



Sustainable finance

**EU Strategy on Sustainable Finance
and the Role of the Technical Expert Group**

Content

1

Background Sustainable Finance

2

Actions on Sustainable Finance on EU-level

3

The Technical Expert Group

(Environmental) Sustainability: Definitions

Sustainable Development

Environmental

Social

Economic

Governance

Climate change
Mitigation

Climate change
adaptation

Other
environmental
objectives

Low-carbon

Climate

Green

Socio-environmental

Sustainable

The Case for Sustainable Finance

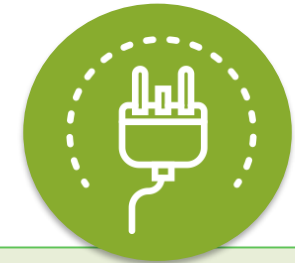
The EU committed to **three ambitious climate and energy targets for 2030** in line with the UN 2030 Agenda, the SDGs and the Paris Agreement.
In its **long-term strategy**, the EU strives for **net-zero GHG emissions by 2050**.



Minimum **40%** cut in greenhouse gas emissions compared to 1990 levels



At least a **32%** share of renewables in final energy consumption



At least **32,5%** energy savings compared with the business-as-usual scenario

Public money →

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

← **Private money**

Public supporting schemes alone will not be sufficient to meet those investment needs.
The private sector will have to play a huge role and a smart policy framework is needed to incentivise private investment.

Sustainable Finance in EU Sustainability policies

EU Sustainability Policies

Climate and Energy	Environment	Investment and Growth	Sustainable Finance
<ul style="list-style-type: none">▪ 2030 Climate and Energy Framework▪ Energy Union Package▪ EU Strategy on Adaptation to Climate Change	<ul style="list-style-type: none">▪ Natural Capital Management<ul style="list-style-type: none">▪ Air▪ Water▪ Land▪ Biodiversity▪ Circular Economy	<ul style="list-style-type: none">▪ Investment Plan for Europe (Fund for Strategic Investment (EFSI); InvestEU; EU cohesion policy funds)▪ External investment plan▪ Horizon 2020	<ul style="list-style-type: none">▪ Sustainable Finance within the Capital Markets Union
<ul style="list-style-type: none">▪ Long-term strategy to reach carbon neutrality by 2050<ul style="list-style-type: none">▪ EU Environmental Action Plan			

Sustainable Finance is one of the EU Sustainability Policy Pillars.

Content

1

Background Sustainable Finance

2

Actions on Sustainable Finance on EU-level

2.1 High Level Expert Group (HLEG)

2.2 The Commission's Action Plan on Financing Sustainable Growth

2.3 Legislative Proposals

3

The EU Technical Expert Group

EU Timeline on Sustainable Finance



Content

1

Background Sustainable Finance

2

Actions on Sustainable Finance on EU-level

2.1

High Level Expert Group (HLEG)

2.2

The Commission's Action Plan on Financing Sustainable Growth

2.3

Legislative Proposals

3

The EU Technical Expert Group

Action Plan on Financing Sustainable Growth

HLEG recommendations

Action Plan

Develop a **sustainability taxonomy** at EU level by 2020, starting with climate change



Clarify **investor duties** regarding sustainability in selected number of provisions (on a case-by-case basis), based on following principles



Upgrade **disclosure rules** to make sustainability risks fully transparent, starting with climate change



Enable **retail investors** to invest and benefit from sustainable finance opportunities



Develop and implement official **European sustainability standards**, starting with **green bonds**.



