Final compromises to be voted

23 April 2018

COMP A on the need to provide appropriate policy framework to orient mobilise capital required for a sustainable transition

1. Stresses the potential of a faster sustainable transition as an opportunity for orienting capital markets and financial intermediairies towards long-term, innovative, socially friendly, environmentally sound and efficient investments; acknowledges the current trend of divestment from coal, but points out that further endavours are required for divesting from other fossil fuels; underlines the importance of European banks and capital markets gaining the advantages of innovation in this area; notes that environmental, social and governance (ESG) benefits and risks are often not adequately integrated into prices and that this provides market incentives to unsustainable and short-termist geared finance for certain market participants focused on fast returns; stresses 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; notes that such a framework could help mobilizing capital at scale for sustainable development and enhance market efficiency to channel capital flows towards assets that contribute to sustainable development; calls on the Commission to come forward with an ambitious legislative framework, recognising the proposals brought forward in the Commission Action Plan on Sustainable Finance;

COVERS AMs: 59 to 73

COMP B on the role of the financial sector as regards sustainability and the policies required for correcting market failures

2. Stresses 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, inclusiveness and the principle of sustainability and should include ESG indicators and the cost of non-action in investment analysis and investment decisions; notes that inaccurate assessment or misleading presentation of climate and other environmental risks of financial products can constitute a risk to market stability; emphasises 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; acknowledges 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; notes that the price in the European carbon market has been unstable ; calls on the Commission and Member States to work towards phasing out direct and indirect subsidies to fossil fuels;

Covers AMs: 77, 79-90, 117, 212

COMP C on stranded assets and related systemic risks

3. Underlines that although value is still attached to carbon assets on the balance sheets of undertakings, this value will need to be on a declining trend, if a transition to a low-carbon society is to be achieved; emphasises therefore 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 with a view to their long-term risk profile; stresses 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; recommends the extension of the stranded assets concept to include fundamental ecological systems and services;

Calls 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 determine the risks related to such stranded assets; welcomes the ESRB proposals for developing climate resilient prudential policies, such as specific capital adjustment based on the carbon intensity of individual exposures assessed to be excessive applied to the overall investment in assets deemed highly vulnerable to an abrupt transition to the low-carbon economy; points to the pending revision of the ESAs regulations as an opportunity to consider the role of the ESAs in investigating and developing standards for assessing carbon-and other environmental related risks, their disclosure and inclusion in the internal bank risk-assessment process while taking into account existing sustainability reporting requirements by institutions; calls on the Commission to come forward with legislative steps in this respect;

Covers AMs 95-105

COMP D on financing public investments required for the transition

4. Emphasises that reforming the financial system, so that it actively contributes to accelerating the ecological transition, will require the cooperation of the public and the private sectors; emphasises in this regard the instrumental role of fiscal and economic policy for providing the right signals and incentives; calls on the Member States, in coordination with the Commission, the ESAs and the 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; underlines the role that national promotional banks and institutions can play in this regard; suggests to coordinate this process at the European level and to establish a system to track actual financial flows towards sustainable public investments within the framework of a EU Observatory on Sustainable Finance; welcomes innovative financial tools integrating sustainability indicators, which could facilitate this process, such as publicly issued green bonds; welcomes the clarification provided by EUROSTAT on the treatment of energy performance contracts in national accounts, as such clarified treatment may unlock considerable public capital flows towards a sector that currently accounts for three-quarters of the EU’s 2030 clean energy investment gap; asks the Commission to explore further a qualified treatment for public investments related to ESG goals so as to spread the cost of these projects over the life-cycle of related public investment;

Covers AMs 107-115, 91, 116

COMP E on *Sustainability indicators and taxonomy as an incentive for sustainable investments*

5. Calls 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 investments projects and companies; emphasises the need to develop such sustainability indicators as a first step in the process of developing an EU sustainability taxonomy and to incorporate these indicators into integrated reporting; points out that the development of the sustainability taxonomy should be followed by the following additional legislative proposals: an overarching, mandatory due diligence framework including a duty of care to be fully phased-in within a transitional period and taking into account the proportionality principle; a responsible investment taxonomy; and a proposal to integrate ESG risks and factors into the prudential framework of financial institutions;

Notes that sustainability indicators already exist, but that the current voluntary reporting frameworks lack harmonisation; calls therefore for the Commission to build its sustainability taxonomy on a harmonised list of sustainability indicators based on the existing work by, among others, GRI, UN PRI, the European Commission, the OECD, and the private sector, particularly the existing Eurostat resource efficiency indicators; recommends that these indicators are to be included in the taxonomy in a dynamic way and with clear guidance to investors about the time-limits when certain standards must be reached; recommends that the Commission should also consider weighting indicators according to the urgency of addressing them at any given time; underlines that the taxonomy should strike the right balance between commitment and flexibility, which means that the framework should, within a transitional period, be mandatory and standardised, but should also be regarded as an evolving tool which can take on board emerging risks and/or risks that have yet to be mapped in a proper way;

