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MINISTÈRE
DE L'ÉCONOMIE
ET DES FINANCES

The European way of "greening" the financial system : EU sustainable finance regulatory policy

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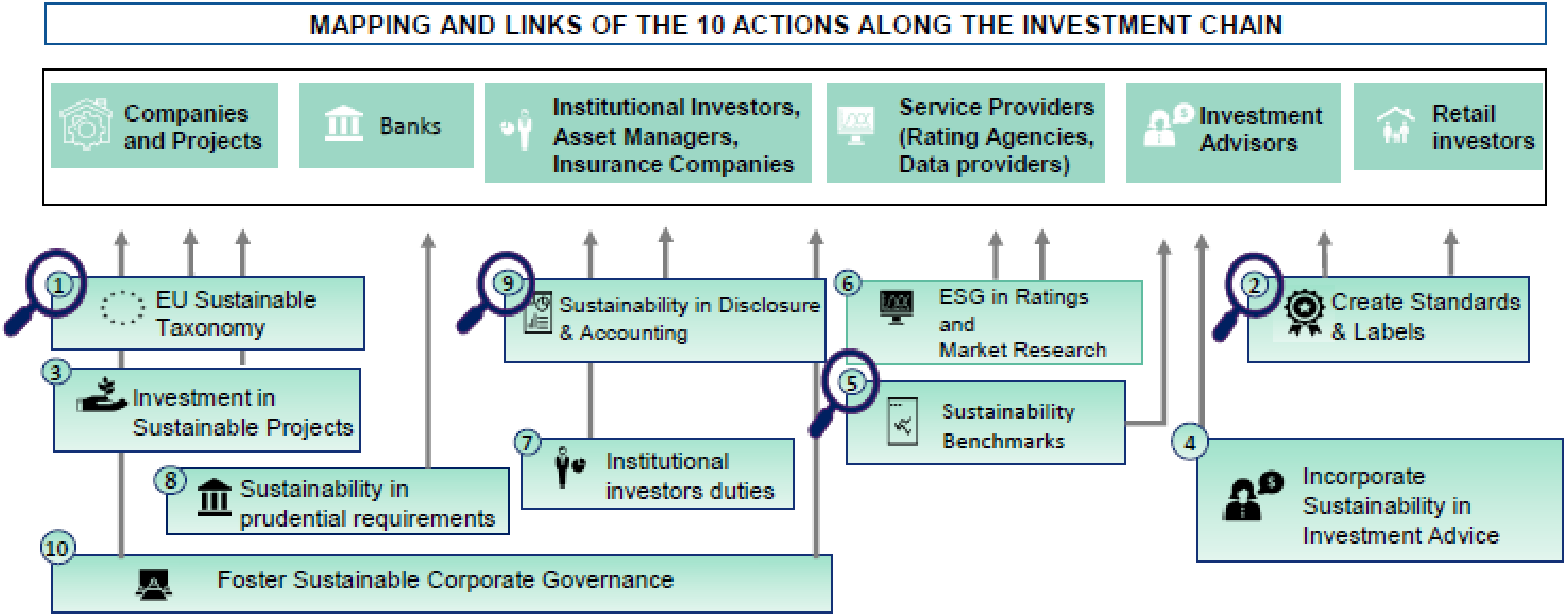
IFIS Luxembourg -
July 1st, 2021

To what extent is EU Financial Regulation on track to incentivize the alignment of capital flows toward the energy transition and to manage/mitigate climate-related financial risks?

The 2018 Sustainable Finance Action Plan

Channeling financial flows towards the energy and ecological transition requires extra-financial corporate transparency, a common language for transition and sustainability, the integration of climate risks into financial regulation/supervision and adequate instruments/products



Source: European Commission: Action Plan on Financing Sustainable Growth (2018).

Massive funding is needed

- **$6,000 bn investment per year worldwide** not to overshoot 2°C (IPCC)
- **$260 bn extra-financing per year in the EU** to achieve 2030 objectives (EU Green Deal)

A combination of dynamics that is reinforced *via* the EU's Action Plan: voluntary Commitments; market practices and public impetus/financial regulation

The EU Taxonomy as a common language for sustainability + a financial tool to accompanying the transition

