Sustainable Finance and Green Transitions

UN environment programme finance initiative

UNDP

Daniel Bouzas Luis,
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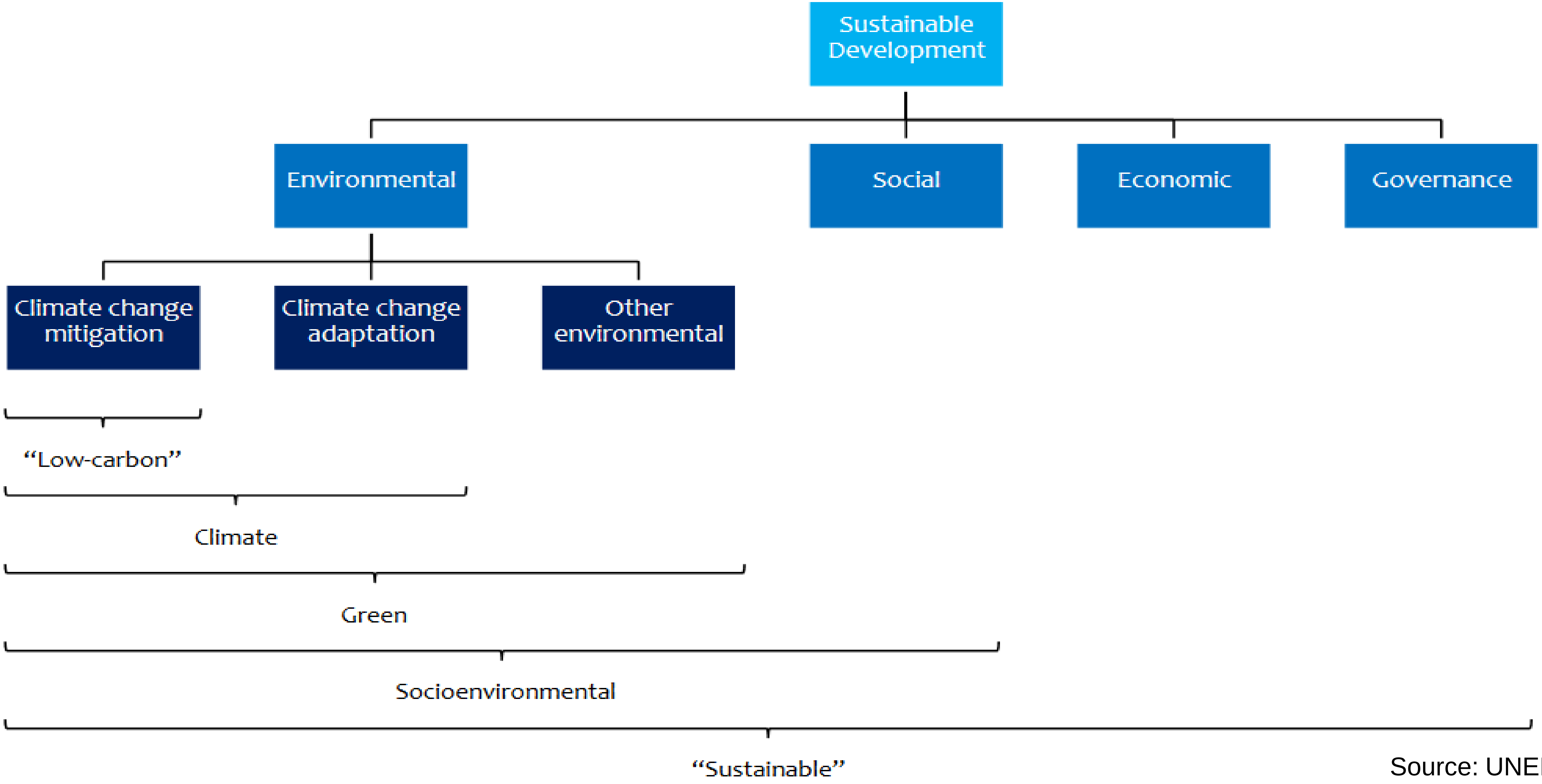
The climate crisis can only be managed and averted through a systemic-scale rechannelling of trillions USD per annum of largely private-sector investment and finance, appropriately enabled and incentivised by public finance, across all sectors of the economy.

Paris Agreement Article 2.1.c. - commits Governments to ensure that all financing - public and private - becomes consistent with the Agreement's objectives.

EC calculates that Europe will need an estimated EUR 350 billion in additional investment per year over this decade to meet its 2030 emissions-reduction target in energy systems alone, alongside the EUR 130 billion it will need for other environmental goals

The role of finance in Green Transitions



Source: UNEP Inquiry

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Part I

UNEP FI Alignment Approach

Voluntary pledges and climate action

Daniel Bouzas Luis, Regional Coordinator for Europe UNEP FI

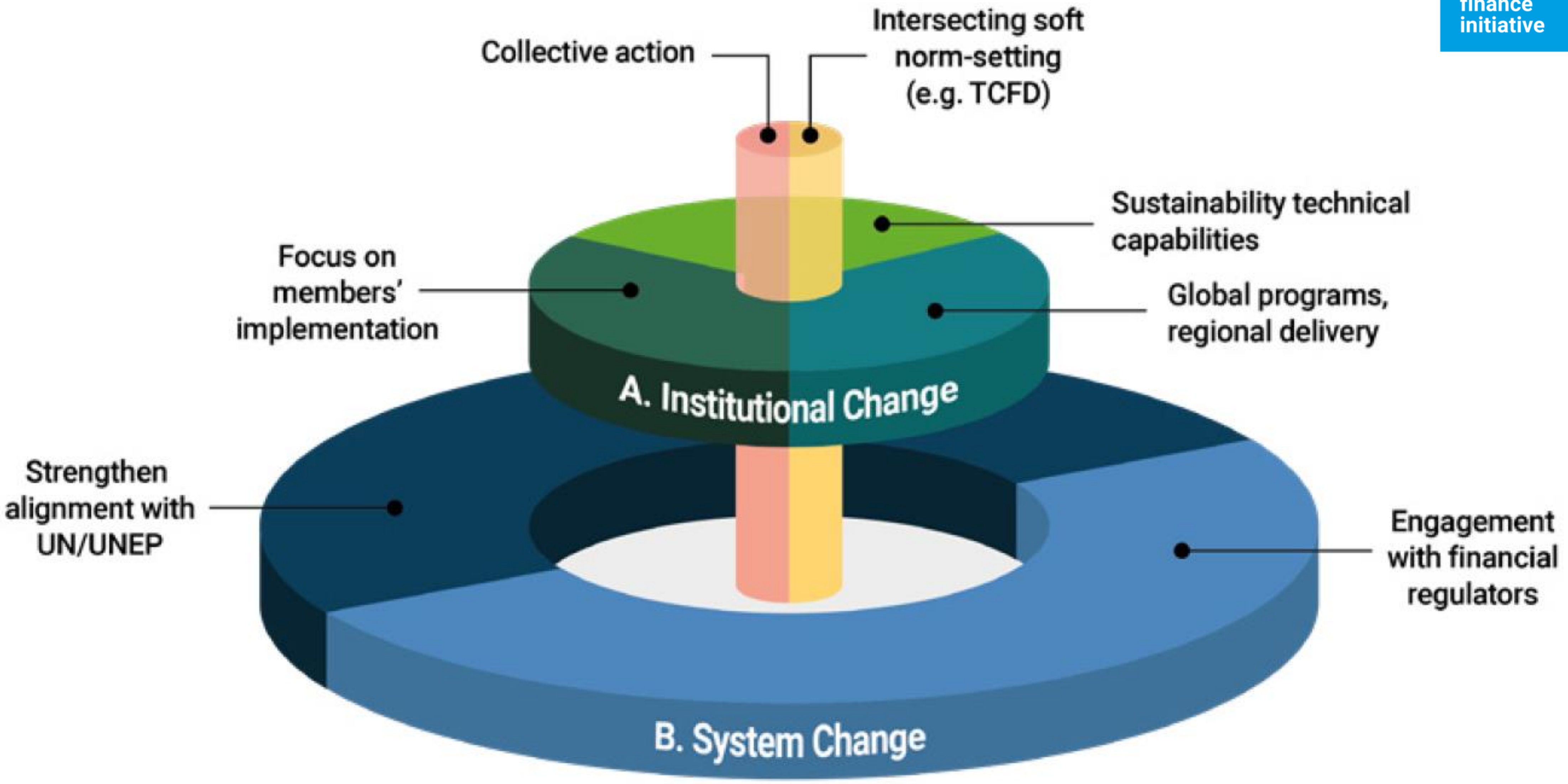
UNEP FI:
A partnership between the United Nations & the Global Finance Sector

