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SPEECH

SPEECH AT THE EUROPEAN PARLIAMENT – PUBLIC HEARING ON SUSTAINABLE FINANCE ORGANISED BY ENVI AND ECON COMMITTEES

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SPEECH AT THE EUROPEAN PARLIAMENT – JOINT ENVI AND ECON COMMITTEES[1]

The introduction of explicit 2030 and 2050 climate mitigation goals changes the foundations of financial decision-making. Incremental adjustment of today's economy is no longer sufficient to ensure prosperity. Rather, our progress towards achieving the goals is what matters and must inform both our financial policy and ultimately our financing decisions.

We have estimates of how much finance must be allocated to meet our sustainability goals, including the climate mitigation goals, and our progress is well below where it needs to be. Globally, data on climate finance flows from the climate policy initiatives indicate that we are achieving less than 20% of the €6.35 trillion required every year to 2030 to meet those goals. Not only that, we are still sending too much finance to high emissions activities. In fact, in 2020, around $750bn of bank finance flowed to companies whose primary activities were coal, oil and gas, and in many cases with limited transition plans in place. This mismatch indicates how far behind we are and that a transformation in financial flows is needed if the 2030 and 2050 goals are to be met.

Financial system reform plays a critical role in aligning financial activity with sustainability goals, however it is not enough: it must be accompanied by costs and regulation of environmental harms alongside financial reforms which are essential in their own right. In pursuing them, our aim should be to build trust, build scale and to keep transaction costs as low as possible. The benefit of doing so is to increase the availability and reduce the cost of capital for economic activities that contribute to our sustainability goals. This is the approach Europe is taking, and Europe is leading the world in this area.

The EU Action Plan from 2018 contains 27 sub-actions distributed across 10 main action areas. By our assessment at the PRI, progress has been made in most of these areas in under 3 years. However, there is still some unfinished business from 2018, and further steps should be taken. For example, we need more reform on stewardship activities, financial product labelling and better link investor duties to the sustainability goals and outcomes.

The comprehensive reform approach of Europe is welcome, however is essential that the sustainable finance regulations are coherent with each other. The risk of definitions and frameworks that are not aligned can increase transaction costs and reduce the scaling up of finance that we need. Co-legislators have an essential and important role in achieving and maintaining the coherence of the frameworks. For this work to matter and make a difference, there must be a sound scientific basis for all the additional disclosures, the product labels, the financial advice, the fulfilment of duties to clients and ultimately the allocation of capital.

Taxonomy is an essential part of Europe's sustainable financial system and there should be no delays in its commencement. Ultimately, its purpose is to help allocate capital to the activities and the companies of the future. This is a way for policy makers to do some of the heavy lifting on the

[1] The public hearing is available at https://multimedia.europarl.europa.eu/en/envi-econ_20210526-1645-COMMITTEE-ENVI-ECON_vd

economic transition that is required to meet the 2030 goals. This is what transition finance means in practice: allocating capital to the activities and companies of the future. Further, this is a large undertaking i.e. getting capital markets to assess sustainability performance, and we need to allow the market to move forward with implementing this reform as soon as possible. In doing so, Europe's financial system will build competence and better exposure to the future sustainable economy. This is a competitive issue for Europe, and we should move forward as quickly as we can. Many of the criteria in the Taxonomy are excellent, not all are perfect, but we need to use it and improve over time. The extent to which we can build trust, scale and minimise costs depends largely on the scientific basis of the criteria, and improvements are needed. Basing criteria on the regulatory minima of today in our different economic sectors, where these regulations are not aligned with goals, is ultimately a fruitless exercise. The opportunity to incentivise change in economic activities is lost and the criteria will be less stable, which introduces doubts to markets because it will have to be reformed. Ultimately, a Taxonomy that does not inform about a future pathway is not adding anything as an investment tool, therefore we must always look forward when setting these criteria. The market response where the evidence for criteria is weak is yet to be seen. The criteria must be used for disclosure by market participants, however, if the criteria do not reflect the best science, investors and financiers will use other tools when actually deciding where to invest. Therefore, the Taxonomy must relentlessly pursue this objective of scientific basis.

The platform is working to develop the Taxonomy further e.g. to provide more options for a wider transition tool, to incorporate the design and principles for social taxonomy and criteria for more environmental objectives. As we do this, we will work as transparently as possible, and we congratulate and thank the co-legislators for their work to date on these essential reforms. Sustainable finance frameworks alone will not enable us to reach our goals but are an essential part of the reform agenda. The Taxonomy is a tool to support business and to bring capital to the transition. The timing matters and we must move ahead. Ultimately, as we build this framework of reforms, coherence matters so that we can achieve trust, scale and minimise the cost of transition as much as possible.

Thank you, Chair.