

High-Level Expert Group on Sustainable Finance Roadshows

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The Global Context for Sustainable Finance



GLOBAL CONSENSUS on the urgent need to promote more sustainable developments in economic, social and environmental terms – also in advanced economies

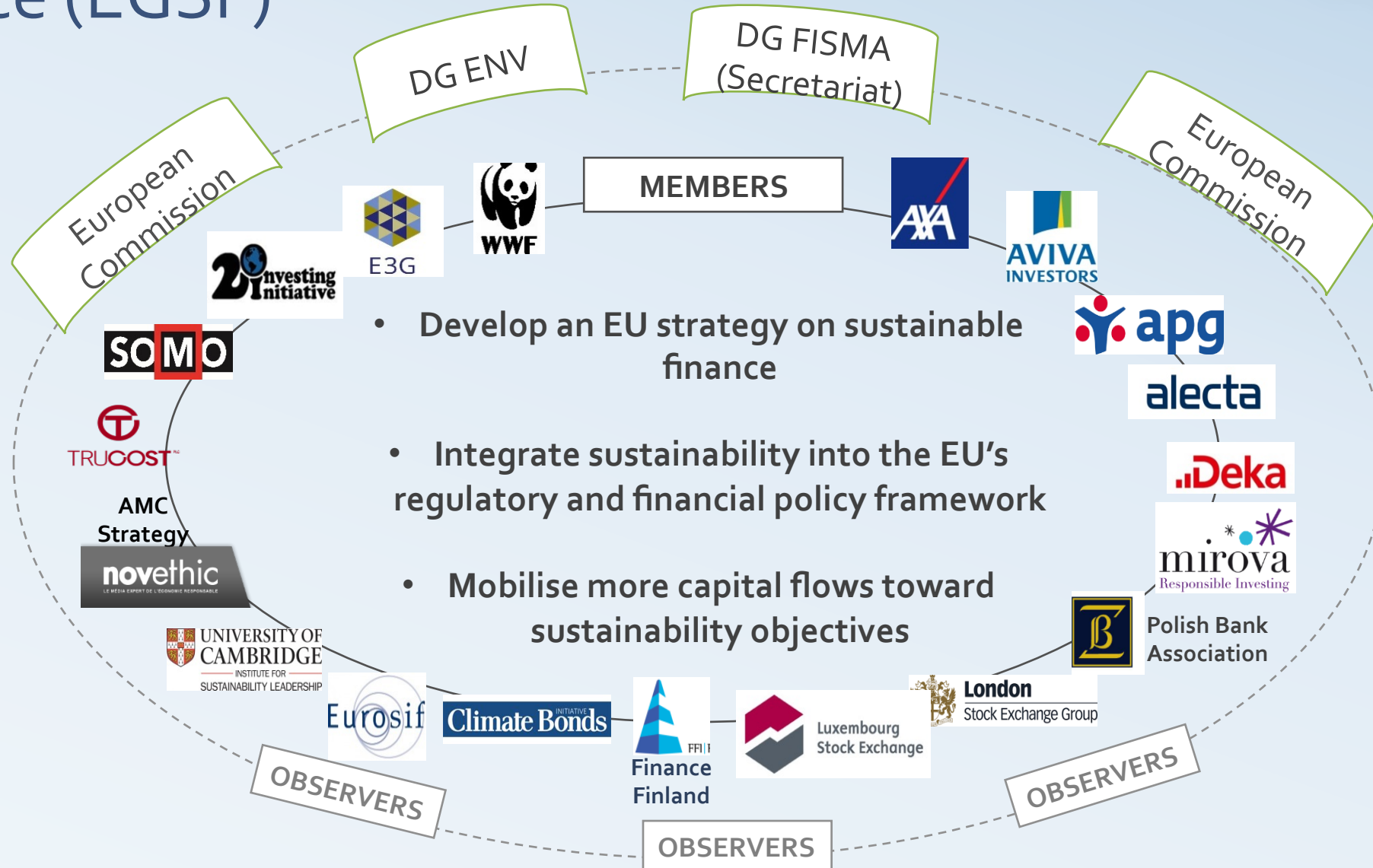
RECENT POLICY FRAMEWORKS to address climate change and support the transition to a low-carbon, more resource-efficient economy – with ambitious objectives for longer-term investments

- Paris COP21 agreement
- EU 2030 Climate and Energy Goals
- UN 2030 Sustainable Development Goals

EU CHALLENGES in core economic and financial policy areas

EU COMMITMENT to sustainable investment and finance, including in the Capital Markets Union, and to mobilize more capital for sustainable growth and development - **CMU Mid-Term review**

Structure of the Expert Group on Sustainable Finance (EGSF)