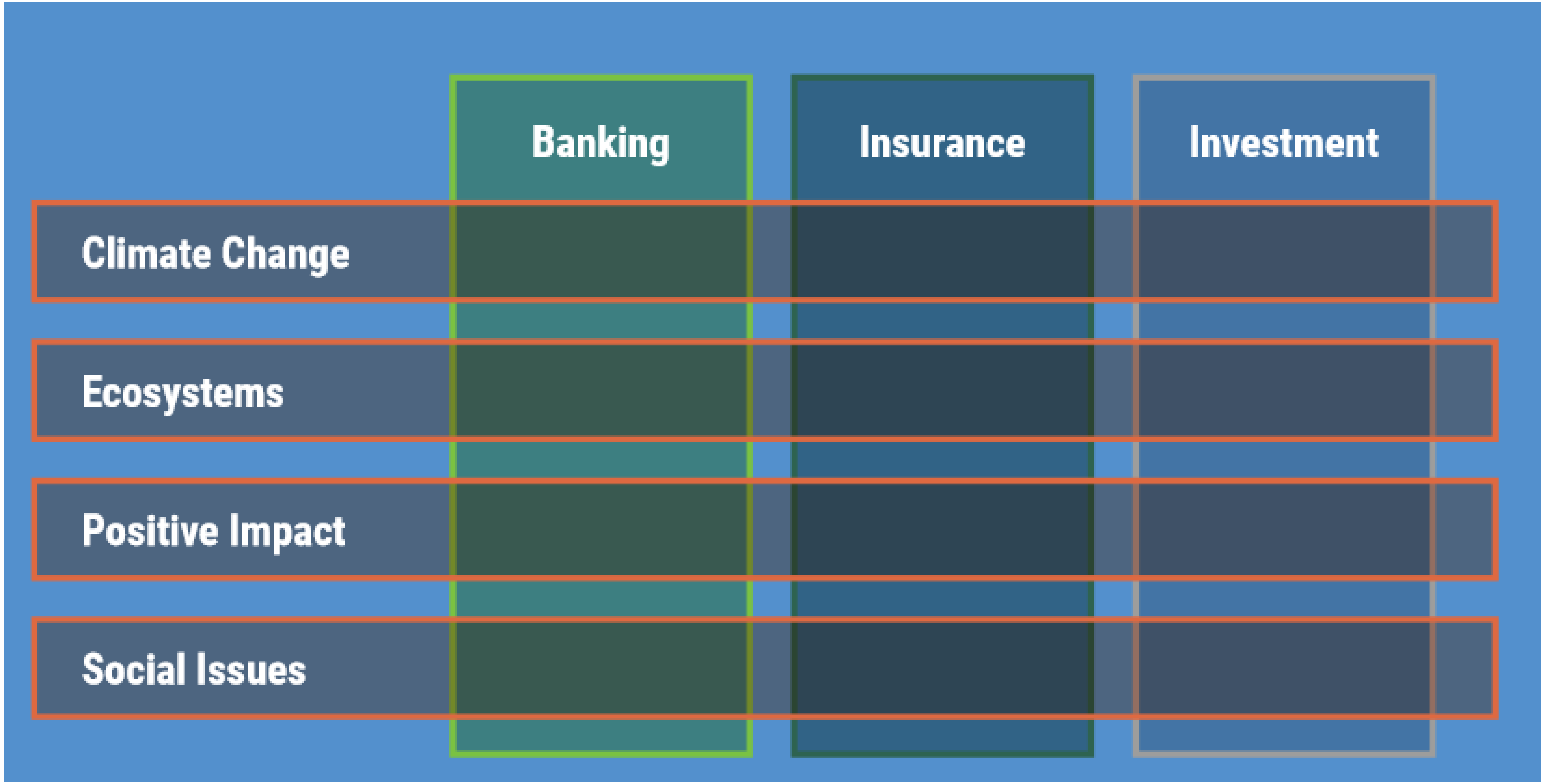
We work in partnership with 450 banks, insurers and investors to help create a financial sector that serves people and planet

We develop the worlds' guiding norms to mainstream sustainable finance (e.g., PRI, PSI and PRB)

We co-create practical research, tools and peer-exchange forums to help financial institutions deliver on their sustainable journey for stakeholders

UNEP FI Strategy 2022-25




Banking
Insurance
Investment
Climate Change
Ecosystems
Positive Impact
Social Issues

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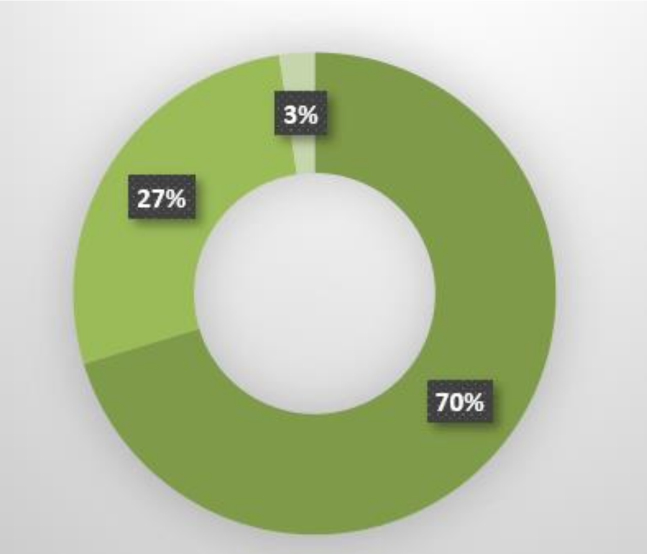
MEMBERSHIP BY SECTOR



70% Banks

27% Insurers

3% Investors

MEMBERSHIP BY REGION

245 Europe

82 Asia Pacific

72 LatAm & Carib.

40 Africa & ME.

29 N. America

468 UNEP FI members globally

Data as of 15/08/2022

Principles for Responsible Investment (2006)

Principles for Sustainable Insurance (2012)

Principles for Responsible Banking (2019)

UNEP FI European Strategy

Strategic priorities

1. Regulatory engagement (mainly EU as priority)
2. Expand membership in Central and Eastern Europe, the Baltics, Balkans, Caucasus and Central Asia
3. leverage supporting institutions, endorsers and other stakeholders to reach out to institutions more effectively (including UN offices)

Membership in Europe

468 UNEP FI members globally

245 UNEP FI members in Europe >50% of membership in the region

Data as of
15/08/2022

UN Sustainable Finance Frameworks

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New industry norms

PRI Principles for Responsible Investment

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Principles for Sustainable Insurance

UN environment programme | finance initiative
Principles for Responsible Banking

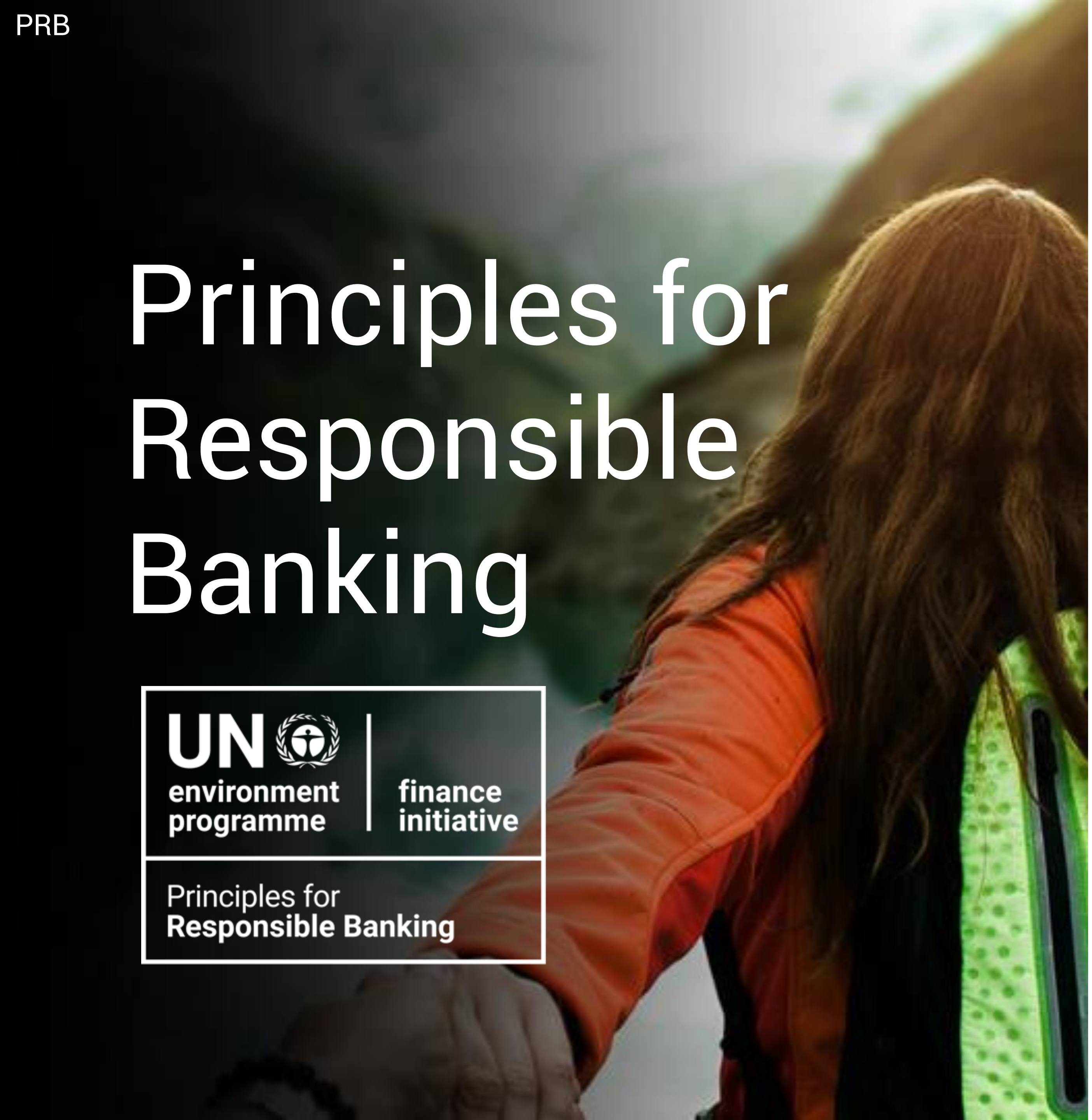
Coalitions of the Willing

UN NET-ZERO ASSET OWNER ALLIANCE

Net-Zero Banking Alliance
Industry-led, UN-convened

Net-Zero Insurance Alliance
Convened by UNEP FI's Principles for Sustainable Insurance

TNFD
Taskforce on Nature-related Financial Disclosures



Principles for Responsible Banking

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Principles for Responsible Banking

The Principles for Responsible Banking are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.

