EIT Climate-KIC response to the European Commission's public consultations on the Renewed Sustainable Finance Strategy

Introduction:

EIT Climate KIC welcomes the opportunity to provide comments on the Renewed Sustainable Finance Strategy.

Through a range of activities, Climate-KIC brings together its approximately 400 partners from government, business, academia, and the public and non-profit sectors **to create collaborative networks of expertise** to **identify and support innovation** that helps society mitigate and adapt to climate change. As active participants of the Technical Expert Group on Sustainable Finance, we outline the areas that we consider to be the most important for supporting the aims of the Renewed Sustainable Finance Strategy but have also provided more specific answers in the online form issued with this consultation.

5 Priorities

1. **Develop system risk management tools**

   The COVID-19 pandemic is a systemic risk which in terms of risk management bears similar characteristics to the Global Financial Crisis and several expected climate emergency system risks. The lived experience of COVID-19 has increased our common understanding of the meaning of system risk and we believe presents a meaningful opportunity to introduce new system risk management approaches that take better account of the connection between the financial system and the real-world human and environmental systems which it rests upon.

   This is a unique point in time to improve system risk management approaches in the financial system and work should be undertaken to ensure that financial risk is understood in terms of environmental (climate, biodiversity, pollution), social and governance impacts. A good starting point is to build upon the TCFD momentum and look toward further reform of disclosure approaches across the financial system. A modernized approach to collection, management and disclosure of risk data across the financial system could significantly improve the way in which the financial system invests in positive outcomes and manages risk of negative consequences of system risk like climate change and future pandemics. Beyond disclosure, enhancing a risk-literacy in the financial system is critical.

2. **Define destination for investment more clearly**

   We recognize the importance of mobilizing and unlocking financial flows (a quantity view). However, we recommend that equal emphasis must be put on defining the destination for these flows (a quality view). **The recommendations of the Technical Expert Group published in March 2020** for the establishment of an EU Sustainable Finance Taxonomy are important in this regard, since the criteria defined identify both what is a substantial contribution and what investments cause significant harm. In other words, it spells out what quality investments need to look like to enable finance to deliver the transition we need to ensure continued prosperity within Europe, and through the application of the Do No Significant Harm logic also identify what must not be invested in. The Renewed Sustainable Finance Strategy should build on this logic.

3. Strongly support green activities in addition to promoting the mitigation of emissions by polluting activities

There is a need to **increase incentives to invest in green opportunities to avoid emissions**, tying them clearly to opportunities for social and environmental benefits as well as focus on supporting polluters reduce emissions through divestment incentives. It can be significantly more productive to invest in avoiding emissions than reducing emissions. This can be achieved by:

- Develop support for SMEs who may struggle to engage with the transition through grants delivered to organisations that "orchestrate" transition and can provide tailored support, develop networks for SMEs to engage in.
- Define clear penalties for investing in environmentally harmful activities. Financial and identify what these harmful activities are building on the principle of Do no Significant Harm.
- Have policies that require that bonuses and promotions be given to investors who positively support the low carbon transition and or sustainable development goals

4. EU Policies must be consistent and coherent

EU policy must be both consistent and coherent in order to send clear signals to the financial community. One clear step in achieving greater consistency and coherence is to make sustainability and climate more prominent in EU Business and financial market law. This means that the EU should ensure that it walks the talk and looks to address incoherence, for example the lack of synergy between single market policies and circular economy policy.

As part of efforts to ensure coherence, capacity building amongst both regulators and the financial community is essential. Efforts to work to improve general climate literacy among the regulators and financial professionals already in the workforce is a key opportunity.

5. Develop a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data.

Areas for focus include:

- Asset-level data (location and ownership information of facilities and assets enabling effective cross linking with group entities and financial details,)
- Geospatial data (administrative, land usage, elevation)
- Environmental data (in which assets exist)
- Climate data (its links to risk and hazards)
- Policy, regulatory and legal environment (global, national, regional, local)

The structure adopted should consider important data management issues including Rights: Liability models: Dispute resolution and redress: Consent: Security: Legal frameworks: Usability: Logistics: Technology architecture: Operating principles