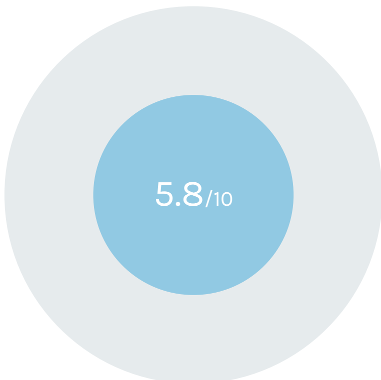
RESULTS AND SCORES

European Union

The European Union (EU) achieves relatively good results on all three dimensions of the finance fit for Paris (3fP) - Policy Tracker. However, as with all countries and regions considered, there is still room for improvement for the EU regulatory financial environment to become truly 'fit for Paris'. In particular, while being in the process of implementing sustainable finance frameworks, the upcoming Renewed Strategy on Sustainable Finance can further improve 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 Financing Sustainable Growth into EU legislation. The EU Taxonomy, climate benchmarks & 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 (ESAs), i.e. 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 and guidelines. 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 Paris-aligned finance at the European level.

TRANSPARENCY & DISCLOSURE



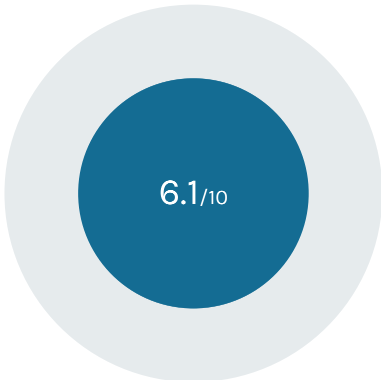
Transparency efforts by the European Commission have unfolded through the publication and communication of the non-binding guidelines on reporting climate-related information. Through the non-binding guidelines, the recommendations by the Task Force on Climate-Related Financial Disclosure (TCFD) are introduced to a substantial degree. The non-binding guidelines are a supplement to the Non-Financial Reporting Directive (NFRD). The European Commission was going to review the NFRD in 2020 and work on an update, but due to the COVID 19 pandemic this has been postponed to the first quarter of 2021 . In this process, the non-binding guidelines will probably become a part of the updated NFRD.

In November 2019 the EU adopted the Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial sector (SFDR), which will come into effect in March 2021. The SFDR requires financial market participants and financial advisors to disclose policies on the integration of sustainability risks in investment decision-making process and in insurance advice.

The European Securities and Markets Authority (ESMA) continues 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. Since April 2019´s final report only one amendment to the regulation has been made, which did not take sustainability risks into account.

At the EU-level, further progress should be sought on consumer transparency. The development of the EU Ecolabel framework for financial products, linked to the EU Taxonomy, is expected for Q3 2021 and should become key elements of further progress.

SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY

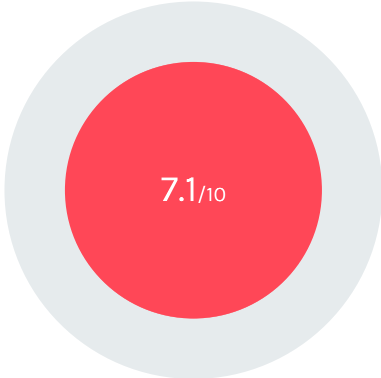


The ESAs are in the process of integrating climate-related risks in their activities and supervisory requirements. In 2019, ECB has identified climate-related risks as a key risk in its EU-wide risk assessment. The recently agreed new banking packages (CRD V and CRR II), mandates EBA to prepare a report to the Commission by 28 June 2021 on integrating environmental, social, and governance (ESG) risks into the supervisory process. In December 2019 EBA published its 'EBA Action Plan on Sustainable Finance', describing its activities and mandates related to ESG factors and ESG risks.

EIOPA has contributed to implementation of the EU 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. 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 were published in December 2019 and it turned out that only a minority of 30% already have processes in place to manage ESG.

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 was published on 3 May 2019. Its technical advice proposes explicit reference to sustainability risks in governance and risk management requirements. In November 2020, ESMA launched a Consultation Paper on Draft advice to European Commission under Article 8 of the Taxonomy Regulation.

ENABLING ENVIRONMENT



The EU provides a strong enabling environment for financial systems to become supportive of the Paris climate goals. On 22 June 2020, the Taxonomy Regulation (TR) 2020/852 was published in the Official Journal of the European Union and entered into force on 12 July 2020. On 9 March 2020, the TEG had published its final report on the EU Taxonomy. The report contains recommendations relating to the overarching design of the EU Taxonomy, as well as extensive implementation guidance on how companies and financial institutions can use and disclose against the EU Taxonomy. As part of the Taxonomy Regulation, the Commission was tasked with coming forward with technical screening criteria (through 'delegated acts') to develop the taxonomy further. The first two sets were published in a draft delegated on November 20, which is now open for feedback. It concerns those activities that substantially contribute to climate change mitigation or climate change adaptation.

The EU has already established a comprehensive incentive framework for green finance particularly 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 from the end of 2020. This change could become a role model for lending and financing policies by other institutions. In November 2020, EIB published its Climate Banks Roadmap, stating that every project seeking support by EIB has to pass an evaluation on climate change impacts.

The European enabling environment could be strengthened by the ECB taking a role model position on climate-related disclosure of its own portfolios. The EU should consider climate change in all investment decisions and make them compliant with the goals in the Paris Agreement, as part of its Multiannual Financial Framework (MFF) and the recovery programme NextGenerationEU.

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.