



Frankfurt School
FS-UNEP Collaborating Centre
for Climate & Sustainable Energy Finance



Overview on regulatory initiatives in the EU –
An Analysis tool for measuring 2 degree compatibility of financial
market regulation (3fP)

Zürich, 20. November 2018
Dr. Anne Michaels, FS-UNEP Centre

Initial situation

- A fundamental reorientation of the **financial system** is essential to support the transformation of the economy in line with the objectives of **limiting global warming** (Art. 2c Paris Agreement)
 - Role of financial market regulation: can play a decisive role in ensuring that financial institutions take account of **long-term (climate) risks** in their business
 - Control that key technologies gain access to capital
- The Greening Finance Tracker "**Finance fit for Paris (3fP)**" by WWF and FS provides a **platform** where relevant actors from business, society and politics can track status (and progress) of the regulatory framework

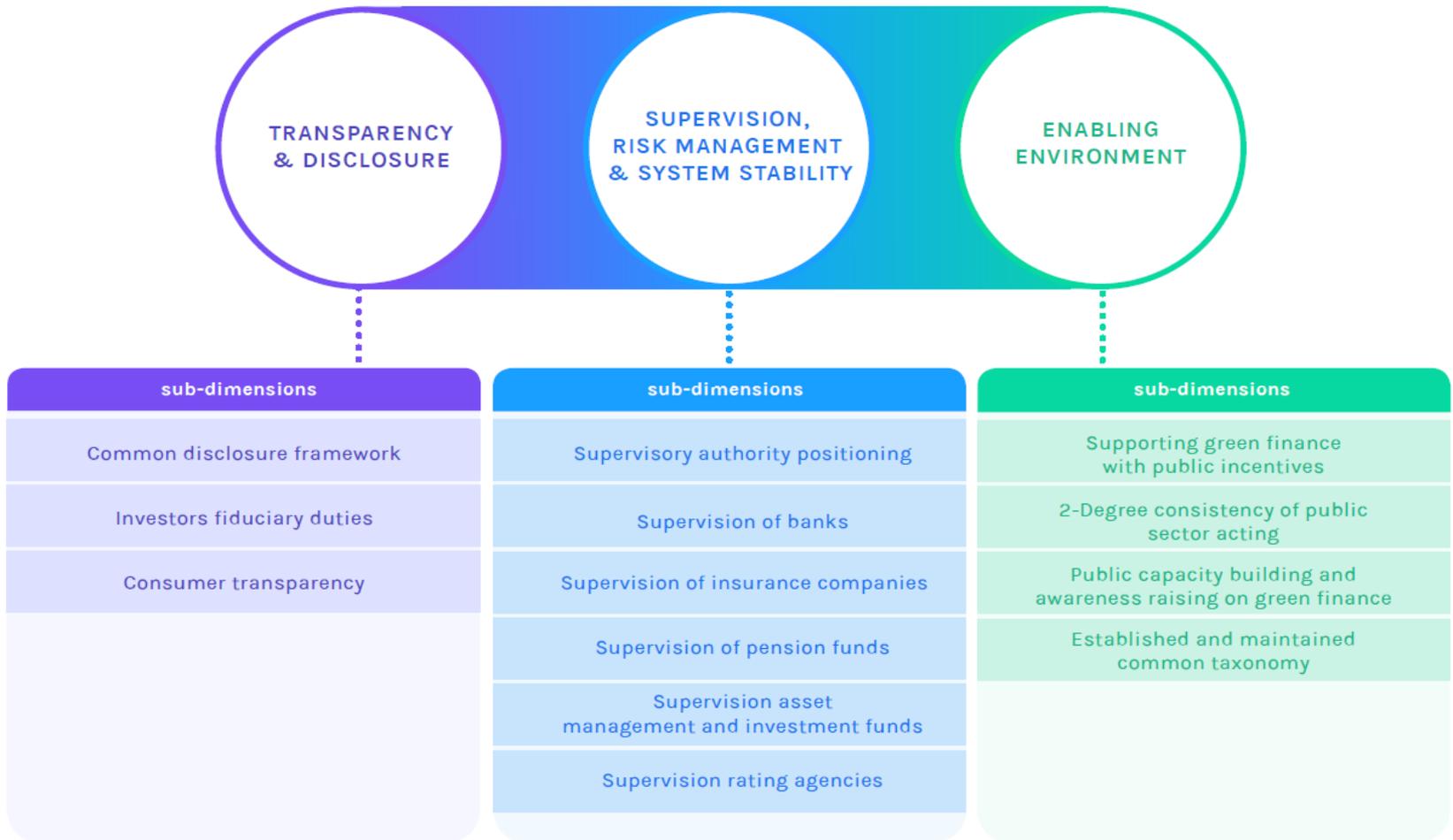
development.



