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Οι πρωτοβουλίες της Ευρωπαϊκής Επιτροπής για την ενίσχυση της χρηματοδότησης μιας βιώσιμης ευρωπαϊκής οικονομίας και το έργο του “High Level Expert Group on Sustainable Finance” στο πλαίσιο της δημιουργίας «ένωσης κεφαλαιαγορών» (Capital Markets Union): οι θεσμικές και κανονιστικές ρυθμίσεις

European Commission’s Action Plan on financing a Sustainable European Economy and the Work of the High-Level Expert Group on Sustainable Finance to build the Capital Markets Union; Institutional and Regulatory Framework

Επιβλέπων:
Καθηγητής Γκόρτσος Χρήστος

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Απαγορεύεται η αντιγραφή, αποθήκευση και διανομή της παρούσας εργασίας, εξ ολοκλήρου ή τμήματος αυτής, για εμπορικό σκοπό. Επιτρέπεται η ανατύπωση, αποθήκευση και διανομή για σκοπό μη κερδοσκοπικό, εκπαιδευτικής η ερευνητικής φύσης, υπό την προϋπόθεση να αναφέρεται η πηγή προέλευσης και να διατηρείται το παρόν μήνυμα.

Οι απόψεις και θέσεις που περιέχονται σε αυτήν την εργασία εκφράζουν τον συγγραφέα και δεν πρέπει να ερμηνευτεί ότι αντιπροσωπεύουν τις επίσημες θέσεις του Εθνικού και Καποδιστριακού Πανεπιστημίου Αθηνών.

Θερμές ευχαριστίες στην οικογένειά μου για την πλήρη ηθική και οικονομική στήριξή τους, καθώς και στον αξιότιμο Καθηγητή κο Γκόρτσο Χρήστο για τη συγκινητική αναγνώριση των προσπάθειών μου και τις πηγαίες συμβουλές του.

ABSTRACT

After a difficult period of crisis with major economic and social repercussions, the European Union has as its main objective the strengthening of investment and the achievement of a stable financial system, a project that is particularly difficult and lasting. In this context, the European Union is looking for ways to adapt the financial system to market needs for sustainability. The European economic and financial system is being reorganized and aims at integrating environmental, social and governance factors, while the Capital Market Union is a necessary tool in this initiative.

The European Commission's initiatives and the work of the High-Level Expert Group on Sustainable Finance combine international obligations and the European Union Vision in a bid for a sustainable financial system.

ΠΕΡΙΛΗΨΗ

Μετά από μία δύσκολη περίοδο κρίσης με σημαντικές οικονομικές και κοινωνικές επιπτώσεις, η Ευρωπαϊκή Ένωση θέτει ως κύριο στόχο την ενίσχυση των επενδύσεων και την επίτευξη ενός σταθερού χρηματοπιστωτικού συστήματος, ένα έργο ιδιαίτερα δύσκολο και διαρκές. Σε αυτό το πλαίσιο η Ευρωπαϊκή Ένωση αναζητά τρόπους προσαρμογής του χρηματοπιστωτικού συστήματος στις ανάγκες της αγοράς με στόχο τη βιωσιμότητα. Το ευρωπαϊκό οικονομικό και χρηματοπιστωτικό σύστημα αναδομείται και στοχεύει στην ενσωμάτωση περιβαλλοντικών, κοινωνικών και διακυβερνητικών παραγόντων, η δε Ένωση των Κεφαλαιαγορών (Capital Markets Union) αποτελεί απαραίτητο εργαλείο σε αυτήν την πρωτοβουλία.

Οι ηγετικές πρωτοβουλίες της Ευρωπαϊκής Επιτροπής και το έργο του High-Level Expert Group on Sustainable Finance συνδυάζουν τις διεθνείς υποχρεώσεις και το ευρωπαϊκό όραμα σε μία προσπάθεια για ένα βιώσιμο χρηματοπιστωτικό σύστημα.

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LIST OF ACRONYMS

AIFM	Alternative Investment Fund Managers
AIFMD	Alternative Investment Fund Managers Directive
CAC40	Cotation Assistée en Continu 40
CCCTB	Common Consolidated Corporate Tax Base
CMU	Capital Markets Union
COP	Conferences of the Parties
CRAs	Credit Rating Agencies
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DAX30	Deutscher Aktienindex 30
EAP	Environment Action Programme
EBA	European Banking Authority
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIB Group	European Investment Bank Group
EIF	European Investment Fund
EIPP	European Investment Project Portal
EMU	Economic and Monetary Union
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
ESNs	European Secured Notes
ESRB	European Systemic Risk Board
EU	European Union
EU GBS	EU Green Bond Standard
EuSEF	European Social Entrepreneurship Funds
EuVECA	European Venture Capital Funds
FTSE 100	Financial Times Stock Exchange 100
GIF	Global Infrastructure Facility
GHGs	Greenhouse Gases

GSDR	Global Sustainable Development Reports
HLEG	High-Level Expert Group
HLPF	High-Level Political Forum on Sustainable Development
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IORP II	Institutions for Occupational Retirement Provision Directive II
IOSCO	International Organisation of Securities Commission
IUCN	International Union for Conservation of Nature and Natural Resources
KIP	Knowledge Innovation Project
KPMG	Klynveld Peat Marwick Goerdeler
MDGs	Millennium Development Goals
MiFID II	Markets in Financial Instruments Directive II
MiFIR	Markets in Financial Instruments Regulation
MSCI	Morgan Stanley Capital International
MSCI ACWI	Morgan Stanley Capital International All Country World Index
NACE	Nomeclature statistique des Activités économoques dans la Communautés Européenenes
NDCs	Nationally Determined Contributions
NGOs	Non- Governmental Organisations
NPBs	National Promotional Banks
PEPP	Pan-European Personal Pension Product
PRI	Principles for Responsible Investment
SD	Sustainable Development
SDG	Sustainable Development Goals
SEPA	Single Euro Payments Area
SMEs	Small and Medium-sized Enterprises
SRAs	Sustainability Rating Agencies
SSM	Single Supervisory Mechanism
STS	Simple, Transparent and Standardised
TBL	Triple Bottom Line
TCFD	Task Force on Climate-related Financial Disclosures
TEG	Technical Expert Group on Sustainable Finance
UCITS	Undertakings for the Collective Investment of Transferable Securities
UN	United Nations

UNCED	United Nations Conference on Environment and Development
UNEP FI	United Nations Environment Program Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
UNGA	United Nations General Assembly
UNHQ	United Nations Headquarters
US	United States
WBA	World Benchmarking Alliance
WCED	World Commission on Environment and Development
WCS	World Conservation Strategy
WPC	World Pensions Council

INTRODUCTION

By adopting the Paris Agreement on climate change, the first-ever universal, global climate deal to adapt and build resilience to climate change and to limit global warming to well below 2°C, and the United Nations 2030 Agenda for Sustainable Development in 2015, with 17 Sustainable Development Goals (SDGs) at its core, governments from around the world have chosen a more sustainable path for our planet and our economy. The next 15 years, these goals will guide us in preparing for a future that ensures stability, a healthy planet, fair, inclusive and resilient societies and prosperous economies.

Following the US decision to withdraw from the Paris Agreement, the EU has pledged to take the lead in implementing this historic agreement and delivering the transition to a low-carbon, more resource efficient, and more circular economy. Sustainability has long been at the heart of the European Union project and the EU Treaties give recognition to its social and environmental dimensions. The EU is committed to development that meets the needs of present and future generations, while opening up new employment and investment opportunities and ensuring economic growth.

As we are increasingly faced with the catastrophic and unpredictable consequences of climate change and resource depletion, urgent action is needed to adapt public policies to this new reality. The financial system has a key role to play here. Reorienting private capital to more sustainable investments requires a comprehensive shift in how the financial system works. This is necessary if the EU is to develop more sustainable economic growth, ensure the stability of the financial system, and foster more transparency and long-termism in the economy. Such thinking is also at the core of the EU's Capital Markets Union (CMU) project.

To develop the overall vision of sustainable finance that this requires, the Commission decided to appoint a High-Level Expert Group under the chairmanship of Christian Thimann. The work of this remarkable group of experts has ensured that EU's approach to sustainable finance is at the forefront of innovation. Its recommendations show a way towards a financial sector that supports a more sustainable and inclusive economic system, in line with the EU's environmental and social objectives. The goal is ambitious, but realistic: to make Europe the centre of gravity for global investment in the low-carbon, resource-efficient, and circular economy.

This paper will examine the most recent and fundamental initiatives and actions of the European Union and its Institutions and Groups towards a more sustainable European Financial and Economic System. Starting with the definition of Sustainability and its economic approach (Chapter A.1) it discusses the Paris Agreement, the UN 2030 Agenda for Sustainable Development and the establishment of the High-Level Political Forum on Sustainable Development (HLPF) and its work, as some very important initiatives towards global Sustainability (Chapter A.2). It then

focuses on the EU's attempt to champion this significant objective, and especially on the idea of the creation of a Capital Markets Union (CMU) (Chapter B.1). The paper is also based on the unique and highly demanding work of the High-Level Expert Group on Sustainable Finance (HLEG), in order to specify on the work of the EU and European Commission towards a CMU (B.2) and analytically present the series of HLEG's recommendations for a CMU and, thus, for a Sustainable Financial System (Chapter C) which leads to the most recent European Commission's Action Plan on Sustainable Growth (Chapter C.6).

A. A SUSTAINABLE ECONOMY

1. Sustainable Development

Since the 1972 UN Conference on the Human Environment[1] the reach of sustainable development governance has expanded considerably at local, national, regional and international levels. The first publicly visible use of the term "sustainable development" was most probably in 1980 when it appeared in the World Conservation Strategy (WCS), a document prepared by the International Union for Conservation of Nature and Natural Resources (IUCN)[2]. The WCS defined sustainable development as "the integration of conservation and development to ensure that modifications to the planet do indeed secure the survival and well-being of all people" (International Union for Conservation of Nature and Natural Resources (currently World Conservation Union) , 1980). The WCS examined the contribution of living resource conservation issues and the main requirements for dealing with them, and proposed ways for effective achieving the strategy' s aims.

The term "sustainable development" was given international prominence and refined in 1987 by the World Commission on Environment and Development (WCED or the Brundtland Commission), an independent body created by the United Nations General Assembly (UNGA). The Brundtland Report (Our Common Future) introduced the need for the integration of economic development, natural resources management and protection and social equity and inclusion, which was central in framing the discussions at the 1992 United Nations Conference on Environment and Development (UNCED) also known as the Earth Summit. This report provided the oft-cited definition of sustainable development as "development that meets the needs of the present without

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[1] Report of the UN Conference on the Human Environment available at http://www.un-documents.net/aconf48-14r1.pdf [last accessed 3 November 2018]

[2] "(…) The problems posed by the destruction, degradation and depletion of living resources are many and complicated. The resources available to tackle them are small and priorities for their use are not always determined with sufficient care. There is a need to deal with the causes of many of these problems rather than with the symptoms. There are many competent, interested organizations with seemingly divergent but basically compatible aims that would be better able to tackle the problems if they cooperated more along agreed lines. It is hoped that this Strategy will help governments, intergovernmental bodies, private organizations and individuals to cooperate with each other and jointly deploy the limited means available to much greater effect. If this is done, then the prospects for conservation-and for sustainable development-will be much enhanced. (…)". Follows a checklist of 43 priority requirements, national actions and international actions.

Report available at https://portals.iucn.org/library/sites/library/files/documents/WCS-004.pdf [last accessed 3 November 2018[

compromising the ability of future generations to meet their own needs"[3]. While the international community has not agreed to this definition in any legally binding instrument, the definition is so frequently cited that has acquired a quasi-official status (D. Bodansky, 2007). Albeit somewhat vague, this concept of sustainable development aims to maintain economic advancement and progress while protecting the long-term value of the environment; it "provides a framework for the integration of environment policies and development strategies" (United Nations General Assembly, 1987)[4].

However, long before the late 20th century, scholars argued that there need not be a trade-off between environmental sustainability and economic development.

1.1. Economics of Sustainability

Early theorists supported that environmental policy could also promote innovation and turn a profit. In 1920, Arthur Pigou noted that the presence of incidental, uncharged services act as a barrier to achieving equilibrium in the market. In his work "The Economics of Welfare", Pigou noted that the divergence between marginal private costs and benefits and marginal social costs and benefits create what we now call "externalities" (Pigou, 1920). These externalities are conceived as transaction spillovers, or costs and benefits unaccounted for in the given price of a good or service. In other words, it is the cost or benefit that affects a party who did not choose to incur that cost or benefit (Buchanan & Stubblebine, 1962). Thus the Pigouvian Tax[5] was proposed

[3] As the then–Prime Minister of Norway Gro Harlem Brundtland argued: *"The environment does not exist as a sphere separate from human actions, ambitions, and needs, and attempts to defend it in isolation from human concerns have given the very word "environment" a connotation of naivety in some political circles. The word "development" has also been narrowed by some into a very limited focus, along the lines of "what poor nations should do to become richer," and thus again is automatically dismissed by many in the international arena as being a concern of specialists, of those involved in questions of "development assistance." But the "environment" is where we live; and "development" is what we all do in attempting to improve our lot within that abode. The two are inseparable.*"

[4] One important study—by the Board on Sustainable Development of the U.S. National Academy of Sciences—sought to bring some order to the broad literature its members reviewed.14 In its report, Our Common Journey: A Transition toward Sustainability, the board focused on the seemingly inherent distinction between what advocates and analysts sought to sustain and what they sought to develop, the relationship between the two, and the time horizon of the future (see Figure 1 on this page). Thus under the heading "what is to be sustained," the board identified three major categories—nature, life support systems, and community—as well as intermediate categories for each, such as Earth, environment, and cultures. Similarly, there were three quite distinct ideas about what should be developed: people, economy, and society.

[5] A Pigouvian tax is a tax equal to the harm that the firm imposes on third parties. For example, if a manufacturer pollutes, and the pollution causes a harm of $100 per unit of pollution to people who live in the area, then the firm

as a measure for the market to reflect these negative externalities and correct the failures (Jonathan S. Masur, 2015).

From this, Michael Porter and Claas van der Linde theorized that pollution is a sign of inefficient resource use. Therefore, win-win opportunities for the environment and economy can be captured through improvements which reduce pollution in production processes[6] (Porter, 1999). These authors argue that competitive advantages rely on the capacity for innovation; thus, "by stimulating innovation, strict environmental regulations can actually enhance competitiveness" (Porter, 1995). The Porter Hypothesis states environmental policies that make use of market incentives can adopt new technologies and reduce production waste, but the implementation of this theory have had mixed results (Timothy F. Slaper, 2011). Scholars generally agree, though, that policy design and public support are crucial prerequisites to the success of these incentives. Nonetheless, market-based environmental tools are generally perceived as more "business friendly" than traditional command and control policies (Cooper, 2004).

It is also very crucial to assess natural resource constraints. Truly rational and "effective governance requires a nation to consider and protect the environment and natural resources on which its current and future development depend. Any other approach is self-defeating. The connections between the environment and development thus provide a powerful rationale for environmental protection: enlightened self-interest" (Dernbach, 1998). Sustainable development depends on this inherent interdependence between the long-term stability of the environment and the economy.

Clean air and water, as components of a healthy environment, are considered public goods and they are non-rivalrous and non-excludable. Thus, the public sector has to maintain the

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should pay a tax of $100 per unit of pollution. This ensures that the manufacturer pollutes only if the value of the pollution-generating activities exceeds the harm, such that the social value of those activities is positive.

[6] John Elkington, the founder of a British consultancy called SustainAbility, strove to measure sustainability during the mid-1990s by encompassing a new framework to measure performance in corporate America. This accounting framework, called the triple bottom line (TBL), went beyond the traditional measures of profits, return on investment, and shareholder value to include environmental and social dimensions. By focusing on comprehensive investment results— that is, with respect to performance along the interrelated dimensions of profits, people and the planet— triple bottom line reporting can be an important tool to support sustainability goals. The TBL is an accounting framework that incorporates three dimensions of performance: social, environmental and financial. This differs from traditional reporting frameworks as it includes ecological (or environmental) and social measures that can be difficult to assign appropriate means of measurement. The TBL dimensions are also commonly called the three Ps: people, planet and profits. Businesses, nonprofits and government entities alike can all use the TBL. There are challenges to putting the TBL into practice. These challenges include measuring each of the three categories, finding applicable data and calculating a project or policy's contribution to sustainability.

provision of these goods and services. Recently, nations have moved towards the market-based mechanisms of total internalization of pollution costs to ensure long-term stability of the environment and, finally, sustainable development.

1.2. Sustainable Development: Definition and Principles

The most common and often used definition of sustainable development, yet broad, is the one proposed by the Brundtland Commission mentioned above. The explanation does, however, touch on the importance of intergenerational equity. It distinguishes itself from other traditional environmental policies, which also seek to internalize the externalities of environmental degradation, by considering the conservation of resources for future generations. Sustainable Development (SD)[7] is the long-term stability of the economy and environment and it is thought to be achievable only through the integration and acknowledgement of economic, environmental, and social concerns throughout the decision-making process.

Generally, Sustainable Development may be considered to consist of the following core elements, first, the needs of present and future generations must be taken into account (intergenerational equity); second, the needs of the world's poor must receive priority, and abject poverty must be eliminated (intra-generational equity); third, the environmental needs to be preserved at least to a significant degree; and, forth, economic, social, and environmental policies must be integrated.

Substitutability of capital is also considerable when talking about sustainable finance. Beginning with different types of capital: social, natural, and man-made, we can lead to the definition of weak sustainable development which is based on the idea that the aggregate level of capital matters: man-made, or manufactured, capital is an adequate alternative to natural capital. Strong sustainability, on the other hand, is highly connected with the features of natural resources which cannot be replaced by manufactured capital. Most ecologists and environmentalists are proponents of the strong sustainability definition (Stoddart, 2011).

In addition to substitutability, this definition of sustainability is also founded on several other important principles. *Intergenerational equity* recognizes, also, the long-termism of

[7] Another way to define sustainable development is in what it specifically seeks to achieve. To illustrate, it is helpful to examine three sets of goals that use different time-horizons: the short-term (2015) goals of the Millennium Declaration of the United Nations; the two generation goals (2050) of the Sustainability Transition of the Board on Sustainable Development; and the long-term (beyond 2050) goals of the Great Transition of the Global Scenario Group.

sustainability in order to address the needs of future generations (Dernbach, 1998). Also, the *polluter pays principle* states that "governments should require polluting entities to bear the costs of their pollution rather than impose those costs on others or on the environment". Thus, government policy should ensure that environmental costs are internalized wherever possible; this also serves to minimize externalities.

The *precautionary principle* establishes that "where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measure to prevent environmental degradation" (United Nations, 1992). As it stated in the Rio Declaration, the concept of common but differentiated responsibilities recognizes that each nation must act differently on the issue of sustainable development acknowledging the different contributions to environmental degradation between developed and developing nations, while estimating the future development needs of these less developed countries (Brodhag, 2006). Developed nations, therefore, bear greater responsibility because of the resources they require and the pressures they exert on the environment.

In the extensive discussion and use of the concept since then, there has generally been a recognition of three aspects of sustainable development:

- Economic: An economically sustainable system must be able to produce goods and services on a continuing basis, to maintain manageable levels of government and external debt, and to avoid extreme sectoral imbalances which damage agricultural or industrial production.
- Environmental: An environmentally sustainable system must maintain a stable resource base, avoiding over-exploitation of renewable resource systems or environmental sink functions, and depleting non-renewable resources only to the extent that investment is made in adequate substitutes. This includes maintenance of biodiversity, atmospheric stability, and other ecosystem functions not ordinarily classed as economic resources.
- Social: A socially sustainable system must achieve distributional equity, adequate provision of social services including health and education, gender equity, and political accountability and participation[8] (Harris, 2000).

[8] "(…) The total system of which human society is a part, and on which it depends for support, is made up of a large number of component systems. The whole cannot function properly and is not viable and sustainable if individual component systems cannot function properly (…) sustainable development is possible only if component systems as well as the total system are viable. Despite the uncertainty of the direction of sustainable development, it is necessary to identify the essential component systems and to define indicators that can provide essential and reliable information about the viability of each and of the total system. Despite the uncertainty of the direction of sustainable development, it is necessary to identify the essential component systems and to define indicators that can provide essential and

The integration of environmental, social, and economic factors is the basis of the sustainable decision-making process and the core of the elimination of fragmentation which is inherent in the current institutional reality (Emas, 2015).

2. Initiatives for a Sustainable Development

2.1. The Paris Agreement

Since the United Nations Framework Convention on Climate Change (UNFCCC) was first established in 1992, there have been extensive international discussions, known as "Conferences of the Parties" or COPs, aimed at reaching a global agreement on emissions reduction. Albeit Kyoto protocol, adopted by COP 3, failed in its attempt to slow down global emissions, it provided an important first step in global climate diplomacy. Moreover, the efforts to secure a binding global agreement on emissions reductions failed as infeasible at the fifteenth COP in Copenhagen in 2009. Thus, it became increasingly obvious to negotiators that another approach would be needed.

In its place, negotiators came up with the idea that countries would instead propose their own voluntary goals– the hope being that countries would eventually feel "peer-pressure" to set the most ambitious possible goals within their reach. This new negotiating strategy laid the foundations for the global agreement reached at the twenty-first Conference of the Parties (COP21) in Paris. In the months that preceded the COP21, 186 countries submitted their proposed nationally determined contributions (NDCs) – indicating their willingness to contribute to the reduction of global CO_2 emissions. The national climate goals that countries submit to be associated with the agreement have political rather than legal force and are nationally determined and are designed to cause nearly universal country action and participation.

The Paris Agreement also provides for continuing financial and technical support to developing countries to help them adapt to the disruptive consequences of climate change, as well as support for a transition away from fossil fuels toward cleaner renewable energy sources (Jonathan M. Harris, 2017).