Sustainable Finance: opportunity to connect finance to the real economy



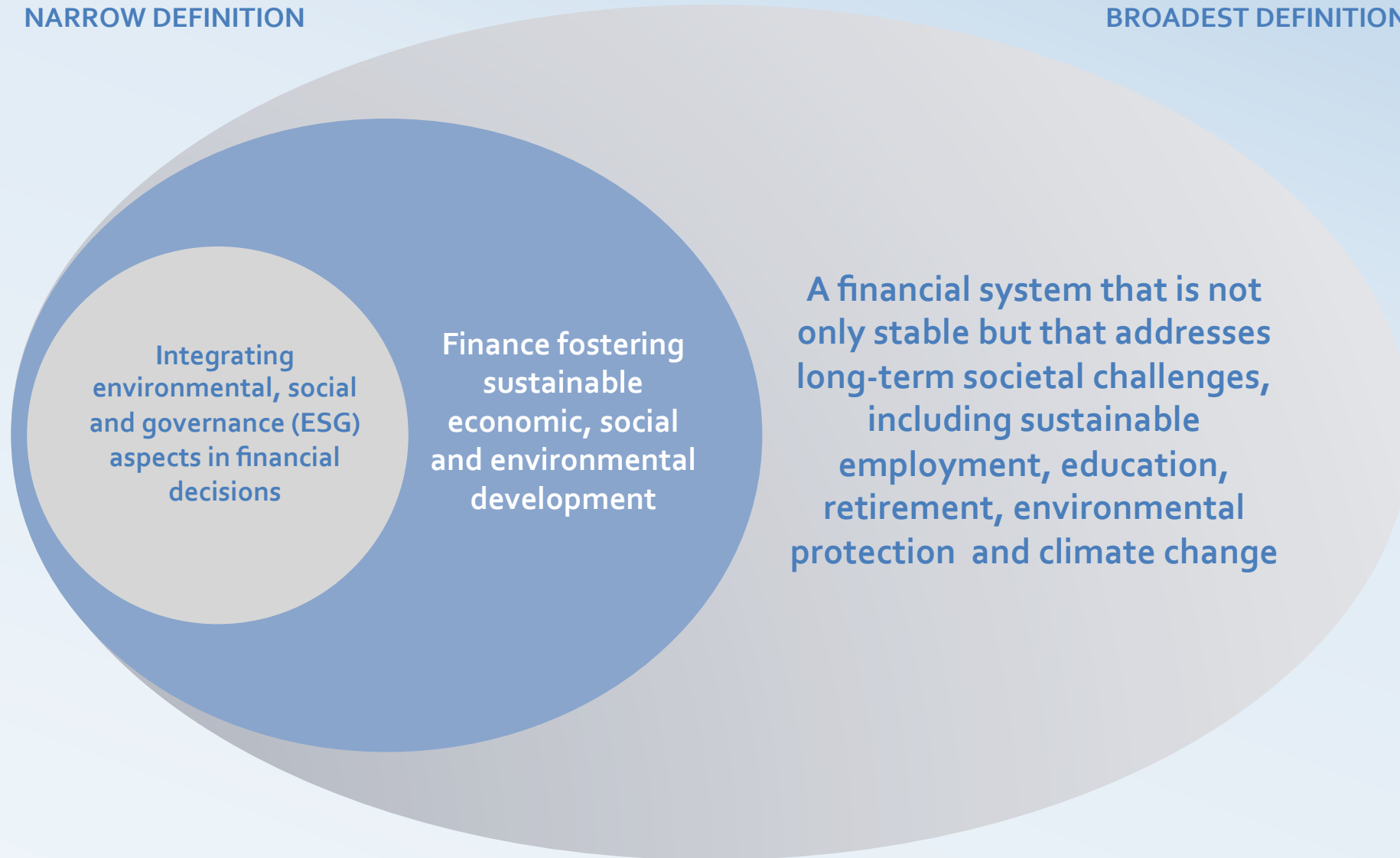
- **Insufficient commitment to long-term challenges** in education, technology, innovation, infrastructure and retirement financing. Need for adjustments in the way we produce, transport and consume goods and services
- **Most long-term challenge of all is climate: EU ambitious strategy towards decarbonisation** with 40% of the European Fund for Strategic Investment (EFSI) is earmarked for action on climate change
- **EU should show leadership in the area** by integrating climatic risks into policy and regulatory initiatives: Capital Markets Union (CMU) – mandates of EIOPA, EBA, ESMA, MiFid, NFR Directive, EIB, etc.
- **Sustainability and stability of the financial system are two interrelated objectives**

Sustainable Finance encompasses multiple definitions and targets



NARROW DEFINITION

BROADEST DEFINITION



Towards a sustainable financial system

Purpose of a financial system

- Serves the three users of finance: firms, households, governments
- Provides critical economic functions: enables payments, intermediates savings, credit and investment
- Manages a range of risk facing people, property and business

Barriers to a sustainable financial system

- Financial system is not fully productive and yet indispensable
- There is a disconnect between user expectations and asset allocation
- Large parts of the system are self-referential
- The system is return-focused but misses key drivers of value creation
- It is succumbing to the tragedy of the horizons
- Its toolkit for sustainability is incomplete

Strategic opportunity of a sustainable financial system

- A productive system that serves households, firms and governments
- A resilient system withstanding and recovering from a wide range of exogenous/endogenous shocks
- Aligned between user preferences and decision-making processes, ensuring accountability and transparency
- Considers the full value of financial assets

In summary – three challenges to address

How to widen asset allocation

- Avoiding fragmentation in approaches to sustainability and allow the investors' community to speak with 'one' voice over a common narrative which establishes a common EU classification by market participants through its integration into process guidelines and assessment (product and process) standards.

How to lengthen time horizon

- Overcoming the short-termism of finance and financial market activity, ranging from microseconds in high-frequency trading, daily trading, quarterly reporting to annual benchmarks for prudential regulations—at the detriment of societal challenges that are all longer term: job creation, education, retirement saving, technology innovation, energy transition, climate change.

How to overcome the self-referential nature in finance

- Avoiding « finance for finance », transactions of pure trading, interactions among 'financial players'; highest financial rewards for traders and 'investment banks' focusing on securities trading and exchange of assets (M&A).

HLEG EARLY RECOMMENDATIONS



Interim Report published on the 13 July 2017

1. A classification system for sustainable assets
2. A European standard and label for green bonds and other sustainable assets, as well as labels for sustainable funds
3. Fiduciary duty that encompasses sustainability
4. Disclosures for sustainability
5. A sustainability test in financial legislation
6. Create 'Sustainable Infrastructure Europe'
7. Position the European supervisory agencies on sustainability
8. Accounting standards for energy efficiency



Timeline 2017

