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# **REPORT**

on sustainable finance  
(2018/2007(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Molly Scott Cato

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on sustainable finance (2018/2007(INI))

*The European Parliament,*

- having regard to the G20 commitment to sustainable growth under the German presidency from 1 December 2016 to 30 November 2017, with particular reference to the statement: ‘we will continue to use all policy tools – monetary, fiscal and structural – individually and collectively to achieve our goal of strong, sustainable, balanced and inclusive growth, while enhancing economic and financial resilience’,
- having regard to the Sustainable Development Goals set by the United Nations, in particular the commitment to take action to combat climate change and its impact and to ensure sustainable consumption and production,
- having regard to the Commission’s commitment to sustainable investment in this regard in the Capital Markets Union (CMU) plan and specifically the findings of the High-Level Expert Group (HLEG) on Sustainable Finance,
- having regard to the HLEG interim report of July 2017 entitled ‘Financing a Sustainable European Economy’, which outlines the tension between short-term profit seeking behaviour and the need for long-term investment in order to meet the environmental, social and governance (ESG) targets, and in particular to point 5 on the financial system and policy framework risks succumbing to the ‘tragedy of the horizon’ on page 16<sup>1</sup>,
- having regard to the Commission communication of 8 June 2017 on the Mid-Term Review of the Capital Markets Union Action Plan (COM(2017)0292),
- having regard to the HLEG final report of January 2018 entitled ‘Financing a Sustainable European Economy’,
- having regard to page 14 of the HLEG interim report, which states that Europe’s investors have a combined exposure to carbon-intensive sectors of roughly 45 % and that less than 1 % of global institutional investors are green infrastructure assets,
- having regard to the fact that prudential frameworks, in particular 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), and accounting rules for investors discourage a long-term approach, and that prudential rules require a level of capital proportional to the level of risk over a one-year horizon and only take financial risk into consideration for the calculation of capital requirements,
- having regard to Article 173 of French Law No 2015-992 of 17 August 2015 on Energy Transition for Green Growth,
- having regard to both the speech of 22 September 2016 by Mark Carney, Governor of

the Bank of England and Chair of the Financial Stability Board, and the Carbon Trackers Initiative report of 2015, with particular reference to the fact that the combined market capitalisation of the top four US coal producers had fallen by over 99 % since the end of 2010,

- having regard to the Luxembourg-EIB Climate Finance Platform established in September 2016,
- having regard to page 9 of the E3G discussion paper of May 2016 entitled ‘Clean Energy Lift Off – Capitalising Europe’s Energy Union’, with particular reference to the fact that from 2008 to 2013 the top 20 energy utilities in Europe saw over half of their EUR 1 trillion market value wiped out,
- having regard to Carbon Tracker Initiative reports of 2015 and 2016, which indicate that another USD 1.1 to USD 2 trillion fossil fuel capex is at risk of stranding, with USD 500 billion in the Chinese power sector alone,
- having regard to the OECD ‘Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence’ (the ‘Common Approaches’), which recognises ‘the responsibility of Adherents to implement the commitments undertaken by the Parties to the United Nations Framework Convention on Climate Change’ and ‘the responsibility of Adherents to consider the positive and negative environmental and social impacts of projects, in particular in sensitive sectors or located in or near sensitive areas, and the environmental and social risks associated with existing operations, in their decisions to offer official support for export credits’,
- having regard to the OECD Responsible Business Conduct for Institutional Investors guidelines of 2017, in particular page 13, which states that ‘investors, even those with minority shareholdings, may be directly linked to adverse impacts caused or contributed to by investee companies as a result of their ownership in, or management of, shares in the company causing or contributing to certain social or environmental impacts’,
- having regard to the European Bank for Reconstruction and Development (EBRD)’s Green Economy Transition approach (GET), which aims to mitigate and/or build resilience to the effects of climate change and other forms of environmental degradation, with particular reference to EBRD documents linking transition impact and the environment, including, where appropriate, changes in the project’s assessment methodology,
- having regard to the OECD paper of 2017 entitled ‘Responsible Business Conduct for Institutional Investors: Key Considerations for Due Diligence under the OECD Guidelines for Multinational Enterprises’,
- having regard to the 2018 report by the High-Level Task Force on Investing in Social Infrastructure in Europe entitled ‘Boosting Investment in Social Infrastructure in Europe’,
- having regard to the French Corporate Duty Of Vigilance Law of 27 March 2017, and in particular Articles 1 and 2 thereof,

- having regard to Directive 2014/95/EU of the European Parliament and of 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 (Non-Financial Reporting Directive – NFRD)<sup>1</sup>, and in particular Articles 19 and 19(a) and Recitals 3, 6, 6(a) and 6(b) thereof,
- having regard to Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement (the Shareholder Rights Directive)<sup>2</sup>,
- having regard to Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs) (the IORPs Directive)<sup>3</sup>,
- having regard to Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC<sup>4</sup>,
- having regard to 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<sup>5</sup>;
- having regard to Article 8(4) of Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (the PRIIPs Regulation)<sup>6</sup>, which states that when a packaged retail and insurance-based investment product (PRIIP) has a demonstrated environmental or social objective, the manufacturer has to demonstrate to the potential retail investor and wider stakeholders how those objectives are met throughout the investment process,
- having regard to 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 (the STS Regulation)<sup>7</sup>,
- having regard to the suggestion from Triodos Bank of ‘model mandates’ which contain the requirement of full integration of environmental, social and governance factors in investment decisions, active engagement and voting on these issues, the choice of

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<sup>1</sup> OJ L 330, 15.11.2014, p. 1.

<sup>2</sup> OJ L 132, 20.5.2017, p. 1.