Establish a '**Sustainable Infrastructure Europe**' facility to expand the size and quality of the EU pipeline of sustainable assets



Encourage **sustainable finance excellence** by reforming the governance, financial culture and leadership of corporations



Include **sustainability in the supervisory mandate** of the ESAs and extend the horizon of risk monitoring



Content

1

Background Sustainable Finance

2

Actions on Sustainable Finance on EU-level

2.1

High Level Expert Group (HLEG)

2.2

The Commission's Action Plan on Financing Sustainable Growth

2.3

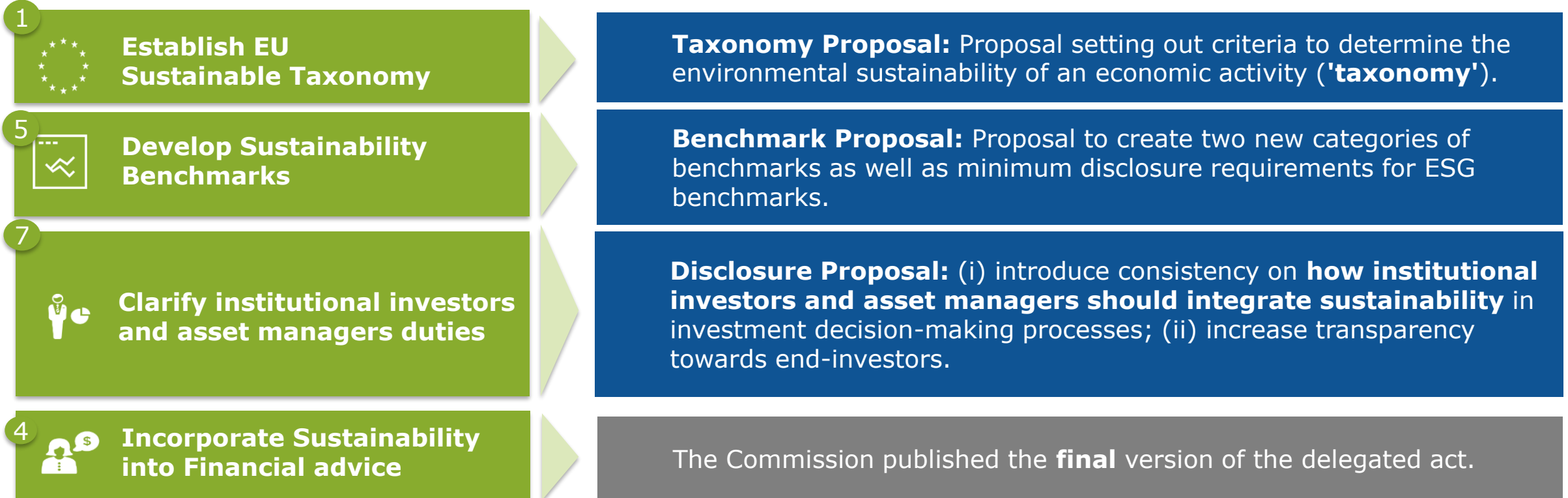
Legislative Proposals

3

The EU Technical Expert Group

The Legislative Proposals

The most urgent actions from the AP were taken forward as legislative Proposals in May 2018.



Content

1

Background Sustainable Finance

2

Actions on Sustainable Finance on EU-level

2.1 High Level Expert Group (HLEG)

2.2 The Commission's Action Plan on Financing Sustainable Growth

2.3 Legislative Proposals

Taxonomy

Benchmarks

Disclosures

3

The EU Technical Expert Group

What is the EU Sustainable Finance Taxonomy?

A list of **economic activities** with **performance criteria** for their contribution to **six environmental objectives**.

Environmental objectives

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy, waste prevention and recycling
5. Pollution prevention and control
6. Protection of healthy ecosystems

