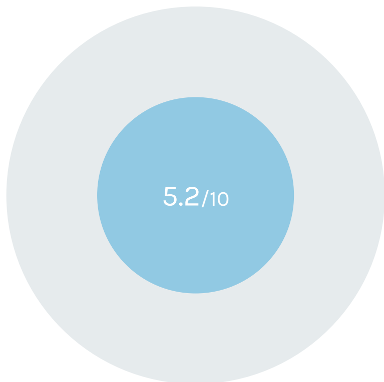
RESULTS AND SCORES

European Union

The European Union (EU) achieves the relatively good results on all three dimensions of the 3fP-Tracker with a particular strength on supervision, risk management and system stability. However, as with all countries and regions considered, there is still ample room for improvement for EU regulatory financial environment to become truly 'fit for Paris'. Actual financial regulation and policies would require further improvement to support the transition to a low-carbon economy through and by the financial sector.

The 3fP-Tracker assessment shows that the EU is making progress on translating the EU Action Plan on Sustainable Finance into legislation. Publications and/or translation into regulation of a green taxonomy, benchmarks, a green bond standard and climate-related disclosure rules are expected for 2019. Major EU institutions such as the European Central Bank (ECB), the European Banking Authority (EBA) or European Securities and Markets Authority (ESMA) have stepped up efforts on integrating climate-related risks into their supervisory activities. Strong enabling activities by the European Investment Bank (EIB) provide fertile ground for sustainable finance at the EU-level.

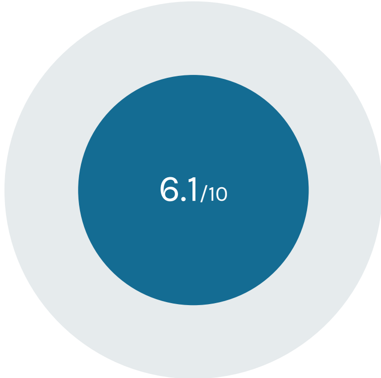
TRANSPARENCY & DISCLOSURE



Transparency efforts by the European Commission have unfolded through the publication of the report on climate-related disclosure and the upcoming integration in the non-binding guidelines of the non-financial reporting directive. Through the report, the recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD) are introduced to a substantial degree, probably the most extensive translation into a legal framework so far. Furthermore, the European Securities and Markets Authority (ESMA) is in the process of updating the Markets in Financial Instruments Directive II (MIFID II) to integrate sustainability risks into risk assessment and management as well as governance structures and consumer preferences.

On the EU-level, further progress should be sought on consumer transparency. The development of the EU-Ecolabel and the green taxonomy should become key elements of further progress. Particular areas of work could involve increasing retail fund transparency and inclusion of climate-related aspects in Packaged Retail and Insurance-based Investment Products (PRIIPs).

SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY

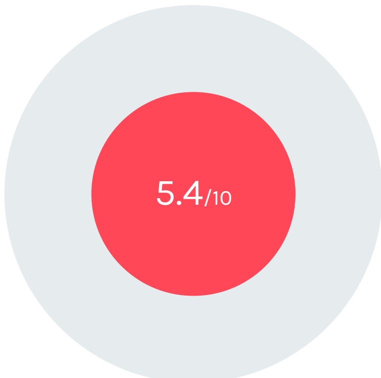


The supervisory bodies on the EU-level progress on integrating climate-related risks in their activities and requirements. In 2019, ECB has identified climate-related risks as a key risk in its EU-wide risk assessment for the first time. The recently agreed new banking package, i.e. Capital Requirements Directive (CRD V) / Capital Requirements Regulation (CRR II), mandates EBA to prepare reports on integrating environmental, social and governance (ESG) risks into the supervisory process and prudential treatment of assets.

Consultation for technical advice of the European Insurance and Occupational Pensions Authority (EIOPA) on integrating sustainability risks and factors into Solvency II and delegated acts is on-going. The draft report entails various explicit references to climate change related risk together with reasoning why they should be included explicitly. Further development of IORP II is expected based on legislative proposals of EU Commission of 2018, in particular optionality of ESG consideration based on Art. 19 (investment rules) may be revised.

Furthermore, climate risks are part of the recently launched EU-wide stress test for pension funds. ESMA has run a consultation on integrating sustainability aspects for asset managers. The report published on 3rd May 2019 proposes that asset managers consider sustainability risks and sustainability factors as part of their governance and risk management requirements (UCITS and AIF). Results on the ESMA consultation on integrating sustainability aspect in ratings are expected by July 19.

ENABLING ENVIRONMENT



The EU provides a strong enabling environment for financial systems to become supportive of the goals in Paris climate accord. In particular the introduction of a green taxonomy could become a game changer to greening financial systems. The publication of the first set of taxonomy criteria is expected for June 2019. The EU has already established a comprehensive incentive framework for green finance particular through EIB.

The European enabling environment could be strengthened by the ECB taking a role model position on climate-related disclosure on its own portfolios. The EU should consider climate change in all investment decisions and make them compliant with the goals in the Paris accord. Once established, the green taxonomy should translate into free green labels.

Note for interpreting this evaluation:
given current state of methodology development, data availabilities and market experiences, the ideal total score (10) might not be realistically achievable in some categories today, best practices today score significantly lower.