<sup>3</sup> OJ L 354, 23.12.2016, p. 37.

<sup>4</sup> OJ L 182, 29.6.2013, p. 19.

<sup>5</sup> OJ L 347, 28.12.2017, p. 35.

<sup>6</sup> OJ L 352, 9.12.2014, p. 1.

<sup>7</sup> OJ L 347, 28.12.2017, p. 35.

sustainable benchmarks, less frequent but more meaningful reporting by asset managers and a long-term oriented fee and pay structure,

- having regard to the British Government’s reinterpretation of fiduciary duty, which weakens the link to maximum returns and allows for ethical and environmental issues to be considered,
- having regard to the pioneering role played by the European Investment Bank (EIB) by issuing the world’s first green bond and becoming the world’s largest issuer of green bonds as of January 2018;
- having regard to the Principles for Positive Impact Finance developed by the United Nations Environment Programme Finance Initiative (UNEP FI),
- having regard to the Committee of the Regions opinion of 10 October 2017 on ‘Climate finance: an essential tool for the implementation of the Paris Agreement’ highlighting the role of local and regional governments in enhancing the investment pipeline for achieving the objectives of the Paris Agreement,
- having regard to the UNEP Inquiry into the Design of a Sustainable Financial System,
- having regard to the Climate Bonds Initiative report of 2017, which shows how bonds are being used to transition to a low-carbon global economy,
- having regard to the UNEP Inquiry report of 2016, which finds that several national financial regulators are already performing or preparing sustainability assessments and such initiatives should be rapidly mainstreamed at EU level, and with reference to the point that such analyses should build on standardised climate scenarios, including one in which a rise in global temperatures is kept well below 2 °C,
- having regard to the recommendation in the HLEG final report of January 2018 that the Commission should conduct a sustainability test on all financial legislative proposals,
- having regard to the Commission communication on the midterm review of the CMU action plan and its clear statement that: ‘The Commission supports alignment of private investments with climate, resource-efficiency and other environmental objectives, both through policy measures and public investment’ (COM(2017)0029),
- having regard to the Bundesbank report of April 2017 and the Bank of England Quarterly Bulletin of 2014 Q4, which state that most money in circulation is created by the private banking sector when banks make loans,
- having regard to Article 2(1)(c) of the Paris Agreement on the need to make ‘finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development’,
- having regard to the UNISDR and CRED report entitled ‘The Human Cost of Weather-Related Disasters 1995-2015’, which found that 90 % of major disasters recorded in this period caused by natural hazards were linked to climate and weather and that, globally,

disasters cause USD 300 billion in economic damage every year<sup>1</sup>.

- having regard to the Sendai Framework for Disaster Risk Reduction 2015-2030, and to Priority 3 thereof on ‘Investing in disaster risk reduction for resilience’, including paragraph 30 stating the need ‘to promote, as appropriate, the integration of disaster risk reduction considerations and measures in financial and fiscal instruments’,
- having regard to the Financial Stability Board report of June 2017 entitled ‘Recommendations of the Task Force on Climate-related Financial Disclosure’,
- having regard to the work of the European Systemic Risk Board (ESRB) on the risks of stranded assets and the need for European ‘carbon stress tests’,
- having regard to the European Court of Auditors Special Report No 31 of 2016, which found that, despite the EU making a political commitment under the current budgetary period 2014-2020 to spend one euro in every five (20 %) on climate-related purposes, it was not on track to meet that commitment, since current programming would account for only around 18 %,
- having regard to the EIB 2016 Statistical Report, which shows that EIB support for climate action continues to reflect the different market contexts across the EU and did not reach the level of 20 % in 16 EU Member States in 2016, and that while climate action investment in 2016 was predominantly located in the EU’s stronger economies, the EIB financed renewable energy projects in 11 Member States and energy efficiency projects in 18 Member States in 2016<sup>2</sup>;
- having regard to the report of the High-Level Task force on Investing in Social Infrastructure in Europe, which estimates the minimum gap in social infrastructure investment in the EU at EUR 100-150 billion per year and a total gap of over EUR 1.5 trillion in 2018-2030,
- having regard to its resolution of 8 February 2018 on the Annual Report on the Financial Activities of the European Investment Bank<sup>3</sup>,
- having regard to its resolution of 6 February 2018 on the European Central Bank Annual Report for 2016<sup>4</sup>,
- having regard to its resolution of 14 November 2017 on the Action Plan on Retail Financial Services<sup>5</sup>,
- having regard to the EIB Investment Report 2017/2018,
- having regard to its resolution of 2 July 2013 on innovating for sustainable growth: a

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<sup>1</sup> UN Office for Disaster Risk Reduction

[https://www.unisdr.org/files/46796\\_cop21weatherdisastersreport2015.pdf](https://www.unisdr.org/files/46796_cop21weatherdisastersreport2015.pdf)

<sup>2</sup> European Investment Bank 2016 Statistical Report, 27.4.2017.

<sup>3</sup> Texts adopted, P8\_TA(2018)0039.

<sup>4</sup> Texts adopted, P8\_TA(2018)0025.