An “inventory” for the future

A reporting enabler

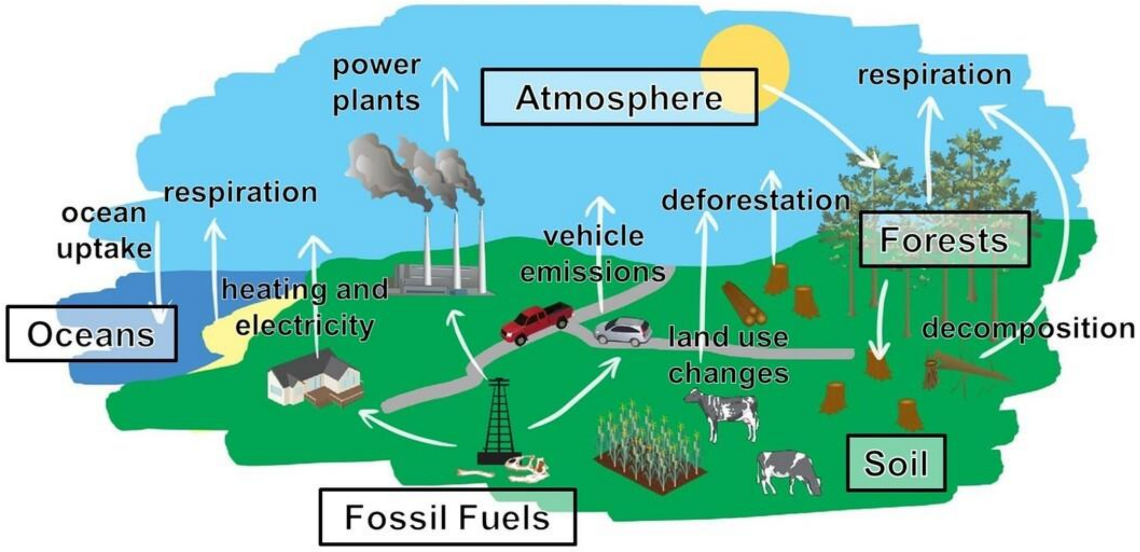
A transition tool

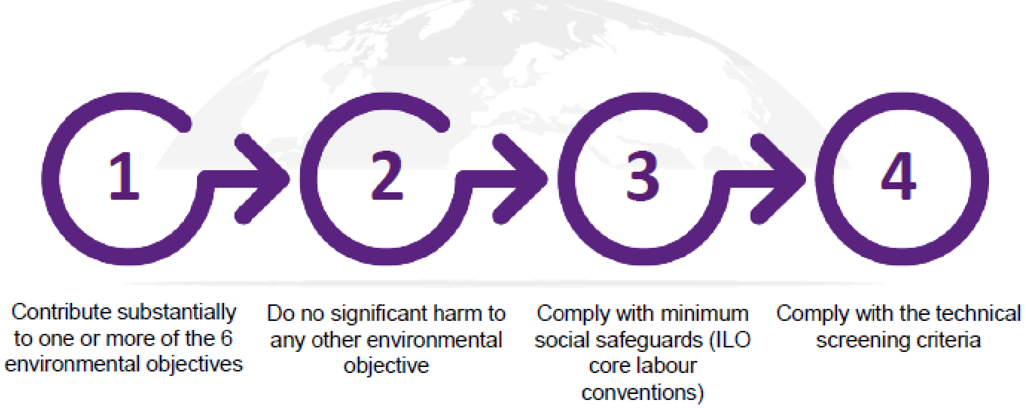
Set out in ‘Level 2’ EU law

Evidence & science-based

Dynamic

What are the fundamental characteristics of the EU Taxonomy?





3.7. Manufacture of cement

Description of the activity

Manufacture of cement clinker, cement or alternative binder.

The economic activities in this category could be associated with NACE code C23.51 in accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006.

An economic activity in this category is a transitional activity as referred to in Article 10(2) of Regulation (EU) 2020/852 where it complies with the technical screening criteria set out in this Section.

Technical screening criteria

Substantial contribution to climate change mitigation

The activity manufactures one of the following:

(a) grey cement clinker where the specific GHG emissions[99] are lower than 0,722[100] tCO_2e per tonne of grey cement clinker;

(b) cement from grey clinker or alternative hydraulic binder, where the specific GHG emissions[101] from the clinker and cement or alternative binder production are lower than 0,469[102] tCO_2e per tonne of cement or alternative binder manufactured.

Where CO_2 that would otherwise be emitted from the manufacturing process is captured for the purpose of underground storage, the CO_2 is transported and stored underground, in

[99] Calculated in accordance with Commission Delegated Regulation (EU) 2019/331 of 19 December 2018 determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council (OJ L 59, 27.2.2019, p. 8).

[100] Reflecting the average value of the 10% most efficient installations in 2016 and 2017 (t CO2 equivalents/t) as set out in the Annex to the Commission Implementing Regulation (EU) 2021/447 of 12 March 2021 determining revised benchmark values for free allocation of emission allowances for the period from 2021 to 2025 pursuant to Article 10a(2) of Directive 2003/87/EC of the European Parliament and of the Council, (OJ L 87, 15.3.2021, p. 29).

[101] Calculated in accordance with Regulation (EU) 2019/331.

[102] Reflecting the average value of the 10% most efficient installations in 2016 and 2017 (t CO2 equivalents/t) for grey cement clinker as set out in the Annex to the Implementing Regulation (EU) 2021/447, multiplied by the clinker to cement ratio of 0,65.

An excerpt from the latest version of the EU Taxonomy (published April 21st, 2021) – Climate Delegated Act of Regulation EU 2020/852

Do no significant harm ('DNSH')

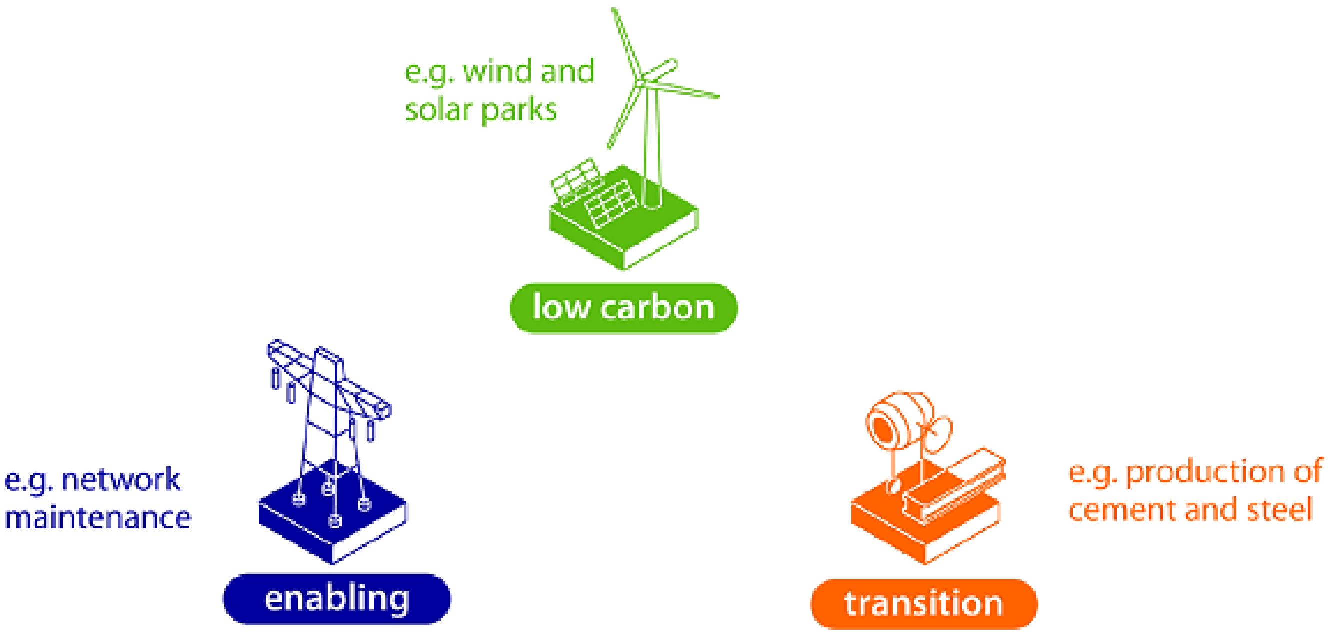
(2) Climate change adaptation	The activity complies with the criteria set out in Appendix A to this Annex.
(3) Sustainable use and protection of water and marine resources	The activity complies with the criteria set out in Appendix B to this Annex.
(4) Transition to a circular economy	N/A
(5) Pollution prevention and control	The activity complies with the criteria set out in Appendix C to this Annex. Emissions are within or lower than the emission levels associated with the best available techniques (BAT-AEL) ranges set out in the latest relevant best available techniques (BAT) conclusions, including the best available techniques (BAT) conclusions for the production of cement, lime and magnesium oxide[103]. No significant cross-media effects occur[104]. For manufacture of cement employing hazardous wastes as alternative fuels, measures are in place to ensure the safe handling of waste.
(6) Protection and restoration of biodiversity and	The activity complies with the criteria set out in Appendix D to this Annex.

