Financing the Green Deal: Leveraging Private Investment

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"The European Green Deal is our new growth strategy. It will help us cut emissions while creating jobs."

Ursula von der Leyen
President of the European Commission

European Commission

CLIMATE NEUTRALITY BY 2050

Climate objective N°1: reduction of CO_2 emissions

2023: EU Member States update their national energy and climate plans to reflect the new climate ambition.

* The emissions that will not be eliminated by 2050 will be removed e.g. via natural carbon sinks such as forests and carbon capture and storage technologies

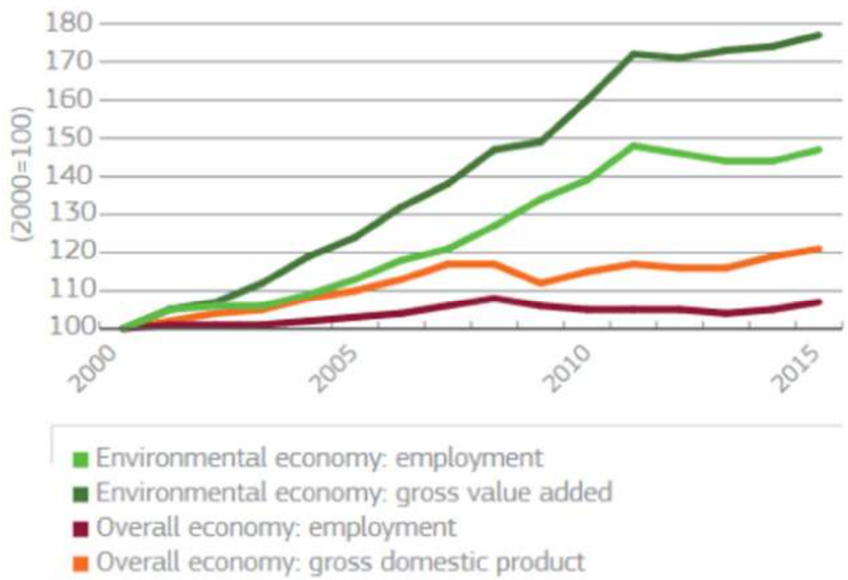
European Commission


Green Growth


Green Growth
Is it possible???

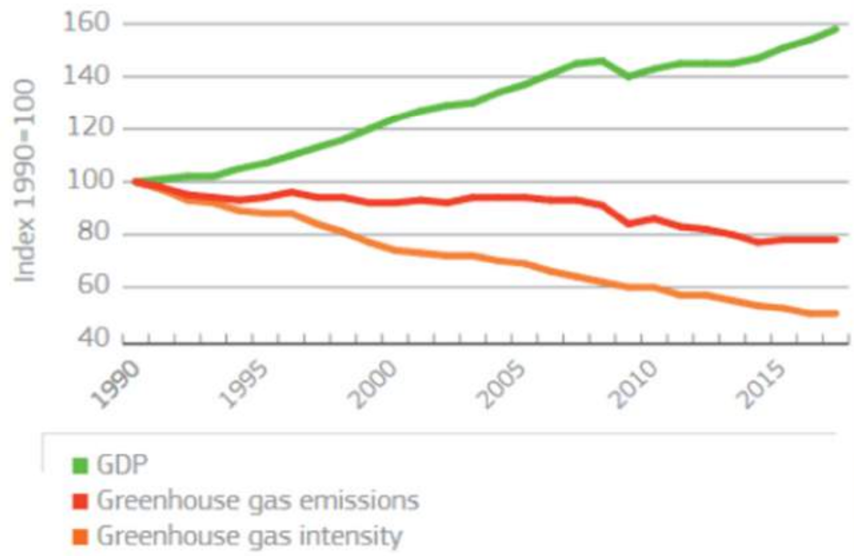
A new growth strategy for Europe

In the EU environmental economic sectors are growing faster than the overall economy



Source: Eurostat; European Commission.

EU demonstrates that economic growth and low-carbon transition are compatible



Source: European Commission, European Environment Agency.

The EU keeps increasing its ambition on climate change

2014-2019

Jean Claude Juncker, 2014

A Resilient Energy Union with a Forward-Looking Climate Change Policy

Target

- **40%** cuts in greenhouse gas emissions by 2030
- **32%** renewables in energy consumption
- **32,5%** energy savings

Progress

Climate and energy legislation, if implemented: 45% greenhouse gas emission by 2030

2019-2024

Ursula von der Leyen, 2019

A European Green Deal

Target

- **50-55%** cuts in greenhouse gas emissions by **2030**
- **Climate-neutral** continent by **2050**

