*European Economic and Social Committee*

**ECO/456**
**Action Plan on Sustainable Finance**

# OPINION

European Economic and Social Committee

**Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions – Action Plan: Financing Sustainable Growth**
[COM(2018) 97 final]

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| Referral | European Commission, 10/04/2018 |
| Legal basis | Article 304 of the Treaty on the Functioning of the European Union |
| Section responsible | Economic and Monetary Union and Economic and Social Cohesion |
| Adopted in section | 07/09/2018 |
| Adopted at plenary | 17/10/2018 |
| Plenary session No | 538 |
| Outcome of vote (for/against/abstentions) | 164/6/5 |

## 1. Conclusions and recommendations

1.1 In order to meet the key **challenges** facing the Capital Markets Union (**CMU**) and improve Eurozone resilience, a sound system for financing **sustainable growth**, with a long-term approach, is the most important driver for restoring trust in the markets and connecting savings to sustainable investments, providing complementary sources of funding for SMEs and strengthening green and social infrastructure projects.

1.2 The Committee welcomes the Commission's Action Plan, agreeing in that "Europe can become [worldwide] the chosen destination for sustainable investments"[1]. The Committee believes it is important to ensure the EU's long-term competitiveness. In broader terms, this concerns the promotion of sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all (Sustainable Development Goal 8).

1.3 These challenges should be addressed harmoniously, through a joint effort by all, including actors in the financial sector, companies, citizens and authorities. Additionally, achieving the transition to a sustainable growth model is a complex task and is undoubtedly a gradual process taking into account sectorial specificities.

1.4 A holistic vision, cooperation and further integration between Member States should prevail. It is of utmost importance that in this field, the whole EU speaks with one voice and follows the same approach. This will not only help to achieve the goals set, but will also allow progress in other important fields such as the Energy Union, the Banking Union, the Capital Markets Union and the Digital Agenda.

1.5 Sustainable economic models should have a diverse financial system in which banks of different sizes and with different business models and financial actors can operate on an equal footing. To achieve this, it is vital for standards to be more complete, more consistent and correctly applied, in keeping with the **principle of proportionality**.

In the EESC's view, reorienting capital flows towards a more sustainable economy, must inevitably go hand in hand with **financial inclusion** and **social cohesion** in a Europe where no-one lags behind. Indeed increasing gaps between citizens' incomes can be a barrier to sustainable growth, and corporate and institutional governance must therefore rebalance the current situation.

1.6 An appropriate level of **coherence** among the various existing financial frameworks at global level should be ensured, taking as a common reference the UN Sustainable Development Goals (SDGs), mapping the Sustainable Taxonomy against them[2]. The renewed taxonomy proposed in the Action Plan should be promoted worldwide and should be incorporated into EU law uniformly and simultaneously in all Member States, with measures to ensure that it is revised and updated on a regular basis.

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[1] See the Action Plan, page 12.

[2] See EIB draft taxonomy: https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report-annex-3_en.pdf

1.7 In summary, the EESC strongly supports the **Commission's road map on financing sustainable growth**, which should make the entire value chain more sustainable, but wishes to make a number of comments regarding the activities in the Action Plan and their implementation:

I. An integrated approach, making use of life-cycle methodology, for integrating financial materiality[3] into the investment process, requires **sustainable investment** and **responsible lending**: The one without the other would be inconsistent and would hinder the completion of the financial (banking and capital markets) union.

II. The taxonomy should be **dynamic** and be constructed gradually on the basis of a clear definition of ESG criteria for sustainable economic activities; a suitable starting point would be the configuration of environmental factors (E), while introducing safeguards in the social sectors and in relation to good corporate governance.