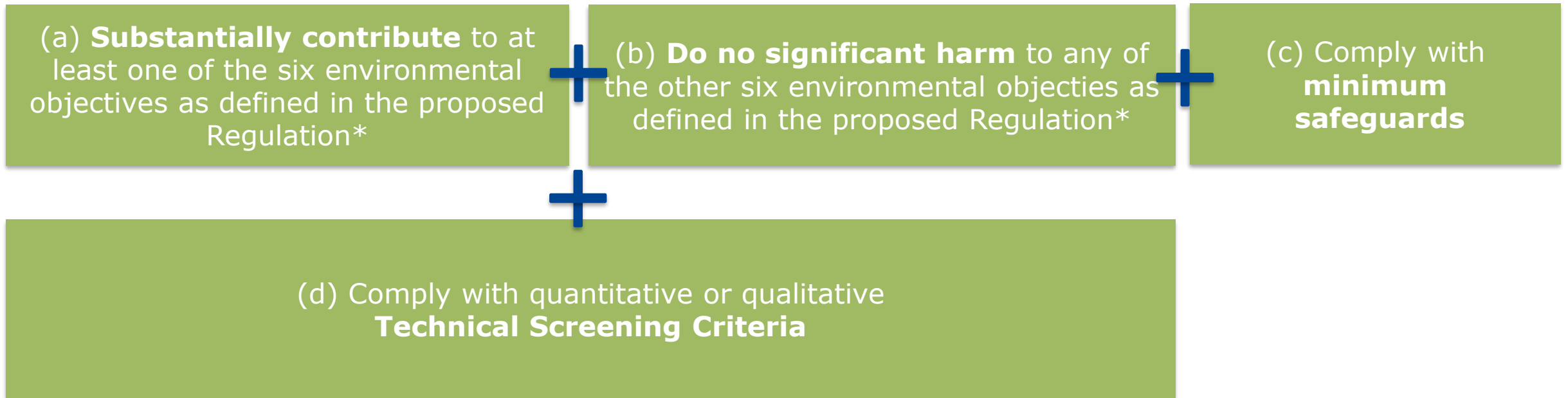
The Taxonomy Proposal

What is the Taxonomy?

A list of economic activities that are considered environmentally sustainable for investment purposes.

What is set out in the Proposal?

The framework to develop the taxonomy. For an economic activity to be on the list, it has to comply with four conditions:



*The six environmental objectives as defined in the proposed Regulation are: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy, waste prevention and recycling; (5) pollution prevention and control; (6) protection of healthy ecosystems.

Content

1

Background Sustainable Finance

2

Actions on Sustainable Finance on EU-level

3

The EU Technical Expert Group

The Technical Expert Group on Sustainable Finance

The TEG was established in June 2018 to assist the Commission in the **implementation of the Action Plan**. In particular in the development of:

1. Technical screening criteria for environmentally sustainable economic activities under the **EU taxonomy**;
2. An EU **Green Bond Standard**;
3. Minimum standards for methodologies of **climate benchmarks** and ESG disclosures of benchmarks; and
4. Metrics allowing improving **disclosure on climate-related information**.

The TEG subgroups

Taxonomy

Green Bond Standard

Benchmarks

Disclosures

Mandate of the Taxonomy subgroup

FRAMED BY THE TAXONOMY PROPOSAL

Within the framework of the EU Taxonomy Regulation proposal the subgroup will:

1. Determine a list of environmentally sustainable economic activities:

- contributing substantially to a given environmental objective
- starting with climate change mitigation and adaptation
- not significantly harming any (of the other 5) environmental objectives
- include technical screening criteria (methodologies, metrics, thresholds)

2. Assess the implications of the taxonomy considering the potential environmental, economic and financial (market) impacts.

Key features of the Taxonomy

- ✓ **Reflecting technological and policy developments:** The Taxonomy will be updated regularly by the Platform on Sustainable Finance which will replace the TEG after its mandate.
- ✓ **Building on market practices and existing initiatives**
- ✓ **What's not green is not necessarily brown.** Activities that are not on the list, are not necessarily polluting activities. The focus is simply on activities that contribute substantially to environmental objectives.
- ✓ **Facilitating transition of polluting sectors**
- ✓ **Technology neutral**

The "[spotlight on taxonomy](#)" provides a useful summary of the taxonomy and its features .

Climate mitigation - supporting economic transition

Characteristics	Type of activity	Criteria
"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
	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
"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.

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

TEG Reports: June 2019



User guide

- Concise guide to key concepts
- Examples
- Overview of the criteria



Technical report

- Full methodology;
- Use cases and case studies;
- 67 economic activities assessed for contribution to climate change mitigation;
- Methodology for adaptation tested on 9 activities.