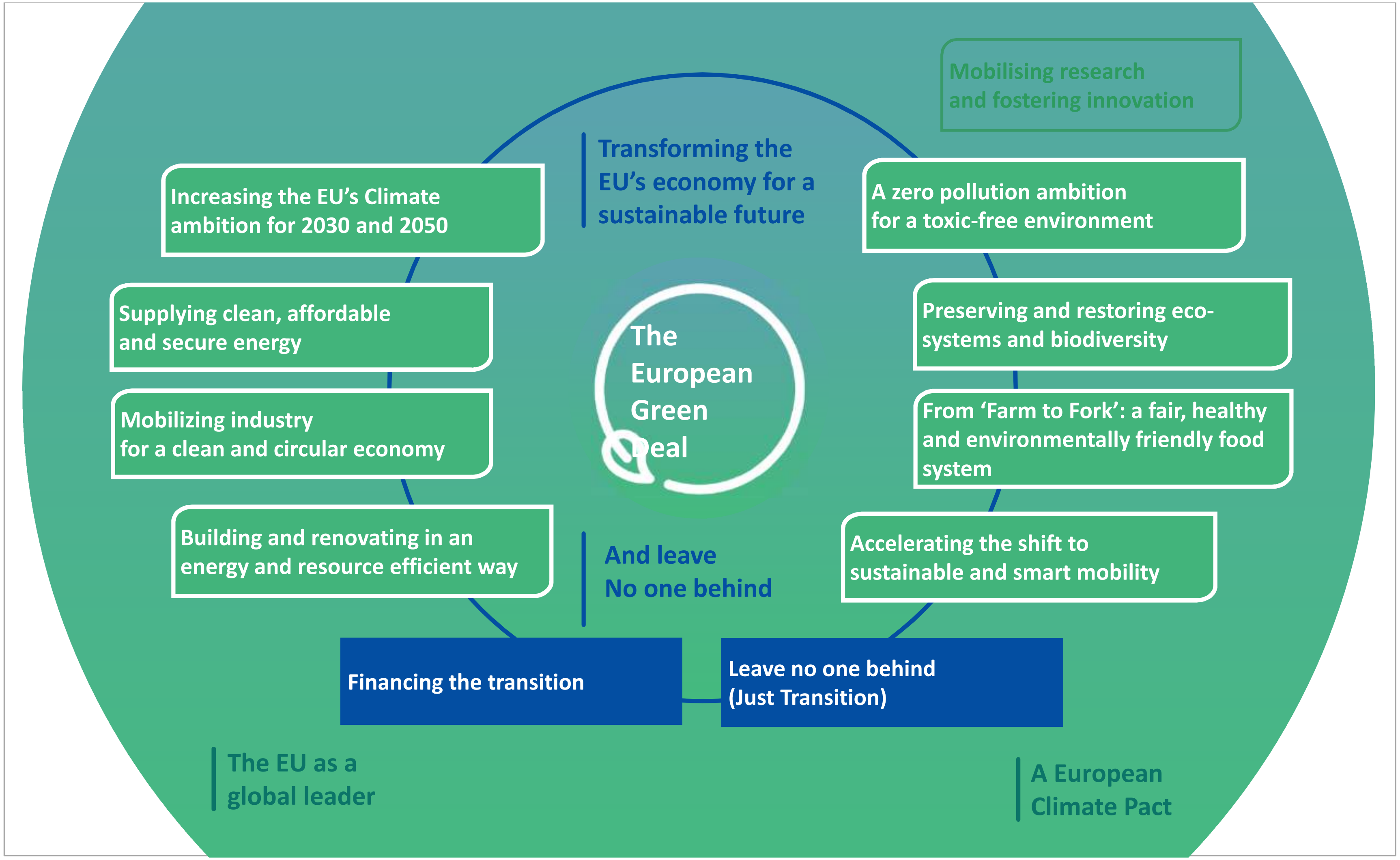
Targets envisaged

Public money

The yearly investment gap to meet these targets is estimated to be **between € 175 to 290 billion.**

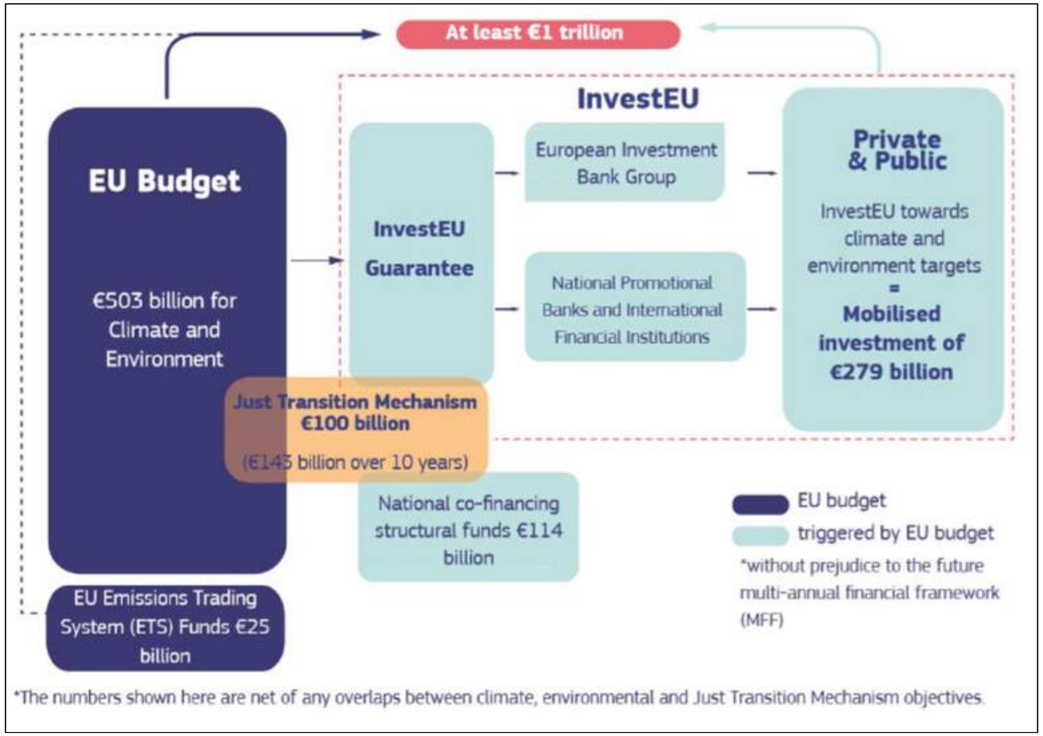
Private money

The European Green Deal



Who will pay for it?