<sup>5</sup> Texts adopted, P8\_TA(2017)0428.

bioeconomy for Europe<sup>1</sup>,

- having regard to the European Commission Circular Economy Package of 2015 and Parliament’s resolution of 9 July 2015 on resource efficiency: moving towards a circular economy<sup>2</sup>,
  - having regard to the UN Guiding Principles on Business and Human Rights and the responsibility to Protect, Respect and Remedy,
  - having regard to the UN 2030 Agenda for Sustainable Development and the Sustainable Development Goals,
  - having regard to Rule 52 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs (A8-0164/2018),
- A. whereas financial markets can and should play a vital role in facilitating the transition to a sustainable economy in the EU which extends beyond climate transition and ecological issues and also concerns social and governance issues; whereas there is an urgent need to address related market failures; whereas the environmental, economic and social challenges are closely intertwined; whereas according to the HLEG report of July 2017, the funding gap to deliver Europe’s decarbonisation efforts is almost EUR 180 billion, excluding other sustainable development goals;
- B. whereas the environmental transition must act as an incentive to enhance solidarity and cohesion; whereas sustainable finance can be a means to address societal challenges with a view to long-term inclusive growth and to promote citizens’ wellbeing; whereas criteria on investment in climate change mitigation seem most promising and can be a good starting point; whereas sustainable finance goes beyond climate and green investments and should also take social and governance criteria on board as a matter of urgency;
- C. whereas a predictable and stable regulatory system for climate change related investments is of the utmost importance to foster private sector involvement in climate finance; whereas the European Union can set a standard for a sustainable financial system by introducing a credible and comprehensive framework, the details of which should be phased in through specific legislative initiatives;
- D. whereas a shift in mindset of all the stakeholders is needed, which requires cross-cutting legislation from the Commission; whereas institutional and retail investors are showing increased interest in investing in products observing ESG criteria;
- E. whereas increased transparency of ESG-related data on companies is needed to prevent ‘green-washing’;
- F. whereas impact evaluation should be part of the taxonomy of sustainable financial products; whereas expertise is growing in how to calculate the impact of investments in

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<sup>1</sup> Texts adopted, P7\_TA(2013)0302.

<sup>2</sup> Texts adopted, P8\_TA(2015)0266.



ESG goals;

***The need to provide an appropriate policy framework to mobilise capital required for a sustainable transition***

1. Stresses the potential of a faster sustainable transition as an opportunity for orienting capital markets and financial intermediaries towards long-term, innovative, socially friendly, environmentally sound and efficient investments; acknowledges the current trend of divestment from coal, but points out that further endeavours are required for divesting from other fossil fuels; underlines the importance of European banks and capital markets gaining from the advantages of innovation in this area; notes that ESG benefits and risks are often not adequately integrated in prices and that this provides market incentives to unsustainable and short-termist geared finance for certain market participants focused on fast returns; stresses that a well-designed political, supervisory and regulatory framework to govern sustainable finance, taking into account the diverse opportunities of the EU regions, is needed; notes that such a framework could help to mobilise capital at scale for sustainable development and enhance market efficiency to channel capital flows towards assets that contribute to sustainable development; calls on the Commission to come forward with an ambitious legislative framework, recognising the proposals put forward in the Commission Action Plan on Sustainable Finance;

***The role of the financial sector as regards sustainability and the policies required for correcting market failures***

2. Stresses that the financial sector as a whole and its core function of allocating capital as efficiently as possible to the benefit of society should, in line with the EU's objectives, be governed by the values of equity and inclusiveness and the principle of sustainability and should include ESG indicators and the cost of non-action in investment analyses and investment decisions; notes that inaccurate assessment or misleading presentation of climate and other environmental risks of financial products can constitute a risk to market stability; emphasises the instrumental role of economic, fiscal and monetary policy in fostering sustainable finance by facilitating capital allocation and the reorientation of investments towards more sustainable technologies and businesses, and towards decarbonised, disaster-resilient and resource-efficient economic activities which are able to reduce the current need for future resources and are thereby capable of meeting goals related to EU sustainability and to the Paris Agreement; acknowledges that an appropriate and increasing price for greenhouse gas emissions is an important component in a functioning and efficient environmental and social market economy by correcting current market failures; notes that the price in the European carbon market has been unstable; calls on the Commission and the Member States to work towards phasing out direct and indirect subsidies for fossil fuels;

***Stranded assets and related systemic risks***

3. Underlines that although value is still attached to carbon assets on the balance sheets of undertakings, this value will need to follow a downward trend if a transition to a low-carbon society is to be achieved; emphasises therefore the substantial systemic risks that stranded carbon and environmentally harmful assets represent to financial stability if these assets are not duly priced in a timely fashion according to their long-term risk profile; stresses the need for the identification, assessment, and prudent management of

exposures, and, after a transitional period, proportionate mandatory reporting, and progressive disposal of these assets as essential to the orderly, balanced and stable transition to climate-positive and resource-efficient investments; recommends extending the stranded assets concept to include fundamental ecological systems and services;

4. Calls for the introduction of European ‘carbon stress tests’ as proposed by the European Systemic Risk Board (ESRB) in 2016 for banks and other financial intermediaries to be able to determine the risks related to such stranded assets; welcomes the ESRB proposals for developing climate-resilient prudential policies, such as specific capital adjustment based on the carbon intensity of individual exposures assessed to be excessively applied to the overall investment in assets deemed highly vulnerable to an abrupt transition to the low-carbon economy; points to the pending revision of the regulations establishing the European supervisory authorities (ESAs) as an opportunity to consider the role of the ESAs in investigating and developing standards for assessing carbon- and other environment related risks, their disclosure and inclusion in the internal bank risk-assessment process while taking into account existing sustainability reporting requirements by institutions; calls on the Commission to put forward legislative proposals in this respect;