+ Call for feedback (July 2019)

Why have a Taxonomy?

- Translate the Paris Agreement and SDGs;
- A common language for investors, issuers, policymakers, regulators;
- Put environmental data in economic context;
- Save time and money for investors and issuers;
- Support different investment styles and strategies;
- Avoid reputational risks;
- Deepen the conversation;
- Reward companies.

The Taxonomy:

IS	IS NOT
A list of economic activities and relevant criteria	A rating of good or bad companies
Flexible to adapt to different investment styles and strategies	A mandatory list to invest in
Based on latest scientific and industry experience	Making a judgement on the financial performance of an investment – only the environmental performance
Dynamic, responding to changes in technology, science, new activities and data	Inflexible or static

Who will use the Taxonomy?

The proposed regulation has two mandatory users;

1. Financial market participants

2. EU Member States

Under the Non-Binding Guidelines for Non-Financial Reporting, **Companies** are also encouraged to disclose in line with the Taxonomy.

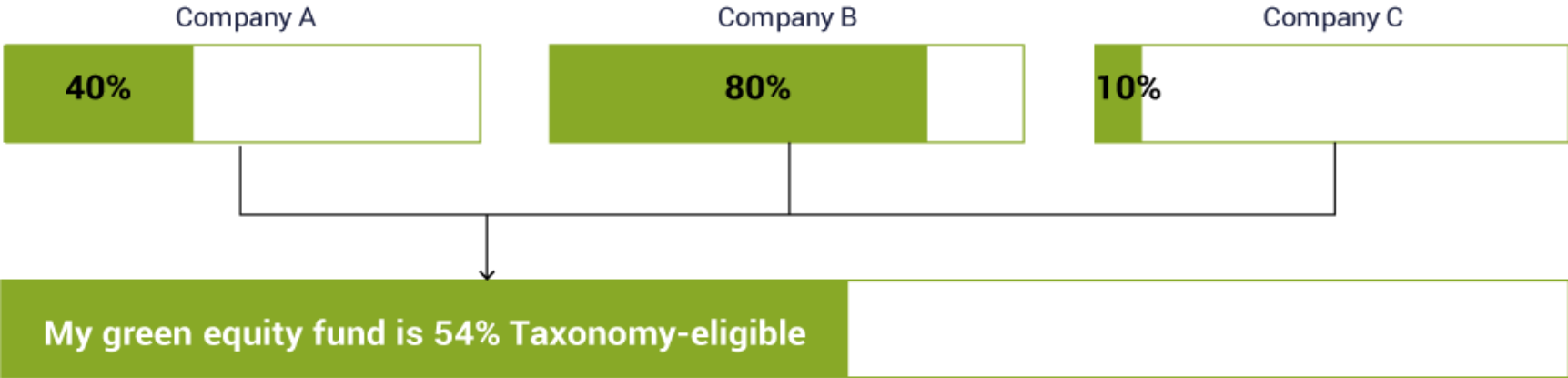
The Taxonomy can be used on a voluntary basis by **credit institutions** and other **issuers**, such as local authorities.

The Taxonomy in practice: Equities

How to apply the taxonomy to an equity portfolio



Proportion of the company revenue or turnover



Add each company's weighting in the portfolio

Five steps to calculate Taxonomy exposure








1	Identify the activities conducted by the company, issuer or covered by the financial product (e.g. projects, use of proceeds) that could be eligible.
2	For each activity, assess whether the company or issuer meets the relevant criteria for a substantial contribution e.g. electricity generation $<100\text{g CO}_2/\text{kWh}$.
3	Verify that the DNSH criteria are being met by the issuer. Investors using the Taxonomy would most likely use a due-diligence like process for reviewing the performance of underlying investees.
4	Conduct due diligence to avoid any violation to the social minimum safeguards stipulated in the Taxonomy regulation (article 13).
5	Calculate alignment of investments with the Taxonomy and prepare disclosures at the investment product level.

