Sustainable finance

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Molly SCOTT CATO (Greens/EFA, UK) on sustainable finance.

Financial markets can and should play a vital role in facilitating the transition to a sustainable economy in the EU which extends beyond climate transition and ecological issues. Sustainable finance can be a means to address societal challenges with a view to long-term inclusive growth and to promote citizens' well-being. Criteria on investment in climate change mitigation seem most promising and can be a good starting point.

The European Union can set a standard for a sustainable financial system by introducing a credible and comprehensive framework, the details of which should be phased in through specific legislative initiatives.

The need to provide an appropriate policy framework to mobilise capital required for a sustainable transition: Members stressed the potential of a faster sustainable transition as an opportunity for orienting capital markets and financial intermediaries towards long-term, innovative, socially friendly, environmentally sound and efficient investments. Acknowledging the current trend of **divestment** from coal, Members pointed out that further endeavours are required for divesting from other fossil fuels. They underlined the importance of European banks and capital markets gaining from the advantages of innovation in this area. They stressed that a well-designed political, supervisory and regulatory framework to govern sustainable finance, taking into account the diverse opportunities of the EU regions, is needed.

The Commission is called on to come forward with an ambitious legislative framework, recognising the proposals put forward in the Commission Action Plan on Sustainable Finance.

The role of the financial sector as regards sustainability and the policies required for correcting market failures: Members emphasised the instrumental role of economic, fiscal and monetary policy in fostering sustainable finance by facilitating capital allocation and the reorientation of investments towards more sustainable technologies and businesses, and towards decarbonised, disaster-resilient and resource-efficient economic activities which are able to reduce the current need for future resources and are thereby capable of meeting goals related to EU sustainability and to the Paris Agreement.

They acknowledged that an appropriate and increasing price for greenhouse gas emissions is an important component in a functioning and efficient environmental and social market economy by correcting current market failures. They noted that the price in the European carbon market has been unstable and called on the Commission and the Member States to work towards **phasing out direct and indirect subsidies for fossil fuels**.

Financing public investments required for the transition: Members emphasised that reforming the financial system, so that it actively contributes to accelerating the ecological transition, will require the cooperation of the public and private sectors. They called on the Member States, in coordination with the Commission, the European supervisory authorities and the European Investment Bank (EIB), to assess their national and collective public investment needs and to fill the potential gaps to ensure that the EU is on track to meet its climate change goals within the next five years, as well as the UN Sustainable Development Goals by 2030.

Green bonds: Members noted that green bonds represent only a fraction of the investment market and one that is insufficiently regulated, and, as a result, is a part of the market that is vulnerable to the risk of

misleading marketing and that the EU currently lacks a unified standard for green bonds, which should build on a forthcoming EU sustainable taxonomy. Such green bonds should also include reverse environmental impact and support a decrease in the use of fossil fuel assets. The report suggested that the development of the standard for an EU green bond should take place in full transparency with a specific Commission working group subject to regular scrutiny by the European Parliament.

The Commission should regularly assess the impact, effectiveness and supervision of the green bonds.

The role of the EIB as regards sustainable finance: the report stressed the example-setting role EU institutions should play when it comes to making finance sustainable. It noted that although 26 % of all EIB financing has targeted climate action and although the EIB pioneered the green bond market in 2007 and is on track to reach its announced commitment in the regard, it is still financing carbon-intensive projects and so there is still room for improvement. The EIB is urged, therefore, to adapt and prioritise its future lending so as to be compatible with the Paris Agreement and a 1.5 °C climate limit.