280+
Signatory Banks

>45%
of the global banking sector

$70trn
USD Total Assets

65+
countries

Source: UNEP FI

PRB Market Penetration

Top 10 Banks by Total Assets

Asia Pacific	North America	Europe	Latin America	Middle East & Africa
ICBC	JP Morgan Chase	HSBC*	Itaú Unibanco	Qatar National Bank
China Construction Bank	Bank of America	BNP Paribas	Banco de Brasil	First Abu Dhabi
Agricultural Bank of China	Citigroup	Crédit Agricole	Banco Bradesco	Emirates NBD Bank
Bank of China	Wells Fargo	Santander	Caixa Economica Federal*	Standard bank
Mitsubishi MUFG	Royal Bank of Canada*	Société Générale	Santander Brasil	Bank Leumi le-Israel
Japan Post Bank	Toronto Dominion Bank*	Barclays	BBVA	National Commercial Bank
Sumitomo Mitsui FG	Goldman Sachs	Group BPCE	Group Aval	Bank Hapoalim
Mizuho FG	Morgan Stanley	Deutsche Bank	Banorte	First Rand
Postal Savings Bank of China	Bank of Nova Scotia*	Lloyds	Santander Mexico	Abu Dhabi Commercial
Bank of Communications	Bank of Montreal	Intesa Sanpaolo	Citibanamex	Kuwait Finance House
70% are PRB	**30% are PRB**	**90% are PRB**	**70% are PRB**	**30% are PRB**

Green shading indicates PRB Signatory Bank

*UNEP FI member

Ranking based on Total Asses | Source: 2020 S&P Global rankings

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PRINCIPLE 1: ALIGNMENT

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

PRINCIPLE 2: IMPACT & TARGET SETTING

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

PRINCIPLE 3: CLIENTS & CUSTOMERS

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

PRINCIPLE 4: STAKEHOLDERS

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

PRINCIPLE 5: GOVERNANCE & CULTURE

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

PRINCIPLE 6: TRANSPARENCY & ACCOUNTABILITY

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

A 4-year Journey*

Analyzing your bank's Impact on Planet & People

Setting & Implementing Targets

Accountability & Measuring Progress

*For more detailed information, view the technical documents:
Key Steps to be Implemented by Signatories and Reporting & Self-Assessment Template

A three-step Process

1. Sign the Principles for Responsible Banking

Your bank's CEO signs the official Principles for Responsible Banking commitment for Signatories

2. Become a UNEP Finance Initiative Member

Apply for UNEP Finance Initiative membership to join a global network of hundreds of financial institutions, and gain access to wide range of knowledge, tools, resources and expertise.

3. Promote your bank's commitment

Publicly promote your bank's positive action with a news announcement and quote from your CEO.

The triple role of the insurance industry

As risk managers, risk carriers and investors, the insurance industry has a vital interest and plays an important role in fostering sustainable economic and social development.

Better management of ESG issues will strengthen the insurance industry's contribution to building a resilient, inclusive and sustainable society.

Our aspiration

Launched at the 2012 UN Conference on Sustainable Development, the UNEP FI Principles for Sustainable Insurance serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities.

The vision of the PSI Initiative is of a risk aware world, where the insurance industry is trusted and plays its full role in enabling a healthy, safe, resilient and sustainable society.

The purpose of the PSI Initiative is to better understand, prevent and reduce environmental, social and governance risks, and better manage opportunities to provide quality and reliable risk protection.

The 4 Principles for Sustainable Insurance

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Principles for Sustainable Insurance

Principle 1

We will embed in our decision making environmental, social and governance issues relevant to our insurance business

Principle 2

We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

Principle 3

We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

Principle 4

We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

UNEP FI's work on climate change

Adjusting financial systems in response to the dual materiality

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		Banks	Investors	Insurers
1. Climate risk disclosures Data & methods for assessments & disclosures Responding to the Recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) and corresponding, emerging regulation	TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES	> 100 banks developing and piloting transition- and physical risk methodologies for corporate loanbooks, now widely used in the industry	40 investors pioneering climate-value at risk (VAR) to capture transition and physical climate-related risks in listed equities, corporate	22 insurers developed & piloted transition-, physical, and liability-risk methodologies
2. Climate alignment Scenario-based targets to decarbonize portfolios in line with 'well below 2 degrees' or ' net-zero by 2050' Responding to Article 2.1.c of the UNFCCC Paris Agreement	PARIS2015 UN CLIMATE CHANGE CONFERENCE COP21·CMP11	**Net Zero Banking Alliance:** >100 banks with > USD 65 trillion in assets incl USD 6 trillion in non-OECD	**Net Zero Asset Owner Alliance:** 71 Asset Owners with > USD 10 trillion	**Net Zero Insurance Alliance:** 20 insurers with > 20% of world premium

NET ZERO
The climate crisis demands finance sector leadership

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THE CRISIS

To achieve the 1.5°C warming ambition of the Paris Agreement, **CO_2 emissions need to be cut in half every 10 years** until 2050

THE CHALLENGE

To meet this decarbonization goal, the global community will need to **invest about $4 trillion each year until 2050**[1], in innovative tech, adaptation, and mitigation. **Public sector finance alone is far insufficient to the task.**

[1] *What's the cost of net-zero?* Race to Zero (link)

The Alliances are part of an international net-zero network

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WORLDWIDE

RACE TO ZERO

Global UN Campaign
Accredits the commitment & sets minimum standards for Net-Zero for non-governments, including:

Finance
Corporates
Cities
Regions
Universities
Hospitals
etc.

FINANCE INDUSTRY

GFANZ
Glasgow Financial Alliance for Net Zero

Net-Zero Banking Alliance NZBA

Net-Zero Asset Owner Alliance NZAOA

Net-Zero Insurance Alliance NZIA

UN-convened

Net-Zero Asset Managers Initiative NZAM

Net-Zero Financial Service Providers Alliance NZFSPA

Net Zero Investment Consultants Initiative NZICI

Paris-Aligned Investment Initiative PAII

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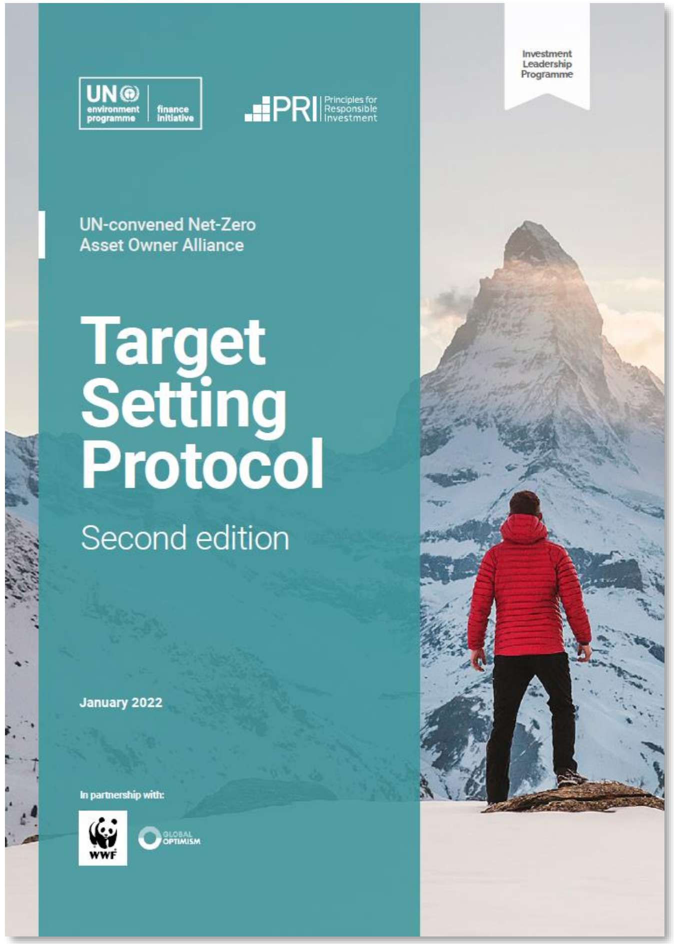
State of implementation – NZAOA

Setting Intermediary Targets Starting 2025



- *Covers all major asset classes: listed equities, corporate bonds, real estate, infrastructure*
- *Portfolio GHG reduction range by 2025: 22% - 32%*
- *Portfolio GHG reduction range by 2030: 49% - 65%*

(Aviva): ask 30 biggest emitters in O&G, metals/mining, and utilities for Net Zero Scope 3 emissions and transition roadmaps. Policy of divesting if engagement fails.

(PensionDanmark): Reduce emissions in four most carbon-intensive sectors: O&G by 20%, utilities by 35%, cement by 10 % and shipping by 15 %.

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Principles for Responsible B

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Engagement targets

- Engage with 20 companies focusing on those with highest owned emissions or those responsible for combined 65% owned emissions in portfolio (either directly, collectively, or via asset manager)
- Contribute to:
  - Asset Manager Engagement: Each member to participate in at least one engagement led by the Alliance
  - Alliance positions: Each member, where possible, to participate in Alliance position paper creation

Sector targets

- Intensity-based/absolute-reductions on all material sectors.
- Scope 3 to be included wherever possible.
- Sector specific intensity KPIs recommended.
- Sectoral Decarbonization Pathways used to set targets.

