High-Level Expert Group on Sustainable Finance Roadshows

Flavia Micilotta
Eurosif Executive Director
Structure of the Expert Group on Sustainable Finance (EGSF)

MEMBERS

- Develop an EU strategy on sustainable finance
- Integrate sustainability into the EU’s regulatory and financial policy framework
- Mobilise more capital flows toward sustainability objectives

OBSERVERS

European Commission

DG ENV

DG FISMA (Secretariat)

Polish Bank Association

AXA

AVIVA INVESTORS

APG

Alesta

Deka

Mirova

London Stock Exchange Group

University of Cambridge Institute for Sustainability Leadership

Climate Bonds

Luxembourg Stock Exchange

European Commission

AMC Strategy

E3G

UNDP

 NGO Investor Initiative

Trucost

OBSERVERS

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The Global Context for Sustainable Finance

GLOBAL CONSENSUS on the urgent need to promote more sustainable developments in economic, social and environmental terms – also in advanced economies.

RECENT POLICY FRAMEWORKS to address climate change and support the transition to a low-carbon, more resource-efficient economy – with ambitious objectives for longer-term investments:

- Paris COP21 agreement
- EU 2030 Climate and Energy Goals
- UN 2030 Sustainable Development Goals

EU CHALLENGES in core economic and financial policy areas

EU COMMITMENT to sustainable investment and finance, including in the Capital Markets Union, and to mobilize more capital for sustainable growth and development - CMU Mid-Term review
Sustainable Finance: opportunity to connect finance to the real economy

- **Insufficient commitment to long-term challenges** in education, technology, innovation, infrastructure and retirement financing. Need for adjustments in the way we produce, transport and consume goods and services.

- **Most long-term challenge of all is climate: EU ambitious strategy towards decarbonisation** with 40% of the European Fund for Strategic Investment (EFSI) is earmarked for action on climate change.

- **EU should show leadership in the area** by integrating climatic risks into policy and regulatory initiatives: Capital Markets Union (CMU) – mandates of EIOPA, EBA, ESMA, MiFid, NFR Directive, EIB, etc.

- **Sustainability and stability of the financial system are two interrelated objectives**
Sustainable Finance encompasses multiple definitions and targets

**NARROW DEFINITION**

- Integrating environmental, social and governance (ESG) aspects in financial decisions
- Finance fostering sustainable economic, social and environmental development

**BROADEST DEFINITION**

- A financial system that is not only stable but that addresses long-term societal challenges, including sustainable employment, education, retirement, environmental protection and climate change
Towards a sustainable financial system

**Purpose of a financial system**

- Serves the three users of finance: firms, households, governments
- Provides critical economic functions: enables payments, intermediates savings, credit and investment
- Manages a range of risk facing people, property and business

**Barriers to a sustainable financial system**

- Financial system is not fully productive and yet indispensable
- There is a disconnect between user expectations and asset allocation
- Large parts of the system are self-referential
- The system is return-focused but misses key drivers of value creation
- It is succumbing to the tragedy of the horizons
- Its toolkit for sustainability is incomplete

**Strategic opportunity of a sustainable financial system**

- A productive system that serves households, firms and governments
- A resilient system withstanding and recovering from a wide range of exogenous/endogenous shocks
- Aligned between user preferences and decision-making processes, ensuring accountability and transparency
- Considers the full value of financial assets
In summary – three challenges to address

**How to widen asset allocation**
- Avoiding fragmentation in approaches to sustainability and allow the investors’ community to speak with ‘one’ voice over a common narrative which establishes a common EU classification by market participants through its integration into process guidelines and assessment (product and process) standards.

**How to lengthen time horizon**
- Overcoming the short-termism of finance and financial market activity, ranging from microseconds in high-frequency trading, daily trading, quarterly reporting to annual benchmarks for prudential regulations—at the detriment of societal challenges that are all longer term: job creation, education, retirement saving, technology innovation, energy transition, climate change.

**How to overcome the self-referential nature in finance**
- Avoiding « finance for finance », transactions of pure trading, interactions among ‘financial players’; highest financial rewards for traders and ‘investment banks’ focusing on securities trading and exchange of assets (M&A).
HLEG EARLY RECOMMENDATIONS

1. A classification system for sustainable assets
2. A European standard and label for green bonds and other sustainable assets, as well as labels for sustainable funds
3. Fiduciary duty that encompasses sustainability
4. Disclosures for sustainability
5. A sustainability test in financial legislation
6. Create ‘Sustainable Infrastructure Europe’
7. Position the European supervisory agencies on sustainability
8. Accounting standards for energy efficiency
Timeline 2017

- **July 18, 2017**: Stakeholder Meeting
- **Feb 2018**: Stakeholder Meeting
- **March**: HLESF Meeting
- **April**: HLESF Meeting
- **June**: HLESF Meeting
- **Sept**: HLESF Meeting
- **Oct**: HLESF Meeting
- **Nov**: HLESF Meeting
- **Dec**: HLESF Meeting
- **Interim Report**
  - Strategy for sustainable finance
  - Areas for integration of sustainability into regulation
  - Mobilisation of capital
  - Policy options
- **Final Report**
  - Key Policy Recommendations