III. The ten actions are internally consistent and interact with each other. The right balance is therefore needed between the configuration of the new taxonomy (Action 1) and consideration by rating agencies (Action 6) with a view to the development of scoring systems based on reliable information provided by companies (Action 9), which are complementary to the labels (Action 2) and the sustainability benchmarks (Action 5). Thus, financial system actors will have a reliable basis for the inclusion of environmental, social and corporate governance (ESG) factors in their investment decisions (Action 7), based on prior advice and proactive interaction with their customers (Action 4). All this will take place within the ambit of the **fiduciary duty** to act in the best interests of investors or beneficiaries (derived from the 'prudent person' rule, included in the EU *acquis*).

IV. Standardisation and, where applicable, the subsequent labelling of sustainable financial products could be complemented with the new European framework for **covered bonds**[4] and feed into the planned **sustainable pan-European products**, starting with the chapter on **pensions**.

V. It is of the utmost importance to align the various **incentives** to stimulate sustainable investment, provided that the associated **positive externalities** are taken into account. A harmonised methodology for low carbon emission indices should serve as a guide for the calculation of other impacts. Keeping in mind resilience and stability of the financial sector, the opportunity of providing a **green supporting factor** should be examined to properly define their perimeters. In this field the EESC agrees with the EP when promoting the inclusion of sustainability risks in the Basel IV framework[5]. Consideration should possibly be given to other alternatives that directly benefit final borrowers and investors, such as tax incentives.

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3 A materiality framework analyses those factors that are most relevant to the companies' financial performance, comprising financially material sustainability factors.

4 Covered bonds are debt obligations issued by credit institutions and secured against a ring-fenced pool of assets to which bondholders have direct recourse as preferred creditors. See the following new proposals for regulations: COM(2018) 93 final - 2018/0042 (COD) and COM(2018) 94 final - 2018/043 (COD).

5 The Basel framework is an international regulatory accord that introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector. All Basel Committee standards are minimum requirements which apply to internationally active banks and, therefore, including in this framework provisions on sustainability will help to move worldwide in the same direction. https://www.bis.org/bcbs/basel3.html

VI. The publication of high-quality, as much as possible harmonised, more complete, relevant, and comparable **non-financial information** should be pursued, to facilitate external controls. In order to achieve this objective, the impact of the Non-Financial Information Directive (2014/95/EU) should also be assessed. The development of alternative accounting treatment is another chapter that should be addressed in parallel.

VII. The European supervisory authorities and their Joint Committee should be given the necessary specialised technical resources (there are many bodies with long experience of SRI) to draw up the technical standards related to delegated acts proposed by the European Commission and for the subsequent monitoring of the huge volume of regulatory implementation, establishing proportionate and effective processes and avoiding frequent technocratic excesses.

VIII. The depositary of an investment also needs to be able to carry out its work of supervising the activities of the management or investment company effectively, therefore, their independence must be assured. This requires, in particular, having a conflict of interest policy in the case of shareholding links or cross-shareholdings[6].

IX. Regarding the relationship with the Commission's proposal for the Multiannual Financial Framework (MFF) 2021-2027[7], the EESC considers that the proposal is a step in the right direction although it should be more ambitious in order to be able to achieve the commitments of the 2030 Agenda for Sustainable Development. In this regard, the EESC asks for an increase of at least 30% in EU expenditure contributing to climate objectives[8] without compromising other engagements. The Committee welcomes the substantial percentage increases in the commitments for Environment and Climate Action (+46%). However, the budget amounts earmarked for that purpose are still clearly insufficient for the transition to sustainable development and the fight against climate change.

1.8 Studies[9] show that investors would like their investments to take into consideration climate, environmental and social aspects. To facilitate easier and safe access for investors, "**flagship pan-European sustainable financial products**" should be created, beginning with the "Pan-European Personal Pensions Products" (PEPP). Promoting these **safe and sustainable** products internationally would be a way of attracting foreign investment to Europe.