Sees the inclusion of ready-made quantitative indicators and qualitative judgments about climate and other environmental risks as an important step towards a responsible investment taxonomy that is compliant with the UN Sustainable Development Goals, international human rights law, and international humanitarian and labour laws; underlines that minimum standards on ESG risks and factors should include minimum social standards for such investment encompassing workers' rights, health and safety standards, and the exclusion of resources derived from conflict regions or without prior informed consent by affected communities; as well as minimum governance standards encompassing EU requirements for corporate governance and reporting; matching EU standards for financial reporting; as well as EU standards for action against money-laundering, corruption, and tax transparency.

Covers AMs 119-130

COMP F on a *Green Finance Mark*

6. Calls on the Commission to lead a multi-stakeholder process to establish by the end of 2019 a 'Green Finance Mark', through a legislative initiative, to be granted to investment, equity and pension products that have already achieved the highest standards on the sustainability taxonomy to guide the investment decision of those who prioritise sustainability above all other factors; recommends that this 'Green Finance Mark' should include minimum standards of ESG risks and factors aligned with the Paris Agreement and the do-no-harm principle in accordance with ESG risk analysis, and activities that are demonstrably achieving a 'Positive Impact' as defined by the UNEP FI; notes that an important function of the taxonomy, and a Green Finance Mark, is to enhance the risk assessment by financial-market participants by producing a scaled, market-based rating; welcomes innovations by market actors, such as Credit Rating Agencies, in developing and administering such a market-based rating;

Cover AMs 131-145

COMP G on the integration of sustainable finance criteria in all legislation related to the financial sector

7. Notes the recent inclusion of sustainability issues in the PRIIPs and STS Regulations, as well as in the Shareholders Rights Directive and the NFRD; stresses the need to ensure adequate regulatory consideration of the risks associated with green and sustainable assets; welcomes the inclusion in the IORPs Directive of a recognition of stranded assets, as well as the extension of the prudent person principle and a reference to the UN principles for responsible investment; asks for the appropriate and proportionate integration of sustainable finance indicators in all new and revised legislation related to the financial sector, via an omnibus proposal or specific proposals; calls for common guidelines in order to harmonise the definition of ESG factors and their introduction in all new and revised legislation;

Calls on the Commission, in this regard, to use the power defined in Regulation(EU) No 1286/2014 to deliver, as soon as possible and before developing the sustainability taxonomy, a delegated act to specify the details of the procedures used to establish whether a packaged retail- and insurance-based investment product targets specific environmental or social objectives; calls also for a proportionate mandatory due diligence framework based on the 2017 OECD Guidelines for Responsible Business Conduct for Institutional Investors, requiring investors to identify, prevent, mitigate and account for ESG factors after a transitional period; upholds that this pan-European framework should be based on the French duty of Vigilance law for companies and investors, including banks; calls also for a direct reference to ESG criteria in the ‘product oversight governance’ (POG) in all new and revised legislation including legislation currently under discussion; welcomes the recommendation of the European Commission High-Level Expert Group on Sustainable Finance to embed the ‘Think Sustainability First’ principle throughout the EU’s decision-making, implementation, and enforcement process;

Covers 146-160, 177, 179, 180, 191

COMP H on sustainability risks within the prudential framework of capital adequacy rules

8. Notes that sustainability risks can also carry financial risks, and that they should therefore be reflected where substantial, in capital requirements and in the prudential consideration of banks; therefore asks the Commission to adopt a regulatory strategy and a roadmap aimed *inter alia* at measuring sustainability risks within the prudential framework and to promote the inclusion of sustainability risks in the Basel IV framework to ensure sufficient capital reserves; stresses that any capital adequacy rules must be based on and must fully reflect demonstrated risks; aims to initiate an EU pilot project within the next annual budget to begin developing methodological benchmarks for that purpose;

