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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Sustainable Finance Presidency issues note

Delegations will find attached the Presidency issues note for the ECOFIN meeting on 20 February 2018 with regard to the Sustainable Finance: Recommendations by the HL Expert Group.

ECOFIN meeting on 20 February

Sustainable Finance - Presidency Issues note

The European Union has taken the lead in efforts to build a financial system that supports sustainable growth. In 2015, landmark international agreements were established with the adoption of the UN 2030 Agenda and Sustainable Development Goals and the Paris Climate Agreement. The EU has set itself ambitious climate, environmental and sustainability targets, through its 2030 Energy and Climate framework, the Energy Union and its Circular Economy Action Plan.

The One Planet Summit last December confirmed the continued global commitment to the Paris agreement. In Europe, an estimated €180 billion in additional yearly investments are needed to meet the climate targets. Public money will not be enough for this. Private capital shall be reoriented towards investments in green and sustainable projects.

In December 2016, the Commission appointed a High-Level Expert Group on Sustainable Finance. It is made of 20 senior experts from civil society, the finance sector, academia and observers from European and international institutions. It is chaired by Christian Thimann.

The HLEG's final report was released on 31 January 2018. It stressed that moving towards "sustainable finance" involves two imperatives: improving the contribution of finance to sustainable and inclusive growth by funding society's long term needs; and strengthening financial stability by incorporating environmental, social and governance (ESG) factors into investment decision-making. The report's recommendations include **eight priority actions**:

- **Introduce a common sustainable finance taxonomy to ensure market consistency and clarity, starting with climate change.** A unified EU classification system or taxonomy will provide clarity on which activities are considered to be "green" and "sustainable". The aim is to introduce taxonomy, starting with climate-mitigation in mid-2018. It will help inform investment preferences and to channel capital flows towards assets that contribute to sustainable development,
- **Clarify investor duties to extend time horizons and bring greater focus on ESG factors.** Investor duties are essential to the investment process. Asset managers and institutional investors will have to disclose how they consider sustainability factors in their strategy and investment decision making process. An EU omnibus proposal would ensure that these changes take place across the entire investment chain.
- **Upgrade Europe's disclosure rules to make climate change risks and opportunities fully transparent.** A transparent financial system is a prerequisite for sustainable finance. An interconnecting framework of effective sustainability disclosure covering financial products, financial assets, financial institutions and financial authorities is thus essential.
- **Empower and connect Europe's citizens with sustainable finance issues.** A sustainable financial system should be transparent and accountable to EU citizens. Improving access to information on sustainability performance and promoting financial literacy are essential elements of that effort.

- **Develop official European sustainable finance standards, starting with one on green bonds.** As a first step, the EU should introduce an official EU Green Bond Standard (EU GBS) and consider an EU Green Bond label or certificate to help the market to develop fully and to maximise its capacity to finance green projects that contribute to wider sustainability objectives.
- **Establish a ‘Sustainable Infrastructure Europe’ facility to expand the size and quality of the EU pipeline of sustainable investment.** In particular, there is a need for a higher level of technical assistance and financing in favour of sustainable investment projects, especially for local and regional authorities. There is also need for match-making between investors and project developers and a transposition of learning experiences across Member States.
- **Reform governance and leadership of companies to build sustainable finance competencies.** The culture of the financial sector needs to be aligned more closely with long-term perspectives and the promise of a sustainable financial system that is useful to society. Strengthening director duties and stewardship principles are steps in that direction.
- **Enlarge the role and capabilities of the European Supervisory Authorities (ESAs) to promote sustainable finance as part of their mandates.** The upcoming *Action Plan: Financing Sustainable Growth* may include provisions to strengthen the regulatory and supervisory framework of the ESAs.

The Commission is working currently on a number of the HLEG key recommendations and is planning to adopt on 7 March its Action Plan: Financing Sustainable Growth, which, along with the HLEG final report, will be discussed at a high-level conference on 22 March 2018 in Brussels.

In a view of the upcoming Commission Action Plan, the Presidency invites Ministers to express their views on the recommendations from the High-level Expert Group and to relate to the below-mentioned questions in their interventions:

- 1) *What are Member States' reactions about the HLEG's report and recommendations?*
- 2) *Which of the priority actions would seem the most important to promote sustainable finance? Which policy actions need to be taken at European level to promote sustainable finance?*
- 3) *Are some of the priorities identified by the HLEG already subject to actions in your Member State?*