1.9 **Communication** about these actions is extremely important if citizens are to be aware of what the EU is doing for them. A shared responsibility between all public and private actors is needed and **financial education**[10] should be compulsory to ensure that people understand this new

6 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2016.078.01.0011.01.ENG

7 For the comprehensive position of the EESC, see EESC opinion on the Multiannual Financial Framework post 2020. Not yet published.

8 The European Commission has proposed that at least 25% of EU expenditure should contribute to the climate objectives for the period 2021-2027 (in the period 2014-2020 it was set at 20%).

9 https://www.morganstanley.com/pub/content/dam/msdotcom/ideas/sustainable-signals/pdf/Sustainable_Signals_Whitepaper.pdf

10 See IOSCO/OECD report *The Application of Behavioural Insights to Financial Literacy and Investor Education Programmes and Initiatives*.

approach and thereby encourage both socially responsible retail investment and sustainable production of goods and services.

1.10 Finally, the EESC highlights the potential of **artificial intelligence** for aligning the preferences of investors with the destination of investments. In view of the experiences of added value from **ESG Machine Learning** (which combines SRI indicators, sustainability benchmarks etc.), the new taxonomy should be explored in the context of these emerging initiatives. Machine learning solutions should also be analysed to enable banks and investors to increase their lending to specific sectors or activities that include ESG principles.

1.11 The EESC publicly calls on the co-legislators to swiftly discuss and adopt the three legislative proposals stemming from the Action Plan that were adopted by the Commission on 24 May 2018.

## 2. Introduction: moving towards the new scenario

2.1 The accelerated rise in financialisation or financial depth of economies began in 1971 when the US abandoned the dollar-gold standard and money became more fiduciary and intangible, dependent on trust. Until the Eighties, the money supply (M2) represented around 50% of global GDP, a percentage similar to that of financial derivatives.

2.2 After falling during the crisis, this amount returned to previous levels in 2015, multiplying financial assets by four in relation to M2 and derivatives by over ten.

2.3 This imbalance between the real and financial economy is ever-growing, with the recent rise of FinTech and InsurTech, calling for greater efforts to bring about sound regulation and supervision to ensure financial stability.

2.4 The 17 UN 2030 Sustainable Development Goals (SDGs) and the Paris Agreement to adapt and build resilience to climate change should ensure stability, recovery and a better balance between inclusive societies and prosperous economies.

2.5 In accordance with the spirit of the EU Treaties and the subsequent policies carried out, the transition to a low-carbon, more resource-efficient and circular economy is key to ensuring the EU's **long-term competitiveness**, but also to integrating balanced economic, social and governance dimensions.

2.6 Indeed, the European response to the **2030 Agenda** needs to comply with the Treaties and regain a long-term vision of sustainability in which economic growth, social cohesion and environmental protection go hand in hand and support each other.

2.7 The financial system can play an important role when it comes to tackling sustainability challenges, especially as regards to attracting the necessary funds for closing a yearly investment gap of almost EUR 180 billion which is required to meet EU climate and energy targets by 2030[11].

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[11] Supra, Action plan, General introduction, point 1.1.

In this regard, the Committee supports the observation of the High Level Group on sustainable finance that the transformation of the EU economy must take place in the real economy encouraging stable cooperation between public and private actors.

2.8 The transition to a sustainable economy will be flanked by technologies and digital innovation and should protect and promote global values[12], as the UN Secretary-General states. The legal and operational risks of blockchain, cryptocurrencies and smart contracts are on the increase owing to the lack of regulation and transparency. In order to better protect consumers and investors, preserve market integrity and avoid harmful practices (tax evasion, money laundering or financing terrorism), incentives will be needed to ensure safety and transparency in financial innovation networks[13].

2.9 Projects related to the COP21 objectives[14] need sufficient, stable and committed capital, both financial and intangible (human, technological and other forms of relational capital, including institutional capital).

2.10 It is paramount to adapt public policies, stimulate private actors and supplement EU budget resources, infusing the economy with **transparency and long-termism**.

