Improving the Framework for Sustainable Finance

Conference Section for Economic and Monetary Union and Economic and Social Cohesion

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Sustainable Finance, a top priority at EBF

- **EBF Strategic priority**
- **Transformation of the banking sector**
- **Opportunity for banks to connect societal and financial goals**

42 national banking associations

3.500 banks

2 million people employed

Our 4E approach to Sustainable Finance

ENABLE

Smart regulatory framework that enables banks to support their clients in reducing negative and increasing positive impacts.

ENCOURAGE

Review of legislative and non-legislative framework to encourage and reward the shift towards sustainable economy.

ENGAGE

Scale-up competences to improve sustainability of bank and market-based financing. Partnering with UN, regulators, businesses etc.

EDUCATE

Empowering consumers and engage finance professionals to better understand

measure, integrate, analyse and price sustainability risks.

Enable and encourage a smart regulation… but also engaging with all stakeholders to promote sustainable finance

RENEWED SUSTAINABLE FINANCE STRATEGY

BENCHMARKS

Proposed EU measures on Climate Transition and Paris-aligned benchmarks to address the risk of greenwashing and improve

More

DATA, DISCLOSURES & REPORTING

Relevant, reliable and comparable data are necessary not only to comply with the envisaged EU

More

GREEN BONDS

Green Bonds and Green Covered Bonds may prove instrumental in mobilising the bond market for climate

More

TAXONOMY

A harmonised taxonomy is important to remove uncertainty, ensure comparability and allow competitive solutions

More

ECOLABEL

The objective of the EU ecolabel is to increase the trust of retail investors in investing in financial products pursuing sustainability objectives.

CLIMATE RISK MANAGEMENT

Sustainability-related financial risk will become integral part

More

SUSTAINABILITY, RESEARCH & RATING

Sustainability ratings and research

More

GREEN SECURITISATION

Green securitisations could be one

More

SHAPING THE **SUSTAINABLE BANKING SYSTEM OF THE FUTURE**

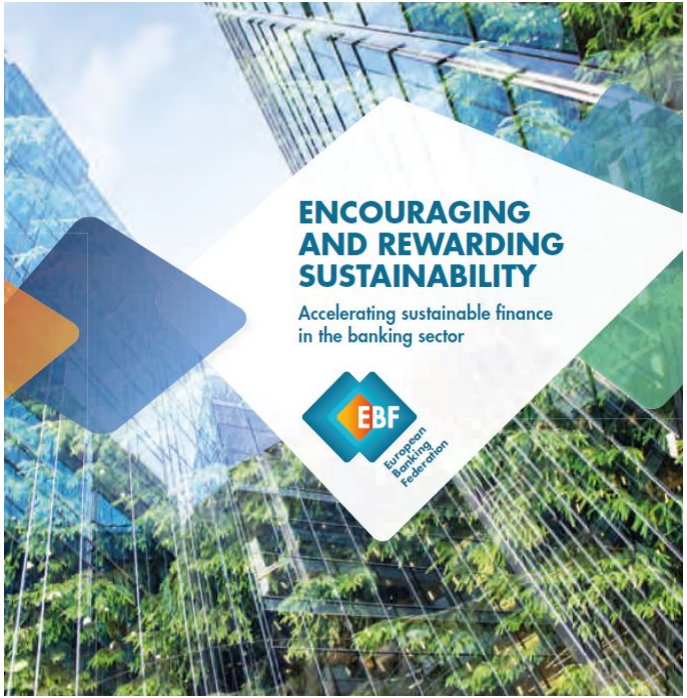
UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

The Principles for **Responsible Banking**

unepfi.org/bankingprinciples

#Bankingprinciples

Making specific projects and proposals to generate public debate and to provide guidance to European banks in this transformation



Renewed Sustainable Finance Strategy: key messages from EBF

- Focus on **usability** and enforceability of the currently developed tools and requirements
- Ensure **clarity and stability** of political and regulatory environment
- **Reduce complexity** and ensure consistency across EU legislation, regulation, and standards
- **Enhance availability, reliability, and comparability of material ESG data** by means of European reporting standard and central ESG Data Register
- Develop a **uniform definition of ESG risk** and criteria for understanding the impact of ESG risks on corporations
- Provide corporates and financial institutions with analysis **methods and tools** which can help to assess the impact of ESG risks on lending
- **Favor innovation** in sustainable finance to identify new instrument which can better support the transition toward sustainable business models (es. ESG-Linked Loans; SDG KPI-linked bonds; Impact Loan; Blended Finance products; Green Project Finance etc.)
- **Address Transition Finance**, to allow all companies committed to transition to access sustainable finance, **including all sectors and a simplified approach for SMEs**
- Develop **minimum social criteria and ensure just transition**
- Introduce **incentives** and enhance financial viability of sustainable activities (e.g. risk sharing mechanism)
- Promote **sustainability literacy** among all stakeholders
- Promote **global approach** and level playing field

How to improve the sustainable finance framework to promote transition financing of the whole economy: some WIP proposals

THE ULTIMATE GOAL

The transition of the whole economy

While some economic sectors and activities need clearly to be singled out positively for their substantial contribution to climate change mitigation or adaptation, there is also merit in recognizing the achievements of firms which are successfully transitioning in line with the EU's ambition

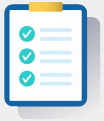
THE SOLUTION IN THE CURRENT TAXONOMY FRAMEWORK

01 By recognising the best available level of performance in an industry that has no technologically and economically feasible low carbon alternative. These are referred to in the Taxonomy Regulation as “transitional” criteria

02 Taxonomy recognises the need for investment in innovation. Research, development and innovation financing, where it contributes to meeting or exceeding the criteria, can be counted as Taxonomy-aligned

How to improve the sustainable finance framework to promote transition financing of the whole economy

Some ideas that are being discussed. Final position by the end of February



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Recognizing sustainability only when TSC are met limits the attraction of capital during the transition phase of companies

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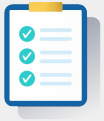

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The current Taxonomy framework should be amplified including not only an activity-based approach but also a company-based approach

Corporate lending linked to KPIs create incentives for companies to reduce their emissions and become netzero by 2050 (EU climate goal)

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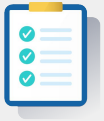

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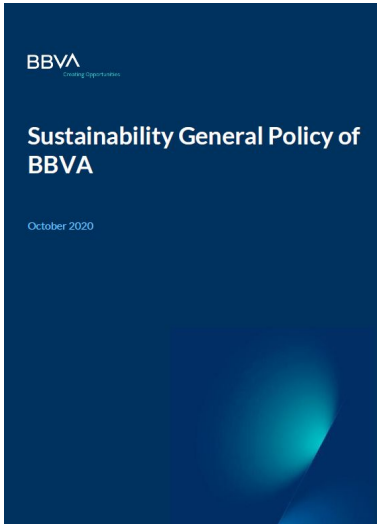
Some key sectors not covered in the current Taxonomy framework should be considered as “transition aligned investments”

The adoption of a “transition-required sectors” label may be useful and provide more certainty to investors

Our experience at BBVA, a practitioner's view

BBVA
Creating Opportunities



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