Selecting sectors

(1) High-emitting
macro sectors

(2) Enabling sectors



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

What makes a substantive contribution to climate change mitigation?

Type of activity	Technical screening criteria	Examples
1) Activities that are already low carbon. Already compatible with a 2050 net zero carbon economy	Likely to be stable and long-term	<ul style="list-style-type: none">• Zero emissions transport• Near to zero carbon electricity generation• Afforestation
2) Activities that contribute to a transition to a zero net emissions economy in 2050 but are not currently operating at that level.	Likely to be subject to regular revision, tending towards zero emissions.	<ul style="list-style-type: none">• Building renovation;• Electricity generation <100g CO₂/kWh• Cars <50g CO₂/km
3) Activities that enable those above.	Likely to be stable and long-term (if enabling activities that are already low carbon) or subject to regular revision tending to zero (if enabling activities that contribute to transition but are not yet operating at this level).	<ul style="list-style-type: none">• Manufacture of wind turbines• Installing efficient boilers in buildings

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.

Activities used to test adaptation approach

NACE Macro sector	Activities
Agriculture, forestry and fishing	<ul style="list-style-type: none">▪ Growing of non-perennial crops▪ Silviculture and other forestry activities
Electricity, gas, steam and air conditioning supply	<ul style="list-style-type: none">▪ Production of Electricity from Hydropower▪ Transmission lines
Water, sewerage, waste and remediation	<ul style="list-style-type: none">▪ Sewage
ICT	<ul style="list-style-type: none">▪ Provision of specialised telecommunications applications for weather monitoring and forecast
Finance and Insurance	<ul style="list-style-type: none">▪ Non-life insurance
Professional, scientific and technical activities	<ul style="list-style-type: none">▪ Research and development (natural sciences and engineering)▪ Engineering activities and related technical consultancy

Nine activities in six sectors were selected to test this approach. This initial assessment of economic activities does not represent a judgement on the vulnerability of other sectors to the negative effects of climate change or their contribution to climate change adaptation and resilience.

Avoiding significant harm

Why assess significant harm?

- To ensure that the technical screening criteria and the Taxonomy itself does not include economic activities undermining any of the environmental objectives.
- In cases where the TEG could not identify practices or criteria to mitigate potential harm, the activity was not included in the Taxonomy.

What are the criteria?

- The vast majority of the screening criteria build from existing EU regulations.
- The remaining DNSH criteria supplement regulatory requirements, taking the form of quantitative or qualitative thresholds.