#### ***Financing public investments required for the transition***

5. Emphasises that reforming the financial system, so that it actively contributes to accelerating the ecological transition, will require the cooperation of the public and private sectors; emphasises in this regard the instrumental role of fiscal and economic policy in providing the right signals and incentives; calls on the Member States, in coordination with the Commission, the ESAs and the EIB, to assess their national and collective public investment needs and to fill the potential gaps to ensure that the EU is on track to meet its climate change goals within the next five years, as well as the UN Sustainable Development Goals by 2030; underlines the role that national promotional banks and institutions can play in this regard; suggests coordinating this process at European level and establishing a system to track actual financial flows towards sustainable public investments within the framework of an EU Observatory on Sustainable Finance; welcomes innovative financial tools integrating sustainability indicators, which could facilitate this process, such as publicly issued green bonds; welcomes the clarification provided by Eurostat on the treatment of energy performance contracts in national accounts, as the treatment clarified may unlock considerable public capital flows towards a sector that currently accounts for three quarters of the EU’s 2030 clean energy investment gap; asks the Commission to further explore the idea of a qualified treatment for public investments related to ESG goals so as to spread the cost of these projects over the life-cycle of related public investment;

#### ***Sustainability indicators and taxonomy as an incentive for sustainable investments***

6. Calls on the Commission to lead a multi-stakeholder process, including both experts in climate science and financial-sector participants, to establish by the end of 2019 a robust, credible and technology-neutral sustainability taxonomy based on indicators that disclose the full impact of investments on sustainability and allow for comparison of investment projects and companies; emphasises the need to develop such sustainability indicators as a first step in the process of developing an EU sustainability taxonomy and

to incorporate these indicators into integrated reporting; points out that the development of the sustainability taxonomy should be followed by the following additional legislative proposals: an overarching, mandatory due diligence framework including a duty of care to be fully phased-in within a transitional period and taking into account the proportionality principle, a responsible investment taxonomy, and a proposal to integrate ESG risks and factors into the prudential framework of financial institutions;

7. Notes that sustainability indicators already exist, but that the current voluntary reporting frameworks lack harmonisation; calls therefore for the Commission to build its sustainability taxonomy on a harmonised list of sustainability indicators based on the existing work by, among others, the Global Reporting Initiative (GRI), the UN-supported Principles for Responsible Investment (UN PRI), the Commission itself, the OECD, and the private sector, and in particular the existing Eurostat resource efficiency indicators; recommends that these indicators be included in the taxonomy in a dynamic way and with clear guidance to investors about the time limits by when certain standards must be reached; recommends that the Commission also consider weighting indicators according to the urgency of addressing them at any given time; underlines that the taxonomy should strike the right balance between commitment and flexibility, which means that the framework should, within a transitional period, be mandatory and standardised, but should also be regarded as an evolving tool which can take on board emerging risks and/or risks that have yet to be mapped in a proper way;
8. Sees the inclusion of ready-made quantitative indicators and qualitative judgments about climate and other environmental risks as an important step towards a responsible investment taxonomy that is compliant with the UN Sustainable Development Goals, international human rights law, and international humanitarian and labour laws; underlines that minimum standards on ESG risks and factors should include minimum social standards for such investments encompassing workers' rights, health and safety standards, and the exclusion of resources derived from conflict regions or without prior informed consent by affected communities, as well as minimum governance standards encompassing EU requirements for corporate governance and reporting, matching EU standards for financial reporting, and EU standards for action against money-laundering, corruption and tax transparency;

### ***Green Finance Mark***

9. Calls on the Commission to lead a multi-stakeholder process to establish by the end of 2019 a 'Green Finance Mark', through a legislative initiative, to be granted to investment, equity and pension products that have already achieved the highest standards in the sustainability taxonomy to guide the investment decision of those who prioritise sustainability above all other factors; recommends that this 'Green Finance Mark' should include minimum standards for ESG risks and factors aligned with the Paris Agreement and the do-no-harm principle in accordance with ESG risk analysis, and activities that are demonstrably achieving a 'Positive Impact' as defined by the UN Environment Programme Finance Initiative (UNEP FI); notes that an important function of the taxonomy, and a Green Finance Mark, is to enhance the risk assessment by financial-market participants by producing a scaled, market-based rating; welcomes innovations by market actors, such as credit rating agencies, in developing and administering such a market-based rating;

### ***The integration of sustainable finance criteria in all legislation related to the financial sector***

10. Notes the recent inclusion of sustainability issues in the PRIIPs (packaged retail and insurance-based investment products) and STS (simple, transparent and standardised) Regulations, as well as in the Shareholder Rights Directive and the NFRD; stresses the need to ensure adequate regulatory consideration of the risks associated with green and sustainable assets; welcomes the inclusion in the IORPs Directive of recognition of stranded assets, as well as the extension of the prudent person principle and a reference to the UN principles for responsible investment; asks for the appropriate and proportionate integration of sustainable finance indicators in all new and revised legislation related to the financial sector, via an omnibus proposal or specific proposals; calls for common guidelines in order to harmonise the definition of ESG factors and their introduction in all new and revised legislation;
11. Calls on the Commission, in this regard, to use the power defined in Regulation (EU) No 1286/2014 to deliver, as soon as possible and before developing the sustainability taxonomy, a delegated act to specify the details of the procedures used to establish whether a packaged retail- and insurance-based investment product targets specific environmental or social objectives; calls also for a proportionate mandatory due diligence framework based on the 2017 OECD Guidelines for Responsible Business Conduct for Institutional Investors, requiring investors to identify, prevent, mitigate and account for ESG factors after a transitional period; upholds that this pan-European framework should be based on the French Corporate Duty of Vigilance Law for companies and investors, including banks; calls also for a direct reference to ESG criteria in ‘product oversight and governance’ (POG) in all new and revised legislation, including legislation currently under discussion; 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;

