



## **Sustainable Finance. European Commission Action Plan. October 2018.**

In September 2016, as part of its objective to speed up the implementation of the Capital Markets Union, the European Commission announced the creation of a high-level expert group on sustainable finance with the aim of establishing a comprehensive strategy in this area.

Finance supports the economy and provides funding for business activities. The European Commission considers that investment decision-making, which is based on a wide range of factors, does not adequately assess environmental and social aspects. To this end, in December 2016, the European Commission created a high-level expert group on sustainable finance comprising 20 qualified experts. In January 2018, the expert group submitted to the European Commission a set of recommendations to steer the flow of public and private capital towards sustainable investments and minimise the possible risks of the European financial system due to its excessive dependence on carbon-related assets.

In this context, the European Commission published an Action Plan for financing sustainable growth on 8 March 2018. Under this Action Plan, the European Commission aims to reaffirm its commitment to join the fight against climate change with concrete measures that certify its solidarity with the Paris Agreement and with the Sustainable Development Agenda of the United Nations.

The Action Plan for financing sustainable growth aims to steer capital flows towards sustainable investments, managing the financial risks resulting from climate change and promoting transparency by broadening the time horizon of financial and economic activities. Its aim is to transform Europe's economy into a greener, more resilient and circular (renewable) system. This Plan consists of ten measures to be implemented by 2020.

The European Commission believes that sustainability and the transition to a low-carbon, more resource-efficient and circular economy are key in ensuring the long-term competitiveness of the European Union (EU) economy. It also aims to include environmental and social goals in financial decision-making in order to limit the financial impact of environmental and social risks.

In line with the above, the mentioned Action Plan for financing sustainable growth, published in March, includes the following ten actions:

- Establishing a unified classification system or taxonomy of the EU which will define the concept of sustainable finance and the possible fields of action.
- Creating EU labels for green financial products based on the aforementioned classification system.
- Fostering investment in sustainable projects.
- Incorporating sustainability when providing financial advice.
- Developing sustainability benchmarks.
- Encouraging financial analysts and their company reports, as well as credit rating agencies, to include these aspects in their analyses. ESMA is commissioned with the task of promoting awareness of these matters in credit rating agencies.
- Clarifying institutional investors' and asset managers' sustainability duties in making their investments.
- Incorporating sustainability in prudential requirements.
- Increasing transparency on these issues in corporate reporting.
- Fostering sustainable corporate governance and attenuating short-termism in capital markets.

The European Commission presented a package of measures related to this Action Plan on 24 May 2018.

One of these measures is a proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment. A significant element in this proposal is the development of a classification system to analyse the performance of sustainable activities, with concrete measures

such as the creation of standards and labels for sustainable financial products that will help investors make their investment decisions with the possibility of defining and using the EU Ecolabel framework for certain financial products.

The proposal is part of a broad and extensive European Union regulatory package which includes actions relating to the clean air policy, the circular economy, energy and measures on climate change adaptation. All these measures, actions and regulations must be interpreted in accordance with the EU's strategy on diversity and environmental protection.

It also establishes that transparency on sustainability should be published on the websites of financial market participants, including information on the methodology used to assess and manage the impact of sustainability criteria on investment decisions. In this regard, it establishes that EBA, EIOPA and ESMA will develop regulatory technical standards to implement them.

The proposal also foresees the creation of a public-private platform to implement the planned taxonomy.

Proposal 2018/22 on the establishment of a framework to facilitate sustainable investment establishes a time period for entry into force and application of the planned measures. The time horizon is as follows:

- a) The measures that must be adopted to mitigate and reduce climate change will be applicable from 1 July 2020.
- b) The measures relating to the transition to a circular economy, waste prevention, recycling and pollution prevention will be applicable from 31 December 2021.
- c) The measures relating to marine resources and the protection of ecosystems will be applicable from 31 December 2022.

Another regulatory proposal by the European Commission relating to this Action Plan is a proposal for Regulation 2018/0179, of the European Parliament and of the Council, on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341, which establishes new pre-contractual transparency requirements on sustainable investments, new transparency obligations to integrate sustainability risks in investment decision-making, transparency obligations relating to sustainability in periodic reports and obligations to publish these on companies' websites.

This proposal for a regulation affects financial market participants, insurance intermediaries that provide insurance advice and investment firms which provide investment advice with regard to the integration of sustainability risks in their investment decision-making processes.

This initiative, like other in the Plan, aims for the European Supervisory Authorities to be directly involved in accordance with the legislative proposal on the reform of the European Supervisory Financial System of September 2017, which instructs these Authorities to integrate environmental, social and governance risks within their scope of action.

In this regard, Article 8 of this Proposal for Regulation 2018/0179 establishes that EBA, EIOPA and ESMA may develop, through the Joint Committee, draft implementing technical standards to determine the standard presentation of information on sustainable investments.

There are other regulatory proposals within this regulatory package, which include the proposal for Regulation 2018/0189, of the European Parliament and of the Council, amending Regulation (EU) 2016/1011 on benchmarks.

The common denominator of all the aforementioned regulatory measures is the increase in information transparency in order to reduce information asymmetry between final investors, financial intermediaries and the providers of sustainability benchmarks.

The aim is to increase the attractiveness and reliability of ESG financial products (financial products that highlight environmental, social and corporate governance aspects), and to reduce the current fragmentation of the market in terms of the methodology used to identify environmentally sustainable activities and investments.

**Link of interest:**

[Commission legislative proposals and sustainable finance](#)