[103] Commission Implementing Decision 2013/163/EU of 26 March 2013 establishing the best available techniques (BAT) conclusions under Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions for the production of cement, lime and magnesium oxide (OJ L 100, 9.4.2013, p. 1).

[104] See Best Available Techniques Reference Document (BREF) on Economics and Cross-Media Effects (version of [adoption date]: https://eippcb.jrc.ec.europa.eu/sites/default/files/2019-11/ecm_bref_0706.pdf).

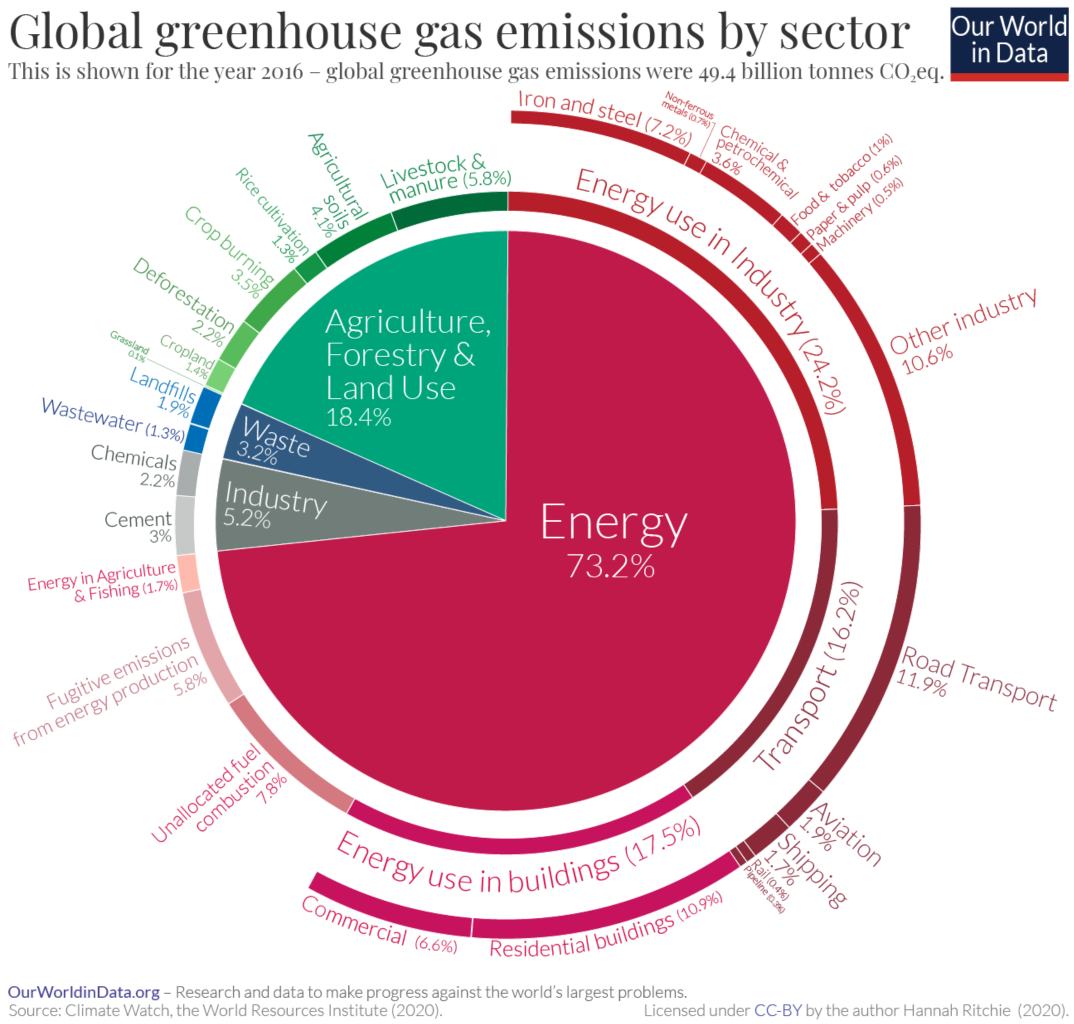
The Taxonomy Regulation recognizes the particularity of sectors where low-carbon technologies are not yet commercialized… but how to disclose a transition strategy?