Covers AMs 162-173, 50, 161, 173, 176, 245

COMP I on disclosure

9. Emphasises that disclosure is a critical enabling condition for sustainable finance; welcomes the work of the Taskforce on Climate-related Financial Disclosure (TCFD) and calls on the Commission and the Council to endorse its recommendations; calls for the incorporation of the cost of non-action on climate, environmental and other sustainability risks in disclosure frameworks; suggests that the Commission include proportional and mandatory disclosure in the framework of the revision of the Accounting Directive, the NFRD and the CRD-CRR frameworks as from 2020, which would include a transposition period in which companies could prepare for implementation; notes that Article 173 of the French Energy Transition Bill offers a possible template for the regulation of mandatory climate risk disclosure by investors; calls for the consideration of an enlargement of the scope of application of the NFRD; stresses, in this respect, that the reporting framework requirements should be proportionate with regards to the risks incurred by the institution, and its size and degree of complexity; recommends that the type of disclosure currently required under the PRIIPs regulation and through the Key Information Document should be extended to all retail financial products;

Covers AMs 181-190, 193

COMP J on fiduciary duty

10. Notes that fiduciary duties are already embedded in the Union's financial regulatory framework, but insists that it should be clarified in the course of defining, establishing and testing a robust and credible sustainable taxonomy, encompassing key investment activities, including investment strategy, risk management, asset allocation, governance and stewardship for all actors across the investment chain, including asset managers and independent investment consultants or other investment intermediaries; recommends that fiduciary duty should be extended to encompass a mandatory ‘two-way’ integration process whereby all actors across the investment chain, including asset managers and independent investment consultants or other investment intermediaries are required to integrate financially material ESG factors into their decisions, including the cost of non-action, as well as considering the non-financially material ESG preferences of clients and beneficiaries or the ultimate end-investors, who should be proactively asked about their timeframe and sustainability preferences; calls for the incorporation of the cost of non-action on climate, environmental and other sustainability risks to become part of the risk management and due diligence assessment of company boards and public authorities, and part of the fiduciary duty of investors;

Covers AMs 194, 198-203, 196, 197, 210, 214, 219, 220

COMP K on model contracts for ESG identification

11. Calls on the European Supervisory Authorities (ESAs) to develop guidelines for model contracts between asset owners and asset managers, independent investment consultants and other investment intermediaries which would clearly incorporate the transmission of the beneficiary interest as well as clear expectations as regards the identification and integration of ESG risks and factors, with a view to avoiding, reducing, mitigating and compensating for those risks; calls on the EU institutions to ensure the allocation of adequate resources to the ESAs in the context of the pending revision of the ESAs regulation; calls for the incorporation of the cost of non-action on climate and other sustainability risks in all future EU legislation and legislative revisions and funding impact assessments;

Covers AMs 206-208

COMP L on stewardship

12. Asks that active and accountable stewardship forms an integral part of the legal duties of investors and that an account of stewardship activities be made available to beneficiaries and the public through, *inter alia*, the public and mandatory disclosure of major holdings, engagement activities, the use of proxy advisers and the use of passive investment vehicles; recommends that passive funds, led by index-based investment, should be encouraged to disclose their stewardship activities and the extent to which the use of passive indexing and benchmarking allows for the proper identification of ESG risks in investee companies; considers that index providers should be asked to provide details of the exposure of widely used and referenced benchmarks to climate and sustainability parameters;

Covers AMs 215-218

COMP M on need to develop further ESG reporting requirements in the framework of the NFRD

13. Notes an insufficient degree of convergence in ESG reporting within the framework of the NFRD and the need for harmonization with the aim to foster more consistency, and for defining the most appropriate ESG metrics for disclosure using sustainability and resource-efficiency indicators; calls on the Commission to create an EU-wide multi-stakeholder group including representatives of the financial services industry, academia and civil society to assess and propose an appropriate list of metrics, including a list of indicators measuring sustainability impacts and covering the most significant sustainability risks; is of the opinion that such reform should include the requirement of third-party audited reporting;

Covers 221-226

COMP N on Green bonds

14. Notes 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 that should build on a forthcoming EU sustainable taxonomy; notes that such green bonds should be verified and supervised by public authorities, and should include periodic reporting on the environmental impacts of the underlying assets; underlines that green bonds should also include reverse environmental impact and support a decrease in the use of fossil fuel assets underlines that green bonds should exclude certain sectors - especially in relation to the activities that have the a significant negative impact on climate - and shall not breach core social and human rights standards; suggests 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; calls on the Commission to regularly assess the impact, effectiveness and supervision of the green bonds; calls in that respect for a legislative initiative to incentivise, promote and market a European public issuance of green bonds by existing and future European institutions such as the EIB in order to finance new sustainable investments;

