

Speech by Vice-President Dombrovskis at the High-Level Conference on Financing Sustainable Growth

Honourable conference participants,

Honourable Ministers,

Honourable Members of Parliament,

Ladies and Gentlemen,

Let me start by thanking President Macron for his speech and his firm support for a European strategy to mobilise finance for sustainable growth. As the country of the landmark Paris agreement, and one of the pioneers of European green finance, France is clearly committed to lead on this agenda. And we clearly heard it just now.

Let me also thank this morning's keynote speakers, President Juncker and Michael Bloomberg. Their speeches were resonant wake-up calls for the financial sector. It needs to seize the opportunities of the low-carbon transition, and live up to its responsibilities towards our planet and our society. This is exactly the core objective of the European Commission's Action Plan for sustainable finance.

Today has already shown that sustainable finance is no longer a narrow niche, but it is maturing into a full-blown sector. However, this change is not happening fast enough.

On the one hand, there is an urgent need for more investment in areas like renewable energy, low-carbon vehicles, smart and interconnected grids, and energy-efficient buildings.

On the other hand, we see that European savers and investors are increasingly interested in the opportunities for value creation that come with the low-carbon transition. And they are asking for investment options that consider the long-term risks of climate change, environmental degradation, and social issues.

Ladies and gentlemen, the EU financial sector should move ahead and lead these developments. That is what our Action Plan is designed to facilitate.

It builds on the visionary work of the High Level Expert Group on sustainable finance, and I would like to thank Christian Thimann for his chairmanship. The group's recommendations formed an ideal basis for an ambitious EU strategy for sustainable finance.

We now have a ten-point plan for boosting private funding of sustainable and green projects, by changing incentives and culture all along the investment-

chain. Like President Macron, I believe our Action Plan is a big step forward, both for the fight against climate change and for Europe's financial sector.

Overall, it has three main objectives:

- First, to redirect capital flows towards green and sustainable investments.
- Second, to embed sustainability into risk management.
- And third, to increase transparency and long-term thinking in financial and economic activity.

Let me go through these one by one, starting with sustainable investment. For green investments to flourish, we need to recruit a broader base of investors. Our strategy is to make green investments open and accessible, with easily comparable products, so even first-time investors can navigate the various options.

Our first step will be to provide a unified and clear set of definitions for sustainable activities. We call this an EU classification system, or a taxonomy. To put it simply, it will provide common definitions for what is green and what is not. Why? Because a unified EU taxonomy will help investors identify activities that are truly sustainable and allocate their capital to them.

Establishing this classification is a highly important and urgent action. It will act as a common trunk from which other actions will branch off. So we will present a legislative proposal for the governance and development of the EU taxonomy already in May.

Of course, it will take some time to be developed. We will start with a taxonomy on climate change mitigation, which should come into effect by the third quarter of next year. It would then be expanded to incorporate broader environmental risks and, in the future, social issues.

The EU taxonomy will enable us to establish EU standards and labels for financial products, such as green bonds or green investment funds. To give an example, organic labels for food in the supermarket or eco-labels for clothing and housing help consumers identify green and sustainable products. In the same way, an EU eco-label for financial products would guide savers towards climate-friendly investments.

To better inform retail investors, we will also require financial advisors to ask clients about their sustainability preferences, and offer suitable investment products. Let me give you one example. Many European parents put aside a fixed sum every month to save for the university studies of their children. We want them to be able to choose a green option, so this money

would serve the planet while the child is growing up.

The second objective of our Action Plan is to embed sustainability into risk management. This is important, because sustainability risks will have an increasing impact on financial stability. Last year, the amount of catastrophe-related losses covered by insurance reached an all-time high – €110 billion. If we ignore the risks of climate change, we may end up locking capital into projects that are only viable in the short-run, which would be a waste.

There are two reasons why we should climate-proof our investments, and foster a broader view of risks: first, the impact of climate change can threaten financial stability and lead to major economic losses through floods, land erosion or draughts. And second, because of the risk of stranded assets. If we wake up too late to the reality of global warming, many of today's investments could end up being redundant.

In May, we will present a legislative proposal clarifying the sustainability duties of institutional investors and asset managers. These actors play an influential role as intermediaries between companies and their end-investors. Our proposal will ensure that they work closely and transparently with clients to consider sustainability in asset allocation and risk-management.

We will also consider incorporating sustainability into prudential rules to boost funding for green projects, for example by adjusting capital requirements for banks. Work is currently ongoing in the European Parliament on a proposal for such a green supporting factor, and the Commission stands ready to give support for this process.

By reducing the costs of certain loans, a green supporting factor could provide incentives to choose investments that are good for the climate, such as building a passive house, or buying an electric car. Still, any measures would need to be justified from a risk and financial stability perspective, and they would need to be carefully calibrated. Green does not necessarily mean risk-free.

Along this, we are looking into amending rules for banks' risk management policies to better account for sustainability risks. Time is running out, so we need solutions to quickly help sustainable finance reach scale, and the green supporting factor could be one of them.

This brings me to the third objective of the Action Plan, to foster transparency and long-term perspectives in financial and economic activity. Sometimes, finance is about sowing the seeds of projects whose value only materialises decades later. This is often the case for investments in new low-carbon technology or climate change adaptation.

But today, success in finance is often measured only from quarter to quarter. This can blind companies from the risks and opportunities of the low-carbon transition. We will start by collecting evidence on the short-term pressures on companies. We want to relieve this pressure, and help boards and directors think long-term.

We also want to encourage companies to be more transparent about how they deal with sustainability risks. This would help investors assess and measure their exposure to these risks.

In the EU, we have already made some progress. Listed companies are required to disclose information on sustainability risks, and we have non-binding guidelines to help them do so in a consistent and comparable manner. By next year, we will propose to revise these guidelines. They should include measures of climate risk, in line with the recommendations of the Financial Stability Board's Task Force on Climate-related Disclosure.

Here I would like to thank Mike Bloomberg for all his work to keep this issue on the global agenda, despite opposition from different corners. Yesterday, we launched a fitness check of existing corporate reporting rules, to inform any future legislative proposals. Finally, the Commission will ensure that accounting rules do not directly or indirectly discourage sustainable and long-term investments.

Ladies and gentlemen,

We will ensure a swift follow-up to our Action Plan on sustainable finance: As I mentioned, the first legislative proposals are due already in May. And we are in the middle of setting up a technical expert group to help develop key functions, such as the first taxonomies, the green bond standard, and climate-related metrics for disclosure. We are also considering establishing a longer term governance structure, by way of a platform composed of relevant stakeholders.

But sustainable finance will only work as a shared effort. All players in the finance value chain – everybody in this room – will need to play an active role in its implementation.

We also need to get the international community fully on board. Finance is global and interconnected, so sustainable finance must be too. The EU stands ready to promote our action plan at the highest level internationally. We hope that it can provide a common blueprint for mobilising private sustainable investment.

Today is just the beginning, and the road ahead is long. But if we walk together, I am confident that we can reach our destination.

Thank you very much.