14 January 2020

BANKING STAKEHOLDER GROUP

POLICY PAPER ON SUSTAINABLE FINANCE

Preamble

1. Energy transition and achieving the goals of the Paris agreement is a societal priority involving a multitude of players.

2. Banks, as intermediaries between savings and investment and major finance providers in the EU, have a key role to play in the mobilisation of the necessary resources to tackle climate change and mitigate its effects.

3. Banks as stakeholders are engaged in sustainable finance and committed to the Paris Agreement and to the principle for responsible banking[1].

4. Aware of the climate risk, households want to ensure their savings are not used to increase this risk. As depositors and financial assets' holders (40% of total assets at EU level), they are in a position to play a key role financing sustainable activities.

5. To better identify financial risks and opportunities linked to climate change for the banking system, progress must be achieved in the collection of data, usable taxonomy and methodologies, including scenarios. Any regulatory or supervisory development should acknowledge this and contribute to this progress.

6. International cooperation and coordination are needed. The European financial system cannot work in isolation. The challenge requires the best possible balance between a firm and effective implementation of the EU sustainability goals and the preservation of a level playing field at international level with all major financial systems.

General remarks

7. Ensuring legal certainty and consistency across the legal framework is paramount. Currently, there are several legislative proposals on the sustainable finance affecting banks (Investors Disclosure Regulation, Taxonomy regulation, the level 2 mandates to EBA under CRR2, the inclusion of ESG criteria in the Loan origination and monitoring guidelines, etc…). We call on regulators and legislators to keep a close eye on the interaction between the scopes of the different parts of regulatory framework to avoid unintended inconsistencies and to avoid unnecessary burdens. Enhancement of transparency and disclosure should be prioritised not only for financial markets participants but also for companies, proportionally to their size and activities.

8. The EU Taxonomy framework should reflect a holistic and flexible approach that considers

[1] https://www.unepfi.org/banking/bankingprinciples/ and https://www.unepfi.org/wordpress/wp-content/uploads/2019/09/PRB-Collective-Commitment-to-Climate-Action-18.09.19.pdf

different stages and pace of development in the EU jurisdictions as well as in the third countries. It needs to be flexible to keep track and technology neutral to reflect developments, changes in markets, i.e. to include new activities on a timely manner. At the same time it has to ensure legal certainty for financial markets participants and investments made.

9. A robust process and transparency on the taxonomy update with involvement of all relevant stakeholders is crucial to give certainty to market players and how investment decisions are taken and communicated, to reassure consumers, investors, issuers and managers. Guidance on how activities evolve in and out of the framework is necessary. The taxonomy should also be applicable in an operational and automated way to internal processes and IT systems. A manual process and lack of data would represent a major barrier for substantial increase in sustainable finance.

10. The Platform on Sustainable Finance to play a key role in this context. We would welcome further details and clarification on its expected mandate and composition.

11. The focus on sustainable transition activities is as important as pure sustainable green activities. Investments in transition activities of high emission sectors will continue to be necessary. A phased approach in particular in regions and industries most impacted in terms of jobs and allocation of resources is needed in order to ensure a just transition. We therefore welcome how this has been reflected in the TEG´s June report, covering:

    a. activities that are already low carbon (green activities – example: afforestation);
    b. activities contributing to the transition to a net-zero emissions economy in 2050, but are not close to a net zero emissions now (greening of- example: manufacturing of aluminium, iron and steel, carbon capture systems in power plants);
    c. activities that enable low carbon performance (greening by – example: manufacturing of wind turbines)

12. While the current TEG[i] report acknowledges the need to include transition activities, some definitions, scope, thresholds and metrics can be too strict, hence making it difficult to work in practice. It is important that especially in this initial stage, the scope is not too narrow so that the efforts from European companies that are already in the journey to a sustainable business model, across all industries and services, including those not covered by the Taxonomy, are duly recognised and able to attract the necessary funding. This is particularly relevant for smaller and medium sized enterprises.

13. Corporates data availability on climate and ESG disclosure is a key issue from both a disclosure and a prudential perspective. To be able to assess financial risks and opportunities related to climate change, enhanced disclosure should be required.

14. Proportionality for smaller and medium sized companies is to be ensured: any disclosure requirements should take into account proportionality aspects.

15. Households/Consumers who want to finance sustainable activities should have access to trustworthy labels. Too many labelled sustainable financial products can be qualified of greenwashing. In addition, the few existing labels differ widely in scope; coverage, strategies, approaches, evaluation mechanisms and mitigation of environmental, social and governance factors leading to consumer confusion. This is the reason why the BSG supports the EU Ecolabel initiative for financial services. For the label to be an efficient guide for consumers, it should cover a broad spectrum of financial products that are widely used by consumers, such as savings accounts and pension products, which were not included in the original scope of the proposal. Given the current lack of agreement on defining sustainable transition activities,

and in order to provide consumers with more transparency, granularity and to allow them to make an informed choice, some members of the BSG recommends that sustainable transition activities should not be part of the Ecolabel but should be subject to a separate label distinguishing them from activities, which qualify as being fully sustainable. Other members believe it should be aligned to the EU taxonomy.

16. Relevant climate and ESG-related information already collected by governments, public environmental agencies, and central banks should be made accessible to banks. Even if only a small amount of information for the screening criteria may be collected from the Non Financial Disclosure Reports foreseen under EU Directive 95/14 (because only a small number of enterprises are in the Directive perimeter and because the structure of the Disclosure is by legal entity and not by economic activity) nevertheless a centralised and structured data base of all the Non Financial Disclosure Reports could support the Taxonomy usability.

17. Policymakers shall acknowledge the current data gap in the market and understand that data availability will result from a gradual process. The role of education in mainstreaming sustainability should not be underestimated. A European Campaign should be organised in order to raise awareness among enterprises of all size regarding the importance of the transition and the importance to provide sound data for the assessment of their sustainability profile as envisaged by the Taxonomy.

18. The path to a low carbon economy shall not be a “Big Bang” but a “phase in” approach. While recognizing the urgency of the challenges we are facing, the transition to a low carbon economy should be a smooth process given the potential societal implications. The objectives of Paris Agreement will not be achieved only by increase of financing of green projects, the transition must happen through all sectors of the economy, including services and manufacturing and transition of carbon intense activities. Carbon intensive transition assets should therefore not be subject to penalising Pillar 1 requirements, creating a new category of “newly become” stranded assets, prone to default.

19. The priority should be to incentivize banks (and other financial actors) to accelerate the financing of energy transition, and to maximize the carbon emission reduction, as well as other activities contributing to the achievement of sustainable development goals. We therefore believe it is crucial to raise awareness of financial institutions and their clients, regulators and supervisory authorities about the risk related to ESG factors and its impact on the overall risk profile of these institutions. It is necessary (a) to intensify research on the identification of ESG risk and the methodology for its measurement, (b) to collect data on risk (in particular data on borrowers and their impact on ESG issues, including their impact on the environment, carbon emissions, etc.). Only after agreeing on the adequate simulation methodology of the evolution of negative ESG aspects (e.g. emissions) according to scientific scenarios, and refining the simulation the consequences of such scenarios on banks' credit risks and market risks with specific horizon and metrics that will be improved overtime, the ESG risks (including e.g. climate risk) could be subject to stress-tests, which given differences in horizon, in nature and in purpose, should not be incorporated in existing stress tests.

20. Rule makers shall give enough time to the industry and market overall to build the skills, capacity and IT systems and capture the data require to implement the changes

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[i] Technical Expert Group : https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en