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reliable information about the viability of each and of the total system. (…)" Bossell, Hartmut, ed. (1999). Indicators for Sustainable Development: Theory, Method, Applications: A Report to the Balaton Group, p.2. Winnipeg, Canada: International Institute for Sustainable Development (IISD), available at http://www.ase.tufts.edu/gdae/publications/working_papers/Sustainable%20Development.PDF [last accessed 3 November 2018]

2.2. UN 2030 Agenda for Sustainable Development

In June 2012 during the "Rio+20" Conference on Sustainable Development, where Governments decided to develop global Sustainable Development Goals, building on the Millennium Development Goals but also including issues such as natural resources management, sustainable consumption and production, effective institutions, good governance, the rule of law and peaceful societies. The reports of the Open Working Group on Sustainable Development Goals and the Intergovernmental Committee of Experts on Sustainable Development Financing formed the basis of the final Agenda package, through a series of intergovernmental negotiations in partnership with major groups and stakeholders, ensuring the broadest possible ownership of this new Agenda.

The 2030 Agenda itself consists of 4 sections: (i) A political Declaration, (ii) a set of 17 sustainable Development Goals and 169 targets (based on the report of the OWG, with some small modifications), (iii) Means of Implementation and (iv) a framework for follow up and review of the Agenda.

The 17 sustainable development goals (SDGs) are: Goal 1: No Poverty, Goal 2: Zero Hunger, Goal 3: Good Health and Well-being, Goal 4: Quality Education, Goal 5: Gender Equality, Goal 6: Clean Water and Sanitation, Goal 7: Affordable and Clean Energy, Goal 8: Decent Work & Economic Growth, Goal 9: Industry, Innovation and Infrastructure, Goal 10: Reduced Inequality, Goal 11: Sustainable Cities and Communities, Goal 12: Responsible Consumption and Production, Goal 13: Climate Action, Goal 14: Life Below Water, Goal 15: Life on Land, Goal 16: Peace and Justice Strong Institutions, Goal 17: Partnerships to achieve the Goal.

The scale, ambition and approach of the Agenda are unprecedented. One key feature is that the SDGs are global in nature and universally applicable, taking into account national realities, capacities and levels of development and specific challenges. All countries have a shared responsibility to achieve the SDGs, and all have a meaningful role to play locally, nationally as well as on the global scale.

In addition, the 2030 Agenda integrates in a balanced manner the three dimensions of sustainable development – economic, social and environmental. The 2030 Agenda is also indivisible, in a sense that it must be implemented as a whole, in an integrated rather than a fragmented manner, recognizing that the different goals and targets are closely interlinked. It is based on the concept of global partnership, supported by a comprehensive approach to the mobilisation of all means of implementation, and is complemented by the Addis Ababa Action Agenda, which is an integral part.

Moreover, in order to ensure progress and long-term accountability, the 2030 Agenda includes a strong follow-up and review mechanism which will allow all partners to assess the impact of their actions. At global level, this is overseen by the High-Level Political Forum on Sustainable Development, which meets at United Nations Headquarters (UNHQ) every year to track progress.

2.3. High Level Political Forum on Sustainable Development (HLPF)

A mean in the implementation of sustainable development is the establishment of the United Nations High Level Political Forum on Sustainable Development (HLPF). Given the adoption of the 2030 Agenda for Sustainable Development with its sustainable development goals (SDGs), the latest report of 2016 adopts the SDGs as its scope (United Nations, 2016).

Among other functions, the HLPF is given the task to "strengthen the science-policy interface through review of documentation bringing together dispersed information and assessments, including in the form of a global sustainable development report, building on existing assessments". This mandate foresees a space for discussions on the science-policy interface in an intergovernmental forum dedicated to sustainable development (United Nations, 2015).

The Global Sustainable Development Reports (GSDR) inform the HLPF, strengthen the science-policy interface and provide a strong evidence-based instrument to support policymakers in promoting poverty eradication and sustainable development. On 25 August 2016 a note verbale was sent to all Member States, asking them to nominate experts for an independent group of scientists to draft the quadrennial GSDR. The final selection of 15 experts was made with a view to providing balanced coverage of the various topics that could be expected to feature in the GSDR, 2019, while also respecting regional and gender balance. The GSDR aims to give a holistic and science- based approach to policy measures that will advance the SDGs and Agenda 2030 (United Nations, 2019).

3. The need of a Capital Markets Union (CMU)

3.1. Creating a CMU

The Paris Agreement, which marked a watershed in global commitment to tackling climate change, put finance at the heart of its policy. Among other long-term sustainability challenges, managing climate change depends on making finance flows consistent with the long-term decarbonisation objectives and climate-resilient development. The UN 2030 Agenda also highlights the key role that finance must play in meeting the SDGs. Recognising the importance of these challenges, the European Commission has established a High-Level Expert Group to advise it on how to integrate sustainability considerations into EU financial regulation and financial markets practices.

The Commission's priority is to strengthen the EU economy and stimulate investment. Since the EU economic recovery is gaining momentum, with a fifth consecutive year of growth[9]. There are, however, significant downside risks. The Commission notes that the contribution of investment to growth remains low and the investment rate is still below pre-crisis levels (European Commission, 2017). This persistent weakness in investment continues to drag on the momentum of recovery and longer-term growth. EU businesses, from start-ups and scale-ups to well-established multinationals, need access to a wide range of funding sources, to invest in innovation and company expansion. Households need access to capital markets, to have more and better opportunities to invest for their future.

President of the European Commission, Jean-Claude Juncker, set as one of his key priorities, the need to build a true single market for capital — a Capital Markets Union (CMU) for all Member States, which reinforces the third pillar of the Investment Plan for Europe. Its aim is to strengthen Economic and Monetary Union (EMU) by supporting economic and social convergence and helping absorb economic shocks in the euro area. CMU is needed because banks and capital markets are both vital components of the financial system, not competing but complementing each other.

[9] The European Union economy expanded 2.1 percent year-on-year in the second quarter of 2018, slightly below a second estimate of 2.2 percent and after a downwardly revised 2.3 percent growth in the previous period. GDP Annual Growth Rate in European Union averaged 1.78 percent from 1996 until 2018, reaching an all time high of 4.50 percent in the second quarter of 2000 and a record low of -5.40 percent in the first quarter of 2009, https://tradingeconomics.com/european-union/gdp-annual-growth-rate [last accessed 22 October 2018]

On 13 December 2016, the Joint Declaration by the European Parliament, Council and Commission on the EU's legislative priorities for 2017 included the initiatives on creating safer and more transparent markets for securitisation and improved prospectuses for securities, to bring about CMU. The implementation of a CMU it is not an easy objective. Its success depends on the level of political commitment from the Member States, the European Parliament and market participants. It depends on how businesses, large and small financial service providers and institutional and retail investors use the building blocks. National authorities and market participants hold the key role to building the financial channels and market segments, as well as the legal, fiscal and technical infrastructure needed to dismantle barriers to EU integration and develop a true Single Market for capital (European Commission, 2017).

3.2. High Level Expert Group on Sustainable Finance (HLEG)

As announced in its communication on Capital Markets Union – Accelerating reform , the European Commission established a High-Level Expert Group on Sustainable Finance (HLEG) in December 2016.

The HLEG comprised 20 senior experts from civil society, the finance sector, academia and observers from European and international institutions. The group was mandated to provide advice to the Commission on how to steer the flow of public and private capital towards sustainable investments, identify the steps that financial institutions and supervisors should take to protect the stability of the financial system from risks related to the environment and deploy these policies on a pan-European scale. The HLEG published an interim report (EU High-Level Expert Group on Sustainable Finance, 2017) in July 2017 and delivered its final report (EU High-Level Expert Group on Sustainable Finance, 2018) in January 2018.

B. SUSTAINABLE FINANCE AND THE CAPITAL MARKETS UNION

1. Initiatives for a Sustainable Financial System - Creating a Capital Markets Union

In its attempt for a Sustainable Economy European Union faces a series of complex features that have been characterizing European economy for decades. Investments in Europe strongly rely on banks, financing conditions differ between EU countries, there are different rules and market practices for products like securitised instruments or private placements, shareholders and buyers of corporate debt rarely invest beyond their national borders and, also, many small and medium-sized enterprises (SMEs) still have limited access to finance.

The Capital Markets Union (CMU), part of the third pillar of the Commission's Investment Plan for Europe, is essential to delivering the Juncker Commission's priority to boost jobs, including youth employment, and growth. It seeks to better connect savings to investment and to strengthen the European financial system by enhancing private risk-sharing, providing alternative sources of financing and increasing options for retail and institutional investors. Removing obstacles to the free flow of capital across borders will strengthen EMU by supporting economic convergence and helping to cushion economic shocks in the euro area and beyond, making the European economy more resilient. This is even more important in the current economic environment. (European Commission, 2016)

Since the global economic and financial crisis, the EU has been suffering from low levels of investment. Collective and coordinated efforts at European level are needed to reverse this downward trend and put Europe on the path of economic recovery. Adequate levels of resources are available and need to be mobilised across the EU in support of investment[10]. There is no single, simple answer, no growth button that can be pushed, and no one-size-fits-all solution (European Commission, 2017).

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[10] Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments, available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1017&from=EN [last accessed 22 October 2018]

1.1. CMU as a key element of the Investment Plan for Europe

The creation of a true single market for capital in the EU by 2019 is a key element of the Investment Plan announced by the Juncker Commission in November 2014[11]. At 16 of December 2014 meeting held in Strasbourg, EU Commission policy makers set Investment Plan as number one initiative in their new "roadmap for getting Europe back to work, based on clear priorities […] to boost our economy".[12]

The Investment Plan for Europe, the so-called Juncker Plan, has three objectives: to remove obstacles to investment; to provide visibility and technical assistance to investment projects; and to make smarter use of financial resources.[13] As such, the plan is made up of three pillars:

- **1st Pillar: The European Fund for Strategic Investments (EFSI)**

EFSI is not a "fund" in the traditional sense. It is a guarantee instrument that enables the European Investment Bank Group (EIB Group)[14] to accelerate projects and take more risks when investing in them. It was conceived in 2014 (European Commission, December), when Europe was emerging from the worst financial crisis since the Great Depression. To speed up the recovery,

[11] Commenting on the Plan, European Commission President Jean-Claude Juncker said: "If Europe invests more, Europe will be more prosperous and create more jobs – it's as simple as that. The Investment Plan we are putting forward today in close partnership with the European Investment Bank is an ambitious and new way of boosting investment without creating new debt. Now is the time to invest in our future, in key strategic areas for Europe, such as energy, transport, broadband, education, research and innovation. I am now counting on the European Parliament and on Member States to pitch in and do their part to get the new European Fund for Strategic Investments up and running as soon as possible. Europe needs a kick-start and today we are supplying the jump cables.", EU launches Investment Offensive to boost jobs and growth, Strasbourg, 26 November 2014, available at http://europa.eu/rapid/press-release_IP-14-2128_en.htm [last accessed 22 October 2018]

[12] EC Press Release : 'A New Start: European Commission work plan to deliver jobs, growth and investment', EU Commission Press Release Database, 16 December 2014 – Strasburg, available at http://europa.eu/rapid/press-release_IP-14-2703_en.htm [accessed 25 August 2018]

[13] M. Nicolas J. Firzli, Director-General, World Pensions Council (WPC), and member of the Board of Advisory Partners, World Bank Group Global Infrastructure Facility (GIF), insists that EU policy makers, public lenders and development banks will need to assess thoroughly the tangible interest of future infrastructure investments one project at a time, an effort for which prospective pension and insurance co-investors from sophisticated jurisdictions such as Alberta, California, Ontario, Switzerland and the UK can play a decisive part, 2014 LTI Rome Conference: Infrastructure-Driven Development to Conjure Away the EU Malaise?

[14] The EIB Group consists of the European Investment Bank and the EIF. The EIF focuses on innovative financing for SMEs in Europe. Its majority shareholder is the EIB, while the remaining equity is held by the EU (represented by the European Commission), as well as other European public and private entities.

the European Commission, supported by the European Investment Bank (EIB)[15], launched a policy initiative to break the vicious circle of declining investment and sluggish growth. It is a guarantee instrument that enables the EIB Group to accelerate projects and take more risks when investing in them. The initiative aims to mobilise EUR 500 billion by 2020.

The European Fund for Strategic Investments is at the heart of the Investment Plan, supporting innovative projects that may have high risks. A joint initiative of the European Investment Bank and the European Commission, EFSI helps to attract private investment for: Research, development and innovation, Energy, Digital Sector, Transport, Environment and resource efficiency, Social infrastructure, Sustainable agriculture, forestry, fishery and aquaculture, Industry-support in less-developed and transition regions and Smaller and midcap companies (European Investment Bank, 2018).

EFSI has mobilised €335 billion in additional investment across the EU since 2015[16]. Given the success of the EFSI, the Commission proposed to extend its duration and capacity to boost investment further. The so-called EFSI 2.0 entered into force on 30 December 2017. It:

- extends the lifetime of the guarantee from mid-2018 to end-2020,
- increases its investment target from €315 billion to at least €500 billion,
- has a greater focus on financing small businesses,
- puts more emphasis on sustainable projects and sectors and
- provides more advisory support at a local level. (European Commission, 2018)

- **2nd Pillar: The European Investment Advisory Hub and the European Investment Project Portal**

The EIAH and the EIPP constitute the second part of the investment plan for Europe and were set up to achieve the goals of the European fund for strategic investments.

The main purpose of the advisory hub is to provide, as an “one-stop-shop”, at both EU and local level, technical assistance, extra advisory services (on the use of technical assistance for project structuring, innovative financial instruments, public-private partnerships and on the relevant EU legislation) and greater visibility of investment opportunities to investors, project promoters and public managing authorities on project identification, development and preparation, thereby helping proposed investment projects become a reality. The Hub’s experts work directly

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[15] A list of EFSI projects are available at http://www.eib.org/en/efsi/efsi-projects/index.htm [lasts accessed 25 August 2018]

[16] Factsheet: Juncker Plan reaches €315 billion investment target, available from https://ec.europa.eu/commission/sites/beta-political/files/juncker-plan-factsheet-july2018_en.pdf [last accessed 22 October 2018[

with companies and government officials to prepare tailor-made advisory packages that help projects obtain financing, making sure they get off the ground.[17] From its launch in 2015[18] to the end of 2017, the EIAH received 641 requests, including 300 that were submitted in 2017.[19] The hub is managed according to a separate agreement between the European Commission and the EIB. (European Investment Advisory Hub, 2017)

The portal contains information about current and future investment projects that require investors, to increase their visibility and thus contribute to the effectiveness of the European fund for strategic investments. It is created by the European Commission and the European Investment Bank. Member states can help develop and manage the portal, if they so wish.

The main reason for creating an advisory hub and project portal is the perceived lack of information about investment projects and to support project promoters on their attempt to structure projects in order to attract investors, especially from other member states, and also to make the best use of the existing EU instruments and funds. (European Council, 2018)

- **3rd Pillar: Regulatory barriers to investment**

CMU is the main key for the third pillar of the Investment Plan, namely to remove barriers to investment. EU aims to establish simpler, better and more predictable regulation, especially in infrastructure sectors (where investments span several years or decades) heading to boost investments by improving the business environment and easing access to finance, especially for small and medium-sized businesses.

To help improve financing conditions in the EU, the plan envisages the creation of the CMU to reduce fragmentation in the financial markets and increase the supply of capital to businesses and investment projects. (European Commission, 2018).

In December 2016 the Council adopted conclusions on a number of issues affecting investment in the EU, as identified by the Economic Policy Committee and highlighted that the

[17] For example, the Hub is helping Belgium make its roads safer and cost-efficient by preparing for the replacement of 2,700 kilometres of lights. They are improving medical school training in Poland, helping the European Union join the space race, bringing a new hospital to northern Croatia, and improving wind power in the North Sea.

[18] Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments, available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1017&from=EN [last accessed 22 October 2018]

[19] Regarding the requests submitted by Greece we observe that in 2015 no requests were submitted out of 69, in 2016 13 request were submitted out of total 245 and in 2017 18 requests were submitted out of 261 in total (excluded requests relevant for more than 1 EU country, not country-specific, or for non-EU countries)

most frequent barriers to investment are, for example, related to an unfavourable business environment, inefficiencies in public administration, frequent changes to regulation, market size and structure, and high sector-specific administrative and regulatory burdens. In some countries, access to finance particularly for SMEs, complex taxation systems and/or a high level of capital taxation, distortions in product and labour markets, and weaknesses in research and innovation frameworks can also hinder investment. The Council also stressed that completing the Single Market is essential for the delivery and success of the objectives of the Investment Plan for Europe. (Council of the European Union, 2016)

1.2. Action Plan on building a Capital Markets Union

1.2.1. Setting Goals and Actions and the original Action Plan

The establishment of the European Banking Union is the driving force behind the actions towards the creation of a European Capital Markets Union (the **'CMU'**). On 22 October 2014, during his speech[20] at the Joint European Investment Bank – International Monetary Fund (IMF) High Level Workshop, Yves Mersch, member of the Executive Board of the ECB, highlighted the possible, and desirable, infrastructure of an upcoming CMU, defining it as the proper follow-up to the sea change the EBU brought to the European banking and financial markets and as an appropriate action in the struggle to re-ignite growth in the heavily traumatised European economy.

[20] *"(...) To restart growth, we must open financing channels, especially for small and medium-sized enterprises (SMEs). And this can best happen when financial markets are fully integrated. In the light of these various concerns, the aspiration to complete the single financial market has returned to the top of the agenda – and quite rightly so. The latest focus for this discussion is the creation of a European capital markets union. (...) In my view, the various motivations for a capital markets union can be summarised under two main objectives: On the one hand, we need to find ways to generate growth. In a way, the euro area economy is like a plane flying on only one engine: bank financing. To increase the speed and stability of the plane, it would be good to add a second engine: capital market financing. Hence, we must seek to deepen capital markets so that they can play a more important role in supporting the real economy. And we must name areas where removing frictions between national markets can bring new business. On the other hand, we need to ensure financial stability in the longer term. An impressive amount of regulation has been introduced since the crisis began, tackling several fundamental problems in our regulatory set-up. Indeed, the crisis showed that our initial rules were in some areas too lax and too heterogeneous across countries to ensure the stability and singleness of Europe's financial market. At the same time, we should avoid excesses: more regulation does not always mean more stability. (...)"* Capital markets union – the "Why" and the "How", Dinner speech by Yves Mersch, Member of the Executive Board of the ECB, Joint EIB-IMF High Level Workshop, Brussels, 22 October 2014, available at https://www.ecb.europa.eu/press/key/date/2014/html/sp141022_1.en.html [last accessed 1 November 2018]

As a response, on 18 February 2015 the Commission published a Green Paper on CMU (European Commission, 2015) to stimulate discussion on the building of a CMU. The Green Paper laid out the Commission's priorities (jobs and growth) and the rationale for a CMU (to link investors and savers with growth). It proceeded in describing how European capital markets are currently structured and provided a preliminary analysis of some of the barriers to deeper and more integrated capital markets. The rest of the document sought stakeholders' views on the priority initiatives laid down by the Commission (including high quality securitisation, European Long-term Investment Funds and the review of the Prospectus Directive) and on existing barriers in accessing finance, widening sources of funding and making markets work more effectively. The public consultation launched by the Green Paper ended on 13 May 2015 and was followed by a high-level conference on 8 June 2015.

On 9 July 2015, the European Parliament adopted a resolution on building a Capital Markets Union, pointing out that the CMU should provide a new, more efficient way to channel savings into small business and protect cross-border investors in the EU.

In September 2015 the European Commission adopted an Action Plan setting out a list of over 30 actions and related measures to establish the building blocks of an integrated capital market in the EU by 2019. Also, set out the priority actions needed to encourage investment in all Member States and across the EU, and better link savings with growth (Gortsos, 2018).

The 2015 action plan' s timeline encompasses a series of initiatives including a number of actions[21]. Particularly:

1. Finance for innovation, start-ups and non-listed companies by (a) supporting venture capital and equity financing, (b) overcoming information barriers to SME investment and (c) promoting innovative forms of corporate financing.
2. Make it easier for companies to enter and raise capital on public markets by (a) strengthening access to public markets and (b) supporting equity financing.
3. Invest for long term, infrastructure and sustainable investment by (a) supporting infrastructure investment and (b) ensuring consistency of EU financial services rulebook.

[21] Such as: Proposal for pan-European venture capital fund-of-funds and multicountry funds, revise EuVECA and EuSEF legislation, study on tax incentives for venture capital and business angels, strengthen feedback given by banks declining SME credit applications, map out existing local or national support and advisory capacities across the EU to promote best practices, investigate how to develop or support pan-European information systems, report on crowdfunding, develop a coordinated approach to loan origination by funds and assess the case for a future EU framework, etc. listed on a very specific timeline.

4. Foster retail and institutional investment by (a) increasing choice and competition for retail, (b) helping retail investors to get a better deal, (c) supporting saving for retirement and (d) expanding opportunities for institutional investors and fund managers.
5. Leverage banking capacity to support the wider economy by (a) strengthening local financing networks, (b) building EU securitisation markets and (c) supporting bank financing of the wider economy.
6. Facilitate cross-border investing by (a) removing national barriers to crossborder investment, (b) improving market infrastructure for cross-border investing, (c) fostering convergence of insolvency proceedings, (d) removing cross-border tax barriers, (e) strengthening supervisory convergence and capital market capacity building and (f) enhancing capacity to preserve financial stability (European Commission , 2015).

On 19 January 2016, the European Parliament adopted a resolution entitled stocktaking and challenges of the EU Financial Services Regulation. It acknowledged the role that capital markets can play in fostering growth in a competitive European economy and in addressing the financing needs of Member States, and welcomed the CMU action plan. It noted that priority must be given to serving the needs of the real economy and to breaking the bank-sovereign nexus at national level. Furthermore, it insisted on the importance of a streamlined EU position and of applying the current acquis. Finally, it reminded the crucial role of the European Supervisory Authorities (ESAs) and the Single Supervisory Mechanism (SSM) in this context, and called on the Commission and the ESAs to conduct regular checks for coherence, consistency, proportionality and effectiveness, as well as a comprehensive quantitative and qualitative assessment of the cumulative impact of EU financial services regulation on financial markets, every five years.