### ***Sustainability risks within the prudential framework of capital adequacy rules***

12. Notes that sustainability risks can also carry financial risks, and that they should therefore be reflected, where substantial, in capital requirements and in the prudential consideration of banks; therefore asks the Commission to adopt a regulatory strategy and a roadmap aimed *inter alia* at measuring sustainability risks within the prudential framework and to promote the inclusion of sustainability risks in the Basel IV framework to ensure sufficient capital reserves; stresses that any capital adequacy rules must be based on and must fully reflect demonstrated risks; aims to initiate an EU pilot project within the next annual budget to begin developing methodological benchmarks for that purpose;

### ***Disclosure***

13. Emphasises that disclosure is a critical enabling condition for sustainable finance; welcomes the work of the Taskforce on Climate-related Financial Disclosure (TCFD) and calls on the Commission and the Council to endorse its recommendations; calls for the incorporation of the cost of non-action on climate, environmental and other sustainability risks in disclosure frameworks; suggests that the Commission include

proportional and mandatory disclosure in the framework of the revision of the Accounting Directive, the NFRD, the Capital Requirements Directive and Capital Requirements Regulation as from 2020, which would include a transposition period in which companies could prepare for implementation; notes that Article 173 of the French Energy Transition Bill offers a possible template for the regulation of mandatory climate risk disclosure by investors; calls for the consideration of an enlargement of the scope of application of the NFRD; stresses, in this respect, that the reporting framework requirements should be proportionate with regard to the risks incurred by the institution, its size and degree of complexity; recommends that the type of disclosure currently required under the PRIIPs regulation and through the Key Information Document should be extended to all retail financial products;

### ***Fiduciary duty***

14. Notes that fiduciary duties are already embedded in the Union's financial regulatory framework, but insists that they should be clarified in the course of defining, establishing and testing a robust and credible sustainable taxonomy, encompassing key investment activities, including investment strategy, risk management, asset allocation, governance and stewardship for all actors across the investment chain, including asset managers and independent investment consultants or other investment intermediaries; recommends that fiduciary duty should be extended to encompass a mandatory 'two-way' integration process whereby all actors across the investment chain, including asset managers and independent investment consultants or other investment intermediaries, are required to integrate financially material ESG factors into their decisions, including the cost of non-action, as well as considering the non-financially material ESG preferences of clients and beneficiaries or the ultimate end-investors, who should be proactively asked about their timeframe and sustainability preferences; calls for the incorporation of the cost of non-action on climate, environmental and other sustainability risks to become part of the risk management and due diligence assessment of company boards and public authorities, and part of the fiduciary duty of investors;

### ***Model contracts for ESG identification***

15. 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;

### ***Stewardship***

16. Asks that active and accountable stewardship form an integral part of the legal duties of investors and that an account of stewardship activities be made available to beneficiaries and the public through, *inter alia*, the public and mandatory disclosure of major holdings, engagement activities, the use of proxy advisers and the use of passive

investment vehicles; recommends that passive funds, led by index-based investment, should be encouraged to disclose their stewardship activities and the extent to which the use of passive indexing and benchmarking allows for the proper identification of ESG risks in investee companies; considers that index providers should be asked to provide details of the exposure of widely used and referenced benchmarks to climate and sustainability parameters;

### ***Need to develop further ESG reporting requirements in the framework of the NFRD***

17. Notes an insufficient degree of convergence in ESG reporting within the framework of the NFRD and the need for harmonisation with the aim of fostering more consistency, and for defining the most appropriate ESG metrics for disclosure, using sustainability and resource-efficiency indicators; calls on the Commission to create an EU-wide multi-stakeholder group including representatives of the financial services industry, academia and civil society to assess and propose an appropriate list of metrics, including a list of indicators measuring sustainability impacts and covering the most significant sustainability risks; is of the opinion that such reform should include the requirement of third-party audited reporting;

### ***Green bonds***

18. Notes that green bonds represent only a fraction of the investment market and one that is insufficiently regulated, and, as a result, is a part of the market that is vulnerable to the risk of misleading marketing and that the EU currently lacks a unified standard for green bonds, which should build on a forthcoming EU sustainable taxonomy; notes that such green bonds should be verified and supervised by public authorities, and should include periodic reporting on the environmental impacts of the underlying assets; underlines that green bonds should also include reverse environmental impact and support a decrease in the use of fossil fuel assets; underlines that green bonds should exclude certain sectors – especially in relation to the activities that have a significant negative impact on climate – and should not breach core social and human rights standards; suggests that the development of the standard for an EU green bond should take place in full transparency with a specific Commission working group subject to regular scrutiny by the European Parliament; calls on the Commission to regularly assess the impact, effectiveness and supervision of the green bonds; calls in that respect for a legislative initiative to incentivise, promote and market a European public issuance of green bonds by existing and future European institutions such as the EIB, in order to finance new sustainable investments;

### ***Credit-rating agencies***

19. Notes that credit-rating agencies (CRAs) do not sufficiently integrate the impact of disruptive ESG risks and factors in issuers' future credit-worthiness; calls for the adoption of EU standards and supervision regarding the integration of ESG indicators in ratings for all credit-rating agencies operating in the EU; points out that the underlying insufficient competition among these firms and their narrow economic focus have still not been fully addressed; calls for the establishment of an accreditation process for a 'Green Finance Mark' by certifying agents supervised by the European Securities and Markets Authority (ESMA); recommends mandating ESMA to require CRAs to incorporate sustainability risks into their methodologies; where these are likely to be

manifested in future, requests the Commission, in this regard, to put forward a revision of the CRA Regulation; emphasises the importance of sustainability research provided by sustainability indexes and ESG rating agencies in providing all financial actors with the necessary information for their reporting and fiduciary duty, in implementing the shift towards a more sustainable financial system;

