

# “Greening finance for sustainable business” – Speech by Vice-President for the Euro and Social Dialogue, Financial Stability and Financial Services Valdis Dombrovskis

## *Opening Remarks*

Ladies and Gentlemen,

I would like to thank the organisers; it is a pleasure to be here today, 2 years after the signature of the landmark Paris agreement. The European Union played a leading role in driving forward this agreement. This puts a special responsibility on our shoulders to lead by example in its implementation.

170 countries have ratified the Paris agreement by now, which sends a powerful signal that the low-carbon transition is here to stay. We are just at the beginning of this journey, but there is much reason to be hopeful. We can show that there is no contradiction between sustainability and economic growth: In the last 27 years, EU emissions dropped by over 20%, but our economy grew by more than 50% over the same period.

The EU is committed to reducing carbon emissions by 40 percent by 2030. To reach that target, we will need around 180 billion euro in additional yearly low-carbon investments. This is well beyond the capacity of the public sector, so private capital will also need to play its part.

The good news is that this is within the vast capacity of our financial system: together, asset managers and institutional investors manage about 35 trillion euros in Europe. But for private investors to fund the transition to the low-carbon economy, we need to put in place the right conditions and incentives.

What does this mean?

- It means providing trust in green financial products, by giving clear and reliable information to those who invest in them.
- It means improving access for retail investors, and supporting institutional investors to direct their capital towards a long-term impact.
- And it means incentivising market participants to be more conscious of long-term risks and opportunities.

Both at EU level and national level, some work is already done. And I'm pleased that countries like Sweden, France and Luxembourg already have rules and labels to attract sustainable investment.

At EU level, we have already taken first steps:

- For example, as of next year, our directive on non-financial disclosure will take effect. This is in line with the recommendations of the Task-Force on Climate Related Disclosures. And it means that large listed companies will have to disclose information that investors need to assess sustainability risks.
- And earlier this year, we proposed a major revamp of financial supervision in the EU. Among other things, it would integrate sustainability into the mandate of the European Supervisory Authorities, to put pressure on the financial sector to address these issues.

But for our effort to succeed, we need more than a piece by piece, sector-by-sector approach. Other parts of the world are forging ahead in this field. We need to use the full scale of the EU's single market, and attract green investment with new products and business models.

At the European Commission, we have established a High-Level Expert Group on Sustainable Finance, which will present its final recommendations in January. On that basis, we will present in March a comprehensive Action Plan to lay the foundations for sustainable and green finance to reach its true potential. Without prejudging the outcome, I can say that the work will be in three directions:

First, we will propose to integrate sustainability factors into investment mandates. This means these criteria will be reflected in the duties that asset managers and institutional investors have towards those whose money they manage. This would clarify their legal obligation to factor sustainability risks into capital allocation decisions.

Second, investors need a common language and classification system for what is considered green and sustainable. After all, if we are telling investors to choose green products, we need to know what those look like. Our goal is to have an EU taxonomy – or a classification system – for sustainable finance. This is a necessary condition for sustainable finance to reach scale. And it would allow us to define EU standards and labels for Green Bonds and Green Investment Funds. This would also allow us to address market fragmentation and accelerate green investments by all types of investors.

Thirdly, European banks play a major role in financing the economy. To incentivise lending, we are looking positively at the European Parliament's proposal to amend capital charges for banks to boost green investments and loans by introducing a so-called green supporting factor. This could be done at first stage by lowering capital requirements for certain climate-friendly investments, such as energy-efficient mortgages or electric cars. We could model it on existing capital requirement adjustments for investments in SMEs or high-quality infrastructure projects.

To conclude, these are some of the ambitious measures we are planning in our Action Plan. We should act quickly to position Europe and our financial sector as the leading global destination for investments in green technological development.

### *Closing remarks*

I was very pleased to see how much commitment and how much willingness there is from the participants of the broader economy to move towards the low-carbon future and to make financial markets more sustainable. What we need to do is to incentivise green finance across the entire investment chain, and change the mind-set of those who manage our money. And we see that this is already happening, so that is good news. The European Commission is fully committed to this goal, because we believe we need to work together, at EU-level, but also at national and local level, to deliver the low-carbon transition.

To continue this discussion, the Commission will be organising a high level conference on 22 March next year focused on the role of financial services in the transition to a sustainable economy. This will also be an occasion to present out Action Plan on Sustainable Finance. I believe it will be another proof of Europe's ambition to take the global lead on sustainable finance.

Thank you very much.