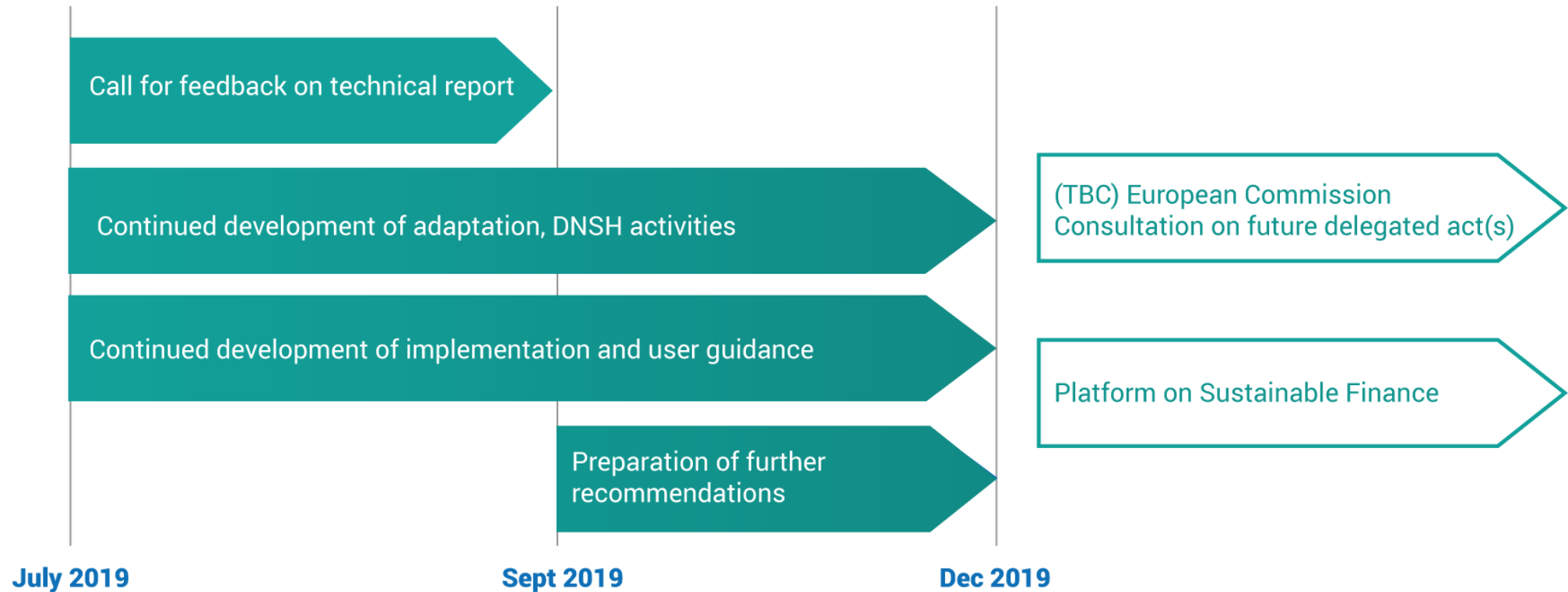
Example – Water supply

Sector classification and activity	
Macro-Sector	E - Water supply; sewerage; waste management and remediation activities
NACE Level	4
Code	E37.0.0
Description	<p>“Centralized wastewater treatment systems”</p> <p>Centralized wastewater systems (including collection and treatment), substituting untreated wastewater discharge or treatment systems causing high GHG emissions (e.g. onsite sanitation, anaerobic lagoons)</p>
Mitigation criteria	
Principle	Net GHG emission reduction through centralization of wastewater treatment thus substituting or avoiding decentralized sanitation systems with higher GHG emissions.
Metric	Construction or extension of centralized wastewater systems including collection (sewer network) and treatment is eligible, provided that the new wastewater treatment substitutes the untreated discharge of wastewater to the water bodies or more GHG emission intensive wastewater treatment systems.
Threshold	No threshold applies.
Rationale	
<p>This activity considers collection and waste water treatment line in wastewater treatment plants. The sludge treatment is included in another Taxonomy activity.</p> <p>From common practice (see 2006 IPCC Guidelines for National Greenhouse Gas inventories) it is known that any level of treatment (primary, secondary, or tertiary) achieves significant reductions of GHG emissions when compared with the emissions of the discharge of untreated wastewater in the water bodies or other on-site sanitation systems (such as septic tanks, anaerobic lagoons etc.).</p> <p>Compliance with relevant EU and national law as well as consistency with national, regional or local wastewater management strategies and plans is part of the approving process.</p>	