Adopted on 14 January 2020, the European Green Deal Investment Plan is the investment pillar of the Green deal. The plan will mobilise at least €1 trillion in sustainable investments over the next decade.



It has 3 objectives:

1) **Increase funding for the transition through the EU budget**
2) **Create enabling framework for private investors and the public sector to facilitate sustainable investments**
3) **Provide support to public administrations and project promoters**

Towards a renewed sustainable finance strategy

We need a renewed sustainable finance strategy as a part of the European Green Deal

European Green Deal

Sustainable Europe Investment Plan

Biodiversity Strategy for 2030

New Circular Economy Action Plan

Sustainable Finance Strategy

European Climate Law

Just Transition Fund

Renewed sustainable finance strategy

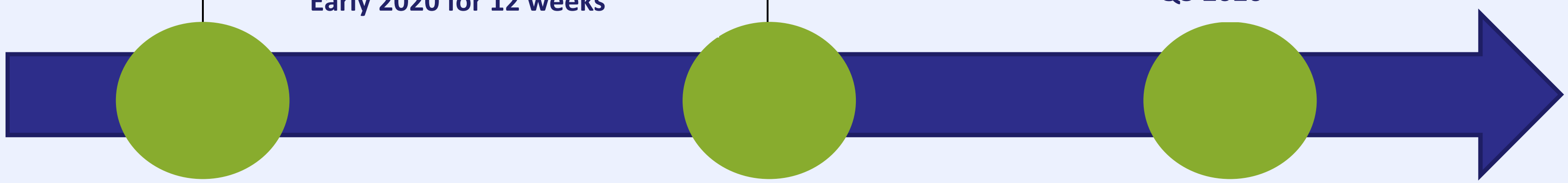
Public consultation

to define the basis of a new strategy and hear views from all stakeholders

Early 2020 for 12 weeks

Publication of the future strategy

Q3 2020



Towards a new sustainable finance strategy

Preliminary ideas on the Renewed Sustainable Finance Strategy- 3 Pillars	
I. Strengthen the foundations for sustainable investment	Examples: • Corporate governance framework to integrate long-term development and sustainability aspects • Revision of the Non-Financial Reporting Directive • Support businesses and other stakeholders in developing standardized natural capital accounting practices within the EU and internationally
II. Increased opportunities for investors and companies	Examples: • Labels for retail investment products • EU green bond standard
III. Climate and environmental risks management and integration	Examples: • Better integrating such risks into the EU prudential system • Examine how our financial system can help to increase resilience to climate and environmental risks

Financing the Green Transition

Ambition

Reaching climate neutrality by 2050 while ensuring that the transition is just and fair

Large-scale Investment

EU Budget	Commission's target = at least 25% of EU expenditure contributing to climate objectives for the 2021-2027 Multi-Annual Financial Framework
Blended Finance	InvestEU & European Fund for Sustainable Development (EFSD)
Private Finance	**Commission Action Plan on financing Sustainable Growth**

Commission Action Plan on financing sustainable growth

Reorient capital flow towards more sustainable investments

1. Establish a **Taxonomy** of environmentally sustainability activities
2. Create **standards and labels** for green financial products
3. Fostering **investment in sustainable projects**
4. Incorporate **sustainability** in providing investment **advice**
5. Develop sustainability **benchmarks**

Mainstreaming sustainability in risk management

6. Better integrate sustainability in ratings and market research
7. Clarify institutional **investors**' and asset managers' **duties**
8. Incorporate sustainability in **prudential requirements**

Foster transparency & long-termism

9. Strengthen corporate **sustainability disclosure**
10. ↑sustainable **corporate governance** and ↓ short-termism

Action plan on financing sustainable growth - overview

Commission's actions stretch across the whole investment chain

1	**Taxonomy**	Develop an EU classification system for environmentally sustainable economic activities
2	**Standards and labels**	Develop EU standards (such as EU Green Bond Standard) and labels for sustainable financial products (via **Ecolabel**) to protect integrity and trust of sustainable finance market
3	**Fostering investment in sustainable projects**	Exploring measures to improve the efficiency and impact of instruments aiming at investment support. **Mapping on investment gaps and financing.**
4	**Incorporating sustainability in financial advice**	Amend MiFID II and IDD delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment.
5	**Developing sustainability benchmarks**	Develop climate benchmarks and ESG disclosures for benchmarks
6	**Sustainability in research and ratings**	**Explore how credit rating agencies could more explicitly integrate sustainability in to their assessments.** Study on sustainability ratings and research and exploring possible measures to encourage their uptake.
7	**Disclosures by financial market participants**	Enhance transparency to end-investors on how financial market participants consider sustainability
8	**Sustainability in prudential requirements**	Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective)
9	**Strengthening sustainability disclosures and improving accounting**	Enhance climate and sustainability-related information provided by corporations
10	**Fostering sustainable corporate governance**	Collect evidence of undue short-term pressures from capital markets on corporations and consider steps for promoting corporate governance that is more conducive to sustainable investments.