2.11 A sustainable vision requires a closer, more comprehensive and holistic connection with specific policies such as the Energy Union, the Digital Agenda and the European Pillar of Social Rights in order to stimulate social and green investment, both public and private.

2.12 Such thinking is also at the core of the EU's Capital Markets Union (CMU) project, and the EESC shares the opinion that private capital, EFSI (European Fund for Strategic Investments) financing and other EU funds should be combined in an efficient manner to shift investments towards companies that present positive social and environmental externalities.

2.13 It is time to act. Europe has been in the vanguard of sustainability for the past 28 years, but it is by no means alone.

## 3. Finance for a more sustainable world

3.1 We are increasingly faced with the catastrophic and unpredictable consequences of climate change and resource depletion. These phenomena often exacerbate social exclusion or inequality

3.2 Article 3 of the Treaty on European Union states that the EU must promote sustainable, environmentally friendly growth. The need to act on climate issues has now become a top priority, including for the EESC, and is shaping the action of governments as well as economic actors,

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12 *The goal is to define how the United Nations system will support the use of these technologies to accelerate the achievement of the 2030 Sustainable Development Agenda and to facilitate their alignment with the values enshrined in the UN Charter, the Universal Declaration of Human Rights and the norms and standards of International Laws. http://www.un.org/en/newtechnologies/images/pdf/SGs-Strategy-on-New-Technologies.pdf*

13 See EESC opinion on the Commission's Financial Technology (Fin Tech) Action Plan. OJ C 367, 10.10.2018, p. 61.

14 COP21 United Nations Climate Change Conference 2015

workers and individuals. Accordingly, a far-reaching economic, social and environmental transition needs to be organised; above all, it needs to be financed.

3.3 These challenges should be addressed harmoniously, through a joint effort by all. The financial sector has to play an important role in channelling the funds, savings and investments of citizens, savers and investors into the economy. In the end, it is in the economy where the actual transition will take place and the role of companies is therefore essential and indispensable. The authorities will also have to meet their responsibilities in this regard.

3.4 Europe will only be able to take a strong position if there is maximum consensus on the plan. Member States should pull together and join forces. Individual approaches and self-interest should give way to a joint project for the future, which at the same time should safeguard the future of coming generations. Indeed, the European response to the 2030 Agenda needs a long-term vision of sustainability and clear objectives, in which economic growth, social cohesion and environmental protection go hand in hand and support each other.

3.5 A long-termist approach to sustainable growth should go hand in hand with public policies that appropriately assess negative externalities and sustainable and unsustainable investment options. This should also be accompanied by the sound predictability of a better integrated industrial policy within global value chains, across all Member States. This should occur with an in-depth analysis followed by an adequate political process that must be supported by the Commission and the Member States.

3.6 The EESC stresses that **sustainable growth** should refer to environmental, economic, social and governance dimensions in a balanced, global and comprehensive approach aligned with all the Sustainable Development Goals and the Paris Agreement on Climate Change, establishing **minimum cross-cutting conditions** that cannot be substituted. This minimum inviolable threshold is enshrined in international conventions on the **rights of vulnerable people** (such as women and girls, children, refugees and migrant workers, the disabled, etc.)[15] and enforced through compliance with **good fiscal governance**.

3.7 In view of the ample evidence that European citizens would like their savings and investments to be related to social and environmental objectives, they must be **empowered and connected** with sustainable finance issues.

3.8 To this end, financial system should ultimately lean more towards being **transparent, factual and readily understandable** for EU citizens. Improving **access to information** on sustainability and promoting **financial literacy** (a deeper understanding of how finance works) are essential elements in this respect.

15 See, in particular, UN Guiding Principles on Business and Human Rights, the EU Charter of Fundamental Rights and ILO labour standards

## 4. Reorienting capital flows towards a more sustainable economy

4.1 Since the European Fund for Strategic Investments (EFSI) was set up, it has mobilised public and private investment in strategically important EU projects and has been managed in line with the European Investment Bank's (EIB) list of projects: investments in environment-friendly energy and resource efficiency, water, digital sectors, transport, etc.