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3fP structure



Summary EU assessment

European Union (EU) Summary Assessment

As of June 2018



OVERALL SCORE

4.56 /10

TRANSPARENCY & DISCLOSURE

DIMENSION SCORE **3.96** /10



**SUPERVISION, RISK MANAGEMENT
& SYSTEM STABILITY**

DIMENSION SCORE **4.98** /10



ENABLING ENVIRONMENT

DIMENSION SCORE **4.75** /10



EC Action Plan

EU Action Plan on Sustainable Finance

Reorienting capital flows towards a more sustainable economy

- 1) Establishing an EU classification system for environmentally sustainable activities (taxonomy)
- 2) Creating standards and labels for green financial products
- 3) Fostering investment in sustainable projects
- 4) Incorporating sustainability when providing investment advice
- 5) Developing sustainability benchmarks

Mainstreaming sustainability into risk management

- 6) Better integrating sustainability in ratings and research
- 7) Clarifying institutional investors and asset managers' duties
- 8) Incorporating sustainability in prudential requirements

Fostering transparency and long-termism

- 9) Strengthening sustainability disclosure and accounting rule-making
- 10) Fostering sustainable corporate governance and attenuating short-termism in capital markets

Action 6: Better integrating sustainability in ratings and research

- **ESG aspects for ratings:** EC invites ESMA to:
 - ESMA to assess current practices in the **credit rating** market by Q2 2019;
 - ESMA to include **environmental and social sustainability information in its guidelines on disclosure for credit rating agencies** by Q2 2019 and consider additional guidelines or measures, where necessary

Action 7: Clarifying institutional investors and asset managers' duties

- Existing regulation: **Shareholder Rights Directive 2017**
- EU Action Plan:
 - explicitly require institutional investors and asset managers to integrate ESG related considerations in the **investment decision-making** process
 - increase **transparency towards end-investors** on how they integrate such sustainability factors in their investment decisions, in particular as concerns their exposure to climate change related risks.

Action 8: Incorporating sustainability in prudential requirements

- Existing regulation: **EBA guidelines /EIOPA/ Solvency II / AIF / UCITS / IORP II**
- **Prudential requirements for banks and insurance companies**
 - Feasibility of the inclusion of risks associated with climate and other environmental factors in institutions' risk management policies and the potential calibration of capital requirements of banks as part of the **Capital Requirement Regulation and Directive**
 - Invite the **European Insurance and Occupational Pensions Authority** (EIOPA) to provide an opinion on the impact of prudential requirements for insurance companies on sustainable investments in line with the update of Solvency II in 2021

Action 9: Strengthening sustainability disclosure and accounting rule-making

- Existing regulation: **Directive on Non-Financial Disclosure** (2014/95/EU)
- The Commission is launching a **fitness check** of EU legislation on public corporate reporting considering TCFD recommendations
- By Q2 2019, **revision the guidelines on non-financial information** (legislative proposal)
- The Commission will request **European Financial Reporting Advisory Group** (EFRAG), where appropriate, to assess the impact of new or revised IFRSs on sustainable investments. EFRAG to explore potential alternative accounting treatments to **fair value measurement** for long-

EC legislative proposals

EU Action Plan on Sustainable Finance

Reorienting capital flows towards a more sustainable economy

Mainstreaming sustainability into risk management

Fostering transparency and long-termism

Implementation of recommendations through legislative package

Taxonomy

Establishment of conditions and a framework to create a unified classification system and subsequently a green bond standard

Disclosure and fiduciary duties

Introduction of obligations on institutional investors and asset managers to disclose how they integrate ESG factors in their risk processes

Fostering transparency and long-termism

Creation of a new category of low-carbon and positive carbon impact benchmarks, amending Regulation (EU) 2016/1011

Sustainability

Amendments to delegated acts under the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD) to include ESG considerations