European Commission

Key actions of the EU Commission

Action	Objective	Legislation **Level 1** (framework)	Technical advice	Legislation **Level 2** (detailed technical criteria)
1 **Taxonomy**	Develop an EU common language on environmentally sustainable economic activities	*Status:* **Deal**, pending endorsement by EU Parliament and Council ✓	Technical Expert Group (**TEG**) ✓	Pending the formal endorsement of level 1
2 **Standards and labels**	Develop EU standards (such as EU Green Bond Standard) and labels for sustainable financial products (via Ecolabel) to protect integrity and trust of sustainable finance market	To be considered/assessed	**TEG**: EU Green Bond Standard; JRC: ecolabel for financial products ✓	To be considered/assessed
4 **Disclosures by financial market participants**	Enhance transparency to end-investors on how financial market participants consider sustainability	*Status*: approved ✓	European supervisory authorities ✓	Delegated act under development
5 **Benchmarks**	Develop climate benchmarks and ESG disclosures for benchmarks	*Status*: approved ✓	**TEG** ✓	COM drafting secondary legislation based on TEG advice
8 **Sustainability in prudential requirements**	Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective)	Pending the result of technical assessment	EBA and EIOPA ✓	Pending the result of technical assessment
9 **Corporate sustainability disclosure**	Enhance climate and sustainability-related information provided by corporations	Depending on the result of the ongoing fitness check, possible amendment of the non-financial reporting directive*	**TEG** (climate-related information) COM fitness check on corporate reporting ✓	Pending the result of technical assessment

* The Commission issued guidelines on reporting climate-related information in June 2019

The Technical Expert Group on Sustainable Finance

The TEG assists the Commission in implementing four specific actions.

- Established in June 2018
- Mandate extended until end 2019
- 35 experts (17 women) selected from 240 qualified candidates

Working Groups	Mandate
Taxonomy	Technical screening criteria for environmentally sustainable economic activities
EU Green Bond Standard	An EU Green Bond Standard
Benchmarks	Minimum standards for climate benchmarks and benchmarks' ESG disclosures
Corporate Disclosures	Metrics allowing improving corporate disclosure on climate-related information

Stakeholder inclusion and transparency

- Meeting minutes **publicly available** at the Register of Commission expert groups
- **Workshops** and targeted interviews to inform TEG work
- **Open feedback** on TEG reports

TEG on Sustainable Finance assists the Commission

35 experts - from July 2018 to September 2020

1	2	3	4
Disclosures (reporting)	**Taxonomy**	**Benchmarks**	**Green Bond Standard**
guidance to improve corporate disclosure of climate-related information	Technical screening criteria for environmentally sustainable economic activities	Minimum standards for the two new types of climate benchmarks & Benchmarks ESG disclosures	An EU Green Bond Standard

January 2019

Call for feedback

June 2019

Call for feedback

Interim

June 2019

Call for feedback

September 2019

Interim

Mars 2019

Call for feedback

June 2019

European Commission

Taxonomy Regulation – Overview

Purpose and scope

Definition of environmentally sustainable economic activities for the purposes of sustainable investment

Scope:

- MS and the Union
- Financial market participants
- Large companies (>500 employees)

Disclosure

Disclosure by ***all*** financial market participants

➔ Amendments to Disclosure Regulation 2019/2088

+

Disclosure by **large companies** (as under scope of NFRD)

Environmental articles + TSC

To be included in the Taxonomy, an economic activity must meet the following conditions:

Substantially Contribute to one objective + Do not significantly harm any of the other 5 obj. + Minimum social* safeguards

Detailed by

+ Technical Screening Criteria

6 environmental objectives

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use & protection of water
4. Circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

Governance and review

- **Delegated acts** as in COM proposal
- Platform on sustainable finance (Art. 15)
- Member State Expert Group (Art. 16c)
- Review: Extension to "brown" or "shades of green", social objectives (Art. 17)

The TEG report on taxonomy – June 2019

TEG

Composed of 35 experts from civil society, academia, business and the finance sector, as well as 10 additional members and observers from EU and international public bodies

- All assessments made by TEG were based on scientific evidence, literature and international practice
- TEG report initial focus is on climate change mitigation and adaption

7 Sectors, 67 activities

- highest-emitting macro sectors (**represent 93.2% of GHG emissions in the EU**)

- Agriculture and forestry
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water, sewerage, waste and remediation
- Transport
- Information and Communication Technologies (ICT)
- Buildings

Screening criteria

- Substantial contribution to one environmental objective (for climate change mitigation → e.g. GHG emission thresholds)
- Do not significant harm to any of the other environmental objectives