Short-term targets for 1.5°C aligned, net-zero world by 2050 with real-world impacts

Sub-portfolio
(later portfolio) emission targets

- 22 to 32% CO2e reduction by 2025 (per IPCC 1.5°C SR scenarios) on equity and debt to listed corporates, infrastructure, and with the same reduction or CRREM national pathways for real estate.
- 49 to 65% CO_2e reduction by 2030 (per IPCC 1.5°C SR scenarios).
- Covers portfolio emissions Scope 1 & 2, tracking of Scope 3.
- Absolute or intensity-based reduction KPIs.

Financing transition targets

- Reporting progress on a climate-positive trend for all Alliance members internally to the Alliance; an individual public quantitative progress target is optional for members.
- Contribution to Alliance's financing transition sub-work tracks, for example, supporting activities to provide greater transparency, build solutions or enhance climate solution reporting.

(UN Pension Fund): reduce absolute footprint of equity and corporate bonds portfolios 40% by 2025.

(CDPQ): Hold $54 billion in green assets and create a $10-billion transition envelope.

State of implementation – NZIA

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Principles for Sustainable Insurance

Key NZIA implementation milestones (2022-23)

- **PCAF Scoping Document on Insurance Associated Emissions public consultation**
  (in collab with NZIA)
  (Mar 2022)
- **NZIA White Paper on Net-Zero Insurance**
  (Apr 2022)
- **PCAF Insurance-Associated Emissions Standard**
  (in collab with NZIA)
  (Oct or Nov 2022)
- **Launch of NZIA Target-Setting Protocol**
  (in collab with SBTi, part of SBTi Financial Net-Zero Standard)
  (Jan 2023)
- **NZIA members to individually set and publish intermediate science-based 5-year targets**
  (Jul 2023)

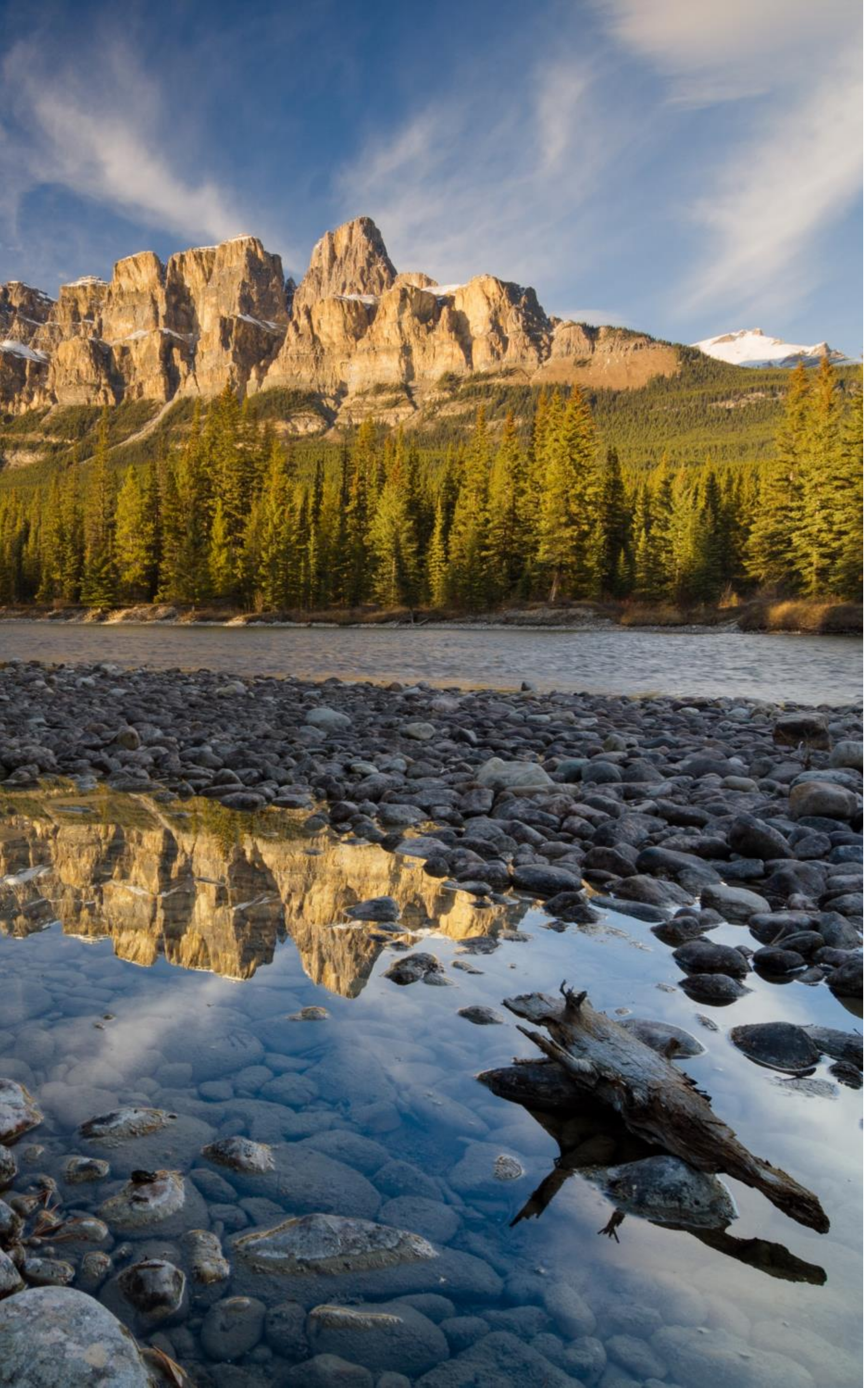
Net Zero Banking Alliance

Industry-led

The Steering Group oversees strategy and decision-making. It comprises 12 member seats and the UN Secretariat and is overseen by the Chair.

UN-convened

The UN Secretariat provides the day-to-day administrative oversight to the Alliance and has a permanent seat on the Steering Group.

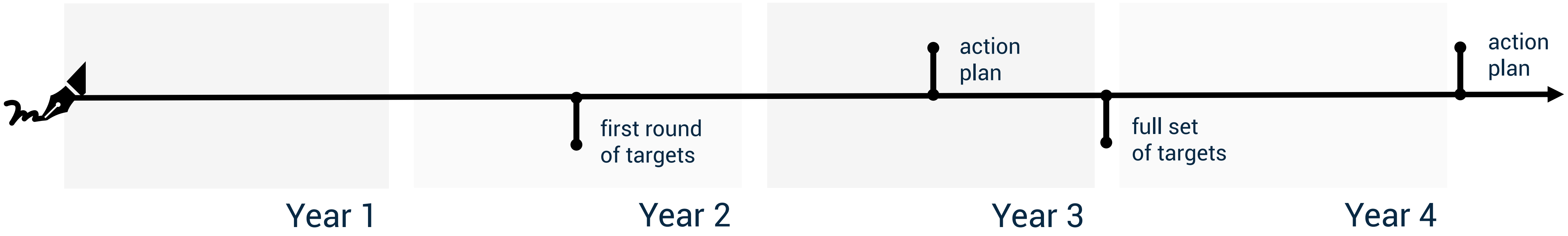


The Commitment

Members of the Alliance commit to transition the operational and attributable GHG emissions from their lending and investment portfolios to align with pathways to net-zero by 2050 or sooner.

- ❑ Set **2030 & 2050 net-zero targets** which are founded on science-based no/low-overshoot scenarios and are aligned with the **1.5°C warming** ambition outlined in the Paris Agreement
- ❑ **Annually report** on **targets and progress** and take a robust approach to the role of **offsets** in transition plans.

Timeline for setting interim sector targets



Targets should prioritize those sectors that represent the bank's largest GHG emissions and/or GHG intensities in their portfolio. A template for publishing these targets will be made available.

State of implementation – NZBA

Net-Zero Banking Alliance
Industry-led, UN-convened

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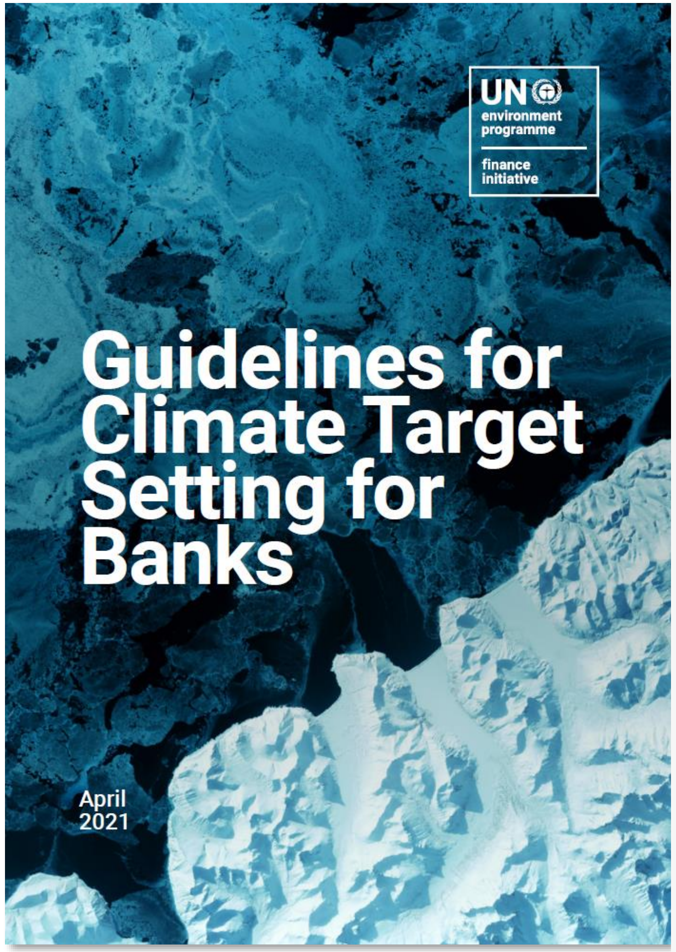
Intermediary target-setting. Targets are to be attained by 2030.