4.2 However, apart from the EFSI, greater coverage is needed in other sectors, especially those focused on social infrastructure and institutions that empower the intangible capital of young people, women and other excluded or vulnerable social sectors.

4.3 Endogenous saving is a prerequisite for robust economic growth, and this will mean financing sustainable SME projects through local banks.

4.4 In the EESC's opinion, **EFSI** funding should be increased by incorporating capital from EU Member States' financial agencies and public banks, which should act as a network to jointly design a more strategic and inclusive long-term perspective, following a common definition of what "sustainable" actually means, as well as outlining a transitional road map to decarbonise companies.

4.5 At the same time, the EESC invites the **European Central Bank (ECB)** to examine the feasibility of a green and social interest rate to encourage sustainable investment and lending, and concurs with the European Parliament to explicitly take into account the Paris Agreement and ESG goals in its guidelines orienting its purchase programmes.

### 4.6 A unified classification system for sustainable activities

4.6.1 Traditional methods of making calculations and carrying out impact evaluation must be re-examined. **More reliable quantitative and qualitative indicator redefinitions** must be established, reconciling priority economic and environmental values with those of society and the survival of the human race.

4.6.2 The EESC agrees with the Commission on the urgent need to activate the first stage of building a robust but dynamic "**Sustainability Taxonomy**", ensuring market consistency and clear guidance about what is green, social and related to good governance, with a **holistic approach**.

4.6.3 The backbone of this process is a technical Expert Group on sustainable finance which must at all times be able to provide highly qualified and detailed expertise on strategic industrial sectors in order to build up a robust and credible **green and social taxonomy**.

4.6.4 The group's mandate should start with clear objectives in terms of content and timing, the first step being to reunite the new taxonomy with other existing international classifications (economic activities, occupations, studies, etc.), in order to conform more closely to UN criteria and references.

4.6.5 The European taxonomy should include three levels:

- a minimum standard aligned with the 2030 Sustainable Development Goals (SDGs), the Paris Agreement and the do-no-harm principle in accordance with ESG risk analysis;
- an intermediate level identifying activities that are achieving a verifiable "positive impact" as defined by the United Nations Environment Programme Finance Initiative (UNEP FI); and
- a level including activities that can accelerate positive transformation and support for ecological, economic and social challenges in accordance with the needs of different stakeholders that will take the taxonomy as reference.

4.6.6 There is an urgent need to classify different types of benefits of investments that can be attributed to the introduction of the sustainability factor (taxonomy). Moreover, positive criteria should be complemented by, environmentally harmful impacts[16], so that non-sustainable assets can be identified.

4.6.7 The new taxonomy should be linked to the EU strategy and investment plan for a transition to a low-carbon economy. It should include financial activities in favour of emissions reduction in the sectors of the EU Emissions Trading System (ETS)[17] and in the sectors of the Effort Sharing Regulation[18].

## 4.7 Standards and labels for sustainable financial products

4.7.1 Facilitating easier and safe access for investors is paramount to expanding sustainable financial markets. European sustainable finance **standards** should be **carefully configured**, establishing Socially Responsible Investment (SRI) minimum standards.

4.7.2 To this end, an **official EU Green Bond Standard** would first be introduced and an EU Green Bond label or certificate would be considered, subject to mandatory external review, in order to guarantee positive impact investments. In the context of the **Consumers Financial Services Action Plan**: Better Products, More Choice, the EESC recommends[19] that the Commission define **more readily comparable and completely transparent products** which are simple and share similar characteristics.

4.7.3 This opens up the possibility of offering "**flagship pan-European sustainable products**" and of providing appropriate, independent, obligatorily certified **comparison tools**[20] for different **sustainable financial products** in the various EU legal jurisdictions.

