Briefing: The Regulatory Efforts of the European Commission for Sustainable Finance

Manuel Coeslier, Portfolio Manager at Mirova and member of the European Commission’s Technical Expert Group on Sustainable Finance

Manuel Coeslier opened the session by discussing the background of the European Commission’s Technical Expert Group on Sustainable Finance, which is based on the UN Sustainable Development Goals. The group is made up of CEOs and high-level individuals in the world of sustainable finance who are developing an EU Action Plan for sustainable finance. The group has made three policy proposals along with recommendations on how to implement these into EU law. On May 24, 2018, the three legislative proposals were adopted.

The first legislative proposal sets out criteria to determine the environmental sustainability of an economic activity, including taxonomy defining how an activity can be green. The second legislative proposal creates 2 new categories of benchmarks: a low carbon benchmark, and a positive carbon benchmark. The third legislative proposal introduces consistency on how institutional investors and asset managers should integrate sustainability in investment decision-making processes, and increase transparency towards investors.

Workstreams that came out of the legislative proposals include the EU green bond standard, “low carbon” indices, climate-related metrics, and the EU taxonomy group, which gives input on how to define a “green” activity, specifically for investment purposes. Taxonomy work has set minimum criteria to be able to say that an activity is green, in which it must contribute substantially to one of the six EU environmental objectives, with no significant harm on any of the others.

Manuel then discussed the importance of benchmarks for investors who use them for to assess the performance of their assets. Many benchmarks claim to be low carbon, but there is no regulation surrounding them, so the group is working to set the framework for that. There are two categories of benchmarks for sustainable finance: risk-related benchmarks (pertaining to climate change risk), and positive-carbon impact benchmarks. Benchmarks set minimum standards to avoid greenwashing at the index level. The group’s end goal is to facilitate investment in sustainable projects and assets at the EU-level. Delegated acts should be published by next summer.

Q and A: Manuel noted that the EU elections in May will only possibly impact the timeline, but not the content of the group’s work. He also noted that climate-related metrics will feed metrics that companies will be obligated to report on. However, he is not aware of a mandate in which advisors would be obligated to ask clients about sustainability. When one audience member asked about slow movement in the US in comparison to Europe, Manuel commented that when tells an American investor what he is doing, they ask why he is doing it. One audience member asked about the granularity of the classification system of sustainability economic activities, to
which Manuel responded that the minimum is positive impact on one of the six EU environmental objectives, and that it will be less granular than industry-level classifications.