One

Banks shall set and publicly disclose long-term and intermediate targets to support meeting the temperature goals of the Paris Agreement.

Two

Banks shall establish an emissions baseline and annually measure and report the emissions profile of their lending portfolios and investment activities.

Three

Banks shall use widely accepted science-based decarbonisation scenarios to set both long-term and intermediate targets that are aligned with the temperature goals of the Paris Agreement.

Four

Banks shall regularly review targets to ensure consistency with current climate science.

- *Covers everything on balance-sheet (lending and investing) – off-balance sheet guidelines under development*
- *Covers 9 key economic sectors*
- *Reduction ranges based on 1.5 no/low-overshoot IPCC/IEA scenarios*
- *Banks have 18 months to issue targets for highest impact areas, and 36 months for all 9 economic sectors*

Examples of NZBA targets

- *12 banks have already published 2030 targets*
- *Early targets promising but require additional assessment.*

Net-Zero aligned targets for 2030 in high-emitting sectors[1]...

	Sector and scope	Metrics	Baseline 2019[3]	Target 2030[4]
High-emitting sectors[1]	**Oil & Gas[2]** (Scope 1, 2, 3)	gCO_2e/MJ	64	52-58
	Power generation (Scope 1, 2)	$kgCO_2e/MWh$	214	110
	Automotive (Scope 3)	gCO_2e/km	162	95
	Coal mining ***(exclusion policy)***	€ bn exposure	0.2	0 *by 2025*

Example: Intesa Sanpaolo targets, based on IEA NZE 2050

Sector	2020 Baseline[1]	Climate Scenario	2030 Targets
Energy (Scope 1, 2, 3)	**143.8** million mt CO_2e	**IEA** NZE 2050	**29%** reduction from 2020 baseline **102.1** million mt CO_2e
Power (Scope 1)	**313.5** kg CO_2e /MWh	**IEA** SDS OECD	**63%** reduction in Scope 1 intensity per MWh **115** kg CO_2e /MWh

Example: Citi group targets, based on IEA NZE 2050 and IEA SDS

10 largest banks in each region

Highlighted in blue are NZBA members

Asia Pacific	North America	Europe	Latin America	Africa / Middle East
ICBC	JP Morgan Chase	BNP Paribas	Itaú Unibanco	Qatar National Bank
China Construction bank	Bank of America	HSBC	Banco do Brasil	First Abu Dhabi Bank
Agricultural Bank of China	Citigroup	Crédit Agricole	Branco Bradesco	Emirates NBD Bank
Bank of China	Wells Fargo	Banco Santander	Caixa Econômica Federal	Bank Leumi leIsrael
Mitsubushi UFJ FG	TD Bank Group	Barclays plc	Banco Santander Brazil	Standard Bank Group
Sumitomo Mitsui FG	Royal Bank of Canada	Société Générale	BBVA	Bank Hapoalim
Japan Post Bank	Goldman Sachs	Groupe BPCE	Grupo Aval Acciones y Valores	The Saudi National Bank
Mizuho FG	Morgan Stanley	Deutsche Bank	Banco Santander Mexico	First Rand
Postal Savings Bank of China	Bank of Nova Scotia	Intesa Sanpaolo	Banorte	Barclays Africa
Bank of Communications	Bank of Montreal	Lloyds Banking Group	Banco de Crédito y Inversiones	Al Rahji Banking

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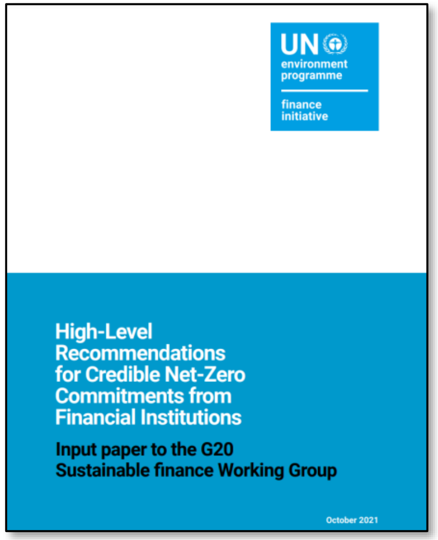
What makes net-0 pledges credible?

Best practice features in finance sector net-0 commitments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High-Level Recommendations for Credible Net-Zero Commitments from Financial Institutions

Input paper to the G20 Sustainable finance Working Group

October 2021

- i. Align with science-based, no/low overshoot 1.5°C scenarios
- ii. Align with the assumptions and criteria of the scenarios (including by sector) as soon as possible
- iii. Establish near-term (ideally 5-year) targets
- iv. Commit to transparent reporting of GHG emissions and their allocation to real-economy inventories
- v. Establish an appropriate emission scope, striving for full coverage as soon as possible
- vi. Strive for real-economy impact, enabling the transition
- vii. Require neutralisation of residual emissions
- viii. Finance the transition (considering investments required for the transition and a Just Transition)
- ix. Provide transparency on metrics, underlying scenarios and methods used to classify products as sustainable, including appropriately disclosing the sustainability impact of products and services
- x. Identify unique purpose implementation; and
- xi. Disclose transparently and comprehensively the scenarios, metrics, and targets employed, and disclose progress ideally annually.

Part II

Sustainable Finance in RBEC Region

Suren Poghosyan, SDG Finance Advisor for Europe and CIS Region, UNDP

UNDP and the Sustainable Finance in RBEC Region

Suren Poghosyan

SDG Finance Advisor for Europe and CIS Region, UNDP

THE PROBLEM

SDG financing need has increased by

70% from

$2.5 trillion

to

$4.2 trillion

Equivalent of

52 Million

full-time jobs were lost

Of the total increase in global FDI flows,

~75%

is in developed economies

Fossil fuel subsidies increased to

$6 trillion

last year

Since Paris Commercial banks invested

$3.8 trillion

into fossil fuels

There is

$418 trillion

in global finance

& only

1% would address

the financial gaps

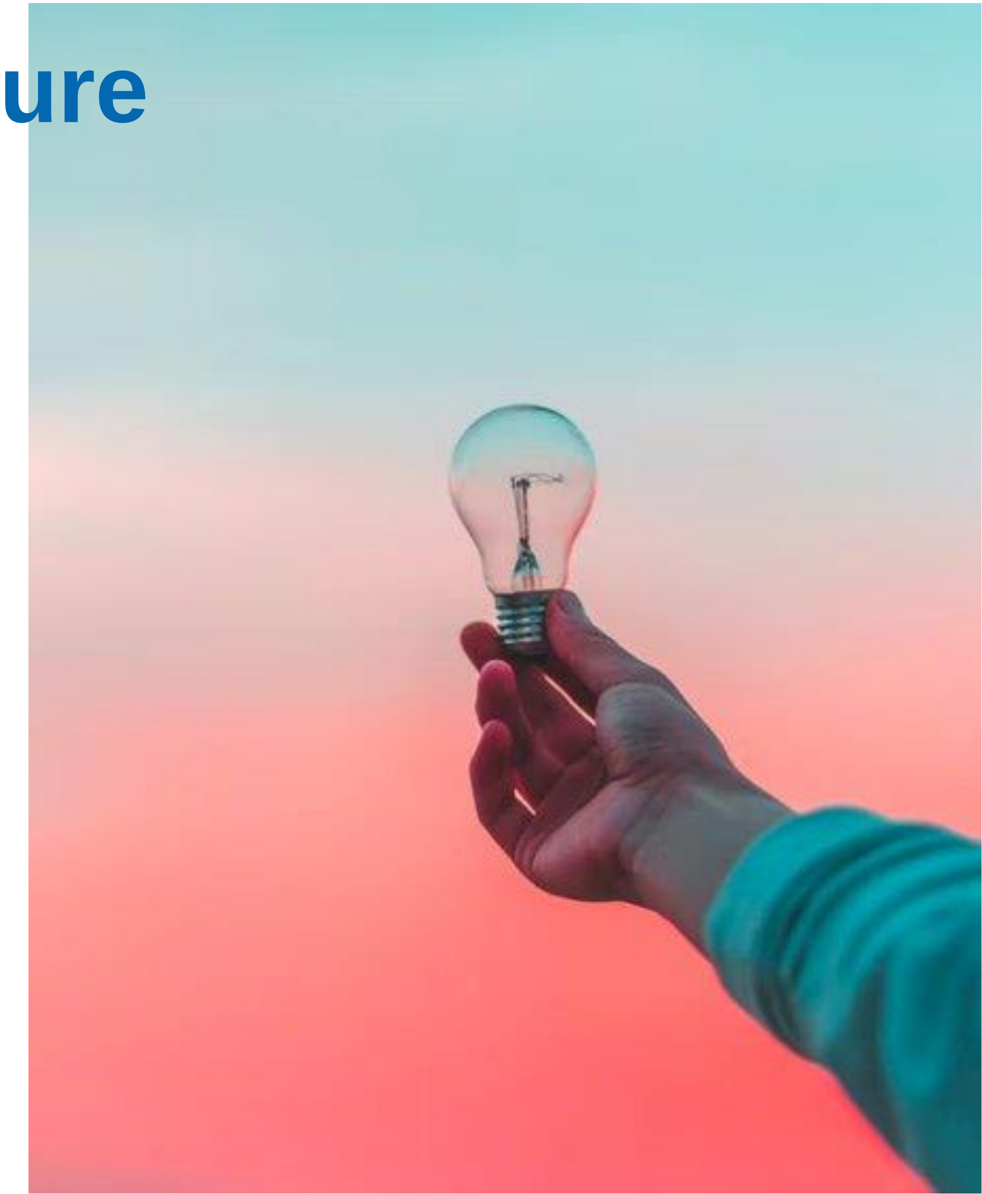
The Solution

A Sustainable Finance Architecture

deliberately designed to:

- **Accelerate investment in the Sustainable Development Goals**

- **Account for its progress to a broad range of actors**



UNDP Sustainable Finance Hub Service Offers

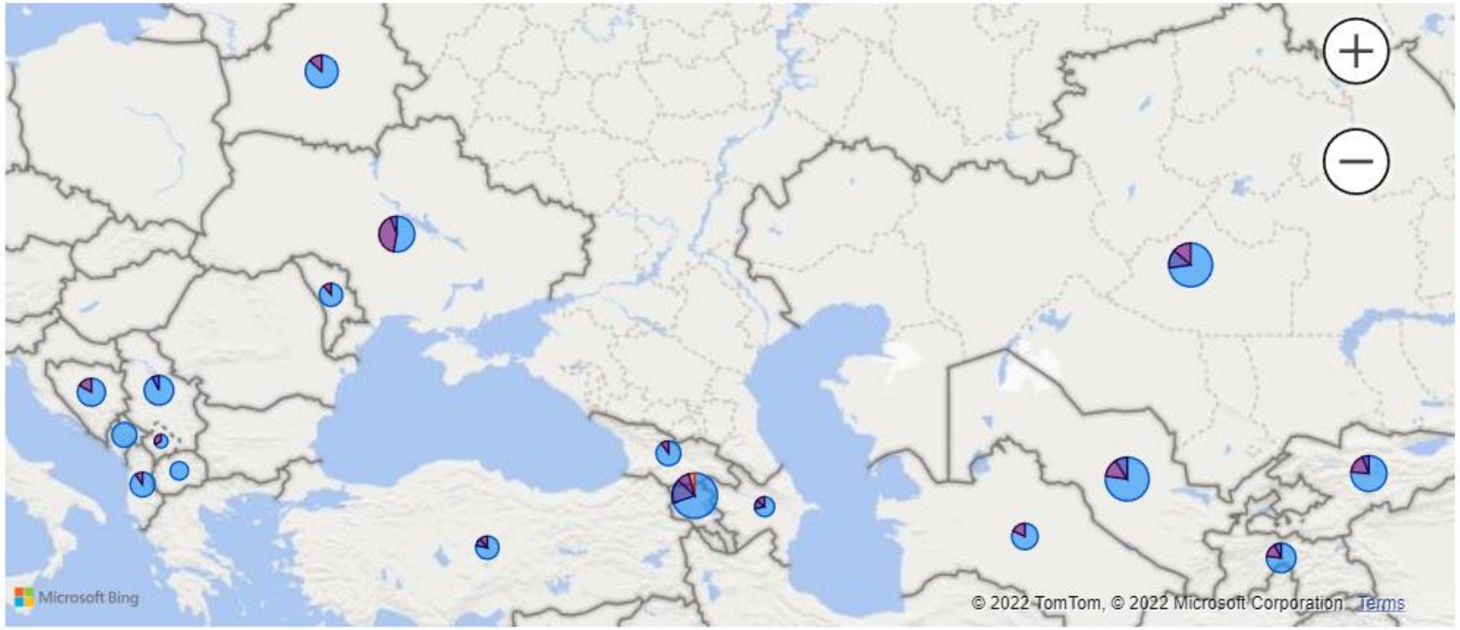
SUSTAINABLE FINANCE HUB

- Public Finance for the SDGs
- Unlocking Private Capital and aligning business operations for the SDGs
- SDG Impact Management and Finance Tracking
- Integrated National Financing Frameworks and Country Portfolios
- SDG Finance Academy

SDG Finance Dashboard

SFH 4+1 Service Offers

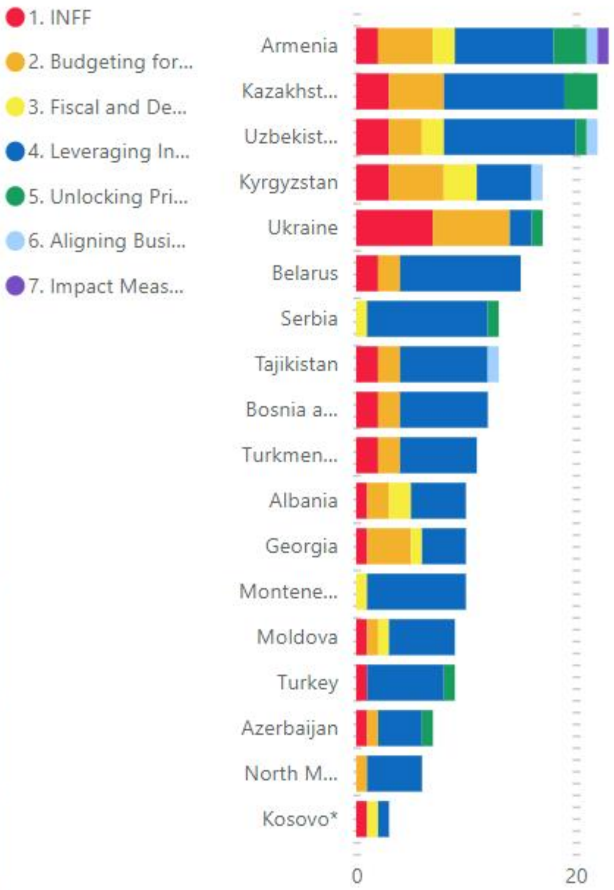
SFH Service Offer ● A. Public Finance for SDGs ● B. Unlocking Private Capit... ● C. SDG Impact Man... ● D. Integrated N...



** References to Kosovo shall be understood to be in the context of Security Council resolution 1244 (1999)*

Albania	Moldova
Armenia	Montenegro
Azerbaijan	North Macedonia
Belarus	Serbia
Bosnia and Herzegovina	Tajikistan
Georgia	Turkey
Kazakhstan	Turkmenistan
Kosovo*	Ukraine
Kyrgyzstan	Uzbekistan

SDG Finance Area by CO



SDG Finance Area

All

SDG Finance Subarea

All

Tool

All

Integrated Approach

- Public Finance for the SDGs
- Unlocking Private Capital and aligning business operations for the SDGs
- SDG Impact Management and Finance Tracking
- **Integrated National Financing Frameworks and Country Portfolios**
- SDG Finance Academy

Green/Climate Finance Tools

UNDP Toolkit to address CC Finance budgeting

Objective	Tool
UNDERSTAND HOW MUCH GOVERNMENT SPENDS ON CC	▪ CPEIR (Climate Public Expenditure and Institutional Reviews)
MAKE CC FINANCE VISIBLE IN BUDGETS	▪ CC budget tagging ▪ Budget annex on CC allocations ▪ CC Citizen’s Budget
MOBILIZE AND ALIGN MORE RESOURCES FOR CC	▪ CC criteria as an additional weight in project prioritization process ▪ Engage with the Parliament on CC budget scrutiny ▪ Green Bonds
INCREASE ACCOUNTABILITY FOR BUDGET SPENDING ON CC	▪ CC budget reporting ▪ Collaborative research on CC expenditures (CSOs)
BRIDGING CC PLANNING WITH REGULAR BUDGETING PROCESSES	▪ CC Financing Framework integrated into Medium-Term Expenditure Framework and budget templates of a government ▪ Climate Change Budget Integration Index (CCBII)

Evolution of integrating CC finance in PFM

- *CPEIR*
- *Climate Change Budget Integration Index (CCBII)*

Informing

(presenting facts)

- *Policy briefs*
- *Civil society*
- *Parliament*

Engaging and Convincing

(creating demand)

- *MTEF/Budget proposals*
- *CC prioritization at budget formulation*
- *Budget coding*
- *Expenditure Reporting*
- *Expenditure Analysis*

Enabling

(enabling supply)

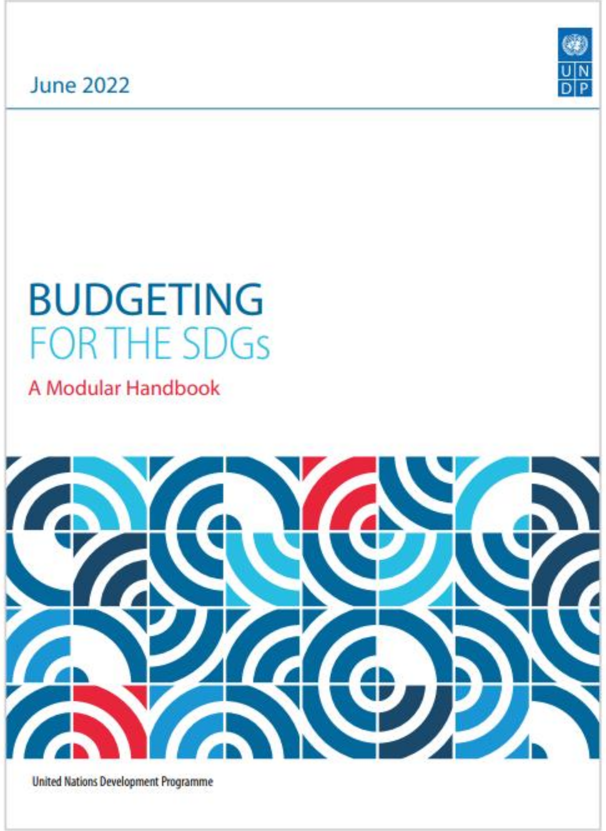
Integrated Climate Change Financing Framework (CCFF)