Example – Water supply

Do no significant harm assessment	
<p>Potential harm linked to centralised wastewater treatment is related to:</p> <ul style="list-style-type: none"> ▪ emissions to water from wastewater treatment ▪ Combined sewer overflow in case of heavy rainfall ▪ Sewage sludge treatment 	
<p>(2) Adaptation</p>	<p>A1: Reducing material physical climate risks. The economic activity must reduce all material physical climate risks to the extent possible and on a best effort basis. This means the activity integrates physical and non-physical measures aimed at reducing - to the extent possible and on a best effort basis - all material risks that have been identified through a risk assessment. The above-mentioned assessment has the following characteristics:</p> <ul style="list-style-type: none"> • considers both current weather variability and future climate change, including uncertainty; • is based on robust analysis of available climate data and projections across a range of future scenarios; • is consistent with the expected lifetime of the activity. <p>A2: Supporting system adaptation. The economic activity must not adversely affect adaptation efforts of others. This means:</p> <ul style="list-style-type: none"> • The activity does not lead to increased climate risks for others or hamper adaptation elsewhere • The activity is consistent with sectoral, regional, and/or national adaptation efforts.
<p>(3) Water</p>	
<p>(4) Circular Economy</p>	
<p>(5) Pollution</p>	<ul style="list-style-type: none"> • Ensure emissions to water are within the ranges set in the Urban Waste Water Treatment Directive. • Implement appropriate measure to avoid and mitigate combined sewer overflow in case of heavy rainfall, such as Nature-based solutions, separate rainwater collection systems, retention tanks and / or treatment of the first flush. • Ensure sewage sludge is managed/used (e.g, incineration, anaerobic digestion, land application) according to relevant national/EU legislation.
<p>(6) Ecosystems</p>	

What happens next?



The TEG subgroups

Taxonomy

Green Bond Standard

Benchmarks

Disclosures

Green Bond Standard subgroup's ambition

Key objectives:

To increase the flow of finance to green and sustainable projects by providing an official European and international standard representing best practice

To promote the credibility and impact of green bond markets through alignment with the EU taxonomy and environmental objectives, and

To support the market's integrity by providing a template for content and reporting as well as proposing a robust verification process performed by accredited parties.

The EU GBS will also enhance transparency, consistency and comparability of EU Green Bonds, and thereby set an example for the financial markets at large.

TEG Interim report on EU Green Bond Standard

Main principles

- (1) **Voluntary standard** applicable for both listed and non-listed bonds
- (2) Builds on **market practices** (i.e. allocation and tracking of proceeds)
- (3) Applicable to **EU or international** green projects and issuers

Recommendations establishing the standard

Create a **voluntary** EU Green Bond Standard

Monitor impact & consider further action

Set up in the future strong **verification & accreditation** system (centralized)

Market-based **voluntary registration** during a **transition period**



Recommendations to support the adoption

Adopt a “comply or explain” **disclosures regime** for institutional investors

Encourage all types of investors to report onf their EU **green bonds holdings**

Encourage the **ECB to prefer green bonds** complying with the standard

Consider a **financial incentives for EU Green Bonds**

Encourage all types of issuers to **issue green bonds complying** with the standard

Promote adoption of the EU Green Bond Standard through the **EU eco-label** for financial products

Key elements of the EU Green Bond Standard

Green projects

- Alignment with the EU taxonomy and the technical criteria, and/or alignment with the fundamental principles proposed for the taxonomy regulation
- Define eligible green assets (tangible and intangible), green capex, green expenditures from sovereign and some green opex when related to improving or maintaining value of eligible assets
- Define a specific look back period of 3 years for green expenditures and unlimited look back for Green assets
- Green project categories need to be mentioned in the bond documentation