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16 See the OECD "Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence"

17 As listed in Directive 2003/87/EC, Annex 1 - amended by Directive 2009/29.

18 Regulation on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation (EU) No 525/2013.

19 See the EESC opinion on consumer financial services, OJ C 434, 15.12.2017, p. 51.

20 Based on the "Key principles for comparison tools".

4.7.4 The configuration of "Pan-European Personal Pensions Products" (**PEPP**)[21], as foreseen in the legislative proposal adopted by the Commission on 29 June 2017, would require pension providers to disclose publicly whether and how they include ESG factors in their risk management systems, but these provisions **do not oblige them** to take ESG factors into account in their investment policies. Including this obligation would help to extend its use as one of the sustainability solutions.

4.7.5 The EESC invites the Member States to extend at the timely moment this obligation in all products linked to pensions. This would help to extend its use as one of the sustainability solutions to the problems with the current pay-as-you-go scheme.

### 4.8 Fostering investment in sustainable projects

4.8.1 According to the **renewed EU industrial policy strategic objectives**, re-orienting capital allocation towards long-term investments should be aligned with aiding SME growth, supporting less developed regions, upgrading infrastructure and empowering people through education and training.

4.8.2 In order to complete sustainable infrastructure investment, a broader **macro-prudential policy** taking account of **physical impacts** (increasing exposure to climate change-related risks) is needed, in accordance with the Solvency II Directive. For instance, construction codes minimising the impact of natural catastrophes would require insurance companies to **recalibrate risk management** in line with new principles of **sustainable insurance**.

4.8.3 The EESC is in favour of strengthening EFSI 2.0 and EFSD. As regards the MFF 2021-2027, it welcomes the establishment of InvestEU, which should involve more private capital and be able to reach the market in bonds, insurance and pension plans.

4.8.4 Other private capital should be found to encourage and support businesses, in particular SMEs, to invest in innovation and R & D.

4.8.5 Finally, the EESC recommends better identification of **where** existing public and private initiatives achieve maximum sustainable and resilient infrastructure so as to replicate them in the EU as well as in partner countries, using **at-scale solutions**.

### 4.9 Sustainability considerations in financial advice

4.9.1 As stated in its opinion on "Institutional investor's and asset managers' duties regarding sustainability[22]", the EESC is in favour of amending the MiFID II Directive and the Insurance Distribution Directive (IDD), to assure that it is made necessary to examine how investors' **sustainability preferences** can be included. Advisors would thus be able to issue appropriate

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[21] Assets in funded and private pension arrangements exceeded USD 38 trillion in the OECD area at the end of 2016.

[22] See EESC opinion on Institutional investors' and asset managers' duties regarding sustainability, point 3.8. See page XX in the OJ.

recommendations on financial products, providing clear information about the potential risks and benefits associated with the various sustainability factors.

4.9.2 The EESC supports the idea that the European Securities Markets Authority (ESMA) should include sustainability provision preferences in its **suitability assessment guidelines**.

4.10 **Sustainability benchmarks**

4.10.1 A **common methodology** to measure the non-financial performance of sustainable investment is an optimum goal. The EESC therefore welcomes the regulation **harmonising benchmarks** comprising low-carbon issuers as a first step that should be extended to other sustainability parameters.

4.10.2 The EESC therefore invites the Commission to extend its focus to the social field through the technical Expert Group, to be responsible for consulting all interested parties and publishing a report on the design and methodology of the benchmark on carbon.

## 5. Mainstreaming sustainability into risk management

Sustainability addresses the set of risks associated with wealth generation and cannot avoid the impact of extraction, acquisition and deterioration of resources.

5.1 **Sustainability in market research and credit ratings**

5.1.1 The EESC has insisted that **rating agencies** must be **free from all conflicts of interest** in order to guarantee the **independence of research/scoring providers**. Furthermore, transparent and timely justification of the methodology they use, case by case, is needed.