### ***Labelling systems for financial services***

20. Suggests that the Commission establish a binding and proportionate labelling system, which should be voluntary during a transition period, for institutions offering retail bank accounts, investment funds, insurance and financial products, indicating the extent to which underlying assets are in conformity with the Paris Agreement and ESG goals;

### ***ESAs mandate***

21. Intends to further clarify the mandate of the ESAs and of national competent authorities in the context of the pending revision of the ESA regulations to include and monitor ESG risks and factors thereby rendering financial market activities more consistent with sustainability objectives; in that respect is of the opinion that ESMA should:
  - include sustainability preferences as part of its guidelines of ‘suitability’ assessment, as proposed by the Commission in its Action Plan for Sustainable Finance, and more broadly to provide guidance on how sustainability considerations can be effectively embodied in relevant EU financial legislation, as well as to promote coherent implementation of these provisions upon adoption;
  - establish a proportionate, and after a transitional period, mandatory supervisory monitoring system to assess material ESG risks and factors beginning in 2018 and with a forward-looking sustainability scenario analysis;
  - be mandated to check portfolio alignment with the Paris Agreement ESG risks and factors and to ensure consistency with the TCFD recommendations;

underlines, in this context, that the ESAs should have sufficient financial resources to carry out their mission; encourages the ESAs to cooperate on these issues with the relevant agencies and international organisations;

### ***The role of the EIB as regards sustainable finance***

22. Stresses the example-setting role EU institutions should play when it comes to making finance sustainable; notes that although 26 % of all EIB financing has targeted climate action and although the EIB pioneered the green bond market in 2007 and is on track to reach its announced commitment in the regard, it is still financing carbon-intensive projects and so there is still room for improvement; urges the EIB, therefore, to adapt and prioritise its future lending so as to be compatible with the Paris Agreement and a 1.5 °C climate limit; calls on the EIB lending operations and the European Fund for Strategic Investments (EFSI) Regulation to be strengthened and rebalanced so that they cease to invest in carbon-intensive projects and prioritise resource-efficient and decarbonising projects alongside other innovative sectors and immaterial undertakings; advises that the EIB is in a position to provide more risk capital for the green transition

in a regionally balanced way; is of the opinion that further measures should be undertaken within that perspective, including *inter alia* in interaction with EU financial instruments in the next Multiannual Financial Framework;

### ***The role of the ECB as regards sustainable finance***

23. Acknowledges the independence of the ECB and its primary mandate as being to preserve price stability, but recalls that the ECB as an EU institution is also bound by the Paris Agreement; is therefore concerned about the fact ‘that 62.1 % of ECB corporate bond purchases take place in the sectors [...] which are responsible for 58.5 % of euro area greenhouse gas emissions’<sup>1</sup> and notes that this programme directly benefits mostly large corporations; recommends the ECB to explicitly take into account the Paris Agreement and ESG goals in its guidelines orienting its purchase programmes; underlines that such guidelines may act as a pilot for establishing a future ESG-oriented investment policy consistent with high standards on an EU sustainable taxonomy;

### ***Other issues***

24. Underlines that a meaningful offer of sustainable financial products may also have positive effects on the enhancement of European social infrastructure, understood as the set of initiatives and projects aimed at creating public value by boosting investment and innovation in the sectors which are strategic and crucial to the wellbeing and resilience of people and communities, such as education, healthcare and housing;
25. Welcomes the work by the HLEG, which offers valuable building blocks to work towards a new standard for a sustainable financial sector; insists, however, on the need to actively involve the banking sector, which due to its dominance of the European financial landscape still holds the key to making finance more sustainable;
26. Underlines that the methodology used in order to track climate-related spending leads to inconsistency across programmes, allowing for projects with doubtful environmental and climate benefits to be qualified as climate-related expenditure (e.g. the greening component of the common agricultural policy);
27. Highlights that all widely used financial benchmarks do not consider ESG factors in their methodology; calls for the development of one or more European sustainability benchmarks, using the European sustainability taxonomy, to measure the performance of European issuers on the basis of ESG risks and factors;
28. Calls for the analysis and encouragement of private initiatives, such as the EeMAP project on ‘green mortgages’, in order to assess and demonstrate under what conditions green assets may entail a reduction of risk for investments while at the same time enhancing environmental sustainability;
29. Calls on the EU to actively promote the inclusion of the sustainability indicators in the International Financial Reporting Standards framework at international level.

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<sup>1</sup> Sini Matikainen, Emanuele Campiglio and Dimitri Zenghelis, ‘The climate impact of quantitative easing’, Grantham Institute on climate change and the environment, May 2017.



30. Highlights that corporate governance should promote long-term sustainable value creation, for instance through loyalty shares for long-term shareholders and including ESG in remuneration packages for directors and the board; notes that the clarification of directors' duties in this respect would support sustainable investors in their engagement with boards;
31. Calls for the introduction of a mandatory environmental liability insurance for all commercial and public activities as a precondition for the deliverance of authorisation permits;
32. Highlights that sustainable finance requires a clarification of European companies' directors' duties concerning long-term sustainable value creation, ESG matters, and systemic risks, as part of the directors' overarching duty to promote the success of the company;
33. Calls on the European supervisory authorities to formulate guidelines on the collection of statistics on the identification and integration into financing of ESG risks and calls for statistics to be published wherever possible;
34. Calls on national banking and financial market authorities to draw up clear and concise instructions on how the new taxonomy and other changes associated with this legislation can be implemented without this generating avoidable costs and delays;
35. Upholds the view that that pricing measures can deliver a critical contribution in closing the EUR 180 billion funding gap to deliver Europe's decarbonisation efforts, by shifting investment towards long-term sustainable goals;
36. Notes that SMEs are often forgotten in discussions concerning sustainable finance, despite their innovative nature; notes in this context the vast potential of digitalisation and green FinTech; recommends that the Commission consider mechanisms to enable SMEs to bundle projects in order to allow them access to the green bond market;
37. Stresses the importance of the social component of sustainable finance; notes the potential for the development of new financial instruments especially dedicated to social infrastructures, such as social bonds, as endorsed by the Social Bond Principles (SBP) 2017;
38. Emphasises that the identification, management and disclosure of ESG risks are integral parts of consumer protection and financial stability and should thus fall under the mandate and supervisory duties of the ESAs; asks the ESRB to actively pursue research on the interplay of ESG factors and systemic risk, beyond climate change;
39. Recalls that Parliament has called for the introduction of an EU savings account for the financing of the green economy in its resolution of 14 November 2017 on the Action Plan on Retail Financial Services;
40. Demands that all future EU spending must be Paris-compatible with objectives relating to the decarbonisation of the economy being included in the legal instruments regulating the operation of European Structural and Investment Funds (including cohesion funds), funds for external action and development cooperation and other instruments outside the