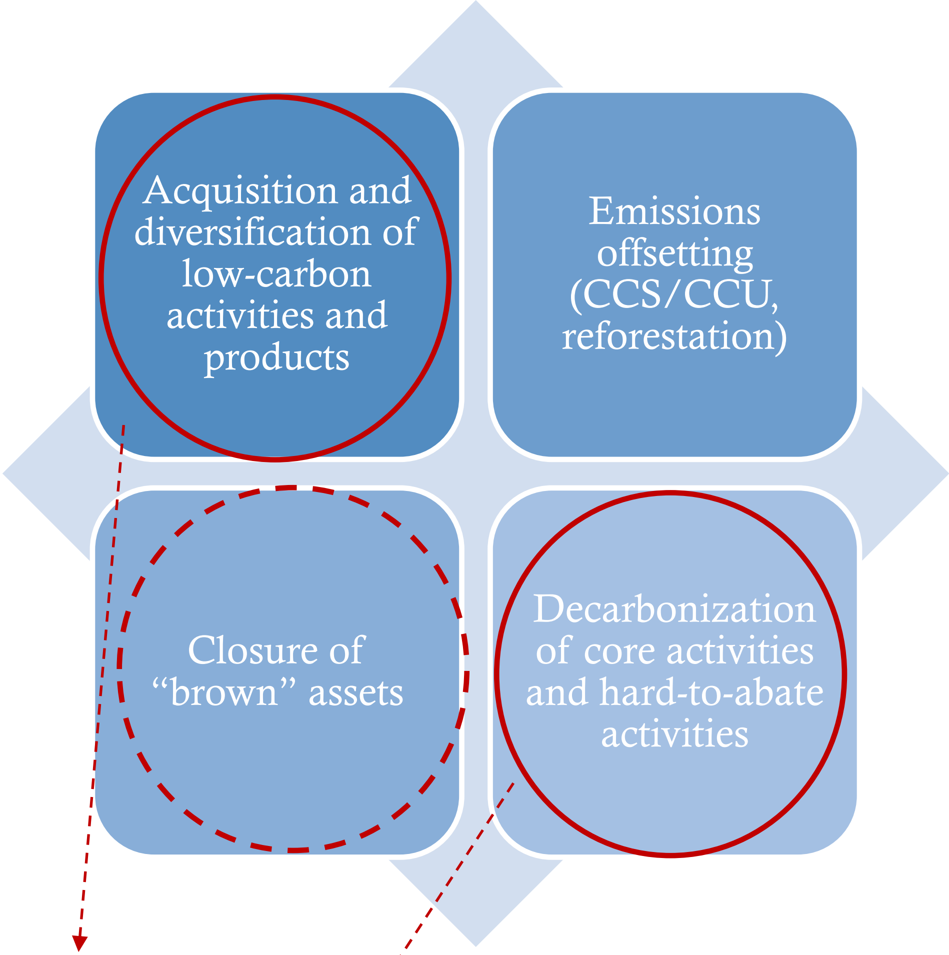
Already low carbon Very low, zero or net negative emissions. Compatible with net zero CO2 economy by 2050.	Likely to be stable and long term
Contribute to transition …to a net zero emissions economy in 2050	Likely to be revised regularly and tightened over time
Enabling emission reductions …in the first two types of activities.	Consistent with those activities being enabled



The Taxonomy now covers the sectors responsible for nearly 80% of GHG emissions in the European Union – and tomorrow 95% of GHG emissions.

Transition is a multifaceted topic and related corporate disclosure must reflect these different levers





Role of the EU Taxonomy

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Key objectives of the Taxonomy

(as per Regulation 2020/852)

1. Common language/metric system for the greening of the financial sector

- Standardization of labelling criteria for financial products and instruments
- Strengthening investor confidence through greater transparency and readability

2. Accompanying the transition to carbon neutrality

- Remove obstacles to the functioning of the internal market in financing the transition to sustainable projects, in particular in the framework of the Green Deal.

Companies rely on multi-annual transition plans

- Reaching the Taxonomy thresholds may require combining several decarbonation technologies on the same site (e.g. steel, cement, etc.).
- The deployment of these technologies can be achieved gradually, but the current text only funds investments that allow the "sustainability" thresholds to be reached.

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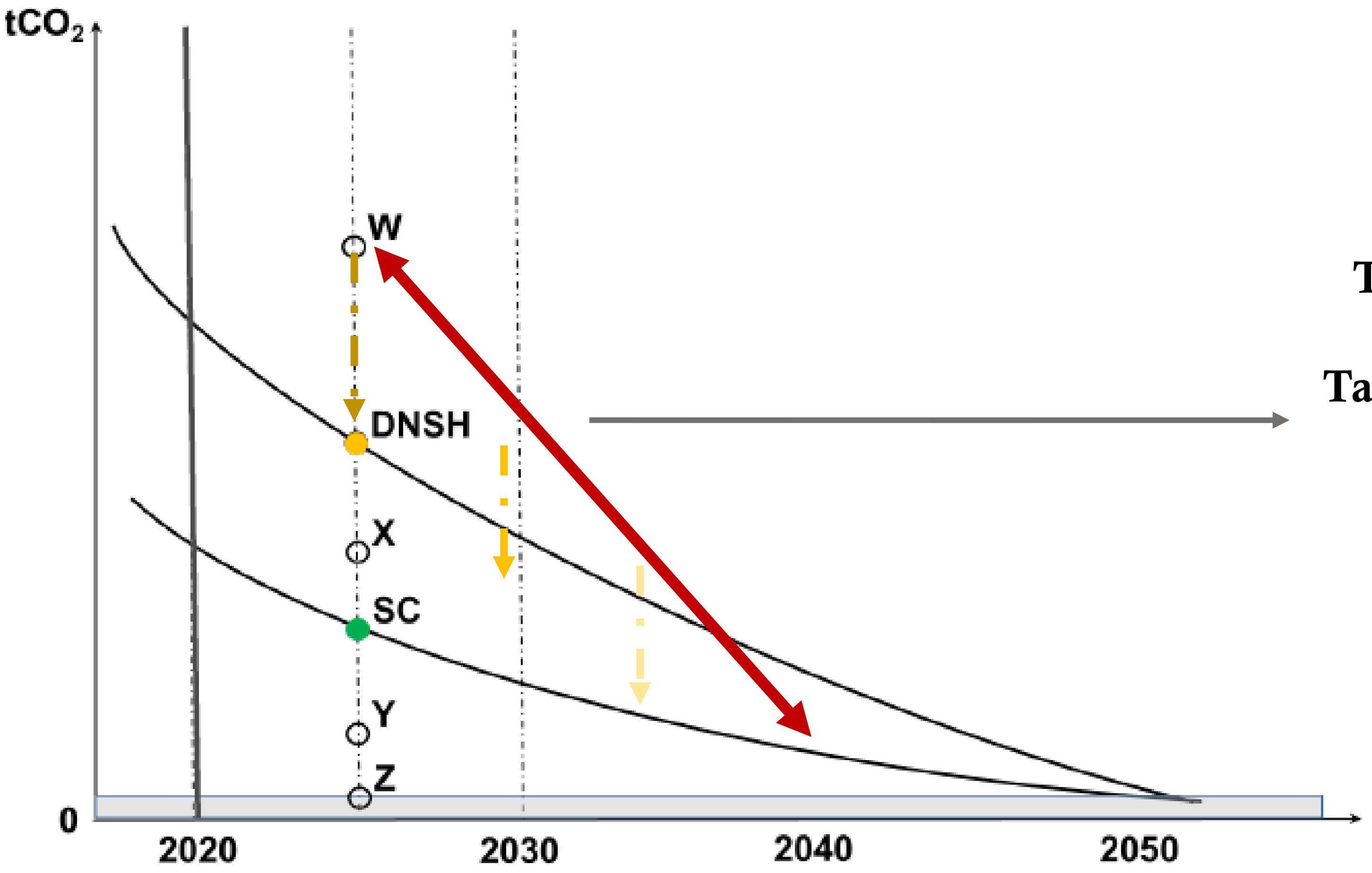
The Taxonomy must be able to standardize the transition plans of companies as soon as their decarbonation trajectory allows them to reach sustainability thresholds

