EC High Level Group on Sustainable Finance
– climate services needs and prerequisites for the finance sector

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What is at stake?

• Sustainability is the model for Europe’s future development – and finance is an essential lever to deliver ambitious goals for economic prosperity, social inclusion and environmental regeneration.

• The European financial sector has the potential to play a significant role in funding, accelerating and smoothing this transition process, a process that is already well under way.

• For the financial system, sustainability has a dual imperative:
  • first, fully integrating environmental, social and governance factors into financial decision-making to manage risks and seize investment opportunities; and
  • second, mobilising capital to finance sustainable development priorities to meet critical European and global goals, including those for climate change.
What will we get?

• Sustainability offers the chance to reconnect the EU’s financial system with the aspirations of its citizens as users and savers at a time of immense change.

• The EU has already been leading on this agenda, taking ambitious steps towards decarbonisation and the transition to a sustainable European economy.

• Finance is often seen as separate, but the financial system is an integral part of modern economies and makes an important contribution to societal well-being.

• In the aftermath of the financial and sovereign debt crises, sustainable finance could provide the best opportunity for the EU to reorient the financial system from short-term stabilization to long-term impact.

• Sustainability in finance requires further refining and evolving risk models, including sources of investment risk time horizons and how future high magnitude risks are modelled.
Where are we?
Globally averaged combined land and ocean surface temperature anomaly
Globally averaged sea level change
Globally averaged greenhouse gas concentrations
Global anthropogenic CO2 emissions

Quantitative information of CH4 and N2O emission time series from 1850 to 1970 is limited.
Climate Change
EU Commission High Level Expert Group on Sustainable Finance
EU Strategy on Sustainable Finance

Building on existing EU legislation and ongoing international work on sustainable, green and climate-related finance, as well as emerging initiatives in Member States or at EU level (whether institutional, industry- or civil society-based), an EU strategy on sustainable finance should identify, prioritise and sequence the ways in which EU financial policy reform can:

1. Steer the flow of public and private capital towards sustainable investments;
2. Explore effective and operational steps that financial institutions and supervisors should take to protect the stability of the financial system from risks related to the environment;
3. Deploy these policies on a pan-European scale.
Commission Vice-President for Jobs, Growth, Investment and Competitiveness Jyrki Katainen:

"The finance sector has a critical role to play in re-orienting capital towards more sustainable technologies and uses, and financing Europe's energy transition needs. Because of its longer-term horizons, the finance sector is also more exposed to environmental risk. On both counts, Europe needs to develop a proactive and coherent strategy to anchor sustainability in financial regulation and policymaking. This is crucial for jobs, growth and competitiveness. The Expert Group report has the potential to make a landmark contribution to shaping European policy"
Expectation from the Commission

• The HLEG shall do its work during 2017 with concrete proposals
• The Commission will create an action plan based on the recommendations of the HLEG during the first half of 2018

• Please note: ESG is environmental, societal and governance – not just climate!
1. Shared Vision and Understanding
Framework & Policy objectives to unlock sustainable/green investments

2a. Adapting processes, incentives & culture across the entire investment & lending chain
ESG & Climate-related metrics, governance, reward systems...
Conduct & Customer Protection

2b. Addressing and mitigating risks
Aggregation, Distribution, Risk-Modelling, Financial stability...
Supervisors mandate...

2c. Addressing structural obstacles and time misalignments
ST/LT, Liquidity, Volatility, Capital Rules...
Core Financial Regulation...

2. Integrating sustainability into the functioning of the EU Financial System

3. Mobilizing more capital flows towards a sustainable economy with investments & job creation
3a. Expanding financial markets for sustainable (green, social) assets
Actors [incl. stock-exchanges], instruments, processes, definitions / standards / labels...
3b. Orienting capital towards new sustainable investments / projects [in relation to NDCs of Members States and key European Policies]
Energy Union, CMU, Investment Plan for Europe [Infrastructure/ SMEs]
Topics of the HLEG – stakeholder meeting discussing interim report on 18 July

• The mismatch of time horizons & investment objectives across the investment chain
• Disclosure
• Prudential regulation
• Accounting frameworks
• Promoting institutional demand: fiduciary duty, investor governance and mandates for long-term sustainability
• Aligning market benchmarks with sustainability objectives
Actuaries’ Climate Index

USA and Canada Combined

[Graph showing climate index from 1970 to 2010 for USA and Canada combined]