European Commission, also, has highlighted that a number of new challenges to financial integration have arisen, which imposed a need to strengthen and transform the EU’s capital markets reform agenda. In particular, the future departure of the United Kingdom, the largest financial center, from the EU makes it necessary to re-assess how CMU can ensure that EU businesses and investors have access to strong, dynamic and more integrated capital markets, while risks to financial stability are properly managed.

The Reflection Paper on the Deepening of the EMU of 31 May 2017 states that progress on CMU is paramount to help provide more innovative, sustainable and diversified sources of funding for households and businesses. It also stresses that, in order to succeed, the commitment of the European Parliament, the Council and all stakeholders is indispensable.

Also, the European Council of June 2016 called for ‘*swift and determined progress to ensure easier access to finance for businesses and to support investment in the real economy by*

moving forward with the Capital Markets Union agenda.". In September 2016, the Commission adopted a Communication calling for accelerated reform. (European Commission, 2016). On 13 December 2016, the Joint Declaration by the European Parliament, Council and Commission on the EU's legislative priorities for 2017 included the initiatives on creating safer and more transparent markets for securitisation and improved prospectuses for securities, to bring about CMU (Danny Busch, 2018).

On 20 January 2017 the Commission launched a public consultation on the CMU mid-term review aiming to issue a Mid-Term Review of the CMU Action Plan in order to improve the current policy framework for the development and integration of EU capital markets by updating the proposed actions and integrating complementary measures in response to key challenges. [22]

2. The Mid- Term Review

Finally, in June 2017, the Commission updated and complemented the original agenda on CMU action plan, with new priority measures, drawing on the results of the public consultation in January-March 2017 and responsing to evolving priorities and challenges, by strengthening existing actions and introducing new measures.

2.1. Goals achieved

In the Mid Term Review the Commission supports that more than half of the 33 set measures have been delivered.

In particular, due to the measure taken it is expected that it will become **much easier for investors to invest in small and medium-sized innovative companies**. Namely:

- An important movement towards this is the European Parliament and Council agreement on the European Venture Capital Funds (EuVECA) Regulation and the European Social Entrepreneurship Funds (EuSEF) Regulation, which opened up the regulation to fund managers of all sizes and expanded the range of companies that can be invested in.
- The Commission services have reviewed national tax incentives for venture capital and business angel. Building on this and on the initiatives envisaged under the 2016 Start-up and Scale-up Initiative, a study setting out good practices was published on 8 June 2017 (European Commission, 2017). It will support Member States' policy design and implementation, including through the European semester, to improve the effectiveness of such tax incentives and foster the development of local capital markets.

[22] Legislative Train Schedule States Navigation Menu, Deeper and fairer internal Market with a strengthened industrial Base/Financial Services, Action Plan for Capital Markets Union, available at http://www.europarl.europa.eu/legislative-train/theme-deeper-and-fairer-internal-market-with-a-strengthened-industrial-base-financial-services/package-action-plan-for-capital-markets-union [last accessed 28 August 2018]

Important steps have been made on companies **entering and raising capital**[23] on public markets. In particular:

- The December 2016 agreement by the European Parliament and Council on a modernised EU Prospectus[24] Regulation which was published in June 2017[25] and will apply from mid-2019.
- As part of the improvements, the European Securities and Markets Authority (ESMA) will operate a new EU-wide online prospectus database, free of charge.
- The Commission is working with the European Parliament, the Member States, and European Securities and Markets Authority (ESMA) to put in place implementing measures, notably on the content and format of the alleviated EU Growth Prospectus, scrutiny and approval, the universal registration document and the information to be disclosed for secondary issuances (to ensure simplified requirements for small and frequent issuers).
- The Commission has also taken steps to address the bias in the tax system in favour of debt over equity, as part of its October 2016 proposal for a Common Consolidated Corporate Tax Base[26] (CCCTB).

Progress has been made on freeing up capacity on banks' balance sheets, and so **generating additional funding** for the economy:

[23] On 8 November 2017 the ESMA Securities and Markets Stakeholder Group published its "Access to public capital markets for SMEs" Report, available at https://www.esma.europa.eu/sites/default/files/library/esma22-106-535_smsg_report_on_access_to_public_capital_markets_for_smes.pdf [last accessed 22 October 2018]

[24] A prospectus is a legal document that companies issue to potential investors about the securities they are issuing and about themselves. In addition to the information about the securities, the prospectus contains detailed information about the company's business, finances and shareholding structure. Prospectuses are therefore an essential source of information for investors and one of the key tools for companies wishing to raise capital across the EU securities markets. The first prospectus directive was adopted in 2003 and revised in 2009. The updated prospectus rules are in the form of an EU regulation.

[25] PE-CONS 63/16, Regulation of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, available from http://data.consilium.europa.eu/doc/document/PE-63-2016-INIT/en/pdf [last accessed 22 October 2018]

[26] The Common Consolidated Corporate Tax Base (CCCTB) is a single set of rules to calculate companies' taxable profits in the EU. With the CCCTB, cross-border companies will only have to comply with one, single EU system for computing their taxable income, rather than many different national rulebooks. Companies can file one tax return for all of their EU activities, and offset losses in one Member State against profits in another. The consolidated taxable profits will be shared between the Member States in which the group is active, using an apportionment formula. Each Member State will then tax its share of the profits at its own national tax rate. More information: https://ec.europa.eu/taxation_customs/business/company-tax/common-consolidated-corporate-tax-base-ccctb_en and https://www.consilium.europa.eu/en/policies/ccctb/ [last accessed 22 October 2018]

- The European Parliament and Council reached an agreement in principle on Simple, Transparent and Standardised (STS[27]) securitisation[28], alongside a review of capital requirements[29] for banks on 30 May 2017.
- In November 2016, the Commission proposed an amendment[30] to the EU's capital requirement rules for banks, empowering it to exempt the entire credit union sector of a Member State.
- The consultation (European Commission, n.d.) on an EU-wide framework for covered bonds and similar structures for small business loans has been completed (European Commission, 2018).

Important initiatives were made on **infrastructure investment**:

[27] Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012, available from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R2402&from=EN [last accessed 22 October 2018]

[28] Securitisation is the process where a financial instrument is created, typically by a lender such as a bank, by pooling assets (for example car-loans or SME-loans) for investors to purchase. This facilitates access to a greater range of investors, thereby increasing liquidity and freeing up capital from the banks for new lending.

Valdis Dombrovskis, Vice-President responsible for Financial Stability, Financial Services and Capital Markets Union, said: "This agreement marks another big step towards the creation of a Capital Markets Union. It will help build a sound and safe securitisation market in the EU, bringing real benefits to investment, jobs and growth. It will free up bank lending so that more financing can go towards supporting our companies and households.", Capital Markets Union: EU reaches agreement on reviving securitisation market, Press Release, Strasbourg, 30 May 2017, available from http://europa.eu/rapid/press-release_IP-17-1480_en.htm?locale=en [last accessed 22 October 2018]

[29] Prudential requirements, or 'capital requirements', are a set of provisions with which banks and investment firms must comply to obtain authorisation from competent authorities to provide their services. The requirements aim to establish the level of adequate capital that those institutions must hold to face the risks they undertake, and are expressed as a ratio between the institutions' capital base (equity and equity-like instruments) and their risk-weighted assets (RWAs). As a main principle, the amount of capital required depends on the risk attached to the assets of a particular bank. In the capital requirements regulation, this is referred to as the 'own funds requirement' and is expressed as a percentage of risk-weighted assets. The risk-weighted assets concept in essence means that safer assets are attributed a lower allocation of capital, while riskier assets are given a higher risk-weight. In other words, the riskier the assets, the more capital the bank has to set aside.

[30] COM(2016) 854 final, Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures, available from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016PC0854&from=EN [last accessed 22 October 2018]

- The Solvency II delegated act[31] was amended in September 2015 and entered into application in April 2016, making it cheaper for EU insurance companies to invest in qualifying infrastructure projects.
- The Commission has also presented measures to review risk calibrations for investment into infrastructure corporates[32].
- To encourage private investment by banks in infrastructure projects, the November 2016 proposal[33] to amend the capital requirements legislation (CRR/CRD IV) created a more risk-sensitive regulatory environment to promote high-quality infrastructure projects and reduce risks for investors.

Essential steps have been made on **institutional and retail investments**:

- Solid groundwork has been completed to underpin proposals on EU-wide personal pensions, the cross-border distribution of investment funds and reduced costs for insurance companies to invest in private equity and privately-placed corporate debt.
- In parallel, on 23 of March 2017 the Commission presented its Consumer Financial Services Action Plan[34], which sets out ways to provide consumers with greater choice and better access to retail financial services, especially to harness the potential of digitalisation and technological developments (FinTech) to improve consumer access to financial services across the EU.

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[31] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast), available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009L0138-20140523&from=EN [last accessed 22 October 2018]

[32] SWD(2017) 219 final, available at https://ec.europa.eu/transparency/regdoc/rep/10102/2017/EN/SWD-2017-219-F1-EN-MAIN-PART-1.PDF [last accessed 22 October 2018]

[33] Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012, available at https://eur-lex.europa.eu/resource.html?uri=cellar:9b17b18d-cdb3-11e6-ad7c-01aa75ed71a1.0001.02/DOC_1&format=PDF [last accessed 22 October 2018]

See also: Briefing of the European Parliament "Amending capital requirements: The 'CRD-V package'", available at http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/599385/EPRS_BRI(2017)599385_EN.pdf [last accessed 22 October 2018]

[34] COM(2017) 139 final, Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, Consumer Financial Services Action Plan: Better Products, More Choice available from https://eur-lex.europa.eu/resource.html?uri=cellar:055353bd-0fba-11e7-8a35-01aa75ed71a1.0003.02/DOC_1&format=PDF [last accessed 22 October 2018]

- To complement efforts on the Single Euro Payments Area (SEPA), the action plan also addresses the issue of high costs for making certain payments in the EU[35].
- The Commission has also started working with the ESAs on increasing the transparency and comparability of costs and performance of retail investment and pension products.

Much work has been done on preventive restructuring and second chance for entrepreneurs:

- In November 2016, the Commission proposed rules on preventive restructuring, to avoid the liquidation of viable companies with financial difficulties and give entrepreneurs a chance to re-enter business life after bankruptcy[36].
- The proposal also lays down rules to enhance the efficiency of insolvency procedures, to make them more predictable, less costly and speedier.

Furthermore, the Commission's Report of March 2017 set out a roadmap for removing national barriers to the free movement of capital.

Finally, much effort has been given on financial stability. Following its consultation[37] in 2016, the Commission aims to ensure that the European Systemic Risk Board (ESRB) has the capacity to monitor potential risks to financial stability arising from market-based finance (Danny Busch, 2018).

2.2. Future Steps and new priority actions

In the current Mid-Term review the European Commission announced upcoming **legislative proposals**, as key elements for a CMU:

- on a Pan-European Personal Pension Product (PEPP) issued on 29 June 2017. It comprises a complementary voluntary scheme alongside national regimes, enabling providers to create

[35] E.g.: (…) Fees for such cross-border transactions typically remain very high and well above the level of fees for purely national transactions in noneuro currencies, with high minimum fees that make small transactions very expensive. An extension of the Regulation to all currencies in the EU would bring down the costs of cross-border transactions in all Member States. (…), COM(2017) 139 final, see above.

[36] COM(2012) 742 final, Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, A new European approach to business failure and insolvency, available from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012DC0742&from=EN [last accesses 22 October 2018]

[37] Consultation Document, Review of the EU Macro-Prudential Policy Framework, available from http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/docs/consultation-document_en.pdf [last accessed 22 October 2018]

personal pension products on a pan-European scale. It aims to channel more household savings away from traditional instruments, such as savings deposits, towards the capital markets.[38]

- to specify conflict of laws rules for third party effects of transactions in securities issued in March 2018. The specific objective of this proposal is to help to increase cross-border transactions in claims by providing legal certainty through the adoption of uniform conflict of laws rules at Union level.[39]
- for an EU-framework for covered bonds in, issued in March 2018, which aims to expand the capacity of credit institutions to provide financing to the real economy and contribute to the development of covered bonds across the Union, particularly in Member States where no market for them currently exists, and will increase cross-border flows of capital and investment. Thus it will contribute to the CMU and in particular to the further leveraging of credit institution's capacity to support the wider economy.[40]

European Commission has also launched a negotiated call for tender in order to conduct a study to support the exploration of the feasibility of developing **European Secured Notes** for SME loans and infrastructure loans in order to obtain an assessment of the potential for establishment of European Secured Notes and of the regulatory and prudential treatment that could be granted to them under the existing EU legislation. On 24 July 2018 European Banking Authority (EBA) published a report presenting the outcome of its assessment of European Secured Notes (ESNs) and it puts forward recommendations on key aspects for the European Commission to consider when possibly designing the legislative framework for SME ESNs (European Banking Authority, 2018).

The European Commission has also made important steps on forwarding amendments to the Delegated Regulation supplementing Solvency II to review the prudential treatment of private equity and privately placed debt, where prudentially justified, from a risk-based supervisory

[38] European Commission (2017), Proposal for a Regulation of the European Parliament and of the Council on a pan-European Personal Pension Product (PEPP), Brussels, 29.6.2017, available from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017PC0343&from=EN [last accessed 28 August 2018]

[39] European Commission (2018), Proposal for a Regulation of the European Parliament and of the Council on the law applicable to the third-party effects of assignments of claims, Brussels, 12.3.2018, available from https://ec.europa.eu/transparency/regdoc/rep/1/2018/EN/COM-2018-96-F1-EN-MAIN-PART-1.PDF [last accessed 28 August 2018]

[40] European Commission (2018), Proposal for a Regulation of the European Parliament and of the Council on the issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU, Brussels, 12.3.2018, available from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018PC0094&from=EN [last accessed 29 August 2018]

perspective[41]; on issuing a Study on EU markets for private placements supporting that private placement of debt instruments with institutional investors could play a greater role in financing medium-sized companies in the future and highlighting a considerable growth potential for private placements in the EU due to new domestic markets and increased cross-border activities (European Commission, 2017); working on a roadmap for removing barriers to post-trade market infrastructure (Directorate-General for Financial Stability, 2017); and putting forward new guidelines on withholding taxes to help Member States reduce costs and simplify procedures for cross-border investors in the EU (European Commission, 2017).

Finally, the Mid-Term Review sets building blocks, already existing or new, to be in place by 2019 for a complete CMU, under the form either of a legislative proposal, a measure (level 2 or non-legislative) or a Communication.

European Commission sets new measures heading towards **strengthening the capacity of EU capital markets** by proposing amendments to the functioning of ESMA and the other ESAs to promote the effectiveness of consistent supervision across the EU and beyond[42] after a series of legislative proposals on establishing the ESAs, on European venture capital funds, on European social entrepreneurship funds; on markets in financial instruments, on European long-term investment funds, on financial benchmarks and on securities prospectuses etc.; and by comprehending EU strategy on local and regional capital markets development across the EU[43].

New goals are based on **financing for innovation, start-ups and non-listed companies**:

- especially through a framework for FinTech activities described on the "FinTech[44] Action plan: For a more competitive and innovative European financial sector" issued on 8 March

[41] European Commission (2018), Commission Delegated Regulation (EU) of 1.6.2018 amending Delegated Regulation (EU) 2015/35 as regards the calculation of regulatory capital requirements for securitisations and simple, transparent and standardised securitisations held by insurance and reinsurance undertakings, Brussels, 1.6.2018, available from https://ec.europa.eu/transparency/regdoc/rep/3/2018/EN/C-2018-3302-F1-EN-MAIN-PART-1.PDF [last accessed 29 August 2018]

[42]European Commission (2017), Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, Reinforcing integrated supervision to strengthen Capital Markets Union and financial integration in a changing environment, Brussels, 20.9.2017, available from http://ec.europa.eu/finance/docs/law/170920-communication-esas_en.pdf [last accessed 30 August 2018]

[43]On which a few feedback was received until the closing date of 18 April 2018. Feedback available from https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-1567687_en [last accessed 30 August 2018]

[44]FinTech is a term used to describe technology-enabled innovation in financial services that could result in new business models, applications, processes or products and could have an associated material effect on financial markets and institutions and how financial services are provided.

2018[45] combining financial services and digital single market to foster a more competitive and innovative European financial sector

- and through reporting on best practice in supply chain finance until the end of 2018, on which the relevant study was published on 2 August 2018 (European Commission, 2018);
- by complementing the initiatives on tax incentives schemes for venture capital and business angel investments (European Commission, 2017);
- and by proposing o 16 February 2018 recommendations to promote best practices on private placements (European Commission, 2017).

European Commission aims to **make it easier for companies to enter and raise capital on public markets** and introduce simplification and flexibility by adopting on July 2017 the Regulation (EU) 2017/1129[46] to improve the prospectus regime as part of the follow-up action until 2019, by communicating in November 2017 recommendations to foster the development of corporate bonds in Europe (Commission Expert Group on Corporate Bonds, 2017), by completing the impact assessment on targeted amendments on supporting and SME listing (feedback was given until 15 January 2018)[47], by assessing the impact of the "Markets in Financial Instruments Directive II" (MiFID II) rules on listed SME equity research by the first quarter of 2019, by monitoring progress on International Accounting Standards Board (IASB) and by developing best practices on the use of Member States or EU funds to partially finance costs borne by SMEs when seeking admission of their shares in the future SME Growth Markets. Finally in December 2017 the European Commission adopted a proposal for a regulation and a proposal for a directive to amend and the current EU prudential rules for investment firms in order to establish more proportionate and risk-sensitive rules for investment firms.

European Commission is heading to **long-term, infrastructure and sustainable investments**. In December 2017 was published a Study on the drivers of investments in equity by insurers and pension funds[48]. The Commission is also working on to amend the prudential treatment of private equity and privately placed corporate debt in Solvency II and to report on

[45]European Commission (2018), Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, FinTech Action plan: For a more competitive and innovative European financial sector, Brussels, 8.3.2018, available at https://eur-lex.europa.eu/resource.html?uri=cellar:6793c578-22e6-11e8-ac73-01aa75ed71a1.0001.02/DOC_1&format=PDF [last accessed 30 August 2018]

[46]Available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1129&from=EN [last access 30 August 2018]

[47]Explanatory Momerandum available at https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=PI_COM:Ares(2018)2681237&from=EN [last accessed 30 August 2018]

[48]Available at http://ted.europa.eu/udl?uri=TED:NOTICE:505070-2017:PDF:EN:HTML

whether the accounting treatment of equity instruments International Financial Reporting Standard (IFRS) 9 is sufficiently conducive to long term financing. Regarding to infrastructure investments the Commission published on June 2017 a proposal concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings[49]. Moreover, based on the High Level Expert Group on Sustainable Finance Final Report European Commission has came forward to the adoption of the Action Plan o Sustainable Growth[50] on the concrete follow-up to recommendations by the High Level Expert Group on Sustainable Finance heading to reorient capital flows towards sustainable investment, manage financial risks stemming from climate change, environmental degradation and social issues and foster transparency and long-termism in financial and economic activity. As a follow-up to its action plan on financing sustainable growth in May 2018 the Commission presented a package of measures-proposals[51] for three regulations, first on the establishment of a framework to facilitate sustainable investment, second on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341 and third on amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks.

European Commission's new target is to **foster retail investments**. Namely, the Commission published in June 2017 a legislative proposal on a pan-European personal pension product[52], in October 2017 European Commission requested from European Supervisory Authorities (ESAs) reports on the cost and past performance of the main categories of retail investment, insurance and pension products[53]. Further target until the end of the first quarter of 2019 is to develop best practices based on Member States experience with Investment Savings

[49]European Commission (2017), Commission Delegated Regulation amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates), available at https://ec.europa.eu/info/sites/info/files/solvency2-delegated-regulation-2017-3674_en.pdf [accessed 30 August 2018]

[50]European Commission (2018), Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, Action Plan: Financing Sustainable Growth, Brussels, 8.3.2018, available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN [last accessed 30 August 2018]

[51]Feedback available at https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2017-5524115/feedback_en?p_id=238025

[52]European Commission (2017), Proposal for a Regulation of the European Parliament and of the Council on a pan-European Personal Pension Product (PEPP), Brussels, 29.6.2017, available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017PC0343&from=EN [last accessed 30 August 2018]

[53]European Commission (2017), Request to the European Supervisory Authorities on the cost and past performance of the main categories of retail investment, insurance and pension products, available at https://ec.europa.eu/info/sites/info/files/171013-request-to-esas-to-report_en.pdf [last accessed 30 August 2018]

Account and an existing study on employee share ownership schemes (Inter-University Centre for European Commission's DG MARKT, 2017).

Important goal as set by the European Commission in the June 2017 Mid-Term Review is the **market funding for banks**. Until now Commission is working on amendments to Commission Delegated Regulation to introduce a specific prudential treatment STS securitisation in Solvency II, is also heading toward a reformation of the EU framework on covered bonds via legislative proposals presented in March 2018 for a directive on the issue of covered bonds and covered bond public supervision and for a regulation on exposures in the form of covered bonds[54]. Commission has also called for advice[55] on October 3 2017 the European Banking Authority on European Secured Notes and asked for an EBA final report which was, initially, published on 24 July 2018 (European Banking Authority, 2018). As it comes to Secondary markets for non-performing loans European Commission presented in March 2018 a package of measure to address the risks related to high levels of NLPs in Europe consisted by a proposal for a directive on credit servicers, credit purchasers and the recovery of collateral, a proposal for a regulation amending the capital requirements regulation and a blueprint on the set-up of national asset management companies (AMCs)[56].

Furthermore, European Commission in order to strengthen the ability of secured creditors to recover value from secured loans to corporates and entrepreneurs presented in March 2018 a legislative proposal on credit servicers, credit purchasers and the recovery of collateral. Commission has also contracted and award notice in January 2017 benchmarking national loan enforcement (including insolvency) regimes from bank creditor perspective[57].