Multiannual Financial Framework such as EFSI;

41. Calls on the Commission to conduct a feasibility study into how supervisors and regulators might better reward mandates that include long-term perspectives;
42. Calls on the European Insurance and Occupational Pensions Authority (EIOPA) to provide best practice and guidelines on how providers of occupational pension schemes and private pension products engage with beneficiaries pre-contractually and throughout the life of the investment; calls on EIOPA to provide guidelines on best practice, such as the UK Environmental Agency Fund, for engaging with beneficiaries and retail clients and ascertaining their financial and non-financial interests;
43. Takes note of the recommendation made by the HLEG for an EU observatory on sustainable finance, which should be created to track, report and disclose information on EU sustainable investments and should be set up by the European Environment Agency in cooperation with the ESAs; recommends, with a view to strengthening the example-setting function of the European Union, that this observatory also take on a role in tracking, supporting and disclosing information on sustainable investments of EU funds and EU institutions, including EFSI, the EIB and the ECB; asks the observatory to report on its activities to Parliament;
44. Recommends that the EIB work with small market participants and community cooperatives to undertake bundling of small-scale renewable energy projects to enable them to be eligible for EIB funding and as part of the Corporate Sector Purchase Programme;
45. Concurs with the HLEG that it is of paramount importance to empower and connect Europe's citizens with sustainable finance issues; underlines the need to improve access to information on sustainability performance and to promote financial literacy;
46. Calls on the Commission and the Member States to ensure policy coherence between financial and non-financial sectors; recalls that sustainable financial policy needs to be accompanied by coherent policy choices in other sectors such as energy, transport, industry, and agriculture;
47. Calls on the Commission to publish a regular progress report on the issues covered in this report;
48. Calls on the Commission and the Member States to use the EU's influence to demonstrate leadership on sustainable finance and raise sustainability standards in finance at global level, including through bilateral agreements with third countries, at multilateral political forums such as the UN, G7 and G20 and in international standard-setters such as the International Organisation of Securities Commissions (IOSCO);

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49. Instructs its President to forward this resolution to the Council and the Commission.

## EXPLANATORY STATEMENT

### *Introduction*

The vast majority of investment and lending is not compatible with internationally agreed climate objectives or environmental, social and corporate governance criteria. The Paris Agreement has provided a new impetus to decarbonise our economy and yet the Parliament does not yet have a common understanding on how the financial system can be reformed in a way that accelerates rather than deterring this transition. It has been estimated by the Commission that realising the Sustainable Development Goals will require annual investments in sustainable infrastructure worth 4.7-6.7 trillion Euros<sup>1</sup>.

At the very same time we see abundant capital seeking a profitable investment opportunity. The key to solving the riddle of sustainable finance is to creating an information and incentive framework so that this capital flows in the direction of the investments necessary to ensure a rapid and just ecological transition for our European economies and societies. This would allow Europe to maintain its leading position in tackling climate change and reinforce that the EU is driven by strong values while giving European businesses a competitive advantage.

### *The Current Status Quo*

The urgent need to respond to the threat from climate change has led to innovation in the field of sustainable finance in different EU member states. The French law of disclosure; German leadership in the field of public investment in the energy transition; the Bank of England's timely action in encompassing the threat to financial stability from stranded assets; the Swedish FSA's ambitious agenda to integrate sustainability into its daily work; and the consideration of the threat to pensions and insurance from the tragedy of the horizon by the Netherlands. The aim of the European Parliament should be to take the best from this innovation across our Union and to combine it into minimum standards for all, guiding investment to ensure a just and rapid transition towards a sustainable economy and society.

Between 60 and 80 per cent of the coal, oil and gas reserves of publicly listed companies are 'unburnable' if the world is to have a chance of keeping global warming well below 2°C and as closely as possible to 1,5°C as agreed at the COP21 in Paris. This means in practice that a very substantial source of global systemic risk - in the form of what has been called 'the carbon bubble' - is currently embedded within EU and global financial markets. This means that, in practice, the business model of the 'carbon economy' as a whole depends on rent extraction and ultimately of implicit subsidies as the costs associated with these risks are pushed forward to the future whereas current market players benefit from a present call on future resources.

Climate change is merely the most pressing of the multiple and interconnected ecological crises threatening the future of humanity. Further examples include the exhaustion of water supplies and pollution of the water-table; deforestation and loss of habitats; soil degradation

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<sup>1</sup> Financing Sustainability, Issue 25, 8 June 2017:  
[https://ec.europa.eu/epsc/sites/epsc/files/strategic\\_note\\_issue\\_25.pdf](https://ec.europa.eu/epsc/sites/epsc/files/strategic_note_issue_25.pdf)

and the threat to food supplies; weakening of the nitrogen and phosphorous cycles; ocean acidification; ozone depletion. So far sustainable finance and the risk to financial sustainability from stranded assets has encompassed only climate risks and this is the main focus of this report. This is only a first step and future work on sustainable finance needs to include consideration of the wider ecological crisis and we welcome the attention paid to the risks posed by intensive farming in the HLEG final report.

