SUMMARY PAPER OF THE 3fP-TRACKER ASSESSMENT

Paris-aligned financial market regulation 2019

How far have countries aligned their financial market regulation with the Paris Agreement?

January 2020

CONTENTS

1. CLOSING THE CLIMATE FUNDING GAP

The science is in: the global community needs to transform the world economy to become low-carbon and climate resilient. In 2015, the world stipulated this common goal in the UNFCCC Paris Climate Accord. However, humanity needs to find a way to finance this goal. The European Commission estimates that a funding gap of at least EUR 180bn p.a. exist in the EU to achieve its 2030 climate targets.

Green finance is emerging to close this funding gap. The European Union as well as its member states are changing financial market regulation, developing methodologies and restructuring the financial system in this process. This paper highlights key regulatory developments in Europe and provides ideas for further development of climate change aligned financial market regulation and is based on the assessment of the finance fir for Paris Tracker (3fP-Tracker).

The 3fP-Tracker assessment was conducted for EU-level regulation, France, The Netherlands, Italy, Germany and Spain.

2. WHY HAVING THE FINANCE FIT FOR PARIS TRACKER?

Green finance is gaining increasing attention from different actors inside and outside financial markets, including civil society, regulators and governments worldwide. Public awareness on the relevance of aligning finance with overall climate protection ambitions was initiated and supported by international policy agreements: First and foremost, the UNFCCC Paris Climate Accord calls for "Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." (Art. 2.1.c). Likewise, the Sustainable Development Goals (SDGs) constitute crucial policy framework in this regard.

Against this background, WWF Germany and the FS-UNEP Centre have developed the "Finance fit for Paris" (3fP)-Tracker. The 3fP-Tracker analyses how financial regulations and policies in a given jurisdiction reflect climate change related risks and by that help foster the low-carbon transition and greening of financial markets. Thereby, the 3fP-Tracker develops an understanding of what policies are required for the financial market to contribute to the well-below 2°C target.
The 3fP-Tracker is structured along three dimensions:

- Transparency & Disclosure;
- Supervision, Risk Management, System Stability;
- Enabling Environment

The first two dimensions reflect the main economic objectives for financial sector regulation whereas the third captures other public policy fostering green finance.

The 3fP-Tracker assessments result in a qualitative and quantitative storyline.
Please visit https://www.3fp-tracker.com/ for more information and for the complete 3fP-Tracker assessments.

3. HOW IS GREEN FINENCIAL MARKET REGULATION DEVELOPING IN EUROPEAN COUNTRIES?

3.1 EUROPEAN UNION

The EU Action Plan on Financing Sustainable Growth is driving action on green finance at the European level. The implementation of the Action Plan happens at a fast pace and covers nearly all action points already. Together with the update of existing regulations, EU legislation is on its way to come closer to Paris-alignment. Highlights of the current EU level assessment include:

• The Technical Expert Group on Sustainable Finance (TEG) is currently finalising its work on the EU Taxonomy and the EU Green Bond Standard. The European Commission already communicated the Non-Binding Guidelines for the reporting on climate related information. The EU benchmark disclosure on Environmental Social and Governance (ESG) considerations as well as climate benchmarks is already outlined by the TEG.

• The European Supervisory Authorities progress on integrating sustainability risks and factors in their supervisory processes. EIOPA has provided technical advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and the Insurance Distribution Directive (IDD), so has done ESMA with its technical advice to the European Commission on integrating sustainability risks and factors in the UCITS Directive and AIFMD.

• The European Union draws a clear transition pathway and by that providing a political framework that should allow green finance to strive. Established in 2014 and revised upwards in 2018, its key targets are to achieve a 40% cut in greenhouse gas emissions (from 1990 levels), 32% share of renewable energy and 32.5% improvement in energy efficiency by 2030. The EU has several Action Plans for achieving those goals.

3.2 FRANCE

France was amongst the first to integrate climate consideration in its financial market regulation. With Article 173 of the French Energy Transition Law, France set a new global benchmark in 2015 and developed public green labels. Public bodies have taken up climate considerations as well, e.g. Banque de France has published the climate exposure of its own portfolios, sovereign Green bonds have been issued and the government provides a clear transition pathway within a Strategic plan. Highlights of the current update of country assessment include

• The financial market supervisor (AMF) has enhanced its supervisory activities to ensure a better quality of information provided by investment funds on their ISR policy. Banque de France and ACPR are actively engaged in the NGFS. A review of the industry climate exposure and practises has been conducted. They are working with external experts and the financial industry to integrate climate risks in future stress tests as well in governance.

• In July 2019, the Ministry of Finance has put in place a framework to track the commitments taken by French financial actors in the past few years, in particular regarding divestment of fossil activities. Subsequently the AMF and the ACPR launched a Climate and Sustainable Finance Commission each, with professionals and independent experts to track commitments.

"In France, all development banks and public agencies provide climate change related finance. A "one stop shop" platform called France Transition Ecologique was launched in May 2019, to create an overview of all green financial services under one platform and facilitate the access of corporates to those.