The role of the delegated act under Article 8 of the EU Taxonomy Regulation (published by June 2021)



Transition plan aimed at achieving a substantial contribution to the Taxonomy's sustainability objective (on the set decarbonation trajectory), through successive investments

Looking ahead : the Renewed Sustainable Finance Strategy (July, 6th 2021)

Taxonomy as an indisputable tool for the development of transitional finance (1)

A dual objective for the financial sector

1. **To share a common understanding of the path of companies towards the sustainability thresholds of the Taxonomy**, through the financing of the most emitting sectors in order to reach the carbon neutrality objective.

2. **Ensure that the Taxonomy is the shared, science-based reference on transition and sustainability for the entire financial sector**, while broadening its use - beyond "sustainable/ESG" products and instruments alone.

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Taxonomy as an indisputable tool for the development of transitional finance (2)

Standardize **business transition plans to include improvement measures to "stay on track"**, with capital expenditures (CapEx) aligned with the Taxonomy

Delegated Act under Article 8 of Regulation 2020/852 under preparation –finalized in June 2021
EU corporate sustainability standard-setting

Expanding the potential use of Taxonomy

- Possible linkage to "sustainability-linked loans/bonds" type instruments" and "transition bonds", thanks to the notion of decarbonization trajectory

- Development of standards at the EU level

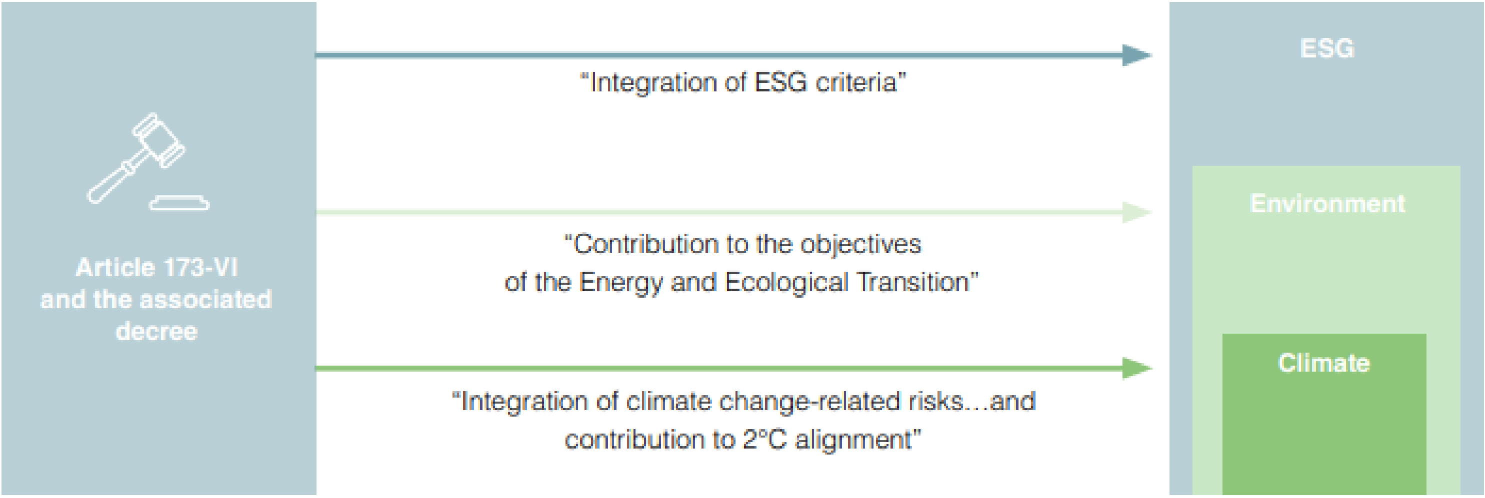
Enable a link between products with a sustainable investment objective (as defined by the Disclosure regulation, amended by the Taxonomy regulation) **and the methodologies of the climate indices** (under the delegated acts "Benchmarks") "Paris Aligned Benchmark" and "Climate Transition Benchmark".