Covers AMs 229-240

COMP O on credit-rating agencies

15. Notes that credit-rating agencies (CRAs) do not sufficiently integrate the impact of disruptive ESG risks and factors in issuers' future credit-worthiness; calls for the adoption of EU standards and supervision regarding the integration of ESG indicators in ratings for all credit-rating agencies operating in the EU; points out that the underlying insufficient competition among these firms and their narrow economic focus are still not fully addressed; calls for the establishment of an accreditation process for a 'Green_Finance Mark' by certifying agents supervised by the European Securities and Markets Authority (ESMA); recommends mandating ESMA to require CRAs to incorporate sustainability risks into their methodologies; where these are likely to be manifested in future, requests the Commission, in this regard, to put forward a revision of the CRA Regulation; emphasises the importance of sustainability research provided by sustainability indexes and ESG rating agencies in providing all financial actors with the necessary information for their reporting and fiduciary duty, in implementing the shift towards a more sustainable finance;

Covers AMs 246-252

COMP P on labelling systems for financial services

16. Suggests to the Commission 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 ESG goals;

Covers AMs 253-263

COMP Q on ESAs mandate

17. Intends to further clarify the mandate of the ESAs and of National Competent Authorities in the context of the pending revision of the ESA regulations to include and monitor ESG risks and factors thereby rendering financial market activities more consistent with sustainability objectives; in that respect is of the opinion that ESMA should:

- include sustainability preferences as part of its guidelines of 'suitability' assessment as proposed by the Commission in its Action Plan for Sustainable Finance and more broadly to provide guidance on how sustainability considerations can be effectively embodied in relevant EU financial legislation, as well as to promote coherent implementation of these provisions upon adoption;

-establish a proportionate, and after a transitional period, a mandatory supervisory monitoring system to assess material ESG risks and factors beginning in 2018 and with a forward-looking sutainability scenario analysis;

- be mandated to check portfolio alignment with the Paris Agreement ESG risks and factors and to ensure consistency with the TCFD recommendations;

Underlines, in this context, that the the ESAs should have sufficient financial resources to carry out their mission; encourages the ESAs to cooperate on these issues with relevant agencies and international organisations;

Covers 268-276, 178

COMP R on the EIB role as regards sustainable finance

18. Stresses the example-setting role EU institutions should play when it comes to making finance sustainable; notes that although 26% of the overall EIB financing has targeted climate action and that the EIB pioneered the Green Bond market in 2007 and that it 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; urges therefore the EIB to adapt and prioritise its future lending so as to be compatible with the Paris Agreement and a 1.5 °C climate limit; calls on the EIB lending operations and the EFSI regulation to be strengthened and rebalanced so that they cease to invest in carbon-intensive projects and prioritise resource-efficient and decarbonising projects alongside other innovative sectors and immaterial undertakings; advises that the EIB is in a position to provide more risk capital for the green transition in a regionally balanced way; is of the opinion that further measures should be undertaken within that perspective, including *inter alia*, in interaction with EU financial instruments in the next Multiannual Financial Framework;

Covers AMs 281-290

COMP S on the ECB role as regards sustainable finance

19. Acknowledges the independence of the ECB and its primary mandate as being to preserve price stability, but recalls that the ECB as an EU Institution is also bound by the Paris Agreement; is therefore concerned about the fact "that 62.1% of ECB corporate bond purchases take place in the sectors [...] which are responsible for 58.5% of eurozone greenhouse gas emissions"[1a] and notes that this programme directly benefits mostly large corporations; recommends the ECB to explicitly take into account the Paris Agreement and ESG goals in its guidelines orienting its purchase programmes; underlines that such guidelines may act as a pilot for establishing a future ESG-oriented investment policy consistent with high standards on a EU sustainable taxonomy;

[1a] Sini Matikainen, Emanuele Campiglio and Dimitri Zenghelis, 'The climate impact of quantitative easing', Grantham Institute on climate change and the environment, May 2017

Covers 301-310, 313

COMP T on the Recitals

A. whereas financial markets can and should play a vital role in facilitating the transition to a sustainable economy in the EU which extends beyond the climate transition and ecological issues and also concerns social and governance issues; whereas there is an urgent need of addressing related market failures; whereas the environmental challenge, the economic challenge and the social challenge are closely bound up with one another;

Aa. whereas the environmental transition must act as an incentive to enhance solidarity and cohesion; whereas sustainable finance can be a mean to address societal challenges towards a long-term inclusive growth and to promote the citizens' wellbeing; whereas criteria on climate-mitigating investments seem most advanced and can be a good starting point, sustainable finance goes beyond climate and green investments and should quickly also take social and governance criteria on board;

Ba. whereas a predictable and stable regulatory system for climate change related investments is of outmost importance to foster private sector involvement in climate finance; whereas 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 established progressively by specific legislative initiatives;

Bb. whereas a mind-set shift of all stakeholders is needed, which requires cross-cutting legislation from the Commission; whereas institutional and retail investors are showing increased interest in investing in products observing ESG criteria;

Covers AMs: 42 to 49, 51, 52, 54, 55 and 57