Actions 1 and 2

Actions 7 and 9

Action 5

Action 4

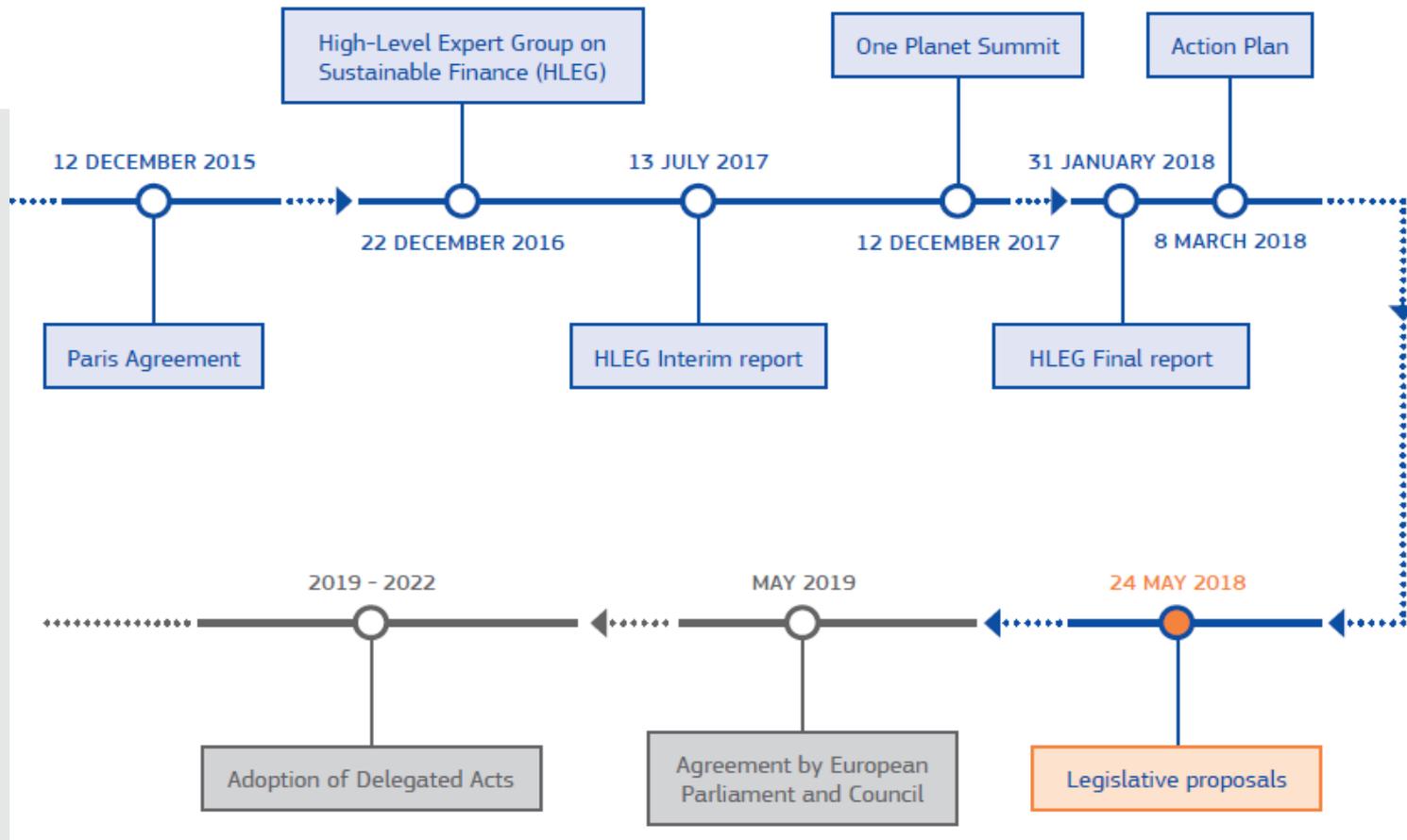
TEG on Sustainable Finance

- Nomination of TEG in June 2018 (mandate until June 2019)
- Mission
 - **Technical screening criteria** for environmentally sustainable economic activities within the framework of the **taxonomy** (focus on climate change mitigation/adaptation);
 - **EU Green Bond Standard**;
 - **Metrics** that enable better disclosure of climate-related information;
 - minimum standards for the methodology of the **low carbon** and **positive carbon impact benchmarks** and minimum requirements for the disclosure of ESG integration into benchmark

methodok



EC timeline for further steps



Source: EC Factsheet 2018 (https://ec.europa.eu/info/sites/info/files/180524-sustainable-finance-factsheet_en.pdf)

Spotlight Taxonomy: Major challenges

- To establish a taxonomy that is at the same time **accurate** while it permits sufficient **flexibility** in its use enabling market participants to increase financial flows toward sustainable activities;
- To consider sufficiently **forward looking information**
- Requirement of regular **updates**
- To deal with **cross-cutting activities** over several topical activities
- To deal with **negative side effects** of activities that are not visible through simple screening;
- To deal with **trade-offs** between environmental outcomes and thresholds (i.e. 'do no harm' principle);

Coming back to 3fP: Status quo and next steps

- **Evaluation period - May/June 2018:** Examination of existing regulation in a very dynamic political-regulatory environment
- **Update** on Germany and the EU as well as extension to **France** and the **Netherlands** with launch in April 2018 (target 8 countries, time series analysis etc.)
- **Today:** Climate change and financial market regulation... towards...: Tracking the transformation towards **sustainable** financial market regulation
- **Discussion and feedback...** we are looking forward to the feedback from politics, civil society and the financial sector!



Thank you!

<http://www.3fp-tracker.org/>



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