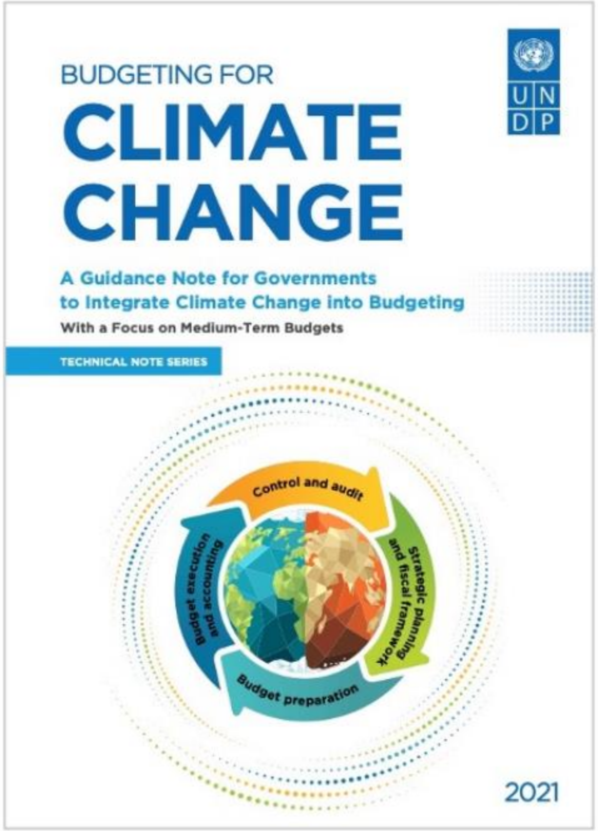
Improved CC budget decisions and accountability

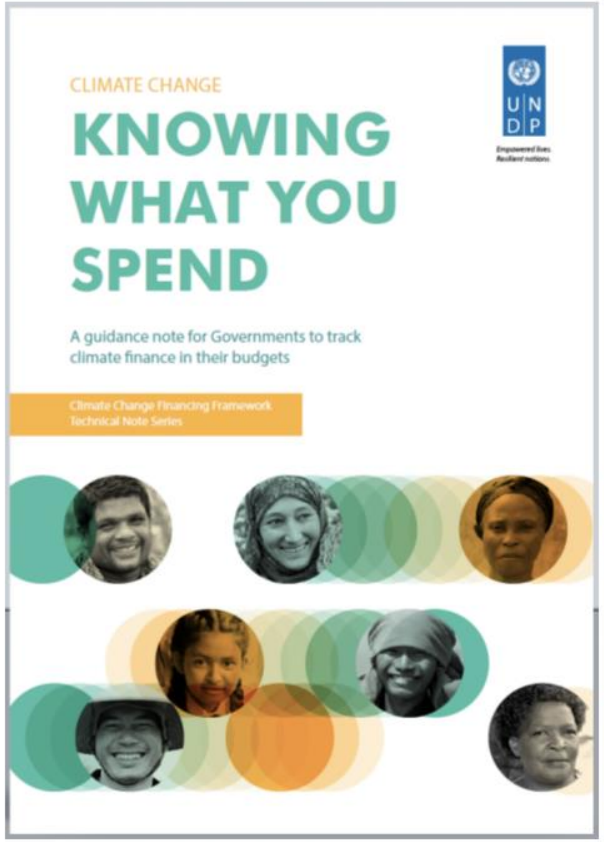
Country level: Sequencing of interventions

UNDP Role

Experience translated into Knowledge







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Part III

Sustainable Finance Regulation

Taxonomies, disclosures and prudential regulation

Daniel Bouzas Luis, Regional Coordinator for Europe UNEP FI

Synchronizing market-based & policy dvp

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Global private finance interest for sustainable finance has grown considerably in recent years. The success of market-based, voluntary initiatives such as the PRI, PRB, PSI, the net-zero global alliances suggest the private finance industry is committed to making a substantial contribution and to driving the low-carbon and sustainability transition in the real economy.

Similarly, policy and regulatory frameworks increasingly play a key role in supporting the finance industry meet these targets as well as reducing exposure to sustainability-related risks (i.e., double materiality). The UNEP Green Finance Measures Database registers over 680 sustainable finance policy measures from 100 countries.

The finance industry increasingly needs harmonized and sound policies that ensure clarity of direction, facilitate a just transition in key economic sectors, support the realisation of voluntary commitments and help prevent reputational risks/fight greenwashing.

Policy frameworks for sustainable finance

Regulatory frameworks on sustainable finance take different shapes, the most common containing different aspects, underpinned by common definitions, disclosures and risk management rules.

By using EU and international examples we will briefly examine:

- Taxonomies
- Disclosures
- Prudential rules

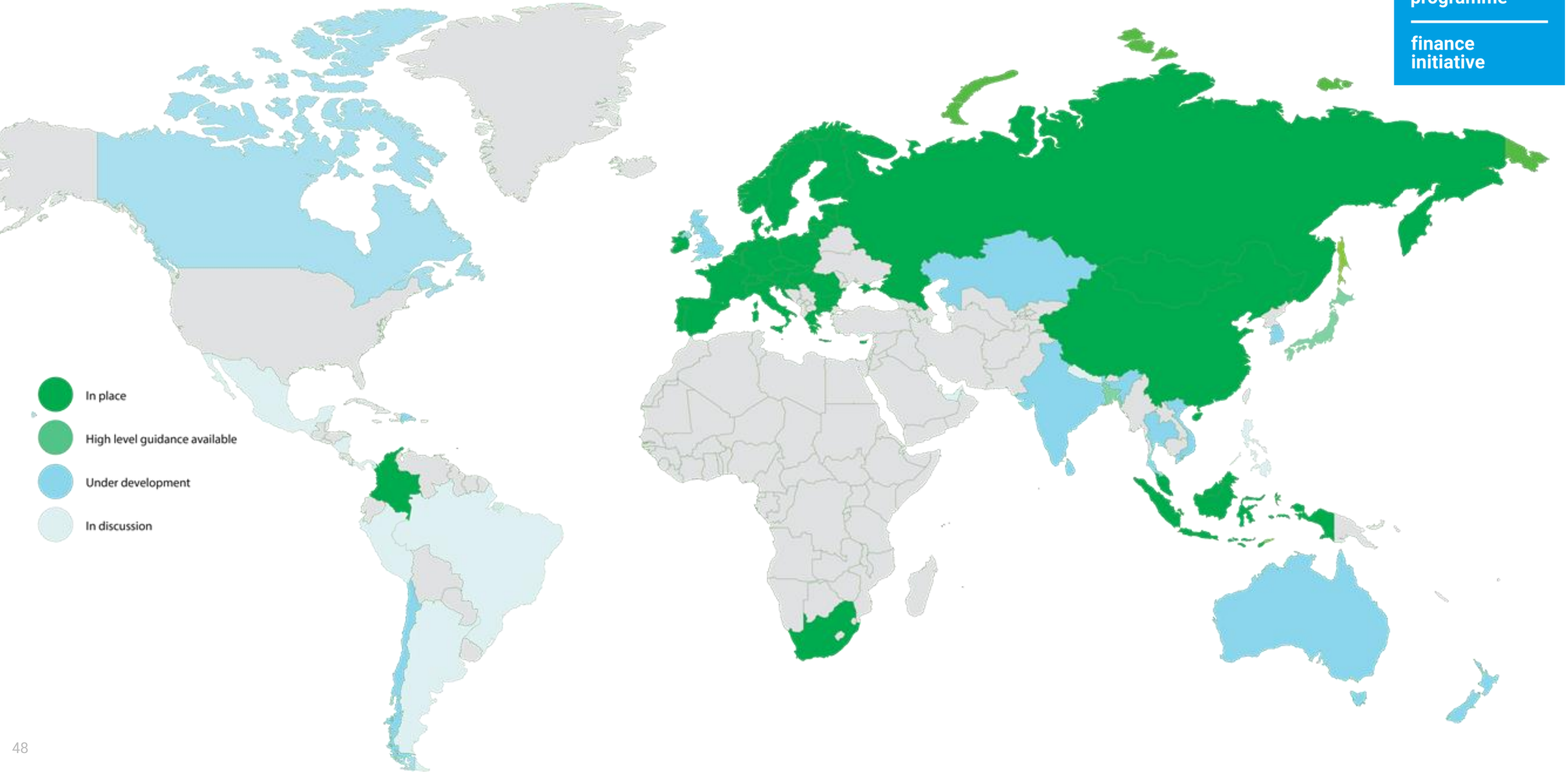
By financial regulation we mean:
Integration of sustainability considerations across financial regulatory frameworks*. :

1. Disclosures of institutions, activities, products, instruments;
2. Governance, duties and processes of institutions, activities, products, instruments. Including for both risk and impact management of sustainability issues;
3. Taxonomies, standards, tools;
4. Financial system stability and risk mitigation mechanisms (macroprud).