Green bond framework

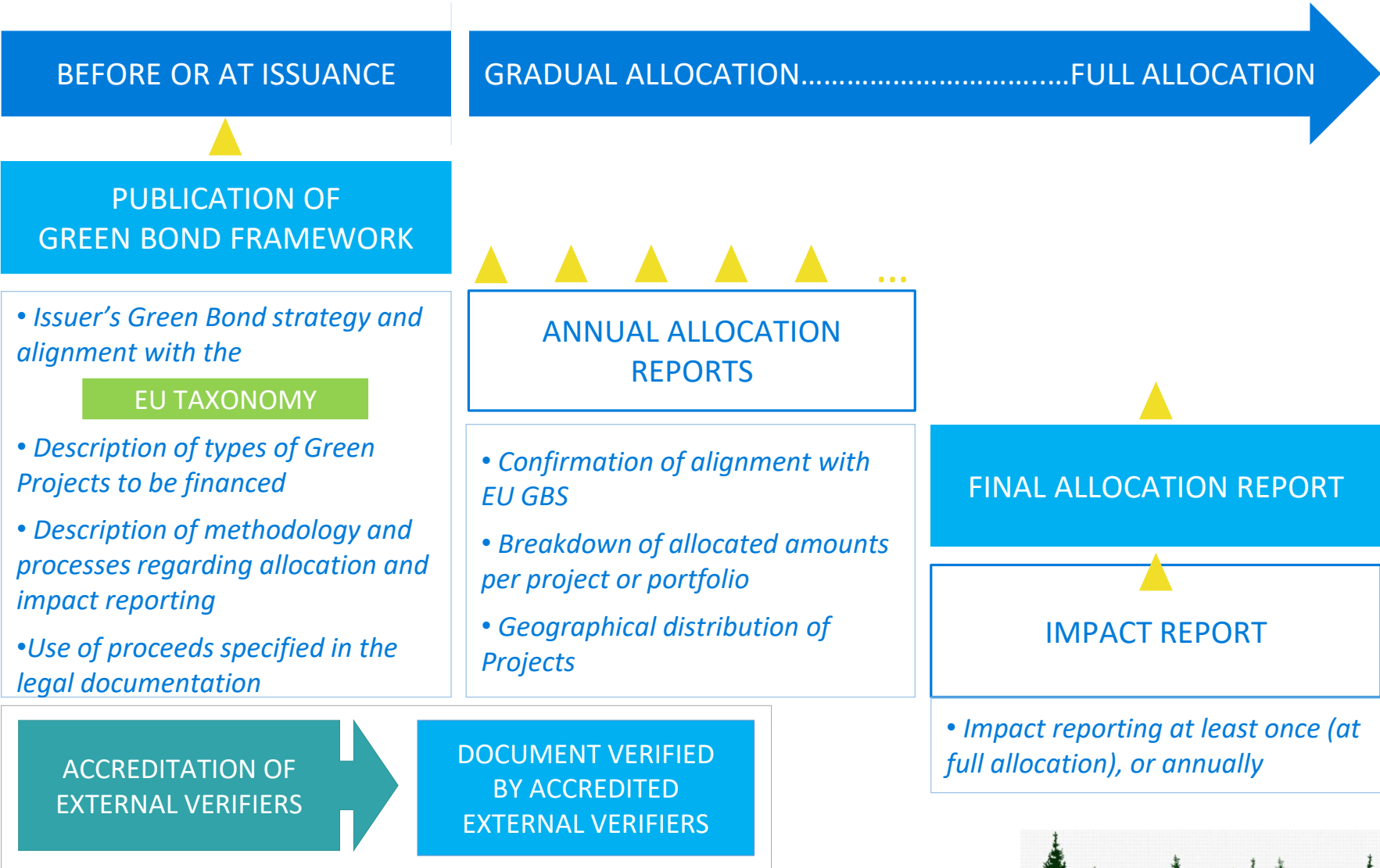
- **Document** proposed by the subgroup, covering issuer alignment with the environmental objectives, project selection and future reporting including impact of the Green bond or Green Bond program
- The issuer must produce it when confirming the alignment with the EU Green Bonds standard

Reporting

- Allocation Reporting **and** Impact Reporting become mandatory
- Such report needs to be published least annually, until full allocation of the bond proceeds to Green Projects and thereafter, in case of any material change in this allocation.

Verification

- Issuers shall appoint an external reviewers that need to be accredited
- Verification applies (i) to the Green Bond Framework and the bond documentation **and** (ii) to the Allocation Reporting. Impact Reporting verification is not mandatory.



Task of the TEG for green bonds and the next steps

- A proposal for a voluntary Green Bond Standard based on the current best practices. In addition, the report addresses the related incentives and a proposal to create an accreditation regime for verifiers.
- The report will be carefully considered as a basis for next steps taken by the next Commission including the work on EU Ecolabels for financial products.
- The subgroup and TEG will continue to support the EC with:
 - advice on the link between the EU-GBS and the Taxonomy
 - provide input and on the possible role on the future sustainability platform
 - work on designing the interim voluntary registration system for external verifiers,
 - develop user guidance.