5.1.2 Existing credit-rating agencies do not take sufficient account of the influence of disruptive ESG trends on issuers' future credit-worthiness. The EESC calls for clear EU **standards and supervision** regarding the **inclusion of ESG factors** in ratings for all credit-rating agencies operating in the EU. It also calls for the establishment of an accreditation process for a "**Green Finance Brand**" by ESMA certified agents.

5.1.3 Stakeholder accreditation should also be considered, i.e. banks, fund managers, etc. This would impose greater obligations on the different financial actors and avoid trends towards including a sustainable product plan as an element of "greenwashing".

5.1.4 Finally, the EESC suggests exploring the creation of sovereign green credit ratings. Providing a clear "green" rating alongside a country rating would also stimulate countries to continuously improve their performance. At the same time, it could be a stimulus for attracting foreign investment.

5.2 **Institutional investors' and asset managers' sustainability obligations: fiduciary duty**

5.2.1 The European Union supervisory authorities (ESAs) must guarantee strict compliance with the **functions of financial intermediation services**.

5.2.2 This requires a more holistic approach than that envisaged in the Commission's Action Plan, prioritising relationships in educational, factorial, gender, geographical, racial or ethnic, religious, cultural or other areas of diversity.

5.2.3 As a fundamental part of legal obligations, investors should proactively engage with clients to gain an understanding of their non-financial interests, also providing clear information about the potential financial risks and benefits associated with ESG factors.

5.2.4 Regulators, investors, asset managers, finance industry employees and advisors must act in the best interests of the beneficiary (e.g. future pensioners) or the client (retail or institutional investors). All governance engagement and voting activities must be directed towards protecting the sustainable value of investment assets, in line with fiduciary duties. They must report on how they use their voting rights as holders of fund assets.

5.2.5 By clarifying the obligations of investors in relation to sustainability factors, the EU will boost long-term investment (sustainable finance is axiomatically linked to long-termism).

5.3 **Prudential requirements for banks and insurance companies**

5.3.1 The EESC has recently emphasised the potential role that banks can play through their intermediation functions between conscious savings and socially responsible investment. The Committee recommends that capital requirements for banking obtain more favourable treatment for investments in the green economy and various long-term non-complex '**inclusive lending**' operations, such as mortgages, particularly those linked to energy efficiency, installation of solar panels, etc. Additionally, **capital surcharges should be considered** for investments in the environmentally harmful assets in order to incentivise a positive transition to sustainable activities. Consideration should possibly be given to alternatives that benefit directly final borrowers and investors, e.g, tax incentives. The Single Supervisory Mechanism (SSM) should exercise specific supervision in this matter[23].

5.3.2 Nevertheless, in calculating Risk Weighted Assets (RWAs), updated banking rating models must always reflect the most current risk level associated with those sustainable assets, preserving a high level of consumer protection.

5.3.3 In view of this, it is necessary to better define the perimeters of the so-called "**green supporting factor**", ensuring that there is exhaustive and rigorous empirical evidence based on a clear and precise definition of what is meant by "green investment". **Responsible Research and**

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23 See the EESC opinion on Completing the Banking Union, OJ C 237, 6.7.2018, p. 46

**Innovation** (RRI) in the framework of Horizon 2020 and the future Horizon Europe programme could be an excellent channel for obtaining scientific results.

5.3.4 In summary, to preserve resilience and financial stability, this new scenario requires a sound combination of financial risk management, taking into account the ESG impact on financial return, and adapting rules accordingly, in a **dynamic** process. As stated in the European Parliament Resolution on Sustainable Finance[24], the Commission should promote the inclusion of sustainability risks in the Basel IV framework.

## 6. Fostering transparency and long-termism

6.1.1 Sustainable finance needs a framework of incentives to redirect capital flows towards necessary investments, ensuring a fair environmental and social transition for Europe, where its leadership in values provides European businesses with a competitive advantage.

