

## **Sustainable Finance: Global approach Conference**

**March 21, 2019**

### **1. Intro & Welcome O Guersent, DG DG FISMA**

We need to build financial system for sustainable economy beyond Europe, that is coherent and stable.

The EC is implementing the actions plan decided 2 years ago and the main priorities are:

- common understanding of taxonomy
- transparency of risks and opportunities in the financial sector.

We need to adopt a global view as all European actions will be useless if the rest of the world does not take the same actions.

### **2. Keynote speech: Sustainable finance in the EU V. Dombrovskis, VP EC and M Bloomberg**

Private sector must help financing this shift, public sector alone can not.

We need to promote the investment in sustainable finance and this is the objective of the [High Level Experts Group on sustainable finance](#)

They have recommended 10 actions that have been implemented and a new EU legislation has been created.

Amongst other priorities, the transparency on risks for investors in terms of social, environmental and governance impact is key.

In June 2019, the Group will issue recommendations on:

- taxonomy
- first EU green bonds standards
- low carbon benchmark methodology
- final guidelines to disclose NFR risks

We need now to set up an international network on sustainable finance

### **3. Panel discussion 1: Building a global approach to sustainable finance**

In France, they have created an award for the best investor, integrating ESG aspects.

There is a need for models, best practices for green finance and labelling is also important for trust.

It is important that all these initiatives come from the Top of the government in each country.

In Marokko, the local banks are even issuing green and social bonds for middle size companies.

When we analyse ESG information, a big challenge is the accuracy and the check. The corporate disclosures are key: what is mandatory, what are the expectations of asset management (consistent approach in model).

Central banks should work together to define a risk management framework.

We must construct dialogues between investors and companies and enhance long term value creation for green finance.

We must react quickly and for the climate impact, [TCFD](#) should work with some central banks defining the framework for climate risk (similar to financial risks)  
There is a need of commitments from the highest level (G7 or G 20).  
As we look for future risks, scenarios must be defined.  
The risk management and the use of data in the scenarios must be consistent globally and a regulation about the process is welcome.

#### **4. Panel discussion 2: Leveraging synergies between public and private networks**

“Finance will have to be green or they will be no finance anymore “  
We must do this partnership together, it is impossible to do it alone in any country.  
The European Supervision Authority will confirm the review of crash tests.  
There is a need for more awareness, more actions from the financial sector: Banks, insurance have done a lot but there is still a lot to do.  
We need more partnership private/public and we could introduce penalty in investment that are not sustainable and not help organisations for the transition if there is no transparency.  
We need 3 points to progress in promoting green investments:  
-create an attractive environment  
-facilitate the opportunity to invest in this kind of investemnts (eg in solvency II: separate asset class)  
-have more projects with long term return  
KPIs must be defined with internal, external auditors and tone at the top is also important in the organisations.  
Look at the issues in a holistic way: climate risk is a source of financial risk,ressources scares, human rights are also source of financial risks.  
In Finland, the national government has issued a Sustainable budget.  
The public sector may take 3 possible actions: taxation, standards, guidance for investment and the last one is the best.  
Education is also important and we need to raise the issues at university.

#### **5. Pannel discussion 3: How to channel private capital towards sustainable investments ?**

*Introduction J. Rifkin (Economist)*

There is a Global crisis, it is the end of the industrial life and a new life will come on earth : design the future of the civilisation and we must act quickly to develop the new word globally.  
This new industrial revolution is based on new energy, mobility and communication but also digitalization.  
The Financial community should jump in to this new word by deploying new business models.

*Discussion*

The scaling up is key to reach the objectives .  
The creation of green bonds must be based on a smooth process with transparent reporting for the investors that need to know what kind of projects they finance.  
Framework with risks and opportunities must be developped: how to benefit from climate change and what are the risks.

The framework developed by TCFD (<https://www.fsb-tcfd.org/>) is endorsed by more than 600 companies in the world.

In all organisations, 3 of top 5 risks are climate related and need to be managed. There is a trend to look at risk return, cost on investment and ESG for each investment.

There must be a global cooperation with policy makers, regulators to work on Stds and stress tests of the risks.

There are currently 15 to 20% of allocation of assets to green investments. ESG enhances performance but we still need more communication, research to convince people to join.

The current obstacles are:

- identify investments in sustainable goal
- availability of investments (more green bonds) Private sector should work with the public sector
- disclosure ( we need a kind of "IFRS" for ESG)
- stable regulation

While Asset Managers are changing their practices, index providers, credit rating agencies do not integrate ESG in their agenda.

The Taxonomy that is crucial, is defined as a list of economic activities that contribute to sustainable objectives, they will be defined and will be voluntary because the market must remain free.

## **6. Pannel discussion 4: Digitalisation as part of the solution to mobilise sustainable finance across the globe.**

*Introduction S. Goulard, ( Deputy Governor Banque de France)*

There is a quick acceleration on these issues.

On April 17, the Network For Greening the Financial System will present its report and it will define the right data needed and the output that Supervisors can use

There will be monitoring policy from ECB on climate related risks and how the transition will impact the functioning of the company.

Digitalisation can give solutions to obstacles of sustainability : eg data collection, monitoring,...

and also identifying risks (climate, transition,...).

*Discussion*

Corporate culture, business value, mindset change are important. Digitalisation has impacted the "classical" business of the banks.

Fintech are enabler for quicker investments offers : cheaper, better and faster.

Technology can reduce the costs but create new risks and an harmonisation is important to facilitate benchmarking.

## **5. Future perspectives, M Carney, Governor Bank of England**

The task is large and the window of opportunities is short.

There is a need of 3 dimensions: reporting, risk management and return.  
In terms of reporting, it is different by industry, by region and it is not comparable.  
New rules will be discussed at June (G20), it is important that the report is efficient, effective and comparable.  
In terms of risk management, there is a need for a strategic approach by the Board.  
The term, impact are uncertain and it is hard to measure these risks.  
In banks, they use to look at climate risk at a horizon of 4 years and to treat it as a financial risk, not as CSR risk anymore.  
The assessment includes all the assets: residential and commercial properties included, for example.  
In the insurance sector, the liabilities side is well reviewed but the assessment of the assets side must be improved.  
Next month, the PRI will issue guidance for the Board about risk management and scenarios to test the strategic resilience in the Financial sector.  
The Supervisor will include climate impact and transition in its stress tests.  
For the return, the green bonds must be attractive and it is expected that sustainable investments give a reasonable return.  
It has been demonstrated that companies with good ESG:  
-anticipate better future risks and opportunities  
-have a better strategy on the long term  
-have an investment premium included in their value  
Time is important, commitment and transparency are also key.

## **6. Take Aways, O Guersent, DG DG FISMA**

The European Commission is the glue between asset managers, investors, citizens, companies, ...: they connect people.  
A challenge is to connect people globally and have a common vocabulary, be able to benchmark globally.

As conclusions, there are 3 actions:

- There is a need of standardisation, taxonomy and best practices globally
- Sustainability is not just about climate and we need a holistic approach
- The different forces must work together and simultaneously: the corporate governance platform initiated by DG Fisma should be extended

We must work together and create bridges.