Another important target in the heart of the current Action Plan, after the Mid-Term Review of June 2017, is to **facilitate cross-border investments**. In March 2018 the Commission adopted a series of proposals for a regulation on facilitating cross-border distribution of collective investment funds, amending the EuVECA and EuSEF regulations, a directive amending the Undertakings for the Collective Investment of Transferable Securities (UCITS) and the Alternative

[54]Feedback available from https://ec.europa.eu/info/publications/180312-proposal-covered-bonds_en

[55]European Commission (2017), Call for advice to the EBA on ESN, available at https://www.eba.europa.eu/documents/10180/1983643/Call+for+advice+to+the+EBA+on+European+Secured+Notes.pdf/b65d19ed-6b2b-427e-b183-47352c59ede7 [last accessed 30 August 2018]

[56]Package of measures available at https://ec.europa.eu/info/publications/180314-proposal-non-performing-loans_en

[57]Benchmarking national loan enforcement (including insolvency) regimes from bank creditor perspective, Brussels 2017, available at http://ted.europa.eu/udl?uri=TED:NOTICE:1572-2017:PDF:EN:HTML [last accessed 30 August 2018]

investment fund managers (AIFM) directives, and a regulation on the law applicable[58] to the third-party effects of assignments of claims[59]. As it is mentioned above, the Commission announced on 11 December 2017 new tax guidelines to help Member States reduce costs and simplify procedures for cross-border investors in the EU and is studying on discriminatory tax obstacles to cross-border investment by pension funds and life insurers. Commission is also monitoring the implementation of the Roadmap on removing national barriers to free movement of capital and continue discussing with the Expert Group. On 19 July 2018 was issued a guidance to help EU investors to invoke their rights before national administrations and courts and to help Member States to protect the public interest in compliance with EU law. Finally on 20 September 2017 Commission issued a proposal for a proposal amending Regulation (EU) No 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board in order to ensure that the ESRB has the capacity to monitor potential risks to financial stability arising from market-based finance[60].

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[58](..) he Commission has proposed new rules to clarify according to which law such disputes are resolved: as a general rule, the law of the country where creditors have their habitual residence would apply, regardless of which Member State's courts or authorities examine the case. This proposal will promote cross-border investment, access to cheaper credit and prevent systemic risks. (…), European Commission (2018), Capital Markets Union: Proposal on assignment of claims, 12.3.2018

[59]European Commission (2018), Proposal for a Regulation of the European Parliament and of the Council on the law applicable to the third-party effects of assignments of claims, Brussels, 12.3.2018, available from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018PC0096&from=EN [last accessed 30 August 2018]

[60]European Commission (2017), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Mid-Term Review of the Capital Markets Union Action Plan, Brussels 8.6.2017, available from https://ec.europa.eu/info/sites/info/files/communication-cmu-mid-term-review-june2017_en.pdf [accessed 30 August 2018]

C. THE HIGH-LEVEL EXPERT GROUP ON SUSTAINABLE FINANCE

1. HLEG Final Report and Recommendations

Since the Paris Agreement on climate change and the 2030 Agenda with its SDGs European Union is determined to work on re-orienting its financial system from short-termism to long-term thinking and sustainability. The financial system has an essential role to play here. Reorienting private capital to more sustainable investments requires a comprehensive shift in how the financial system works in order to ensure the stability of the financial system, and foster more transparency and long-termism in the economy.

Such thinking is also at the core of the EU's CMU project. At the end of 2016, the Commission appointed a High-Level Expert Group on sustainable finance. On 31 January 2018, the expert group published its final report offering a comprehensive vision on how to build a sustainable finance strategy for the EU. The Report proposes eight key recommendations, several cross-cutting recommendations and actions targeted at specific sectors of the financial system. This final report was the basis of European Commission's Action Plan on financing sustainable Growth.

The High-Level Expert Group on Sustainable Finance says that European Union is facing a series of challenges on its attempts. Re-allocating large-scale investments needs much more financing, as it is a joined-up procedure. There is a huge gap[61] on sustainable investments that need to be filled in different financial sectors with priority on biodiversity – linked with natural capital, especially agriculture and marine resources, and social services. Sufficient, stable and committed capital and financing and axiomatical long-termism are some essential prerequisites on decision-making processes. Also, patience and trust on the value of technology and know-how on investments are thought to be essential keys on materializing the assets instead of continuous short-term throughput of energy and materials.

[61] Valdis Dombrovskis, Vice-President responsible for Financial Stability, Financial Services and Capital Markets Union said: "Europe is proud to be leading the global fight against climate change, just two years after the signature of the Paris Agreement. But to reach our commitments for emissions reductions, we are faced with a considerable task: we have a yearly funding gap of around 180 billion euros to fill. Public money alone will not be enough for this. The financial sector will have to throw its full weight behind the fight against climate change. This is a challenge, but also an exceptional opportunity.", Sustainable Finance: High-Level Conference kicks EU's strategy for greener and cleaner economy into high gear, European Commission - Press release, Brussels, 22 March 2018

All of the above lead to the need of a long-term[62] policy and framework for sustainable finance and a smooth capital allocation by fostering investment in areas that will underpin the sustainability of the EU economic model, first, by integrating ESG factors into financial decision-making, second, by facilitating long-term thinking and investment and, third, by discouraging short-termism.

By shifting to sustainability European Union is expected to become more resilient. Europe’s businesses are thus expected to access better priced and more patient capital and citizens will see their sustainability values expressed in their financial choices. More and more countries are also following EU’ s choices, making Europe a strong example of stability and a leader on sustainability know-how and international policy reform.

Shifting to sustainability is not an easy road, it is a multi-dimensional procedure which reflects the complexity of the financial system and the advanced framework of needs and capacities across the EU. On 13 July 2017 the HLEG published its interim report (EU High-Level Expert Group on Sustainable Finance, 2017) mapping out the challenges and opportunities that the EU faces in developing a sustainable finance policy agenda, identifying possible areas of reform in financial policy. It also presented a first set of early recommendations to the Commission. The areas on which the interim report proposes quick action include a classification system for sustainable assets, a European standard and label for green bonds, fiduciary duty that encompasses

[62] There is no strict definition of long-term financing. It can be defined through its key features: It finances productive activities which support growth by reducing costs, diversifying means of production and creating jobs in a sustainable and inclusive way. It is patient, in that investors take into account the long-term performance and risks of their investments, rather than short-term price fluctuations. Investors are generally expected to hold an asset for a long or indefinite period of time. This long-term perspective acts in a counter-cyclical manner and promotes financial stability. It is engaged, in that investors take longer-term aspects such as environmental, social and governance issues into account in their investment strategies. This sustained and direct engagement from investors ensures better alignment of incentives with longer term interests throughout the investment chain. […] Long-term investment represents investment that enhances the productive capacity of the economy and drives sustainable growth and competitiveness. This includes investment in energy, transport and communication infrastructures that respond to Europe’s needs, as well as in Small and Medium Enterprises (SMEs), education and research and development. Europe faces large-scale long-term investment needs, which are crucial to support sustainable growth. Investment needs for transport, energy and telecom infrastructure networks of EU importance alone are estimated at €1 trillion for the period up to 2020 as identified by the Connecting Europe Facility. Significant investment will also be needed in human capital and in R&D, new technologies and innovation under the Europe 2020 strategy and the 2030 climate and energy package., Communication on long-term financing of the European economy: frequently asked questions, Brussels, 27 March 2014

sustainability, better disclosure from financial institutions and companies on how sustainability is factored into decision-making and a 'sustainability test' for relevant EU financial legislation.

The HLEG informed its final report with four main themes, vital for the complement of a sustainable finance. First, sustainable development needs a fully coordinated approach, this means that financial reforms have to match with other policy changes, including agriculture, building, energy, industrial, transport, water and waste sectors[63]. Second, financial sector needs to understand its clients' and beneficiaries' needs and, thus, establish trust and direct capital towards long-term economy. Third, it is important that sustainable finance has to be connected strongly with decentralization and territorial development[64] and responsive approach based on the specific needs across Europe. Last, it is important to avoid "financial market myopia" and risk compression by extending time horizon of financial decision-making and encourage sustainable investment. Thus, it proposes a series of recommendations to European Commission regarding the problems to be solved and the possibility of a sizeable solution, the likely impact of the recommended measure and a view on how the relevant progress could be measured.

1.1.Key Recommendations

The HLEG sets a series of priority measures to shift the build a sustainable economy, namely:

[63] After 2002 Johannesburg World Summit on Sustainable Development (WSSD) EU faced a wide diversity of approaches in the EU Member States, as well as weak vertical links and many common challenges, there seemed to be though a clear potential to: 1. better identify, pool and exchange national experiences; 2. develop greater synergies and complementarities between National Sustainable Development Strategies (NSDSs) and between NSDSs and the EU SDS, and 3. generate information that can be used to inform assessments of progress across the EU and globally. With this in mind the Commission's proposal for a revised EU SDS2 launched the idea "to undertake a light peer review process, focussing on themes, and in particular seeking to identify examples of good policies and practices that could be implemented by all". More information from http://ec.europa.eu/environment/pdf/nsds.pdf [last accessed 23 October 2018]

[64] Territorial development designates development that is endogenous and spatially integrated, leverages the contribution of actors operating at multiple scales and brings incremental value to national development efforts. In this context it is important to highlight that decentralisation reforms are invariably driven by political motives. Careful political economy analysis is therefore needed to understand the deeper motivations, interests and incentives of the various actors and stakeholders involved (politicians, finance ministry, interior ministry, sector ministries, civil service at national and deconcentrated levels, LAs, etc.). The goals and attitudes of these actors may differ considerably. Supporting decentralisation, local governance and local development through a territorial approach, European Commission, December 2016, available from https://ec.europa.eu/europeaid/sites/devco/files/mn-bb-16-005-en-n.pdf [last accessed 23 October 2018]

- to introduce a common sustainable finance taxonomy to ensure market consistency and clarity, starting with climate change,
- to clarify investor duties to extend time horizons and bring greater focus on ESG factors,
- to upgrade Europe's disclosure rules to make climate change risks and opportunities fully transparent,
- to empower and connect Europe's citizens with sustainable finance issues,
- to develop official European sustainable finance standards, starting with one on green bonds,
- to establish a 'Sustainable Infrastructure Europe' facility to expand the size and quality of the EU pipeline of sustainable assets,
- to reform governance and leadership of companies to build sustainable finance Competencies and
- to enlarge the role and capabilities of the ESAs to promote sustainable finance as part of their mandates.

1.1.1. Establish and maintain a common Sustainability Taxonomy at the EU Level

The HLEG envisages and sustainability taxonomy that provides a shared EU classification of sustainable activities that is applicable for all potential types of assets and capital allocation and will identify under which conditions or criteria any given investment or financial product will contribute to the EU's sustainability objectives. This way, capital will flow towards assets that contribute to sustainable development, a much needed comparability across standards, labels, products and jurisdictions will be achieved, and market participants will invest in sustainability with greater confidence and ease.

Since its first interim report (EU High-Level Expert Group on Sustainable Finance, 2017), the HLEG had recommended that the Commission set up a shared EU classification system for sustainable activities and invited the EIB to coordinate the development of an EU classification of climate change finance[65]. It is expected that by 2020[66] European Commission will have adopt a

[65] Some of the initiatives that could be pursued to crowd in private finance to sustainable investments by the EIB but also by National Promotional Banks (NPBs) include: (…) improving the risk-return profile of climate-friendly assets through credit enhancement initiative or of credit insurance (…), Financing a Sustainable European Economy, EU High-Level Expert Group on Sustainable Finance, Interim Report, July 2017, available from https://ec.europa.eu/info/sites/info/files/170713-sustainable-finance-report_en.pdf [last accessed 23 October 2018] pg. 45

[66] "(…). The roadmap would start with activities linked with the EU's environmental ('green') policy goals, such as combating climate change, biodiversity loss and natural resource depletion, as well as pollution prevention and control. The climate mitigation element of the taxonomy could be delivered in early 2018, with climate adaptation

fully fledge and robust sustainability taxonomy, starting with environmental policy goals, biodiversity loss, natural resource depletion and pollution prevention and control.

Sustainability Taxonomy would be defined as a neutral but yet constantly, under social and market needs, evolving 'meta' framework onto which existing (and future) definitions that are used in a variety of contexts can be mapped, enabling comparability and minimizing ambiguity between standards and products to the extent possible, focusing on assets, revenue segments and activities related to financial assets and services. HELG has already developed a relevant framework aligned with EU's declared public policy goals and based on already existing classifications and has also proposed a list of screening criteria for assets and projects to enter the taxonomy, namely climate change mitigation and adaptation, circular economy and waste prevention, pollution prevention and control, water resource management and conservation and healthy natural habitats.

The European Commission is now expected to follow a relevant roadmap proposed by the HLEG and has, already, established the Technical Expert Group on Sustainable Finance (TEG)[67] to assist it on developing the EU classification system (taxonomy), an EU Green Bond Standard, to benchmark for low-carbon investment strategies, and to guide on improving corporate disclosure of climate-related information.

The TEG has had until September 2018 three plenary and sub group meetings for each of its four workstreams. Its work includes the negotiations, already from July 2018, in the Council on the relevant legislative proposals as well as public consultations concluded on the establishment of a framework to facilitate sustainable investment ("Taxonomy")[68]. The subgroup on taxonomy decided that the NACE industrial classification will be used as the starting point for the EU Taxonomy and is focussing on gathering and synthesising information on mitigation and adaptationrelated economic activities to date, benefiting from existing taxonomies, including work

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and other environmental elements to follow. Work on the social dimensions of sustainable development, such as access to basic infrastructure and services for education and healthcare, could commence in 2019.", High-Level Expert Group on Sustainable Finance, Informal Supplementary Document on Sustainable Taxonomy, available from https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report-annex-3_en.pdf [last accessed 24 October 2018]

[67] Composition of the Technical Expert Group on Sustainable Finance available at https://ec.europa.eu/info/sites/info/files/180613-sustainable-finance-teg-members_en.pdf

[68] Martin Spolc c, Head of Unit (Capital Markets Union), at the September 2018 plenary session referred to the Global Climate Action Summit held in San Francisco in September 2018, which underlined the urgency of taking action as well as the key role of the financial sector. High interest and expectations were expressed regarding the current EU process on sustainable finance.

by the High Level Expert Group (HLEG) on sustainable finance. Moreover, in June 2019 a TEG report is expected on environmentally sustainable activities and the relevant technological screening criteria on which the Group is still working. The group has agreed on the need to i) to seek technical input to assist in establishing technical screening criteria for the different sectors; ii) to consult stakeholders to receive feedback on interim progress made and iii) communicate on the progress to the outside world (Technical Expert Group on Sustainable Finance, 2018). Finally, the TEG is still working on improving climate-related disclosures by improving transparency and comparability of climate-related information (Technical Expert Group on Sustainable Finance (TEG), 2018).

1.1.2. Clarify investor duties[69] to better embrace long-term horizon and sustainability preferences

Institutional investors and asset managers tend to focus on financial factors and risks with a primary aim to maximise returns in the short term. HLEG proposes the already strongly growing demand of adoption of a clear link between the duties of investors and the investment horizons and sustainability preferences of the individuals and institutions they serve, especially asset managers, pension funds and insurance companies, in order to achieve a more sustainable financial system.

Investor duties are codified into key EU financial services directives, such as IORP II (Institutions for Occupational Retirement Provision Directive II), MiFID II (Markets in Financial Instruments Directive II) and Solvency II, as well as such regulations as UCITS (Undertakings for the Collective Investment of Transferable Securities) and AIFMD (Alternative Investment Fund Managers Directive). The Directives and Regulations though in most cases do not oblige the investors to incorporate sustainability (ESG) factors in their investments and much more to consider and align their investment horizon with those of investors' clients and beneficiaries (fiduciary duty)[70] in a more transparent way and in the best interest.

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[69] Commission is launching on 13 November 2018 a 10 week open public consultation on the issue of investors' duties, accessible from https://ec.europa.eu/info/consultations_en.

[70] "…For example, while asset owners would be obliged to consider ESG factors over the investment horizon of the beneficiary or members, and incorporate such factors into their investment strategies and the mandates that they give to asset managers, the asset manager, in serving its clients, would be obliged to ask about the sustainability priorities and timeframe that the investment mandate or fund is being designed to serve. The asset manager should also ensure that the asset owner understands the potential risks and benefits of incorporating sustainability issues into the investment strategy, ensuring two-way consideration and integration of ESG factors. The investment mandate or fund itself would in turn require sustainability risk and opportunity assessments consistent with the investment horizon of the client, or the institutional client's obligation to their beneficiaries…."

In order of achieve such a coordinated system EU has to adopt a series of well-connected and non-partial directives linking the ends of the investment chain, involving all participants in this chain and making duties clear to everyone involved. Policy options will be evaluated in the area of disclosure, investment policy and asset allocation, risk management and governance arrangements[71].

1.1.3. Upgrade disclosure rules to make sustainability risks fully transparent, starting with climate change

The HLEG proposed the clarification of the time horizon associated with material risk factors and the fostering of climate scenario analysis for large companies in key sectors exposed to the energy transition risks, including the financial sector where relevant. This target can be reached only via important regional and global reforms on disclosure rules.

Fostering disclosure and transparency is more than just an investment, it is also a consistency. Paris Agreement and SDGs provide important tools to EU in order to become a leader while delivering its commitments, especially regarding on a disclosure regime based on climate change. This means that companies will be obligated to disclosure climate related information especially those regarding on climate change.

Two important initiatives towards this, which EU can follow, are:

- at global lever, the **Task Force on Climate-related Financial Disclosures** launched in December 2015 by the Financial Stability Board. It published its final report in June 2017 including recommendations on climate-related financial disclosures that are applicable to organisations across sectors and jurisdictions with a strong focus on risks and opportunities related to transition to lower-carbon economy. The recommendations are structured around four thematic areas, governance, strategy, risk management, metrics and targets (Task Force on Climate-related Financial Disclosures, 2017). In its 2018 Status Report the Task Force recognized that support from market participants is critical to its success as an industry-led initiative. Since the release of the Task Force's 2017 report, several groups have been working to help preparers of disclosure report information aligned with the recommendations, highlight user demand for climate-related financial disclosures, and build support for the Task Force, significantly extending the reach of the recommendations (Task Force on Climate-related Financial Disclosures, 2018).

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[71] European Commission, Inception impact assessment - Ares(2017)5524115, available at https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2017-5524115_en [last accessed 24 October 2018]

- at national level, the Article 173 of France's Energy Transition Law, which requires all major institutions to evaluate, report and address their exposure to long-term climate-related financial risk[72].

The HLEG suggests that EU should endorse the TCFD guidelines and implement the relevant recommendations using the experience from the implementation of France's Article 173. Companies, investors and civil society will rapidly adopt and follow the measures, yet there is a series of concerns. Against this, the HLEG recommends European Commission to make voluntary, private sector experimentation with TCFD and other ESG disclosures as short and as effective as possible and assess which are the needs and where for complementary disclosure and methodology harmonization by establishing "Disclosure Learning Platforms", by considering "comply or explain" disclosure principles and by building on the feedback of existing European ESG and Article 173. European Commission should, also, ensure that the

[72] III. Listed companies shall disclose, in the annual report subject to the vote of the shareholders: "the financial risks related to the effects of climate change and the measures adopted by the company to reduce them, by implementing a low-carbon strategy in every component of its activities."

IV. The annual report shall include, in addition to the reporting on social and environmental consequences of the company's activity (already mandatory in France) "the consequences on climate change of the company's activities and of the use of goods and services it produces."

V. A. Banks and credit institutions shall disclose, in the mandatory annual risk report, "the risk of excessive leverage and the risks evidenced in the frame of the stress tests that are regularly implemented". This provision is not specific to climate risks.

B. "The government shall submit a report to Parliament on the implementation of a scenario of regular stress-tests reflecting the risks associated with climate change, at the latest on December 31, 2016." VI. Institutional investors (i.e. institutions regulated by F3rench insurance law, mutual funds, French "Institutions de prévoyance", public institutions, public pension funds, investment companies with variable share capital11) shall "mention in their annual report, and make available to their beneficiaries, information on how their investment decision-making process takes social, environmental and governance criteria into consideration, and the means implemented to contribute to the energy and ecological transition. They shall specify the nature of those criteria and the way they are implemented, following a presentation to be stipulated in a decree. They shall indicate how they exert the voting rights attached to the financial instruments resulting from those choices. The decree provided for in the previous paragraph specifies the information that needs to be disclosed for each objective, depending on whether the entity exceeds thresholds defined in that same decree or not. The information relative to the consideration of environmental objectives includes: the exposure to climate-related risks, including the GHG emissions associated with assets owned, and the contribution to the international goal of limiting global warming and to the achievement of the objectives of the energy and ecological transition. That contribution will be assessed in particular with regards to indicative targets defined according to the nature of their activities and investments, in a way that is consistent with the national low-carbon strategy provided by the Environmental Code. When appropriate, the entities mentioned in this paragraph shall explain the reasons why their contribution is below the targets set for the closed financial year."

need of experimentation does not affect the EU's ability to deliver, by 2020, a comprehensive and useful EU climate-disclosure regime, compliant with the TCFD recommendations. Finally, the Commission should use the EU's leadership on non-financial reporting to engage global partners and raise the level of global reporting regimes.

1.1.4. Key Elements of a retail Strategy on Sustainable Finance: Investment Advice, Ecolabel and SRI minimum Standards

European household savings represent over 40% of total financial assets in the EU and most of them would like to invest in a sustainable manner[73], the financial literacy in Europe though remains low[74] and most of retail investor do not express their preferences due to the lack of such provisions.

