Framework to facilitate sustainable investment

2018/0178(COD) - 24/05/2018 - Legislative proposal

PURPOSE: to establish a framework to facilitate sustainable investment.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: sustainability and the transition to a low-carbon and climate resilient, more resource-efficient and circular economy are key in ensuring long-term competitiveness of the Union's economy.

In March 2018, the Commission published its <u>action plan</u> 'Financing Sustainable Growth' setting up an ambitious and comprehensive strategy on sustainable finance. One of the objectives set out in that action plan is to **reorient capital flows towards sustainable investment** in order to achieve sustainable and inclusive growth.

In line with the Paris Climate Change Agreement and the 2030 UN Sustainable Development Agenda, this proposal is part of a broader Commission initiative to facilitate investment in sustainable projects and assets across the European Union. In particular, it defines uniform criteria for determining whether an economic activity is environmentally sustainable.

The proposal is presented in parallel with:

- a <u>proposal</u> to bring institutional investors (management companies of undertakings for collective investment in transferable securities (UCITS), alternative investment fund managers (AIFs), insurance undertakings, institutions for occupational retirement provision (IORPs), European venture capital fund managers (EuVECA), European social entrepreneurship fund managers (EuSEF) and investment firms) to **integrate environmental**, **social and governance (ESG)** considerations into their internal processes and inform their clients in this respect;
- a <u>proposal</u> to help investors compare the carbon footprint of investments.

IMPACT ASSESSMENT: the option chosen is that of a **unified EU classification system** (or taxonomy). An EU uniform classification would help determine which activities can be considered sustainable and send the right signals to economic actors, as it would translate EU policy objectives into concrete guidelines for identifying relevant projects or investments. It could therefore help to direct more capital towards sustainable investments.

CONTENT: the proposed Regulation seeks to **standardise the criteria for determining whether an economic activity is environmentally sustainable** for the purposes of establishing the degree of environmental sustainability of an investment.

Environmental sustainability criteria for economic activities: the proposal provides for criteria and a procedure for identifying environmentally sustainable investments, in order to avoid distortions of the single market due to differences in the interpretation of this concept between Member States.

According to these criteria, the economic activity should contribute substantially to one or more **environmental objectives** without causing significant harm to any other. These environmental objectives are: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of

water and marine resources; (4) transition to a circular economy, waste prevention and recycling; (5) pollution prevention and control; (6) protection of healthy ecosystems.

In recognition of the principles enshrined in the European Pillar of Social Rights, economic activity should also be pursued in accordance with **minimum international social and labour standards**.

The Commission may adopt delegated acts specifying the technical screening criteria for determining what constitutes a substantial contribution to an environmental objective and what constitutes substantial harm to other objectives, those criteria also apply.

Disclosure obligations: the proposal requires those financial market participants that are subject to the disclosure obligations set out in the proposed Regulation on improving sustainability disclosure referenced above (e.g. fund managers) to disclose the degree of environmental sustainability of those financial products that they claim pursue environmental objectives.

If a fund manager offers a fund claiming it is a 'green fund', then for that particular fund the manager will have to indicate the way and the extent to which the criteria for environmentally sustainable economic activities were used to determine the environmental sustainability of the investment in the fund's **precontractual disclosure document**.

Sustainable Finance Platform: the proposal provides for a process involving a multi-stakeholder Platform to establish at EU level a uniform classification system based on a set of clear criteria to determine which economic activities may be considered sustainable. This **Platform will assist the Commission in the progressive development and the update of the EU classification system**.

The European Supervisory Authorities (ESAs) will play a key role in developing the European sustainability taxonomy to ensure that it is usable by financial institutions, applicable to financial products and compatible with EU financial legislation. The European Environmental Agency (EEA) will also be closely involved in the sustainable finance work.

BUDGETARY IMPLICATIONS: the European Commission will be responsible for managing the Platform (e.g. organising its meetings and meetings of any sub-groups, reporting on the outcome, preparing legislative proposals, liaising with the ESAs and the EEA, maintaining an IT collaborative tool, reimbursing experts, performing other secretarial tasks, etc). In order to accomplish these and other tasks, the European Commission would need 10 full-time employees as of 2020.

The total impact on expenditure is estimated at **EUR 10.496 million** for the period 2020-2023.