Supported by adequate supervisory frameworks to ensure enforcement, compliance and fight greenwashing.
Entities in scope of financial regulation can include (varies across jurisdictions):

- Non-financial corporates
- Banking, investment services and activities
- Insurance
- Pensions providers (and/or under labour regulation)

Global effort on taxonomies



EU Taxonomy

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CLIMATE CHANGE

Mitigation

Adaptation

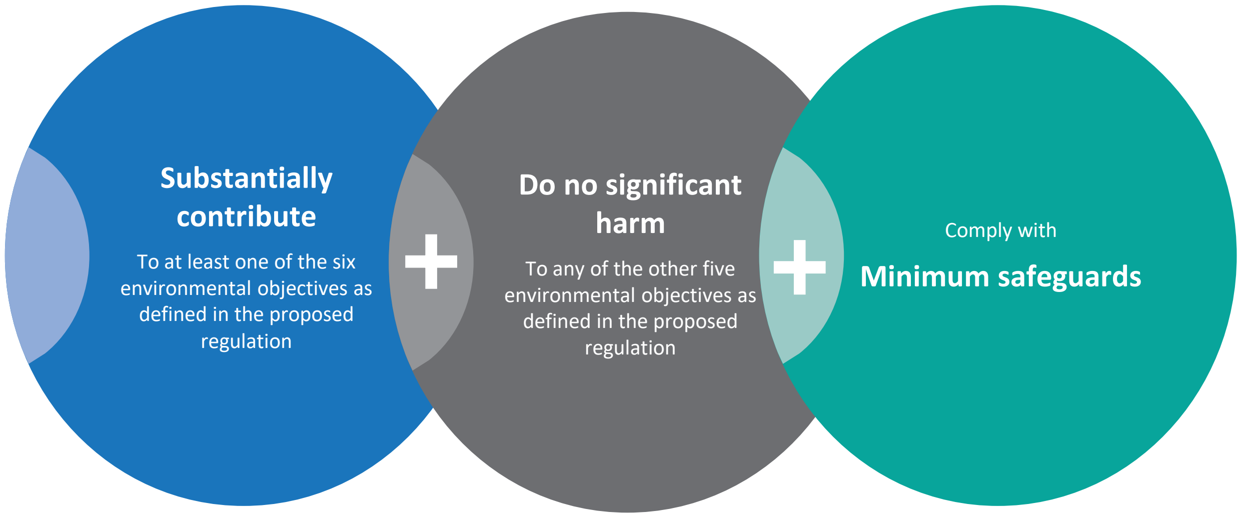
Other objectives

Transition to a **circular economy**

Pollution prevention and control

Sustainable use and protection of **water and marine resources**

Protection and restoration of **biodiversity & ecosystems**



Mandatory disclosures: The Taxonomy Regulation mandates three user obligations:

Financial market participants
Offering financial products in the EU, including occupational pension providers

Article 5 – Article 7

- How and to what extent the Taxonomy was used in determining the sustainability of the underlying investments;
- To what environmental objective(s) the investments contribute; and
- The proportion of underlying investments that are Taxonomy-aligned, as a percentage of the investment, fund or portfolio.

Large companies
Who are already required to provide a non-financial statement under the Non-Financial Reporting Directive

Article 8

- The proportion of turnover aligned with the EU taxonomy;
- CAPEX and OPEX aligned with the EU taxonomy.
- This requirement includes FI's portfolios, with specific KPIs based on their financing of the abovementioned activities

→***KPIs established in the Article 8 Disclosures Delegated Act***

The EU and Member States

Article 4

When setting out measures on standards or labels for green financial products or green (corporate) bonds

Disclosures

Sustainability disclosures to date either address **entities** (e.g., disclosure guideline for listed companies), **financial products** (e.g., disclosure requirements for sustainable retail investment products) or **both** (e.g., institutional investors must report on the entity and on the product level).

In order to correctly assess, report on and manage the full spectrum of inside-out (i.e., impacts on the environment and people) and outside-in (i.e., climate / environmental risks for entities) arising from ESG factors, comprehensive disclosure requirements at product, investees corporate and investor financier level are needed.

Currently we have seen an increased relevance at the global level of disclosure regimes, with critical evolutions happening as well in Europe and the US:

- **The EU Taxonomy is a disclosure regime as we have seen previously**
- **The International Sustainability Standards Board (ISSB) – part of IFRS has released their initial Exposure Drafts on Sustainability reporting and climate-related reporting**
- **At EU level, EFRAG released 13 Exposure Drafts covering general and climate topics, but also all other elements relating to E, S and G – this is an update to the CSRD that requires large companies to disclose sustainability data**
- **CSDD will work on further disclosures as well on due diligence, value chains and related elements**
- **Pillar 3 disclosures (prudential approach) – disclosing transition and physical risks**
- **The US' SEC released as well their climate disclosure rules, bringing also the need to report not only on outside in risks but also GHG emissions.**
- **SFDR (EU) – disclosures at product level for retail financial products**

All of these disclosures need to be underpinned by robust data collection for availability and usability.

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Prudential levers

Prudential regulators are a key pillar for financial stability worldwide, ensuring that financial institutions under their supervision are behaving adequately. In recent years, their responsibilities have also expanded, with global initiatives such as the Network for Greening the Financial System, and relevant papers published by the BIS & BCBS showcasing the importance to manage and consider ESG risks (especially climate risks) in their activities.

Their toolbox is quite varied, being able to act upon different streams and activities of the FIs they regulate:

Pillar 1 measures
Regulators can impose penalizing or supporting factors into the Basel capital requirements on how banks manage their portfolios

Pillar 2 measures
Regulators can monitor how FIs are performing and how sound their business model is to tackle ESG risks, adjusting capital requirements as necessary if risks are identified. (e.g. CB Hungary)

Pillar 3 disclosures
Requiring banks to disclose how their portfolio is prepare to withstand outside in climate risks, as well as how well is it adjusted to finance more sustainable assets.

Stress testing
This is an increasingly utilized tool, that benefits from being known on the financial front by the supervised institutions, as well as being a good way for institutions to plan ahead and manage risks actively.

Own operations & monetary policy
In addition, central banks can also incorporate sustainability considerations in monetary policy and their own operations

SF work in progress in EU FinReg

Sustainability..	EU FinReg framework	Opportunities for improvement	Engagement channel
..disclosures of financial institutions and listed entities	✓ TR; CSRD; SFDR; CRR	SMEs, households Off BS, Underwriting	EU PSF, ESAs, ECB: - Taxo4 Usability - Enhance banking regulatory framework - Support transition plans/target setting - Implementation support on Pillar 3 (EBA) - Support on impact mgt process (EIOPA) (LFI) - Stress test coordination (NGFS)
..risk management of institutions	✓ CRR/CRD Solvency, IORPS, FMPs	CRR Pillar 2 Off BS	
..risk management of financial system (macroprud)	✓ Stress tests	Data quality	
..impact management, target setting in governance and processes of institutions	✓ CSDD; targets, transition plans	IORPS, FMPs Solvency too high level	
..standards, tools, definitions	✓ Taxo, EUGBS, BMR	Env, social taxonomy SLL, SLB	

Sustainability integrated across EU FinReg

Financial intermediaries

Climate BMR
- Benchmark administrators
- EU PAB/CTB standards

SFDR
- Entity and product level disclosures for FMPs

UCITS, AIF, IBIP, PEPP
- Financial products
- FD rules

Financial advisors

MiFID II (suitability/POG/risk management)
- Financial advisors, products
- Inv. firms class 1-2-3

IDD
- Insurance distributors

Corporate disclosure (financial and non-financial

Taxonomy Regulation
- Entity and product level disclosures

CSRD
- ESRS/EFRAG
- Entity level disclosures

Corporate governance, shareholders

CG Due Diligence Directive (CSDD)
- Corporate duties

SRD II
- Shareholder engagement

Issuers, instruments

EU GBS
- Issuers
- + Green securitization

Prospectus (SF in dev)

Securitisation (SF in dev)

Banks, pensions, insurers

CRR/CRD
- Credit instit, Inv.firms class1
- Pillar II, III

IORPS
- Pension providers

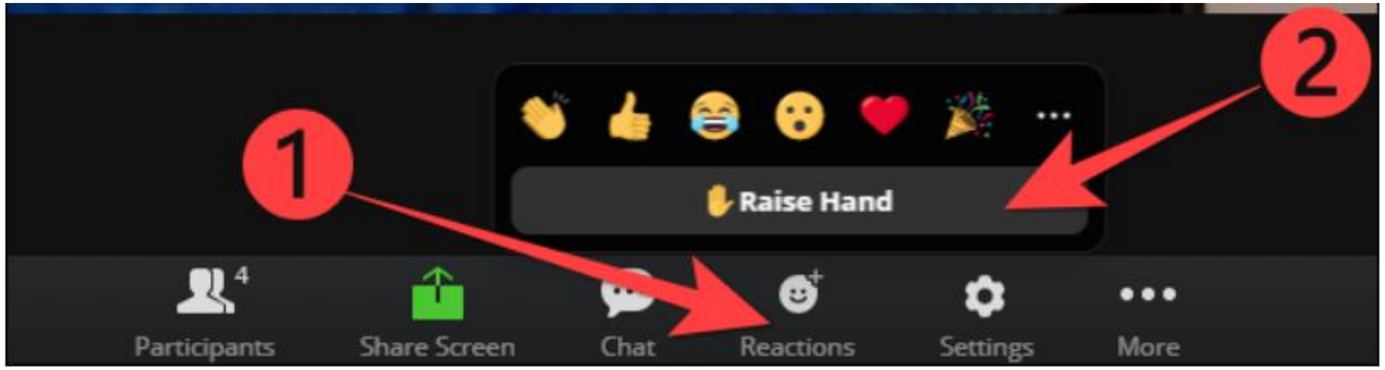
Solvency II
- Insurers/underwriters

Macroprudential policy

Q&A

Do you have a question or comment?

- Type **“Q”** in the chat space, followed by your question
- If you want to speak your question, type **“QSp”** and also ‘raise your hand’



Knowledge Quiz

THANK YOU

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