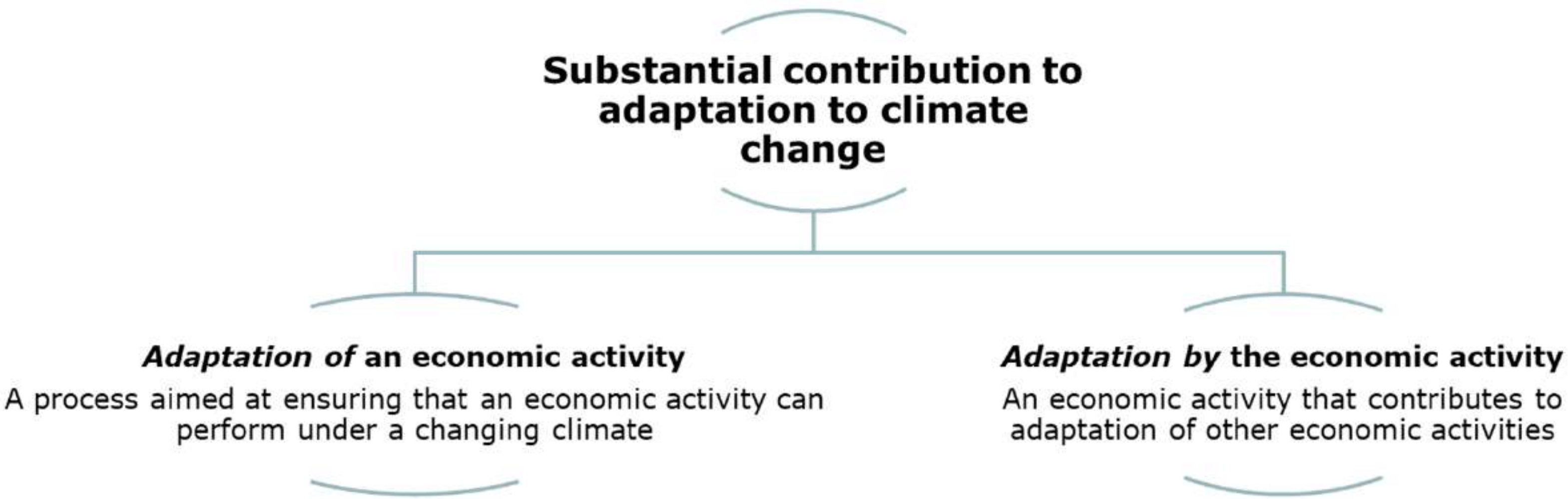
Substantial contribution to climate change mitigation

Characteristics	Type of activity	Criteria	Example
"Greening of"	**Already low carbon** (very low, zero or net negative emissions). Compatible with net zero carbon economy by 2050.	Likely to be stable and long term	**Electricity generation from solar PV**
	Contribute to a transition to a zero net emissions economy in 2050 or shortly thereafter, but are not currently close to a net zero carbon emission level.	Likely to be revised regularly and tightened over time	**Manufacturing of steel**
"Greening by"	Activities that **enable emissions reductions** in either of the two previous categories.	Some likely to be stable and long term, some likely to be revised regularly	**Manufacturing of wind turbines**

Activities that undermine mitigation objectives are **not** included.

Defining substantial contribution to climate change adaptation

- **Principle 1:** The economic activity reduces all material physical climate risks to the extent possible and on a best effort basis.
- **Principle 2:** The economic activity does not adversely affect adaptation efforts by others.
- **Principle 3:** The economic activity has adaptation-related outcomes that can be defined and measured using adequate indicators.



TEG report on proposed EU Green Bond Standard (1/2)

The report was published on 18 June, reflecting stakeholder feedback on the interim report

Main principles	(1) **Voluntary standard** applicable for both listed and non-**listed** bonds (2) Builds on best **market practices** (transparency and use-of-proceeds approach) (3) Applicable to **EU or international** green projects and issuers
Recommendations establishing the standard	**#01:** Create a **voluntary** EU Green Bond Standard. **#02**: The EU-GBS should comprise **four core components**: (1) alignment of Green Projects with the EU Taxonomy, (2) Green Bond Framework, (3) reporting on allocation and impact and (4) verification by accredited verifiers. **#03**: Encourage the set-up of a **voluntary interim registration process for Verifiers** of EU Green Bonds for an estimated transition period of up to three years until a permanent ESMA-led accreditation scheme comes into force.

TEG report on proposed EU Green Bond Standard (2/2)

Recommendations to support and monitor the adoption of the EU GBS	

#04: Investors are encouraged to use the requirements of the EU-GBS when **designing their green fixed-income investment strategies** and to **communicate their preference and expectations** actively to green bond issuers, as well as to underwriters.

#05: The TEG welcomes the recent political compromise on the **sustainability-related disclosures regulation** and recommends that the European Commission adopts an ambitious disclosures regime on green bond holdings for institutional investors.

#06: Consider promoting greening the financial system by expressing and implementing a **preference for EU Green Bonds**.

#07: Consider developing **financial incentives to support the EU Green Bond Market alignment with the EU-GBS**.

#08: The TEG encourages all types of bond issuers to issue their **future green bonds** in conformity with the requirements of the EU-GBS.

#09: Promote adoption of the EU-GBS through the **EU Ecolabel for financial products**.

#10: **Monitor impact on the alignment of financial flows with the EU Taxonomy's Environmental Objectives** and consider further supporting action including possible legislation after an estimated period of up to 3 years.

EU Green Bonds Standard (EU GBS)

Proposed core components

Alignment with EU taxonomy

Publication of a Green Bond Framework
explaining the voluntarily alignment and investment strategy

Mandatory Reporting
Allocation report
Impact report

Mandatory Verification by external reviewer

How would the EU-GBS work?

