Policy makers have already done much, and continue to work to ensure sustainability, transparency and accountability become ingrained in our financial and social system.

SUSTAINABLE FINANCE & SRI
SETTING THE EU AGENDA

Flavia Micilotta, Eurosif’s Executive Director

The global financial crises and responses to them have fast-forwarded major changes in the financial landscape over the past thirty years. Deregulation, financial engineering and institutional change have been some of the underlining pillars of the revolution which we have witnessed. The last crisis meant enhanced regulation and additional vigilance in the financial markets. Banks were asked to improve their risk management and revise their compensation system. At the same time, major steps have been made to enhance financial stability in Europe, through the establishment of a Single Supervisory Mechanism and the launch of an established set of regulations by the European Council in 2013, on Capital Requirements Directives, shaping the framework for a harmonised prudential oversight for banks in Europe.

Meeting Juncker’s Energy Union’s low carbon investment requirements represents a colossal challenge which calls upon a regulatory restructuring to ensure that the right synergies - underlining the realization of the Capital Markets Union’s process and the Energy Union concept - fuse together to achieve sustainability and a long-term vision.

Global energy infrastructure needs and the increasingly pressing challenges and risks associated with climate change present the world with an unprecedented investment opportunity related to the transition to a low-carbon climate resilient (LCR) economy. Making sure that the investment capital is reallocated from high-carbon to low-
carbon will involve strategies for closing the financing gap which need to consider a policy regime that establishes price incentives and policy coherence and significant regulatory constraints faced by traditional sources of financing for green infrastructure (involving governments and corporate actors).

While central banks have played an increasingly interventionist role in our economies since the financial crisis, this has not coincided with any significant adjustment of their policies to support a low-carbon transition. The climate challenge we face today, represents an unprecedented opportunity for the banking sector to act as a force for good. Central banks have the power to influence the flows of money and credit emanating from the commercial system through regulatory interventions, set to expand green financing.

The High-Level Group on Sustainable Finance (HLEG) set up by DG FISMA at the European Commission, is looking into whether and how the financial system can enable capital reallocating consistent with the “green” transition and for the long run (by providing financing for companies and industries that protect and improve the environment and shifting financing away from fossil fuel industries and environmentally harmful activities). It is only through such a reallocation that the infrastructural foundations of the global economy can be rewired to be consistent with keeping the global temperature increase to well below 2 degrees Celsius, as called for under the Paris Agreement.

On the 13th of July, Eurosif hosted a roundtable to mark the launch of the HLEG’s Interim Report. At the event, the HLEG Chair, Christian Thimann, introduced the most salient points of the interim report and explained the core concept which underlines the mandate of the members. The discussion that followed set the frame for the key recommendations and their implications with the stakeholders present. Key representatives were in attendance, including the heads of EFAMA, PensionsEurope and Invest Europe who were invited to contribute in order to capture their vision and their reflections.

This input formed the basis of a report, *Paving the Way*, which was expanded to include the views of other industry players in order to feed the work of the HLEG in view of the publication of the final report, as another way to add to the consultation.

**KEY TAKEAWAYS FROM THE REPORT**

- Work to ensure further standardisation of disclosure frameworks through continued development and harmonisation of disclosure practice
- Guarantee a more balanced disclosure approach also on the S and G pillars of ESG
- Ensure respect for pension funds authority in their institutional investor’s capacity
- Avoid dictating a prescriptive approach which could hamper pension funds’ ability to invest long-term
- Ensure alignment among the regulatory and the tax environment to guarantee stability in building a market price of asset and their real environment
- Getting the regulatory and public policy regime right to ensure a stable environment for infrastructure investment.
- Ensure that changes to the regulatory regime take due account of the different needs of different financial sector players

Eurosif is the leading pan-European sustainable and responsible investment (SRI) membership organisation whose mission is to promote sustainability through European financial markets.