Sustainable finance

2018/2007(INI) - 29/05/2018 - Text adopted by Parliament, single reading

The European Parliament adopted by 455 votes to 87, with 92 abstentions a resolution 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: Parliament 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, it pointed out that further endeavours are required for divesting from other fossil fuels. Members 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: Parliament stressed that the financial sector as a whole and its core function of allocating capital as efficiently as possible to the benefit of society should, in line with the EU's objectives, be governed by the values of equity and inclusiveness and the principle of sustainability. 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**.

Carbon stress tests: Parliament emphasised the substantial systemic risks that stranded carbon and environmentally harmful assets represent to financial stability if these assets are not duly priced in a timely fashion according to their long-term risk profile. It stressed the need for the identification, assessment, and prudent management of exposures, and, after a transitional period, proportionate mandatory reporting, and progressive disposal of these assets as essential to the orderly, balanced and stable transition to climate-positive and resource-efficient investments.

The resolution called for the introduction of European 'carbon stress tests' as proposed by the European Systemic Risk Board (ESRB) in 2016 for banks and other financial intermediaries to be able to determine the risks related to such stranded assets.

Financing public investments required for the transition: Parliament 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. It 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.

Sustainability indicators and taxonomy as an incentive for sustainable investments: Members called on the Commission to lead a multi-stakeholder process, including both experts in climate science and financial-sector participants, to establish by the **end of 2019** a robust, credible and technology-neutral **sustainability taxonomy** based on indicators that disclose the full impact of investments on sustainability and allow for comparison of investment projects and companies.

Green bonds: 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. Parliament 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.

Labelling systems for financial services: the Commission is called on to establish a binding and proportionate labelling system, which should be voluntary during a transition period, for institutions offering retail bank accounts, investment funds, insurance and financial products, indicating the extent to which underlying assets are in conformity with the Paris Agreement and environmental, social and governance targets.

The role of the EIB as regards sustainable finance: the resolution 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.