Against this background, the HLEG recommends that the Commission and the ESMA should require investment advisers to ask about, and then respond to, retail investors' preferences about the sustainable impact of their investments, as a routine component of financial advice and, thus, find out offers most suitable for costumers' needs, beginning with ESMA updating guidelines on suitability requirements[75] to include explicit provisions on the obligation to ask clients about their sustainability. Furthermore, it is also important to facilitate retail investor choice transparency on the sustainability impact and processes of retail funds, to protect retail investors by establishing minimum standards for sustainability funds and establish a voluntary European green label, based on the EU sustainable taxonomy and probably based on the existing EU Ecolabel, to spur market growth and enable retail investors to identify products that finance the climate and ecological transition.

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[73] A survey of 7,000 respondents in 22 countries by Natixis Global Asset Management in 2017 found that social and environmental objectives are an important factor for around 70% of retail investors. More information available from https://www.im.natixis.com/us/resources/mind-shift-getting-past-the-screens-of-responsible-investing [last accessed 24 October 2018]

[74] See the OECD survey on 'Adult Financial Literacy Competencies', 2016, available from https://www.oecd.org/daf/fin/financial-education/OECD-INFE-International-Survey-of-Adult-Financial-Literacy-Competencies.pdf [last accessed on 5 October 2018]

[75] ESMA has included in its Final Guidelines on MiFID II suitability requirements a good practice for firms addressing this issue. The good practice will contribute to raising firms' and supervisors' attention and awareness of this issue. ESMA is monitoring the legislative proposals under the EC action plan and is considering making focused amendments to the guidelines to reflect changes to the MIFID II delegated acts on the topic of sustainability.
More Information from ESMA - Guidelines on certain aspects of the MiFID II suitability requirements - Final Report https://www.esma.europa.eu/sites/default/files/library/esma35-43-869-_fr_on_guidelines_on_suitability.pdf [last accessed 24 October 2018]

1.1.5. Develop and implement official European Sustainability Standards and Labels, starting with Green Bonds

The EU green bond market has simplified and standardised the selection process and criteria for green projects through high-level categories as well as more detailed taxonomies, opening up the dialogue between issuers and investors on criteria and impact (Climate Bonds Initiative, 2018). This has also promoted a transition mindset for issuers enabling them to signal publicly how they propose to initiate or accelerate the transformation of their operations and business towards a sustainable model. For certain corporate issuers, this has resulted in better pricing and lower market execution risk compared with mainstream bonds (Febi Wulandari, 2017).

The HLEG recommends that as a first step to establish official EU sustainability standards, the EU should introduce an official EU Green Bond Standard (EU GBS)[76] and secondly it should consider an EU Green Bond facing towards a full development of the market and maximization of its capacity to finance green projects and activities and to contribute to wider sustainability objectives.

The proposed EU GBS should incorporate existing best market practice while at the same time addressing uncertainties and areas of concern that may require greater prescription or more explicit criteria, like definitions of green project, re-labeling existing investments and uncertainty on the application of some aspects of best practice.

Thus, Green Bonds allow issuers to seek funding from investors in order to finance or re-finance 'green' projects, assets or business activities. Building on the EU sustainability taxonomy and drawing on current best practices, an EU GBS can protect the integrity of and trust in the green bond market, by giving guidance to issuers as well as enabling easier access for investors seeking such a product (Technical Expert Group on Sustainable Finance (TEG), 2018).

Against this background the HLEG recommends that the Commission:

- Establish a Green Bonds Technical Committee in 2018, in parallel with the Sustainability Taxonomy Technical Committee, to develop a long-term governance structure for the EU Green Bond Standard. In this context, TEG’s taxonomy subgroup has already decided that

[76]According to the HELG Final Report the EU Green Bonds should be defined as any type of listed bond instrument strictly meeting the following requirements: (a) The proceeds will be exclusively used to finance or refinance in part or in full new and/or existing eligible green projects, in line with the future EU Sustainability Taxonomy; AND, (b.) The issuance documentation of the bond shall confirm the intended alignment of the EU Green Bond with the EU Green Bond Standard; AND, (c) The alignment of the bond with the EU Green Bond Standard has been verified by an independent and accredited external reviewer.

their report by the second quarter of 2019 would encompass the following three thematic sections (i) purpose of green bond standard; (ii) main features of the standard; and (iii) external reviews and reporting.

- Introduce in 2018 an official European standard for green bonds[77].
- Mandate the Green Bonds Technical Committee to develop in parallel, accreditation criteria for providers of independent reviews and verification (external review providers) for green bonds to be managed by the national accreditation bodies in member states on a harmonised basis or supervised by a competent ESA
- In a second phase, explore the creation of an EU Green Bond label confirming alignment with the EU Green Bond standard and the future EU Sustainability Taxonomy.
- Publish additional European sustainable product standards for other asset classes.
- Conduct an impact study of the EU Green Bond market and design a R&D programme aiming to develop open-source methodologies, tools and technologies.

1.1.6. Establish "Sustainable Infrastructure Europe"

The Commission's Investment Plan for Europe, known as the Juncker Plan, has succeeded in mobilising considerable capital for high-quality investment projects that are essential for long-term economic growth. The implementation though of dedicated infrastructure investment, as a new development area, remains a concern in several member states. Key bottlenecks include a lack of infrastructure development capacity combined with difficulties both of structuring projects appropriately for financing by private investors, and of designing a sufficiently stable local regulatory environment that define pricing and usage policy over time. A clear and comprehensive strategy is needed to transfer lessons from one member state to another, as well as to advise member states and local authorities on how best to develop projects in this space.

Against this background, the HLEG recommends that the Commission establish "Sustainable Infrastructure Europe", built on existing institutions and designed to accelerate the development of high-quality infrastructure projects that meet investor demands and deliver the EU's sustainable objectives, including its obligations under the Paris Agreement. The "Sustainable Infrastructure Europe" would focus on providing project development expertise on the ground

[77] The group will start with its targeted consultation between November 2018 and January 2019. Thereafter, the group will carry out an open consultation during March 2019 along with other groups from the TEG. The GBS group will also consider relevant feedback received through the consultation processes of the other groups, in particular disclosures and taxonomy. More information from Overview of Consultation Plans, TEG, available from https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-teg-consultations-plans_en.pdf [last accessed 24 October 2018]

across different parts of Europe and could be delivered through a phased approach, starting with an incubator and developing into a standalone organisation by 2020. It would develop its new integrated institutional capacity around three functions, providing strategic advice on how to mobilise financial resources to deliver sustainable infrastructure projects, supporting an upgrade in project development capacity development at national and local level and reducing uncertainty in member state's regulatory environment (Danny Busch, 2018).

The HLEG supports that "Sustainable Infrastructure Europe" in cooperation with the Observatory on Sustainable Finance, could also play a key role in quantifying the EU's investment needs in Climate and Energy, Information and Communications Technology, Water Treatment and Supply, Circular Economy, Waste, Transport and Logistics, which are strategic policy areas relevant to sustainability, and will help member states to meet those needs[78].

1.1.7. Governance and Leadership

The HLEG recommends that corporate culture in the financial sector needs to be better aligned with a long-term outlook towards a sustainable financial system that benefits society. Against this, the Commission should update the 'fit and proper' tests to include an assessment of the individual and collective ability of the members of governing bodies in financial institutions to address sustainability risks, to understand the broader stakeholder context and to take account of clients' sustainability preferences. It should also extend the Stewardship Principles for institutional investors, for example, by amending the Shareholder Rights Directive or a similar instrument, regarding to the following stewardship principles: internal governance for effective stewardship, developing and implementing stewardship policies, monitoring and assessing investment portfolios, engaging companies and promoting investor collaboration, exercising voting rights and, finally, promoting long-term value creation and integration of sustainability factors[79].

[78] As part of the next long-term EU budget 2021-2027, the European Commission is proposing to renew the 'Connecting Europe Facility', with €42.3 billion to support investments in the European infrastructure networks for transport (€30.6 billion), energy (€8.7 billion) and digital (€3 billion). See COM(2018) 321 final, A Modern Budget for a Union that Protects, Empowers and Defends The Multiannual Financial Framework for 2021-2027, Brussels, 2.5.2018, available from https://eur-lex.europa.eu/resource.html?uri=cellar:c2bc7dbd-4fc3-11e8-be1d-01aa75ed71a1.0023.02/DOC_1&format=PDF [last accessed 24 October 2018]

[79] On 14 March 2017 the European Parliament voted its report on the revised Shareholders' rights directive. On 3 April 2017 the Council adopted a directive aimed at strengthening shareholders' engagement in big European companies. Under the new rules, remuneration policy should contribute to the business strategy, long-term interests and sustainability of the company and should not be linked to short-term objectives. Directive of the European Parliament

Commission should also strengthen director duties related to sustainability. Thus, it is most likely for the director to promote the success of the company for the benefit of its owners and other stakeholders by acting in a way that considers in good faith, instead of the EU to design a fully-fledged European corporate governance code. It is also important for a director to participate in adequate education and training measures in order to be able to exercise reasonable care, skill and diligence. The director should also require the company management to develop a climate strategy aligned with climate goals and ensure the sustainability of remuneration policies and individual executive employment contracts, demand regular reporting and ensure that competence is sustainability matters are systematically considered in the board nomination process.

1.1.8. Include Sustainability on the Supervisory Mandate of the ESAs and extend the horizon of Risk Monitoring

The HLEG recommends that EU step towards a review of the legislation of the ESAs, especially to take account of ESG factors, and possible related risk, within their mandate[80]. The recommendation focuses on three dimensions: clarifying how the ESAs are expected to interpret the inclusion of sustainability in their mandate; updating the single rulebook accordingly; and extending the horizon of risk monitoring to include climate-related risks and other long-term risks, each related to different aspects of ESAs mandates.

Against this background the HLEG recommends that ESAs should build expertise over time on tools for scenario analysis, starting with climate-related risks and then other non-cyclical, non-linear risks that may get mispriced by financial markets (bubbles, stranded assets, etc.) and, finally, other factors as automation and artificial intelligence, in order to facilitate the discussion on risk differentials between "green" and "brown" finance. ESAs should, also document and monitor the mismatch of time horizon, understand the problem of short-termism and, finally, seek

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and of the Council amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement http://data.consilium.europa.eu/doc/document/PE-2-2017-INIT/en/pdf [last accessed 24 October 2018]

[80] The Committee on Economic and Monetary Affairs of the European Parliament Calls on the European Supervisory Authorities (ESAs) to develop guidelines for model contracts between asset owners and asset managers, independent investment consultants and other investment intermediaries which would clearly incorporate the transmission of the beneficiary interest as well as clear expectations as regards the identification and integration of ESG risks and factors, with a view to avoiding, reducing, mitigating and compensating for those risks; calls on the EU institutions to ensure the allocation of adequate resources to the ESAs in the context of the pending revision of the ESAs regulation; calls for the incorporation of the cost of non-action on climate and other sustainability risks in all future EU legislation and legislative revisions and funding impact assessments. available from http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A8-2018-0164+0+DOC+PDF+V0//EN [last accessed 24 October 2018]

ways to reduce its impact on financial sector. Finally, ESAs should map changes resulting from Commission Action Plan on Sustainable Finance, ensure consistent implementation of the Single Rulebook and require sustainability-related skills to stakeholder groups.

1.2.Cross-cutting Recommendations

1.2.1. Short-termism, Sustainability and the tragedy of the horizon

Associated actions and investments – in economic, social and environmental terms – require action with a long-term orientation. In September 2015 Mr. Mark Carney, Governor of the Bank of England and Chairman of the Financial Stability Board, expressed the fear of the catastrophic impacts of climate change which will be felt beyond the traditional horizons of most actors, beyond business, political and technocratic authorities cycle (like central banks), imposing a cost on future generations. He called that a time-horizon mismatch since the current generation has no direct incentive to fix[81].

The HLEG supports that sustainability cannot develop in a context where investment is dominated by short-term considerations, which need to be tackled. To break the tragedy of the horizon requires an increased weight on economic social and environmental outcomes and aligning the horizon of financial investors with those of investors in physical capital. It is an attempt that needs even decades to be fulfilled, since ESG issues' orientation and integration is an ex-ante long-term asset that needs time to yield the real, economic, returns of sustainability.

Bank of England's chief economist Andrew Haldane supports that information availability in real time, the shortening of performance assessment intervals across financial investors and the rising frequency of corporate reporting have all contributed to shifting finance towards short-termism. Recent trends suggest that short-termism in the financial sector may have got worse, with the average holding period of market-traded assets becoming shorter[82] and thus reflect to the high-frequency trading, the short-term horizon hedge funds and the lack of firm asset managers' long-term portfolios. It is also possible that existing regulations encourage short-term behaviours.

[81] "The widely recognised need to respond to climate-related risks… means the fiduciary duty debate needs to be resolved finally and quickly.", Mark Carney (2015) Breaking the Tragedy of the Horizon – climate change and financial stability, speech available from https://www.bis.org/review/r151009a.pdf [last accessed 25 October 2018]

[82] The average holding of equities in the EU has fallen from about eight years two decades ago to just eight months today.

The HLEG insists that short-termism should not be confused with short-term finance, namely financial assets, liabilities and other instruments with a short time horizon which all have place and justification in a sustainable financial system.

Given these considerations, the HLEG recommends that the Commission and the ESAs pursue action in the following areas. Assessment of short-term pressures. Explore the issue of short-termism more closely, with particular attention to how the pressure for short-term returns in various parts of financial institutions manifests itself in corporate management and decision-making. Explore the extent to which executive remuneration structures in financial institutions closely engaged in or exposed to active trading can contribute to short-termism, how the use and design of performance benchmarks influences investment time horizons, assess the impact on the availability of long-term sell-side analysis as a result of MiFID II (PwC, 2018), the stablishing globally consistent data on portfolio turnover by asset managers with relevant granularity and conduct a survey comparing investment behaviour, focusing on time horizons and classifying investors accordingly. It is also important to assess the regulation and incentives, focusing not on imposing constraints on the portfolio management of long-term investors but on the practices of financial institutions whose business model is centred on short-term value extraction.

1.2.2. Empower citizens to engage and connect with sustainable finance issues

The HLEG envisages a sustainable future in which citizens are engaged fully with the financial system, namely they know what corporate activity they are funding and how these companies perform, and, especially, ensure that their money is being invested responsibly and sustainably[83]. The main barriers, though, are caused by the lack of relevant education and transparency, in other words financial literacy and access to information.

[83] "… A more robust, safe and transparent financial system requires there to be informed and responsible consumers who are actively involved in improving their financial awareness. For this reason, a dedicated dialogue needs to be encouraged between governments, the financial industry and civil society on regulation, self-regulation, financial education and access to transparent financial products and services. Financial institutions in particular have a role to play, by making a commitment to society to ensure honesty and transparency in the customer service they provide, and to step away from the kind of financial innovation which is of no benefit to society, producing opaque products which are difficult to understand…" Joost van Iersel, President, Section for Economic and Monetary Union and Economic and Social Cohesion European Economic and Social Committee

"… The financial crisis has further highlighted the need to improve consumers' financial literacy, awareness and capability, especially in the credit field. We should indeed not forget that the low level of financial literacy observed in most countries, has been -if not a direct cause of the crisis – at least one of the aggravating factors…", Mr. André Laboul, Head of the Financial Affairs Division, OECD

Financial education is the process through which consumers improve their understanding of financial products, financial risks and the opportunities presented by the market, so that they can make informed decisions on their finances. Making financial education widely accessible will benefit society as a whole, reducing the risk of financial exclusion and encouraging consumers to plan ahead and save, which would also help to prevent people getting into excessive debt. The importance of financial education was also emphasised back in 2007 in the Commission Green Paper on Retail Financial Services "Better products, more choices, and greater opportunities for consumers and businesses" (Commission of the European Communities, 2007). Transparency is also thought to be an attitude of openness and clarity, improving public access to information and producing clear and understandable documents (European Economic and Social Committee, 2016).

More need there is to be done by the European Commission to restore private sector and civil society's trust. First it should promote greater financial literacy on sustainable finance by supporting member states in developing national strategies for financial education with a strong sustainable finance component, and the incorporation of financial literacy components into school curricula, and by increasing social awareness by organising a European Day of Financial Education and supporting educational efforts on sustainable finance.

European Commission should, also, promote free and easily accessible information on sustainable finance by supporting the creation of a set of publicly available, free corporate sustainability benchmarks, ranking companies on their sustainability performance and contribution to achieving the SDGs, and support the well-established Eurosif market research (Eurosif, n.d.) on the development of the responsible investment industry in Europe. Commission should endorse and develop the biennial Sustainable and Responsible Investment practices (SRI) market study (United Nations, 2018), support the World Benchmarking Alliance (WBA) – an institution envisioned to develop, fund, house and safeguard SDG-related benchmarks and league tables. The Commission should also join UN organisations and national governments in endorsing, giving expertise and helping fund the World Benchmarking Alliance as an independent organisation building free public rankings[84].

[84] On 22 October 2018 The World Benchmarking Alliance (WBA) announced the it starts the process to measure the impact of the 30 largest seafood companies in the world towards achieving the United Nations' Sustainable Development Goals (SDGs), an ambitious set of 17 goals for 2030 on sustainable development that were adopted by all 193 UN member states. The Seafood Stewardship Index (SSI) will be a first of many benchmarks to be developed by the World Benchmarking Alliance and is aimed at moving towards a sustainable seafood production. More information from https://www.worldbenchmarkingalliance.org/wp-content/uploads/2018/10/PRESS-RELEASE-

European Commission should facilitate citizen engagement on sustainable finance issues by exploring the role of peer-to-peer lending[85] and investments for the promotion of social investments. The interest of retail clients in sustainable and responsible investment products is registering significant growth and it is of paramount importance to find ways of further supporting this growth. The EU internal Task Force on Financial Technology could produce recommendations on how emerging financial technologies might be used to facilitate citizen engagement with and investment in sustainable finance.

1.2.3. Establish an EU Observatory on Sustainable Finance to support evidence-based policy-making

Improved tracking and reporting of the EU's sustainable investment needs and the associated capital formation is urgently needed to accelerate the shift toward a more sustainable financial system and economy, as well as to understand where more attention is needed. The HLEG recommends the establishment of an EU Observatory on Sustainable Finance[86] to provide this information based on relevant reporting and data streams under EU and international obligations such as the UNFCCC; climate finance tracking processes already undertaken by some member states (and recognised by the European Environment Agency as key to better tracking of financial flows); databases in development funded by Horizon 2020 and LIFE; and procured data.

Thus, the Observatory will "connect the dots" between public and private data, in other words will centralize and coordinate data, and will also confer on the data an official status. It will enable member state governments and EU institutions to use it to inform public policy-making in

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WorldBenchmarkingAlliance-SeafoodStewardshipIndex-Announcement-PublicConsultation-FINAL.pdf [last accessed 25 October 2018]

[85] Peer-to-peer lending (sometimes called crowdlending), is a direct alternative to a bank loan with the difference that, instead of borrowing from a single source, companies can borrow directly from tens, sometimes hundreds, of individuals who are ready to lend. Crowdlenders often bid for loans by offering an interest rate at which they would lend. Borrowers then accept loan offers at the lowest interest rate. Internet-based platforms are used to match lenders with borrowers.Due diligence is carried out for each loan request, as crowdfunding platforms have a duty to protect both businesses and investor interests.Platforms normally require financial accounts and a trading track record. More information from https://ec.europa.eu/growth/tools-databases/crowdfunding-guide/types/p2p_en [last accessed 25 October 2018[

[86] Ingrid Holmes, member of the European Commission's High Level Expert Group on Sustainable Finance says that establishing the Observatory would be the first step to putting in place a common framework to make sustainable finance tracking the norm, starting with climate change. With only 3 years left to put global greenhouse gas emissions on a significant downward trajectory and stay within reach of the 1.5/2°C target, there is no time to lose. Ingrid Holmes on the potential for an 'EU Observatory' for sustainable finance More information from https://www.responsible-investor.com/home/article/ingrid_holmes_on_an_eu_observatory/ [last accessed 25 October 2018]

relation to delivering climate change and, in due course, wider sustainability goals. This way European Commission can, also, support member states in their efforts to develop and employ specific methods and tools that can track investment needs and match policy plans with supply of capital. It will also help them on regular reporting on progress towards meeting sustainable infrastructure and other capital formation needs across the EU. Finally, the Observatory could also support the development and monitoring of green and sustainable taxonomies and labels, as well as track the expansion of the sustainable and responsible private investment in Europe.

1.2.4. Benchmarks

Indices and benchmarks, the cornerstones of global capital markets, are used to gauge the performance of markets and portfolios, and as a reference structure for passive investing. The most high-profile indices (such as the DAX30, the CAC40 or the FTSE 100), sometimes referred to as market benchmarks, are usually focused on a small number of the largest companies (by market valuation in a particular market) and they are not representative of an entire country's economic situation.

Since they attract a lot of media attention they have an indirect but important impact on the orientation of capital, but they are not necessarily aligned with sustainability objectives. The current use of benchmarks is a key driver of short-termism in the market.

The HLEG believes that long-term risks and opportunities linked to sustainability and climate change are not properly reflected in market valuations and hence will not be reflected in market benchmarks. As a result, investment strategies based on traditional benchmarks will tend to follow the status quo and allocate capital to assets that are not necessarily aligned with long-term sustainable development objectives regardless the index providers' attempt to developing a wide range of ESG-based indices and indices aimed at capturing sustainability and climate considerations[87].

Greater transparency and guidance, otherwise a regulatory approach on benchmarks is thus needed to ensure investors use and select benchmarks in a manner that is consistent with long-term

[87] For example, MSCI has designed ESG Indexes to help its clients incorporate environmental, social and governance (ESG) factors into their investment decision making processes and support a common approach. The MSCI ESG Indexes are grouped into the following main categories: 1. MSCI ESG Leaders Indexes, 2. MSCI SRI Indexes, 3. MSCI ESG Universal Indexes, 4. MSCI Global ex Controversial Weapons Indexes, 5. MSCI Global Environmental Indexes, 6. Barclays MSCI ESG Fixed Income Indices, 7. Custom MSCI ESG Indexes. 8. MSCI ACWI Sustainable Impact Index. Factsheet available from https://www.msci.com/documents/1296102/1339060/ESG_FactSheet-v2.pdf/84790f0f-1b32-69e6-b2d2-1925df053506 [last accessed 27 September 2018]

investment strategies[88], that does not impede on sustainability and that helps to drive allocation of capital towards green and sustainable investments[89].

