Green finance: Council agrees position on low carbon benchmarks and disclosure requirements

Press contacts

Maria Tomasik
Press officer
+32 2 281 24 63
+32 470 88 23 83

The Council is taking steps to encourage financial companies to be more aware of the impact of their investments on the environment.

EU ambassadors today endorsed the Council's position on two proposals aiming at making finance greener and more in line with the objectives of the Paris agreement on climate change:

- a proposal introducing **disclosure obligations** on how financial companies integrate environmental, social and governance factors in their investment decisions;
- a proposal creating a **new category of financial benchmarks** aimed at giving greater information on an investment portfolio's carbon footprint.

> The EU is fully committed to achieving the targets set by the Paris agreement. Cutting greenhouse gas emissions requires investment. It is crucial that capital markets pay their fair share in channelling funding towards projects and companies that contribute to making our economy more sustainable.
>
> *Hartwig Löger, minister for finance of Austria, which currently holds the Council presidency*

Investors' duties and disclosure

Institutional investors, such as asset managers, pension funds or insurance companies, receive a mandate from their clients and beneficiaries to make investment decisions on their behalf.

Although these companies have to comply with strict legal requirements to ensure that they act in the best interest of their clients, rules on duties and information as regards the environmental and social impact of their investment decisions have not yet been defined.

The draft text proposes a **harmonised EU approach to the integration of sustainability risks and opportunities into the procedures of institutional investors**.

It requires them to disclose:

- the **procedures they have in place** to integrate environmental and social risks into their investment and advisory process;
- the **extent to which those risks might have an impact on the profitability** of the investment;
- where institutional investors claim to be pursuing a “green” investment strategy, information on how this strategy is implemented and the **sustainability or climate impact of their products and portfolios**.

The proposed regulation should in practice **limit possible “greenwashing”** – i.e. the risk that products and services which are marketed as sustainable or climate friendly in reality do not meet the sustainability/climate objectives claimed to be pursued.

Low-carbon benchmarks

An increasing number of investors seek to ensure that their investments have a positive impact on the environment. To do so, they take investment decisions based on the **carbon footprint generated by the projects or assets** they consider, using indices that reference or measure the performance of investment portfolios. However, a wide variety of such indices currently exists, with different objectives and degrees of quality and integrity.

The Council therefore supports the Commission’s proposal to provide a reliable tool to pursue low-carbon investment strategies by establishing a new category, comprising two types of financial benchmarks:

- **low-carbon benchmarks**, which aim to lower the carbon footprint of a standard investment portfolio.
- **positive-carbon impact benchmarks**, which have the more ambitious goal to select only components that contribute to attaining the 2°C set out in the Paris climate agreement.

Next steps

The Parliament voted on its position on disclosure on 9 November. Negotiations between the Council and the Parliament are therefore ready to start.

The Parliament’s position on low-carbon benchmarks is still pending.

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