#### *The Rapporteur's proposal*

As pointed out by central banks (BoE, Bundesbank<sup>1</sup>), most money in circulation is created by the private banking sector, when banks make loans. This grants immense power to the banking sector in deciding the allocation of money in the economy, even before it is taxed or saved. This power is currently being concentrated by an oligopolistic banking sector, which naturally pursues for the most part a profit-seeking agenda, to the detriment of environmental and social goals. While market deficiencies should be corrected by introducing market mechanisms such as climate-risk disclosures, we should also rebalance this extensive power by empowering a more decentralized and resilient banking system, in parallel with a strong public banking network in Europe.

Where this fails, or is too slow, the role of public financial institutions and governments is essential. Given the current pace of the development of green finance and clean energy investments, the objectives of the Paris agreement are unlikely to be reached without additional efforts. We cannot afford to wait for the private sector to shift its investment profile towards practices that are compatible with the 2° trajectory. This underlines the urgent need for more ambitious and decisive action by public authorities to accelerate the speed of investment, in particular in green infrastructure and to address the misallocation of capital away from sustainable and long-term value creation.

Public authorities should have the confidence to take a stronger role in financing the green transition and to show leadership to the private sector to scale up the necessary investment capacity for the energy transition. A synergistic relationship between Member States, the EIB and the ECB's asset purchase programme could offer positive developments along these lines. We should also acknowledge the leading role played by cooperative and community finance in pioneering green investments.

We welcome the final report from the High Level Expert Group on Sustainable Finance and applaud its level of ambition. Our report lends political support to their recommendations and we thus seek to convey to the Commission and Council our firm belief that the citizens of the EU look to them to show global leadership in this area and to use the power of money to enable and accelerate the stabilisation of the climate and the protection of the global ecosystem for the sake of current and future generations.

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<sup>1</sup> [https://www.bundesbank.de/Redaktion/EN/Topics/2017/2017\\_04\\_25\\_how\\_money\\_is\\_created.html](https://www.bundesbank.de/Redaktion/EN/Topics/2017/2017_04_25_how_money_is_created.html)

## INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE

<b>Date adopted</b>	24.4.2018
<b>Result of final vote</b>	+: 42 -: 9 0: 3
<b>Members present for the final vote</b>	Burkhard Balz, Hugues Bayet, Pervenche Berès, Thierry Cornillet, Markus Ferber, Sven Giegold, Neena Gill, Roberto Gualtieri, Brian Hayes, Gunnar Hökmark, Danuta Maria Hübner, Cătălin Sorin Ivan, Petr Ježek, Barbara Kappel, Wolf Klinz, Georgios Kyrtzos, Philippe Lamberts, Werner Langen, Bernd Lucke, Olle Ludvigsson, Ivana Maletić, Gabriel Mato, Costas Mavrides, Alex Mayer, Bernard Monot, Caroline Nagtegaal, Luděk Niedermayer, Stanisław Ożóg, Dimitrios Papadimoulis, Sirpa Pietikäinen, Dariusz Rosati, Pirkko Ruohonen-Lerner, Alfred Sant, Martin Schirdewan, Molly Scott Cato, Pedro Silva Pereira, Peter Simon, Theodor Dumitru Stolojan, Paul Tang, Ramon Tremosa i Balcells, Marco Valli, Tom Vandenkendelaere, Miguel Viegas, Jakob von Weizsäcker, Marco Zanni
<b>Substitutes present for the final vote</b>	Mady Delvaux, Manuel dos Santos, Ashley Fox, Krišjānis Kariņš, Paloma López Bermejo, Thomas Mann, Eva Maydell, Michel Reimon, Romana Tomc

## FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE

42	+
ECR	Pirkko Ruohonen-Lerner
EFDD	Marco Valli
ENF	Barbara Kappel
GUE/NGL	Paloma López Bermejo, Dimitrios Papadimoulis, Martin Schirdewan
PPE	Burkhard Balz, Brian Hayes, Gunnar Hökmark, Danuta Maria Hübner, Krišjānis Kariņš, Georgios Kyrtos, Werner Langen, Ivana Maletić, Thomas Mann, Gabriel Mato, Eva Maydell, Luděk Niedermayer, Sirpa Pietikäinen, Dariusz Rosati, Theodor Dumitru Stolojan, Romana Tomc, Tom Vandenkendelaere
S&D	Hugues Bayet, Pervenche Berès, Mady Delvaux, Neena Gill, Roberto Gualtieri, Cătălin Sorin Ivan, Olle Ludvigsson, Costas Mavrides, Alex Mayer, Alfred Sant, Manuel dos Santos, Pedro Silva Pereira, Peter Simon, Paul Tang, Jakob von Weizsäcker
VERTS/ALE	Sven Giegold, Philippe Lamberts, Michel Reimon, Molly Scott Cato

9	-
ALDE	Thierry Cornillet, Petr Ježek, Wolf Klinz, Ramon Tremosa i Balcells
ECR	Ashley Fox, Bernd Lucke
ENF	Bernard Monot, Marco Zanni
PPE	Markus Ferber

3	0
ALDE	Caroline Nagtegaal
ECR	Stanisław Ożóg
GUE/NGL	Miguel Viegas

Key to symbols:

+ : in favour

- : against

0 : abstention