Against this background, the HLEG recommends that the Commission pursues the following actions:

- Influence IOSCO to update its Benchmark Principles in order to refer explicitly to sustainability and governance aspects, and specifically to climate considerations.
- Index providers should be asked to provide details of the exposure of widely used and referenced benchmarks to climate and sustainability parameters based on the securities included within the index and their weights.
- Enable investors to understand the sustainability characteristics and exposures of different fund options, both active and passive.
- To the extent possible, the ESAs and national supervisory authorities should monitor the extent to which institutional investors use benchmarks that are aligned to ESG objectives[90].
- The Commission should use its influence and convening power to draw the attention of the general public, media and policy-makers to the importance of moving financial and market assessments towards sustainability, climate and ESG-aligned indices, and of the need to be mindful of possible sustainability limitations of the established benchmarks.

1.2.5. Accounting

The HLEG considers that the accounting standards and rules that are used to assess the financial position and performance of companies are a crucial part of the information needed to make investment decisions by external providers of capital. They also have a significant impact on companies investing their own funds in the capital market. In the context there is a great concern

[88] Regulation (EU) 2016/1011 states that ‘to ensure a high level of consumer and investor protection, it is appropriate to lay down a regulatory framework for benchmarks at Union level’.

[89] IOSCO’s Benchmark Principles (developed in 2013) and the EU Benchmarks Regulation (published in 2016) are particularly relevant in this context.

[90] The Commission proposed regulation (24 May 2018) includes 4 types of general requirements on institutional investors and asset managers, depending on their investment style and investment strategies: (…) 4) Low-carbon strategies: use the Low-carbon index benchmark. Generally, the Working Group supports the intention to clarify ‘investor duties’ to consider material ESG issues in investment decisions, where appropriate and consistent with the time horizon of the investment. (…), Securities and Markets Stakeholder Group, Advice to ESMA - Sustainable Finance, 20 Setember 2018, available from https://www.esma.europa.eu/sites/default/files/library/esma22-106-1301_smsg_advice_on_sustainable_finance.pdf [last accessed 25 October 2018]

of the HLEG on the new IFRS9 accounting standard[91], which have a significant impact on the assessment of the financial position and performance of companies and their investments on funds, especially as it comes to large-scale long-term investments.

. The HLEG supports that integrating sustainability issues in accounting standards is essential to help investors, lenders and managers make appropriate investment decisions. Reporting on sustainability issues, yet critical for investments decisions, remains not a priority. EU has made an important initiative towards the integration of such information in companies reporting via the Non-Financial Reporting Directive[92] which amended the Directive on annual statements, consolidated financial statements and related reports of certain types of undertakings[93].

There is considerable disagreement among interested parties on the appropriate accounting treatment for long-term investments, in particular on whether long-term assets on investors' balance sheets should be valued based on the currently prevailing (daily) market prices – also known as 'mark-to-market' valuation or 'fair value' accounting[94]. In this context, the accounting

[91] IFRS 9 replaces IAS 39's patchwork of arbitrary bright line tests, accommodations, options and abuse prevention measures for the classification and measurement of financial assets after initial recognition with a single model that has fewer exceptions. The new standard is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value recognized in profit and loss as they arise ("FVPL"), unless restrictive criteria are met for classifying and measuring the asset at either Amortized Cost or Fair Value Through Other Comprehensive Income ("FVOCI"). More information from "IFRS 9, Financial Instruments Understanding the basics", PwC, available from https://www.pwc.com/gx/en/audit-services/ifrs/publications/ifrs-9/ifrs-9-understanding-the-basics.pdf [last accessed 25 October 2018]

[92] Directive 2014/95/EU of the European Parliament and the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, available from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN [last accessed 3 October 2018]

[93] Companies are required to include non-financial statements in their annual reports from 2018 onwards. EU rules on non-financial reporting only apply to large public-interest companies with more than 500 employees. This covers approximately 6,000 large companies and groups across the EU, including listed companies, banks, insurance companies and other companies designated by national authorities as public-interest entities. Under Directive 2014/95/EU, large companies have to publish reports on the policies they implement in relation to environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery and diversity on company boards (in terms of age, gender, educational and professional background). More information available from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017XC0705(01)&from=EN [last accessed 3 October 2018]

[94] Those in favour of marking investments in such instruments to market prices for companies with long-term horizons are essentially those who consider that the primary users of information reported according to accounting rules are providers of capital. Those who raise concerns about mark-to-market valuation of assets for long-term investments,

standard IFRS 9 is seen by many companies, both of the energy and insurance sector, as having a negative impact on long-term finance, including both investment and lending; one reason is that it implies more income statement volatility, even if no transactions occur, simply as a result of market movements.

The HLEG has not sought to conduct a complete review of the accounting framework and its impact on sustainability, but it supports that it can develop and would actually result in a more faithful presentation of assets that are clearly not for instantaneous sale but held in a long-term investment perspective.

Against this background, the HLEG recommends that the Commission:

- Update the EU Directive relating to financial statement and related reports to place greater emphasis on the need to integrate non-financial information and discuss the governance of addressing long-term and sustainability risks and opportunities.
- Investigate alternative accounting approaches to fair value/mark-to-market valuation for long-term investment portfolios of equity and equity-type instruments.
- Change Regulation 1606/2002 on accounting rules in the EU to specify that international accounting standards should only be adopted if they are ‘conducive to the European public good, including its sustainability and long-term investment objectives’ (Article 3.2; underlined text proposed addition); and to provide the power to the EU to adjust specific aspects of IFRS standards adopted by the IASB before transposing them into EU law.

1.2.6. Accelerate action to finance Energy Efficiency Investments

The EU in its attempt to achieve its climate change, competitiveness and social inclusion goals needs to go through a series of transformational improvements. It has increased the amount of public funds available for energy efficiency trying to fill up the relevant large EU’s 2030[95] investment gap which stands around €130 billion per year. There seems to be a great momentum though among banks and investors.

The Energy Efficiency Financial Institutions Group (EEFIG), established in 2013 by the European Commission Directorate-General for Energy (DG Energy) and United Nations

mainly in corporate management, point out that the short-term fluctuations are not very relevant for long-term investors.

[95] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions A policy framework for climate and energy in the period from 2020 to 2030, available from http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%205644%202014%20REV%201 [last accessed 25 October 2018]

Environment Program Finance Initiative (UNEP FI), has worked to enhance visibility of the data on energy efficiency investments (Energy Efficiency Financial Institutions Group, 2015). It has launched Europe's largest and growing database, the De-risking Energy Efficiency Platform (DEEP), containing over 10,000 project records, and provided an underwriting toolkit to improve the sharing and transparent analysis of existing energy efficiency projects in Buildings and Industry and thus support a better understanding – and hence 'de-risking' – of energy efficiency investments for European financial institutions.

Financial regulators are also examining the risk to real estate loans stemming from poor building standards. A number of barriers have impeded the flow of private capital to the energy efficiency sector, mainly because of the uncertainty as to whether local authorities' energy saving measures would be on or off government balance sheets and because of the lack of systematic 'tagging' by financial institutions of loans to the building sector with energy performance and wider environmental data causing the banks' inability to price loans effectively or generate a pipeline of energy efficient mortgage assets that comply with the criteria for access to the growing green bond market.

Against this background, the HLEG recommends that the Commission examine further how energy efficiency investments improve underlying asset value. A process to provide guidance to financial institutions on the identification and measurement of these multiple value streams would help de-risk energy efficiency investments. The Commission should also consider the wider impact of energy savings for financial risk management

1.2.7. 'Think Sustainability First' Principle

Europe's strategy for sustainable and inclusive growth requires a smart sustainable financial sector and capital markets system for renewed economic resilience and competitiveness and improved sustainability performance. But at the same time, there needs to be a reinforced system for integrating sustainability priorities and incentives within the broader system of economic and financial policy-making to deliver sustainable growth and investment. The Commission's political priorities and work programmes should therefore reflect the principle of 'Think Sustainability First'[96], especially by strengthening the already existing Impact Assessment in all of the decision-making chain.

[96] The European parliament (…) welcomes the recommendation of the Commission's High-Level Expert Group on Sustainable Finance to embed the 'Think Sustainability First' principle throughout the EU's decision-making, implementation and enforcement process. European Parliament, Committee on Economic and Monetary Affairs Report on sustainable finance (2018/2007(INI), 4 May 2018, available from

The Commission will be adopting at the end of 2018 a Reflection Paper “Towards a Sustainable Europe by 2030, on the follow-up to the UN Sustainable Development Goals, including on the Paris Agreement on Climate Change”, otherwise a new Multi-Annual Financial Framework[97], to address possible ways of how to integrate the Sustainable Development Goals further in EU policy making.

Against this background, the HLEG recommends that the Commission strengthens and improves the implementation and application of existing rules and policies. The application of the ‘Think Sustainability First’ approach should help to clarify what kind of legislation is most suitable to stimulate sustainable finance, and provide guidance on what specific requirements within the legislation are needed. The ‘Think Sustainability First’ principle should be applied to all key investor and financial legislation in both ex ante impact assessments, ex post evaluations (for example, Solvency II, IORP II, UCITS, AIFMD, MiFID II/MiFIR, PEPP) and the necessary adjustments and reviews. Commission should embed the ‘Think Sustainability First’ principle throughout the decision-making, implementation and enforcement process. Incorporate and enhance sustainability expertise and action into the role of the regulatory scrutiny board and monitor follow-up.

In this framework, the Commission could further include, as part of the Eurostat Sustainable Development Monitoring Report, an evaluation of the role of financial policy and capital markets in achieving the EU’s sustainable development objectives; promote EU sustainable capital markets that appropriately address the issue of shorttermism as a key integral component of the EU Post-2020/EU Sustainable Future vision; and encourage the EU Presidency to incorporate, once a year, a high-level discussion with ECOFIN ministers on progress in developing sustainable finance and capital markets, possibly linked to an annual Sustainable Finance Day to showcase new approaches to mobilising public and private capital for sustainable growth.

1.2.8. Leverage EU action to enshrine Sustainable Finance at global level

Sustainable finance reforms are increasingly implemented across the globe. Europe has been in the vanguard of sustainable finance, but it is by no means alone. This global movement provides the EU with a unique opportunity to consolidate its leadership by bringing together other countries and working with them to cooperate and promote sustainable finance policy reform at

http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A8-2018-0164+0+DOC+PDF+V0//EN [last accessed 24 October 2018]

[97] More information in Implementing the Sustainable Development Goals through the next Multi-Annual Financial Framework of the European Union, March 2018, available from https://ec.europa.eu/info/sites/info/files/adopted-position-paper-on-the-mff_en.pdf [last accessed 4 October 2018]

an international level, especially within existing fora — such as the G20, the G7, the UN, IOSCO, the International Association of Insurance Supervisors and the International Organisation of Pensions Supervisors.

The HLEG recommends that the EU and its member states develop and agree bilateral ‘Sustainable Finance Compacts’ with key countries like China. These compacts would include the assistance to other countries to meet their climate mitigation and adaptation targets and SDGs, the support in developing sustainable finance and financial centres and sharing of expertise around climate risk management. They should also make sustainable finance a key priority of future G20 and G7 meetings, especially investor duties, sustainable financial literacy, sustainable finance standards, ESG disclosures and mandates of global regulators and standard-setters (as per the review of the ESAs at EU level) and support the G20 Green Finance Study group and the FSB in its work on climate change and its 2020 TCFD recommendations in 2020. They should ensure that European industry is not unduly affected by unfair competition from constituencies that are less engaged in fighting climate change and champion sustainable finance within the UN system, especially regarding the work of the UN Inter-Agency Taskforce (IATF), the formalisation of sustainable finance norms at the UN level and the promoting of the idea of a UN Framework Convention on Sustainable Finance (UNFCSF), to be established by 2019, and finally the development of national capital-raising plans within the ‘nationally determined contributions’ (NDCs).

EU should press international standard-setting bodies to promote sustainable finance. Especially, work with member states to encourage IOSCO to make sustainability disclosure mainstream across financial securities[98], support the development of international green bond markets to attract increased cross-border investment in low-carbon sectors, call on the OECD to produce a convention on long-term sustainability risks clarifying that investor duties should incorporate sustainability issues.[99] And to measure adult financial literacy on sustainable finance issues as part of their International Network on Financial Education reviews. EU should also embed the Commission’s action plan on sustainable finance into the European Consensus on Development review process. Mainly, make capacity-building for sustainable finance a core theme of the EU’s development cooperation activities, include a review of the impact of the action plan on sustainable finance in the joint synthesis report and systematically measure progress in relation to the action plan on sustainable finance.

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[98] See the European Parliament study of the EU’s role in IOSCO, 2015. According to this study, the supervisory authorities of the 28 member states of the EU were ordinary members of IOSCO and in 2015 together represented 22 % of IOSCO membership. In addition, ESMA is an associate member.

[99] EU member states fund over 40% of the base OECD budget.

1.3. Financial Institutions and Sectoral Recommendations

1.3.1. Banking

Banks are the largest source of external financing in the EU and the backbone of the financial system, in both lending and financing, and a sector where sustainability objectives must be fully integrated[100]. However, bank regulatory framework[101], designed for large banks, remains complex and difficult to fully review so that sustainability factors cannot be totally assessed and integrated by all banks.

In this context the HLEG has considered the lowering of capital requirements[102], still risk-based, to the green sector to make it more financially attractive to lenders and borrowers, and thus

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[100] Banks are the largest financial intermediaries in all EU countries, although their relative importance varies significantly from one country to another. While loans typically represent the bulk of banking assets, most banks also invest in capital markets. For example, on average in 2016 SMEs perceived an improvement in the availability of bank financing alongside a decrease in interest rates. However, SMEs also reported increases in the non-interest rate costs of financing and collateral requirements. The difficulties of accessing bank loans are particularly affecting smaller and innovative companies. Since the 10 European Commission, 2016, Science, research and innovation performance of the EU 2016, pp. 247-276. rejection rate includes both projects that are viable from an economic point of view and those that are not viable, on a country-to-country level the rejection rate provides a rough indicator of tightened or eased credit standards applied by banks to the approval of loans or credit lines. Furthermore, some SMEs do not even apply for bank loans because of fear of rejection, especially in Greece (26%11). The approval rate for SMEs' bank loan applications increased from 60% in 2014 to 70% in 2016 on average. Yet rejection rates remain high in some EU countries such as Greece (20%) and Lithuania (20%), Latvia (20%) and the Netherlands (17%). More information from European Semester Factsheet ,"Small and Medium-Sized Enterprises' access to Finance", November 2017, available from https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_small-medium-enterprises-access-finance_en.pdf [last accessed 26 October 2018]

[101] The term Single Rulebook was coined in 2009 by the European Council in order to refer to the aim of a unified regulatory framework for the EU financial sector that would complete the single market in financial services, which would ensure uniform application of Basel III in all Member States and would close regulatory loopholes and thus contribute to a more effective functioning of the Single Market. The Interactive Single Rulebook is an on-line tool that provides a comprehensive compendium of the level 1 text for the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV); Bank Recovery and Resolution Directive (BRRD); the Deposit Guarantee Schemes Directive (DGSD); and the Payments Services Directive (PSD2) the corresponding technical standards developed by the European Banking Authority (EBA) and adopted by the European Commission (RTS and ITS), as well as the EBA Guidelines. It is available from https://www.eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook [last accesses 26 October 2018]

[102] F. v. Lerven, Dr J. R. Collins, Adjusting Banks' Capital Requirements in line with Sustainable Finance Objectives, UCL Institute for Innovation and Public Purpose, 28 February 2018. "(…) It has been supported that the relevant recommendation risks weakening an already fragile banking system and undermining the efficacy of the still developing field of sustainable finance. A better approach would be to increase the capital requirements for highly carbon intensive lending, which would not only have the same desired effect whilst enhancing financial stability, but

encourage an initiative of a re-arranging of the banking sector. It also supports that key steps towards a green supporting factor is the specific identification of both "green" and "brown" and especially its taxonomy work, which could be supported by small banks. Saving products to sustainability issues could also be set onto small banks.[103] Banks should also ensure that their assessment of material risks covers financial and non-financial risks, notably through data-driven models and forward-looking perspectives.

Against this background, the HLEG recommends that the Commission support the development, coordination and sharing of best practice on ESG, longer-term sustainability risk assessments for banks and monitor whether all European supervisors (EBA, SSM) ensure that national supervisors encourage banks to have such instruments of risks assessment. As a first step on a green supporting factor, the Commission should investigate whether there is a risk-differential justifying such a factor and, if so, how it could be implemented, considering the possible drawbacks. The HLEG encourages the Commission to implement what is best for the European economy and wider society from a long-term sustainable perspective, whereby undue 'level playing field' considerations and international competition can be avoided, for example, in the financial services chapters of trade and investment treaties concluded by the EU. The Commission should review the implementation of relevant measures listed in the 'Report on the follow-up to the call for evidence on the EU regulatory framework for financial services'[104]. The Commission could also research the benefits of innovative business models in banking and of long-term saving products that support the environmental and social needs of the economy and wider society, so as to engage citizens in the transition.

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would also reflect the very real systemic risks posed by continuing these investments.(…)", available from https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/briefing-note-capital-requirements-for-sustainable-finance-objectives.pdf [last accessed 26 October 2018]

[103] "…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…", Greening finance for sustainable business, Speech by Vice-President for the Euro and Social Dialogue, Financial Stability and Financial Services Valdis Dombrovskis, Paris, 12 December 2017, available from http://europa.eu/rapid/press-release_SPEECH-17-5235_en.htm [accessed on 9 October 2018]

[104] Available from https://ec.europa.eu/info/sites/info/files/171201-report-call-for-evidence_en.pdf [last accessed 26 October 2018]

1.3.2. Insurance Companies

The business model of the insurance sector is particularly suited to supporting sustainability. Insurance products enable households and firms to focus on the longer term, knowing that they have financial protection against short-term misfortunes, including those from climate-related risks which are in some extent inevitable. Given the protection it provides against such risks, the insurance sector has an inherent interest in, and through prevention can contribute to, (climate) risk mitigation, as well as in the promotion of sustainability through long-term investments[105]. Under Solvency II insurance companies should take into account and cover climate risks and risk mitigation explicitly in the supervisory review.

The insurance sector is the largest institutional investor in Europe. Its assets under management currently account for nearly €10 trillion, or about 60% of the EU's GDP, an amount of assets that need to be hold in the real economy in need of stabilization. In this context the HLEG supports that EU should mobilize investment portfolios of insurance companies towards equity financing, infrastructure financing and long-term investment, an attempt that is already routed by Solvency II, namely the setting of discount rates, the determination of risk margins and the calibration of charges for investment risk[106].

HLEG also considers that it is important to examine how long-term investment risk can differ from short-term trading risks – and how this difference can be reflected in solvency capital charges, including for sustainable, long-term investments.

Against this background, the HLEG recommends that EU should encourage greater adoption of the TCFD recommendations, assess the need to incorporate climate risk more

[105] "The European Commission's efforts to connect finance with the specific needs of the European and global economy for the benefit of the planet and our society are welcome. The insurance industry is keen to continue playing a key role in these efforts, and many companies are already embedding sustainability objectives in their product development and investment strategies. Naturally, the investments must still be good ones that are right for our customers." Appropriate and balanced policy actions to support insurers' role in sustainable finance are welcome, Press Release, Insurance Europe, 8 March 2018, available from https://www.insuranceeurope.eu/appropriate-policy-actions-may-enhance-insurers-role-sustainable-finance [last accessed 9 October 2018]

[106] "Solvency II is — and should remain — a risk-based framework, but more work is needed to ensure that the risks for long-term business are correctly identified and measured. While the insurance industry does not believe that prudential regulation should be used to provide artificial incentives to green investment, policymakers should focus on identifying and removing the disincentives, for example by recognising the important difference between short-term and long-term investment risks,", Michaela Koller, director general of Insurance Europe, HLEG sustainable finance report: valuable contribution with good recommendations, 31 January 2018, available from https://www.insuranceeurope.eu/hleg-sustainable-finance-report-valuable-contribution-good-recommendations [last accessed 9 October 2018]

explicitly into assessments conducted by insurance companies, investigate how Solvency II could be adapted to facilitate further long-term investment while maintaining a strong risk-based nature. Especially it should assess alternative ways to deal with prudential concerns about forced selling of assets and to set discount rates to avoid exaggerating liabilities and balance sheet volatility. It should examine how long-term investment risk can differ from short-term trading risks and how this difference can be reflected in solvency capital charges, and also ensure that overall capital requirements do not increase, and that the European Insurance and Occupational Pensions Authority's (EIOPA) response to the Commission's request for technical advice on 'unjustified constraints to financing' considers the ways in which the current system gives disincentives to green finance in unrated bonds and loans, as well as in unlisted equity[107]. EU should ensure that the IFRS 17 accounting standard on the liabilities side safeguards a combined working with the accounting standard on the asset side.

1.3.3. Asset Managers

The HLEG considers that asset managers should embody sustainability factors in their governance, expertise and stewardship practices in order to deliver the best possible investment outcome for clients. They should also be required to establish a clear understanding of their clients' preferences on sustainability, governance and any broader ethical issues.