### 6.2 Disclosure and accounting

6.2.1 The EESC notes that the EU Directive on **disclosure of Non-Financial Information** was transposed with scant ambition and a methodology that was not harmonised, affecting only large corporations and thus contributing very little to fair and comprehensive sustainable investment in Europe.

6.2.2 Sustainability brings a number of new concerns and challenges when it comes to the disclosure of non financial information, like digital transformation, new metrics, standardisation, compulsory duties, new sustainable economic models, etc. Indeed, taxonomies and methodologies for reporting should be standardised as much as possible and rules should be adapted to achieve more and better available NFI. This would give regulators and market supervisors a better view of global market trends, and therefore better capacity to act accordingly. This current stage is referred to as "fitness check" and will take into account considerations in line with the Financial Stability Board´s Task Force on Climate-related Financial Disclosure (TCFD), after the public consultation that the Commission has launched.

6.2.3 Concerning crowdfunding platforms, the "Key investment information sheet" should also incorporate the main intangible but financially material risks and benefits, from an accounting point of view[25], associated with financing a crowdfunding project.

6.2.4 The EESC also supports the European Parliament's resolution on International Financial Reporting Standards (IFRS 9)[26] and urgently calls for an impact assessment of IFRSs on sustainable investments.

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24 http://www.europarl.europa.eu/news/en/press-room/20180529IPR04517/meps-back-resolution-on-sustainable-finance

25 Financial statement items are material if they could influence the economic decisions of users. The materiality concept is the universally accepted accounting principle reporting firms must disclose all such matters. https://www.business-case-analysis.com/materiality-concept.html

26 http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2016-0381+0+DOC+XML+V0//EN

6.2.5 The EESC welcomes the obligation on the part of the European Financial Reporting Advisory Group (EFRAG) to assess the impact of new or revised IFRSs on sustainable investments and to explore potential alternative accounting treatments.

6.2.6 The EESC also suggests that the Commission invite ESMA to:

- assess current practices in the credit rating market, analysing the extent to which ESG considerations are taken into account, and
- include environmental and social sustainability information in its guidelines on information to be disclosed by credit rating agencies, and consider additional measures, where necessary.

### 6.3 Corporate governance and excessive capital market short-termism

6.3.1 Many investors would like to know if a company uses accurate and transparent accounting methods, and if common stockholders are allowed to vote on important issues. They also want companies to avoid conflicts of interest in their choice of board members, rating agencies and auditors.

6.3.2 It is time to seriously consider not only the **E** (environmental) and **S** (social) factors (standards, labels, green and social supporting factor for prudential requirements, sustainability benchmarks), but also the **G** (corporate governance) factor, excluding all benefits and removing the sustainable rankings for those companies that circumvent the **transparent disclosure** of key aspects, such as **fiscal governance, human rights**, corruption, money laundering and other illicit activities.

## 7. Execution of the Action Plan

7.1 The EESC calls for an alignment of all the **European institutions, agencies and mechanisms** involved, changing their mandates where necessary to bring them into line with the implementation of the Action Plan's timeframe.

7.2 Uncertainty about the future and the lack of long-term risk disclosure are the key constraints for a time horizon analysis (indeed, only a few estimates cover more than five years).

7.3 The European Supervisory Authorities should also play a relevant role in monitoring sustainability. To achieve a common EU methodology for relevant scenario analysis, consideration of ESG risk factors in a longer-term perspective should be explored and the European Systemic Risk Board (ESRB) could gradually incorporate these in their stress-testing.

7.4 Finally, the International Organization of Securities Commissions (IOSCO), should prepare and promote compliance with international standards for regulation and supervision[27] in the field of

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[27] See Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation.

sustainable finance, in order to ensure that the new architecture of global sustainability is consistent worldwide.

Brussels, 17 October 2018

Luca JAHIER
The President of the European Economic and Social Committee

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