BEFORE OR AT ISSUANCE

GRADUAL ALLOCATION………………..…FULL ALLOCATION

Publication of Green Bond Framework

Issuer's Green Bond strategy and alignment with the
EU TAXONOMY

Description of types of Green Projects to be financed

Description of methodology and processes regarding allocation and impact reporting

Use of proceeds specified in the legal documentation

…

Annual Allocation Reports

Confirmation of alignment with EU GBS

Breakdown of allocated amounts per project or portfolio

Geographical distribution of Projects

Final Allocation Report

Impact Report

Impact reporting at least once (at full allocation), or annually

ACCREDITATION OF EXTERNAL VERIFIERS

DOCUMENT VERIFIED BY ACCREDITED EXTERNAL VERIFIERS

Key elements of the EU Green Bond Standard

Green projects	• Alignment with the environmental objectives and technical screening criteria as defined in the **EU taxonomy** • Physical or financial assets, tangible or intangible: any capital expenditure and selected operating expenditure such as maintenance costs related to green assets that either increase the lifetime or the value of the assets, as well as research and development costs, and relevant public investments and public subsidies for sovereign and sub-sovereigns • Green assets qualify without a lookback period, and eligible green operating expenditure shall qualify with a maximum of three years lookback • The use of proceeds is specified either in the prospectus or in the final terms of the bond
Green bond framework	• Document explaining issuer's alignment with the EU taxonomy and environmental objectives, green bond strategy, project selection, methodologies and processes for allocation and impact reporting of the Green bond or Green Bond program • The issuer must produce it when confirming the alignment with the EU Green Bonds standard
Reporting	• Allocation and Impact reporting become mandatory • Allocation report needs to be published annually until full allocation of the bond proceeds, and Impact report at least once at the full allocation, and both reports thereafter, in case of any material change.
Verification	• Issuers shall appoint an external verifier that needs to be accredited • Verification applies (i) to the Green Bond Framework and (ii) to the Allocation Reporting

TEG proposed standards for 2 types of climate benchmarks with ESG disclosure requirements

Climate Benchmarks

EU Climate Transition Benchmark (EU CTB)

Minimum of **30%** relative de-carbonisation

Voluntary: green to brown ratio at least equal

EU Paris-aligned Benchmark (EU PAB)

Minimum of **50%** relative de-carbonisation

activity exclusions based on fixed thresholds

Voluntary: Green to brown ratio at least 4

Both types of climate benchmarks must:

- Demonstrate a significant decrease in GHG emissions intensity compared to their underlying investment universes or parent indices.
- Be sufficiently exposed to sectors relevant to the fight against climate change.
- Demonstrate their ability to reduce their own GHG emissions intensity on a year-on-year basis.
- Baseline exclusion (controversial weapons, societal norms, etc.)

Benchmarks ESG disclosure

- ESG factors are one of the key elements of the benchmark methodology
- All benchmarks should disclose whether or not they pursue ESG objectives and disclose key ESG factors in the benchmark statement; also should report on their degree of alignment with the Paris Agreement.

Asset Classes

All, except interest-rate and currency benchmarks

KPIs

Relevant to each asset class

supported by global standards

Climate Scenario Alignment

Which temperature scenario?

Methodology and data used

Disclosure templates

1. Methodology
2. Benchmark statement
3. Climate Scenario Alignment

Source: *European Commission:Proposal for a regulation amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks (2018).*

European Commission

Cimate benchmarks: Minimum Standards

	Climate Scenario	Allocation constraint	Self decarbonization	Relative decarbonization	Green to Brown (Voluntary)
	IPCC 1.5°C with no or limited overshoot	= or > Exposure to sectors highly exposed to climate change and its mitigation	-7% On average per annum, reduction in GHG emissions intensity until 2050	CTB: -30% PAB: -50% Minimum reduction in GHG emissions intensity compared to market index	CTB: = or > PAB: 4 * > Ratio between green revenues (%) and brown revenues (%) compared to market index
EU CTB	✓	✓	✓	✓	✓
EU PAB	✓	✓	✓	✓ ✓	✓ ✓ ✓ ✓

- EU CTBs and EU PABs should exclude companies involved in **controversial weapons** (selling, manufacturing, etc.), companies having been found in violations of global norms (i.e. UN Global Compact principles, OECD Guidelines) or in controversies arising from significant harm of at least one of the 6 environmental objectives.

In light of the legislative text as agreed between co-legislators, **the Commission shall review the minimum standards of the benchmarks by 31 December 2022**, in order to ensure consistency with the EU Taxonomy.

EU PABs shall further **exclude companies** that:

- derive 1% or more of their revenues from coal exploration or processing activities,
- derive 10% or more of their revenues from oil exploration or processing activities,
- derive 50% or more of their revenues from natural gas exploration or processing activities or
- derive 50% or more of their revenues come from electricity generation with a lifecycle GHG intensity higher than 100 gCO2e/kWh.

Goals and scope for benchmarks' ESG disclosures

Goals

Transparency | **Awareness** | **Comparability**

More informed benchmark selection

Allocation to more sustainable business models

Scope

In-scope

- **Listed equities**
- **Corporate credit & Sec.**
- **Sovereigns, Supranat. & Agencies**
- Private Debt, Infrastructure
- Private Equities
- Hedge Funds
- Commodities

Out-of-scope

- Interest rate benchmarks
- Currency benchmarks

Disclosure on sustainability by financial market participants and financial advisers

Disclosure regulation places the following requirements on financial market participants

Scope	What to disclose	Where to disclose	Who should disclose
All investment products	**How negative impacts on financial returns arising from sustainability risks are integrated in risk policies**	Websites, pre-contractual information, marketing communication	all financial entities
	How the financial entity considers adverse impacts on sustainability factors (negative externalities)	Websites, pre-contractual information	compulsory for financial entities >500 and holding companies, other entities to disclose on a comply or explain basis
Investment products with sustainability characteristics or objectives	**How these sustainability characteristics or objectives are met**	Pre-contractual information, websites, periodical reports, marketing communication	all financial entities