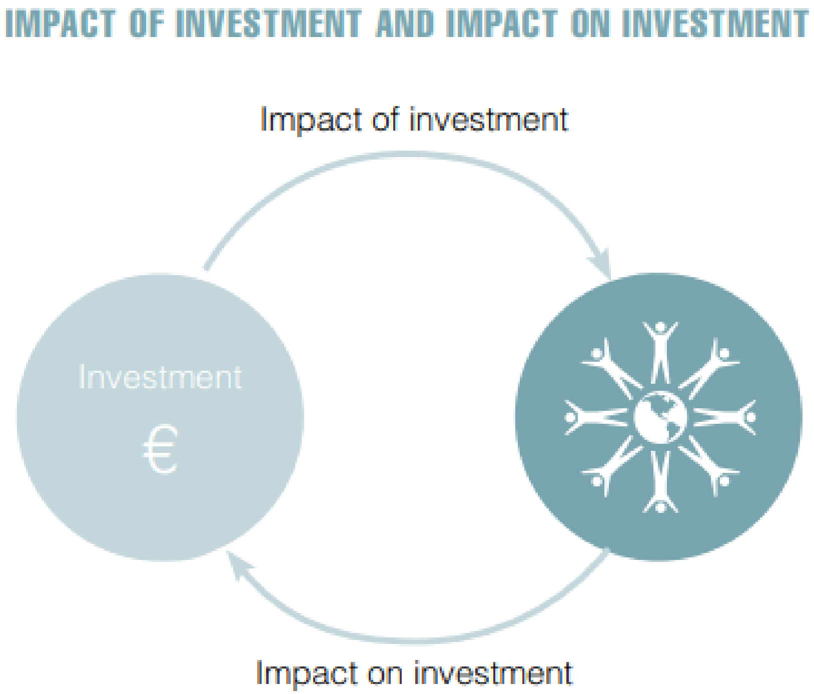
Contribute to the assessment and management of transition risk by market participants (e.g. work on the 2nd and 3rd "Basel" pillars) **based, in particular, on the deviation from the decarbonation trajectory.**

Usefulness in portfolio alignment methodologies (risk measurement and mitigation tool)

Investor disclosure as a primary focus with a dual materiality perspective

A dual materiality principle : disclosure and risk management must include the impact of climate-related risks on investment (and their management) + the impact of investment on climate





At the financial entity level (periodic reporting) + at the product level (contractual reporting + periodic reporting + website)

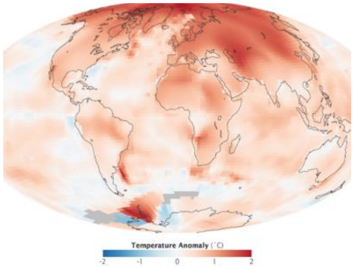
	SCOPE	CHANNEL OF THE DISCLOSURE	REQUIREMENT
Sustainability risks at the level of the financial market participant **(Article 3)**	All financial market participants - no opt out.	Website (public)	Draft and publish information about policies on the integration of sustainability risks in the investment decision-making process. This disclosure provision assumes that sustainability risks-related policies have been drafted.
Sustainability Risks at the level of the financial adviser **(Article 3)**	All financial advisers -no opt out.	Website (public)	Draft and publish information about their policies on the integration of sustainability risks in their investment advice or insurance advice. Sustainability risks-related policy is also required.
Principal adverse sustainability impacts (PASI) at the level of the financial market participant **(Article 4)**	All financial market participants on a **"comply or explain"** basis. Financial market participants with more than 500 employees or qualifying parent undertakings are obliged to comply from 30 June 2021. Those that choose to explain why they don't consider PASI are referred to as **"PASI"** opt-out firms in this table.	Website (public)	Publish information on due diligence policies looking at PASI, including: - Information on the identification and prioritisation of PASI; - Description of the PASI considered and any action planned in relation to it; - Description of engagement policies as established in application of the revised Shareholders Right Directive.[13] Reference to adherence to OECD and UNPRI due diligence standards. This disclosure provision assumes that such due diligence policies have been drafted. Financial market participants which are not considering PASI have to publish clear reasons why they are not doing so and, if relevant, whether they intend to consider such adverse impact in the future.

EU SUSTAINABLE FINANCE DISCLOSURE REGULATION (2019)

An area where EU law and French law are complementary

ARTICLE 29 OF THE ENERGY-CLIMATE LAW (2019) & APPLICATION DECREE (27 MAY 2021)

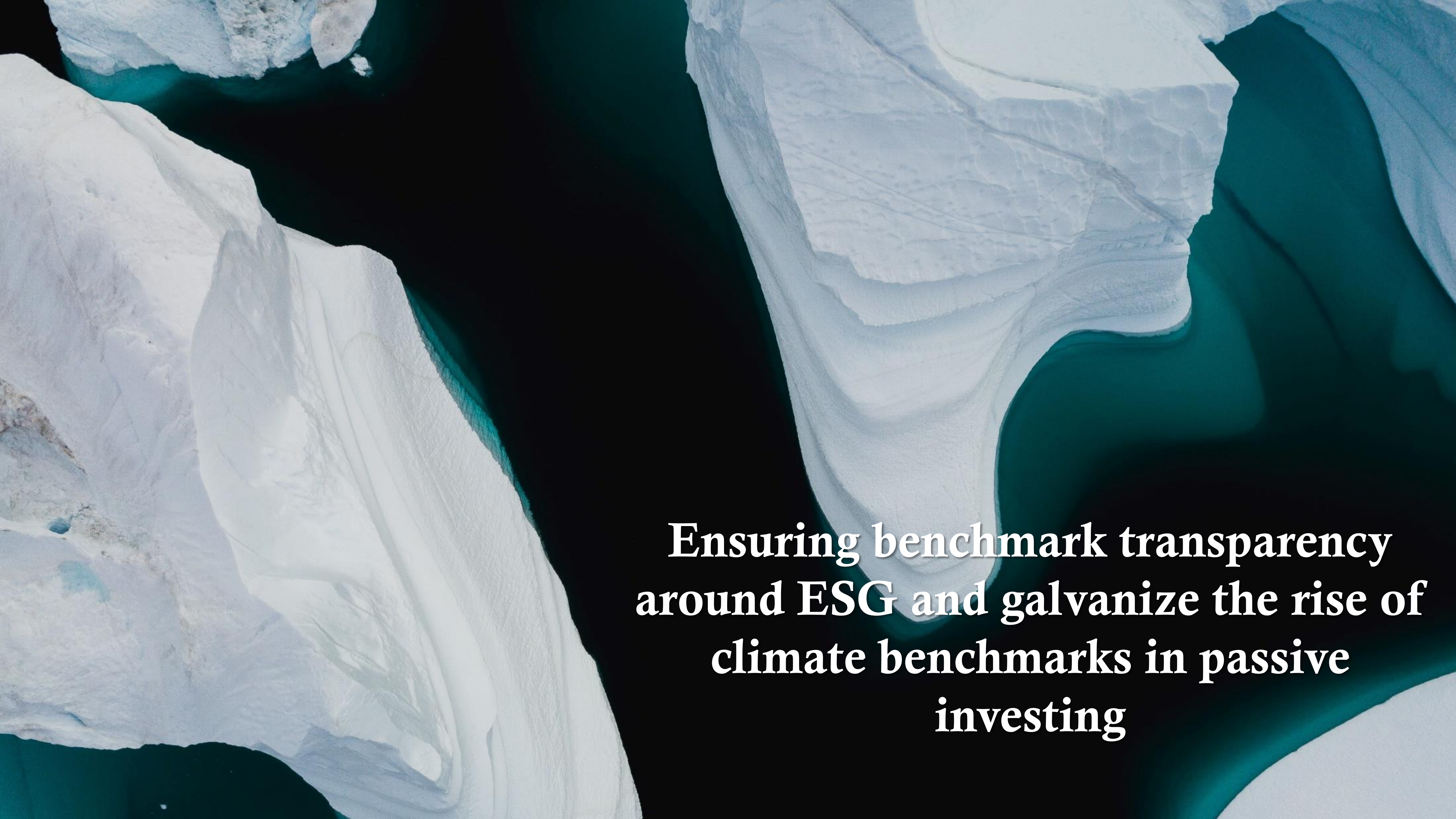
Publication of the overall investment strategy, internal resources dedicated to ESG, improvement process, shareholder engagement, voting policy…

