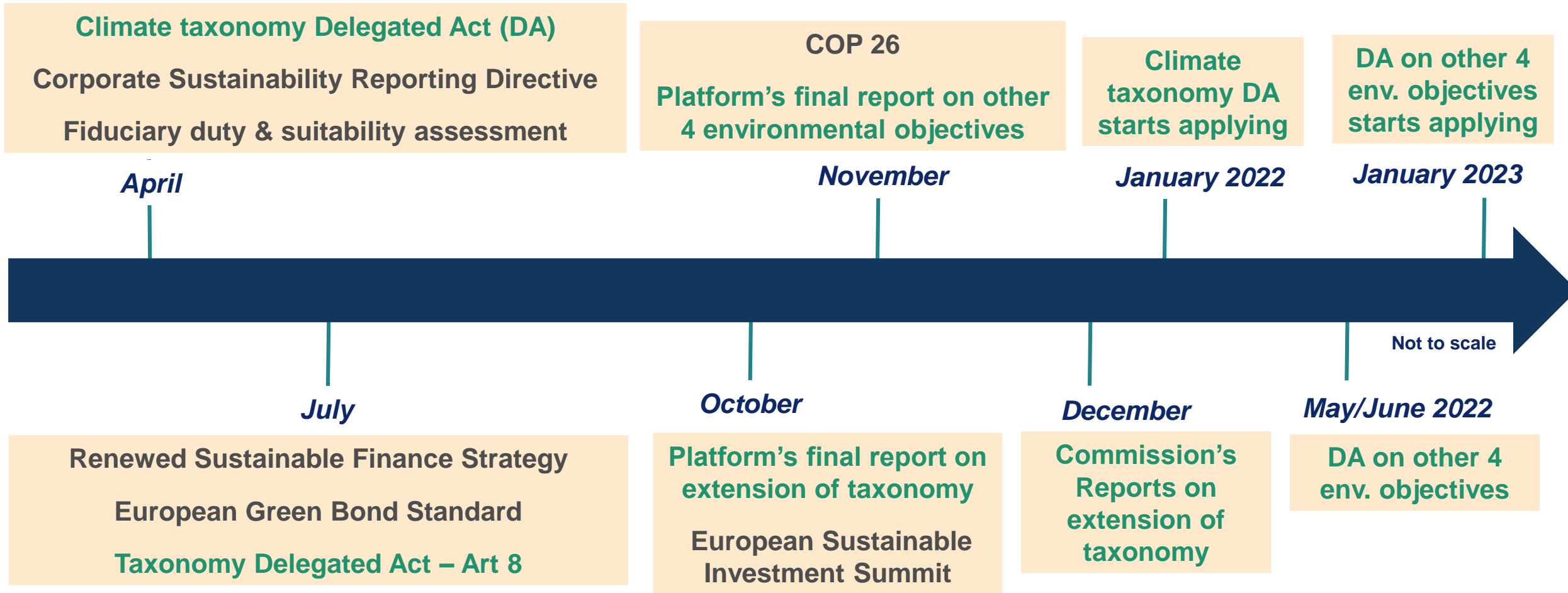
Taxonomy Climate DA - wide emissions and company coverage

First set of activities (draft Delegated act that covers climate change mitigation and adaptation objectives)



*Bloomberg company activity analysis conducted for Platform on Sustainable Finance

Sustainable Finance & **taxonomy** milestones



Proposal for Regulation on European Green Bond Standard (July)

Voluntary 'gold standard' based on concept of the Technical Expert Group on Sustainable Finance

Scope - Usable by all types of bond issuers (corporate, sovereign, etc.) worldwide = covers all types of bonds (corporate, sovereign, etc.); flexibility for sovereign issuers

Main requirement: Alignment with EU Taxonomy - Issuers must allocate 100% of the proceeds of the bond to finance Taxonomy-aligned economic activities, before maturity of the bond

Supporting the transition

- Issuers may issue European green bonds to fund projects aimed at becoming more Taxonomy-aligned
- 5-year grandfathering: if Taxonomy technical screening criteria are revised, unallocated bond proceeds can be allocated according to old criteria for five more years

Reporting requirements in line with market best practice

External review requirements in line with market best practice

Registration of external reviewers with ESMA - Role of ESMA: supervise, investigate complaints, impose fines or withdraw registration

Proposal for a Corporate Sustainability Reporting Directive – CSRD (April)

Wider scope:
all large & all
listed
companies

**Mandatory EU
sustainability
reporting
standards**

**Assurance
(audit)
requirement**

- ✓ Coherence with EU sustainable finance legislation
- ✓ EU standards that meet EU needs – and build on and contribute to global standards
- ✓ Clarity and certainty for reporting companies
- ✓ Relevant, reliable, comparable information for investors and others
- ✓ Coherence with international initiatives

Thank you



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