In particular, the HLEG recommends that EU should promote high standards of competence on ESG issues. In particular, asset managers should develop competence on sustainability and governance issues within their organisations and establish organisational principles and reward structures that encourage long-term oriented behaviour. They should adopt minimum standards for investment mandates vis-à-vis their institutional clients, and thereby establish greater consistency and alignment with their institutional clients' sustainability preferences – and, through that, the interests of their clients' beneficiaries. In line with the wider understanding of the obligation to act in the best interest of clients and the data available, asset managers should review their valuation and risk models. They should assess the average holding period of securities, particularly equities, asset managers should routinely publish meaningful

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[107] EIOPA has answered on 26/04/2018 as following: (…) Solvency II should appropriately address risks related to the nature of the insurance business, while avoiding undue constraints to insurers' investments fostering long-term growth. It should be assessed if the assumptions for the valuation of technical provisions and the risk measure underlying the calculation of capital requirements is still appropriate. This is to ensure that Solvency II reflects appropriately insurance and reinsurance undertakings asset-liability management. (…), Request to EIOPA for information related to Directive 2009/138/EC, available from https://eiopa.europa.eu/Publications/Requests%20for%20advice/Request%20for%20information%202018-04-25.pdf [last accessed 9 October 2018]

information on the portfolio turnover in their funds. When using external analysis, asset managers should consider an adequate mix of longer-term, thematic and ESG research to broaden and inform their investment perspective.

They should also ensure that client sustainability and ethical preferences are reflected in investments, namely asset managers should be required to ask their institutional clients and their representatives whether there are any sustainability, governance or broader ethical concerns that the clients wish to have considered. For retail investors, transparency about the ESG features of mutual funds is key to facilitating suitable product advice by financial advisers.

The Commission believes that it is unclear that these obligations require assessment of the materiality of sustainability risks. In addition, there is a lack of transparency on how sustainability factors are factored into the investment process. End-investors may not get the full information they need to inform their own investment decisions.

In this context, the Commission was also concerned that the interpretation of institutional investors' and asset managers' ESG duties left too much room for differing approaches by member states. In the event, the Commission's action plan for sustainable finance, published in March 2018, steered clear of strict legal ESG requirements. Instead, it proposes to ensure that ESG factors are "consistently taken into account" in the investment process of institutional investors and asset managers[108].

1.3.4. Pension Funds

The HLEG considers that pension funds are the ideal providers of sustainable finance, they bear the "purest" approach of sustainability and long-termism as a main asset[109]. However, it considers that they should consult more their beneficiaries on their sustainability preferences and properly build those into their investment strategy. Meanwhile, in line with the extension of the ESAs' mandates, EIOPA will need to build expertise on including sustainability and governance factors into risk assessment, although such obligation is not mandatory yet.

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[108] Sustainable finance moves into the regulatory mainstream, Chapter 7 Part of the Evolving Asset Management Regulation report, KPMG, June 2018, available from https://home.kpmg.com/content/dam/kpmg/xx/pdf/2018/05/sustainable-finance.pdf [last accessed 10 October 2018]

[109] Matti Leppälä, secretary general of PensionsEurope, said: "[The] Action Plan signals political commitment to an ambitious agenda for a more sustainable financial system. As its end-users, pension funds look forward to those actions that will bolster their responsible investments.", Sustainable finance action plan is important for pension funds, Press release, 8 March 2018, available from https://www.pensionseurope.eu/system/files/Press%20release%20-%20Sustainable%20finance%20action%20plan%20is%20important%20for%20pension%20funds.pdf [last accessed 26 October 2018]

Against this background, the HLEG recommends that, in line with the HLEG recommendation on investor duties, pension funds should consult their beneficiaries on their sustainability preferences and reflect those in the fund's investment strategy and could explore initiatives to improve ESG integration and reporting above and beyond what is currently required in regulation. This would be in recognition of the new landscape of sustainability risks and opportunities and also be in the interest of sustained long-term performance.

1.3.5. Credit and Sustainability Ratings

It is strongly believed that financial system's ratings[110] should seriously consider ESG factors in order to fully support the integration of EU's sustainability targets.

On the one hand, **Credit Rating Agencies (CRAs)[111]** are thought to be the most important institutions, since their risk assessment methods influence the sustainability and stability of the financial system, especially through media[112]. They have been strongly criticized though because of their oligopolistic approach between the issuers of and the investors in securities.

Both in the EU and globally, the credit rating market is dominated by three firms – Standard & Poor's, Moody's[113] and Fitch (Hill, Claire A., 2002) – which enjoy levels of margins reflecting the oligopolistic market structure (Lombard, 2008). More importantly, the concentration of ratings opinions for thousands of issuers and entire economies is in the hands of only three companies can be a major issue especially in view of systemic developments, as previous experience has shown[114].

[110] The function of credit rating agencies is to 'rate' investment and credit instruments to make it easier for non-specialist investors to determine the risk inherent to particular investments. The four highest rating categories are from AAA to BBB- and are referred to as 'investment grade', while any investment instrument ranked below BBB- will be classified as 'speculative grade' or 'junk'. Ratings are based on the agency's opinion as to the obligor's capacity to repay capital and interest on an instrument when due. Initial ratings are monitored on a continuous basis and 'upgrading' or 'downgrading' will take place where appropriate.

[111] The latest legislative package on CRAs consists of the Regulation No 462/2013 and the Directive 2013/14/EU.

[112] A search using the term 'credit crunch' on the website of The Australian newspaper in October 2008
alone yielded more than 2290 results.

[113] Moody's and Standard & Poor's have an effective duopoly in the rating market with a market share of close to 80%. This could be attributed to regulators' method of regulating entry into the credit rating market, 12 as well as to the operation of the market itself. (…) Fitch, maybe in an attempt to establish a place for itself in the market, generally provides more favourable ratings than Moody's or Standard & Poor's.

[114] "(…) The influence of high concentration of the CRA market on financial stability could be significant if CRAs observe each other's behaviour and respond by posting similar opinions about the creditworthiness of issuers and instruments within a short timeframe. Such behaviour could promote pro-cyclicality. However, there is little evidence of such 'herding' among CRAs. Any apparent herding (or responding to the signals of other CRAs) could anyway be explained by several other factors, in particular the broadly equivalent processing of the same pieces of information,

Moreover, the HLEG considers that credit ratings currently fail to incorporate adequate consideration of long horizon risks or to assess the influence of transformative ESG trends on issuers' prospects or future creditworthiness. The Principles for Responsible Investment (PRI) report shows that CRAs' horizons typically look over three to five years for investment grade credit, two years or under for high yield and around ten years for sovereigns (Principles for Responsible Investment, 2017). To that, the HLEG expresses strong concerns that the current legal regime for credit ratings in the EU does not include an explicit mandate that relevant long-term risks including ESG risks must be fully integrated.

Thus, the EU should carefully monitor progress made with regard to embedding ESG within Credit Ratings and seek to lead the debate also at international levels.

On the other hand, **Sustainability Rating Agencies (SRAs)** are recently (compared to CRAs) established institutions which use publicly available information to evaluate and compare, with different criteria and methods each one, the sustainability performance of issuers on the sustainability challenges that they face: companies, countries and other type of securities issuers, and provide their ratings to their clients- investors for their investment decisions or portfolio management[115].

The HLEG considers that establishing business models that are independent and avoid conflicts of interest[116] is essential for any ratings, financial advisory and analyst services. The

similar business strategies, or a phase of the business cycle. Given limited evidence, our view is that market concentration could drive increased risk, but that this is per se likely to be secondary to factors such as over-reliance, product complexity and others. (…)" European Commission, Study on the State of the Credit Rating Market Final Report, January 2016, available from https://ec.europa.eu/info/system/files/state-of-credit-rating-market-study-01012016_en.pdf [last accessed 30 October 2018]

[115] For more information see Shifting perceptions: ESG, credit risk and ratings (Part 1: The state of play), the first in a three-part series to enhance the systematic and transparent consideration of ESG issues in the assessment of the creditworthiness of borrowers in fixed income (FI) markets. t provides a snapshot of the current state of play on ESG in credit risk analysis sheds light on areas of best practice and bottlenecks, including: Visibility of ESG Factors; Materiality of ESG risks; Environmental issues gaining traction; Communication and Transparency. Available from https://www.unpri.org/download?ac=256 [last accessed 30 October 2018]

[116] The latest legislative package on CRAs consists of a regulation (Regulation No 462/2013) and a directive (Directive 2013/14/EU). These laws seek to reduce over-reliance on credit ratings, increase transparency regarding the issuing of sovereign debt ratings, improve the quality of the rating process and make credit rating agencies more accountable for their actions and reduce conflicts of interest and encourage a greater number of actors to operate in the credit rating market. For more information see European Securities and Markets Authority (ESMA), Technical Advice Competition, choice and conflicts of interest in the credit rating industry, September 2015, available from https://www.esma.europa.eu/sites/default/files/library/esma-2015-1472_technical_advice_on_competition_choice_and_conflicts_of_int.pdf [last accessed 30 October 2018]

SRAs have addressed this in a number of ways. Having, also, established completely new assessment tools to help investors integrate ESG issues into their investment decisions, SRAs have built the basis for a new market segment and generated the products that can help reallocate capital towards sustainable development.

Against this background, the HLEG recommends that **CRAs** should systematically integrate relevant ESG factors and factors related to longer - term sustainability into their credit risk analysis and credit ratings by ensuring, first, proper ratings methodologies and transparency, including alignment with the TCFD recommendations and, second, that credit ratings staff are sufficiently trained to conduct analysis of ESG factors relevant for assessing creditworthiness, and that the current governance principles of CRAs are effectively applied with respect to ESG matters. **ESMA** should use the existing regulatory framework to enforce integration of ESG risk factors, to the extent they are relevant for credit risk analysis, into the methodology, transparency and governance of credit ratings outlined above, providing additional ESG specific guidance where necessary. The **Commission** should monitor ESG integration and the credit ratings market structure closely. The importance of the climate transition should galvanise sufficient political will to ensure that this is the case and, if need be, that it allows the market structure to evolve. Possible measures could include encouraging market entry and/or the production and use of longer-range credit risk assessments, which, due to their longer timeframe, would incorporate ESG risks more substantively.

Finally, the EU should support and strengthen the work of the **SRAs** as they are already playing a crucial role of sustainability information brokers in the capital markets. This could be done by promoting the quality of sustainability ratings and of the rating processes, as well as by monitoring and assessing the extent to which sustainability ratings are considered in long-term investment decisions. Specifically, it is recommended that the Commission boost clarity and transparency on sustainability ratings through the development of guidance or, more stringently, a set of minimum requirements for organisations that deliver ESG data analytics and ratings, paying particular attention to the issue of independence.

1.3.6. Stock Exchanges and Financial Centres

Financial centres, including Dublin, Frankfurt, London, Luxembourg, Milan, Paris and Stockholm, and stock exchanges can play a positive role in promoting the growth of sustainable finance, particularly across banking, capital markets, Fintech, insurance and investment.

Efforts in this space are still relatively new and most of the EU’s financial centres have yet to engage. The growth of green finance depends on promoting green finance products as well as greening mainstream financial markets and stock exchanges play a key role in both.

Recently, the Sustainable Stock Exchanges (SSE) Initiative issued a voluntary action plan on ‘How Stock Exchanges can Grow Green Finance’. The SSE green finance action plan identifies two main action areas that stock exchanges could work on in parallel. First, the promotion of green-labelled products and services; second, more systematic changes to support a green transition. The guidance also identifies two cross-cutting action areas that will facilitate green finance efforts: strengthening climate-related and other environmental disclosures among issuers and investors; and contributing to the growth of dialogue and consensus-building on green finance with other capital markets participants. Throughout all four of these action areas, partnerships are key (Sustainable Stock Exchanges (SSE) Initiative, 2017).

Against this background, the HLEG recommends that financial centres should provide clarity about the role and responsibility of listing authorities in promoting disclosure of ESG information across the EU, conduct a review of the system of incentives for financial instruments, and encourage IOSCO to develop a consistent approach to corporate disclosure of sustainability performance and in fostering the development of sustainable asset classes. EU should encourage stock exchanges to should publish guidance on ESG reporting to investors, establish lists or segments dedicated to sustainable financial instruments, give consideration to streamlining and standardising ESG and sustainability information that listed issuers are required to report, and encourage harmonization of this information across stock exchanges, rather than simply adding to existing disclosure requirements. Stock exchanges should be promoted to establish alternatives to bank finance for small and medium-sized enterprises, including privately held companies, by removing any regulatory barrier to the issuance of debt securities on regulated or exchange regulated markets at the member state level.

1.3.7. Investment Consultants

Investment consultants have a role and duty in helping effectively to deploy capital towards sustainability goals. Investment consultants are the primary point of contact for many asset owners in the investment market, many EU markets make significant use of them. They provide a range of advisory services to asset owners, from funding decisions to asset allocation, manager selection and reporting processes. They frequently train sponsors and trustees on approaches to investment and emerging investment trends.

Until now investment consultants rarely raise such issues on the basis that they are not raised by their clients, yet clients often do not raise them because they are overly reliant on following the advice and agenda of the consultants. However, guidance as to how ESG should be integrated into their client interactions could help to ensure that investment consultants pro-actively consider ESG issues. To spur sustainable market growth, the EU should require investment consultants proactively to raise ESG and ethical issues with clients and establish

whether there are any ESG and/or ethical preferences that should be considered within the advisory process.

Especially pension trustees have a duty to ensure they have a sound understanding of preferences and interests of their members and beneficiaries, particularly on ESG, and to ensure that these are reflected in the terms on which they engage investment consultants. In turn, investment consultants have a duty to understand the interests and preferences of their pension scheme clients — and through the scheme and their trustees, those of their members and beneficiaries. Consultants should also incorporate advice on ESG issues and the expressed interests and preferences of the scheme, its members and beneficiaries into the advice given to the scheme, including generic asset allocation or manager selection advice, as well as their effect on the risk/return profile of the recommended investment/asset allocation/manager selection strategy[117].

Against this background, the HLEG recommends that the Commission clarify and provide guidance to investment consultants about having a duty to inform themselves about ESG and ethical issues so that they may pro-actively raise and offer advice on such issues to their clients. Moreover, where investment consultants offer regulated advice, or regulated investment management, such management must be carried out consistently with the clarified duties set out in the investor duties recommendation. Pension trustees and other clients of investment consultants should also ensure that they request that ESG issues and their likely effect on investment risk/return are included in the advice that they receive, and reflect this requirement in terms of appointment of consultants where relevant. If this suggested guidance fails to have the desired effect, the HLEG recommends that the Commission consider more direct intervention through MiFID II or a new regulation explicitly aimed at investment consultants.

1.3.8. Investment Banks

Investment banks support issuers in coming to the market for the first time (via initial public offerings) and in raising capital subsequently through the issuance of debt or equity.

[117] During the Public Consultation on Institutional Investors' and Asset Managers' Duties regarding Sustainability launched on 13 November 2017 (Feedback Statement published on 24 May 2018) several stakeholders highlighted the important role of asset owners who are uniquely positioned to drive sustainable and responsible investment. Insufficient consideration of sustainability factors by these owners sends signals to the market as a whole that ESG factors are not a priority for them, which in turn limits the willingness of investment managers and consultants to consider ESG factors in their advice and products. Feedback Statement available from https://ec.europa.eu/info/sites/info/files/2017-investors-duties-sustainability-feedback-statement_en.pdf [last accessed 30 October 2018]

Sell-side researchers are the ones who assess the financial and sustainability risk profile of the issuer based on the quality of disclosures. Buy-side researchers (investors) are the ones who research on their investment issues and are mainly asked about their preferences on investments by the sell-side. The HLEG supports that a very small amount (less than 12%) of both sides have actually considered ESG issues until now.

Against this background, the HLEG recommends that the Commission should encourage more long-term research from sell-side analysts. The Commission/ESMA should work with investors and the sell-side to investigate how they can promote better long-term research in a post-MiFID II world, namely to amend the MiFID II-mandated research disclosures, to make clear in ESMA guidance that long-term ESG research should be encouraged under research payments and that direct fund managers should raise this issue pro-actively with their clients, and propose a requirement for all sell-side company research to include a section that looks beyond 12 months and to include a specific ESG performance analysis section. Finally, the Commission or ESMA should tackle the conflict of interest in investment banks by conducting a review of the restrictive practices within sell-side firms that put pressure on analysts as to what they can and cannot write.

1.4.Social and Broader Environmental Sustainability Recommendations

The HLEG considers that along with the integration of climate mitigation in EU financial policies there is a series of other sectors which should be a priority for the financial system and can really support the attempt for a sustainable economy. These sectors are mainly the Social Dimension of Finance, the Natural Capital and the Environmental Challenges, Agriculture and Marine Resources. A comprehensive integration and a responsile approach of them can contribute to a sustainable growth.

1.4.1. Social Dimension

Building a fairer Europe and strengthening its social dimension have become a priority for the Commission under the global financial crisis and growing income inequality in many countries against the growing financial sector. Also, marginalised and remote regions and sectors are considered not profitable enough and have subsequently been sidelined.

In this context the European Pillar of Social Rights, launched in November 2017, focuses on promoting better working and living conditions in Europe, structured around three categories: equal opportunities and access to the labour market; fair working conditions; and social protection and inclusion, which can be reached by embedding social considerations into capital allocation and by bringing investments in remote regions of Europe.

The HLEG suggests that financing social structures and initiatives is an important way of solidifying social dimension in finance. Thus, the HLEG consider that investing on social enterprises[118] is a great tool to integrate social dimension in the financial system and inclusive growth, while also a "Just Transition" fund[119] could support the decarbonization process. Broadening the use of Social impact bonds (SIBs)[120] is also an essential tool to establish a

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[118] "A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involve employees, consumers and stakeholders affected by its commercial activities. The Commission uses the term 'social enterprise' to cover the following types of 'businesses': a. Those for which the social or societal objective of the common good is the reason for the commercial activity, often in the form of a high level of social innovation, b. Those where profits are mainly reinvested with a view to achieving this social objective, c. The method of organisation or ownership system reflects their mission using democratic or participatory principles or focusing on social justice." More information from European Commission, A map of social enterprises and their eco-systems in Europe, Synthesis Report, 2015. Available from ec.europa.eu/social/BlobServlet?docId=12987&langId=en [last accessed 30 October 2018]

[119] "*(...) A just Transition Fund should be established to support regions with a high share of workers in carbon-dependent sectors and a GDP per capita well below the Union average. (...) A Just Transition Fund shall be created as of 1 January 2021 as a complement to the European Regional Development Fund and the European Social Fund and shall be funded through the pooling of 2% of the auctioning revenues. The revenues of those auctions shall remain at Union level, and shall be used to support regions which combine a high share of workers in carbon-dependent sectors and a GDP per capita well below the Union average. Such measures shall respect the principle of subsidiarity. Those auctioning revenues aimed at just transition may be put to use in different ways, such as: creating redeployments and/or mobility cells, education/training initiatives to re-skill or upskill workers, support in job-seeking, business creation, and monitoring and pre-emptive measures to avoid or minimise the negative impact of the restructuring process on physical and mental health.*

Since the core activities to be financed by a Just Transition Fund are strongly related to the labour market, social partners shall be actively involved in the fund management in a manner based on the model of the European Social Fund committee and the participation of local social partners shall be a key requirement for projects to get funding. (...)". Amendments adopted by the European Parliament on 15 February 2017 on the proposal for a directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments (COM(2015)0337 – C8-0190/2015 – 2015/0148(COD)) (1) (Ordinary legislative procedure: first reading), P8_TA(2017)0035 Available from http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P8-TA-2017-0035+0+DOC+PDF+V0//EN [last accessed 30 October 2018]

[120] Social impact bonds are a results-based form of social impact investment. Private investors provide capital to launch or expand innovative social services that provide a public good. If the expected social benefits are achieved at the end of a given period, investors receive back their capital plus a rate of return (negotiated with public authorities and varying with the level of results achieved). Social impact bonds are increasingly common in the United Kingdom, as well as in the United States and Australia, and have begun to be used in a number of other EU Member States. (…)

competitive and independent social economy, while strengthening the social factor in ESG risk assessments and legislation, an attempt which requires detailed terms clarification, towards a more inclusive and sustainable banking system.

More detailed and against this background, the HLEG recommends that the Commission support the growth of Social Enterprises. In line with the European Parliament's proposal for a 'European social label' to act as an identifier for social enterprises in the euro area, identify key performance indicators for social factors to be used as part of requirements to integrate ESG aspects and risk assessments into different pieces of EU legislation, undertake action to develop investment with a social impact in the EU. The Commission could develop a framework of social impact investing profiling in collaboration with the OECD, and building on its Social Impact Investing Initiative Data Work Stream. Supporting regions in the European periphery would be particularly important to secure employment prospects and avoid large parts of the population feeling forced to abandon their home regions. The Commission should support the Just Transition fund to help workers, employers and communities to profit from measures supporting the decarbonisation process, including the ETS allowances, and also support member states in the establishment of national transition funds. Finally, the HLEG suggest that the Commission develop a strategy for inclusive and sustainable banking with approaches that can accelerate innovative banking across the EU by collecting the different innovations and best practice that respond to the inclusive and sustainable financing needs of citizens, entrepreneurs and communities and bring them to the European level.

1.4.2. Natural Capital and Environmental Challenges

Natural capital[121] comprises the stock of renewable and nonrenewable resources – water, land, air, biodiversity (animals and plants), forests, soils – that yield a flow of benefits, often

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The European Commission has promised to facilitate the exchange of experiences between Member States with social impact bonds. The European Parliament has called for greater use of innovative financing for social benefit and for more specific proposals from the European Commission. More information from: European Parliament, Social impact bonds - Private finance that generates social returns, August 2014, available from http://www.europarl.europa.eu/EPRS/538223-Social-impact-bonds-FINAL.pdf [last accessed 30 October 2018]

[121]"*(...) Multiple forms of capital interact to generate goods and services. For example, fish harvesting depends on the availability of fish stocks (natural capital), which depend on high-quality habitat (natural capital), but harvesting also depends on fishing vessels (manufactured capital, backed by financial capital), the skills and experience of fishers (human capital), and fisheries governance (social capital). (...) Understanding who affects the generation of ecosystem services (called providers or suppliers) and who benefits from ecosystem services (beneficiaries or consumers) allows assessments of the costs and benefits from a given policy, including the distributional consequences across affected parties. Institutions, such as property and access rights, together with the nature of the services in*

termed 'ecosystem services'. Natural capital assets fall into two categories: those which are non-renewable and traded, such as fossil fuel and mineral "commodities"; and those which provide finite renewable goods and services for which no price typically exists, such as clean air, groundwater and biodiversity (Trucost, 2013).

