

# European Union



The European Union (EU) achieves relatively good results on all three dimensions of the 3fP-Tracker. 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'. In particular, while being in the process of implementing sustainable finance proposals, actual financial regulation and policies still require further improvement to support the transition to a low-carbon economy through and by the financial sector.

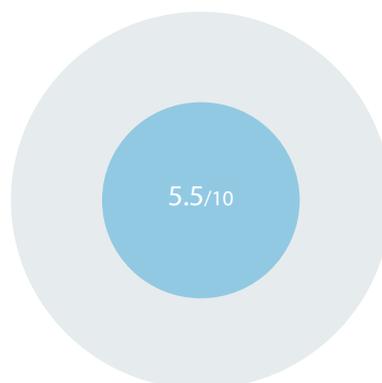
The 3fP-Tracker assessment shows that the EU is making substantial progress on translating the EU Action Plan on Sustainable Finance into legislation. Publications and/or translation into regulation of the EU sustainable taxonomy, climate benchmark & ESG disclosure for benchmarks, the EU Green Bond Standard and non-binding guidelines on climate-related disclosure are drafted or have already become regulation. Major EU institutions such as the European Central Bank (ECB) and the European supervisory authorities, the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) have stepped up efforts on integrating climate-related and sustainability risks into their supervisory activities. Strong enabling activities by the European Investment Bank (EIB), i.e. with an updated lending policy, and by the European Bank for Reconstruction and Development (EBRD) provide fertile ground for green finance at the European level.

## TRANSPARENCY & DISCLOSURE

Transparency efforts by the European Commission have unfolded through the publication and communication of the non-binding guidelines on reporting climate-related information. Through the non-binding guidelines, the recommendations by the Task Force on Climate-Related Financial Disclosure (TCFD) are introduced to a substantial degree. The non-binding guidelines are a supplement to the Non-Financial Reporting Directive (NFRD). The European Commission will review the NFRD in 2020 and work on an update. In this process, the non-binding guidelines will probably become a part of the updated NFRD.

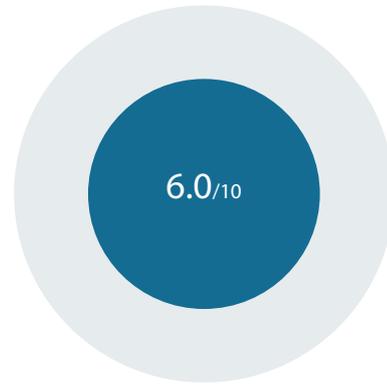
The European Securities and Markets Authority (ESMA) is in the process of updating the Markets in Financial Instruments Directive II (MIFID II) to integrate sustainability risks into risk assessment and management as well as governance structures and consumer preferences.

At the EU-level, further progress should be sought on consumer transparency. The development of the EU-Ecolabel and the EU sustainable taxonomy should become key elements of further progress.



## SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY

The supervisory authorities 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. The recently agreed new banking package (CRD V and CRR II), mandates EBA to prepare a report to the Commission by end of June 2022 on integrating environmental, social and governance (ESG) risks into the supervisory process.



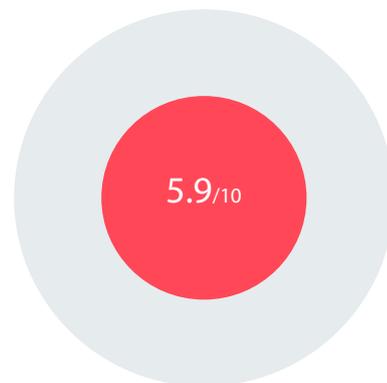
The Supervisory Authority EIOPA has contributed to implementation of the action plan by providing (1) "Technical Advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and IDD" and by providing an (2) "Opinion on Sustainability within Solvency II" (September 2019). In its technical advice, EIOPA proposes to explicitly add sustainability risks next to emerging risks within the regulation. 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, EIOPA's Pensions stress test 2019 (launched in April 2019) includes an assessment of ESG exposures for the first time. This includes climate change related risks in the sector. Results are due in December 2019.

ESMA has been running a formal consultation on sustainability risks and factors in the UCITS and AIF directives as requested by the EU Commission. Its final report has been published on 3 May 2019. Its technical advice proposes explicit reference to sustainability risks in governance and risk management requirements.

## 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 the EU sustainable taxonomy could become a game changer to greening the financial system. In June 2019, the European Commission's Technical Expert Group on Sustainable Finance (TEG) has published the first set of taxonomy criteria. The TEG is expected to finalise their recommendations on the EU sustainable taxonomy by February 2020.



The EU has already established a comprehensive incentive framework for green finance particular through EIB and EBRD. The recent update of the EIB lending policy marks a turning point for the financing of energy projects as most fossil fuels will be excluded. This change could become a role model for lending / financing policies by other institutions.

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 EU sustainable taxonomy should be 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.