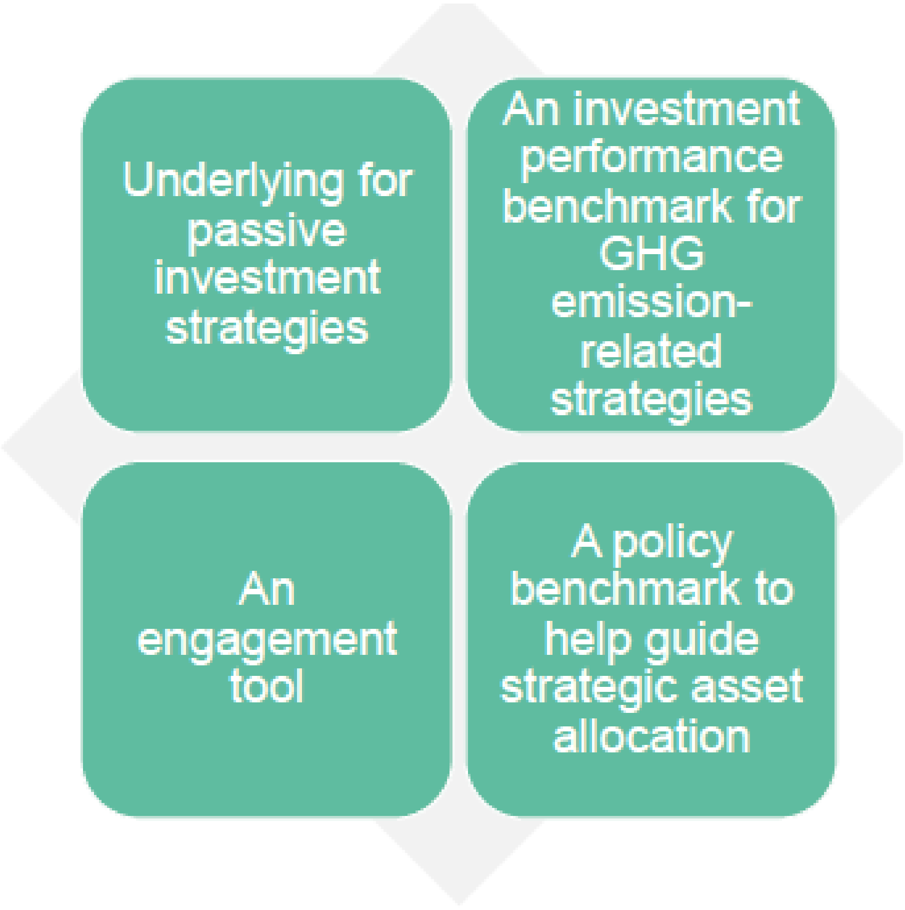


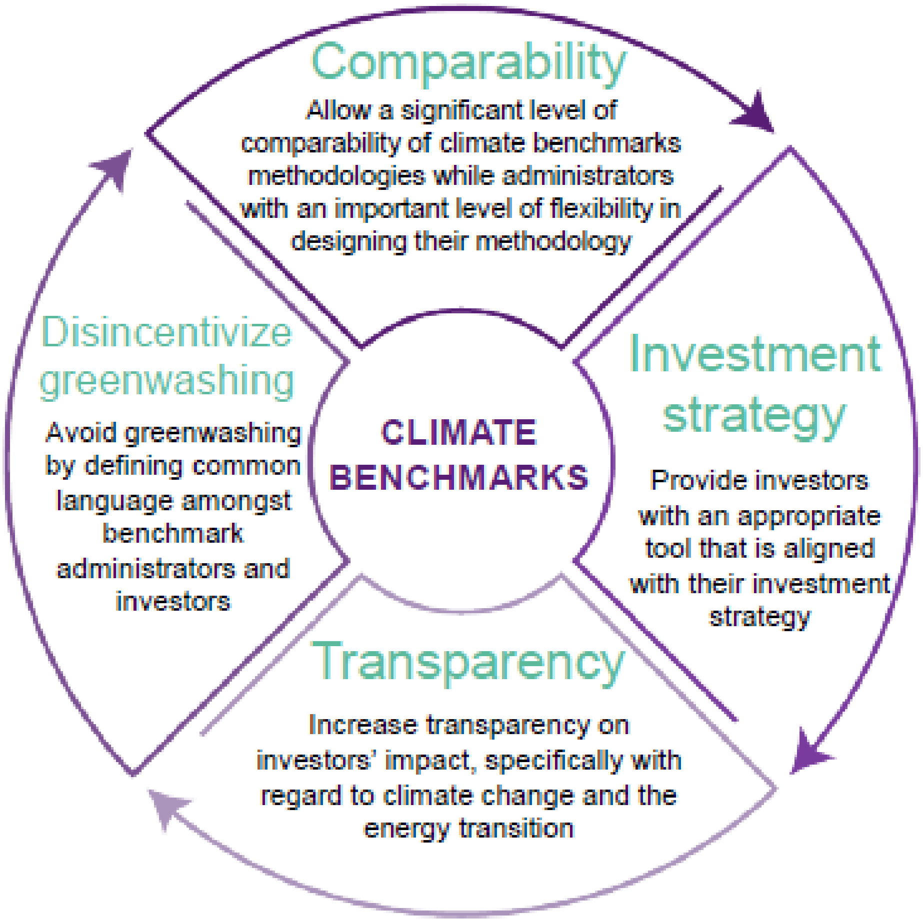
Publication of the portfolio's temperature alignment (according to Paris agreement) and dedicated methodology

Publication of information dedicated to the contribution to the transition: Taxonomy-aligned assets under management, biodiversity strategy…

Publication of ESG risk management processes in detail, with a focus on climate and biodiversity risks


Ensuring benchmark transparency around ESG and galvanize the rise of climate benchmarks in passive investing


Underlying for passive investment strategies
An investment performance benchmark for GHG emission-related strategies
An engagement tool
A policy benchmark to help guide strategic asset allocation


CLIMATE BENCHMARKS
Comparability
Allow a significant level of comparability of climate benchmarks methodologies while administrators with an important level of flexibility in designing their methodology
Investment strategy
Provide investors with an appropriate tool that is aligned with their investment strategy
Transparency
Increase transparency on investors' impact, specifically with regard to climate change and the energy transition
Disincentivize greenwashing
Avoid greenwashing by defining common language amongst benchmark administrators and investors

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		EU Climate transition Benchmark	EU Paris-aligned Benchmark
	Risk oriented minimum standards		
1	**Carbon intensity reduction vs investable universe**	**30%**	**50%**
2	**Scope 3 phase-in**	2-4 years	
3	**Do no significant harm principle**	Controversial Weapons Societal norms violators	Controversial Weapons Societal norms violators **Activity Exclusions**
	Opportunity oriented minimum standards		
4	**Minimum green share / brown share ratio compared to investable universe** (on a voluntary basis)	**At least equivalent**	**Significantly larger (factor 4)**
5	**Exposure to High Impact sectors**	Minimum exposure to sectors highly exposed to climate change issues is at least equal to market benchmark value	
6	**Year-on-year self-decarbonization of the benchmark**	At least 7%: in line with or beyond the decarbonization trajectory from the IPCC's 1.5°C scenario	

Sustainable finance is about accompanying the transition: strong emphasis on investor engagement and the common setup of divestment policies

Labels for investment /insurance / savings products

EU Ecolabel for financial products with criteria on engagement (transition plans and exclusions)