The HLEG supports that natural capital has typically not been included in the past in standard economic production functions, largely because it was widely thought that it could be taken for granted[122]. Biodiversity loss as well as ecosystem degradation (for example, forestry) and collapse, resource overconsumption and depletion, waste, and air, water, land and ocean pollution are all examples of unsustainable management of the natural capital on which our economies and societies depend now more than ever. But few have changed on the decision-making processes.

It is essential to halt the destruction of natural capital and instead manage it within boundaries that maintain the resilience and stability of natural ecosystems, and allow for resources to renew. The HLEG considers that the externalities generated by the misuse of natural capital are dangerously high, the majority of environmental externality costs are from greenhouse gas emissions (38%), water use (25%), land use (24%), air pollution (7%), land and water pollution (5%) and waste (1%), according to the 'Natural Capital at Risk – Top 100 Externalities of

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question, frame the policy context and influence the set of incentives for the private and public use and provision of ecosystem services. Understanding the institutional landscape and incentive structures can inform effective management and governance. (...) The capacity of social-ecological systems to sustain natural capital and ecosystem services in the face of disturbance and ongoing changes is more likely to support development pathways in changing environments where uncertainty and surprise prevail. Robust solutions that generate desired outcomes for people and nature under a wide range of potential futures can be enhanced by adopting a more integrated dynamic systems approach to understanding complex social-ecological systems. Such thinking fosters more wide-ranging contemplation of potential future outcomes and places an emphasis on adaptive governance. (...)". Guerry D., Anne, et a., Natural capital and ecosystem services informing decisions: From promise to practice, Proceedings of the National Academy of Sciences of the United States of America (PNAS), available from http://www.pnas.org/content/pnas/early/2015/06/10/1503751112.full.pdf [last accessed 31 October 2018]

[122] *"(...) Our current economic and political systems "are not well suited to deal with the fact that global environmental changes and further population expansion threaten to undermine future prosperity (...)."* Guerry D., Anne, et a., Natural capital and ecosystem services informing decisions: From promise to practice, Proceedings of the National Academy of Sciences of the United States of America (PNAS), available from http://www.pnas.org/content/pnas/early/2015/06/10/1503751112.full.pdf [last accessed 31 October 2018]

Business' study[123]. The study also supports that forestry is a key issue to the integration of natural capital in the financial system, since forests support 80% of terrestrial biodiversity.

The EU has introduced a number of policies to protect, restore and manage European natural capital sustainably. To date, these policies and/or their implementation record have been insufficient to ensure proper integration of natural capital risks and opportunities into financial decision-making[124]. To this, the HLEG supports that financial institutions should ensure that, at the very least, they 'do no harm' and do not support companies that deplete natural capital, mainly by assessing both impacts and dependencies on natural capital, having a broad ESG analysis approach, treating natural capital as an interrelated and integrated whole and, finally, by adopting long-term horizon strategies.

Against this background, the HLEG recommends that the Commission should foster natural capital assessment and disclosure. Especially it should encourage and support the development and use of standards, metrics and methods for quantifying, reporting and managing natural capital risks and opportunities in decisions by financial institutions (action in this area is urgent, as the loss in diversity of flora and fauna is alarming), explore how to use frameworks for defining global science-based targets for natural capital management and restoration, building, for example, on the concept of planetary boundaries, improve natural capital disclosures in the next

[123] The value of the Global 100 externalities is estimated at US$4.7 trillion or 65% of the total primary sector impacts identified. GHGs from coal power generation in Eastern Asia contribute the largest environmental impact, followed by land use linked to cattle farming in South America. The most significant impacts making up the US$4.7 trillion are GHGs (36%), water use (26%) and land use (25%). More information from Trucost (2013), Natural Capital at Risk: The Top 100 Externalities of Business, available from https://www.trucost.com/wp-content/uploads/2016/04/TEEB-Final-Report-web-SPv2.pdf [last accessed 31 October 2018]

[124] Establishing a sound method of natural capital accounting with a strong focus on ecosystems and their services is a key objective of the 7th Environment Action Programme (EAP) and of the EU Biodiversity Strategy. It will help to understand better how job creation, economic growth and wellbeing rely on natural capital and will support a number of key strategic EU policies, such as the Europe 2020 strategy. The Knowledge innovation project (KIP) aims to design and implement an integrated accounting system for ecosystems and their services in the EU by connecting relevant existing projects and data collection exercises to build up a shared platform of geo-referenced information on ecosystems and their services. (…) The project is structured in 2 main phases, a feasibility and design phase and a follow-up implementation phase, running from 2015 – 2020. The project focuses on establishing an accounting system for the EU level, primarily using EU-wide data sources, thereby contributing the EU layer to the MAES initiative. More information from European Commission (2015), Knowledge innovation project (KIP) on Accounting for natural capital and ecosystem services - scoping paper, available from http://ec.europa.eu/environment/nature/capital_accounting/pdf/KIP-INCA-ScopingPaper.pdf [last accesses 31 October 2018]

NFRD review and examine how natural capital could better be accounted for in economic valuations. The Commission should also make ESG issues more specific in investor duties by requiring assessment of both impacts and dependencies on natural capital and ecosystem services, and how they can become financially material, facilitate access to capital and provide incentives for natural capital investments, in particular for projects that prioritise contribution to climate and sustainability and that de-risk investments, encourage Sustainable Infrastructure Europe to include a pipeline of natural capital projects that contribute to resolving environmental challenges through adoption of clean, resource-efficient, circular technologies. Finally, the Commission should investigate what financial tools would be most relevant for promoting these activities (for example, innovative public-private risk-sharing facilities).

1.4.3. Agriculture

The HLEG heads towards the adoption of financial policy reforms which can help to achieve economic, social and environmental objectives in the agrifood sector, which is deeply characterized by “intensive” production; a method which was originally driven, among others, by society’s food production needs after the war.

The current situation is deeply recognized by European policy-makers. The greatest threat is the lack of access to natural resources to future generations, namely the sustainability risk, which concerns mainly soil and water quality degradation and waste, large use of pesticides and antibiotics and rapid loss of biodiversity. Food industries is, also, a great concern and disclosure measures and duties, which are still vague.

Against this background, the HLEG recommends revising, first, the Non-Financial Reporting Directive to improve disclosures in the agri-food sector and help to re-orient investments towards sustainable agricultural practices, second, the Commission Implementing Regulation No. 543/2011 of 7 June 2011 and other relevant regulations to include disclosure requirements relating to agricultural production’s impact on natural resources and empower consumers to express their preference for sustainable food production. Finally the HLEG supports that is important the Commission to investigate whether, first, disclosure in the Non-Financial Reporting Directive can be improved with indicators relating to agriculture and food lending and investing, in order to increase accountability in the investment and lending chain and, second, how environmental and social externalities can be better included in pricing to foster full price transparency in the production of basic agricultural and food commodities and, finally, facilitate access to capital for sustainable farmers.

1.4.4. Marine Resources

The EU should move to sustainable use of marine resources. Seafood production, in particular, presents a major challenge to our collective ability to manage the earth's resources sustainably, which is central to the business success of companies that produce, process or retail seafood, and which must manage the significant risks inherent in the supply chain. Fishing efforts have often exceeded the ability of fish stocks to maintain themselves and the impact on non-target species can be severe.

The EU has introduced a number of policies to encourage the sustainable use of marine resources within the EU. In particular, the Common Fisheries Policy aims 'to ensure that fishing and aquaculture are environmentally, economically and socially sustainable'. The 2011 Biodiversity Strategy sets a series of targets for healthier fish stocks, healthier seas and no significant adverse impacts on species and ecosystems. The EU's Marine Strategy Framework Directive seeks to join together other elements of EU legislation that affect the marine environment. More recently, the EU's commitments, as submitted to the UN Ocean Conference in June 2017, highlight financial commitments that will contribute to the implementation of SDG 14.109 Looking to the future, the 7th Environment Action Programme reinforces the need to maintain and improve natural resource bases to allow economic sectors to deliver services.

Against this background, the HLEG recommends that the Commission deliver on its June 2017 commitment to work with Non-Governmental Organisations and investors to develop a set of 'blue economy investment principles' that will guide financing decisions, encourage investors to engage with the maritime sectors, steer capital towards those sectors, and prevent unsustainable fishing. The Commission and supervisory authorities should turn the principles into investor guidelines and consider how to use the principles to strengthen existing EU ecolabels. Finally, the EU should look to extend these principles outside the EU, via EU development policy action, through the Sustainable Fisheries Partnership Agreements established with developing countries and wider partnerships with other regional fisheries management Organisations. (EU High-Level Expert Group on Sustainable Finance, 2018)

2. European Commission's Response: Action Plan on Financing Sustainable Growth

As a result, the HLEG's final report European Commission published on 8 of March 2018 its Action Plan on Financing Sustainable Growth unveiling its strategy for a financial system that supports the EU's climate and sustainable development agenda. The Action Plan on sustainable finance is part of the Capital Markets Union's (CMU) efforts to connect finance with the specific

needs of the European economy to the benefit of the planet and our society[125]. It is also one of the key steps towards implementing the historic Paris Agreement and the EU's agenda for sustainable development.

Inspired by the HLEG final report, the Commission proposed an EU strategy on sustainable finance setting out a roadmap for further work and upcoming actions covering all relevant actors in the financial system. These include:

- Establishing a common language for sustainable finance, i.e. a unified **EU classification system – or taxonomy** – to define what is sustainable and identify areas where sustainable investment can make the biggest impact.
- Creating **EU labels** for green financial products on the basis of this EU classification system: this will allow investors to easily identify investments that comply with green or low-carbon criteria.
- Clarifying the **duty of asset managers and institutional investors** to take sustainability into account in the investment process and enhance disclosure requirements.
- Requiring insurance and investment firms to advise clients on the basis of their preferences on sustainability.
- Incorporating **sustainability in prudential requirements**: banks and insurance companies are an important source of external finance for the European economy. The Commission will explore the

[125] First Vice-President Frans Timmermans said: "Moving to a greener and more sustainable economy is good for job creation, good for people, and good for the planet. Today we are making sure that the financial system works towards this goal. Our proposals will allow investors and individual citizens to make a positive choice so that their money is used more responsibly and supports sustainability."
Valdis Dombrovskis, Vice-President responsible for Financial Stability, Financial Services and Capital Markets Union said: "Inspired by the work of the High-Level Expert Group, we are today presenting our plans for a far-reaching reform that could set the global benchmark for sustainable finance. Only with the help of the financial sector can we fill the annual €180 billion funding gap to reach our climate and energy targets. This will help to support a sustainable future for generations to come."
Jyrki Katainen, Vice-President responsible for Jobs, Growth, Investment and Competitiveness said: "The EU is already at the forefront of investing in resource efficiency and social infrastructure through the European Fund for Strategic Investments. At least 40% of EFSI infrastructure investments will be directed to projects that contribute to reaching the Paris Agreement goals to fight climate change. At the same time, creating the conditions for private investors to invest sustainably is crucial to achieve the transition to a cleaner, more resource-efficient, circular economy."
Miguel Arias Cañete, Commissioner for Climate Action and Energy said: "Global investments hold the key to fighting climate change, with trillions already invested in solutions such as renewables and energy efficiency. The Paris Agreement is a massive investment opportunity. How can we unlock it? Today's action plan will help Europe's financial sector position itself as a leading global destination for investments in green technologies."

feasibility of recalibrating capital requirements for banks (the so-called green supporting factor) for sustainable investments, when it is justified from a risk perspective, while ensuring that financial stability is safeguarded.

- Enhancing transparency in **corporate reporting**, namely to revise the guidelines on nonfinancial information to further align them with the recommendations of the Financial Stability Board's Task Force on TCFD.

The Commission is determined to promote discussions on this Action Plan in existing fora, such as the Financial Stability Board, the G20, the G7, the United Nations and the IOSCO. On 22 of March 2018 the Commission hosted in Brussels the "High-level conference: Financing sustainable growth"[126] regarding its strategy to reform the financial system in support of the EU's climate and sustainable development agenda as an opportunity to maintain the momentum established at the One Planet Summit, cementing the support and commitment of EU leaders and key private players for the changes needed in the financial system and the economy.

The Commission will, also, report on the implementation of this Action Plan in 2019. The strategy set out in this Action Plan is a first essential step in moving towards sustainability. But it needs to be complemented by measures in other areas, requiring concerted efforts from all relevant actors, to reach its full potential.

More specifically, the following annex provides an overview of the initiatives included in the Action Plan. The tables below also indicate- where already determined – whether a measure takes a form of legislative proposal (L), level 2 measure (L2) or non-legislative measure (NL).

[126] Jean-Claude Juncker, President of the European Commission said: "Through the ambitious targets set in the historic Paris climate agreement, and the commitment to be a world leader in renewables, Europe is already leading the fight against climate change. But to get there, Europe's financial sector must lead the green transition and make our Union the global destination for sustainable investment. There is no greater return on investment then a healthy planet and economy."

Valdis Dombrovskis, Vice-President responsible for Financial Stability, Financial Services and Capital Markets Union said: "Europe is proud to be leading the global fight against climate change, just two years after the signature of the Paris Agreement. But to reach our commitments for emissions reductions, we are faced with a considerable task: we have a yearly funding gap of around 180 billion euros to fill. Public money alone will not be enough for this. The financial sector will have to throw its full weight behind the fight against climate change. This is a challenge, but also an exceptional opportunity."

1. ESTABLISHING AN EU CLASSIFICATION SYSTEM FOR SUSTAINABILITY ACTIVITIES		
Subject to the results of its impact assessment, Commission legislative proposal on the development of an EU taxonomy for climate change, environmentally and socially sustainable activities [127]	**(L)**	Q2 2018
Report of the Commission technical expert group providing a taxonomy for climate change mitigation activities	**(NL)**	Q1 2019
Report of the Commission technical expert group providing a taxonomy for climate change adaptation and other environmental activities	**(NL)**	Q2 2019
2. CREATING STANDARDS AND LABELS FOR GREEN FINANCIAL PRODUCTS		
Report of the Commission technical expert group on a standard for green bonds	**(NL)**	Q2 2019
Commission delegated act on the content of the prospectus for green bond issuances	**(L2)**	Q2 2019
Assessment of applying the EU Ecolabel to financial products	**(NL)**	As of Q2 2018
3. FOSTERING INVESTMENT IN SUSTAINABLE PROJECTS		
Building on the ongoing efforts to reinforce advisory capacity, including for developing sustainable infrastructure projects, the Commission will take further measures that will improve the efficiency and impact of instruments aiming at sustainable investment support in the EU and in partner countries.		
4. INCORPORATING SUSTAINABILITY WHEN PROVIDING INVESTMENT ADVICE		
Subject to the results of its impact assessment, Commission delegated acts (MiFID and IDD) on the suitability assessment	**(L2)**	Q2 2018
ESMA to include sustainability preferences as part of its guidelines on the suitability assessment	**(NL)**	Q4 2018
5. DEVELOPING SUSTAINABILITY BENCHMARKS		
Commission delegated acts on the transparency of the methodology of benchmarks and on the features of the benchmarks [128]	**(L2)**	Q2 2018
Subject to the results of its impact assessment, an initiative creating a designated category of benchmarks comprising low-carbon issuers	**(L/NL)**	Q2 2018
Report of the Commission's technical expert group on the design and methodology of the low-carbon benchmark	**(NL)**	Q2 2019
6. BETTER INTEGRATING SUSTAINABILITY IN RATINGS AND RESEARCH		
Commission services report on progress made on the actions involving credit rating agencies	**(NL)**	Q3 2019
ESMA to assess current practices in the credit rating market; ESMA to include ESG information in its guidelines on disclosure for credit rating agencies	**(NL)**	Q2 2019
Study on sustainability ratings and research	**(NL)**	Q2 2019
7. CLARIFYING INSTITUTIONAL INVESTORS AND ASSET MANAGERS' DUTIES		

[127] See COM(2018) 353 final, available from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018PC0353&from=EN [last accessed 31 October 2018]

[128] See C(2018) 4439 final, available from https://ec.europa.eu/transparency/regdoc/rep/3/2018/EN/C-2018-4439-F1-EN-MAIN-PART-1.PDF [last accessed 31 October 2018]

Subject to the results of its impact assessment, Commission legislative proposal to clarify institutional investors' and asset managers' duties on sustainability and to increase transparency of end-investors, including transparency on their strategy and climate-related exposures	**(L)**	Q2 2018
8. INCORPORATING SUSTAINABILITY IN PRUDENTIAL REQUIREMENTS		
Work towards incorporating climate risks into institutions' risk management policies and on the potential calibration of banks' capital requirements in the Capital Requirement Regulation and Directive to take into account climate change-related risks while safeguarding financial stability and ensuring coherence with the EU taxonomy.	Issue under discussion in the on-going legislative procedure	2018-2019
The Commission will invite the European Insurance and Occupational Pensions Authority to assess the impact of prudential rules for insurance companies on sustainable investment	**(NL)**	Q3 2018
9. STRENGTHENING SUSTAINABILITY DISCLOSURE AND ACCOUNTING RULE-MAKING		
Publication of conclusions of the fitness check on public corporate reporting. This will inform any future legislative action by the Commission.	**(NL)**	Q2 2019
Revision of the guidelines on non-financial information as regards climate-related information.	**(NL)**	Q2 2019
Subject to the result of its impact assessment, proposal requiring asset managers and institutional investors to disclose how they consider sustainability factors in their investment decision making process (as part of the proposal foreseen under action 7).	**(L)**	Q2 2018
Establishing a European Corporate Reporting Lab as part of EFRAG [129]	**(NL)**	Q3 2018
Commission to systematically request EFRAG to assess in its endorsement advice the potential impact of new or revised IFRS standards on sustainable investments	**(NL)**	Q1 2018
Commission request to EFRAG to explore sound alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments	**(NL)**	Q2 2018
Commission report on the impact of IFRS 9 on long-term investments	**(NL)**	Q4 2018
10. FOSTERING SUSTAINABLE CORPORATE GOVERNANCE AND ATTENUATING SHORT-TERMISM IN CAPITAL MARKETS		
Assessment of possible ways to promote corporate governance more conducive to sustainable finance	**(NL)**	Q2 2019
ESAs to collect evidence of undue short-term pressure from capital markets on corporations and consider further steps based on such evidence	**(NL)**	Q1 2019

[129] EFRAG (2018), European Corporate Reporting Lab at EFRAG launches call for candidates for its Steering Group, Press Release, available at https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F180913_Press%2520Release_European_Lab.pdf [last accessed 31 October 2018]

D. CONCLUDING REMARKS

In conclusion, today, sustainability, commonly referred as the development that meets the needs of the present without compromising the ability of future generations to meet their own needs, is not a niche topic for experts, it is a reality and a priority for governments, financial institutions, businesses and citizens. Against the critical literature to the term[130] there has been a significant recognition of three aspects of sustainable development: economic, environmental and social, removing any past contradictions and weaknesses. To this the Paris Agreement on climate change and the 2030 Agenda with its Sustainable Development Goals (SDGs) have boosted developed countries to work on re-orienting its financial system from short-termism to long-term thinking and sustainability.

The European economy has mostly recovered from the recent financial crisis shock, yet still remains vulnerable. Greenhouse gas emissions are rising, species loss remains remorseless, social dislocations hold back global development and the future departure of the largest financial center from the EU make it necessary to ensure that risks to financial stability are properly managed. The decision of the United States to withdraw from the 2015 Paris Agreement has also grown the need for global leadership in the move towards sustainable development.

These are enough reasons why EU is determined to champion sustainable finance within the UN system. Sustainability is not just a political promise for EU, it is a long-term agenda at the heart of the its policy - a momentum. The current investment gap requires rapid and substantial redeployment of capital into sustainable activities, which should also promote employment, productivity and competitiveness of the EU economy. Thus, the European Commission, recognising that finance is a key sector, has moved towards a series of important Action Plans to implement a true single market for capital — the Capital Markets Union, to overcome the EU economy's reliance on bank lending and to develop new forms of funding and strengthen businesses, in particular small firms, and long-term and infrastructure investments.

[130] "(…) A review of the literature that has sprung up around the concept of SD indicates, however, a lack of consistency in its interpretation. More important, while the all-encompassing nature of the concept gives it political strength, its current formulation by the mainstream of SD thinking contains significant weaknesses. These include an incomplete perception of the problems of poverty and environmental degradation, and confusion about the role of economic growth and about the concepts of sustainability and participation. How these weaknesses can lead to inadequacies and contradictions in policy making is demonstrated in the context of international trade, agriculture, and forestry. (…). More information from Dr. Sharachchandra Lele (1991), Sustainable Development: A Critical Review, Energy & Resources Group, University of California, Berkeley.

The HLEG on Sustainable Finance after analyzing the complex EU financial system and its political and regulatory environment, concluded that the change must be on a multiple level. In its final report the HLEG set a series of interdependent and cross-sectional recommendations based on definitions and standards, culture and behavior, transparency and impact, clearly expressing its concern whether sustainable finance becomes a permanent feature of European markets and policy-making and not just adopt its recommendations.

In this context, the European Commission has to ensure that the key objective of the CMU and the Action Plans is to improve the capital markets themselves, not just make it easier for large businesses and institutions to extend their product and services offers. EU should increase transparency, MSEs accessibility to capital markets, encourage the development and use of technology and, ultimately, create jobs.

A sustainable financial system is not an end in itself but supports a sustainable economy. Working towards this end is a significant opportunity for the financial sector to review its activities' purpose and regain the trust of society that was so damagingly lost in the financial crisis. "We must move from proposals to legislation and from legislation to implementation. (…) [T]he green transition will not happen without the financial sector. At its heart it is about making sure that our money works for our planet as well as our bottom line. There is no greater return on investment."[131]

[131] Keynote speech by President Jean-Claude Juncker at the High-Level Conference on Financing Sustainable Growth, Brussels, 22 March 2018, available at http://europa.eu/rapid/press-release_SPEECH-18-2402_en.htm?locale=en [last accessed 4 November 2018]

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