Source: *European Commission: Proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341 (2018).*

Climate-related disclosures

NFR Directive	Directive 2014/95/EU lays down the **rules on disclosure of non-financial and diversity information by large companies**. This directive amends the accounting directive 2013/34/EU. Companies are required to include non-financial statements in their annual reports from 2018 onwards. EU rules on non-financial reporting apply to **large public-interest companies with more than 500 employees**.
Non-binding guidelines	In June 2017 the European Commission published its **guidelines to help companies disclose environmental and social information**. These guidelines are not mandatory and companies may decide to use international, European or national guidelines according to their own characteristics or business environment.
TCFD recommendations	Established by the Financial Stability Board (FSB), the industry-led **Task Force on Climate-related Financial Disclosures (TCFD)** was set up in December 2015 to provide a set of recommendations designed to solicit **consistent, decision-useful, forward-looking information on the material financial impacts of climate-related risks and opportunities**, including those related to the global transition to a lower-carbon economy. They are adoptable by all organizations with public debt or equity in G20 jurisdictions for use in mainstream financial filings.

Commission's climate reporting guidelines – updated in June

Climate reporting Guidelines – June 2019

- Consistent with Non-Financial Reporting Directive.
- Supplement to general guidelines on non-financial reporting published in 2017, which still apply.
- Integrate TCFD recommendations.
- Based on proposals from the Technical Expert Group on Sustainable Finance.
- Target audience: the +/- 6,000 listed companies, banks and insurance companies under the scope of the Non-Financial Reporting Directive.
- Not legally binding.

Structure of the guidelines

5 reporting areas of the Non-Financial Reporting Directive

Business model | Policies | Outcomes | Risks | Indicators

↓

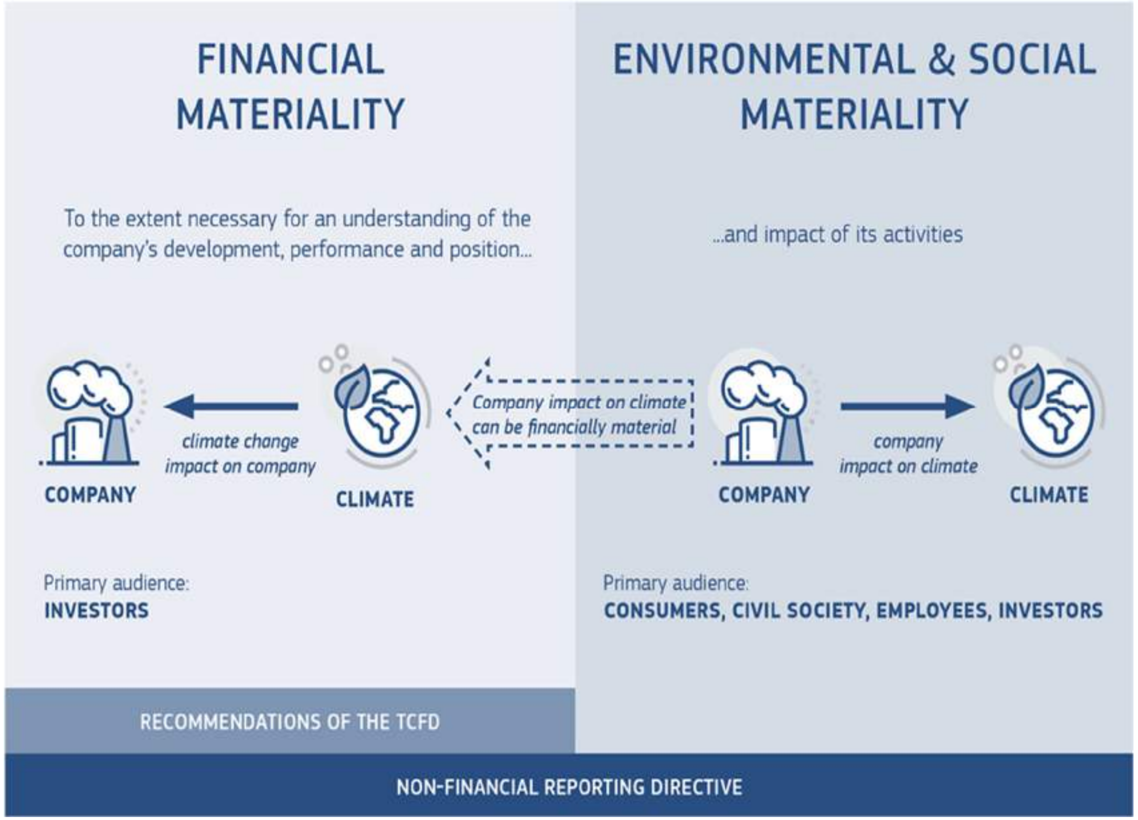
13 recommended disclosures and 10 KPIs
indicating which ones are TCFD recommended disclosures