3.3 THE NETHERLANDS

Green finance action in the Netherlands is driven by a strong public-private interplay. From the public side, the Dutch central bank (DNB) integrates climate considerations in its supervisory and regulatory activities. The private sector is strongly committed to climate action and pushing for methodological progress. Highlights of the current country assessment include:

- The Dutch financial sector has signed up to the Dutch Climate Agreement (Klimaatakkoord). In doing so, Dutch financial institutions pledge to disclose their targets for financing the energy transition, CO_2-intensity of their lending and investments and they need to publish an action plan outlining a 49% emission reduction in their portfolios by 2030.

- The DNB raises awareness on physical and transition risks and puts high requirements on integrating sustainable finance and climate risks in its supervisory practice. In its spring 2019 report, it states that "financial institutions must identify the possible implications of relevant climate scenarios and include transition risks in their risk management." DNB is engaged in the Network for Greening the Financial System (NGFS) and has established the Sustainable Finance Platform.

- The Dutch government has recently adopted a law to establish the € 2 billion investment fund 'InvestNL'. The goal of this fund is to support the transition to a green economy. In addition, the Dutch government is currently considering to set-up a fund "in the tens of billions" for large-scale public investments, amongst which those in the energy transition, within the Dutch economy. More details on the fund are to be expected in the beginning of next year.

3.4 ITALY

Italy has recently seen some push for green financial market regulation. Some part of the regulation such as disclosure or the supervision of insurances benefit from recent actions. The Italian government announced that it would put climate action in practice, hence more green financial market regulation is to expected. Highlights of the current country assessment include:

- The Bank of Italy announced the integration of ESG factors in its (equity) investment policy in order to achieve a better environmental impact of its financial investments since Q1. The Bank plans to regularly disclose the performance of the investments and the activities undertaken to increase the ESG profile of the portfolio so that its experience and methodology may be useful for other investors.

- The Italian insurances supervisory (IVASS) has recently stipulated that the governance system of an insurance undertaking must assess and manage any risk affecting the company this includes environmental and social risks. During a public consultation, IVASS explicitly listed climate risks amongst environmental risks.

- On 5 September 2019, the Italian government announced a Green New Deal. The Deal should put forward an ambitious climate strategy for Italy. This could lead a strong push for green finance and green financial market regulation in Italy over the coming years.

3.5 GERMANY

Green finance is moving in the centre of attention at the German government and German regulators. So far, Germany has mainly seen progress on green financial market regulation coming from the EU-level. The situation is starting to change. Highlights of the current country assessment include:

- In September 2019, BaFin has published a Draft Guidance Notice on Dealing with Sustainability Risks. The Guidance has been in consultation phase until November 3rd 2019 and the final version is expected to be published by the end of the year. The Guidance Notice outlines how financial institutions under the supervision of BaFin should assess climate and sustainability risks.

- The German government, particularly the ministry of finance (BMF) and the ministry of the environment (BMU) raise awareness on climate change related risk by having initiated the development of a comprehensive sustainable finance strategy. To that end, the Sustainable Finance Advisory Board (SFAB) has been established. SFAB has published an initial thesis paper in October.

- In October 2019, the German finance minister Olaf Scholz officially announced the issue of Germany's first green government bond "Green Bund" in 2020.

3.6 SPAIN

Awareness for green finance in Spain is rising. However, progress beyond the translation of EU regulation is slow.
In theory, Spanish action on green finance and green financial market regulation should be much stronger according to the country's climate action plan. The political deadlock of the Spanish government has hindered progress in the past years. Highlights of the current country assessment include

- The Spanish Corporate Governance Code (Code) includes requirements on Corporate Social Responsibility (CSR) on targets, commitments and practices. Furthermore, executive remuneration should be linked to the medium-term success of a company. The Code follows a comply-or-explain approach.

- Spain wants to promote financing for the energy transition and improvements of energy efficiency. This will be stipulated in the Energy Transition and Climate Change Law, which is still pending.

- The Minister of Economy and the Spanish Treasury are in the process of setting up a green bond scheme. The scheme should serve as a funding mechanism for the ecological transition in Spain. The Spanish public sector is emitting green bonds since 2017. As of 2019, the total volume of green bonds emitted by the public sector is at EUR 1.1bn

4. COUNTRY SCORES

	EU	FR	NL	IT	DE	ES
Total	**5,7**	**5,6**	**5,5**	**4,4**	**4,6**	**3,4**
Transparency & Disclosure	5,2	5,0	4,1	3,9	2,9	2,6
System Stability	6,0	5,5	6,5	5,9	6,5	4,1
Enabling Environment	5,9	6,5	6,1	3,6	4,4	3,4

5. WHO IS WORKING ON THE 3FP-TRACKER?

The 3fP-Tracker benefits from a European network of collaborating think tanks, research organisations and consultancies. The following partners were involved in the development of current country assessments:

PARIS-ALIGNED FINANCIAL MARKET
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