Sustainable Finance Disclosure Regulation; EU Sustainable Corporate Governance Initiative

Disclosure on engagement policy and its consequences on the investor's investment policy and sectorial approach to decarbonization

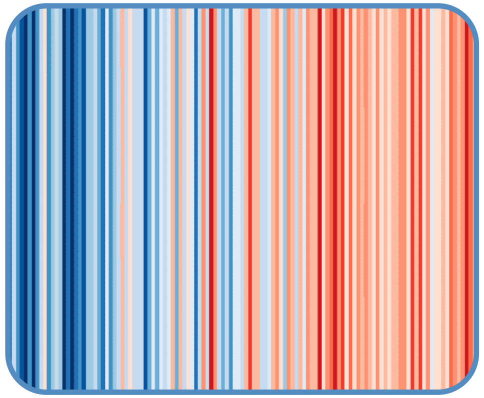
Green bonds and transition bonds

EU Green Bond Standard (under development)

At the Paris marketplace level, a strong ambition on divestment from fossil fuels, with an early focus on coal

“ I intend to go further to convince the financial sector to move in this direction and to ensure that it meets its commitments. In the coming weeks, I will therefore bring together banks, insurers and asset managers so that they **make new commitments to finance the activities that are most harmful to global warming, in particular coal**. And that this new commitment be clear, that **they definitively stop financing the activities most harmful to global warming, in particular coal, whether power plants or mines. These commitments will have to be independently monitored**".

Bruno Le Maire, French Minister of Economy and Finance, November 2018
(Climate Finance Day, Paris)



Commitment of financial market participants on the adoption by the members of a coal divestment strategy, with a common timetable

(2030 EU/OECD, 2040 rest of the world)

Monitoring and evaluation of climate-related commitments by financial supervisors

Setup of dedicated climate commissions within the Central Bank and the financial markets supervisors (in 2019)

Setup of a Sustainable Finance Observatory with a dedicated scientific committee.

Minimum criteria on the Paris marketplace for coal divestment.

Further work undertaken on unconventional fossil fuels (July 2021), portfolio alignment measurement…

Methodological work on taking **climate risks** into account in the financial system

Building on regional advances: the EU's international strategy

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A common EU/US Taxonomy?

- One of the main priorities for sustainable finance at the **G7 level** : identification of the core principles behind the establishment of taxonomies; mandate of the **International Platform of the European Commission**

- The EU Taxonomy is based on **key principles**:

✓ Concept of technological neutrality
✓ Carbon neutrality goal
✓ A multi-objective approach that ensures no significant harm to both climate and environment
✓ The coverage of all economic activities, not only those where low-carbon technologies are already available
✓ Minimum social/governance guarantees

Merci !

Thank you !