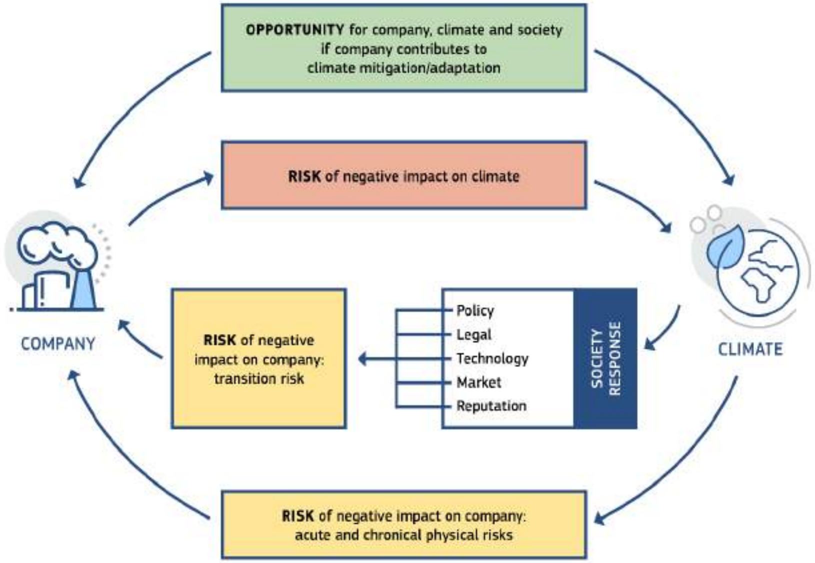
↓

Further guidance
+ specific further guidance for banks and insurance companies

COM guidelines and NFRD work with double materiality

Two important perspectives are considered in COM work on corporate disclosures…



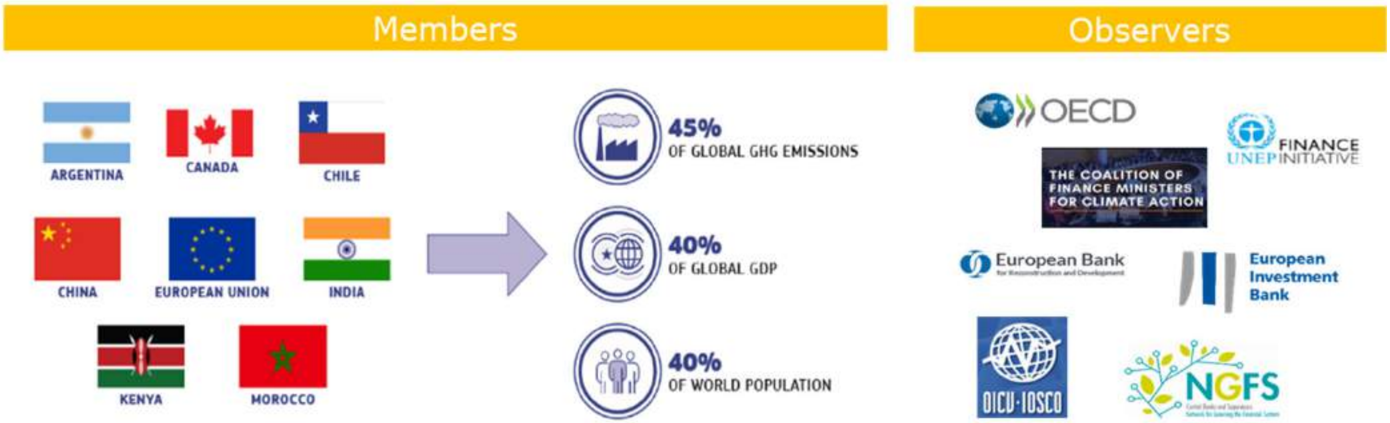


International Cooperation on Sustainable Finance

The EU's approach to climate action is going beyond the public sphere, with initiatives to mobilize international private investors

- The **global nature of financial markets** offers a great potential to help all countries on their transition path by linking financing needs to global sources of funding. This potential however, is still largely untapped
- To **mobilize international investors** => promoting integrated markets for environmentally sustainable finance and, develop a coordinated approach, while respecting national and regional contexts
- This is the reason why the **European Union** together with relevant **public authorities** from **Argentina, Canada, Chile, China, India, Kenya and Morocco** launched on 18 October 2019:

International Platform on Sustainable Finance (IPSF)



The International Platform on Sustainable Finance

Objectives

PROMOTE INTEGRATED MARKETS
for environmentally sustainable finance

SCALE UP THE MOBILISATION
of private capital towards environmentally sustainablefinance at global level

- Exchange and disseminate information to **promote best practices** in sustainable finance
- Compare the different initiatives and identify **barriers and opportunities** to help scale up environmentally sustainable finance internationally
- Respecting national and regional contexts, enhance international coordination where appropriate

Main focus of work

- **Green taxonomies** (i.e. classification of sustainable economic activities)
- **Green financial product standards and labels** to provide more confidence to investors and
- **Disclosures of sustainability-related information**

WHAT THE IPSF IS	WHAT THE IPSF IS NOT
It is a multilateral forum for facilitating **exchanges**.	**It is not an institutionalised body**, nor does it create any binding, legal or financial obligations on any member under domestic or international law.
It compares and coordinates efforts on initiatives and approaches to environmentally sustainable finance, while respecting national and regional contexts.	It does not create global standards nor does it impose to its members to adhere to other members' rules or approaches on environmentally sustainable finance.
It is a forum for **public authorities** in charge of developing environmentally sustainable finance policies and initiatives (ministries of finance/ economy, central banks, and supervisory and regulatory authorities).	It is not a forum for **private companies** whether or not, working on environmentally sustainable finance issues.

Paldies par uzmanību!