

ANU Climate Update February 2018



FINANCING A
SUSTAINABLE
EUROPEAN ECONOMY

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Taking stock ...

Vision

"A low-carbon, resource-efficient and increasingly circular economy characterised by high employment, technological innovation and sustainable growth. "

Required yearly investments :

Climate and Energy

Maintaining current trajectory

€ 940 billion

Upgrade to 2030 targets

€ 180 billion

Circular economy

€ 98 billion

Transport (upgrade to e-transport and connected vehicles)

€ 50 billion

Digital Agenda (includes smart/decarbonised energy systems)

€ 65 billion

Water treatment and supply

€ 90 billion

Implementing SDGs

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Why is finance failing sustainability?

- **Weak or inconsistent policy signals**
- ***"Tragedy of the horizon"***
- **Weak risk assessment and management**
- **Incomplete sustainability toolkit**
- **Low level of sustainability literacy**

A sustainable financial system ...

1. Considers the **full value** of financial assets, incorporating sustainability factors into valuation and product design.
2. Is **productive**, serving households, firms and governments in their projects and needs.
3. Is **resilient**, withstanding and recovering from a wide range of external and internal shocks.
4. Demonstrates alignment with the **sustainability preferences** of its users ensuring **accountability and transparency**.
5. Takes a **long-term perspective**

What we have done so far...

- Over 6000 large listed companies are required to assess and disclose sustainability risks from this year (Non-Financial Reporting Directive).
- Certain types of pension funds must include environmental and social factors in their risk management systems and disclose whether and how they include them in their investment policies (Institutions for Occupational Retirement Provision Directive)
- Some pension funds and insurance companies have to establish and disclose their environmental and social governance engagement policy (Shareholder's rights Directive II)
- Public investments in certain energy efficiency schemes can be done off-balance sheet (Revision of EU accounting standards).
- Lower capital requirements for certain infrastructure investments by insurance companies (Revision of Solvency II directive).
- Retail investors to be informed about environmental or social objectives targeted by investment products (Package Retail and Insurance-based Investments Products Regulation).

Priority actions recommended by the HLG

Providing trust in green financial products

- A common sustainable finance **taxonomy** to ensure market consistency and clarity on what is 'green', 'low-carbon' or 'sustainable' etc...
- Creation of official European sustainable finance **standards and labels**, starting with one on **green bonds**
- To improve investors **access to information** on sustainability performance and promote **financial literacy**

Priority actions recommended by the HLG

Providing better finance and more finance for sustainable development

- EU omnibus legislation across entire investment chain to clarify **investor duties**, to link their **time horizons** to the institutions or individuals they serve and to **require informed consent** on sustainability issues.
- To upgrade Europe's **disclosure rules** to cover financial products, financial assets, financial institutions and authorities.
- To expand the EU **pipeline of sustainable projects/assets**.
- To strengthen **director duties** and **stewardship principles** as a way to reform governance and leadership of companies
- To include the promotion of sustainable finance in the mandate of **European Financial Supervisory Authorities**

