Sustainable Finance Strategy Consultation – Key messages

- The immediate focus should be on initiatives that safeguard and create jobs, while cutting emissions and supporting the green transition
- Clear and coherent pathways for the transition in specific sectors are required to increase investor confidence – and thereby investment
- Banks need the right incentives to support companies making the green transition – possibly including a “green supporting” factor
- New sustainable finance regulation and legislation must be implemented in a coherent, joined-up manner
- To avoid market fragmentation that can hamper sustainable finance and deter investment, global co-ordination is required on taxonomies and standards.

Europe has made significant progress in transitioning to a low carbon economy. We agree with the European Commission that now is the right moment to take stock and assess how Europe should redefine its sustainable finance strategy and the tools available for the future, to ensure that it can contribute to fulfilling the goals set out in the Green Deal. Europe’s economies have been severely damaged by the COVID crisis. As we repair and rebuild them, we must use this opportunity to accelerate the transition to the green economy, while creating jobs and supporting EU businesses.

The financial sector has a major role to play in this effort, and our main points are as follows:

1. Green jobs

The COVID crisis is forecast to increase unemployment across Europe. Even if such forecasts prove wrong, it is critical that finance creates new “green” jobs to ensure that the transition to the green economy is just and inclusive. This is why we support initiatives such as the retrofitting of homes; home insulation; investment in infrastructure required for electric vehicles; and investment in renewable energy such as wind, solar or hydrogen.

2. Sustainable economic recovery and just transition in the medium and long term

- The COVID crisis has exposed the need for economies to be resilient, so they can withstand shocks and impacts caused by events such as pandemics and climate change. The crisis has also exposed social challenges and inequalities which need to be addressed. So the challenge is to build more resilient, inclusive and sustainable economies.
- Public and private sectors must work together to define the mechanisms that can contribute to increasing financing and investment in sustainable projects. For instance,

the Covid recovery funds are an excellent opportunity to design a public-private investment strategy with sustainable ambitions.

- However, the urgent priority – especially for the financial sector - is to protect jobs and support businesses who have been hit by the Covid crisis. Any “conditionality” attached to the granting of funds should reflect this. Too stringent sustainable criteria could penalise companies, thereby increasing the risk of unemployment and bankruptcy.

3. Greater focus on the transition of the real economy sectors, beyond the financial sector

- To increase investment, investors and lenders need to be given as much certainty as possible. Therefore clear transition paths should be defined for the most relevant sectors, as part of a predictable, certain and coherent policy framework.
- We encourage the Commission to set clear trajectories towards achieving the European Green Deal priorities, closely linked to the priority areas already identified in the Covid recovery strategy, such as building retrofitting, smart mobility, and clean energy and infrastructure development. These will be significant in progressing towards the sustainability goals, but also make important contributions in terms of job creation. The more detailed these transition plans and sectoral strategies are (timelines, metrics, technologies and tools), the easier it will be for the financial sector to identify the business opportunities and solutions to support the transition of businesses.
- There are also significant opportunities ahead for SMEs. However often SMEs are unaware of the economic benefits of green investments and green technologies, in terms of potential paybacks and productivity benefits for example. More should be done to make advice available on topics such as energy assessments, as well as encouraging the development of dedicated, innovative SME products delivered via financial intermediaries.
- In addition, the retail space will play a significant role in channelling products to citizens and retail investors willing to contribute to the transition of the economy. It is important however that enough time is granted for these products to develop, as the market matures, to avoid limiting the supply with stringent criteria from the outset. This process should be accompanied by efforts to increase citizens´ awareness on sustainability and sustainable finance.

4. Defining the right incentives and tools to support sustainable financing

- Europe has taken a key step forward in the sustainability agenda with the development of the EU Taxonomy to classify sustainable activities. In future, we recommend the Commission and the future Platform on Sustainable Finance continue to focus on the implementation of the taxonomy and its further evolution to cover different shades of green and transition activities, as well as developments towards a social taxonomy. This would be aligned with the need to filling the financing gap for sustainable activities. Our focus and effort should not be shifted now, or in the near term, to developing a brown taxonomy, which could hit high emitting sectors which are making (or need to make) the transition to the green economy.

- Linked to this, we would discourage the Commission from penalising banks´ financing of high emitting sectors that are making the transition to the green economy. Such action could lead to banks cutting their lending to these sectors, which in turn could hamper those sectors efforts to make the transition. Europe must strike the right balance between the ambition to make the transition, and the capacity of the economy to undertake this transformation. The Commission could explore the possibility of introducing a "green" supporting factor, using the EU taxonomy, to encourage banks' financing of sustainable activities. Meanwhile, we think it is important that the EBA continues with its assessment on the prudential treatment of green and brown exposures due in 2025.
- We would also welcome further efforts to increase non-financial corporates ESG-related disclosures. In line with the future NFRD review, progress should be made to define common reporting metrics and standards to enable comparability of data. This would contribute to overcoming the current challenges faced by financial institutions when collecting ESG data from clients and would have a positive impact in investment and lending decisions.

5. Sequencing of the future sustainable finance regulatory framework

- Very significant progress has been achieved in Europe´s sustainable finance agenda over the last two years, thanks to the effort and dedication of policymakers, technical experts, industry and other stakeholders.
- More consideration should now be given to the sequence and timing of the different requirements arising from new pieces of legislation. The interconnection and dependencies between initiatives can make it challenging for the industry to comply with obligations if they are not adequately sequenced. As an example, financial market participants will face a challenge arising from the timing mismatch of the different disclosure obligations resulting from the Disclosure Regulation (10 March 2021), the EU Taxonomy technical screening criteria on climate change mitigation and adaptation objectives (1 January 2022) and the expected timing of the first round of reporting under the revised NFRD (potentially sometime in 2022). It is unclear how they will be able to fulfil these requirements whilst being reliant on information from their investees/borrowers who are not mandated to provide such information on their end.

6. International alignment

- Given the global dimension of climate change we encourage further coordination of the response at global level, aligning priorities and timelines for action. Europe´s leadership in this field positions it as the natural conveyor for this greater coordination to materialise. The International Platform on Sustainable Finance and the Network for Greening the Financial System) are excellent fora to exchange best practices across countries. They should be used to align approaches on taxonomies, labels and standards and reporting as much as possible. This is key to avoid market fragmentation that can hamper the sustainable finance market and global investments.

- It would be equally important to reinforce the dialogue and collaboration with international standard setters such as the FSB, BIS and IOSCO.